

Competitive Effects of Rival Firms' Negative Tax News

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Abstract: We examine the competitive effects of firms' publicly disclosed negative tax news. Survey evidence indicates that corporate managers seek to avoid negative tax news due to expectations of negative stakeholder perceptions, and that managers are most concerned about customer stakeholders. Using transaction-level retail consumer purchases data, we find that following a severe negative tax news story an affected firm's sales decrease by 8.3 percent while unaffected competitor firms' sales increase by 8.2 percent. These findings are consistent with consumers substituting *away from* affected firms' brands and *towards* competitor firms' brands. Heterogeneity analyses reveal that these relations are stronger when there is greater consumer attention to the affected firm and greater firm-brand name similarity, consistent with saliency being a necessary condition for retail consumer responses. We also find that results are concentrated in product modules classified as discretionary and when the affected firm is not a dominant firm, consistent with retail consumers being more responsive to substitution when switching frictions are lower. Greater substitution occurs in counties with higher educational attainment, higher income levels, and Democratic-affiliated consumers. We provide the first evidence on the competitive effects of rival firms' negative tax-related news incidents and contribute to the tax news risk literature.