Financial Derivatives in Corporate Tax Avoidance: A Conceptual Perspective 🛒

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ABSTRACT

Financial derivatives play an increasingly common role in corporate tax avoidance. This paper takes a descriptive approach to answer the fundamental, yet underexplored, questions of why derivatives are useful for corporate tax avoidance and how they fulfill this objective. To evaluate *why,* I develop and discuss a simple framework of research, practical issues, and anecdotes about derivatives-based tax avoidance. I then provide unique insight into *how* derivatives reduce taxes by discussing the complex transaction-level detail of two derivatives-based tax-planning strategies. Finally, I identify potential issues that might be addressed in future research. Overall, by discussing the concepts and mechanics of derivatives-based tax avoidance, this study serves as a prologue to extant and future research on the topic.

JEL Classifications: G32, H25, M40

Keywords: **financial instruments**, **derivatives**, **tax avoidance**, **tax shelter**

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