The Multinational Corporation

*Tax Avoidance and Profit Manipulation via Subsidiaries and Tax Havens*

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I. Introduction

The present paper intends to investigate the entrepreneurial behaviour of multinational corporations within the context of tax avoidance and profit manipulation. It does not intend, however, to distinguish between tax avoidance and tax evasion, which is a very arbitrary matter for many international business activities. This distinction being a question of how the different tax laws are interpreted: tax avoidance is legal, tax evasion not legal.

We shall define the multinational corporation (MNC), in general terms, as a corporation "which operates on a substantial scale in many countries, producing, distributing and investing, and which plans its policies of capital investment, research, sales and distribution on a world scale, taking a global view distinct from that of any single national enterprise within its system." Other definitions of the MNC call for special characteristics and are more specific. Prof. Vernon uses two

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1 Prof. Kindleberger uses the term "escape from the jurisdiction", in order to avoid the question "whether it is evasion or avoidance, legal or illegal, within or without the letter or the spirit of the law". See C. P. Kindleberger: Power and Money, London and Basingstoke 1970, p. 181.


criteria for his definition: size, and the geographical spread of the MNC, i.e., the number of countries where the group has subsidiaries and affiliates. The first criterion is that a multinational group "with less than $100 million in sales rarely merits much attention". Secondly, only those firms with manufacturing subsidiaries in six or more countries were entitled to the 'multinational enterprise' label. Prof. Vagts\textsuperscript{4} proposes a more 'exacting' definition of the MNC "— only a firm with more than fifty percent of its operations outside of its nation of origin should be treated as 'multinational'".

In order to cope with their world-wide operations and strategy, some MNCs have chosen to set up an international holding company to manage the parent's other foreign subsidiaries, and the very large amounts of cash at their disposal. For this latter reason and others mentioned below, these holding companies are mostly based in a tax haven-(tax oasis-) country.

MNCs originate from industrialized nations like the USA, the United Kingdom, Western-Germany, Japan, the Netherlands, and Switzerland. The greater part of their operations, which are in the manufacturing sector, are effected in the developed countries; their operations in the developing countries are usually confined to the extracting industry and to the agricultural sector; and that is where most natural resources are located.

The reasons behind overseas expansions are manifold and differ according to the type of industry as well as to the parent company’s home country. If, indeed, we take highly industrialized, but small, countries like Sweden, Switzerland and the Netherlands, one of the main reasons for their expansion would be the search for wider market opportunities outside their relatively small domestic markets. Another reason may be found in the interests of their respective home countries, like "the British and the French enterprises, (which tended to specialize in the ex-colonies of their respective countries,...)"\textsuperscript{5}.

On the other hand, the reasons and motives behind the overseas expansion of important firms belonging to highly industrialized and large countries, are different and often give rise to conflict and controversy, these firms being backed up by a strong economic and political power. Such is the case of the expansion abroad of a number of US firms, which did not start on a very large scale until after the second world war. Though their activities span the whole world, the manufacturing facilities of US based MNCs are mostly concentrated in highly industrialized regions, such as Europe and Japan. Yet another vast region, i.e. Latin America, with a non-fully developed market for industrial products attracts the multinationals to create manufacturing subsidiaries. Integration concepts such as the Latin-


American Free Trade Association will favour this tendency. Lately a few firms, though not all of them US ones, have obtained a foothold in the communist world, e.g. Fiat, Shell, PepsiCo, Siemens, Krupp and others, in the USSR.

The overseas expansion pattern of US based corporations can be shown in three typical cases. The first instance of expansion occurs when a firm achieves an innovation advantage which leads to large exports and consequently to establishing subsidiaries abroad. A second instance is an oligopoly lead based on a well-known tradename or a trademark (e.g. Coca-Cola and Corn Products) associated with a certain amount of organizational skill. Finally, corporations already established abroad can have the effect of drawing in satellite plants belonging to their US components suppliers. This pattern is typical of the automobile manufacturers, who prefer their components suppliers to establish new foreign suppliers facilities in their own vicinity abroad. A different pattern can be found where in developing countries multinationals have affiliates working in the extractive sector to assure the continuous flow of raw materials such as petrol, copper, bauxite, etc. at low prices.

