

The Missing Profits of Nations: 2017 Figures*

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Abstract

We update the main figures from "The Missing Profits of Nations" from 2015 to 2017 values. Our main finding is that not much have changed. The absolute amount of profits shifted to tax havens increases from \$616 Billion to \$741 Billion. As a share of foreign profits and total corporate profits, profit shifting remains completely constant.

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1 Introduction

In the "Missing Profits of Nations" (Tørsløv, Wier and Zucman, 2018) we exploit national accounts and foreign affiliate statistics (FATS) to estimate global profit shifting. We do this by computing the profitability of local (domestically head-quartered) and foreign-owned firms. We find that foreign-owned firms in tax havens are always far more profitable than their domestic counterparts. Contrary, foreign-owned firms are always less profitable than local firms in high-tax countries. We show this pattern in the upper panel of Figure 1. As a simple and transparent estimate of profit shifting we assume that absent profit shifting local and foreign firms would be equally profitable in tax havens. We hence compute the artificial excess profits in tax havens as the difference in local and foreign firm profitability. Using 2015 data we estimate that \$616Bn. in profits were artificially shifted to tax havens — corresponding to 36% of foreign profits.

By using detailed bilateral balance of payments data we are further able to understand the origin of the excess profits in tax havens. We show that excessive transfers from high-tax countries to tax havens in the form of royalty payments, management fees and internal interest payments can fully explain the excess profitability of tax havens. Based on these payments we allocate the excess profits in tax havens to their origin country. This allows us to estimate the taxes lost due to profit shifting. We find that high-tax countries globally lose 9% of their corporate tax receipts as a consequence of profit shifting.

Last year we updated the findings using 2016 data (Tørsløv et al. 2019). We found that the our estimates remained remarkably constant: the global tax loss stayed constant at 9% and the global amount shifted to tax havens as a share of foreign profits also stayed constant at 36%.

Using the newest available data (2017) we can now update the figures again. In Figure 1 and 2 we see that the overall pattern of excess profitability in tax havens remains. Using these update figures we estimate that \$741Bn. were artificially shifted to tax havens in 2017 — this corresponds to 36% of foreign profits (Table 1). In Table 2 and Figure 3 we show the updated loss figures for high-tax countries — while there are some national differences in the estimated tax loss, the global tax loss remains constant at 9%. Ireland solidifies its status as the world's largest tax haven for the third year in a row with \$126Bn. of profits being shifted to Ireland.

The fact that profit shifting remains so constant in both 2016 and 2017 is surprising, as 2017 was the second year of implementation for the OECD BEPS project¹ — a global effort aimed at curbing profit shifting (OECD 2015). Our estimates hence suggests that the first year of implementation had no measurable effect on global profit shifting two years in.

¹<https://www.oecd.org/tax/beps/background-brief-inclusive-framework-for-beps-implementation.pdf>

From 2016 and onwards additionally add eight new countries to our database in this new update: Argentina, Egypt, Indonesia, Malaysia, Nigeria, Thailand, Venezuela and Uruguay. With the addition of these countries our database now covers 92% of the world economy and 70% of world population.

2 Technical notes

The full research with all computations and data sources can be found online at <http://missingprofits.world>. To ease the updating process we have moved many of the computations from the original paper from Excel to Stata. 3% of the foreign profits measured in tax havens are simply extrapolated based on the 2016 values and GDP growth as no new data was available.

References

Organization for Economic Co-operation and Development.. 2015. “Base Erosion and Profit Shifting, Final Report”,

Tørsløv, T.R., Wier, L.S. and Zucman, G. 2018. “The missing profits of nations (No. w24701)”. National Bureau of Economic Research.

Tørsløv, T.R., Wier, L.S. and Zucman, G. 2019. “The missing profits of nations: 2016 Figures”. available at missingprofits.world

Table 1: Global profit shifting: Comparison 2015 vs 2017 estimates

	2015	2016	2017	('17 -'15)
Profits shifted (\$Bn.)	616	667	741	125
Profits shifted (% of foreign profits)	36.2%	36.2%	36.0%	-0.2%
Tax loss (\$Bn.)	188	195	212	24
Tax loss (% of corp. tax rev.)	9.0%	8.8%	9.0%	0.0%

