

The Missing Profits of Nations

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Introduction

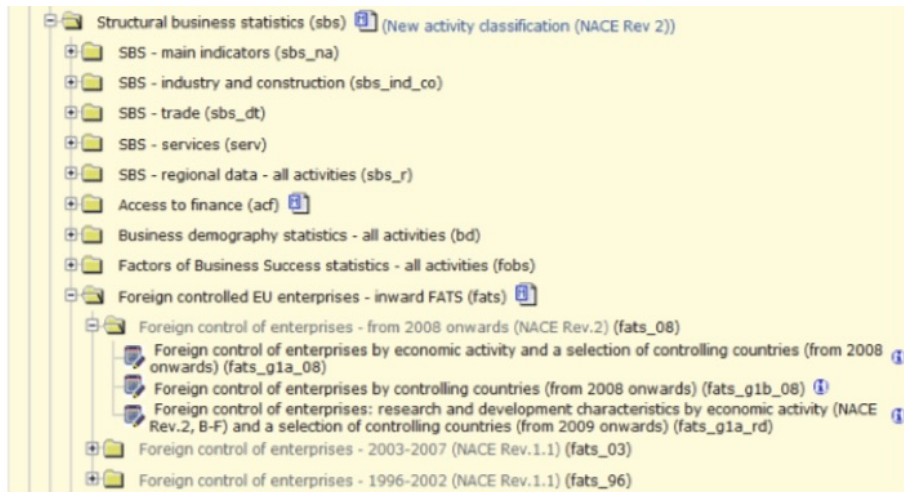
How much profits move across countries because of differences in corporate tax rates?

- ▷ Firms move capital to low-tax countries
- ▷ Firms shift paper profits to tax havens

If there was a **perfect international tax coordination**:

- ▷ Which countries would gain/lose profits?
- ▷ How? Relocation of capital, or reduced profit shifting?

New data: foreign affiliates statistics → wages, profits, etc., of foreign firms



→ Use these new data to provide first global map of where multinationals book their profits

How we estimate the amount of profits shifted to tax havens

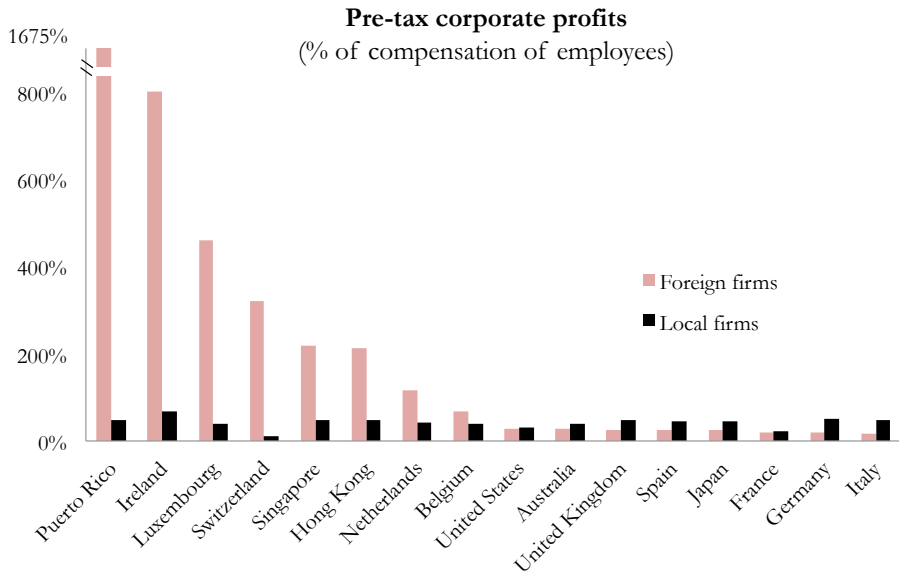
We compute **capital shares α in foreign vs. local firms** across the world. Striking global pattern:

- ▷ Foreign firms have lower α than local firms...
- ▷ ... Except in tax havens: hugely higher α

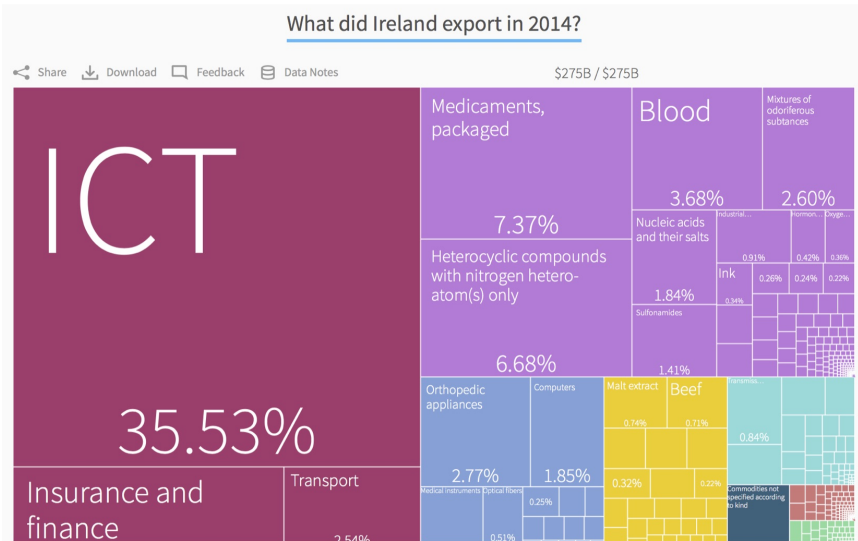
Benchmark estimate: set profitability of foreign firms in havens equal to profitability of local firms in havens

