

Methodology used to create indicators of profit shifting by multinational enterprises operating in Canada

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"Globalization" refers to the economic integration between countries as a result of increasing cross-border trade and capital movements.

Multinational enterprises (MNEs) have been drivers of globalization. These enterprises have taken advantage of innovations in logistics and communications technology over the past four decades to diversify their supply chains and expand into new markets. Operating internationally, however, also allows MNEs to take advantage of tax systems which were designed for a less integrated era. For example, MNEs can arrange for profits to be 'shifted' by charging affiliates in high tax locations prices above market rates in transactions with affiliates in lower tax regions. These behaviours are referred to as base erosion and profit shifting (BEPS), and, although not illegal, they impact government revenues worldwide.

Due to data limitations and the challenge of identifying activities that are motivated by tax minimization, the impacts of BEPS on tax revenues for any one country are difficult to quantify.

At the request of the G20 countries, the Organisation for Economic Co-operation and Development (OECD) has developed a multipart action plan which includes recommendations for countries to enhance their corporate tax systems and suggests ways to measure and monitor BEPS.

Four years ago, the OECD issued its Measuring and Monitoring BEPS, Action 11-2015 Final Report. Chapter 4 of the report makes the following recommendation: "Governments should consider current best practices and explore new approaches to collaborating on BEPS research with academics and other researchers. Governments should encourage more research on MNE activity within tax administrations, tax policy offices, national statistical offices (NSO), and by academic researchers, to improve the understanding of BEPS, and to better separate BEPS from real economic effects and non-BEPS tax preferences."

In light of this recommendation, Statistics Canada is using various data sources at its disposal to follow the methodology proposed by the OECD in its Action 11 report to create BEPS indicators for Canada with the objective of looking for patterns that might suggest that MNEs with operations in Canada are using BEPS strategies.

The result of this work will be published in an upcoming analytical paper in *Analysis in Brief* on June 18, 2019.

The paper follows the approach to measuring BEPS described in Action 11 of the OECD's BEPS action plan, which recommends creating a 'dashboard' of simple indicators that provide different perspectives on BEPS. The OECD's intention is for these measures to be considered together to see whether they "point" in the same direction.

The purpose of this paper is to explain the methodology used in the *Analysis in Brief* publication to calculate these indicators of profit shifting and its text is divided following the indicators to be published.

Please refer to the methodology document mentioned below.

Note to readers

Multinational enterprises (MNEs) are enterprises with a parent or a subsidiary outside of the country where they operate. For an overview of the role MNEs play in the Canadian economy please see an earlier study, [Multinational enterprises in Canada \(2019\)](#).

Comments on this methodology can be submitted using the contact information below.



Definitions, data sources and methods: survey number [2510](#).

[Methodology used to create indicators of profit shifting by multinational enterprises operating in Canada](#) is now available Statistics Canada's website.

For more information, contact us (toll-free 1-800-263-1136; 514-283-8300; STATCAN.infostats-infostats.STATCAN@canada.ca).

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