ABSTRACT

This dissertation comprises three essays that examine three distinct topics within the broad spectrum of corporate tax avoidance. The first essay examines the trends and determinants of corporate effective tax rates in India during the past 21 years. It also tests the widespread belief that public firms are more likely to engage in non-conforming tax avoidance than private firms. It further explores the types of transactions contributing to the increasing trend in effective tax rates. After controlling for changes in firm characteristics, macroeconomic factors, and tax policy changes, the findings show that ETRs increased by 0.37% per year during the sample period. This finding suggests that the Indian tax system successfully broadened its tax base by reducing the statutory tax rates, increasing minimum alternative tax rates, and enjoying the advantages of the large domestic market. Consistent with the capital market pressure[1] hypothesis, this study finds that the upward trend in effective tax rates is less pervasive among public firms in comparison to their private counterparts. It also shows that the permanent book-tax difference is the primary driver of the trend in effective tax rates for both private and public firms. The findings contribute to the recent debate about the trend in ETRs by undermining concerns regarding rising corporate tax avoidance and reinforcing the argument that improved tax efficiency and economies of agglomeration in countries with large domestic markets contribute to higher ETRs.

The second essay examines the efficiency of minimum alternative tax (MAT) by analyzing the tax management practices of MAT-affected firms. Studies on corporate responses to MAT based on the Tax Reforms Act (TRA) 1986 are confounded by the contemporaneous changes in tax components enacted as part of TRA 1986. This study addresses the endogeneity that comes from an uncontrolled confounding variable by exploiting the highest increase in MAT

[1] " If the firm faces a higher capital market pressure, managers may have more pressure to report higher earnings and meet earnings targets (Graham, J, 2008). Managers are more incentivized to be aggressive in tax planning in order to claim greater after-tax income."

rate of 5% in the financial year 2010 in India. This essay analyses conforming and non-conforming tax avoidance practices of MAT-affected firms using a difference-in-difference framework. MAT-affected firms manage non-conforming (conforming) tax avoidance downward (upward) in 2010 to reduce tax liability. I also observe a significant shift in non-conforming tax avoidance across years for MAT-affected firms. This study adds new evidence to the literature on book-tax conforming tax avoidance practices of MAT-affected firms. MAT creates a complicated tax planning environment and results in compliance costs for the firms and additional administrative costs for the government. The findings provide some insight to economists and policymakers on the cost and benefit of MAT policies before settling the proposals related to MAT.

The third essay examines the association between institutional block holdings of same-industry peer firms (common institutional ownership) and corporate tax avoidance. This association is important given the tremendous increase and growing activism of common institutional ownership in an institutional setting dominated by concentrated shareholding of promoters that influences the agency cost of tax avoidance. This study hypothesizes that common institutional ownership mitigates tax avoidance (i) by magnifying the monitoring efficiency of the institutions and (ii) by internalizing the negative "externality" of the firm's tax avoidance on its common-industry peers. Accordingly, I find a negative association between tax avoidance and common institutional ownership. This study also documents that the negative association is stronger among firms with high promoter ownership concentration, where principal-principal agency cost on tax avoidance is higher. Additional tests provide evidence that the negative association is stronger among the firms with higher analyst coverage, supporting the monitoring efficiency mechanism. Finally, this study shows that the reduction in tax avoidance of firms with common institutional ownership increases firm value, implying that shareholders view the role of common institutional investors in reducing tax avoidance positively. The

results of this study contribute to the recent debate on the cost and benefit of common institutional ownership by highlighting their role in deterring tax aggressiveness.

Overall, key findings of these three essays on tax management contribute to the understanding of tax management practices of corporates in an emerging economy, which has been largely overlooked in the literature.

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