Accounting Research Workshop (ARW) – Winter Term 2017/18

Speaker: Associate Professor Dirk Schindler

University: Norwegian School of Economics, Norwegian Center for Taxation (NoCeT) and CESifo

Research: International Taxation, Tax Avoidance, Optimal Taxation and Risk

Date: December 5th, 2017

Topic: Implications of Losses for Multinationals' Income Shifting

Abstract: This paper models the tax-efficient behavior of a multinational corporation that has both profitable and loss-making affiliates. Until recently, the literature has largely neglected loss-making affiliates altogether, and the few studies that take them into account are data driven and lack a sound theoretical foundation. Our theoretical model shows that when multinational corporations do not have flexibility to adjust their income shifting strategies within a tax year, in response to losses, they must take the expected, loss-adjusted tax rate differential into account rather than the larger statutory differential. Hence, empirical studies using the statutory tax rate differential might underestimate tax sensitivity. We also find that the degree of flexibility has important implications for where a multinational corporation is placed in the profit distribution. This finding has particular importance for the recent strand of literature that use bunching around zero profitability as a proxy for tax aggressiveness.

We thank Professor Schindler for the great opportunity to learn more about the implications of losses. We wish him all the best and much success with the paper!