

Understanding Profit Shifting by Multinationals in the Context of Cross-Border M&A: A Methodological Exploration

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Abstract : Cross-border investment has never been easier than in today's global economy. Despite recent initiatives tightening the international tax landscape, profit shifting and tax optimization by multinational entities (MNEs) in the context of cross-border M&A remain persistent and complex phenomena that warrant in-depth exploration. By synthesizing the outcomes of existing research, this study aims to first provide a methodological framework for identifying MNEs' profit-shifting behavior and quantifying its fiscal impacts via various macroeconomic and microeconomic approaches. The study also proposes additional methods and qualitative/quantitative measures for extracting insight into the profit shifting behavior of MNEs in the context of their M&A activities at industry and entity levels. To develop the proposed methods, this study applies the knowledge of international tax laws and known profit shifting conduits (incl. dividends, interest, and royalties) on several model cases/types of cross-border acquisitions and post-acquisition integration activities by MNEs and highlights important factors that encourage or discourage tax optimization. Follow-up research is envisaged to apply the methods outlined in this study on published data on real-world M&A transactions to gain practical country-by-country, industry and entity-level insights. In conclusion, this study seeks to contribute to the ongoing discourse on profit shifting by providing a methodological toolkit for exploring profit shifting tendencies MNEs in connection with their M&A activities and to serve as a backbone for further research. The study is expected to provide valuable insight to policymakers, tax authorities, and tax professionals alike.

Keywords : BEPS, cross-border M&A, international taxation, profit shifting, tax optimization

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