

Tax Incidence and Tax Avoidance

Scott D. Dyreng

Martin Jacob

Xu Jiang

Maximilian A. Müller*

This draft: July 2018

ABSTRACT

Economists broadly agree that the economic burden of corporate taxes is not entirely borne by shareholders, but also borne in part by workers or consumers. We theoretically examine corporate tax avoidance in a setting where shareholders do not bear the entire economic burden of the corporate tax. We show that the relation between corporate tax avoidance and the share of the tax burden borne by shareholders is ambiguous, but we derive several testable predictions and their conditions. Using empirical analyses, we find that firms whose shareholders bear less of the economic burden of corporate income taxes engage in less tax avoidance than other firms, and that the results are strongest under conditions predicted by our model. Our findings suggest that maximizing after-tax profits might entail less tax avoidance if shareholders do not entirely bear the economic burden of the corporate tax.

Keywords: Tax avoidance, tax burden, tax incidence

JEL classification: H20, H25

* Dyreng is at Duke University (scott.dyreng@duke.edu), Jacob is at WHU – Otto Beisheim School of Management (martin.jacob@whu.edu), Jiang is at Duke University (xu.jiang@duke.edu), and Müller is at WHU – Otto Beisheim School of Management (maximilian.mueller@whu.edu). We thank Kathleen Andries, Kay Blaufus, Nadja Dwenger, Sebastian Eichfelder, John Gallemore, Shane Heitzman, Jochen Hundsdoerfer, Ken Klassen, Ed Maydew, Roni Michaely, Andreas Peichl, Leslie Robinson (discussant), Richard Sansing, Nemit Shroff, and seminar and conference participants at Duke University, London Business School, Saïd Business School of the University of Oxford, University of Mannheim, Université de Neuchâtel, University of Oulu, University of Waterloo, WHU – Otto Beisheim School of Management, and the 7th Conference on Current Research in Taxation in Vienna for many helpful comments. We are indebted to John M. Connor, Purdue University, Indiana for sharing his Private International Cartels spreadsheet.