

Tax competition and profit shifting in multinational firms

Lecture 1: Introduction to capital tax competition

This lecture introduces basic concepts and models in the capital tax competition literature. It covers the fundamental allocation problem introduced by capital mobility and the redistributive effects that arise from tax competition between countries of different size. It also introduces some empirical studies that support the most important predictions of the tax competition literature.

Lecture 2: National policies against profit shifting

With this lecture the focus shifts to profit shifting in multinational enterprises (MNEs). After a brief introduction into the profit shifting activities of MNEs, we introduce thin capitalization rules and controlled foreign corporation (CFC) rules as two of the most important national policy instruments to combat profit shifting. A simple optimal tax model is introduced that shows how the choice of profit tax rate and the tightness of anti-avoidance policies interact. We conclude with empirical studies that document the effectiveness of anti-avoidance measures in limiting profit shifting, but also their negative effects on real investment and the downward pressure this exerts on statutory tax rates.

Lecture 3: Coordinated policies against profit shifting

In this lecture we turn to coordinated measures to combat profit shifting, in particular the EU's and the OECD's efforts to eliminate "unfair", discriminatory tax measures practiced by their member states as well as by tax havens. Using two theoretical models that yield conflicting results, we show that the theoretical case against discriminatory tax competition is fundamentally ambiguous and we clarify under which conditions the coordinating countries gain or lose from such a policy stance. We then show that the same welfare ambiguity underlies the fight against tax havens. The lecture concludes with an application to the controversial "patent box regimes" that have proliferated in Europe during the last decade.

Preparatory reading: The most direct introduction to the core topics of the lecture can be gained from the following references (covered in Lecture 3):

- Keen, M. (2001): Preferential regimes can make tax competition less harmful. *National Tax Journal* 54, 757-763.
- Haufler, A., Runkel, M. (2012): Firms' financial choices and thin capitalization rules under corporate tax competition. *European Economic Review* 56, 1087-1103.