Institut ekonomických studií

Fakulta sociálních věd, Karlova universita Praha
Referee report on the Master Thesis

Student Name:	**Nikol Labíková**
Thesis Supervisor Name:	**Petr Polák**
Thesis Title:	**Corporate Tax Competition: A Meta-Analysis**

Overall Evaluation:

The master thesis submitted by *Nikol Labíková* is not easy to grade. Nikol provides a long and largely substantiated discussion of literature, she is clearly interested in her topics and she does come up with some sophisticated econometrics exercises toward the end of the thesis. On the other hand, she often attempts generalizations that are not supported by the empirics in her work, nor by the literature discussed. Main results are interesting, but not thoroughly internalized in her work (if your main finding is that there is NO tax competition, you should somehow reflect it in the whole set-up, I would argue). The final econometrics is hastily explained and the reader is often left without any intuition why the results are what they are. My guess is that the sample size (regression with 10 observations!) also makes coefficients rather unstable, but that is not reflected in the paper. Last but not least, the thesis is peppered with typos that should have been eliminated. I therefore recommend the thesis for the defense and I suggest the commission to deliberate either grade C (my recommendation) or B (if Nikol performs well at the defense and explains some of my concerns specified below)**.**

The thesis starts with a bold statement: "*There are two things which are affecting the decision of companies in today's world: taxes and globalization*". Well, what is globalization that is further defines as "ever-expanding" so weighs on companies' decisions? Free movement of capital? Falling transport costs? Labor mobility? Is it expanding in recent years? Really, how do we measure it? Is it going to be "ever" expanding? Why? These things are left unexplained and Nikol moves on to discuss taxation. Minor problem perhaps, but shows that more clarity would be needed. Nikol that states that the first reason to discuss tax competition is moral and that there is "empirical evidence that developing countries may [sic] suffer a lot" from it. Surely they may. Or may not. Where is the evidence? None is quoted and Nikol's own conclusion seem not to support this moral argument. That is a problem that should have been addressed more comprehensively.

The second chapter discusses principles of tax competition. On page 6 Nikol states that tax competition is advantageous for smaller countries because "tax revenues are initially low" for them. Smaller compared to what? Their GDP? Not likely. To their larger neighbors' revenues? Smaller countries seem to bother her, as she writes on page 8 that they "cannot offer rich resources or large amount of workforce." So what? Do Microsoft of Facebook really require rich resources or thousands of workers to come to Ireland? Why the discussion never touches countries like Estonia, Ireland? The table 2.1. is presented but not really incorporated – Taxfoundation clearly favors low taxation countries. Does Nikol agree? And rest assured it has never been possible to rise tax rate "indefinitely" as Nikol seems to worry on page 9. I do not understand, though, how "establishment of trade unions" (page 10) contributes to tax base erosion and I think that the term "global world" (page 12) is somewhat redundant.

Discussion of the OECD proposals is very rudimentary and I am not sure why the U.S FATCA is discussed here. I do appreciate a comment on page 19 that tax rates affect more the amount of capital than the very decision to invest, suggesting that the tax competition is more a continuous game between the authorities and investors.

Chapter 3 deals with the meta-analysis methodology and except the colloquial stories about the blind man and an elephant, I found it relatively straightforward, even though I do not claim to fully grasp all econometrics behind it.

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Chapter four returns to the tax competition and discusses methodology of primary source papers (i.e. not Nikol's own). There are several typos and I found quoting Kahn academy rather surprising – are there not enough academic sources for the Nash equilibrium definition? Nikol does distinguish between statutory and effective tax rates, but she does not really explain how the effective rate is calculated in her source papers, so we must believe that the respective authors did that properly.

Fifth chapter finally delivers meta-analysis of tax competition, based on 20 studies. These are split into two sub-samples, each consisting of (mere) 10 studies. Given that this should be the core of the thesis, discussion is rather hasted. Take, for example, chart 5.2. – is the funnel shift to the right necessarily caused by publication selectivity? Nikol claims that table 5.2. confirms that, but provides little intuition why the coefficients are so decisive (see page 50, coefficients for constant term are significant – is that enough?). Tables 5.2. and 5.3. differ marginally, but table 5.2. reportedly confirms the selection bias and table 5.3. finds no evidence for tax competition. I must admit I am confused why the two tables show these two things when they are so similar. And what about table 5.4 based on 10 studies only? Maybe some more explanation would be useful here. And is chart 5.3. really "hollow"? How do we decide the "hollowness"? By looking only? Section 5.4 discussed how domestic political reasons may be more important for tax-setting, which is probably correct, but these domestic reasons are driven by politician's desire to maximize their voters' utility, most likely influenced by employment and wages, i.e. by the amount of investment, so we are back to tax competition, are we not?

In conclusions, I would like to stress that the thesis has a potential for an interesting work. Too many loose ends were left untied, however, and too many irritating errors were committed.

Suggested questions for defense:
Switzerland, the Netherlands, Ireland or the UK are among the fiercest tax competitors in Europe. None of them is a small country, UK is a large one. How does it square with your argument that small countries engage in tax competition more often?
Discuss importance of tables 5.2, 5.3. and 5.4 and differences among the three.

SUMMARY OF POINTS AWARDED:

CATEGORY	POINTS
Literature (0-20)	15
Methods (0-30)	17
Contribution (0-30)	17
Manuscript Form (0-20)	11
TOTAL POINTS (0-100)	**60**
GRADE	**3**

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(Signature)

Ondřej Schneider

Evaluated on: **21 January 2017**