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# ■ “Do multinational pay lower taxes?”

by Ila Patnaik and Ajay Shah

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## ■ Comments by Sergio Schmukler

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- 7th Research Meeting of the NIPFP-DEA Program
- New Delhi
- August 31 and September 1, 2010

# Comments

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- + Very nice paper
- + Learned much from it
- + Leads to many questions and likely more results
- + Comments on three fronts
  - i. Relevance of topic
  - ii. Treatment effect
  - iii. Some details

# Relevance

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- + Why do we care if MNCs pay lower taxes?
- + Paper: “Manipulation” and lower tax burden for MNCs □ lower tax revenue for home country (India)
- + But counterfactual is not obvious
  - + MNCs might expand as they go abroad, increasing home tax collection (“substitution vs. income effect”)
  - + Lower tax rate on average (home and abroad taxes), but not lower taxes at home
  - + I.e., lower taxes due to expansion to lower tax rate zones
- + More analysis would be welcomed, e.g. the channels mentioned in the Conclusions

# Treatment effect

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- ✚ Exogenous effect of treatment: New experiment?
- ✚ Here, endogeneous choice, self selection
  - ✚ And any reverse causality? Can lower taxes lead to growth abroad?
- ✚ Still, performance of MNCs is interesting
- ✚ But do we need matching techniques?
  - ✚ Matching has both advantages and drawbacks, which would be helpful to highlight
- ✚ Before-after comparison would also be useful
- ✚ Diff-in-diff analysis would be welcomed as well

# Details

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## + Internationalization

- + Do MNCs expand only through FDI (focus of the paper)?
- + Why looking at discrete event rather than continuous process of internationalization?
- + Why couldn't previous studies on developed countries analyze transitions?
  - + Removal of capital controls likely not the only trigger of internationalization

# Details

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## + Sample

- + What is the sample period analyzed?
- + Why restrict to internationalization in the 2000-04 period?
- + Enough observations to study long-run/four-year effects?

# Details

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## + Tax rates

- + Comparison of tax rates with OECD
- + Paper stresses migration to tax havens
- + Any difference in tax burden for firms going to different countries with different tax rates?
- + And for different purposes (OECD vs. tax havens)?
- + What does a Double Taxation Avoidance Agreement mean?
- + What are the net benefits of becoming a MNC? Analyze benefits and costs
- + With OECD, only larger differences starting after 2005

# Details

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**Table 3 Corporate taxation: India versus OECD**

Year	India	OECD Median
		in percent
1999	30-35	35
2000	30-35	33
2001	30-35	33
2002	30-35	31
2003	30-35	30.38
2004	30-35	30
2005	30-35	30
2006	30-35	28
2007	30-35	27.5
2008	30-35	27.5
2009	30-35	26.3

# Details

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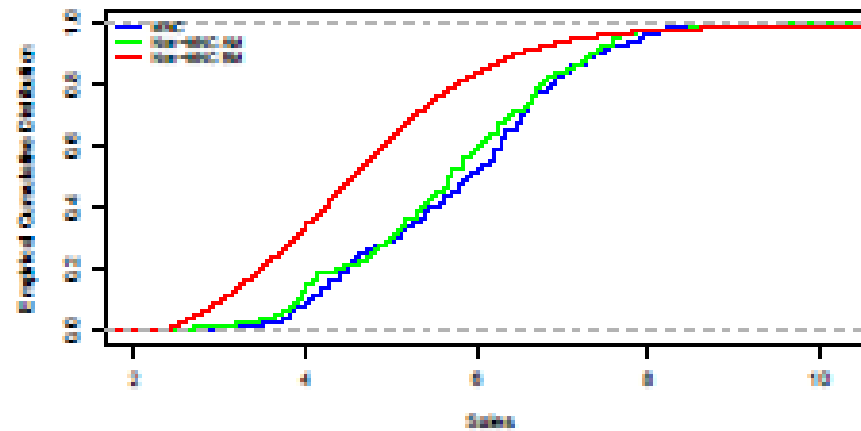
## + MNCs different, but how?

- + Relatively few MNCs: Are they a different animal? Do they just differ because they go abroad to pay lower taxes?
- + Differences ex ante are also interesting
- + Why do pair-wise comparisons, one attribute at a time?
- + Do the three attributes considered capture all the differences?
- + Aren't differences in the CDFs obvious given matching by the attributes?
- + How much significantly different ex post, t-4 vs. t-1?

# Details

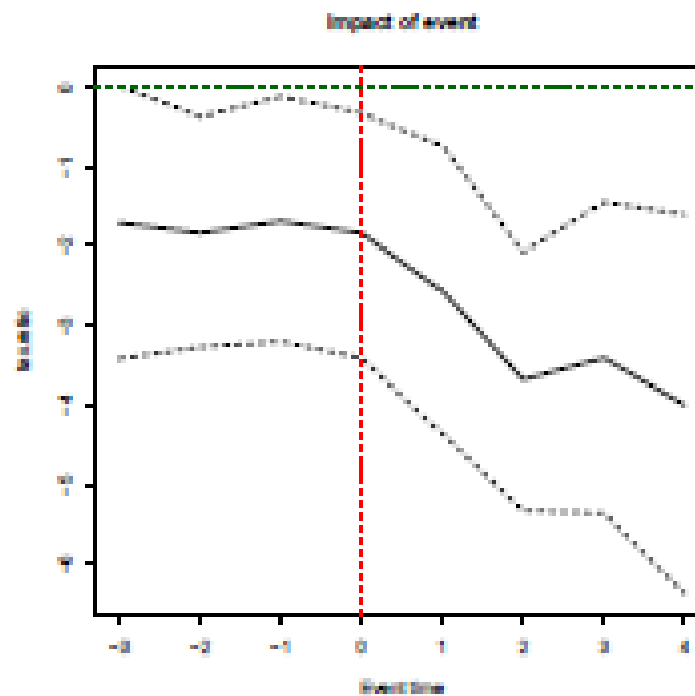
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Sales



# Details

Figure 7 Results: Change in tax ratio over time



# Details

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## + Matching

- + How are firms matched? Over which years?
- + How much change in tax and macro policies over the period analyzed?
- + How much a contribution to existing literature by using “nominal values”?

# Conclusion

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- + Overall, nice and promising paper
- + Would be useful to expand the study
  - + To make it more complete
  - + To increase its impact

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Thank you!