

What Works Against Profit Shifting?

Evidence and Lessons from Austrian Anti-BEPS Reforms

Policy Brief

Harald Amberger, Ruby Doeleman, Stefanie Pendl

1. Summary

Over the past decade, Austria has implemented a range of policies to combat base erosion and profit shifting (BEPS) as part of broader OECD and European Union initiatives. Assessing whether these policies achieve their objectives is critical for the evaluation of existing measures and the design of future policies, including the European Commission's initiative to simplify EU tax rules on direct taxation.¹

New evidence from Austrian administrative corporate tax return data provides important insights into both the extent of profit shifting and the effectiveness of anti-BEPS measures implemented in Austria.

Four key findings emerge:

1. **Profit shifting remains relevant but appears more limited than suggested by international studies.** Multinational enterprises (MNEs) in Austria respond to international tax-rate differences. On average, they shift approximately 2% of their taxable income out of Austria, with larger effects for firms with links to tax havens.
2. **Targeted anti-BEPS measures are effective.** Rules that directly restrict specific profit-shifting channels, such as Austria's limitation on interest and royalty deductions, significantly reduce profit shifting.
3. **Transparency-based measures or rules with broad exemptions are less effective and have unintended consequences.** Measures that mainly increase tax transparency or include broad exemptions can induce firms to adjust their behavior in ways that preserve profit shifting while expanding economic activity in low-tax jurisdictions.
4. **High-quality administrative data sources are important for evidence-based policymaking.** Pseudonymized administrative corporate tax return data, as provided by the Austrian Micro Data Center (AMDC), allow more precise estimates of profit shifting and a cleaner evaluation of anti-BEPS measures than publicly available accounting information.

2. The Relevance of Profit Shifting

MNEs play a key role in the Austrian economy. Although they account for only a small share of firms, they generate a disproportionately large share of economic activity, employment, and investment. At the same time, MNEs can shift profits across jurisdictions and reduce their tax burden in Austria. Common strategies include intra-group debt financing, royalty payments, transfer pricing arrangements, and the strategic location of intangible assets.

Using administrative corporate tax return data, we estimate that, between 2012 and 2019, the average Austrian MNE entity shifted approximately 2% of its taxable income out of Austria in response to international tax-rate differences. The effect is larger for firms with links to tax havens.

This estimate appears modest relative to international estimates of profit shifting and may indicate that Austrian MNE entities engage in less tax planning than their

¹ [Taxation: Call for evidence on simplifying EU rules on direct taxation - Taxation and Customs Union.](#)

international peers or that Austria's anti-BEPS measures have constrained profit-shifting opportunities relative to earlier periods and other jurisdictions.

3. Lessons Learned About Anti-BEPS Policies

3.1. Deduction limitations are effective

In 2014, Austria introduced restrictions on the deductibility of interest and royalty payments made to low-taxed related parties (§ 12 (1) 10 Corporate Income Tax Code; KStG).

The evidence shows that these rules significantly reduced profit shifting among affected firms and increased taxable income reported in Austria. Importantly, there is no evidence that affected MNE entities compensated by shifting profits through alternative channels.

This finding suggests that specific anti-BEPS rules can limit profit-shifting opportunities without inducing substantial substitution into other avoidance channels.

3.2. Tax transparency appears less effective

Austria introduced private Country-by-Country Reporting in 2016 to improve tax transparency and enable tax authorities to identify profit-shifting risks and conduct more targeted tax audits.

While the reform increased the information available to tax authorities, the evidence does not indicate a reduction in profit shifting. Instead, affected firms increased their economic activity in low-tax jurisdictions.

These findings suggest that tax transparency measures may be ineffective in curbing profit shifting as firms can adjust their organizational structures or business activities in response to new reporting requirements.

3.3. CFC rules can have unintended consequences

Austria's Controlled Foreign Corporation (CFC) rule (§ 10a KStG) was designed to discourage profit shifting by directly taxing certain passive income earned by low-tax affiliates abroad.

The evidence indicates that potentially affected MNEs responded by increasing reported sales in foreign low-tax affiliates. As a result, profit shifting appears to have continued despite the introduction of the CFC-regime. One explanation is that potentially affected MNEs adjusted their activities to benefit from the rule's active-income and substance-based exemptions.

While such exemptions are intended to distinguish genuine economic activity from purely tax-motivated structures, the evidence suggests that they may also create incentives to expand economic activity in low-tax jurisdictions.

The findings highlight the importance of carefully designing exemptions and safe harbors to ensure that they do not undermine the intended policy objective.

4. The Importance of Administrative Tax Data

A precise evaluation of anti-BEPS policies requires reliable information on firms' taxable income. Many studies rely on publicly available financial statement data because tax return data are often unavailable to researchers. However, financial statements are designed for accounting purposes rather than for measuring taxable income.

Using Austrian administrative corporate tax return data, we show that estimates of profit shifting based on financial statement data are more than 50% smaller than estimates based on taxable income reported on corporate tax returns.

This result has two important implications. First, the true extent of profit shifting may be different than suggested by studies relying solely on financial accounting data. Second, evaluations of anti-BEPS policies using financial statement data can mismeasure their effectiveness.

Austria's access to administrative tax return data through the AMDC therefore represents a strategic asset for supporting evidence-based tax policymaking.

5. Implications for Austrian Tax Policy

In sum, the evidence points to five broader lessons for future tax reform:

- 1. Focus on specific anti-BEPS rules
Policies that restrict specific shifting channels appear more effective in limiting profit shifting than broad measures that primarily increase tax transparency.
- 2. Consider behavioral responses
Multinational firms respond to regulatory changes. Effective policy design requires anticipating how firms may alter their organizational structures, business activities, and financing arrangements in response to new rules.
- 3. Re-evaluate exemptions and safe harbors
Substance-based carve-outs and active-income exemptions can create opportunities for firms to preserve tax planning. They may also strengthen incentives to locate real economic activity in low-tax jurisdictions.
- 4. Strengthen evidence-based policymaking
Austria is well positioned to evaluate tax policy using high-quality administrative data. This advantage should be leveraged when assessing existing anti-BEPS measures and tax reforms more broadly. The evidence obtained may directly inform the design of future policies.
- 5. Continue investing in data access
Austria's administrative tax data provide a valuable resource for evaluating tax reforms. Maintaining secure data access for policy evaluation and academic research can help ensure that future reforms are informed by robust evidence.

6. Conclusion

The evidence from Austrian administrative corporate tax return data highlights the challenge to design anti-BEPS measures that effectively limit profit shifting without creating new avoidance opportunities or unintended economic distortions.

Austria's experience demonstrates that specific anti-BEPS measures can successfully limit profit shifting and protect the corporate tax base. In contrast, measures that rely primarily on tax transparency or that contain active-income or substance-based exemptions may induce behavioral responses that weaken intended policy effects or strengthen incentives to locate economic activity in low-tax jurisdictions.

The broader lesson is that policy design matters. Anti-BEPS measures appear most effective when they target specific profit-shifting channels while minimizing incentives for firms to adjust their real economic activity. As Austria continues implementing and evaluating international tax reforms, including the global minimum tax under Pillar Two, systematic ex-post evaluation using administrative tax data will be essential for identifying best policies.

References

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Contact

Prof. PD Harald Amberger, PhD
Business Taxation Group
WU Vienna University of Economics and Business
Tel: + 43 1 31336 5656
E-Mail: harald.amberger@wu.ac.at