

Abstract

This thesis analyses the profit shifting behaviour of U.S. multinational companies using panel data set over the period 1983 – 2015. The main objective of the thesis is to compute the extent of misalignment between reported profit and real economic activity and consequential revenue losses caused by profit shifting and to estimate the effect of tax rates on profit shifting behaviour. Using country-level aggregated data published by the Bureau of Economic Analysis I found a substantially increasing trend in the misaligned profit reaching 540 bn US\$ in 2015 which is accompanied with tax revenue losses 190 bn US\$ in missing profit countries. Majority of the misaligned profit is reported in a small number of jurisdictions with near zero tax rates such as Netherlands, Ireland and Luxembourg. Additionally, I found a significant negative effect of tax rate on misalignment in the recent years, however, only negligible effect at the beginning of the examined period. Results suggest that 1% increase in the statutory tax rate can cause 2.5% growth in the magnitude of misalignment. My findings are consistent with the existing literature. According to the analysis it can be concluded that despite numerous attempts for prevention of profit shifting, it is becoming more serious problem than ever before.