

Negotiating Taxes

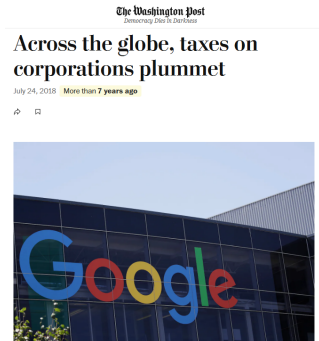
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UCB **CYU**

February 15, 2026

Motivation

36% of multinational profits are shifted to tax havens globally (Tørsløv et al., 2023)

→ Large tax revenue losses for high-tax countries



To curb profit shifting, the OECD has launched global initiatives (BEPS, Pillar 1 & 2)

→ Progress is slow and uneven: hard to get global consensus

Negotiating taxes

Worldwide, tax authorities **negotiate** with multinational firms (MNEs) to limit profit shifting

- Opaque process, very little is known about it
- Tax policy results from a bargaining process between taxpayers and the state

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This paper studies these negotiations:

- First microdata on these negotiations via a new collaboration with the French tax authority
- MNEs and tax authorities negotiate the transfer pricing (TP) methodology to apply
- It reallocates taxable profit across countries $\Rightarrow$ countries' corporate tax base

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Research questions:

- What is the impact of these negotiations on tax revenues and MNEs' activity?
- *What are the bargaining dynamics? [in progress]*

Contributions

Political economy of taxation

- Tax authority–taxpayer negotiations are an established practice but understudied
 - Because implicit/kept secret, existing studies on tax bargaining rely on inferred bargaining
Overbeck & Lungu '25, Egger & al '20, Vandenbussche '05

→ Instead, we observe the full negotiation process and its outcome

International Taxation

- Scarce literature on tax authority-MNEs tax negotiations
 - Lack of available data restricted the study of APAs to legal and theoretical studies
Becker & al '17, Vollert & al '13, Whitford '10, De Waegenaere & al '07, Brem '03

→ Link novel negotiation micro-data to MNEs' tax returns to track their fiscal & real effects

Political power of firms

- Key parameter, difficult to observe (Bombardini & Trebbi, '25)
 - IO literature estimates bargaining power of firms in B2B settings
Grennan, '13, Crawford & Yurukoglu '12, Ho '09

→ Apply IO methods to firm–state negotiations

Today

- Institutional context
- Data
- Facts
- Empirical results
- Nash bargaining model
- *Estimation [in progress]*

INSTITUTIONAL CONTEXT

Transfer Pricing

MNEs shift profits by manipulating intra-group prices of tangibles and intangibles [Example](#)

Transfer Pricing

MNEs shift profits by manipulating intra-group prices of tangibles and intangibles Example

Manipulation is possible because there is ambiguity around what the *true* price is

- In theory, price should follow the arm's length principle
 - Price that would apply between independent firms in the market
- In practice, hard to pin down the *true* market price:
 - Transactions/firms are rarely comparable

→ Room for negotiation on what the *true* price should be

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Given the ambiguity around transfer pricing:

- MNEs select a TP methodology and build a solid argumentation to back it up
- Tax authorities, through audits, can challenge the MNEs' argumentation

Audits are costly

For the tax authority:

- Long and complex process to prove that prices deviate from arm's length principle

Audits are costly

For the tax authority:

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For MNEs:

- Compliance costs
- Uncertainty about future tax liabilities [Firm 10-K](#)
- When successful, TP audits result in substantial additional tax payments

Examples of successful audits

McDonald's, Bolloré, Google... Quand les multinationales passent à la caisse

McDonald's a consenti, le 16 juin, à payer une amende record de 1,25 milliard d'euros au fisc français afin d'éviter des poursuites pour fraude fiscale. Les grands groupes sont de plus en plus nombreux à préférer payer pour éviter la case procès.



Coca-Cola Owes \$6 Billion to IRS, Tax Court Rules

Beverage giant says it will appeal the court's decision

By Dean Scott [\(+ info\)](#)

Aug. 2, 2014 10:36 am ET

[Share](#) [Print](#) [AA](#) [Gift unlocked article](#)

[Listen \(audio\)](#)



Coca-Cola said in a 2015 lawsuit that the IRS was seeking \$3.3 billion in back taxes. SCOTT

→ Although cumbersome to implement, audits remain a credible enforcement threat

Mutual gains through negotiation?

Case-by-case negotiations btwn MNEs & tax authorities: **Advance Pricing Agreements**

- Negotiations are initiated at the request of the firm
- Set the TP methodology the MNE will apply for five years
- Successful negotiations ensure the TP methodology of the firm will not be audited

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- Increased and predictable tax base $\implies$ increased tax payments

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Benefits for the MNEs:

- Certainty regarding tax liabilities $\implies$ positive spillover impact on business decisions
 - 60% of MNEs find APAs *very useful* (EY survey, 2023) [Firm survey](#)

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→ MNEs trade off higher tax payments for greater certainty

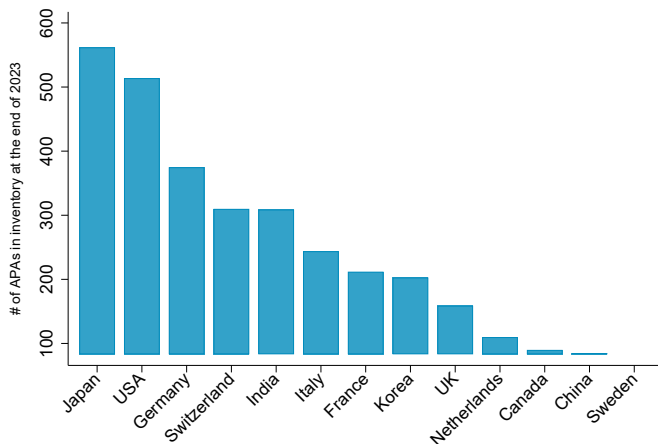
DATA

Administrative data from the French tax authority

- French Advance Pricing Agreements (APAs) [2002-2025] [\[NEW\]](#)
 - Full history of negotiation documents
- Firm tax returns [2005-2024]
- Firm audit history [1998-2024] [\[NEW\]](#)
- Country-by-country reports data [2016-2024]
 - All MNEs operating in France must report sales, profits and # of employees abroad

