

## MASTER'S THESIS

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

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## 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.

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