

Do consumers and investors care about corporate tax avoidance? Understanding the role of (social) media

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Abstract

Recent years have seen a growing public interest in the issue of corporate tax avoidance. A common theme in the public discussion is the notion that large multinational firms do not pay their “fair share”. While tax avoidance may have a positive direct effect on firm performance due to a lower tax burden, it can also produce (non-tax) costs, e.g., in the form of reputational risks. In this study, we focus on the perspective of the investor, who must weigh these costs against the benefits to form her expectations about future firm performance. We employ a stock returns response model to assess the information content of changes in tone and intensity of media attention to tax related issues both in newspapers and on social media. We find that changes in the volume of newspaper attention positively affects abnormal stock returns, while changes in the negativity of news reporting have a negative effect. Surprisingly, for social media attention, we do not find evidence for these effects.

Keywords: *media attention; tax avoidance; stock returns*

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