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Profit Shifting Of U.S. Multinationals

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Abstract: We analyze the profit shifting behavior of U.S. multinational firms using a unique panel data set of U.S. tax returns over the period 2002-2012. Prior research has found significant effects of tax rates in affiliate and parent countries on the profit shifting behavior of multinational entities, with semi-elasticities ranging from close to zero to well above one. We build on this prior work by allowing more heterogeneity in response across the distribution of tax rates and by including affiliates located in tax havens around the world. Our findings suggest that elasticities based on a log-linear specification may severely understate the sensitivity of profits to tax in low-tax jurisdictions while simultaneously overstating this elasticity in high-tax jurisdictions. Accounting for this type of nonlinearity appears crucial in considering how the global allocation of firm profits might change in response to tax rate changes.

Keywords: International Tax; Profit Shifting; Corporate Tax.

JEL Codes: H2; H3.

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