

Home > Tax and Corporate Governance > Conference paper

Tax and Corporate Governance: An Economic Approach

| Conference paper

| pp 13–30 | [Cite this conference paper](#)



Tax and Corporate Governance

Your privacy, your choice

We use essential cookies to make sure the site can function. We, and our 93 **partners**, also use optional cookies and similar technologies for advertising, personalisation of content, usage analysis, and social media.

By accepting optional cookies, you consent to allowing us and our partners to store and access personal data on your device, such as browsing behaviour and unique identifiers. Some third parties are outside of the European Economic Area, with varying standards of data protection. See our **privacy policy** for more information on the use of your personal data. Your consent choices apply to nature.com and applicable subdomains.

You can find further information, and change your preferences via 'Manage preferences'. You can also change your preferences or withdraw consent at any time via 'Your privacy choices', found in the footer of every page.

We use cookies and similar technologies for the following purposes:

- > **Store and/or access information on a device**
- > **Personalised advertising and content, advertising and content measurement, audience research and services development**



Accept all cookies

Reject optional cookies

Manage preferences

The remainder of the chapter outlines potentially fruitful areas for future research into how these mechanisms may respond to the tax system.

The authors thank participants in the Symposium on Tax and Corporate Governance at the Max Planck Institute for Intellectual Property, Competition and Tax Law in Munich, and seminar participants at Harvard Law School and UCLA Law School, for helpful comments. Desai acknowledges the financial support of the Division of Research of Harvard Business School.

 This is a preview of subscription content, [log in via an institution](#)  to check access.

Your privacy, your choice

We use essential cookies to make sure the site can function. We, and our 93 **partners**, also use optional cookies and similar technologies for advertising, personalisation of content, usage analysis, and social media.

By accepting optional cookies, you consent to allowing us and our partners to store and access personal data on your device, such as browsing behaviour and unique identifiers. Some third parties are outside of the European Economic Area, with varying standards of data protection. See our **[privacy policy](#)** for more information on the use of your personal data. Your consent choices apply to nature.com and applicable subdomains.

You can find further information, and change your preferences via 'Manage preferences'. You can also change your preferences or withdraw consent at any time via 'Your privacy choices', found in the footer of every page.

We use cookies and similar technologies for the following purposes:

Store and/or access information on a device

Personalised advertising and content, advertising and content measurement, audience research and services development

Accept all cookies

Reject optional cookies

Manage preferences

References

- 1 See DESAI/DHARMAPALA/FUNG, Taxation and the Evolution of Aggregate Corporate Ownership Concentration, in: AUERBACH/HINES/SLEMROD (eds.), Taxing Corporate Income in the 21st Century, 345–383 (2007) for a discussion of the Berle-Means argument (*cf.* BERLE/MEANS, The Modern Corporation and Private Property (1932)).

[Google Scholar](#)

- 2 For more on tax shelters, *see e.g.* BANKMAN, The Tax Shelter Problem, 57 National Tax Journal 925–36 (2004) and WEISBACH, Ten Truths about Tax

Your privacy, your choice

We use essential cookies to make sure the site can function. We, and our 93 **partners**, also use optional cookies and similar technologies for advertising, personalisation of content, usage analysis, and social media.

By accepting optional cookies, you consent to allowing us and our partners to store and access personal data on your device, such as browsing behaviour and unique identifiers. Some third parties are outside of the European Economic Area, with varying standards of data protection. See our **privacy policy** for more information on the use of your personal data. Your consent choices apply to nature.com and applicable subdomains.

You can find further information, and change your preferences via 'Manage preferences'. You can also change your preferences or withdraw consent at any time via 'Your privacy choices', found in the footer of every page.

We use cookies and similar technologies for the following purposes:

Store and/or access information on a device

Personalised advertising and content, advertising and content measurement, audience research and services development

[Accept all cookies](#)

[Reject optional cookies](#)

[Manage preferences](#)

Issues, and Policy Recommendations, vol. 1–3 (2003) (*see* <http://www.access.gpo.gov/congress/joint/hjoint01cp108.html>).

[Google Scholar](#)

7 JOINT COMMITTEE ON TAXATION, *id.*

[Google Scholar](#)

8 JOINT COMMITTEE ON TAXATION, *id.*

[Google Scholar](#)

9 DESAI/ DHARMAPALA, Earnings Management and Corporate Tax Shelters, Harvard Business School Finance Working Paper 884812 (2006).

