

# **The impact of tax differentials on pre-tax income of Swiss MNEs**

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## **Abstract:**

Multinational enterprises may use income shifting techniques such as strategic transfer pricing and debt shifting to reduce their global tax burden. Due to comparably low corporate taxation, Switzerland is presumably a suitable location for tax planning strategies. The thesis at hand examines income shifting among multinational enterprises headquartered in Switzerland in a quantitative manner and provides indirect evidence of income shifting. Using a large panel dataset of foreign subsidiaries of Swiss parent firms and employing a fixed-effects regression approach, the estimated semi-elasticity of pre-tax income with respect to the statutory tax rate differential between the parent firm and the subsidiary is -1.458. This estimate is highly significant and larger than the estimates in comparable papers using European samples. Additionally, this thesis shows that income shifting activities between the parent firm and the subsidiary increase with the parent's ownership share in the subsidiary and the firm size of the subsidiary. Hence, Swiss multinational enterprises preferably shift income using large, wholly-owned subsidiaries.

## **Keywords:**

Income shifting, tax planning, Swiss multinationals, semi-elasticity, tax differential.