

Report on Bachelor / Master Thesis

Institute of Economic Studies, Faculty of Social Sciences, Charles University in Prague

Student:	Dominika Cimpová
Advisor:	Petr Janský, Ph.D.
Title of the thesis:	Misalignment of Profits and Economic Activity by Multinational Enterprises

OVERALL ASSESSMENT *(provided in English, Czech, or Slovak):*

Contribution

Dominika Cimpová wrote a good, policy-relevant empirical thesis on the profit shifting of multinational enterprises from high-tax to low-tax countries, often referred to as tax havens. Dominika has contributed to research on a very topical issue – and there is thus also a relatively good chance of policy makers and others being interested in the results of her work. Specifically, Dominika links her empirical analysis with the ongoing discussions in international policy forums on the common consolidated corporate tax base (CCCTB) proposal by the European Commission and the Base Erosion and Profit Shifting (BEPS) by the OECD. The aim of her thesis was to estimate the misalignment between the location of economic activity and profits using one of the best available data set (aggregate, but including all the US multinational enterprises) and she has managed to fulfil this objective very well.

Her findings, using the Bureau of Economic Analysis data set of US-headquartered multinational enterprises, are clear and interesting. She finds that as much profit as 540 bn US\$ in 2015 is misaligned with economic activity and this might be associated with tax revenue losses of up to 190 bn US\$ in. She finds that majority of the so called misaligned profit is reported in a small number of jurisdictions with near zero tax rates such as Netherlands, Ireland and Luxembourg, by which she confirms findings of recent academic literature. In contrast to previous work on this topic, Dominika has been able to extend it with newer data for more years. She observes an increasing trend in the misaligned profits. Perhaps even more interestingly, Dominika finds a significant negative effect of tax rate on misalignment in the recent years, but only a negligible effect at the beginning of the examined period. Specifically, Dominika reports that 1% increase in the statutory tax rate can cause 2.5% growth in the magnitude of profit misalignment.

As an undergraduate thesis, the contribution to existing research is very good. She works with one of the best available data sets on activities of multinational enterprises and answers a policy-relevant research question that sheds some new light on until recently an understudied area of research. Indeed, the practical contributions of Dominika's thesis might turn out to be very important for a student thesis. Her work, using data from up until 2015, is significant because the recent media attention and policy proposals changes (including the OECD BEPS project launched in 2013) do not seem to be reflected in the trends (i.e. one could expect the profit shifting to be lower rather than higher in recent years).

Methods

Dominika has used a combination of a relatively straightforward misalignment indicators and a regression analysis focused on corporate tax rates. I believe that this is appropriate for the research topic at hand and for an undergraduate thesis. Her application of the methods seems competent. One downside of Dominika's work is that she does not seem to have included the United States, as the parent country from a different data set within the BEA database (and while it makes sense to do this analysis even without this parent country, it should be even more interesting when included). Also, I believe that some of her interpretation of her results might be going too far, beyond what the results actually say – i.e. equalling the estimates of the misalignment with profit shifting, as Dominika sometimes seems to (since the misalignment has a number of other possible explanations, with profit shifting being only one of the most probable ones).

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Literature

Dominika did a good job of studying the most closely related literature. She included the discussion of very recent contributions by Clausing, Dowd et al, Guvenen et al and others, and this is clearly a very good signal of her knowledge of the research area. These papers have also used US-centred data. Perhaps she should devote more space to studies – or at least their surveys - using other datasets. Not surprisingly, as is often the case with theses, she could have had positioned her thesis even more carefully within the recently very rapidly developing research literature, rather than only surveying it. The thesis would thus offer a more powerful exposition of her contribution to the existing research as well as a better argument how her new empirical research links with the wider research literature (beyond profit shifting, misalignment and closely related topics) and how it is relevant to the broader research discourse.

Manuscript form

The manuscript form of Dominika's thesis is very good, the layout is clear and Dominika has obviously thought about how to present her results in tables and graphs. In comparison with the currently published articles in top academic journals on related topics (which is, obviously, not a very fair comparison) as well as the very best theses defended at the IES recently (which is a fairer comparison), Dominika's thesis would benefit from more focused way of writing and attention to some of the details. Also, although most of the results are clearly presented, some of the graphical formatting could be improved. For example, Figure 1: Heterogeneity across Countries is too small and is not able to show the names of most of the countries – it should either be done for a smaller number of countries or shown on a vertical scale across the whole page with names of countries displayed horizontally.

Suggested questions for the committee

The results described in your thesis display a scale of potential inefficiency in the current international corporate tax system. What reform option(s) (of the international corporate tax system – how multinational enterprises are taxed) there are and how suitable do you find them?

In addition to profit shifting, can you name other possible explanations of the misalignment between profits and economic activity indicators that you estimate in your thesis?

In short, Dominika did a very good job of working with a quite extensive panel data set and applying suitable empirical methods and, depending on the defence and related discussion, I recommend a grade of B (A-B-C).

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SUMMARY OF POINTS AWARDED (for details, see below):

CATEGORY	POINTS
Contribution (max. 30 points)	23
Methods (max. 30 points)	23
Literature (max. 20 points)	18
Manuscript Form (max. 20 points)	18
TOTAL POINTS (max. 100 points)	82
GRADE (A – B – C – D – E – F)	B

NAME OF THE REFEREE: Petr Janský, Ph.D.

DATE OF EVALUATION: 4th June, 2018



Referee Signature

EXPLANATION OF CATEGORIES AND SCALE:

CONTRIBUTION: *The author presents original ideas on the topic demonstrating critical thinking and ability to draw conclusions based on the knowledge of relevant theory and empirics. There is a distinct value added of the thesis.*

<i>Strong</i>	<i>Average</i>	<i>Weak</i>
30	15	0

METHODS: *The tools used are relevant to the research question being investigated, and adequate to the author's level of studies. The thesis topic is comprehensively analyzed.*

<i>Strong</i>	<i>Average</i>	<i>Weak</i>
30	15	0

LITERATURE REVIEW: *The thesis demonstrates author's full understanding and command of recent literature. The author quotes relevant literature in a proper way.*

<i>Strong</i>	<i>Average</i>	<i>Weak</i>
20	10	0

MANUSCRIPT FORM: *The thesis is well structured. The student uses appropriate language and style, including academic format for graphs and tables. The text effectively refers to graphs and tables and disposes with a complete bibliography.*

<i>Strong</i>	<i>Average</i>	<i>Weak</i>
20	10	0

Overall grading:

TOTAL	GRADE
91 – 100	A
81 - 90	B
71 - 80	C
61 – 70	D
51 – 60	E
0 – 50	F