

MASTER'S THESIS

The effects of the BEPS Action Plans on the tax avoidance behaviors of multinational corporations in China

Shi, Ruoxi

Date of Award:
2018

[Link to publication](#)

General rights

Copyright and intellectual property rights for the publications made accessible in HKBU Scholars are retained by the authors and/or other copyright owners. In addition to the restrictions prescribed by the Copyright Ordinance of Hong Kong, all users and readers must also observe the following terms of use:

- Users may download and print one copy of any publication from HKBU Scholars for the purpose of private study or research
- Users cannot further distribute the material or use it for any profit-making activity or commercial gain
- To share publications in HKBU Scholars with others, users are welcome to freely distribute the permanent URL assigned to the publication

ABSTRACT

Multinational corporations (MNCs) around the globe commonly use cross-border related-party transactions (CRPTs) to shift profits from high tax jurisdictions to low ones to avoid paying taxes. The Organization for Economic Co-operation and Development and G20 countries launched the Base Erosion and Profit Shifting (BEPS) Action Plans in 2013 to constrain tax avoidance behaviors of MNCs, particularly the widespread use of CRPTs. This study examines how the localization of the BEPS Action Plans affects the tax avoidance behavior of MNCs in China. Using all the listed non-financial MNCs on the Stock Exchanges in China from 2012 to 2017, I find that: (1) Chinese MNCs with more CRPTs are more likely to pay less taxes than those with less CRPTs. Localization of the BEPS Action Plans does not have significant impact on this behavior. (2) The effect of localization of BEPS Action Plans to constrain corporate tax avoidance is more pronounced on MNCs with relatively poor information quality in the pre-location period; (3) local government-controlled firms (LG firms) with more CRPTs engage in more tax avoidance, but localization of the BEPS Action Plans significantly constrains tax avoidance activities by these firms in the post-location period. These findings should shed light on what mechanisms could constrain MNCs' tax avoidance, especially income shifting through CRPTs, and how it could be affected by tightening of the tax laws on tax avoidance activities and by ownership structure in a developing country setting, in particular.

Keywords: cross-border related-party transactions; the BEPS Action Plans; corporate tax avoidance; information quality; ownership structure; China; multinational corporations.

TABLE OF CONTENTS

ABSTRACT	iii
ACKNOWLEDGEMENTS	iv
TABLE OF CONTENTS	v
LIST OF TABLES	vi
CHAPTER 1 INTRODUCTION	1
CHAPTER 2 LITERATURE REVIEW AND BACKGROUND OF THE BEPS ACTION PLAN	4
2.1 THEORETICAL FRAMEWORK OF CORPORATE TAX AVOIDANCE	4
2.2 DETERMINANTS AND CONSEQUENCES OF CORPORATE TAX AVOIDANCE	6
2.3 CROSS-BORDER INCOME SHIFTING	9
2.4 TAX AVOIDANCE IN CHINESE SETTING	13
2.5 BEPS ACTION PLAN AND LOCALIZATION OF BEPS PROJECT IN CHINA.....	15
CHAPTER 3 HYPOTHESIS DEVELOPMENT	17
3.1 LOCALIZATION OF THE BEPS ACTION PLANS AND CORPORATE TAX AVOIDANCE	17
3.2 THE BEPS ACTION PLANS, CORPORATE TAX AVOIDANCE AND INFORMATION QUALITY. 19	
3.3 THE BEPS ACTION PLANS, CORPORATE TAX AVOIDANCE AND OWNERSHIP STRUCTURE.20	
CHAPTER 4 DATA AND METHODOLOGY	22
4.1 SAMPLE SELECTION	22
4.2 MODEL SPECIFICATION.....	23
CHAPTER 5 SAMPLE SELECTION AND DESCRIPTIVE STATISTICS	27
5.1 DESCRIPTIVE STATISTICS.....	27
5.2 MAIN REGRESSION RESULT	29
5.3 CROSS-SECTIONAL VARIATION TEST.....	31
5.4 ROBUSTNESS CHECKS	32
5.5 ADDITIONAL ANALYSIS.....	33
CHAPTER 6 CONCLUSION	33
APPENDIX – VARIABLES MEASURES	36
REFERENCES	37