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ACCEPTED MANUSCRIPT

Can Corporate Diversification Induce More Tax Avoidance Practices? Evidence from the U.S. Companies

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Highlights

- This study investigates whether there is a tax avoidance difference between stand-alone companies and diversified companies.
- Diversified U.S. companies persistently engage in less tax avoidance practices than stand-alone U.S. companies.
- Lower levels of tax avoidance in diversified companies are not primarily altered by corporate diversification.

ABSTRACT: This study investigates whether there is a tax avoidance difference between stand-alone firms and diversified firms. Stand-alone firms are defined as firms that always report only one business segment and diversified firms as firms that report more than one business segment. I show that diversified U.S. firms persistently engage in fewer tax avoidance practices than stand-alone U.S. firms. This finding cannot be explained by firm characteristics and ownership structure and is insensitive to alternative testing methods. I interpret the main result as indicating that lower levels of tax avoidance in diversified firms are not primarily altered by corporate diversification and tax effects are not of first-order importance in corporate diversification.

JEL Classification: G31, M14, H26

Keywords: Corporate Diversification, Tax Avoidance, Transfer Pricing, Ownership Structure

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