

An Analysis of the Components of Tax Strategies in the Choice of Industry Sectors of the Foreign Direct Investment Evidence from UK Multinational Enterprises

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Abstract— Following the massive amounts of publicity given to the giant retailers, Google, Amazon, Starbucks and Apple, the UK Public Accounts Committee's very widely reported investigations into the tax strategy of these MNEs (multinational enterprises) which focused predominantly on their use of location and manipulations. The recent disclosure of the Paradise Papers and Panama Papers revealed the hidden offshore tax havens and unknown tax strategies been employed in the international investment to minimize the tax liabilities of the individuals and multinational corporations. It added a sense of urgency to the need for discovering the underlying mechanism of the association between international tax strategies and firm or industry characteristics. This paper empirically examines the components of tax strategy varying with the choice of industry sectors in the FDI (Foreign Direct Investment) Based on a sample of 207 UK MNEs, logistic regression was employed to analyze the statistical results. It is found that the international tax strategies do vary with the sectoral composition of the MNEs, suggesting transfer pricing strategy, available tax allowances, and use and manipulation of investment locations are particularly important to the manufacturing sector rather than the services sector. The results suggest that to benefit from transfer pricing, available tax allowances in the UK, and use and manipulation of the investment locations, the UK MNEs are more likely to engage in the manufacturing sector of the FDI.

Keywords— FDI, tax strategies, decision making, manufacturing and service sectors.