

Firm performance following foreign acquisitions in Norway: Evidence of profit shifting?

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Main research question

- *Empirical evidence of BEPS*

Do Norwegian multinational firms involve in profit shifting in a systematic manner?

Indirect approach:

look at profitability of the Norwegian firms acquired by foreigners, as compared to similar/ matched Norwegian firms

- *Data*

Firm-level accounting data for Norwegian firms for the period 1994-2005

- *Method*

Propensity score matching combined with difference-in-difference estimator

Main finding:

Norwegian foreign acquired firms become systematically less profitable, as compared to similar non-acquired Norwegian firms

- Foreign-acquired firms grow more quickly in terms of both total assets and operating revenue
 - Costs of material sold (incl. raw materials and royalties) - the main element that drives the results
 - No significant change in operating efficiency measured by liquidity and solvency of the acquired firms.
- ➔ The findings are *consistent* with profit-shifting by means of transfer price manipulations (indirect evidence).

Main contribution

Methodology: PSM DiD on Norwegian data

Linking profitability differences closer to profit-shifting:

- Driving elements of deteriorating profitability
- Other performance measures

Relevance: Freia case (2016)



Vanlige skattebetalere må ta regningen for de store selskaperes skattetriksing.



FORTGANG: Freias skattetilpasing er bare toppen av isfjellet. Finansministeren må få fortgang i arbeidet med å endre et system hvor slik oppførsel er lovlig, skriver innsenderen.
Foto: Heiko Junge / NTB Scanpix

Source: Finansavisen, Dagbladet

- Norwegian chocolate producer has been acquired by a multinational company Mondelez/ Kraft Foods
- The tax payments drastically reduced after the acquisition (from 100 millions to 14 millions with sales over 2,5 billions in Norway)
- Restructuring after the acquisition: all the raw materials were bought internally to much higher prices than before the acquisition.

➔ In line with the findings in this paper.

Relevance:

Measuring effects of the anti-BEPS measures

- The paper describes the situation in Norway prior to several anti-BEPS measures (stricter transfer price regulations, the thin capitalization rules, the country-by-country reporting)
- ➔ *Benchmark for further analysis of the effectiveness of the BEPS measures*
 - *Hopland et al. (2019)*: extend the analysis in this current paper (1993-2012): The profitability differences became lower after the introduction of **stricter transfer pricing regulations 2007/2008**
 - Reduction in tax gap from 13% of corporate tax revenue to 6 % in 2012?

Measuring the effects of the CbCR

Corporate tax in Norway, NOK CbCR MNEs, 2010 - 2018



Thank you very much!

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