Abstract

This thesis aims to analyze the scope of profit shifting by U.S. multinational corporations using effective tax rates as a metric. Alternatively, unlike other academic literature on the subject, this work complements the analysis by utilizing also statutory corporate tax rate. The main contribution of the thesis is an econometric analysis of the most recent data provided by Bureau of Economic Analysis. It is shown that the scope of profit shifting is rising with gross income sensitivity to effective tax rates clearly increasing in the time span from 1983 till 2015. According to the panel data from this time span, one percentage point increase in effective tax rate would decrease the reported gross income in a low tax jurisdiction by 2.4 percent. Interestingly, an analogous analysis using statutory tax rates does not yield any statistically significant effect. Moreover, results show that the richer the country is, the lower its effective tax rate and the higher its statutory rate. These results indicate that the two metrics can have different implications. Furthermore, if some version of profit apportionment formula was applied on the profit of U.S. multinationals, a significant profit redistribution would take place. Gross income would oftentimes be attributed to developing countries with a large share of workforce. On the other hand, tax havens would lose much income if the apportionment mechanism applied. All these results indicate a large and still increasing scale of profit shifting in the countries with a low tax rate.