FACTS

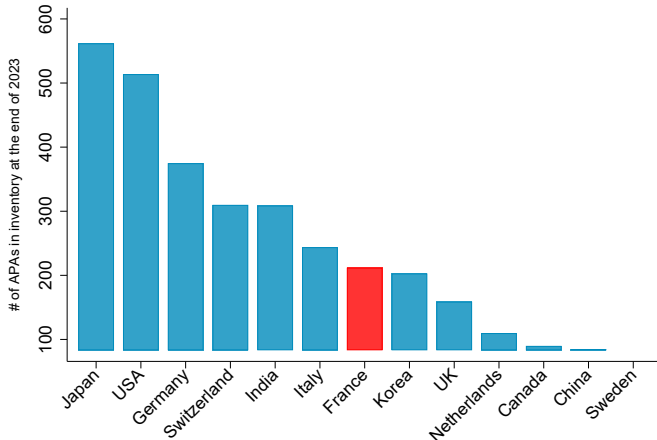
1. A worldwide, decades-old practice



Source: OECD, only top 13 countries are displayed

- For the first time in 2023, 46 countries reported their aggregate negotiation statistics
→ Over 4000 negotiations going on worldwide [Examples](#)

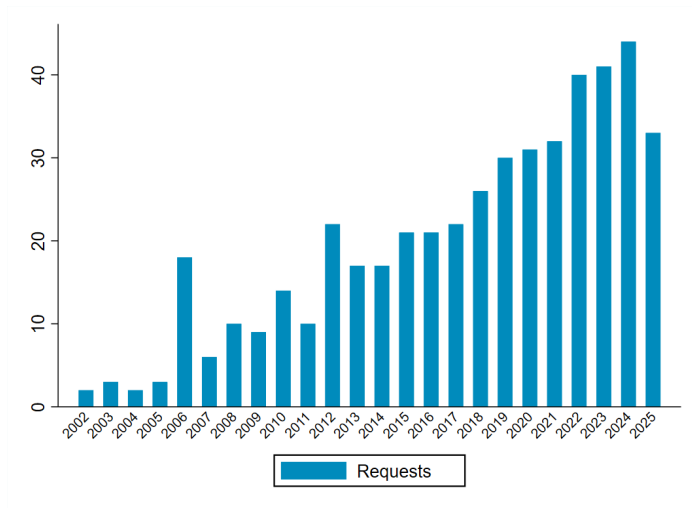
Focus on France



Source: OECD, only top 13 countries are displayed

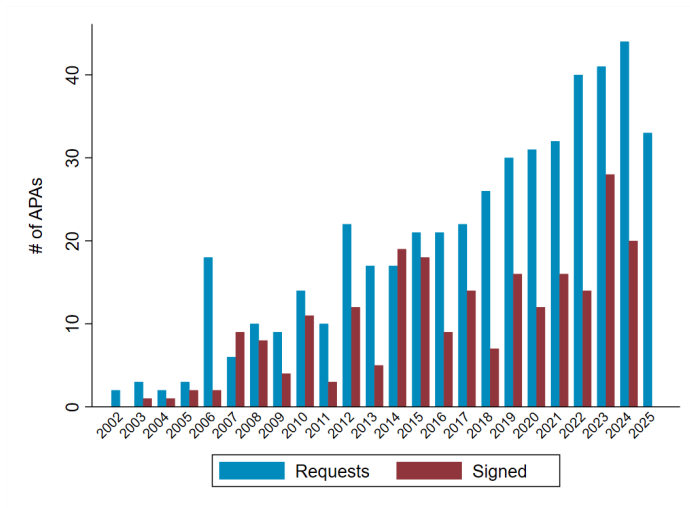
- France is among the countries with the most negotiations in inventory in 2023

2. Growing demand for negotiations, most are granted... with a lag



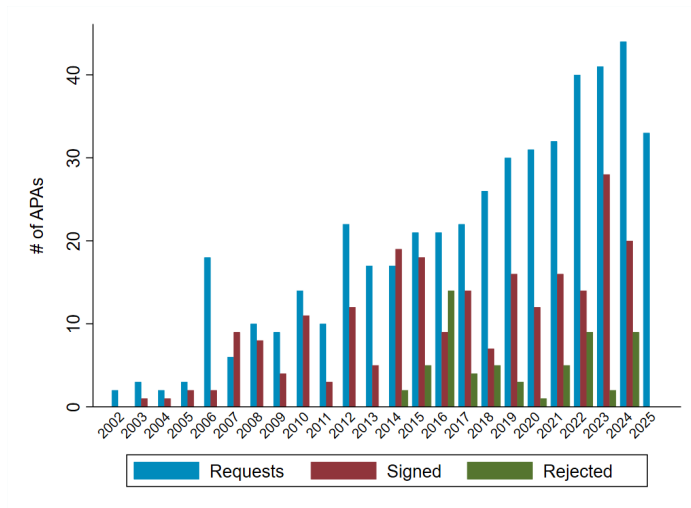
- 71 % of the negotiations requests are renewed

