Abstract

Base erosion and profit shifting is a great concern of governments as well as the misalignment of the taxable income. With recently obtained country-by-country data we can address and measure the profit misalignment of financial institutions for 2014 – 2016.

Using apportionment formula, we estimate the common consolidated corporate tax base (CCCTB) of each bank for every country specifically. The CCCTB then corresponds to profit created by real economic activity of a given bank in every country. We then observe the difference between CCCTB and actual taxable income, which determines the size of profit misalignment.

We determine that around 30 % of world’s income before tax is shifted to jurisdictions without accompanied economic activity. We find out that there is no time trend among the years.

We conclude that large economies, such as United Kingdom, France, and Italy suffer more from profit misallocation, however, profit-havens Hong Kong, Ireland, or Luxembourg take advantage of the current system. We see that the Netherlands and Switzerland, which are usually considered to be tax havens, are with regard to bank industry, currently understating their income compared to the real economic activity in these countries.