Incoming CEO Power and Corporate Tax Avoidance

Pengyu Wu
Mississippi State University
Pw751@msstate.edu

March 2024

Abstract

Given the challenges firms face in discouraging manager misconduct, we analyze tax avoidance to understand the role of incoming powerful CEOs. Using a sample of firms with powerful new CEOs and a control sample of non-powerful new CEOs, we find evidence suggesting that powerful incoming CEOs influence the decision to manage taxes. Specifically, our analysis indicates that the presence of a powerful new CEO decreases the cash effective tax rate by 2 percentage points. We find more efficient tax management approaches after SOX when incoming CEOs hold larger power to influence corporate governance. Further, efficient tax management practices result in firms with incoming powerful CEOs having positive accounting and stock performance during the subsequent year. These findings clarify that tax avoidance serves as a contributing factor to the enhanced performance of powerful new CEOs, with reported earnings serving as a potential conduit through which these CEOs impact tax-related outcomes.

Keywords: tax avoidance; executive power; incentive compensation; monitoring; SOX
JEL Classification codes: G38; M41; M52

1. Introduction

In this paper, we explore the theory and practice of executive compensation by focusing on the tax avoidance of newly appointed CEOs. Executive contract design has been a central topic in agency theory research, which aims to align the interests of managers and shareholders through various governance mechanisms, such as compensation structures and monitoring. However, manager power can also enable executives to extract personal benefits by reducing effort and increasing their own compensation (Bebchuk and Fried, 2006). While prior studies, like those by Ali and Zhang (2015), have shown that incoming CEOs often overstate earnings in weak control environments to improve market perception of their abilities, the potential outcome for these earning manipulations on firms remains unexplored. Our study predicts that the heightened pressure from CEOs to overstate earnings during their early tenure is positively associated with tax avoidance, thereby affecting firms in many aspects.

Inflated earnings during CEOs' early years, driven by higher discretionary accruals, can lead to greater tax avoidance when earning is used as a benchmark, because the exacerbated earnings may not translate into increased tax outcomes like cash taxes paid or taxable income due to differences in financial accounting standards and tax regulations (Guenther, Krull, and Williams, 2021). Although weak governance structures might be selected as the second-best option for contracting, shareholders are more likely to suffer from tax avoidance when strong monitoring is unattainable (e.g., Bushman, 2009; Kim, Li and Zhang, 2011). For instance, in the Tyco and Enron cases around 2002, significant financial misconduct and misstatements involved manipulating tax payments under managerial discretion and compromising the integrity of financial reports by exploiting firm-specific knowledge of financial and tax systems, facilitated by manager entrenchment. (Desai, 2005). Hence, we contend that newly appointed CEOs' power is positively

correlated with tax avoidance and related outcomes on firms when they have greater motivation to prove to the board, largely due to increased earnings management practices during the early years of their tenure.

We investigate the impact of powerful new CEOs on tax avoidance in the United States from 1993 to 2019, using the methodology from Boumosleh and Cline (2022) to identify a group of incoming CEOs with considerable negotiating power prior to joining the firm in four dimensions. Our focus on CEOs stems from their immense power to choose tax-advantageous strategies and establish incentives for tax directors, irrespective of their expertise in taxation (Dyreng, Hanlon, and Maydew, 2010). Our study measures tax avoidance in three cash-effective tax rate variables (cash ETR) and three GAAP-effective tax rate variables (ETR). Additionally, we utilize buy-and-hold abnormal returns and net income over assets ratios to assess firm performance concerning these tax avoidance measures.

Our research findings uncover a positive correlation between the introduction of a powerful new CEO and tax avoidance. Specifically, our results show that the marginal effect of an increase in new CEO power from the lowest to the highest level reduces the firm's cash ETR by 2 percentage points, representing an 8% decrease relative to the average rate of 25%. Then, we delve into the mechanisms by which new CEOs exert influence to reduce corporate tax payments. Our investigation reveals several key trends: a decrease in total assets following the appointment of a powerful CEO, alongside reductions in capital expenditure and increases in earnings from unconsolidated subsidiaries. Our findings align with Ali and Zhang's (2015) discovery that discretionary accrual is more significant and discretionary expenses are less pronounced during CEOs' initial tenures. This outcome suggests that companies cutting back on investment also tend to save tax expenses. Moreover, a higher proportion of income from unconsolidated subsidiaries