An opportunity for overseas expansion of MNCs was given, in the 1960's, by the movement of many nations towards regional economic integration and the elimination of trade barriers between them. Confronted with one big market, instead of the much smaller national markets, local oligopolistic or monopolistic companies from different nations merged to increase their economies of scale, in order to cope with a new market showing ever-increasing purchasing power and effective demand. This development increased the degree of concentration in certain industries and gave them a certain impetus to modernize and enlarge their production capacities with the target of increased profits. This open market, where goods, labour and capital, as well as profits could move unhindered across national borders offered lucrative business opportunities to outsiders as well, who saw in these markets a profitable outlet for their competitive products. There are industrial sectors with a high degree of multinationality such as petroleum, the petro-chemical, pharmaceutical and aluminium industries. On the other hand iron and steel, machine tool and aero-space industries are typically national industries.

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6 Ibid. pp. 203–204.
7 Co-operation between several highly industrialized nations in this sector is emerging because of the high costs, risks, and uncertainties involved in R & D, as well as in production and marketing in this field.
II. Tax Haven- and Special Tax Concession-Countries

Tax Havens and their Characteristics

Tax havens are a typical outcome of modern international finance, where huge amounts of money are daily moved around the globe. They are retreats for money prevalently owned by large corporations or individuals, who are domiciled in another country. This money usually tries to avoid (or rather to evade) high taxes at home or in the country of its origin, but, sometimes, it also seeks refuge and security in neutral countries, away from political instability and social conflicts.

A typical tax haven is expected to show certain characteristics, such as low tax rates, no publicized tax registers, few or no currency controls with freedom for international financial transactions, a rather highly developed banking and insurance system as well as banking secrecy, and even, "numbered accounts". There is also no exchange of fiscal information; as well as no tax treaties, such as double taxation agreements, with other countries. Furthermore, it is necessary for a tax haven to have an efficient communications network with the rest of the world (i.e. excellent mail facilities, tele-communications, good roads, ports, airports, etc.). Besides, in these typical tax oasis-countries the import duties are generally low or some products are even duty-free. Free port and free zones facilities have to be available at leading industrial and trading places of the "fiscal paradise". – An important condition for a good tax haven is also the easy possibility for nationals and foreigners to found new firms and new banks at low costs in a short time. Good professional services of lawyers, notaries, accountants and auditors are much in demand. Moreover, the domestic income holders in such a tax haven-country are free to buy foreign assets.

On the other hand, apart from political independence in its law-making, a tax haven is expected to possess a well-built, often luxurious, tourist infrastructure (first and luxury class hotels, casinos, night clubs and jewelry stores just as well as a number of travel agencies "sur place"). Indeed almost all the well-known tax havens are renowned holiday resorts whether in (sub-) tropical zones with famous beaches or in regions with fashionable winter resorts. Tax havens are found almost everywhere, offering different services on different scales: some are famous and have a well-publicized reputation, and some, not so famous, shun publicity.

8 E.g., the free gold market in Zürich which has become the most important in the world after the price split of the yellow metal in 1968. The gold pool formed by the three largest Swiss banks offers a highly competitive market, where transactions are executed with the utmost discretion for the competitors.

