Abstract

This study examined the effect of tax rate changes on the pre-tax profits on a dataset of over 125,000 European MNE subsidiaries, focusing on the role of technological development (defined using Eurostat's NACE classification framework), patent box regimes, and intangible assets. Contrary to the initial expectations, not enough evidence was found to conclude that the studied panel of MNEs increases profits by shifting intangible assets to lower-tax jurisdictions. On the other hand, it was shown that high-tech subsidiaries are more likely to effectively allocate intangible assets to jurisdictions with favorable IP regimes to reduce their tax expenditure. However, the magnitude of the positive impact on pre-tax profit was modest, with each additional 1% increase in intangible assets resulting in 0.016% additional profit (at a 10% level of significance). Variations in tax sensitivity depending on the MNE's level of technological development were observed, with high-tech MNEs showing moderate sensitivity to effective tax rates, while low-tech subsidiaries exhibited greater sensitivity to changes in both effective and statutory tax rates. The subset of mid-tech MNEs provided mixed results. These findings highlight the need for continuous monitoring of IP incentives to prevent profit shifting and suggest further research on the long-term impact of specific tax policies, through the use of R&D expenditure metrics and longitudinal data.

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Keywords	profit shifting, intangible assets, multinational corporation, corporate taxation, sectoral analysis, high-tech sectors
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