

The Effect of Foreign Activities Located in Tax Havens on Corporate Income Taxes

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Abstract

This paper investigates the effect of tax haven activities on the effective tax burden of corporate groups in a cross-country setting. Using consolidated accounting data and ownership records from the historical Orbis database between 2007 and 2016, we find that taxes paid at the consolidated firm-level decreases with tax haven activities. Measuring tax haven activities as the percentage of tax haven affiliates to the total amount of foreign affiliates, a one percentage point increase in tax haven activities reduces the ratio of tax liabilities to pre-tax earnings (total assets) by 2.37 (0.07) percentage points.

However, after controlling for firm-specific fixed effects the results are no longer significant. These results shed an interesting light on the previous literature that have neglected such unobserved firm characteristics. When using dummy variables to capture the extent of tax haven activities we find that firms benefit from a considerable presence in tax havens.