Typical European tax havens are Switzerland (especially the cantons of Basle-Town, Fribourg, Geneva, Glarus, Grisons, Nidwalden, Tessin, and Zug), Liechtenstein, Campione (Italy), Luxembourg, Monaco, the Channel Islands, the Isle of Man, Andorra, Gibraltar and Malta. In the Western Hemisphere we find Greenland in the North, and in the Sub-Tropics the West Indies which boast the most important and largest number of tax havens in the region. Among them are the Bermudas and the Bahamas. In the Lesser Antilles we find Curacao and Aruba (Dutch Antilles), Trinidad and Tobago, the Virgin Islands (US and Brit.), the Leeward Islands of St. Kitts (also known as St. Christopher), Antigua, and Barbados. In the Greater Antilles, we find Haiti, and especially Jamaica as the most important tax haven and holiday resort; to its north-west are the Cayman Islands. In Central America, Panama and Honduras also qualify as tax havens. Even in the USA the State of Delaware shows characteristics of a tax haven. In the Middle East we find Lebanon and, to a lesser degree but progressively, the Arabian Gulf Sheikdoms (e.g. Bahrain, Abu Dhabi and Dubai) qualify as tax havens. In Africa, Liberia (like Panama) is a well-known tax haven for shipping firms. In Kenya we also find affiliates of multinational enterprises enjoying low income tax rates.

In the Far East, Singapore, Hong Kong, Macao, and Taiwan are the most famous tax havens. In the Southwest Pacific there are the Solomon Islands under British and Australian Administration and the New Hebrides, which are jointly governed by Britain and France. Finally there is newly independent Nauru, and Norfolk Island in the South Pacific, governed by Australia.

In short, the ideal tax haven is situated in low tax- and low political risk countries, which are also well-known international finance places. The tax haven subsidiary of MNCs holds permanent reserves in hard currencies and plays the rôle of an intra-company bank. However, the deposited funds will in a very large degree return to the intra-company circuit as resource to intra-loans, mere hoarding and idle liquidity in hard currency being, financially speaking, a pure loss, in rentability.

10 Many US multinational corporations establish their financial subsidiaries in the State of Delaware, which has corporate laws characteristically similar to those of a tax haven. An example of international loan raising, typical of the ones undertaken in tax havens, is a Subscription Prospectus published by one of the four important Swiss banks underwriting this loan. The loan raised is issued in the name of the MNC's financial subsidiary, which is based in Delaware, has the sole purpose of financing the parent's international activities. It is interesting to note that the ownership of the four foreign subsidiaries listed in the Prospectus belongs overwhelmingly to the financial subsidiary. Whereas, on the other hand, the parent owns not more than 30% in only one of the foreign subsidiaries: one of these is completely owned by the financial subsidiary.

Tax Concession-Countries

Many countries, whether developed or not, tax havens or not, encourage the inflow of foreign investment with the help of tax concessionary laws and other financial privileges. These concessions apply to sales, profits, imported raw-materials needed for the production of export goods as well as to many other types of levies. The objective behind these concessions is to further the economic development of the host country. This is why new businesses only, which otherwise would not have established themselves, are induced to invest. However, as Prof. Meier points out, "the provision of tax holidays or reduced rates of taxable income is effective, of course, only when the investment yields substantial taxable profits".

The period during which tax concessionary laws are valid is very limited and is never permanent; it usually runs for five to ten years, depending, however, on the type of industry (or product) induced to invest or the investment laws themselves. Whatever the duration, profits are allowed to be repatriated to the firm's home country, but only after taxes have been levied. Some countries offer further concessions for reinvested profits, after the period of concessions has elapsed.

The firms which profit most from tax concessions in third countries are those whose parent or international division are established in a tax haven; for in this case, their repatriated profits benefit from low tax rates at home, and are tax-free in the host country during the tax concessionary period. Yet many tax haven-countries use tax concessions to develop their own economy and thus to have an independent manufacturing industry. The main difference in this case is the treatment of capital which avoids taxes in other countries.

III. Methods and Possibilities of Profit Manipulation

There are different methods available to an MNC and/or its subsidiaries for transferring profits (and funds) from one production center (subsidiary) to another according to the different countries from where they operate. The transferring of money can be done in any one of the following ways: "dividend, royalty, and interest payments; loans and other capital transfers; and payments for goods, services, and know-how".

