

BAA 6002
Capital Market Tax Research
2022/2023

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Course Outline

This seminar is applied. We focus on accounting, finance and economics research in taxation. We do not deliberately follow a specific order or theory though theories are all reflected in the papers that we cover and I encourage students to go over and understand them. Some of the topics overlap areas where I have gained a certain level of experience that I can share with students. While my focus is narrow and perhaps biased, I hope that this narrow focus allows me to discuss intuitions and especially research methodologies better and more in detail.

It is important that both you and I learn something from this course. I hope that this course can help us generate research ideas and projects. Whenever we read or discuss a paper, it is important to bear in mind the following issues:

- 1) What are the unique aspects of the paper that make it publishable?
- 2) What are the incremental contributions made by the paper?
- 3) What potential problems does the paper have?
- 4) What more can be done to extend the paper and can these extensions make incremental contributions to the literature?
- 5) What inspirations can you draw from the paper and can they lead to a new research idea?
- 6) What are the unique institutional settings in China or more broadly in Asia that can make a China- or Asia-based study valuable?

Prerequisites

Basic understanding of econometrics and software such as SAS, STATA, etc.

Class Format

Student Presentations

All papers to be presented are empirical papers in accounting and finance. For each topic, I also have a list of other papers that I believe are useful references. When making a presentation, the presenting student needs to pay attention to the following issues, among other things:

Theory	Objectives
Setting	Design
Data	Econometrics
Interpretations/alternative interpretations	Conclusions
Contributions	Possibility for another study

Research Project

I require students (year 2 or above) to practice doing empirical analyses and start writing a research paper. Concerning this exercise, I offer three options: 1) If the student already has a working paper and wants to use this opportunity to substantially improve it, he/she can work on that paper. 2) If the student does not have a working paper but has a valid idea that he/she wishes to develop into a working paper, he/she can start that paper. 3) Otherwise, I will require the student to replicate an already published study. While the choice of one of the above research options will not affect the student's final grades, my preference is that the student takes one of the first two options and work on his/her own ideas.

Topics

1. Good Old Dividend

- Ayers, B. C., C. B. Cloyd, and J. R. Robinson, 2002. The effect of shareholder-level dividend taxes and share prices: Evidence from the Revenue Reconciliation Act of 1993. *Accounting Review* 77 (4): 933-947.
- Brennan, M. 1970. Taxes, market valuation, and corporate financial policy. *National Tax Journal* 23 (1970): 417-27.
- Chetty, R., and E. Saez. 2010. Dividend and corporate taxation in an agency model of the firm. *American Economic Journal: Economic Policy*: 1-31.
- Dhaliwal, D., L. Krull, O. Z. Li, and W. Moser, 2005. Dividend taxes and implied cost of equity capital. *Journal of Accounting Research* 43 (5): 675-708.
- Dhaliwal, D., O. Z. Li, and Trezevant, 2003. Is a dividend tax penalty incorporated into the return on a firm's common stock? *Journal of Accounting and Economics* 35 (2): 155-178.
- Jacob, M., and R. Michaely. 2017. Taxation and dividend policy: The muting effect of agency issues and shareholder conflicts. *Review of Financial Studies* 30 (9): 3176-3222.

- Kenchington, D. G. 2019. Does a change in dividend tax rates in the U.S. affect equity prices of non-U.S. stocks? *Review of Accounting Studies* 24 (2): 593-628.
- Miller, M., and F. Modigliani. 1961. Dividend policy, growth, and the valuation of shares. *Journal of Business* 34 (1961): 411–33.
- Miller, M. and K. Rock. Dividend policy under asymmetric information. *Journal of Finance* 40 (1985): 1031–51.
- Miller, M., and M. Scholes. 1982. Dividends and taxes: Some empirical evidence. *Journal of Political Economy* 90 (1982): 1118–41.
- Sialm, C., 2009. Tax changes and asset pricing. *American Economic Review* 99 (4): 1356-1383.

