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

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About me

- Studied at the University of Zurich (2011-2017)
- Thesis written in Summer 2017
- Currently living and working in Oslo

What is it about?

- **Do Swiss multinational enterprises shift profits?**

- *multinational enterprise*: Corporate group with different legal affiliates (Swiss parent & foreign subsidiaries) in different countries

- *shifting profits*: deliberately and artificially relocate income to low-taxed jurisdictions

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How to shift profits?

INCLUDE GRAPHIC HERE!!! Affiliates (parent & subsidiary companies of the same enterprise)

- Sell intermediate goods from high-taxed (low-taxed) affiliate to low-taxed (high-taxed) affiliate at above (below) market price

- Provide loans from high-taxed (low-taxed) affiliate to low-taxed (high-taxed) affiliate at below (above) market interest rate

- The taxes saved amount to the difference in tax rates multiplied by the transfer price or interest payment

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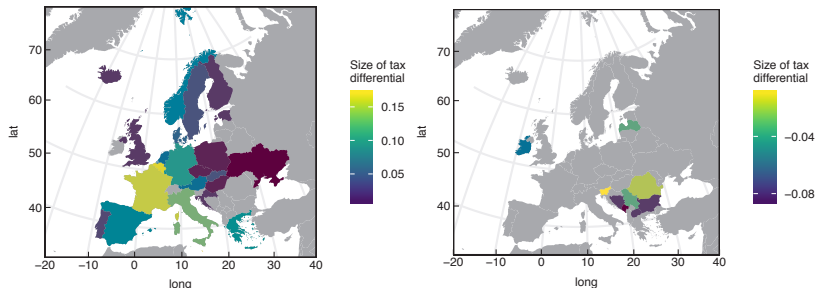Conclusion
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Why is it interesting to study profit shifting in Switzerland?

Figure 1: Tax differentials in Europe in 2015

- Tax differential: $\tau = \text{foreign tax rate} - \text{Swiss tax rate}$

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How to study profit shifting?

- Some relationship between affiliates needed
- EBIT should not be influenced by taxes (in the absence of profit shifting)

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Model

$$\ln \Pi_{it} = \beta_0 + \beta_1 \cdot \ln A_{it} + \beta_2 \cdot \ln L_{it}$$
$$+ \beta_3 \cdot \ln K_{it} - \beta_4 \cdot \tau_{it} + u_{it}$$

- Π_{it}: Earnings before interest and taxes,
- A: Technology input (GDP per capita),
- L: Labour input,
- K: Capital input,
- τ: Tax differential (subsidiary rate - Swiss rate)

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How to use the model?

Partial differentiation

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Thank you!

If you have further questions we can get in touch:

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