Your privacy, your choice

We use essential cookies to make sure the site can function. We, and our 93 **partners**, also use optional cookies and similar technologies for advertising, personalisation of content, usage analysis, and social media.

By accepting optional cookies, you consent to allowing us and our partners to store and access personal data on your device, such as browsing behaviour and unique identifiers. Some third parties are outside of the European Economic Area, with varying standards of data protection. See our **privacy policy** for more information on the use of your personal data. Your consent choices apply to nature.com and applicable subdomains.

You can find further information, and change your preferences via 'Manage preferences'. You can also change your preferences or withdraw consent at any time via 'Your privacy choices', found in the footer of every page.

We use cookies and similar technologies for the following purposes:

Store and/or access information on a device

Personalised advertising and content, advertising and content measurement, audience research and services development

[Accept all cookies](#)

[Reject optional cookies](#)

[Manage preferences](#)

14 DESAI/ DHARMAPALA, *supra* note 4.

[Article](#) [Google Scholar](#)

15 MANZON/ PLESKO, The Relation Between Financial and Tax Reporting Measures of Income, 55 Tax Law Review 175-214 (2002).

[Google Scholar](#)

16 Reviewed *e.g.* in HANLON, What Can We Infer about a Firm's Taxable Income from Its Financial Statements?, 56 National Tax Journal 831-863 (2003).

[Google Scholar](#)

17 DESAI/ DHARMAPALA *supra* note 4.

Your privacy, your choice

We use essential cookies to make sure the site can function. We, and our 93 **partners**, also use optional cookies and similar technologies for advertising, personalisation of content, usage analysis, and social media.

By accepting optional cookies, you consent to allowing us and our partners to store and access personal data on your device, such as browsing behaviour and unique identifiers. Some third parties are outside of the European Economic Area, with varying standards of data protection. See our **privacy policy** for more information on the use of your personal data. Your consent choices apply to nature.com and applicable subdomains.

You can find further information, and change your preferences via 'Manage preferences'. You can also change your preferences or withdraw consent at any time via 'Your privacy choices', found in the footer of every page.

We use cookies and similar technologies for the following purposes:

Store and/or access information on a device

Personalised advertising and content, advertising and content measurement, audience research and services development

[Accept all cookies](#)

[Reject optional cookies](#)

[Manage preferences](#)

Quarterly Journal of Economics 107–156 (2003) and by a measure of the extent of institutional ownership.

[Article](#) [Google Scholar](#)

21 DESAI/ DHARMAPALA, *supra* note 18.

[Google Scholar](#)

22 HANLON/ SLEMROD, What Does Tax Aggressiveness Signal? Evidence from Stock Price Reactions to News About Tax Aggressiveness, Working Paper (2007) (available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=975252). This sample includes a total of 108 events, and so (while somewhat broader than that constructed by GRAHAM/TUCKER, *supra* note 18) is quite small.

Your privacy, your choice

We use essential cookies to make sure the site can function. We, and our 93 **partners**, also use optional cookies and similar technologies for advertising, personalisation of content, usage analysis, and social media.

By accepting optional cookies, you consent to allowing us and our partners to store and access personal data on your device, such as browsing behaviour and unique identifiers. Some third parties are outside of the European Economic Area, with varying standards of data protection. See our **privacy policy** for more information on the use of your personal data. Your consent choices apply to nature.com and applicable subdomains.

You can find further information, and change your preferences via 'Manage preferences'. You can also change your preferences or withdraw consent at any time via 'Your privacy choices', found in the footer of every page.

We use cookies and similar technologies for the following purposes:

Store and/or access information on a device

Personalised advertising and content, advertising and content measurement, audience research and services development

[Accept all cookies](#)

[Reject optional cookies](#)

[Manage preferences](#)

27 In the following, we limit our attention to the for-profit sector. It is worth briefly noting that the tax system is particularly important to governance of non-profit organizations. For example, tax returns for non-profits are made public and tax benefits can be contingent on operational decisions (levels of charitable activities) or financing decisions (payout decisions for foundations). For more on the governance of non-profits, *see* DESAI/YETMAN, Constraining Managers without Owners: Governance of the Not-for-Profit Enterprise, NBER Working Paper No. 11140 (2006).

Your privacy, your choice

We use essential cookies to make sure the site can function. We, and our 93 **partners**, also use optional cookies and similar technologies for advertising, personalisation of content, usage analysis, and social media.

