

## **Information Asymmetry between the Tax Authority and the Taxpayer – Income Shifting Via Patents**

We examine the association between asymmetric information and tax-motivated income shifting via patents in a setting of incomplete information. As the value of patents is often firm-specific, the local tax authority lacks information on comparable transactions when assessing a multinational corporation's (MNC's) transfer-pricing strategy, leading to information asymmetry between the MNC and the tax authority. Using a sample of affiliates of European MNCs and employing the relative share of patents held by an MNC as a measure for asymmetric information, we show that tax-motivated income shifting increases in information asymmetry. We also find that more external comparable information available to the local tax authority and stricter tax enforcement mitigate this relation. In contrast, more extensive transfer-pricing documentation requirements are less effective in this setting. Overall, our results suggest that the level of comparable information is an economically important determinant of tax-motivated income shifting via patents. The effectiveness of tax-policy measures in curbing income shifting critically depends on their ability to increase the set of comparable information.