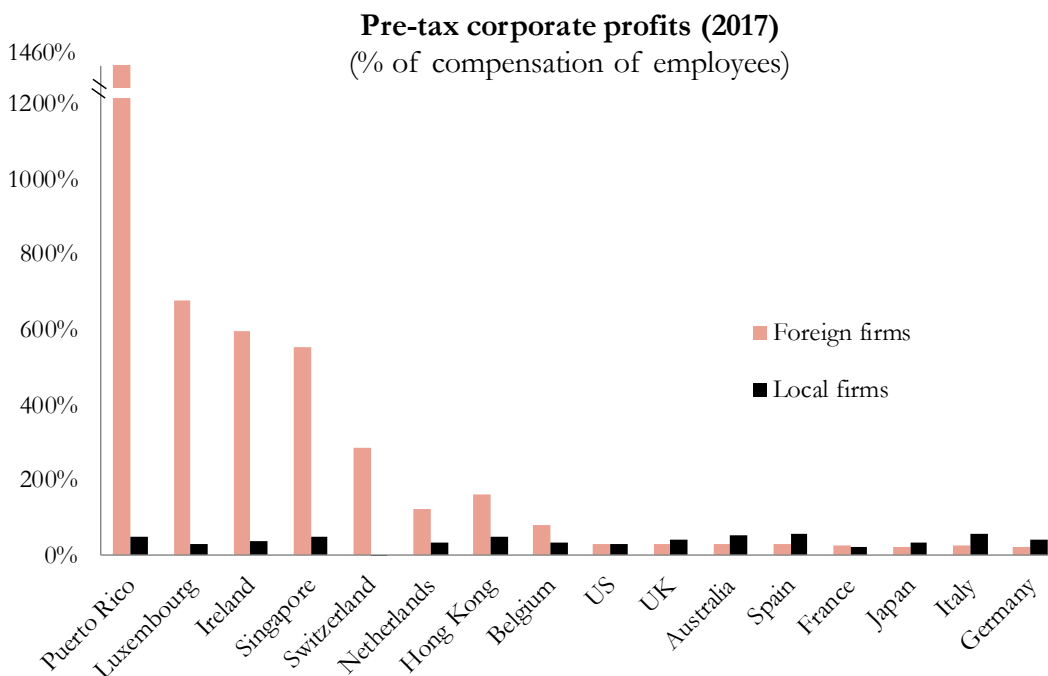
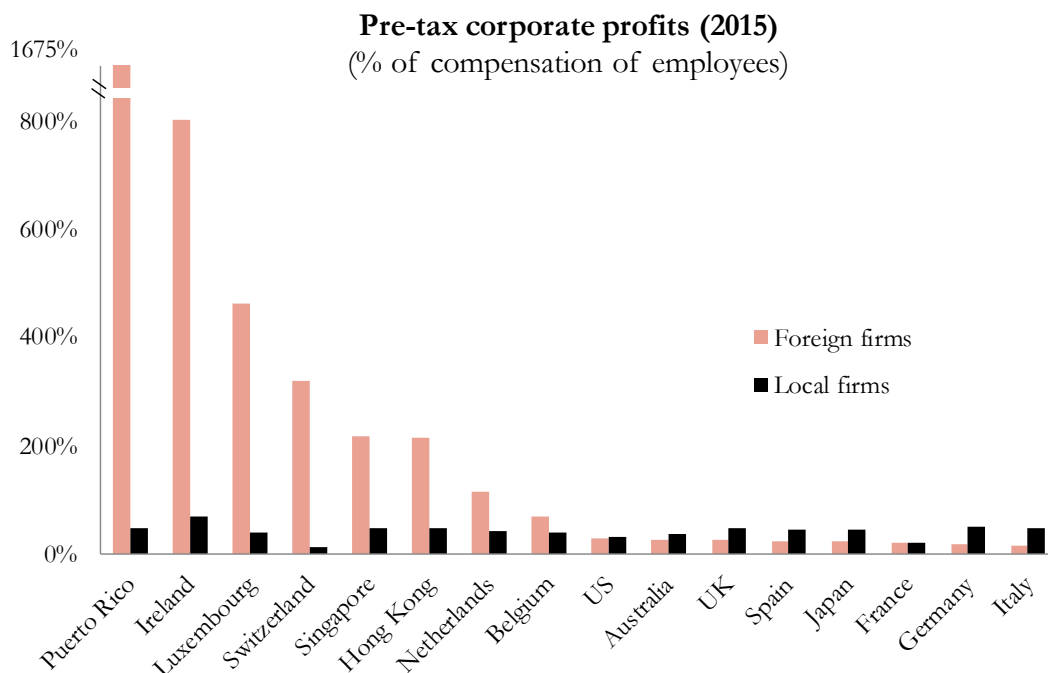
Source: 2015 figures: Tørsløv et al. (2018) appendix table A7 and C4D / 2017 figures: TWZ2019.xls backup table U1 and C4D