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First Method: With the aid of transfer-pricing (prices on intracompany sales), in the exchange of goods (intermediate products) and services between parent company and subsidiary, profits can be transferred to the home country or a tax haven where another affiliate is based. This is effected by adding a sizeable profit margin to intermediate goods shipped to the subsidiary overseas. Contrariwise, the subsidiary supplies the parent with goods at undercost-pricing. In both cases, profits have been transferred to the parent company.

Second Method: Patents and licences (or trademarks, copyrights), granted to subsidiaries, are intentionally overvalued (overpriced) so that profits can be transferred back through royalties and rentals accruing from them. In the same way, through the overvaluation (overpricing) of other immaterial goods and services such as management, marketing, planning, know-how, and the special services of research laboratories, profits are transferred to the desired profit center.

Third Method: Use is made of different exchange rates for manipulating profits. A financial holding is set up in a tax haven with hard currency to run an MNC’s international operations. After careful projection of expected exchange-differences including risk-premiums, funds are shuffled here and there before they end up in the firm’s own tax haven.

The Fourth Method consists in taking different bases for the evaluation of assets and liabilities between the different members of a multinational firm. Inventories of raw materials, semi-finished and finished products, can be written down to create secret (hidden) reserves. In the opposite way, if the accrual of liabilities is thought to be excessive the firm can avoid high corporate income tax rates. Not only are there secret reserves but also secret subsidiaries in parent companies’ reports. With the aid of not fully consolidated parent company’s figures assets and profits are understated.

Fifth Method: The parent company (or the holding) receives, from its foreign subsidiary, relatively high interest rates or annuities on direct investments or loans or intracompany trade credits. The method can be further intensified by the overvaluation of capital goods in a subsidiary, which leads to overvalued capital repayments and interests by the subsidiary to the parent (or holding).

There are yet other methods of profit manipulation. They are to be found whenever costs and profits can, in all fairness, be defined in a number of different ways, which differences are due to the varying commercial and fiscal legislations in different countries. There is not yet any uniformity in international accounting practices, legal systems, or tax laws; which fact is still further complicated by a profusion of different currencies of differing strength. Apart from the widely-

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16 Recently some clever manipulation was undertaken in which funds were quickly transferred to a country whose currency was suspected of revaluation (DM-, Swiss franc-, and Yen-currencies). On the other hand, a subsidiary situated in this country will try to gain from a suspected revaluation by delaying repayments to a sister enterprise in a country with a weaker currency.
differing languages and mentalities of the various nations and peoples there is no internationally accepted accounting terminology yet. This is the main problem!!

The matrix infra shows some of the different business policies pursued for the most advantageous manipulating of profits and losses. It can also be used to illustrate the model for two or more countries in applying the one and/or the other of the above mentioned methods. We are here only concerned with the microeconomics aspects of these manipulations. Macroeconomic effects, i.e. the effects these manipulations have on the welfare of the nations directly concerned, can be illustrated in a cost-benefit analysis.

Matrix of the possibilities of economically feasible manipulations of relative changes in profits and losses for a multinational firm

<table>
<thead>
<tr>
<th>Manipulation Possibilities</th>
<th>Home Country</th>
<th>Foreign Countries</th>
<th>Tax Haven-Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>profit</td>
<td>profit</td>
<td>—</td>
</tr>
<tr>
<td>2</td>
<td>profit</td>
<td>no change</td>
<td>—</td>
</tr>
<tr>
<td>3</td>
<td>no change</td>
<td>profit</td>
<td>—</td>
</tr>
<tr>
<td>4</td>
<td>profit</td>
<td>loss</td>
<td>—</td>
</tr>
<tr>
<td>5</td>
<td>loss</td>
<td>profit</td>
<td>—</td>
</tr>
<tr>
<td>6</td>
<td>profit</td>
<td>no change</td>
<td>—</td>
</tr>
<tr>
<td>7</td>
<td>no change</td>
<td>profit</td>
<td>profit</td>
</tr>
<tr>
<td>8</td>
<td>no change</td>
<td>no change</td>
<td>profit</td>
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<tr>
<td>9</td>
<td>profit</td>
<td>loss</td>
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<tr>
<td>10</td>
<td>no change</td>
<td>loss</td>
<td>profit</td>
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<tr>
<td>11</td>
<td>loss</td>
<td>no change</td>
<td>profit</td>
</tr>
<tr>
<td>12</td>
<td>loss</td>
<td>loss</td>
<td>profit</td>
</tr>
<tr>
<td>13</td>
<td>profit</td>
<td>profit</td>
<td>profit</td>
</tr>
</tbody>
</table>

