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THE ROLE OF CORRUPTION AND SECRECY IN TAX AVOIDANCE BY MULTINATIONAL FIRMS

Abstract:

We investigate the importance of corruption terms related to the profit shifting behavior of multinational firms. Using country-level panel data, we find a significant and positive correlation between corruption and profit shifting. Our findings are robust across a number of corruption and profit shifting measures as well as to an instrumental variable approach that controls for the potential endogeneity between profit shifting and corruption. We also investigate the impact of financial secrecy on profit shifting. Our findings indicate a negative and significant impact of financial secrecy on outward profit shifting. We indicate that corruption and financial secrecy can undermine the global efforts to tackle profit shifting by multinational firms.

Keywords:

tax avoidance, profit shifting, corruption, secrecy, multinational firms