By accepting optional cookies, you consent to allowing us and our partners to store and access personal data on your device, such as browsing behaviour and unique identifiers. Some third parties are outside of the European Economic Area, with varying standards of data protection. See our **privacy policy** for more information on the use of your personal data. Your consent choices apply to nature.com and applicable subdomains.

You can find further information, and change your preferences via 'Manage preferences'. You can also change your preferences or withdraw consent at any time via 'Your privacy choices', found in the footer of every page.

We use cookies and similar technologies for the following purposes:

Store and/or access information on a device

Personalised advertising and content, advertising and content measurement, audience research and services development

[Accept all cookies](#)

[Reject optional cookies](#)

[Manage preferences](#)

33 MORCK, How to Eliminate Pyramidal Business Groups: The Double Taxation of Inter-corporate Dividends and Other Incisive Uses of Tax Policy, in: POTERBA (ed.), 19 Tax Policy and the Economy 135–179 (2005).

[Google Scholar](#)

34 MORCK/ YEUNG, Dividend Taxation and Corporate Governance, 19 Journal of Economic Perspectives 163–180 (2005).

[Article](#) [Google Scholar](#)

35 DESAI/ GENTRY, The Character and Determinants of Corporate Capital Gains, in: POTERBA (ed.), 18 Tax Policy and the Economy 1–36 (2004).

[Google Scholar](#)

Your privacy, your choice

We use essential cookies to make sure the site can function. We, and our 93 **partners**, also use optional cookies and similar technologies for advertising, personalisation of content, usage analysis, and social media.

By accepting optional cookies, you consent to allowing us and our partners to store and access personal data on your device, such as browsing behaviour and unique identifiers. Some third parties are outside of the European Economic Area, with varying standards of data protection. See our **privacy policy** for more information on the use of your personal data. Your consent choices apply to nature.com and applicable subdomains.

You can find further information, and change your preferences via 'Manage preferences'. You can also change your preferences or withdraw consent at any time via 'Your privacy choices', found in the footer of every page.

We use cookies and similar technologies for the following purposes:

Store and/or access information on a device

Personalised advertising and content, advertising and content measurement, audience research and services development

[Accept all cookies](#)

[Reject optional cookies](#)

[Manage preferences](#)

40 ANTRAS/ DESAI/ FOLEY, Multinational Firms, FDI Flows and Imperfect Capital Markets, NBER Working Paper No. 12855 (2007).

[Google Scholar](#)

41 JU/ WEI, Domestic Institutions and the Bypass Effect of International Capital Flows, IMF Working Paper (2007).

[Google Scholar](#)

43 *See* DESAI/HINES. Old Rules and New Realities: Corporate Tax Policy in a

Your privacy, your choice

We use essential cookies to make sure the site can function. We, and our 93 **partners**, also use optional cookies and similar technologies for advertising, personalisation of content, usage analysis, and social media.

By accepting optional cookies, you consent to allowing us and our partners to store and access personal data on your device, such as browsing behaviour and unique identifiers. Some third parties are outside of the European Economic Area, with varying standards of data protection. See our **privacy policy** for more information on the use of your personal data. Your consent choices apply to nature.com and applicable subdomains.

You can find further information, and change your preferences via 'Manage preferences'. You can also change your preferences or withdraw consent at any time via 'Your privacy choices', found in the footer of every page.

We use cookies and similar technologies for the following purposes:

Store and/or access information on a device

Personalised advertising and content, advertising and content measurement, audience research and services development

[Accept all cookies](#)

[Reject optional cookies](#)

[Manage preferences](#)

Rates, Working Paper (2007) (available at SSRN:

<http://ssrn.com/abstract=959245>); PLESKO, Corporate Tax Avoidance and the Properties of Corporate Earnings, 57 National Tax Journal 729-737 (2004).

[Google Scholar](#)

47 MILLS/ PLESKO, Bridging the Reporting Gap: A Proposal for More Informative Reconciling of Book and Tax Income, 56 National Tax Journal 865-893 (2003).

[Google Scholar](#)

48 DESAI, Reform Alternatives for the Corporate Tax, Testimony before the Subcommittee on Select Revenue Measures of the House Committee on Ways and Means, Washington DC, May 9, 2006 (see

Your privacy, your choice

We use essential cookies to make sure the site can function. We, and our 93 **partners**, also use optional cookies and similar technologies for advertising, personalisation of content, usage analysis, and social media.

