

Profit shifting by multinational corporations: Evidence from transaction-level data in Nigeria

Bathusi Gabanathong, Javier Garcia-Bernardo,
Paulinus Iyika, Miroslav Palansky

Discussion by: Ctirad Slavík (CERGE-EI)

12th Biennial Conference of the Czech Economic Society

November 26, 2022

- Goal of the paper: Document profit shifting from Nigeria.
- Novelty: Use a new administrative transaction-level dataset. A decent number of cost transactions and a smaller number of income transactions.
- Approach:
 - ① Estimate the impact of tax rates in foreign countries (and in Nigeria?) on reported profits in Nigeria.
 - ② Identification: Cross section of firm-level transactions. Short panel dimension (2018 -2020) appears not to be used explicitly (could look at changes).

- ① Cost transactions: Decreasing taxes in foreign country increases profits reported in Nigeria ('Services and Fees' and 'Interest').
- ② Income transactions: No significant effect.
- ③ Interpretation: (Illegal?) profit shifting ...

Interpretation

- Reasoning for why incomes not affected by taxes not convincing. Did deeper into this.
- Biased language:
 - ① All transactions (essentially) interpreted as profit shifting. But there are legitimate transactions (as the paper admits) whose size will be affected by taxes. Disentangle those?
 - ② Loopholes in the law. Do not blame the MNCs for those!
 - ③ Do we want to have taxes collected in low or high corruption country? Seems like MNCs so not want to pay taxes in a high corruption country (paper says so).

Suggestions and Questions

- ① Need to explain the dataset better. What fraction of the universe of transactions do you have? Is it representative? Why fewer income transactions. Etc.
- ② Explain the methodology better. Definitions: What is home country? What is FIRS? Is Nigeria middle- or low-income?
- ③ Are Nigerian taxes ever used?
- ④ Are the UK and The Netherlands tax havens?
- ⑤ Whole section 6 needs tightening. Seems potentially very interesting, but a bit unrelated to the rest. Define properly: 'vulnerability scores'.

Summary

- ① Well written piece with somewhat expected results.
- ② To increase impact focus on what is new in the data and try to get some novel findings.
- ③ Concentrate the paper around these novel findings.