2. Growing demand for negotiations, most are granted... with a lag



- Many negotiations are ongoing

2. Growing demand for negotiations, most are granted... with a lag



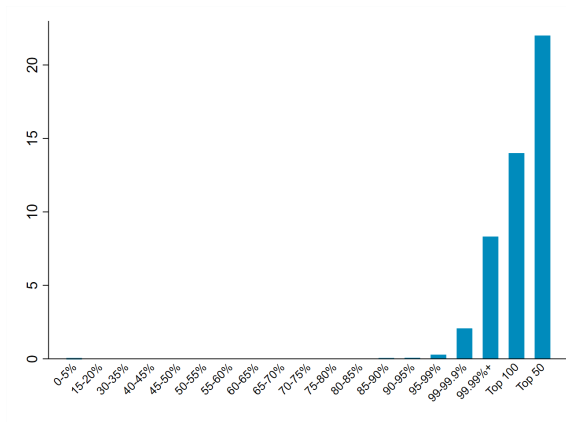
- Few requests are rejected

3. Only a few, but very large, firms negotiate

Figure: % of negotiating firms by sales bins

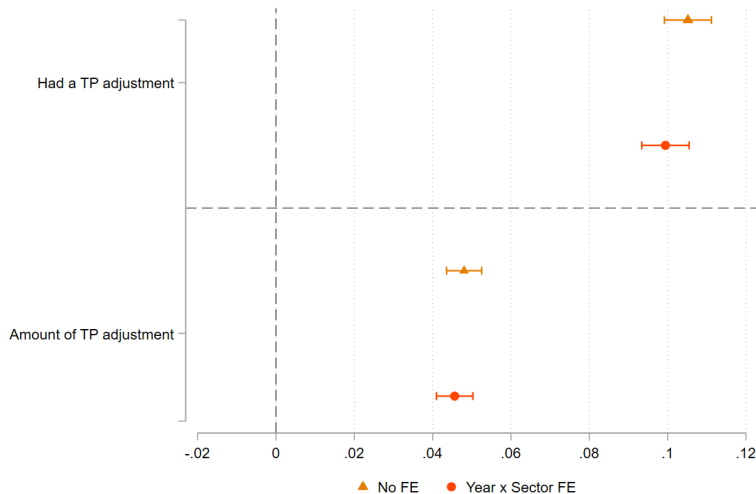
Negotiating firms represent:

- 0.09% of all firms, but **9% of all sales**
- 3.3% of MNEs, but **24% of MNEs' sales**



- 267 large firms have initiated negotiations in France, including 12 among the top 50 !

4. Selection also driven by past transfer pricing adjustments

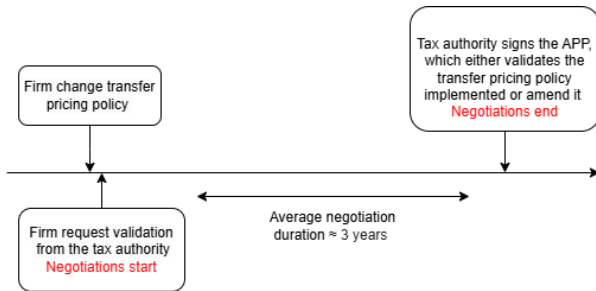


- Negotiation probability is 10pp higher for MNEs with a prior transfer pricing adjustment

EMPIRICAL DESIGN

Staggered DiD design

- Treated units: Negotiating firms
- Control units: Not-yet treated units + Never negotiating MNEs filing a TP report
- Event: Start of the negotiations
 - If an amendment is requested, additional changes may be observed around $t+3$



Staggered DiD design

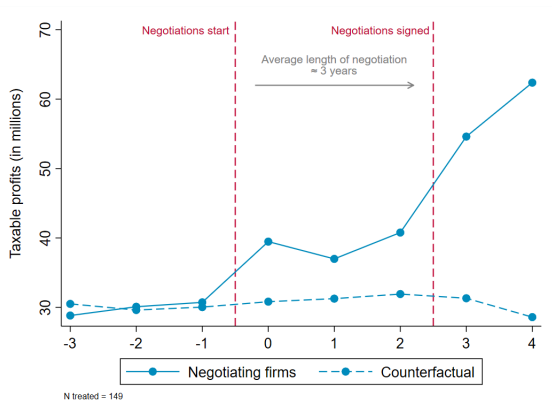
$$Y_{it} = \alpha_i + \alpha_{zt} + \sum_{k=-3}^4 \beta_k \times APA_{it}^k + \mu' f_t + \epsilon_{it}$$

- Y_{it} is the outcome studied for firm i at time t
 - For tax authority: taxable profits, tax paid
 - For MNEs: transfer pricing adjustments, wage bill, # of employees, assets
- α_i are firm FE
- α_{zt} are sector x time FE
- β_k are the coefficients of interest
 - Entry is endogenous; results reflect both the effects of the negotiation and selection
- APA_{it}^k equals 1 if firm i is observed in t , k periods away from its treatment period
- $\mu' f_t$ are interactive fixed effects
- ϵ_{it} is the error term

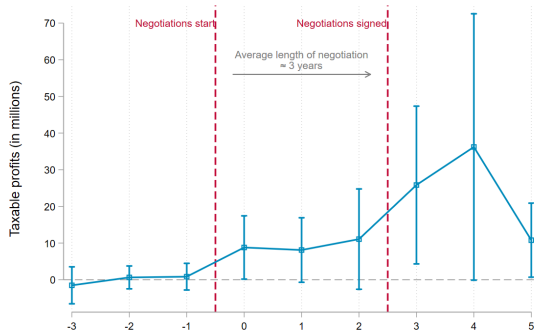
RESULTS

Taxable profits

(a) Levels



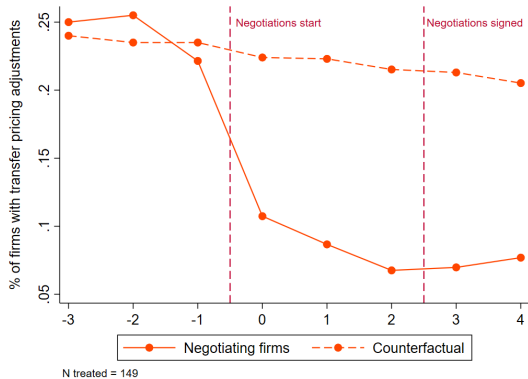
(b) DiD



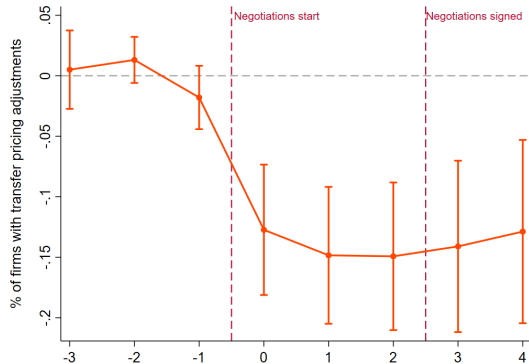
→ Tax authority benefits: ↗ tax base by €16 M/APA on average ($\approx 2\%$ of baseline sales)

