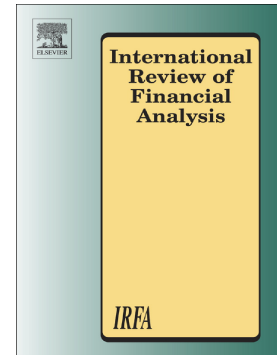


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# Does Tax Avoidance Behavior Affect Bank Loan Contracts for Chinese Listed Firms?

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## Abstract

This paper examines the effect of corporate tax avoidance on bank debt contracts. Using the data of Chinese listed firms, we find that tax avoidance is positively associated with bank loans and loan costs, but negatively correlated with loan terms, suggesting that Chinese banks have raised financing costs for tax-avoiding companies. We also find that tax avoidance behavior increases the likelihood of loan defaults and collateral requirement for bank loans. The effect of tax avoidance on bank loan contracts decreases when the transparency of corporate financial information increases. These findings show that the potential agency cost of tax avoidance is an important factor that affects bank loan covenants, which also supports the theory of the principal-agent framework of tax avoidance. The results of this paper further explain the economic consequences of corporate tax avoidance and the credit risk dealings of commercial banks in China.

*JEL Classification:* G21

*Keywords:* Tax avoidance, Bank loans, loan costs

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