

# ESSAYS ON INTERNATIONAL TRADE AND CORPORATE TAX AVOIDANCE

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- Corporate tax avoidance has recently become a **major policy concern**.
- Context: recurrent data leaks and financial scandals, persistent budget deficits in high-income countries, rise of income inequalities, globalization backlash, COVID-19 pandemic, etc.
- **Multinational companies** are particularly under the glare of public spotlight: they are accused of artificially **shifting profits** toward **low-tax jurisdictions**.
- Many questions have thus emerged. How big is profit shifting? What fuels such activities (besides tax rate differentials across countries)? What about their implications (for tax revenues and beyond)?

- My dissertation tackles some of these questions by combining methods from economics and statistics and insights from accounting, international business, and management.
- It consists of **4 solo-authored chapters** and documents some **causes** and **consequences** of profit shifting.

### Role played by

Competition forces  
*Chapter 1*

Spillovers  
*Chapter 2*

Executive mobility  
*Chapter 3*

### Impact on

Employee pay  
*Chapter 4*

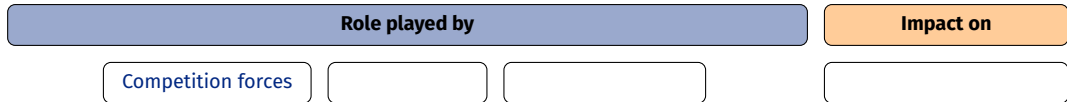
*Data : US-listed companies  
(financial statements, network of subsidiaries, list of executives, etc)*

- Tax avoidance  $\neq$  tax evasion. Tax avoidance is legal or falls in a legal gray area. Tax evasion, on the other hand, is illegal. Multinational companies mostly engage in **tax avoidance**.
- **Profit shifting** is one tax avoidance technique among many others (a major one, though). Other example: strategic management of asset depreciation.
- **Tax havens** (or offshore financial centers): jurisdictions with low income tax rates and lack of transparency.
- ➡ Here, I will address the **causes** and **consequences** of **profit shifting** operations of **multinational enterprises** in **tax havens**.

## CHAPTER 1

“The indirect effect of import competition on corporate tax avoidance”

*Best research work on international investment and development 2021*  
(United Nations)



- The effect of competition (between firms) on corporate tax avoidance is **theoretically unclear** in the existing literature: it can be either positive or negative.
- To clarify this, I conduct an **empirical analysis** with a focus on US **imports** from China – which boomed during the 1990s and 2000s. I investigate whether firms active in industries exposed to rising Chinese import competition intensified their tax dodging activities.
- The setting is convenient for 2 main (statistical) reasons: ① the hike in Chinese imports **varied significantly** across sectors ② one can exploit the US conferral of PNTR status on China to extract **exogenous variations** in Chinese imports (and then establish causality).
- Econometric approach: event study + diff-in-diff.

- Overall, corporate tax avoidance rose due to the China shock.
- However, this pattern is limited to multinationals and especially to those established in tax havens: evidence that the increase in corporate tax avoidance following the China shock stemmed from a rise of profit shifting.
- Multinationals did not reinforce their presence in tax havens via new subsidiaries. They **invested in intangible assets** (e.g., patents) to **differentiate** themselves from Chinese competitors and **mitigate losses of market shares**. Nevertheless, these assets also fueled their profit shifting activities.
- ➡ The analysis helps understand the evolution of multinationals' effective tax rates and reaffirms the need to connect trade and tax policies at the international level.

## CHAPTER 2

“Intra-industry spillovers of profit shifting and tax haven foreign direct investments”

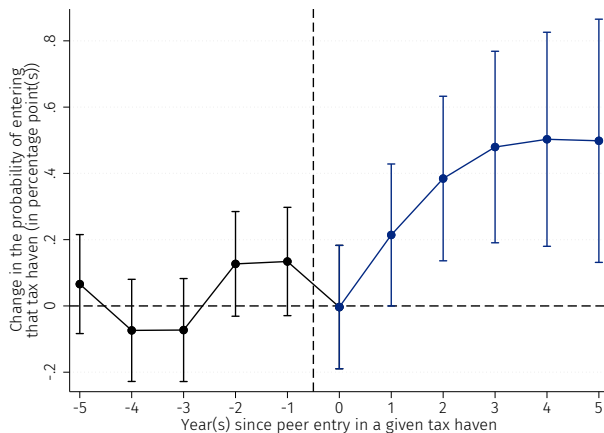
*R&R at Journal of Economic Behavior and Organization*

Role played by			Impact on
Competition forces	Spillovers		



- The academic literature suggests that some practices progressively spread across firms and that comparable firms adopt similar strategies, but there is no study along these lines in the specific case of profit shifting.
- I build and exploit a unique database to examine whether **the probability that a firm enters a tax haven increases when a firm from the same industry enters that tax haven** (all else being equal).
- The originality of the study resides in the use of **very disaggregated data** (at the firm-country-year level). They allow me not only to precisely identify profit shifting schemes but also to neutralize the effect of many confounding factors.
- Econometric approach: event study + linear probability models with 3-way fixed effects.

Impact of the entry of a peer (operating in the same industry) into a tax haven on the probability to enter into that tax haven



Notes: Point estimates with 95 percent confidence intervals.

