

Michael Stimmelmayer

University of Munich

**"Taxation of MNEs in the Presence of
Internal Capital Markets"**

Abstract

Previous literature on multinational taxation focuses on the importance of internal debt shifting or the strategic pricing of internal trade for profit taxation. Agency problems are rarely explicitly accounted for. In this paper we consider agency problems in multinational firms and analyse the implications for fiscal competition. In particular, we account for the existence of internal capital markets and its (dis)incentive effects on division manager behaviour. The agency problem is in general not neutral for the profit taxation. Depending on the profit tax rate differential between countries, the agency problem in itself may lead to too high taxes in fiscal competition.