By accepting optional cookies, you consent to allowing us and our partners to store and access personal data on your device, such as browsing behaviour and unique identifiers. Some third parties are outside of the European Economic Area, with varying standards of data protection. See our **privacy policy** for more information on the use of your personal data. Your consent choices apply to nature.com and applicable subdomains.

You can find further information, and change your preferences via 'Manage preferences'. You can also change your preferences or withdraw consent at any time via 'Your privacy choices', found in the footer of every page.

We use cookies and similar technologies for the following purposes:

Store and/or access information on a device

Personalised advertising and content, advertising and content measurement, audience research and services development

[Accept all cookies](#)

[Reject optional cookies](#)

[Manage preferences](#)

52 See FREEDMAN, Aligning Taxable Profits and Accounting Profits: Accounting Standards, Legislators and Judges, 2 eJournal of Tax Research 71-99 (2004).

[Google Scholar](#)

53 PERRY/ ZENNER, Pay for Performance? Government Regulation and the Structure of Compensation Contracts, 62 Journal of Financial Economics 453-488 (2001).

[Article](#) [Google Scholar](#)

54 ROSE/ WOLFRAM, Regulating Executive Pay: Using the Tax Code to Influence Chief Executive Officer Compensation, 20 Journal of Labor Economics S138-S175 (2002).

Your privacy, your choice

We use essential cookies to make sure the site can function. We, and our 93 **partners**, also use optional cookies and similar technologies for advertising, personalisation of content, usage analysis, and social media.

By accepting optional cookies, you consent to allowing us and our partners to store and access personal data on your device, such as browsing behaviour and unique identifiers. Some third parties are outside of the European Economic Area, with varying standards of data protection. See our **privacy policy** for more information on the use of your personal data. Your consent choices apply to nature.com and applicable subdomains.

You can find further information, and change your preferences via 'Manage preferences'. You can also change your preferences or withdraw consent at any time via 'Your privacy choices', found in the footer of every page.

We use cookies and similar technologies for the following purposes:

Store and/or access information on a device

Personalised advertising and content, advertising and content measurement, audience research and services development

[Accept all cookies](#)

[Reject optional cookies](#)

[Manage preferences](#)

Costs and Ownership Structure, 3 Journal of Financial Economics 305–360 (1976).

[Article](#) [Google Scholar](#)

60 GRAHAM/ TUCKER, *supra* note 18.

[Article](#) [Google Scholar](#)

61 See JENSEN, Agency Costs of Free Cash Flow, Corporate Finance, and Takeovers, 76 American Economic Review Papers and Proceedings 323–329 (1986).

[Google Scholar](#)

Your privacy, your choice

We use essential cookies to make sure the site can function. We, and our 93 **partners**, also use optional cookies and similar technologies for advertising, personalisation of content, usage analysis, and social media.

By accepting optional cookies, you consent to allowing us and our partners to store and access personal data on your device, such as browsing behaviour and unique identifiers. Some third parties are outside of the European Economic Area, with varying standards of data protection. See our **privacy policy** for more information on the use of your personal data. Your consent choices apply to nature.com and applicable subdomains.

You can find further information, and change your preferences via 'Manage preferences'. You can also change your preferences or withdraw consent at any time via 'Your privacy choices', found in the footer of every page.

We use cookies and similar technologies for the following purposes:

Store and/or access information on a device

Personalised advertising and content, advertising and content measurement, audience research and services development

[Accept all cookies](#)

[Reject optional cookies](#)

[Manage preferences](#)

66 BROWN/ LIANG/ WEISBENNER, Executive Financial Incentives and Payout Policy: Evidence from the 2003 Dividend Tax Cut, 62 Journal of Finance 1936–1965 (2007).

[Article](#) [Google Scholar](#)

67 BANKMAN, The Structure of Silicon Valley Startups, 41 UCLA Law Review 1737–1768 (1994).

[Google Scholar](#)

68 GILSON/ SCHIZER, Understanding Venture Capital Structure: A Tax Explanation for Convertible Preferred Stock, 116 Harvard Law Review 874

Your privacy, your choice

We use essential cookies to make sure the site can function. We, and our 93 **partners**, also use optional cookies and similar technologies for advertising, personalisation of content, usage analysis, and social media.