Transfer pricing adjustments

(a) Levels



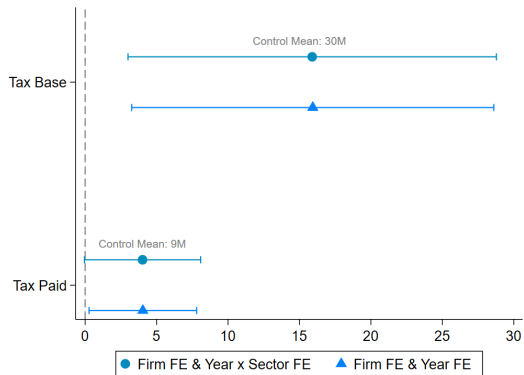
(b) DiD



→ MNEs benefit: the share of firms facing transfer pricing adjustments ↓ by 15pp

Downstream effects

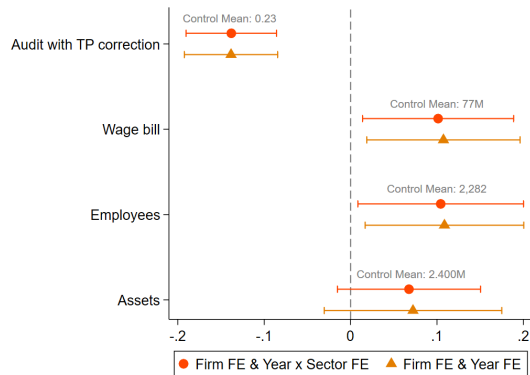
(a) Tax Authority



↗ €16 M/APA in tax base

→ ↗ €4 M/APA in tax paid

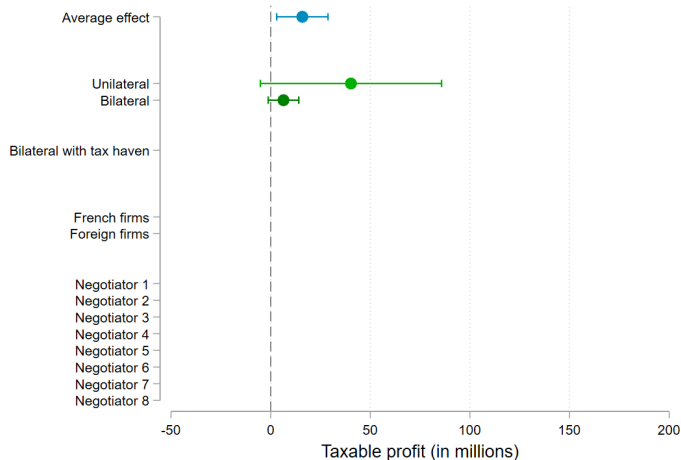
(b) Firms



↘ 15pp in TP adjustments: ↗ tax certainty

→ ↗ 10 % in wages/employees/assets

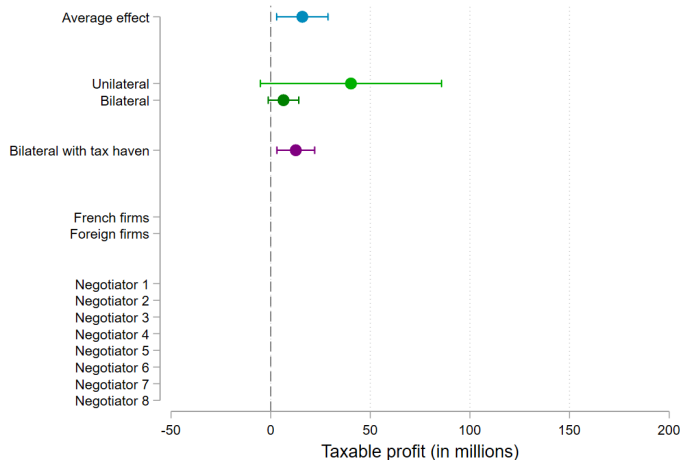
Heterogeneity of the effects on taxable profits



Unilateral negotiations (26 %)

- Negotiations involving only the French tax authority and a firm (vs. two tax authorities)

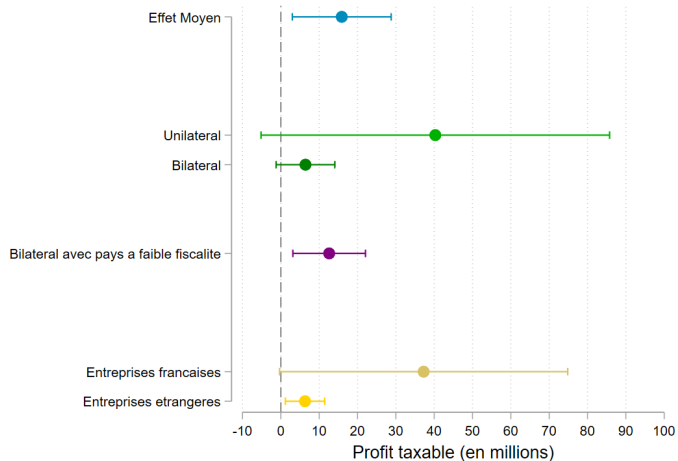
Heterogeneity of the effects on taxable profits



Bilateral negotiations where the counterparty authority is based in a tax haven (16%)

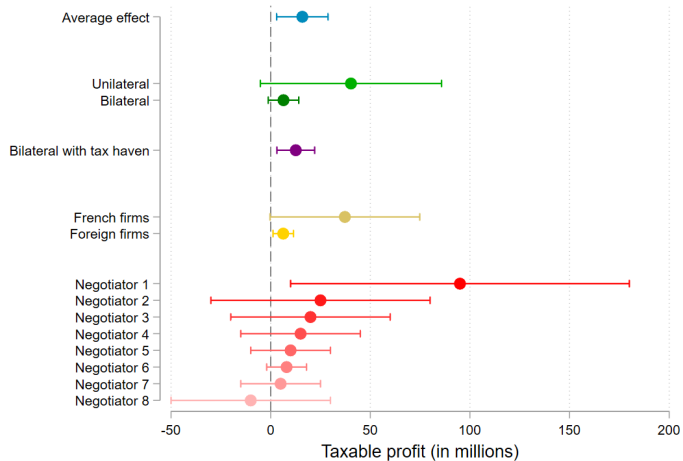
- Hong-Kong, Ireland, Luxembourg, Singapour, Switzerland, The Netherlands