- ▷ Transparent
- ▷ Robust

In tax havens, foreign firms are much more profitable than local firms



New data: bilateral service trade



→ Use these new data to allocate shifted profits to the countries where they have been made

How we allocate the shifted profits

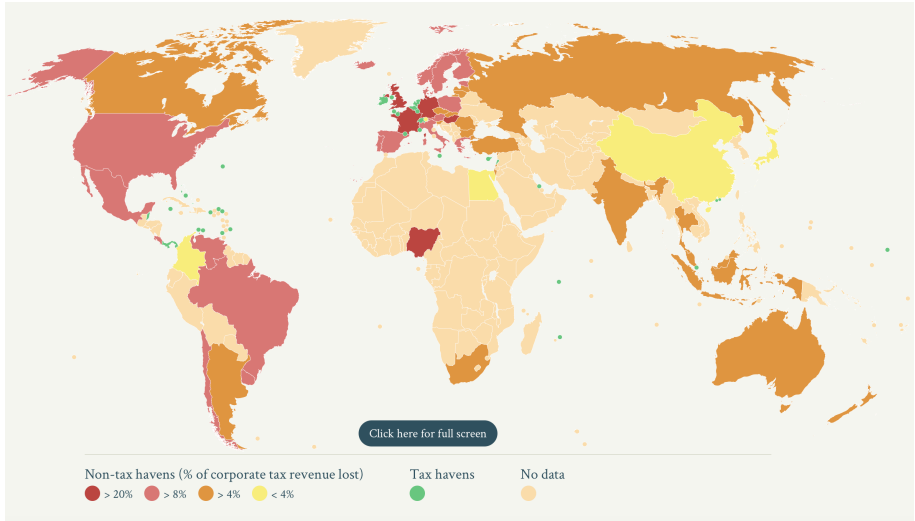
Benchmark: follow destination of tax havens' service exports and intra-group interest receipts

- ▷ Services: focus on royalties, management fees, ICT, fin. services → most conducive of shifting
- ▷ Outcome: granular estimates of profit shifting (eg, France–Ireland, Germany–Switzerland, etc.)

→ **New global database** to study (some of) the redistributive effects of globalization (2015)

- ▷ Will update annually → make it possible to study dynamics (eg, effect of policies)

MissingProfits.world



MissingProfits.world: the case of Spain

Spain loses 13% of its corporate tax revenue because of these tax havens:



	Profits lost (\$, Millions)	Tax revenue lost (\$, Millions)	Tax revenue lost (% of corp. tax revenue)
All havens	14,880	3,720	13%
EU havens	11,919	2,980	11%
Belgium	1,063	266	1%
Cyprus	4	1	0%
Ireland	2,575	644	2%
Luxembourg	3,458	865	3%
Malta	174	44	0%
Netherlands	4,645	1,161	4%
Non-EU tax havens:	2,960	740	3%
Switzerland	2,078	519	2%
Bermuda, Caribbean, Puerto Rico, Hong Kong, Singapore and others	883	221	1%

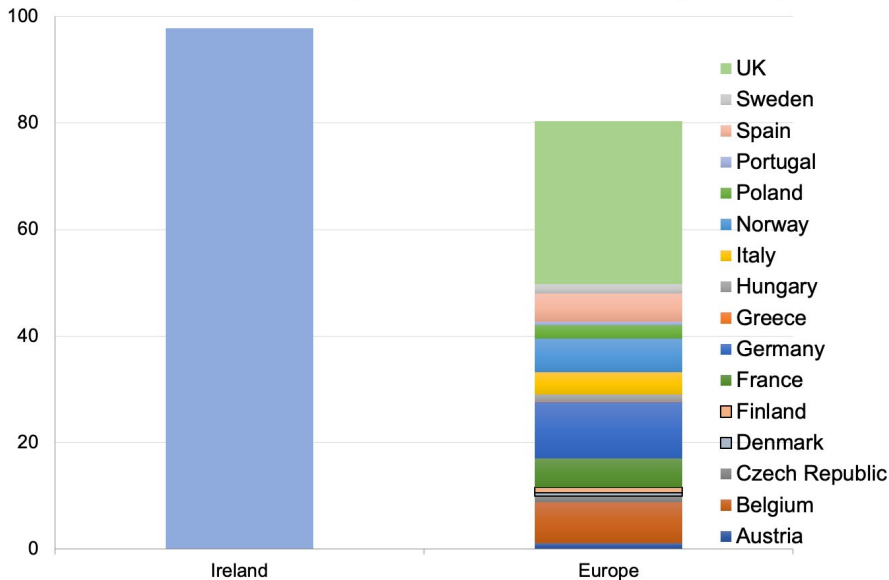
Main results

40% of multinat'l profits (\approx \$600bn) shifted to havens

- ▷ Main winners: Ireland, Luxembourg, Singapore, etc.
(impose low rates but on big \$600bn base)
- ▷ Main losers: non-haven EU countries
- ▷ Profit shifting swamps tax-driven tangible capital mobility (different welfare implications)
- ▷ Rise of capital share is higher than in official data → provide corrected estimates of α , GDP, trade

The case of Ireland

Profit booked by US multinationals in 2018 (\$ billion)



Why should we care?

Whatever one's view about efficiency costs of capital taxation, global profit shifting raises policy issues:

- ▷ Distorted competition
- ▷ Inequality
- ▷ Loss of tax revenue