Returning to the specified microeconomic questions, we can say: The first five cases of manipulation show the possibilities a multinational enterprise has in a two-country model. The profits received in all operations, at home and overseas, are manipulated through "mandatory prices", in which case the profits received at one end go to the subsidiary in a country with lower taxes or to a subsidiary which sustained losses and where funds are immediately needed.

In the ensuing seven cases (6–12), we find possibilities of profit manipulations within a three-country model. In all of these cases profits or funds are transferred to a tax haven, in which third country a multinational enterprise is likely to use as an instrument of transfer a production facility, a representative office, or a letter-box company, or a financial holding fund. In any case, and to save on tax payments,

- **Direct Investments** (DI)
- **Portfolio Investments** (PI)
- **Remittances** (RE)
- **Royalties from Patents and Service fees** (RO)
- **Local Finance** (LF)
- **External Finance, through long-term bond issues** (XF)
- **Intra-Company Loans** (IL)
- **Transfer Pricing policy** (TP)

profits are transferred to a financial subsidiary. As to the other two subsidiaries, there remains a series of relative profit change combinations.

The ideal situation is found in case (13) where an enterprise shows profits at home as well as abroad and in the tax haven. Even though such a situation only rarely materializes, it may occur with world-wide business flourishing, relative political and social stability, and last but not least with monetary stability. And yet, it would still be profitable for a multinational enterprise to transfer its profits and/or excess funds to a tax haven. There are two possibilities of profit manipulation which are not listed above. One of them is a profits unchanged situation in all three countries; the other is a negative profit situation. Those two possibilities, however, have not been listed because, economically considered, they make no sense.

Most developed countries allow losses of subsidiaries at home and overseas belonging to national firms to be deduced from the parent’s taxable income at home. On the other hand, direct investments, flowing out to less developed countries, are highly motivated as a sort of developing aid in the well-developed countries by means of tax deduction.

We now come to a question which is of some importance in the macroeconomic sense:

To what extent are balances of trade and payments affected by the profit manipulating habits of multinational enterprises? – In this context it is important to remember that ~40% of the volume of the international trade of a highly developed country is estimated to be carried out by multinational firms.

The purpose of the above diagram is to illustrate the complex problem of the flow of funds, profits and the possibilities of their manipulation in a hypothetical multinational corporation as realistically as possible. The MNC in this illustration has, among its overseas operations, an international division which supervises the other subsidiaries. These are of two main types: wholly owned subsidiaries, and partially owned ones. Among the former type we find the financial subsidiary, which operates from a tax haven-country, and the two producing subsidiaries in countries A and B respectively. The joint venture-subsidiary in country C is typical of the second type. In the box below the Joint Venture we have a number of diverse operations put together which consist of licences and patents granted by the MNC to other firms in different countries.

The flow of funds starts with an outflow of direct investment (DI), plant- and equipment-outlays, from the parent company through the international division to its different overseas subsidiaries. Another outflow can be oriented to portfolio investments (PI) in joint venture-enterprises in third countries. Each subsidiary disposes of its own source of local finances\(^{18}\) (LF), which include the subsidiary’s

cash flow as well as short term bank and other institutional credits obtained in the host country.

