Qualitative information disclosure and tax aggressiveness: Is mandating additional information disclosure useful?

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Abstract

We investigate the relationship between disclosure of qualitative tax information and propensity to engage in aggressive tax planning. We create a novel measure of qualitative tax disclosure using machine learning algorithms. We find that firms that choose to voluntarily disclose more information, tend to be more tax aggressive. This suggests that disclosure is used as a tool to increase the transparency of complex tax planning strategies.

We then investigate a causal relationship between mandating the disclosure of qualitative tax information and tax aggressiveness. Using a UK reform as an exogenous shock that affected a group of firms, we show that imposing additional disclosure burdens on firms does not lead to a reduction in aggressive tax planning, unless you are a B2C firm. Instead, we find that firms that were tax aggressive before the reform reduce their effective tax rates more than others.