Profit shifting from lower income countries

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Profit shifting

- Overview (with Alex Cobham)
- As a type of illicit financial flows
- Multinationals shifting profits to tax havens
Profit shifting channels

- Debt shifting
- Location of intangible assets
- Strategic transfer pricing
Empirical estimates of profit shifting

- Evidence: profit shifting, channels, countries
- Limited evidence: scale, lower income countries
Profit shifting studies: international estimates

- UNCTAD (2015)
- IMF’s Crivelli et al (2016)
- Clausing (2016)
- Cobham and Janský (2017)
Profit shifting studies: methodology

- UNCTAD (2015): Profits are lower when there is more investment from tax havens.
- IMF’s Crivelli et al (2016): Tax havens have negative spillover effects on corporate tax bases.
- Clausing (2016): US multinationals’ profits are sensitive to low corporate tax rates.
- Cobham and Janský (2017): Misalignment between the location of US multinationals’ economic activity and the location of their profits.
Profit shifting studies: results

- UNCTAD (2015): $200 billion (8% of corporate income tax, $90 billion lower-income countries).
- IMF’s Crivelli et al (2016): $600 billion ($400 billion for OECD countries (1% of GDP) and $200 billion for lower-income countries (1.3% of GDP)).
- Clausing (2016): $280 billion for a group of 25 countries (around $100 billion for the US; %20 of corporate income tax).
- Cobham and Janský (2017): Up to $133 for US multinationals in 35 countries.
Profit shifting studies: country estimates

- Cobham and Janský (2018) on the basis of IMF’s Crivelli et al. (2016)
- Clausing (2016)
- Cobham and and Janský (2017)
Profit shifting from lower income countries

References

Janský & Palanský (2017)

- Low income
- Lower middle income
- Upper middle income
- High income: nonOECD
- High income: OECD

Tax revenue loss (% of GDP)

Cobham & Janský (2017)

- Low income
- Lower middle income
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- High income: nonOECD
- High income: OECD

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Tax revenue loss (% of GDP)
Results summary

- Country estimates vary substantially by methodology
- Tax gaps are substantial for some countries
- Higher for lower income countries
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References


