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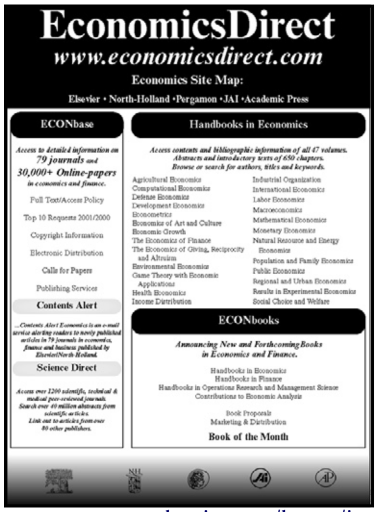

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Does a Common Set of Accounting Standards Affect Tax-Motivated Income Shifting for Multinational Firms?

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Abstract: I test whether adoption of IFRS by individual affiliates of multinational entities (MNEs) for unconsolidated financial reporting facilitates tax-motivated income shifting. MNEs often justify transfer prices to tax authorities by benchmarking intercompany profit allocations against a range of book profit rates reported by economically comparable, independent firms that use similar accounting standards. Additional qualifying benchmark firms resulting from IFRS adoption could allow managers to support more tax-advantaged transfer prices. Using a database of European unconsolidated financial and ownership information over 2003 to 2012, I first document an increase in the arm's length range of book profits reported by potential IFRS benchmark firms following affiliate adoption of IFRS. I then estimate a statistically and economically significant 11.3 percent tax-motivated change in reported book pre-tax profits following affiliate IFRS adoption, relative to pre-adoption and non-adopter affiliate-years.

Keywords: IFRS; income shifting; international tax; multinational organizations

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