2. Still Expanding Capital Structure

- DeAngelo, H., DeAngelo, L., and Whited, T. M., 2011. Capital structure dynamics and transitory debt. *Journal of Financial Economics* 99 (2): 235-261.
- Dhaliwal, D., S. Heitzman, and O. Z. Li, 2006. Taxes, leverage, and the cost of equity capital. *Journal of Accounting Research* 44 (4): 691-723.
- Faccio, M., and J. Xu. 2015. Taxes and capital structure. *Journal of Financial and Quantitative Analysis* 50 (3): 277-300.
- Graham, J. R., 1999. Do personal taxes affect corporate financing decisions? *Journal of Public Economics* 73 (2): 147-185.
- Graham, J. R., 2000. How big are the tax benefits of debt? *Journal of Finance* 55 (5): 1901-1941.
- Hebous, S., and M. Ruf. 2017. Evaluating the effects of ACE systems on multinational debt financing and investment. *Journal of Public Economics* 156:131-149.
- Heider, F., and A. Ljungqvist. 2015. As certain as debt and taxes: Estimating the tax sensitivity of leverage from state tax changes. *Journal of Financial Economics* 118 (3): 684-712.
- Miller, M.H., 1977. Debt and taxes. *Journal of Finance* 32 (2): 261-275.
- Modigliani, F., and M.H. Miller, 1958. The cost of capital, corporation finance and the theory of investment. *American Economic Review* 48 (3): 261-297.
- Modigliani, F., and M.H. Miller, 1963. Corporate income taxes and the cost of capital: A correction. *American Economic Review* 53 (3): 433-443.
- Schandlbauer, A., 2017. How do financial institutions react to a tax increase? *Journal of Financial Intermediation* 30: 86-106.
- Schepens, G. 2016. Taxes and bank capital structure. *Journal of Financial Economics* 120 (3): 585-600.

3. Treasure Trove Capital Gains Tax

- Ayers, B. C., O. Z. Li, and J. R. Robinson. 2008. Tax induced trading around the Taxpayer Relief Act of 1997. *Journal of the American Taxation Association* 30 (1): 77-100.
- Blouin, J., J. S. Raedy, and D.A. Shackelford, 2003, Capital gains taxes and equity trading: empirical evidence. *Journal of Accounting Research* 41 (4): 611-651.
- Dai, Z., E. Maydew, D. A. Shackelford, and H. H. Zhang, 2008. Capital gains taxes and asset prices: Capitalization or lock-in?, *Journal of Finance* 63 (2): 709-742.

- Dimmock, S. G., W. C. Gerken, Z. Ivković, and S. J. Weisbenner. 2018. Capital gains lock-in and governance choices. *Journal of Financial Economics* 127 (1): 113-135.
- Guenther, D. A., and Willenborg, M., 1999. Capital gains tax rates and the cost of capital for small business: evidence from the IPO market. *Journal of Financial Economics* 53 (3): 385-408.
- Lang, M. H., and Shackelford, D. A., 2000. Capitalization of capital gains taxes: Evidence from stock price reactions to the 1997 rate reduction. *Journal of Public Economics* 76 (1): 69-85.
- Li, O. Z., Y. Lin, and J. Robinson. 2016. The effect of capital gain taxes on the initial pricing and underpricing of IPOs. *Journal of Accounting and Economics* 61 (2-3): 465-485.
- Reese, W. A., 1998. Capital gains taxation and stock market activity: Evidence from IPOs. *Journal of Finance* 53 (5): 1799-1819.
- Shackelford, D. A., and R. E. Verrecchia. 2002. Intertemporal tax discontinuities. *Journal of Accounting Research* 40 (1): 205-222.
- Veldkamp, L.L. 2006. Information markets and the comovement of asset prices. *Review of Economic Studies* 73: 823-845
- Yost, B. P. 2017. Locked-in: The effect of CEOs' capital gains taxes on corporate risk-taking. *Accounting Review* 93 (5): 325-358.

4. Ex-Dividend that Launched My Career

- Dhaliwal, D., and O. Z. Li, 2006. Investor tax heterogeneity and ex-dividend day trading volume. *Journal of Finance* 61 (1): 463-490.
- Elton, E. J., and M. J. Gruber, 1970. Marginal stockholder tax rates and the clientele effect. *Review of Economics and Statistics* 52 (1): 68-74.
- Harris, L. E., S. M. Hartzmark, and D. H. Solomon. 2015. Juicing the dividend yield: Mutual funds and the demand for dividends. *Journal of Financial Economics* 116 (3): 433-451.
- Henry, T. R., and J. L. Koski. 2017. Ex-dividend profitability and institutional trading skill. *Journal of Finance* 72 (1): 461-494.
- Kalay, A., 1982. The ex-dividend day behavior of stock prices: A reexamination of the clientele effect. *Journal of Finance* 37 (4): 1059-1070.
- Li, O. Z. 2010. Tax-induced dividend capturing. *Journal of Business Finance and Accounting* 37 (7-8): 866-904.
- Michaely, R., and J. Vila, 1995. Investors' heterogeneity, prices, and volume around the ex-dividend day. *Journal of Financial and Quantitative Analysis* 30 (2): 171-198.
- Rantapuska, E. 2008. Ex-dividend day trading: Who, how, and why? Evidence from the Finnish market. *Journal of Financial Economics* 88 (2): 355-374.