A central position in this corporation is taken by the financial subsidiary which is pivotal to the MNC's manipulative operations. The principal function of this financial subsidiary, an international holding company with treasury functions and in some cases with the character of a world trading company in a tax haven country, is the monetary control and debt management in relation to the realized and expected returns and also to the estimated risks for the whole MNC with all its ramifications. It is the multinational group's ideal source of foreign external finance\(^{19}\) (XF), the intra-company bank with intra-company lending capacities, given its location in a tax haven, where longterm bond issues are easy to finance with relatively low costs to the firm. Naturally, the parent company in the home country can also get external finance besides the local finance. Furthermore, the financial subsidiary is also the recipient of the other subsidiaries' remittances (RE), of which only a part flows further on to the parent via the international division. The same operation is had recourse to by the services division, incorporated within the financial subsidiary, for the receipt of licence fees, service fees, patents and royalties (RO) from its "own" joint venture enterprises and other third firms. Usually, however, the services division is an entity separate from the financial subsidiary, but for this example it is convenient to put them together; both subsidiaries have, moreover, a finance reserve function.

Finally, the most important part of the flow of funds, which is also most prone to manipulation, consists in intracompany loans (IL) and in transfer-price policies (TP). Both flows of funds go ordinarily through the financial subsidiary or in special cases via parent company or between the two subsidiaries.

A question that may be asked is: What are the criteria for the distribution of the MNC's pooled gross-profits? There are at least seven possibilities for the distribution of these super profits.

1. to reinvest the funds, either in direct or in portfolio investments,
2. to pay extra high salaries to top managers,
3. to pay super dividends to stockholders,
4. to let them flow to own employees,
5. to pass on some part to customers,
6. to create liquidity reserves for losses and charges,
7. to sterilize the funds in banks in tax havens.

There is, then, really an internal conflict in each multinational firm. In our mind the best entrepreneurial policy is a long-run profit-rate stabilization on a satisfactory level which will enable the top management to favour the reinvestment

component of profit distribution – autofinance out of cash flow – in order to maintain a satisfactory profit-rate in times of inflation and with the intention to push the technological progress for the whole corporation. This is the best way to maintain and to let grow the corporation’s market share on a continental and a world-wide market.

IV. Conclusions

The preceding analysis of the possibilities of profit manipulations via subsidiaries, tax haven- and tax concession-countries shows that MNCs are able to grow at rates higher than the average rate of the national products in highly developed economies. The sustained growth of such firms, through very high rates of self-financed gross-investments has several consequences, e. g.

- an increase in the rate of technological change,
- an ability to take greater risks and uncertainties in research and development of new products and production processes, and
- investments in world regions which do not have much political stability.

Under these circumstances it is necessary for an MNC to have a possibility for intra-company compensation shifting of profits and losses with the two targets: to minimize risks and to ameliorate the expected returns on world-wide direct investments. If so, however, it should be noted that short-run tax avoidance (-evasion) does not affect the payments of dividends and taxes in the long-run because some of the funds (liquid capital) remain in the tax haven account, where they are used to finance the MNC’s activities. There are also limits to profit making by exploiting affiliates and host countries. If the world-wide market is to grow the affiliates also have to sustain their own growth potential and to continue prospering. In such a context MNCs have to reinvest a major part of the gains acquired by their affiliates, especially those obtained in less developed countries, because these countries have no capital markets of their own. It is mainly between highly developed countries that the game of profit manipulations can be most successfully played. But the amassed funds must flow out again, the credit mechanism must work to finance the new direct and/or portfolio investments.

