Discussion of “Is the investment of multinationals less sensitive to taxation?” by Martin Simmler
What the paper shows (1)

Compares the tax payments of multinational and domestic firms in the EU

- using accounting data between 2006 and 2012
- finds that reported profits are 14%-20% lower for multinationals than (similar) domestic firms
- driven by differences in high tax countries
- interprets this difference as profit shifting

Similar findings to other papers showing lower reported profits for multinationals in high tax countries

- using accounting data (Johannesen et al (2016))
- using administrative data (e.g. Habu (2017))
What the paper shows (2)

Multinational firm investment responds less to tax changes

The intuition:
- if a firm shifts some proportion of profits to lower tax countries, it only pays a percentage of any tax increase
- so a given tax change should affect investment by less

Empirical result
- tax sensitivity of MNE investment 60-80% lower than (similar) domestic firms
- larger than expected given extent of profit shifting
- Maybe other differences in production that also drives some of this difference
Relevance for broader policy and economic debates

Can corporate tax cuts stimulate economic growth?
- an argument made by the UK government and elsewhere in recent years
- but if multinational investment doesn’t respond to tax changes, the effect may be limited

How big is the production location distortion associated with corporation tax?
- a source-based corporation tax encourages firms to locate in lower-tax countries, rather than the ‘best’ location given non-tax factors
- this leads to capital being inefficiently allocated across countries
- profit shifting reduces this distortion, though it creates others
A corporation tax conundrum

If reducing profit shifting means MNEs move real activity or investment to low tax countries, is that an improvement?

- seems ‘fairer’ in some sense
- but would mean a bigger production distortion
- in some ways shifting of ‘paper profits’ preferable to real activity

A radical solution?

- this conundrum is inherent in a source-based corporation tax system
- would also be a problem under formulary apportionment
- ‘destination-based’ corporation tax presents a possible solution