

Abstract

Estimating the Misalignment between the Locations of Profits and Economic Activities of EU's Banks

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In this thesis we focus on the misalignment of European multinational banks' profits and the role of tax havens in banks' taxation. We use the existing literature and our newly collected data to estimate the difference between the location of banks' declared profit and the real economic activity in a given country. We estimate the impact of unitary taxation using an apportionment formula on banks' redistributed tax base as well as on overall tax base in a given country. We find that banks report their profits disproportionately to their economic activities in given countries. If profit were apportioned across countries on the basis of employees and turnover, approximately 60% of the profits would be redistributed on average each year. Then we focus on where the main part of a banks' profit goes and compare the results with an existing list of tax havens. We conclude that the low-tax countries play a significant role in profit redistribution of banks and that the related risk of base erosion and profit shifting is higher for large banks.