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Effective Tax Rates in Multinationals and Domestic Firms

Jakob Bundgaard (CORIT advisory) · Wednesday, May 13th, 2015

There are a lot of opinions on multinationals and their tax practices. One conventional perception is that multinationals have a general tax advantage over their domestic competitors as their international operations allow for substantial tax management to minimize the corporate tax burden at group level.

A number of tax policy projects are in process and parts of them seek to prevent aggressive tax management by multinationals. I have been wondering for a while what level of tax advantage MNEs actually hold – on average – relative to domestic firms.

The most comprehensive study I was able to find analyzes firm-level ETRs of companies in 82 countries from 1988 – 2009. The study finds that generally little difference exists between the ETRs faced by multinationals and domestic firms.

Another recent study on U.S. data from 1988 – 2012 finds that the decline in ETRs over time is not concentrated in multinationals. In fact, ETRs have declined at approximately the same rate for both U.S.-based multinationals and domestic U.S. firms. The study finds that by the end of the sample period, multinationals had an ETR of 28 percent – domestic firms were at 24 percent...

I would find it refreshing if more quantitative tax research would find its way into the debate on how to structure tax systems of the future as well as assist in determining in greater detail the nature and scope of corporate tax management.

References for the studies are:

Kevin S. Markle, Douglas A. Shackelford, 2012. Cross-Country Comparisons of Corporate Income Taxes, *National Tax Journal*, Vol. 65(3), 493-528.

‘Changes in Corporate Effective Tax Rates Over the Past Twenty-Five Years’. Scott D. Dyreng, Michelle Hanlon, Edward L. Maydew, Jacob R. Thornock, October 2015.

Accessed at: www.gsb.stanford.edu on May 12, 2015.

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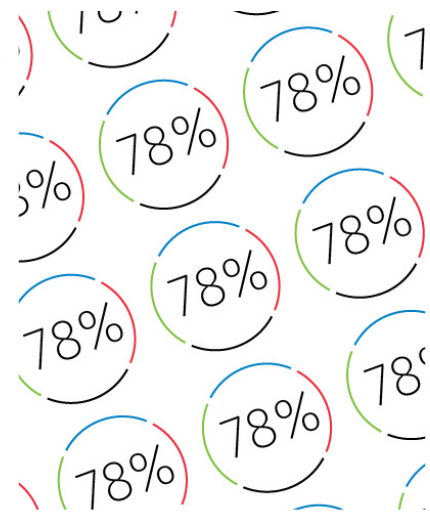
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