

Institut ekonomických studií

Fakulta sociálních věd, Karlova universita Praha Referee report on the Master Thesis

Student Name:	Michal Král
Thesis Supervisor Name:	Petr Jansky
Thesis Title:	Base Erosion and Profit Shifting in Eastern European countries

Overall Evaluation:

The master thesis submitted by *Michal Král* provides a comprehensive analysis of the multinational firms' tax treatment. The thesis largely omits underlying tax theory, but it provides a comprehensive overview of the policies aimed at reducing tax avoidance. The most interestingly, the thesis lays out a detailed and interesting empirical analysis of tax shifting. The thesis is well written, covers a substantive amount of material and provides some interesting conclusions. It lacks, somewhat, theoretical background and makes too general conclusions. It also spends too much time, I think, on reviewing official documents (Chapter 3), but I find its empirical section really interesting and well researched. The thesis is written in good English. I recommend the thesis for the defense and I suggest grade A (excellent).

After a brief introduction, Chapter 2 provides a brief discussion of the theory, but it is in fact rather a case study of one particular tax arrangement (pages 6-8). There is no mentioning of tax competition, dead-weight loss and other corner stones of the tax theory, which I find disappointing. The author does not mention consequences of the US policy of taxing global income, very poignantly illuminated by current the Apple's tax problems with the European Commission. Also, the repeated argument of "increasing speed of integration" (page 4) is not empirically supported at any level.

Chapter 3 is rather a long overview of different OECD's documents aiming at limiting tax avoidance (shifting) and base erosion. While nothing is wrong with it, the reader may begin to despair after 10 pages of legalese with little economic content.

Chapter 4, rather confusingly, returns to the literature overview, which should have been dealt with earlier in the text. The numbers quoted (\$600 billion on page 23, \$450 billion on page 24) would be better compared to tax base to give any idea about the importance and relative size of the tax avoidance. I have struggled with the intuition on page 26, whereby tax rate fall increases likelihood of zero profit. I assume it's the tax rate in the daughter-company residence, and zero profit of the mother-company, but the text does not make it clear.

Chapter 5 finally gets to the point and discusses the data and methodology. (Excluding same data does not lead to "loosing" but "losing" – page 30 ☺.) I was impressed by the author's discussion of the self-selection problem (page 34) that is often ignored in discussions.

Similarly, discussion of econometric methods used is fairly comprehensive.

Chapter 6 brings the most interesting part of the thesis – empirical results. I recommend a thorough discussion of the four indicators used for the detection of tax shifting. I find them intuitive, the author should, nevertheless, spend more time explaining failure of one of them ("Tax per profit") to confirm the tax-shifting hypothesis. Out of the four, this indicator seems the most indicative of the potential tax avoidance and, yet, it is not significant. The author seems to ignore this when he says, on page 45, that a "significant evidence of tax avoidance" was found. Discussion of various European countries' tax regimes n pages 45-52 is interesting and might have receive more attention in the thesis (Luxembourg, page 51!).

In conclusions, I would like to stress that Michal has demonstrated a very good technical skills in analyzing complex data. The thesis is well written and I do recommend it for the state exam defense and I would recommend grade "1" for the final exam grade.

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SUMMARY OF POINTS AWARDED:

CATEGORY	POINTS
Literature (0-20)	12
Methods (0-30)	27
Contribution (0-30)	25
Manuscript Form (0-20)	18
TOTAL POINTS (0-100)	82
GRADE	1

(Signature)

Ondřej Schneider



Evaluated on: 31 August 2016