

Accounting Research Workshop (ARW) – Winter Term 2017/18

Speaker: Petro Lisowsky

University: University of Illinois at Urbana-Champaign

Research: Domestic and International Corporate Tax Compliance and Policy; Financial Reporting of Corporate Tax Uncertainty; Financial Reporting and Audit Choices of Private Companies

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Topic: Predation and Taxes

Abstract: We examine how taxes affect product market outcomes by studying whether a tax cut that selectively benefits some firms is related to the economic performance of their competitors that might not directly benefit from the tax cut. Using the repatriation tax holiday under the American Jobs Creation Act of 2004 (AJCA) as our setting, we find that the temporary decrease in the repatriation tax burden for repatriating firms has a negative economic effect on the performance of their product market competitors. We estimate that the cash flow of competitor firms declines by 0.1% of total assets for an average increase in repatriation amounts by repatriating firms. Moreover, consistent with the theory of predation in Bolton and Scharfstein (1990), the effects of firms' repatriation amounts on the economic performance of competitors are stronger when competitors face financing constraints. Our results imply that when tax cuts benefit only some firms (e.g., repatriating firms), there are negative economic effects on their competitors. Collectively, we identify a tax channel through which predation shapes competition.



We thank Professor Lisowsky for the great opportunity to learn more about the effects of selective tax cuts. We wish him all the best and much success with the paper!