The reasons for profit manipulation are manifold:

a) to avoid high discriminatory corporate income and property tax rates and, therefore, high tax liabilities,

b) to sustain a high rate of self-financed direct investments for further expansion of production capacities and sales facilities for domestic plants and for those of foreign subsidiaries,
c) to hide profits and reserves from representatives of employees and of trade unions,
d) not to give information to rivals and competitors,
e) to finance future research and development projects,
f) to compensate the losses of one or more subsidiaries,
g) to finance portfolio investments in other firms or sectors\(^{20}\),
h) to finance joint-venture enterprises,
i) to avoid the effects of changes and fluctuations in the exchange rates of foreign currencies (devaluation, revaluation),
j) to avoid inconvertibility of currencies or restrained conversion of (weak) local currency,
k) to avoid total losses by expropriation (nationalization),
l) last but not least, the historical profits calculated on the basis of (identified) historical costs are not real profits in times of declining purchasing power affecting the different (weak) currencies in periods of inflation.

In our opinion, a business policy based purely on the avoidance, or worse, the evasion of taxes is apt to be unprofitable in the long-run. As they grow, business firms will need more and more capital to finance their expanding operations. Basically this expansion is financed through internal sources, but external sources are also had recourse to, sometimes from fear of, or after falling into a liquidity trap. However, as the large corporations require more and more capital, the need for better and better information of shareholders, new (potential) investors, financial analysts, brokers and the interested public in and around stock exchanges will cause the boards of MNCs to disclose more and more of the consolidated figures of sales and profits in a detailed presentation\(^{21}\).

The broader base of ownership in international corporations, as well as ever-growing participation of employees, customers, purchasers, creditors, and investor groups of different nationalities require, in the sense of an active security market policy, an adequate information policy on the part of the corporation. Publishing the consolidated results of an MNC is the principal postulate of modern corporation policy, especially of firms whose securities are traded on the exchanges of New York, Tokyo, London, Paris, Amsterdam, Frankfurt, Milano and Zurich. Detailed annual balance sheets and information reports with standard bookkeeping practices are conditions **sine qua non** for a good and efficient policy of

\(^{20}\) Portfolio investments are, however, also instruments for achieving market-power with a minimum of financial engagement. Furthermore, they are an "optimal combination of risky securities". See W. F. Sharpe: Portfolio Theory and Capital Markets. New York 1970, p. 274.

\(^{21}\) A case in point is Nestlé (as reported in Business Week, January 27, 1973, p. 45) which "increased its flow of information, mostly because it is interested in winning friends in foreign countries and in expanding its ownership abroad".
MNCs\textsuperscript{22}. This is the way for large business to encourage technological progress and to develop their markets to world-wide dimensions, sharpening, thereby, international competition. Furthermore, because of their immense capability in transferring financial resources, technology and know-how, managerial skill, even in the transfer of modern civilization to developing regions and countries; MNCs can play a more stimulating rôle in developing the economic structure and promote the economic growth of many nations which lack these capabilities.

The ambiguity of profit calculations is a well-known fact: are, e.g., \textit{unrealized} profits profits? – None-identified profits on securities (of portfolio investments)? – There are also \textit{unintentional} profit manipulations, which can be accounted for by the different degrees of capacity utilization in different production subsidiaries in different countries, different costs (wages, raw-material prices), different production taxes, different economies of scale, different distribution and transport costs, different rates of inflation in different countries and the fluctuating exchange rates of foreign currencies.

What is required is more and better information from the central boards of MNCs by consolidated balance sheets, consolidated sales, consolidated earnings, broken down into production lines, product groups and world regions. The international giants have a social responsibility toward the public, which it is in their own interest to maintain. Secrecy policies, i.e. piping earnings to holdings or banks in tax havens via a wide variety of hybrid entities of international ramifications, are not of much efficiency in the long-run.

For several years now the world has been going through an international monetary crisis which many people see as to be attributed in the main to the large amounts of money transferred by MNCs from one country to another; either for monetary speculation or for fiscal manipulation or for other reasons. From a macroeconomic standpoint we therefore suggest imposing controls on these transfers if they exceed a certain amount – say, half a million dollars or 100 kg of gold. In this case the transfer must be declared to some sort of special authority, which can be the central bank of the MNC’s home country or a group of central banks. This information can then be sent to a higher authority, such as the International Monetary Fund, where it can be exchanged among different countries.