Heterogeneity of the effects on taxable profits



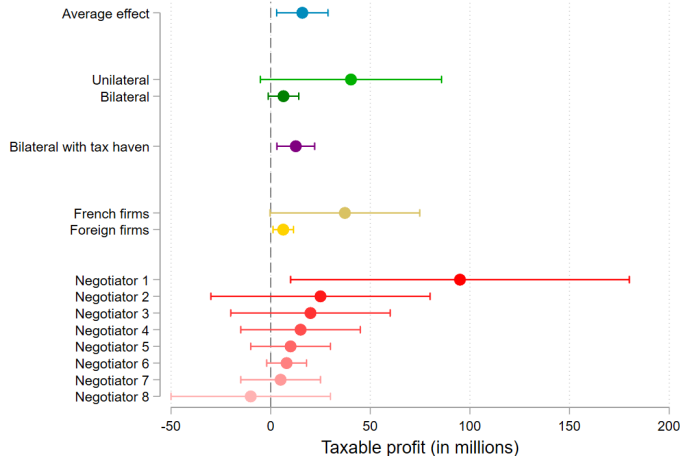
French-headquartered firms (32 %)

Heterogeneity of the effects on taxable profits



One *superstar* negotiator at the tax authority

Heterogeneity of the effects on taxable profits



→ Suggests important role of bargaining dynamics along some of these characteristics

Heterogeneity on other outcomes: Unil vs. Bilat Tax Haven

BARGAINING MODEL

Set up

- Two type of agents:
 - Firms, denoted i
 - A tax authority, denoted TA
 - Firms can choose to:
 - Negotiate with the tax authority (N)
 - Not negotiate (o)
 - If negotiation occurs:
 - TP methodology is negotiated; it sets profits booked in France
 - The tax authority commits to not audit the firm
- Main goal: recover the bargaining power of the firms, denoted α_i

Utilities under negotiations

Firms:

$$U_i^N = \Pi_i - \tau_F \Pi_{F,i}^N - \tau_A (\Pi_i - \Pi_{F,i}^N) - c_i^N$$

Tax authority:

$$U_{TA}^N = \tau_F \Pi_{F,i}^N - c_{TA}^N$$

where:

- Π_i are international profits of firm i
- τ_F is the tax rate on profits in France
- $\Pi_{F,i}^N$ **are the profits booked in France of firm i , the object of the negotiations**
- τ_A is the tax rate on profits abroad
- c_i^N are the costs of negotiating for firm i
- c_{TA}^N are the costs of negotiating for the tax authority

Utilities under negotiations

Firms:

$$U_i^N = \Pi_i - \tau_F \Pi_{F,i}^N - \overbrace{\tau_A}^{=0} (\Pi_i - \Pi_{F,i}^N) - \overbrace{c_i^N}^{=0}$$

Tax authority:

$$U_{TA}^N = \tau_F \Pi_{F,i}^N - \overbrace{c_{TA}^N}^{=0}$$

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→ To simplify, we set τ_A , c_i^N and c_{TA}^N to 0 for now

Utilities of the outside options, no negotiations

Firms:

$$E[U_i^o|o] = \Pi_i - \tau_F \Pi_{F,i}^o - p_i d_i \phi_i$$

Tax authority:

$$E[U_{TA}^o|o] = \tau_F \Pi_{F,i}^o + p_i (d_i \phi_i - C_i)$$

where:

- p_i is firm's i audit probability
- $\Pi_{F,i}^o$ is the level of profits booked in France when no negotiations occur for firm i
- d_i is the probability that firm's i audit detects fraud
- ϕ_i is the additional payments induced by a successful audit, composed of:
 - The recovery of unreported amounts: $\tau_F (\bar{\Pi}_i - \Pi_{F,i}^o)$
where $\bar{\Pi}_i$ denotes the amount that should have originally been declared
 - A potential penalty, which is a share ζ of the evaded amount: $\zeta (\tau_F (\bar{\Pi}_i - \Pi_{F,i}^o))$
- C_i is the cost of conducting the audit of firm i for the tax authority

Nash Bargaining

$$\Pi_{F,i}^{N*} = \arg \max_{\Pi_{F,i}^N} \overbrace{\left(U_i^N - E[U_i^o | o] \right)}^{S_i : \text{Firms' surplus of negotiating}} \alpha \overbrace{\left(U_{TA}^N - E[U_{TA}^o | o] \right)}^{S_{TA} : \text{TA's surplus of negotiating}}^{1-\alpha}$$

Taking F.O.C:

$$\frac{\partial}{\partial \Pi_{F,i}^N} = 0 \implies \boxed{\Pi_{F,i}^{N*} = \Pi_{F,i}^o + \frac{p_i (d_i \phi_i - \alpha_i C_i)}{\tau_F}}.$$

Comparative statics:

- $(\Pi_{F,i}^{N*} - \Pi_{F,i}^o)$ is $\nearrow$ in d_i, ϕ_i and $\searrow$ in α_i, C_i

Nash Bargaining

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$$\Pi_{F,i}^{N*} = \Pi_{F,i}^o + \frac{p_i(d_i\phi_i - \alpha_i C_i)}{\tau_F}$$

Isolating α_i :

$$\alpha_i = \frac{S_i}{S_i + S_{TA}} = \frac{p_i d_i \phi_i - \tau_F (\Pi_{F,i}^{N*} - \Pi_{F,i}^o)}{p_i C_i}$$

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$$\alpha_i = \frac{S_i}{S_i + S_{TA}} = \frac{p_i d_i \phi_i - \tau_F (\Pi_{F,i}^{N*} - \Pi_{F,i}^o)}{p_i C_i}$$

$$0 \leq \alpha_i \leq 1 \quad \text{only if} \quad S_i \geq 0 \text{ and } S_{TA} \geq 0$$

