ABSTRACT
Tax Do firms’ tax strategies interrelate with other managerial objectives? I model the trade-off between international tax planning incentives and the coordination of internal collaboration through a multinational corporation’s (MNC) resource allocation decision. The model shows that in (1) when the internal struggle among subsidiaries is high, the MNC’s responsiveness to tax incentives is low, and (2) tax incentives constrain the set of MNCs’ allocation strategies that are compatible with internal collaboration, suggesting that these tax incentives are not tax-neutral with respect to the MNCs’ management of international subsidiaries. I then model the implication of this trade-off on how an MNC responds to a tax cut with its resource allocation. The model predicts that when a high-tax jurisdiction offers a tax cut, it alleviates the internal struggle, but contrary to conventional wisdom, an MNC may reduce its resources allocated to that country. I utilize an exogenous event, the implementation of the “patent-box” regime, as the tax cut to empirically test the theory’s prediction and find consistent evidence. Taken together, my study illustrates the interdependence of a firm’s tax strategy and its managerial goals and the implication of this interdependence to the effect of a tax policy.