

Comments on “ARE SPANISH COMPANIES INVOLVED IN PROFIT SHIFTING? CONSEQUENCES IN TERMS OF TAX REVENUES”, MS #1877.

This paper investigates the existence of Profit Shifting (the fact that companies create value in a jurisdiction and report profits in another) by foreign companies located in Spain. The sample includes 2496 Spanish subsidiaries owned by foreign OECD and EU parent industrial companies over the period 2005-2014 from the AMADEUS database. In line with previous studies, the authors find a negative effect of Corporate Income Taxes on reported profits which provides indirect evidence of the presence of a Profit Shifting strategy between Spain and foreign countries. In particular, they find an estimated coefficient equal to -2.082, which implicates that if the simple tax rate difference increases by 1%, reported profits in Spain decrease by 2%. Moreover, they estimate a negative impact from this behaviour of 325 million euros in terms of tax revenues for Spain over the sample period.

The paper is clearly structured and written. It provides a good review of the empirical literature on the issue and develops the empirical analysis using an appropriate methodology (panel data techniques). The manuscript is solid and offers an interesting contribution to the literature on this issue. Moreover, the paper has implications for policy making. However, there are some issues that should be taken into account by the authors:

1. The Profit Shifting strategy not only depends on the tax rate in the different countries but also on the corporation tax deductions that are also very different across countries. Obviously, the more tax deductions a company can take the lower the taxable profit will be. So, it should be taken into account in the paper or at least discussed.
2. I notice missing some robustness checks in the analysis. As the authors note, Heckemeyer and Overesch (2013) identified a series of methodological choices made in the empirical literature on the issue that could have affected the range of results. The authors simply propose some possible robustness tests in the conclusion section (such as the use of alternative proxies for the dependent variable and the independent variables)

but they do not offer any of these kinds of robustness analysis in the paper. The paper should include an additional section with several robustness checks.

3. As noted in section 2 and 4, the Profit Shifting strategy could depend on the level of intangible assets (since this kind of assets make the Transfer Pricing strategy of companies easier). The paper should address this issue (as other authors do) by including industry fixed effects in the regression in order to control for heterogeneity in the use of intangible assets across industries. This issue is of great interest and should not be left for future research.

Minor comment:

-The number of companies included in the sample indicated in the abstract (1380) and in section 3.1.2.1 (2496) is different. It should be clarified.

-Page 1, paragraph 2: The second sentence should be rewritten.

-Page 1, paragraph 4: The concept of “Thin Capitalization” should be shortly defined as the authors do with the concept of “Transfer Pricing”.

- According to the last paragraph in section 3.1.2.1 the authors estimate a version of equation 5 that should be explicitly included in the paper.

-The R-squared in the regression is very low (0.0148). At least a comment on this is necessary.