Table 2: Country estimates: Comparison 2015 vs 2017 estimates

	Shifted profits (\$Bn.)				Corp. tax revenue loss/gain (% of collected)			
	2015	2016	2017	Difference ('17-'16)	2015	2016	2017	Difference ('17-'16)
OECD countries								
Australia	12	15	18	3	7%	8%	7%	0%
Austria	4	4	4	0	11%	11%	11%	-1%
Canada	17	15	16	0	9%	8%	7%	-1%
Chile	5	5	5	0	11%	12%	12%	0%
Czech Republic	2	2	2	0	5%	6%	6%	0%
Denmark	3	4	5	0	8%	12%	10%	-2%
Estonia	0	0	0	0	10%	16%	15%	0%
Finland	3	3	4	1	11%	12%	12%	-1%
France	32	36	40	4	21%	24%	22%	-2%
Germany	55	65	66	1	28%	28%	26%	-2%
Greece	1	2	2	0	7%	10%	13%	3%
Hungary	2	4	4	1	21%	24%	13%	-11%
Iceland	0	1	1	0	22%	20%	16%	-4%
Israel	1	2	3	0	2%	6%	5%	-1%
Italy	23	24	26	2	19%	19%	15%	-3%
Japan	9	12	14	2	2%	2%	2%	0%
Korea	4	5	6	1	2%	2%	2%	0%
Latvia	0	0	0	0	7%	8%	9%	0%
Mexico	12	11	11	0	10%	9%	8%	-1%
New Zealand	1	2	2	0	5%	6%	6%	0%
Norway	5	6	6	0	8%	10%	7%	-3%
Poland	4	4	4	0	8%	9%	8%	-1%
Portugal	3	3	3	0	9%	11%	9%	-2%
Slovakia	1	1	1	0	5%	6%	6%	0%
Slovenia	0	1	0	-1	21%	21%	8%	-13%
Spain	14	15	17	2	14%	13%	14%	1%
Sweden	9	10	12	1	13%	16%	17%	1%
Turkey	5	4	4	0	8%	5%	5%	0%
United Kingdom	61	81	96	15	18%	22%	25%	2%
United States	142	152	162	10	14%	17%	19%	3%
Main developing countries								
Argentina		3	3	1		5%	7%	2%
Brazil	13	17	20	2	8%	10%	12%	1%
China	55	50	51	1	3%	3%	3%	0%
Colombia	1	1	1	0	2%	1%	2%	1%
Costa Rica	1	1	1	0	19%	17%	22%	4%
Egypt		3	3	0		4%	5%	0%
Indonesia		7	7	0		8%	9%	0%
India	9	10	11	2	8%	5%	5%	0%
Malaysia		4	4	0		5%	6%	1%
Nigeria		3	2	-1		24%	18%	-5%
Russia	11	13	14	1	5%	6%	5%	-1%
India	4	4	11	7	6%	7%	5%	-2%
South Africa	4	4	5	1	6%	7%	8%	1%
Thailand		5	6	2		5%	7%	2%
Uruguay		1	1	0		16%	15%	-1%
Venezuela		1	1	0		15%	15%	0%
Tax havens								
Belgium	-13	-15	-20	-5	16%	16%	19%	3%
Ireland	-106	-117	-126	-9	58%	65%	67%	2%
Luxembourg	-47	-50	-66	-16	50%	54%	58%	4%
Malta	-12	-11	-11	0	90%	88%	88%	0%
Netherlands	-57	-90	-79	11	32%	30%	39%	9%
Caribbean	-97	-93	-95	-2	100%	100%	100%	0%
Bermuda	-24	-17	-13	4				0%
Singapore	-70	-78	-98	-20	41%	42%	30%	-12%
Puerto Rico	-42	-38	-38	0	79%	25%	35%	11%
Hong Kong	-39	-18	-18	0	33%	24%	24%	0%
Switzerland	-58	-73	-98	-25	20%	28%	38%	10%
Other	-51	-66	-78	-12				

