

The real effects of interest limitation rules: Evidence from M&A investments

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Abstract

We examine the impact of rules limiting the tax deductibility of interest expenses on mergers and acquisitions (M&A). These rules aim to curb excessive debt financing and debt-shifting incentives. However, debt is crucial for cash-financed deals. Using data from 43 countries, we find that interest expense limitation rules are associated with reduced M&A activity. Transactions that occur after these rules take effect exhibit less positive market reactions, acquirers realize lower returns, and target selection changes.