By accepting optional cookies, you consent to allowing us and our partners to store and access personal data on your device, such as browsing behaviour and unique identifiers. Some third parties are outside of the European Economic Area, with varying standards of data protection. See our **privacy policy** for more information on the use of your personal data. Your consent choices apply to nature.com and applicable subdomains.

You can find further information, and change your preferences via 'Manage preferences'. You can also change your preferences or withdraw consent at any time via 'Your privacy choices', found in the footer of every page.

We use cookies and similar technologies for the following purposes:

Store and/or access information on a device

Personalised advertising and content, advertising and content measurement, audience research and services development

[Accept all cookies](#)

[Reject optional cookies](#)

[Manage preferences](#)

Scale? 60 Journal of Finance 757–782 (2005).

[Article](#) [Google Scholar](#)

73 SHLEIFER/ VISHNY, Stock Market Driven Acquisitions, 70 Journal of Financial Economics 295–311 (2003).

[Article](#) [Google Scholar](#)

74 GILSON/ SCHOLLES/ WOLFSON, Taxation and the Dynamics of Corporate Control: The Uncertain Case for Tax Motivated Acquisitions, in: COFFEE/LOWENSTEIN/ROSE-ACKERMANN (eds.), Knights, Raiders, and Targets: The Impact of the Hostile Takeover, 271–299 (1988).

[Google Scholar](#)

Your privacy, your choice

We use essential cookies to make sure the site can function. We, and our 93 **partners**, also use optional cookies and similar technologies for advertising, personalisation of content, usage analysis, and social media.

By accepting optional cookies, you consent to allowing us and our partners to store and access personal data on your device, such as browsing behaviour and unique identifiers. Some third parties are outside of the European Economic Area, with varying standards of data protection. See our **privacy policy** for more information on the use of your personal data. Your consent choices apply to nature.com and applicable subdomains.

You can find further information, and change your preferences via 'Manage preferences'. You can also change your preferences or withdraw consent at any time via 'Your privacy choices', found in the footer of every page.

We use cookies and similar technologies for the following purposes:

Store and/or access information on a device

Personalised advertising and content, advertising and content measurement, audience research and services development

[Accept all cookies](#)

[Reject optional cookies](#)

[Manage preferences](#)

Copyright information

© 2008 Springer-Verlag Berlin Heidelberg

About this paper

Cite this paper

Desai, M.A., Dharmapala, D. (2008). Tax and Corporate Governance: An Economic Approach. In: Schön, W. (eds) Tax and Corporate Governance. MPI Studies on Intellectual Property, Competition and Tax Law, vol 3. Springer, Berlin, Heidelberg. https://doi.org/10.1007/978-3-540-77276-7_3

Your privacy, your choice

We use essential cookies to make sure the site can function. We, and our 93 **[partners](#)**, also use optional cookies and similar technologies for advertising, personalisation of content, usage analysis, and social media.

By accepting optional cookies, you consent to allowing us and our partners to store and access personal data on your device, such as browsing behaviour and unique identifiers. Some third parties are outside of the European Economic Area, with varying standards of data protection. See our **[privacy policy](#)** for more information on the use of your personal data. Your consent choices apply to nature.com and applicable subdomains.

You can find further information, and change your preferences via 'Manage preferences'. You can also change your preferences or withdraw consent at any time via 'Your privacy choices', found in the footer of every page.

We use cookies and similar technologies for the following purposes:

Store and/or access information on a device

Personalised advertising and content, advertising and content measurement, audience research and services development

[Accept all cookies](#)

[Reject optional cookies](#)

[Manage preferences](#)

Navigation

Find a journal

Publish with us

Track your research

Your privacy, your choice

We use essential cookies to make sure the site can function. We, and our 93 **partners**, also use optional cookies and similar technologies for advertising, personalisation of content, usage analysis, and social media.

By accepting optional cookies, you consent to allowing us and our partners to store and access personal data on your device, such as browsing behaviour and unique identifiers. Some third parties are outside of the European Economic Area, with varying standards of data protection. See our **privacy policy** for more information on the use of your personal data. Your consent choices apply to nature.com and applicable subdomains.

You can find further information, and change your preferences via 'Manage preferences'. You can also change your preferences or withdraw consent at any time via 'Your privacy choices', found in the footer of every page.

We use cookies and similar technologies for the following purposes:

Store and/or access information on a device

Personalised advertising and content, advertising and content measurement, audience research and services development

Accept all cookies

Reject optional cookies

Manage preferences