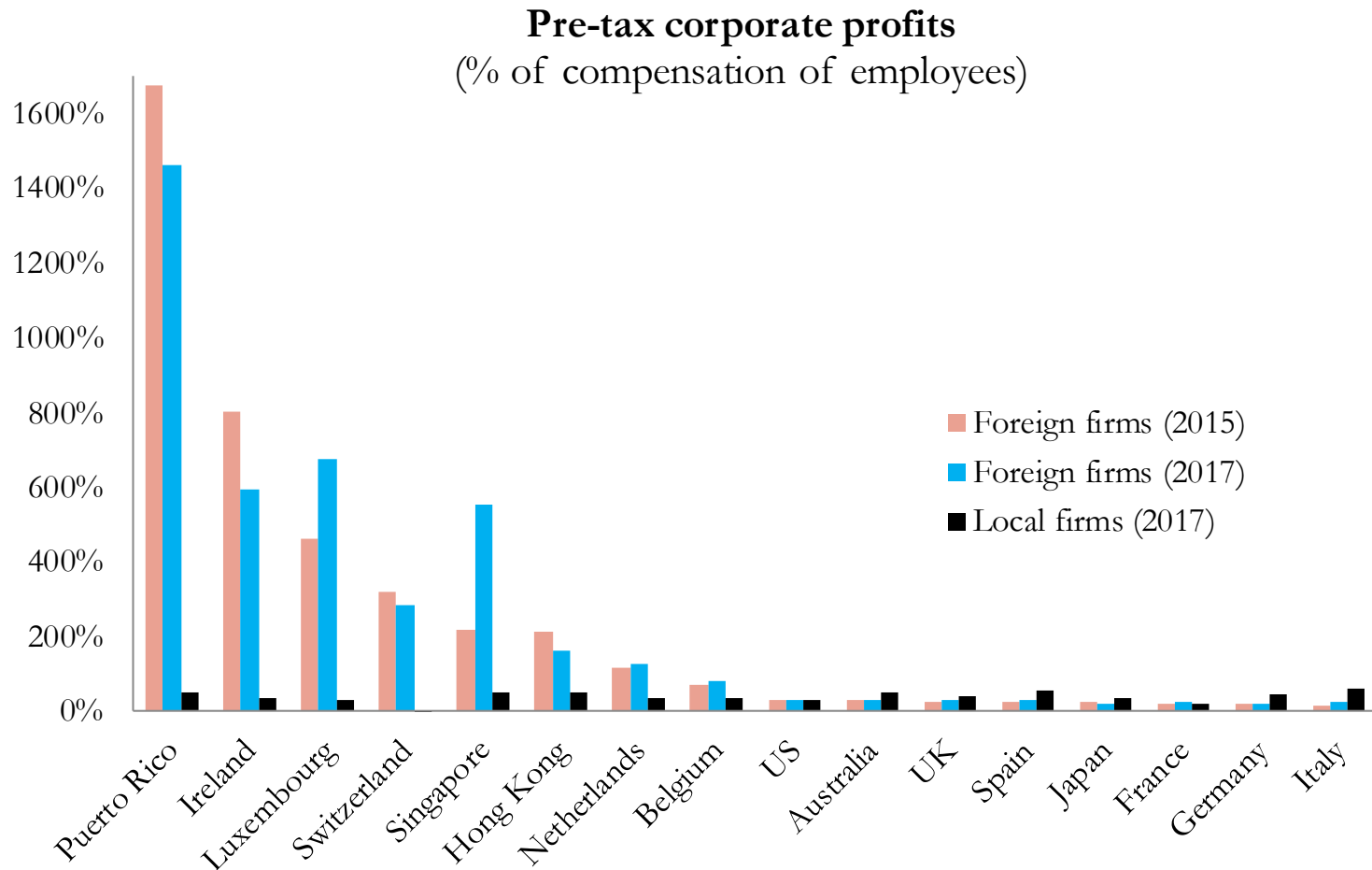
Source: 2015 figures: Tørsløv et al. (2018) appendix table A7 and C4D / 2017 figures: TWZ2019.xls backup table U1 and C4D

