Discussion

Profit-shifting Frictions and the Geography of Multinational Activity

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Summary

- Super interesting topic with a massive policy *market*

Research Question

- How do firms decide where to produce and shift their profits?

Main Elements

- Quantitative model of multinational production with corporate taxes and profit-shifting.
- Estimation of elasticities of production location and profit-shifting wrt tax rates and bilateral profit-shifting frictions.
- Counterfactual welfare exercise of different tax reform settings

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Model

- Firms with HQ at i choose production location l, serve market n and shift profits to h.

  Joint decision shaped by:

  - Potential revenues from market n (monopolistic competition).
  - Cost of producing abroad γ_{il} and cost of shifting profits α_{lh} (variable costs).
  - Firm-specific productivity φ_{lh} of producing in l and shifting profits to h
    - Multivariate Frèchet with elasticities of location (ν_1) and profit shifting (ν_2)

- The model provides gravity equations for tax base (X_{ll}) and profit-shifting (X_{lh}) used to estimate ν_1 and ν_2

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Policy Analysis

- ▷ Welfare measure with private consumption and public good provision.

- □ Unilateral tax reform. US statutory tax rate from 40% to 38%
- □ Global minimum tax rate
- □ Destination-based cash flow tax (DBCFT)

Trade-off of reducing profit sharing:

- ▷ Production efficiency (location choice is based on "production fundamentals" not "tax optimization").
- ▷ Public good provision vs. entry and real income (optimal taxation issue).
- ▷ Distributional effects across countries.

Comments

Endogenous decission to serve a market

- Firms decide to entry in country i, to locate in country l and shift profits to country h...

  but all destination countries n are served by assumption (no fixed cost).

- This could underestimate the welfare losses of more stringent regulation and affect the estimation of tax income elasticity at country n.

Comments

Firm size and profit sharing ability

- (Even within MNCs) Profit sharing activity is highly skewed to larger firms.
- Should we think of profit-shifting effort as variable or fixed cost?
  - Size (or productivity) cuttoff for profit shifting à la Antràs and Helpman
- Relevance for public policy debate
  - Do stringer regulations favor large exporters?

Comments

Sector specific estimates?

- (Likely) easier to *hide* digital services than heavy industries' output.
  - Where is Europe? Is *regulatory aggresiveness* correlated?

High wealth individuals income-shifting

- Is individual wealth in tax heavens correlated with your bilateral firm profit-shifting estimates? (Alstadsæter, Johannesen & Zucman, 2018)

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