
Are poorer countries more exposed to multinational tax avoidance?

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Abstract

We use a global dataset with information on 210,000 corporations in 176 countries to investigate whether cross-border profit shifting by multinational firms is more prevalent in low- and middle-income countries than in high-income countries. We develop a novel technique to study aggressive profit shifting and improve the credibility of existing techniques. Our results consistently show that the sensitivity of reported profits to profit shifting incentives is considerably larger in countries with lower income levels. This implies that poorer countries are more exposed to multinational tax avoidance and may explain why many of them opt for low corporate tax rates in spite of urgent revenue needs and severe constraints on the use of other tax bases.

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