→ If $S_i < 0$ ($S_{TA} < 0$), the firm (TA) does not enter the negotiation Conditions

ESTIMATION

Estimating α

$$\hat{\alpha} = \frac{\hat{p}\hat{d}\hat{\phi} - \tau_F \left(\widehat{\Pi_F^{N*}} - \Pi_F^o \right)}{\hat{p}\hat{C}} \approx 0.42$$

Objects	Predicted from / Source	Average
$\hat{p}$	Audit rate from firm i 's pre-negotiation history	0.64
$\hat{d}$	Detection rate from firm i 's pre-negotiation history	0.80
$\hat{\phi}$	Payments from firm i 's pre-negotiation history	€31.25 M
τ_F	Observed	0.31
$\widehat{\Pi_F^{N*}} - \Pi_F^o$	DiD estimate	€15.93 M
$\hat{C}$	Total expenses of audit unit/# of audits	€0.08 M

Estimating α

$$\hat{\alpha} = \frac{\hat{p}\hat{d}\hat{\phi} - \tau_F \left(\widehat{\Pi_F^{N*}} - \Pi_F^o \right)}{\hat{p}\hat{C}} \approx 0.42$$

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Next:

- Estimate α_i and explore how it correlates with sales, % of sales in France/tax haven
- Conduct counterfactuals on $\widehat{\Pi_F^{N*}} - \hat{\Pi}_F^o$ and selection

CONCLUSION

Wrapping up

On average, each negotiation:

- Benefit the tax authority: ↗ tax base by €16 M, tax paid by €4 M
- Benefit MNEs: ↘ in audits with TP correction by 15 %, ↗ in wages, employees, assets by 10 %

Next steps:

- Empirics: elasticity of taxable profits, effect on tax reserves, global tax paid
- Model: Estimate α_i , conduct counterfactuals, endogenize p_i

Ultimate policy question: Are APAs the future of international tax enforcement?

- APAs offer a pragmatic alternative to OECD's unsuccessful multilateral efforts
 - They curb profit shifting without requiring global coordination
- Yet, differences in **firm bargaining power** may lead to unequal tax treatments

THANK YOU!

APPENDIX

An example inspired by the Starbucks scheme



Uncertainty about future tax liabilities

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2022

or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____
Commission File Number: 001-35551



Meta Platforms, Inc.

(Exact name of registrant as specified in its charter)

Uncertain Tax Positions

The following table reflects changes in the gross unrecognized tax benefits (in millions):

	Year Ended December 31,		
	2022	2021	2020
Gross unrecognized tax benefits - beginning of period	\$ 9,807	\$ 8,692	\$ 7,863
Increases related to prior year tax positions	210	328	356
Decreases related to prior year tax positions	(172)	(86)	(253)
Increases related to current year tax positions	1,166	963	1,045
Decreases related to settlements of prior year tax positions	(254)	(90)	(319)
Gross unrecognized tax benefits - end of period	\$ 10,757	\$ 9,807	\$ 8,692

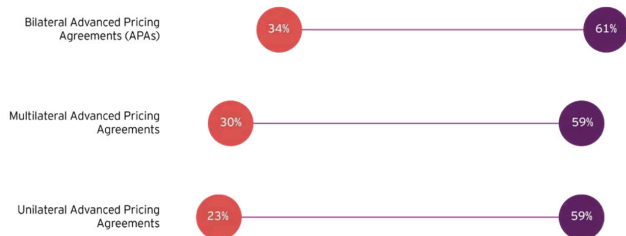
These unrecognized tax benefits were primarily accrued for the uncertainties related to transfer pricing with our foreign subsidiaries, which include licensing of intellectual property, providing services and other transactions, as well as for the uncertainties with our research tax credits. During all years presented, we recognized interest and penalties related to unrecognized tax benefits within the provision for income taxes on the consolidated statements of income. The amount of interest and penalties accrued as of December 31, 2022 and 2021 were \$1.07 billion and \$960 million, respectively.

EY TP Survey about APA.

Pre-filing and dispute resolution programs become more popular

The proportion of respondents describing these programs as “very useful” dramatically increased since 2021.

Year ● 2021 ● 2023



[Back](#)

*“There’s a **premium on transfer pricing certainty** that never existed before.”*

*“Transfer pricing uncertainty has too many **downstream impacts** on significant business decisions, including capital outlays and the potential for double taxation.”*

Tracee Fultz, EY Global Transfer Pricing Leader

Transfer pricing methodology

[add a slide explaining the different things they can negotiate on + distribution of what we observe] [Back](#)

A worldwide, decades-old practice



Under the **Advance Pricing Agreement**, which took effect in March 1991, the IRS can assess corporate data to decide appropriate prices for parts and products imported by U.S. subsidiaries.

Once such prices are decided, it cannot raise any dispute over them to seek additional tax payments.

Akira Nagano, a Matsushita spokesman, said the company believed avoiding future tax disputes was worth compromising some of the company's classified data on prices.

The IRS and Japan's National Tax Agency agreed to grant Matsushita the new taxation formula in August, two years after Matsushita Electric Corp. of America, Matsushita's New Jersey-based subsidiary, applied, Nagano said.

(a) Matsushita Electric vs. IRS, 1991

[Back](#)



Consent from IRS

After three years of negotiations, Google received approval from the IRS in 2006 for its transfer pricing arrangement, according to filings with the Securities and Exchange Commission.

