

Report on Bachelor / Master Thesis

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

Student:	Eliška Jelínková
Advisor:	Petr Janský, Ph.D.
Title of the thesis:	The Role of Tax Havens for Banks: Evidence from Two Firm-Level Datasets

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

Contribution

Eliška Jelínková wrote a very good, policy-relevant empirical thesis on the role of tax havens for banks. With tax havens and related tax avoidance high on the media and policy agenda in the European Union and elsewhere, Eliška has written a thesis 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.

The specific focus of her thesis - profit shifting in the banking sector - has not been studied much so far and this focus alone makes her thesis a worthwhile contribution. Even more importantly, her thesis is unique in being the first to compare the often used Orbis data with recently available country-by-country reporting data on banks' economic activities. She uses these two panel data sets (with the latter having been collected by herself and other collaborators at Charles University) to shed light on the quality and consistency of the data sets and to answer her research questions about the role of tax havens for banks. She finds that Orbis data tends to underreport the number of countries where banks operate, their tax payments as well as the number of employees while profits seem to be underreported in the country-by-country reporting data. This is very new and interesting – especially in the light of limited research on these issues. Only a few studies (not published in journals yet) have used the recently available country-by-country reporting data and none of it has compared it empirically with the established Orbis data set as Eliška does.

Eliška's main interest is to test the tendency of banks to shift their profits due to two distinct incentives – either low taxation or excessively high financial secrecy. In line with most existing evidence for multinational enterprises, she finds that the locations of banks' profits are sensitive to statutory tax rates and that this elasticity is higher at higher levels of statutory tax rates. She does not find any evidence of profit shifting when using effective tax rates nor the secrecy score of the Financial Secrecy Index (which she uses to test the presence of the secrecy incentive to shift the profits for the first time in this research context).

In the final part of her rich empirical results, Eliška provides the first analysis of whether the obligation to disclose information on the country basis from the year 2014 has had any effect on the location of banks' profits. The results are inconclusive, but present a first attempt at testing this interesting research question.

Overall, I find her thesis ambitious and aiming to be an important contribution to the existing literature. There are a few instances in which Eliška provides the first answers to important and interesting questions discussed above. At the same time some of cases of fulfilling these ambitions are not carried out as well as they should especially if one considers standards of leading academic journals in economics (mostly due to her tight time schedule and the ensuing consequences of not having the sufficient capacity to study the literature thoroughly or to analyse the data with even more care) and this does limit the contribution of Eliška's thesis to some extent. Given the importance of her thesis topic and results, she should consider reworking her thesis for a shorter academic journal publication.

Still, as a graduate thesis, the contribution to existing research is very good. She works with one of the best available data sets on activities of banks (Orbis) and has played an important role in collecting a unique panel data set of banks' behaviour (country-by-country reporting data). Eliška answers a few policy-relevant research questions that sheds new light on an understudied area of research. Her findings are important on their own, but have implications for both policy makers (the role of tax havens for banks) and future research (the differences between the two datasets as well as between the application of statutory and effective tax rates).

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Methods

Eliška is using two state-of-the-art data sets and applies one of the most advanced empirical methods used to study profit shifting, the so called Hines-Rice approach. Her application of the methods seems competent, although, for example, I wish her description of the differences between the two datasets was more detailed and presented more clearly. In using two different data sets and comparing them, studying the differential application of effective and statutory rates as well as in looking at the potential effect of introducing a data requirement, she is pushing the research frontiers.

Literature

Eliška demonstrates good command of the relevant academic literature to which she contributes. In her thesis Eliška discusses the most relevant papers from both academic and policy points of view. I wish she could spent even more time (than is currently the case) discussing the relevance of her results to the existing literature at the end of her results section. The thesis would thus offer an even more powerful exposition of her contribution to the existing research.

Manuscript form

The manuscript form of Eliška's thesis is of high quality, the layout is clear. Eliška has put thought into how to communicate her results well. Some of the details are not perfectly done and should have been improved to correspond with the standards of theses (if she had more time before submitting the thesis).

Suggested questions for the committee

You have described differences between the two data sets in your thesis and you have shown their importance. Could you clarify some of the reasons why the data sets differ for some banks so much from each other?

Perhaps the most important empirical result of your thesis is evidence of, with the use of statutory tax rates, profit shifting. Does your results provide support for any policy reforms of the taxation of banks that would address the challenge of profit shifting of banks and, more generally, what are some of the potential policy options for international corporate tax system?

In short, Eliška did an excellent job of working with two novel and extensive panel data sets, applying empirical methods in a competent way to answer an interesting research question 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)	28
Methods (max. 30 points)	20
Literature (max. 20 points)	18
Manuscript Form (max. 20 points)	19
TOTAL POINTS (max. 100 points)	85
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