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Public Tax-Return Disclosure

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Abstract. We investigate the consequences of public disclosure of information from company income tax returns filed in Australia. Supporters of more disclosure argue that increased transparency will improve tax compliance, while opponents argue that it will divulge sensitive information that is, in many cases, misunderstood. Our results show that in Australia large private companies experienced some consumer backlash and, perhaps partly in anticipation, some acted to avoid disclosure. We detect a small increase (decrease) in tax payments for private (public) firms subject to disclosure suggesting differential costs of disclosure across firms. Finally, we find that investors react negatively to anticipated and actual disclosure of tax information, most likely due to anticipated policy backlash rather than consumer backlash or the revelation of negative information about cash flows. These findings are important for both managers and policy makers, as the trend towards increased tax disclosure continues to rise globally.

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