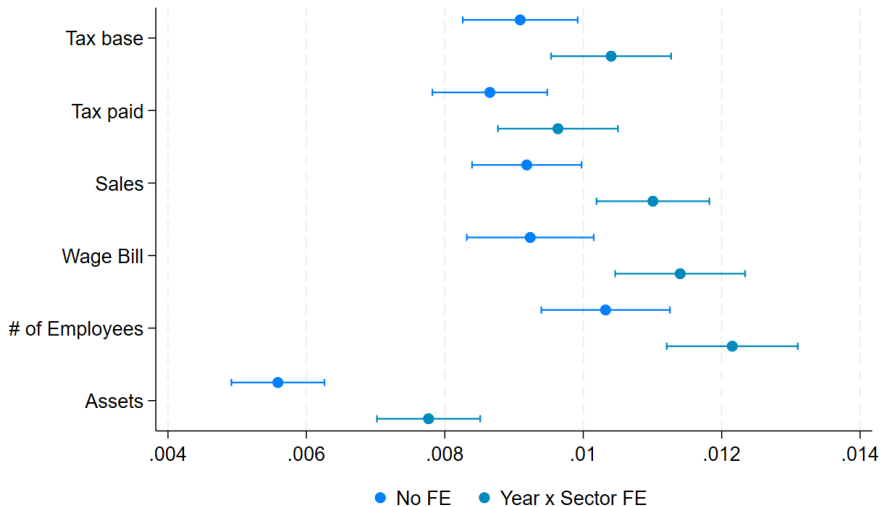
The IRS gave its consent in a secret pact known as an **advanced pricing agreement**. Google wouldn't discuss the price set under the arrangement, which licensed the rights to its search and advertising technology and other intangible property for Europe, the Middle East and Africa to a unit called Google Ireland Holdings, according to a source familiar with the matter.

(b) Google vs. IRS, 2006

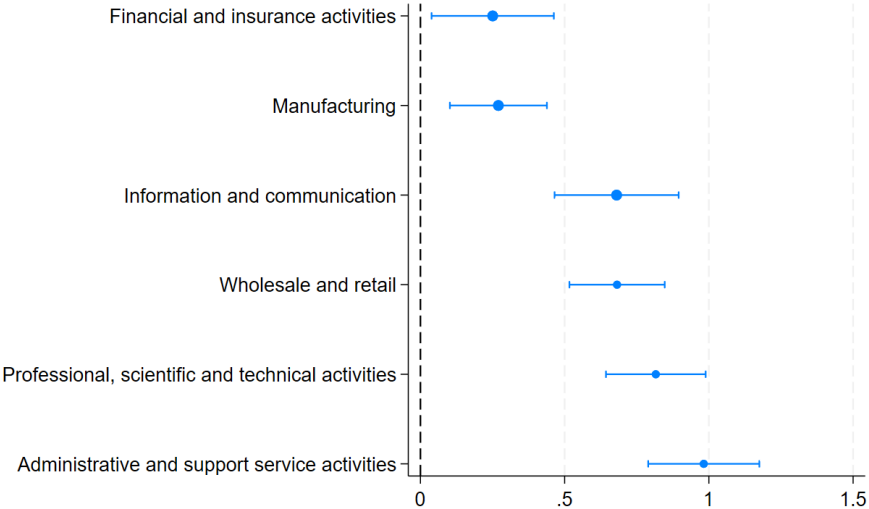
By letter dated 2 October 2013, the Dutch authorities submitted the requested information to the Commission, including the **advance pricing agreement** (hereinafter 'APA') (?) concluded in 2008 between the Dutch tax administration and Starbucks Coffee BV (hereinafter: the 'Starbucks Coffee BV APA'), the APA concluded in 2008 between the Dutch tax administration and SMBV (hereinafter: the 'SMBV APA') and supporting documents. Those documents concern, in particular, a transfer pricing report supporting the request for the two aforementioned APAs (hereinafter: the 'transfer pricing report') and other exchanges between the Dutch tax administration and the tax advisor of Starbucks Corporation, [the tax advisor] (*), (hereinafter: 'the tax advisor') on behalf of Starbucks Coffee BV and SMBV (?).

(c) Starbucks vs. Dutch TA, 2013

Selection - Size



Selection - Sector



Balance Table - Firm activity

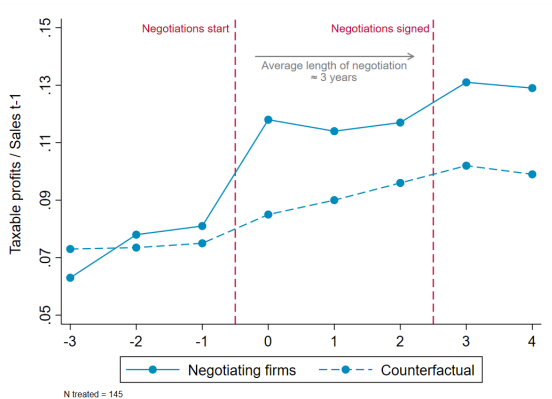
	All firms	Never negotiating firms	Ever negotiating firms
Taxable Profit (in millions EUR)			
Median	0	2	3
Mean	1	13	30
Sales (in millions EUR)			
Median	2	53	157
Mean	11	275	810
Assets (in millions EUR)			
Median	2	76	258
Mean	51	1772	2586
Wage Bill (in millions EUR)			
Median	0	6	16
Mean	4	25	77
# employees			
Median	13	98	181
Mean	53	576	718
N	637,059	3,480	150
Sample	All	MNE & TP firms	Event-Study
Balance	Unbalanced	Balanced on [2005,2024]	Balanced on [t-2,t+2]

Balance Table - Audits & Corrections

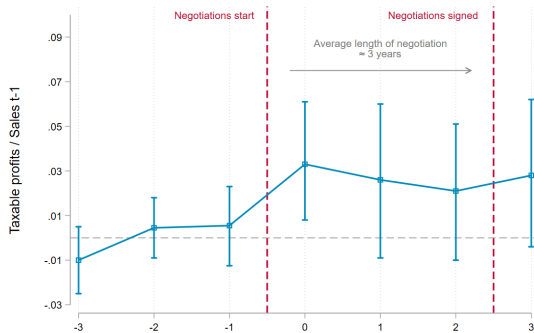
	All firms	Never negotiating firms	Ever negotiating firms
Audit rate (in %)			
Median	-	-	-
Mean	10	31	52
Std. Dev.	22	20	50
Audit rate, leading to a TP correction (in %)			
Median	-	-	-
Mean	0	5	22
Std. Dev.	3	11	42
Audit rate, not leading to a TP correction (in %)			
Median	-	-	-
Mean	8	27	46
Std. Dev.	20	20	50
Taxable Profit Correction Total (in millions EUR)			
Median	0	0	1
Mean	0	2	20
Std. Dev.	5	19	53
For transfer pricing (in millions EUR)			
Median	0	0	0
Mean	0	0	14
Std. Dev.	1	3	40
Other corrections (in millions EUR)			
Median	0	0	0
Mean	0	2	6
Std. Dev.	4	19	20
N	637,059	3,480	150
Sample	All	MNE & TP firms	Event-Study
Balance	Unbalanced	Balanced on [2005,2024]	Balanced on [t-2,t+2]

