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Corporate Tax Avoidance and Firm Value

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Abstract

Do corporate tax avoidance activities advance shareholder interests? This paper tests alternative theories of corporate tax avoidance using unexplained differences between income reported to capital markets and to tax authorities. OLS estimates indicate that the effect of tax avoidance on firm value is a function of firm governance, as predicted by an agency perspective on corporate tax avoidance. Instrumental variables estimates based on exogenous changes in tax regulations yield larger overall effects and reinforce the basic result, as do several robustness checks. The results suggest that the simple view of corporate tax avoidance as a transfer of resources from the state to shareholders is incomplete given the agency problems characterizing shareholder-manager relations.

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