5. Tax Avoidance, Usually Bad Research You Should Run Away From

- Armstrong, C. S., S. Glaeser, and J. D. Kepler. 2019. Strategic reactions in corporate tax planning. *Journal of Accounting and Economics* 68 (1): 1-26.
- Bird, A., A. Edwards, and T. G. Ruchti. 2018. Taxes and peer effects. *Accounting Review* 93 (5): 97-117.

- Cen, L., E. L. Maydew, L. Zhang, and L. Zuo. 2017. Customer–supplier relationships and corporate tax avoidance. *Journal of Financial Economics* 123 (2): 377-394.
- Chen, S., Chen, X., Cheng, Q., Shevlin, T., 2010. Are family firms more aggressive than non-family firms? *Journal of Financial Economic* 95 (1): 41–61.
- Chyz, J., W. Leung, O. Z. Li, O. Rui. 2013. Labor unions and tax aggressiveness. *Journal of Financial Economics* 108 (3): 675-698.
- Desai, M., Dharmapala, D., 2006. Corporate tax avoidance and high-powered incentives. *Journal of Financial Economics* 79 (1): 145–179.
- Gallemore, J., and E. Labro. 2015. The importance of the internal information environment for tax avoidance. *Journal of Accounting and Economics* 60 (1): 149-167.
- Hu, X, O. Z. Li, Y. Li and S. Pei. 2020. Positive externality of the American Jobs Creation Act of 2004. *Journal Financial and Quantitative Analysis*.
- Wilson, R., 2009. An examination of corporate tax shelter participants. *Accounting Review* 84 (3): 969–999.

6. Tax Incidence, Decadent Concept

- Doyle, J. J., and K. Samphantharak. 2008. \$2.00 gas! Studying the effects of a gas tax moratorium. *Journal of Public Economics* 92: 869-884.
- Fuest, C., Peichl, A., and Siegloch, S., 2018. Do higher corporate taxes reduce wages? Micro evidence from Germany. *American Economic Review* 108 (2): 393-418.
- Gruber, J. 1994. The incidence of mandated maternity benefits. *American Economic Review* 84 (3): 622-641.
- Harberger, A. C. 1962. The incidence of the corporation income tax. *Journal of Political Economy* 70 (3): 215-240.
- Kotlikoff, L. J., and L. H. Summers. 1987. Tax incidence. *Handbook of Public Economics* II: 1043-1092.
- Suárez Serrato, J. C., and Zidar, O., 2016. Who benefits from state corporate tax cuts? A local labor markets approach with heterogeneous firms. *American Economic Review* 106 (9): 2582-2624.
- Weyl, E. G., and M. Fabinger. 2013. Pass-through as an economic tool: Principles of incidence under imperfect competition. *Journal of Political Economy* 121 (3): 528-583.
- Ya, K., O. Z. Li, and Y. Lin. 2021. Tax incidence in loan pricing. *Journal of Accounting and Economics* 72: 1-27.

7. Tax in China Setting, the Good, the Bad, and the Ugly

- Bradshaw, M., G. Liao, and M. Ma. 2019. Agency costs and tax planning when the government is a major shareholder. *Journal of Accounting and Economics* 67 (2-3): 255-277.
- Chandra, P. and C. Long. 2013. VAT rebates and export performance in China: Firm-level evidence. *Journal of Public Economics* 102: 13-22.
- Chen, Z., Z. Liu, J. C. Suarez Serrato, and D. Y. Xu. 2019. Notching R&D investment with corporate income tax cuts in China. *Working paper*.
- Deng, Y., X. Liu and S. Wei. 2018. One fundamental and two taxes: When does a Tobin tax reduce financial price volatility? *Journal of Financial Economics* 130 (3): 663-692.

- Li, O. Z., H. Liu, and C. Ni. 2017. Controlling shareholders' incentive and corporate tax avoidance: A natural experiment in China. *Journal of Business Finance and Accounting* 44 (5-6): 697-727.
- Li, O. Z., H. Liu, and C. Ni. 2021. Dividend taxes, investor horizon and idiosyncratic volatility. *Accounting Review*, forthcoming.
- Li, O. Z., H. Liu, C. Ni, and K. Ye. 2017. Individual investors' dividend taxes and corporate payout policies. *Journal of Financial and Quantitative Analysis* 52 (3): 963-990.
- Liu, Y., and J. Mao. 2019. How do tax incentives affect investment and productivity? Firm-level evidence from China. *American Economic Journal: Economic Policy* 11 (3): 261-91.
- Tang, T., P. L. L. Mo and K. H. Chan. 2017. Tax collector or tax avoider? An Investigation of Intergovernmental Agency Conflicts. *Accounting Review* 92 (2): 247-270.