Figure 1: Profitability in Foreign vs. Local Firms in 2015 and 2017



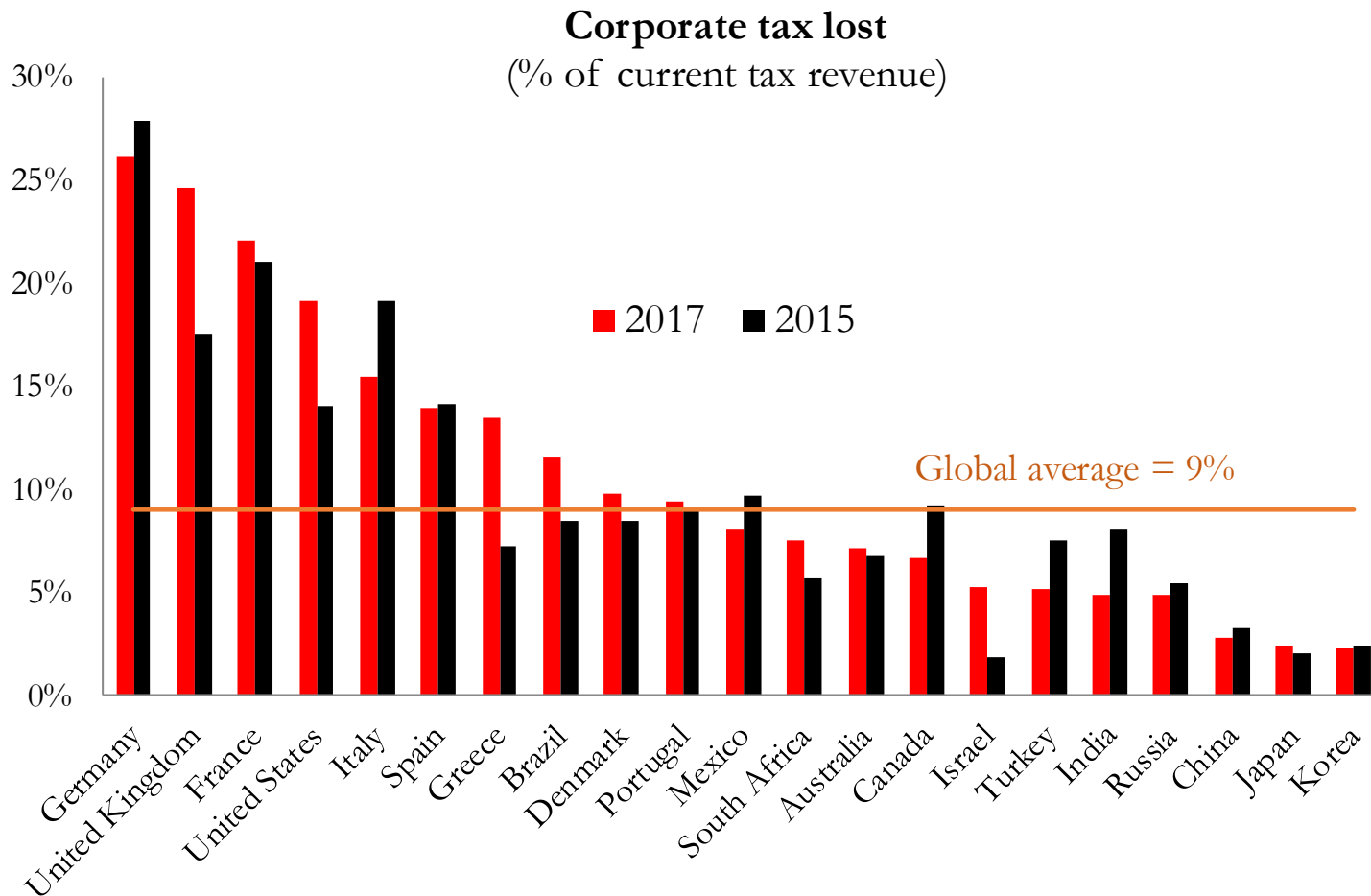
Notes: the bar shows the ratio of pre-tax corporate profits (net of interest and depreciation) to compensation of employees. The black bar shows the ratio for local firms only—defined as firms that are less than 50% owned by foreigners—and the pink bar for foreign firms only. Source: 2015 figures: Tørsløv et al. (2018) appendix table A7 and C4D / 2017 figures: TWZ2019.xls backup table U1 and C4D

Figure 2: Profitability in Foreign Firms 2015 vs 2017



Notes: the bar shows the ratio of pre-tax corporate profits (net of interest and depreciation) to compensation of employees. The black bar shows the ratio for local firms only—defined as firms that are less than 50% owned by foreigners in 2017. The pink bar for foreign firms only in 2015. The light blue bar for foreign firms only in 2017. Source: 2015 figures: Tørsløv et al. (2018) appendix table A7 / 2017 figures: TWZ2019.xls backup table U1

Figure 3: Taxes lost in non-havens 2015 vs 2017



Notes: the bar shows the corporate taxes lost as a share of current corporate tax revenue The black bar shows the estimated loss in 2015 and the red bar shows the loss in 2017. The light blue bar for foreign firms only in 2017. Source: 2015 figures: Tørsløv et al. (2018) appendix table C4D / 2017 figures: TWZ2019.xls backup table C4D