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Bilateral Tax Treaties and Profit Shifting: Evidence from Japanese Multinationals
(co-authored with Yuting Chen and Bin Ni)

Abstract: Are bilateral tax treaties effective for tackling tax avoidance by multinationals? While recently signed treaties aim at restricting profit shifting, their primary goal has been the elimination of the double taxation of foreign-earned income, which may expand multinationals' activities and thus profit shifting. We measure the shifted profits of Japanese multinationals in the last two decades and examine whether bilateral tax treaties between Japan and host countries reduce them. We find that signing a treaty reduces the shifted profits of a foreign subsidiary by around 36%. However, treaties are not as effective especially (i)when a subsidiary belongs to the multinational group having more subsidiaries in tax havens; and (ii)since 2009 in which Japan introduced a foreign dividend exemption system, which attempted to increase the repatriation of foreign subsidiaries' income.