8. Lurking Quiet Types That Can Help You Soar over Stratosphere

- Chyz, J.A., and O.Z. Li, 2012, Do tax sensitive investors liquidate appreciated shares after a capital gains tax rate reduction? *National Tax Journal* 65: 595-628.
- Giroud, X., and Rauh, J., 2019. State taxation and the reallocation of business activity: Evidence from establishment-level data. *Journal of Political Economy* 127 (3): 1262-1316.
- Li, O. Z., and D. P. Weber. 2010. Taxes and ex-dividend day returns: Evidence from REITs *National Tax Journal* 62 (4): 657-676.
- Yagan, D. 2015. Capital tax reform and the real economy: The effects of the 2003 dividend tax cut. *American Economic Review* 105 (12): 3531-3563.
- Li, O. Z., Y. Lin, and K. Zhang. 2022. The 2003 dividend tax cut and bank credit supply. Working paper.

9. Leaks that Are Shunned by Journals

- Huesecken, B., and M. Overesch. 2019. Tax avoidance through advance tax rulings – Evidence from the LuxLeaks firms. *FinanzArchiv: Public Finance Analysis* 75 (4): 380-412.
- Huesecken, B., M. Overesch, and A. Tassius. 2018. Effects of disclosing tax avoidance: Capital market reaction to LuxLeaks. *Working Paper*. University of Cologne.
- Li, O. Z., S. J. Lusch, and F. Murphy. 2022. Tax planning through advanced tax rulings – An exploratory analysis using the Luxembourg tax leaks. *Working paper*.
- Li, O. Z., and G. Ma. 2019. Offshore leaks, taxes and capital structure. *Working paper*.
- Nesbitt, W., E. Outslay, and A. Persson. 2017. The relation between tax risk and firm value: Evidence from the Luxembourg tax leaks. *Working Paper*.
- O'Donovan, J., H. F. Wagner, and S. Zeume. 2019. The value of offshore secrets – Evidence from the Panama Papers. *Review of Financial Studies* 32 (11): 4117–4155.

10. Cute Little Taxes

- Chetty, R., A. Looney, and K. Kroft. 2009. Saliency and taxation: Theory and Evidence. *American Economic Review* 99 (4): 1145-1177.

- Chetty, R. and E. Saez. 2013. Teaching the tax code: Earnings responses to an experiment with EITC recipients. *American Economic Journal: Applied Economics* 5 (1): 1-31.
- Li, O. Z., Y. Wang, and L. Wang. 2015. Do employers respond to tax incentives? Evidence from the hiring of people with disabilities. *Working paper*.

11. Sharing Risk with the Government But No Tax Should Dominate Tax, Right?

- Dai, Z., D. A. Shackelford, and H. H. Zhang. Capital gains taxes and stock return volatility. *Journal of the American Taxation Association* 35 (2): 1-31.
- Hail, L., S. Sikes, and C. Wang. 2017. Cross-country evidence on the relation between capital gains taxes, risk, and expected returns. *Journal of Public Economics* 151 (1): 56-73.
- Langenmayr, D. and R. Lester. 2018. Taxation and Corporate Risk-Taking. *Accounting Review* 93 (3): 237-266.
- Ljungqvist, A., Zhang, L., and Zuo, L., 2017. Sharing risk with the government: How taxes affect corporate risk taking. *Journal of Accounting Research* 55 (3): 669-707.

12. Tax Havens and No Heavens

- Alstadsætera, A., N. Johannesenb, and G. Zucman. 2018. Who owns the wealth in tax havens? Macro evidence and implications for global inequality. *Journal of Public Economics* 162: 89-100.
- Bennedsen, M., and S. Zeume. 2018. Corporate tax havens and transparency. *Review of Financial Studies* 31 (4): 1221-1264.
- Chernykh, L., and S. Mityakov. 2017. Offshore schemes and tax evasion: The role of banks. *Journal of Financial Economics* 126: 516-542.
- Davies, R. B., Martin, J., Parenti, M., and Toubal, F., 2018. Knocking on tax haven's door: Multinational firms and transfer pricing. *Review of Economics and Statistics* 100 (1): 120-134.
- Dharmapala, D., and J. R. Hines. 2009. Which countries become tax havens? *Journal of Public Economics* 93 (9-10): 1058-1068.