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## Comment J. Bradford Jensen

I would like to start my comments with the observation that intangibles are an increasingly important component of aggregate investment. Corrado, Hulten, Sichel (2009) report that including intangibles investment nearly doubles investment's share of GDP. So, intangibles are important. Second, the location of intangibles is also important—particularly for NIPAs. Other chapters in this volume describe the impact on NIPAs of the relocation of intellectual property to countries like Ireland. This chapter is addressing important questions in the literature.

The lengthy existing literature into which this chapter fits generally finds suggestive evidence that multinationals use intra-firm payments to reduce taxes. For example, intra-firm transfer pricing (broader than transfer pricing within the firm's CSAs) is another arguably important device. In research done with co-authors (Bernard, Jensen, and Schott 2006), we find that within multinationals, "related-party" unit values (for cross-border product trade within the firm) differ on average from "arm's length" counterparts by factors approaching 2, a huge difference. We find that attempts to refine the comparison by controlling for country, product homogeneity, and/or transport mode still leave differences of 10–20 percent or more. With our paper's empirical results in mind, it seems plausible that generalized intra-firm transfer pricing is an important way that multinationals reduce taxes and shift profits.

This chapter adds confirming evidence to the existing literature. This chapter finds that multinationals that are especially dependent on R&D inputs (often intangible capital) use parent-affiliate cost-sharing agreements (CSAs), along with associated licensing and cost-benefit-profit accounting within the firm, to minimize their tax burden. This is useful; however, I wonder whether the chapter is too narrowly framed by the authors.

The first concern is restricting their empirical sample of multinationals to firms that are R&D-intensive. Corrado, Hulten, and Sichel (2009) report that formal R&D is a relatively small share of firm investments in intangibles. Could these other intangible investment intensive firms also be using CSAs? If there are few or no CSAs among multinationals that don't meet the authors' R&D standard, it would be helpful to show that to the reader (their mere "count" of CSAs seems to wander strangely between the 5 firms involved in IRS litigation and the 42 identified by SEC (Securities

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and Exchange Commission) text mining. If CSAs do exist for other purposes than R&D (e.g., for marketing strategy, for brand building, for administrative costs . . .), are their empirical effects small? Are they comparable to those for CSAs among R&D-intensive firms? What about other “footloose” assets (e.g., aircraft leasing in Ireland discussed in another chapter in the volume)?

In this regard, it would be helpful if the authors included more descriptive statistics across industries, countries, firms. For example, it would be useful to show that CSAs are more prevalent in R&D-intensive firms and industries, and by how much. Another important fact to document is whether low tax affiliate jurisdictions are more intensive in MNCs with CSAs than others and, if so, by how much. Last, it would be very helpful to show that the large multinationals with large R&D stocks but with *no* CSAs are, somehow, unusual outliers.

A second concern about the narrow scope is that the chapter does not provide an estimate of the aggregate size or impact of CSAs. Could this be estimated? Other important questions regarding size and scope include: by how much are multinationals’ taxes reduced and profits enhanced by CSAs? Do tax collections in affiliates’ countries change, and by how much? What are the statistical confidence intervals around such estimates? A potentially useful suggestion in this direction is for the authors to use an interaction variable that would allow their CSA coefficients to vary with the affiliate country’s tax rate.

Even more important than these calculations in the context of this volume would be estimates of the effects of CSAs on national income and product. Would such calculations reflect the authors’ findings that affiliates in the Bahamas and Ireland stand out (table 6.4b), and therefore also contribute to the infamous surge in Ireland’s 2015 GDP growth? And if so, by how much? And what are comparable calculations for the Bahamas?

## References

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