Taxable profits, scaled by sales at t-1

(a) Levels

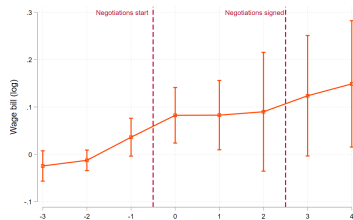


(b) DiD

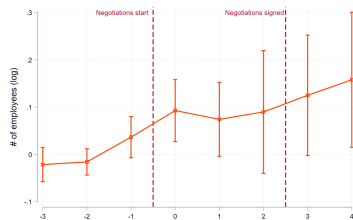


DiD downstream effects on firms

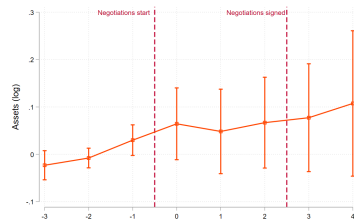
(a) Wage bill (log)



(b) Employees (log)



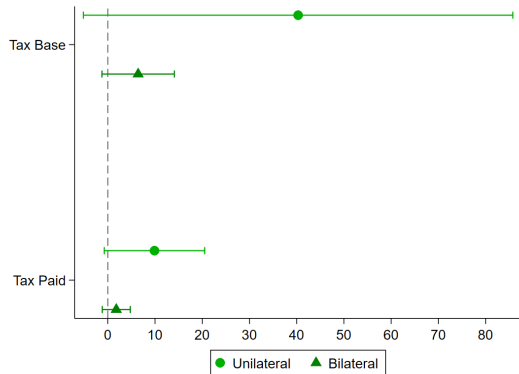
(c) Assets (log)



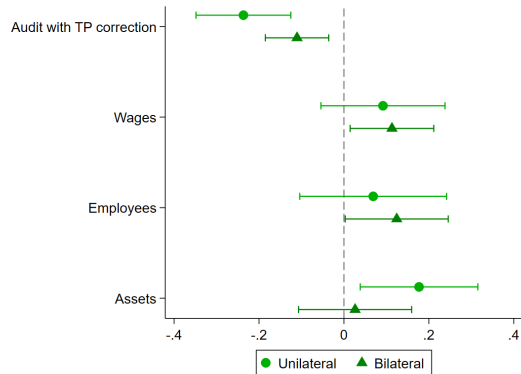
[Back](#)

Unilateral vs. Bilateral

(a) Tax Authority



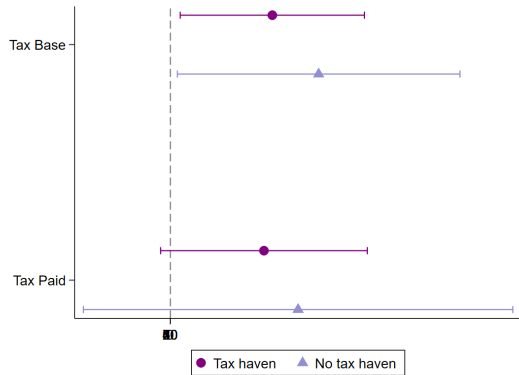
(b) Firms



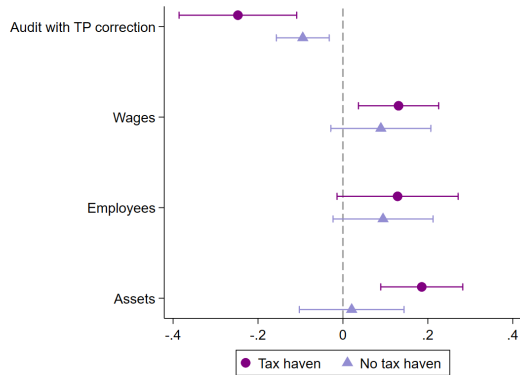
→ Unilateral negotiations drive the effects

Tax Haven

(a) Tax Authority



(b) Firms



Utilities of the outside options, no negotiations

Firms:

$$E[U_i^s|s] = (1 - p)(\Pi_i - \tau_F \Pi_{F,i}^s - \tau_A(\Pi_i - \Pi_{F,i}^s)) + p(\Pi_i - \tau_F \Pi_{F,i}^s - \tau_A(\Pi_i - \Pi_{F,i}^s) - \phi)$$

Tax authority:

$$E[U_{TA}^s|s] = (1 - p)(\tau_F \Pi_{F,i}^s) + p(\tau_F \Pi_{F,i}^s + \phi - C)$$

where:

- p is the probability of an audit
- $\Pi_{F,i}^s$ is the level of profits booked in France when no negotiations occur for firm i
- ϕ is the potential additional payments induced by the audit, composed of:
 - The recovery of unreported amounts: $\tau_F(\bar{\Pi} - \Pi_{F,i}^s)$
 - A potential penalty, which is a share ζ of the evaded amount: $\zeta(\tau_F(\bar{\Pi} - \Pi_{F,i}^s))$
where $\bar{\Pi}$ denotes the amount that should have originally been declared
- C is the cost of conducting the audit for the tax authority

$$0 \leq \alpha \leq 1$$

$$- S_i \geq 0$$

$$- p\phi - \tau_F \left(\Pi_{F,i}^N - \Pi_F^s \right) \geq 0 \implies \phi \geq \frac{\tau_F (\Pi_{F,i}^N - \Pi_{F,i}^s)}{p}$$

$$- S_{TA} \geq 0$$

$$- \tau_F \left(\Pi_{F,i}^N - \Pi_F^s \right) - p(\phi - C) \geq 0 \implies \phi - C \leq \frac{\tau_F (\Pi_{F,i}^N - \Pi_{F,i}^s)}{p}$$

→ These conditions do not always hold, how to deal with this?

[Back](#)