

# **Substance-ial Investment Shifting: The Role of Substance in Anti-Tax Avoidance Rules**

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## **Abstract**

Substance rules aim to ensure that anti-profit shifting rules do not harm genuine economic activities. This paper analyzes whether the requirement to have economic substance increases fixed assets and employment in low-tax affiliates. Analytically, substance rules incentivize multinational enterprises to reduce the number of low-tax affiliates, but increase investment in the remaining low-tax affiliates to continue shifting profits.

Estimates from a staggered difference-in-differences design using affiliate-level data from 2014-2022 indicate that substance rules increase fixed assets and employment in low-tax countries. I do not find significant evidence for investment being shifted away from high-tax affiliates. The findings suggest that multinational enterprises do exploit substance rules to continue shifting profits.