

Long-Run Corporate Tax Avoidance

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We develop and describe a new measure of long-run corporate tax avoidance that is based on the ability to pay a low amount of cash taxes per dollar of pre-tax earnings over long time periods. We label this measure the “long-run cash effective tax rate.” We use the long-run cash effective tax rate to examine (1) the extent to which some firms are able to avoid taxes over periods as long as ten years, and (2) how predictive one-year tax rates are for long-run tax avoidance. In our sample of 2,077 firms, we find there is considerable cross-sectional variation in tax avoidance. For example, approximately one-fourth of our sample firms are able to maintain long-run cash effective tax rates below 20 percent, compared to a sample mean tax rate of approximately 30 percent. We also find that annual cash effective tax rates are not very good predictors of long-run cash effective tax rates and, thus, are not accurate proxies for long-run tax avoidance. While there is some evidence of persistence in annual cash effective tax rates, the persistence is asymmetric. Low annual cash effective tax rates are more persistent than are high annual cash effective tax rates. An initial examination of characteristics of firms successful at keeping their cash effective tax rates low over long periods shows that they are well spread across industries but with some clustering.

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