

Thank you very much for reviewing our manuscript; we will take all your comments into account to improve it. Hereafter, we are going to reply each of the ideas and suggestions you proposed.

1. While it is true that tax bills not only depend on the nominal tax rates but also on the definition of the tax bases, according to Devereux and Maffini (2007) statutory tax rates are the best indicator for measuring the response to taxes at this stage of the decision making of multinational corporations (i.e., statutory tax rates are the best indicator of the tax incentive to shift profits). As Devereux and Maffini (2007) claimed: "It is plausible to suppose that companies take advantage of any tax allowances in any jurisdiction in which they operate. Having done so, the advantage in being able to transfer a dollar of profit from a high tax jurisdiction to a low tax jurisdiction depends on differences in the statutory rate" (p.12). "...tax is not equally important in all decisions. For example, effective average tax rates tend to play a significant role in discrete location choices, and hence in the overall allocation of capital; but effective marginal tax rates are much less significant. Differences in statutory tax rates appear to play a significant role in the location of taxable income; there is evidence that such differences affect financial policy, the repatriation of income and transfer prices" (p.41). Moreover, statutory tax rates have been the most used indicator by the empirical literature analysing Profit Shifting. In any case, we will justify the use of nominal tax rates as indicator of the Corporate Income Tax incentive to shift profits in the revised version of the manuscript.
2. You are right. Some additional robustness checks could give consistency to our results and reinforce them. Indeed, we are currently working on that. As you commented, we are doing estimations using other proxies for the model variables and adding some extra explanatory factors to the basic regression. Therefore, we will add a section with these additional robustness tests in the revised version of the manuscript.
3. We also agree with you at this point. It has been proven in the literature that companies with a high level of intangible assets engage more in Profit Shifting and then, it would be interesting to check it empirically from our sample. As you said, one possibility for controlling and testing this hypothesis is introducing industry Fixed Effects (as the use of intangible assets by companies is related to the economic sector they belong to). Another possibility is to introduce additional explanatory variables that measure the level of intangible assets of the subsidiary or/and the parent company, as other authors did (Dischinger and Riedel, 2011; Grubert, 2003; Grubert, 2012; McDonald, 2008; or Mills and Newberry, 2004).

Minor comment:

- Number of companies included in the sample: It is true that we indicated two different numbers of companies (one in the abstract and another in 3.1.2.1). However, we explained it in the manuscript. We started with a sample of 2,496 Spanish subsidiaries. However, as we said in 3.1.2.1., subsequently we aggregated the data of those Spanish subsidiaries belonging to the same foreign parent company. The result was a sample of 1,380 units, which for practical reasons (as we also said) we called subsidiaries.
- Rewriting and defining: According to your comments, we will rewrite the second sentence of the paragraph 2 in page 1 and we will define the Thin Capitalization concept of the paragraph 4 in page 1.
- Estimated equation: we will include the specific equation we estimated in the revised version of the manuscript.
- R-squared: As far as we know, R-squared in panel data models are not usually too much high. Despite that, we will try to justify the magnitude of the value in the revised version of the manuscript.

Additional references:

Devereux, M.P., and G. Maffini (2007). The impact of taxation on the location of capital, firms and profit: a survey of empirical evidence. Oxford University Centre for Business Taxation Working Paper Series 07/02, Said Business School, Oxford. URL: [http://www.sbs.ox.ac.uk/sites/default/files/Business\\_Taxation/Docs/Publications/Working\\_Papers/Series\\_07/WP0702.pdf](http://www.sbs.ox.ac.uk/sites/default/files/Business_Taxation/Docs/Publications/Working_Papers/Series_07/WP0702.pdf)