- **Profit shifting strategies disseminate within industries** and this diffusion seems to be driven by knowledge spillovers.
- Moreover, the propagation is **more pronounced**:
  - between 2004 and 2013 than between 1993 and 2003 (the two sub-periods in scope),
  - in intangible-intensive sectors,
  - for very aggressive tax havens, where tax rates lie near zero (e.g., Barbados, Luxembourg, and Switzerland).
- The findings attest that firms **assimilate** and **replicate the profit shifting schemes of their peers**.
- ➡ They partly explain the surge in profit shifting observed in the 1990s and 2000s and confirm the importance for public authorities to devote efforts to intangible-intensive sectors and tax havens with very low income tax rates.

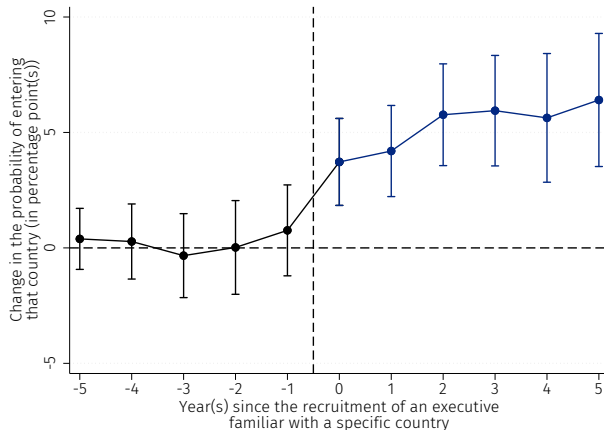
## CHAPTER 3

“Executive experience and expansion strategies of multinational firms”



- Vast anecdotal evidence indicates that managers contribute to the geographic expansion of multinationals through their experience, but there is no systematic evidence to support this.
- I leverage an even richer database to study **whether the probability that a firm establishes a physical presence in some country increases after hiring an executive who has previously overseen operations in that country** (all else equal).
- The accent is on executives: CEOs, CFOs, CMOs, COOs, etc.
- Econometric approach: event study + linear probability models with 3-way fixed effects.

Impact of the recruitment of an executive used to oversee business activities in a given country on the probability to enter into that country



Notes: Point estimates with 95 percent confidence intervals.

- Top managers **develop** country-specific knowledge and **transmit** it to the company they join.
- This is even more true for top executives such as CEOs.
- They also **receive higher compensation** because their experience is rare and fruitful.
- ➡ The findings demonstrate that executives influence and actively contribute to the expansion of multinationals through their experience. Therefore, their mobility spurs the dissemination of some investment strategies, which is highly relevant from a fiscal and industrial policy perspective.

## CHAPTER 4

“Profit shifting, employee pay, and inequalities: Evidence from US-listed companies”

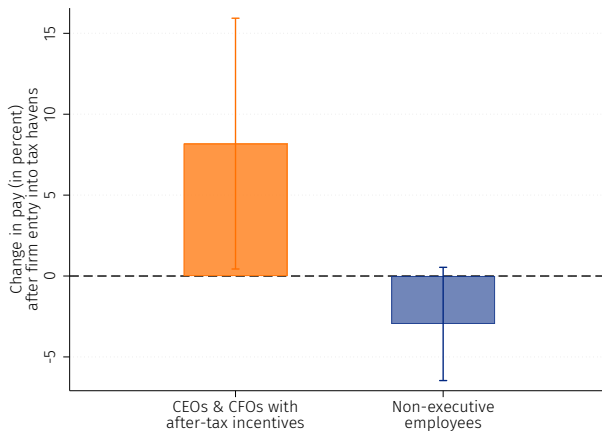
*Young Researcher Award 2022  
(European Union Tax Observatory)*





- It is often argued that profit shifting aggravates income inequalities in the public sphere.
- Yet, its consequences remain largely ignored in the academic literature (beyond its direct impact on tax revenues).
- To fill this gap, I propose a simple theoretical model and I **scrutinize the evolution of employee pay before and after firm entry into tax havens** (via subsidiaries). Executive employees are separated from the rest of employees.
- Econometric approach: event study + diff-in-diff.

## Impact of firm entry into tax havens on employee pay



Notes: Point estimates with 95 percent confidence intervals.

- Profit shifting activities **indeed widen pay inequalities** between CEOs/CFOs and non-executive employees, in line with the predictions of my conceptual framework.
- Pay inequalities deepen **more remarkably in intangible-intensive companies**.
- ➔ These findings shed light on:
  - the rise of income inequalities witnessed over the last decades,
  - the growing public hostility toward globalization and multinationals,
  - the grounds for designing anti profit shifting measures to curb income inequalities.

- In sum, this thesis reveals that **intra-industry dynamics** play a key role in corporate tax avoidance and profit shifting.
- It also highlights the **distributional impact** of such practices.
- It therefore answers several questions... while raising new ones, such as:
  - Through which other channel(s) can competition foster corporate tax avoidance?
  - How do tax dodging strategies spread across firms (besides executive mobility)?
  - Among non-executive employees, are all workers affected by profit shifting to the same degree?  
In the same vein, what about shareholders and board members?
- Many questions left open for future research!

Thanks for your attention!

All files are available on my website:

[www.baptistesouillard.com](http://www.baptistesouillard.com)