# Measurement Matters: How Profit Measurement Affects Profit Shifting Estimates

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**Abstract**

This paper examines how the choice between book profits and taxable income affects profit shifting estimation. Using administrative tax data from France covering the universe of firms with matched tax returns and financial statements, we document substantial book-tax differences, with book profits exceeding taxable income by a factor of 3 to 4. Pre-tax book profits explain only 23.3% of taxable income variation, challenging the assumption that financial statement data can reliably proxy for tax bases.

We demonstrate that measurement choices systematically bias profit shifting estimates. Semi-elasticity estimates vary dramatically by profit measures: pre-tax profit increase by 0.9 percent when the foreign tax rate increases by 1 percentage point, while taxable income increases by 1.4%. Tax haven analysis reveals missing profits of foreign MNEs of €1.8-3.9 billion per year, depending on the measure used. These findings suggest studies using financial statement data may substantially underestimate profit shifting and have important implications for policies like the OECD's Global Minimum Tax.