



Direct Tax

Beyond the headlines: What if CbCR is reshaping avoidance rather than preventing it?

By **Sam Sholli** October 05 2026



International taxation professor Dirk Schindler spoke to ITR

Tax authorities have gained unprecedented transparency through CbCR, but a new study suggests they may not be looking in the right places

Since its introduction in 2015, country-by-country reporting has been viewed as one of the OECD's most significant transparency reforms. The assumption was straightforward: give tax authorities a clearer picture of where multinationals book profits and aggressive tax planning would become harder.

A new paper by Dirk Schindler, Dominika Langenmayr and Ruby Doeleman suggests the reality may be more complicated.

Schindler, a professor of international taxation at the Erasmus School of Economics in the Netherlands, spoke to ITR after the release of: 'Could Country-by-Country Reporting Increase Profit Shifting?'

According to the paper, CbCR does reduce profit shifting to tax havens, but remaining profit shifting follows a pattern, whereby tax havens lose money while low-tax countries gain from CbCR. This is due to a 'substitution effect' which leads to a restructuring of overall profit shifting.

This effect refers to a phenomenon whereby multinationals adjust their behaviour based on tax authorities focusing heavily on how much money is going to tax havens.

Due to this substitution effect, high-tax countries benefit less from a decrease in overall shifting and can even lose out in terms of their tax base, the paper also finds.

So how exactly did this ambitious transparency initiative produce such unintended consequences?

The substitution effect

Schindler tells ITR that most OECD policymakers and researchers he knows, including himself, believed CbCR would be a "game changer".

This was based on the presumption that it would give tax authorities much more information and transparency, and therefore more power over multinationals.

However, all early studies, Schindler says, found some effect but not a strong one.

"It was a bit surprising that a strategy that was considered really important hardly shows anything," he notes.

Upon this realisation, he and Langenmayr developed an early theoretical model and eventually discovered a substitution effect related to information exchange.

Instead of triggering intense scrutiny by creating red flags, multinationals are shifting profits to affiliates that have lower taxes yet fly under the radar of tax authorities.

All the empirical results established by Schindler and his fellow academics, he says, are fully in line with what the theoretical model predicts. Namely: this substitution effect is real.

This partly explains why previous studies didn't find strong effects of CbCR on total tax payments of multinationals.

What's next?

Schindler is reluctant to speculate on the policy implications of the substitution effect.

However, the findings have not dissuaded Schindler from his belief that CbCR is, overall, no bad thing. More information is still beneficial, after all.

Schindler also notes that, accounting for the substitution effect, there's less money to save from multinationals' perspective and so profit shifting in total has reduced.

"Profit shifting in total is going down because, instead of shifting to tax havens, multinationals need to shift to higher-tax places. They will have higher tax payments," he says.

Schindler has observed a distributional pattern whereby low- to medium-tax countries gain and high-tax countries lose from CbCR, and he regards this as "a bit unfortunate".

The reason for this paradox, he argues, is that tax authorities seem to use information from CbCR very selectively.

"They just pick on what happens in the tax haven and how much profits are there relative to employees or capital," he says.

"That's the key figure. It's easy to infer, cheap to do and cost-efficient."

This practice, he argues, triggers the substitution effect. Tax authorities, therefore, need to take a broader view and use information more extensively.

They ought to look at what happens in low- to medium-tax affiliates to figure out whether multinationals still profit shift but in jurisdictions such as Norway or the UK as opposed to tax havens, Schindler argues.

OECD guidance change?

The OECD, Schindler notes, recommends using CbCR to examine profits relative to employees.

This, when reading between the lines, means looking at tax havens, he argues.

"If you shift to a tax haven, profits per employee is huge. If you shift to an affiliate where you also have production, that measure is not super big," he explains.

OECD guidance needs to change if the substitution effect is to be shut down, Schindler says.

"I don't want to blame the OECD," he adds.

"The problem is that if you have all this information floating around, getting through it becomes costly because you need more personnel and more inputs, more resources in order to digest and use this information."

This, Schindler suggests, leads to a trade-off situation whereby the OECD must weigh up how much it wishes to invest to process information.

That it may be better to simply accept the substitution effect, he claims.

“If we accept the substitution effect, however, we still have a situation where profit shifting happens.”

Unexpected aid

Most of the countries benefiting from the substitution effect are ones that Schindler would consider to be low-income.

The effect can, therefore, arguably be seen as an unexpected and advanced form of development aid, he argues.

However, Schindler suggests that countries didn't have this on their mind when initially signing up for CbCR.

“There at least should be some discussion about whether the high-tax countries or the high-income countries are still fine with that or whether we need some adjustment,” Schindler contends.

If Schindler's findings are accurate, then one of the OECD's flagship transparency initiatives can be considered both a success and a disappointment. Profit shifting has become harder and less profitable, but not necessarily less common.

The real lesson may be that transparency alone cannot determine tax outcomes. What matters is where tax authorities choose to look.

Topics

[Global](#)[Beyond the headlines](#)[OECD](#)[Transfer Pricing](#)[Direct Tax](#)[Netherlands](#)

Sam Sholli

SENIOR REPORTER ITR