Narrative Disclosure and Corporate Tax Planning

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Abstract

This paper examines the association between narrative disclosure and future corporate tax planning. Using a large panel of U.S. firms, coupled with qualitative (i.e., language) and quantitative information (i.e., firm fundamentals) from the Form 10-K, we find that qualitative information is incrementally useful in predicting future corporate tax outcomes relative to quantitative information used by most of prior research. We then use our new qualitative proxies to compute out-of-sample estimates of firms' future tax outcomes. Overall, our findings suggest that narrative disclosure provides important information about a firm's tax planning strategies and is a reliable source that investors incorporate in their decisions.