

Let the Stock Market Speak: What Event Studies Tell Us about the Role and Relevance of Taxes for Firms, Investors and the Economy

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Abstract

In the last decade, the pace at which the international corporate taxation landscape evolves has increased dramatically. These rapid developments pose a challenge to tax archival data research as evaluating the effects of the individual changes on businesses and the economy takes time. Furthermore, overlapping developments make it difficult to disentangle the specific effects based on annual data. This is where event studies come into action as an ad-hoc evaluation vehicle.

Event studies provide a valuable opportunity to obtain an initial evaluation of new information on upcoming tax initiatives by the market and thus an insight into investors' assessment of the impact of these events on the expected profitability of companies and, indirectly, on the economy. In this study, we take the opportunity to compile a literature review that summarizes the multitude of existing event studies in the field of corporate taxation in a structured manner in order to derive a comprehensive picture of the market's valuation of tax-related events and the relevance of taxes for investors, companies and the economy.