

Abstract

Corporate tax base erosion and profit shifting has become widely debated topic by academics and world leaders alike. The need to reform international tax system resulted into G20-OECD initiative addressing Base Erosion and Profit Shifting and recently thanks to the leak of so called Panama papers this issue is recognised by the general public as well. The goal of this thesis is to provide new evidence of profit shifting activities in eastern Europe and to provide better understanding of these practises. Our main focus is on tax havens that are often at heart of profit shifting activities. We analyse financial and ownership data for 661,841 companies from 18 countries for the period of 8 years 2006 – 2013. In our dataset there are 65,002 multinational companies out of which 17,359 have affiliates in tax havens. The evidence suggests that multinational companies in eastern Europe with ties to tax havens report lower pre-tax profits, pay lower taxes and hold higher debt ratio compare to other companies which is consistent with corporate tax avoidance using profit shifting. By examining tax havens in more detail we found that the most commonly used tax havens in this region are predominantly Cyprus followed by British Virgin Islands and Luxembourg with the strongest signs of profit shifting activities exhibiting companies with affiliates in British Virgin Islands. We also found that the evidence of profit shifting activities was not conclusive for some countries often labelled as tax havens such as Switzerland or Netherlands. In addition, we find that countries most suffering by profit shifting using tax havens in eastern Europe are Russia and Ukraine.

JEL Classification

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tax haven, profit shifting, corporate tax base erosion, multinational corporations

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