We must not forget that a comparatively large number among the important banks, insurance and reinsurance companies have gone multinational with the result of more and more transfers being undertaken daily. Furthermore it has to be remembered that the present situation is characterized by floating exchange rates,

revaluations and devaluations of currencies under which aspect the suggestion above, it is felt, is worth serious consideration.

Surely, important investment decisions will not be uniquely based on tax laws or tax schedules of one or the other country. The expected potential profits, which will be actually taxed, remain the only decisive basis for these decisions.

**Summary**

*The Multinational Corporation:*

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This paper investigates the entrepreneurial behaviour of multinational corporations within the context of tax avoidance and profit manipulation. It lists a large number of tax havens used by multinational groups, and the characteristics which make a country become a tax haven. Tax concessions as a part of the development program of many countries, or regions within, are considered; tax concessionary laws being a good opportunity for manipulation by multinational corporations.

Furthermore, a number of methods and possibilities of profit manipulation are explained, and a matrix lists the economically feasible possibilities of manipulation. The complex problem of the flow of funds, profits and their manipulation by the multinational corporation – between the parent company, international holding, and the different foreign subsidiaries – is amply illustrated in a diagram.

Finally, some concluding remarks postulate an open information policy and published consolidated accounts by the multinational corporations, and restrictions on the manipulative free transfer of capital and profits carried out by them.

**Zusammenfassung**

*Die multinationalen Firmen:*

*Steuervermeidung und Gewinn-Manipulation über Tochtergesellschaften und Steueroasen*

In dieser Abhandlung wird das unternehmerische Verhalten multinationaler Firmen mit Bezug auf Steuerumgehung und Gewinn-Manipulation untersucht. Die bekanntesten Steueroasen der Welt sind einzeln aufgezählt, und es werden zudem die Hauptmerkmale einer solchen Steueroase erörtert. Zeitlich begrenzte Steuererleichterungen (tax concessions) sind aber auch Mittel der Entwicklungspolitik mancher Länder oder Regionen, die bis heute einen wenig hohen Entwicklungsstand aufweisen. So oder so ergeben sich für multinationale Unternehmen gute Möglichkeiten, die Gewinne zu manipulieren.

Die Methoden und Möglichkeiten der Gewinn-Manipulation werden eingehend dargestellt, das komplexe Problem der flow of funds, Gewinne und deren Manipulation innerhalb einer multinationa-
len Unternehmungsgruppe anhand eines Diagramms erklärt.

Schliesslich folgen die nachstehenden Anregungen als Postulate:

- eine offene Informationspolitik,
- konsolidierte Rechnungsabschlüsse,
- Beschränkungen für den Transfer größerer Kapitalbeträge (Gewinne).
Les firmes multinationales :
l'évasion fiscale et la manipulation des profits via des sociétés affiliées des paradis fiscaux

Cet article analyse le comportement des firmes multinationales dans le contexte de l'évasion fiscale et de la manipulation des profits. Il recense les principaux paradis fiscaux du monde auxquels recourent les groupes multinationaux et donne les caractéristiques qui font d'un pays un paradis fiscal. Les privilèges fiscaux sont utilisés par maints pays et/ou régions dans le but de promouvoir le développement de zones en retard ; or, certaines entreprises multinationales ne manquent pas l'occasion de profiter de ces privilèges.

En outre, un certain nombre de méthodes et de possibilités de manipulation des profits sont exposées. Le problème complexe des flux de fonds (flow of funds), des profits et de leur manipulation au sein des groupes multinationaux est amplement illustré par un diagramme.

En conclusion, les auteurs souhaitent la mise sur pied d'une politique d'information et la publication de comptes consolidés par les firmes multinationales ainsi que l'application de restrictions sur les transferts de capitaux et de profits réalisés par ces dernières.