is linked with increased tax avoidance, supporting our prediction that enhanced earnings management is more prevalent under the pressures faced by CEOs during the early stages of their tenure. Our univariate analyses then focus on changes in tax avoidance within firms with high or low tax rates before CEO transitions. Consistent with Chyz and Gaertner (2018), high-tax firms experience lower tax rates, while low-tax firms see higher rates across all power levels in a CEO turnover event. Furthermore, we notice that CEO power increases with tax avoidance in high-tax firms, whereas it decreases with tax avoidance in low-tax firms. To address any possible mean reversion influence, we compare firm-years with CEO turnover (the event group) to a control group of firm-years without such events and find that tax avoidance is more pronounced in higher tax brackets within the event group across our two tax avoidance measurements, while the difference in the decrease of tax avoidance in the low tax bracket between the two groups is insignificant for cash ETR measure. This comparison helps alleviate concerns about mean reversion in annual tax rates and indicates that the primary effect of incoming CEO power is to enhance tax avoidance in firms with high tax rates in the year before their turnover. Overall, we propose that greater new CEO power has a larger impact on shaping tax and other policies.

Next, we assess whether CFO directors contribute independently to tax avoidance after controlling new CEO power, given that taxes fall under the purview of CFOs and companies with CFOs on their boards tend to achieve better financial outcomes (Mobbs, 2018). First, we consider the scenario where CEOs predominately assign tax duties to CFOs to determine whether our main results are driven by a correlation between CEO and CFO power. Our analysis reveals that CFO influence significantly impacts cash ETR over extended timeframes. Subsequently, we investigate the CFO's role in either restraining or enabling CEOs' influence on tax avoidance strategies. However, similar to Chyz (2019), our findings do not indicate a clear pattern of CFOs acting as

checks or enablers in this regard. We interpret these outcomes as indicating that CEOs need CFOs for tax planning, yet CFO directors lack substantial capacity to magnify or counter CEOs' decisions in this domain.

Moreover, we examine the impact of SOX on the association between new CEO power and corporate tax avoidance. Contrary to the conventional belief that CEO power diminishes post-SOX for the enhanced monitoring, Cline and Boumosleh (2022) present evidence of increased influence from new CEO power on top management turnover after SOX, suggesting that SOX changes the focus of CEO contracts from board independence to other aspects of governance. Our analysis is consistent with the view that new CEO power is more influential on corporate policy post-SOX. Finally, we test whether the increase in tax avoidance under the new CEO power enhances stock returns and accounting performance. We have observed positive market and operating returns that are linked to tax avoidance strategies influenced by new CEO power. Overall, our results suggest incoming powerful CEOs enhance firm performance through tax avoidance in a one year-horizon.

Our findings add to the existing literature by exploring the intersection of factors influencing tax avoidance and the economic impacts of new CEO power. We address a key question that remains unresolved in the literature: Why do so many firms reduce their tax liabilities (Rego and Wilson, 2012)? Agency theory provides two perspectives on tax avoidance (Hanlon and Heitzman, 2010). One perspective suggests that if tax avoidance is beneficial, owners should create appropriate incentives to guide managers toward tax-efficient decisions. On the other hand, self-interested managers may establish complex organizational structures to facilitate actions that reduce corporate taxes. In this latter scenario, the structure is not designed to improve the firm's efficiency or productivity but to divert company resources for personal benefit and manipulate

post-tax earnings for individual gain. Unlike Chyz, Gaetner, Kausar, and Watson (2019), who view tax avoidance as a consequence of managerial incentive schemes that encourage risk-taking and report a 10-percentage point decrease in cash ETR associated with CEO option-based overconfident measure, our approach suggests that in the context of significant performance incentives during CEOs' early tenures, tax avoidance is a byproduct of earnings overstatement driven by managerial self-interest. Additionally, our test on the effects of the Sarbanes-Oxley Act (SOX) on corporate governance finds a positive link between tax avoidance and new CEO power post-SOX. Our findings suggest that a policy designed to reduce managerial entrenchment as a collective might unintentionally strengthen CEO leadership over other team members, enabling greater influence on corporate policies such as tax expenses through earnings management. This outcome is due to the revised governance regulations following SOX, which diminish the emphasis on board independence when dealing with new CEOs (Cline and Boumosleh, 2022).

We contribute to the discussion on the role of CFOs in corporate governance. Since 2000, regulations have emphasized increasing board independence, often resulting in the removal of CFOs from the board. However, appointing a CFO as a director can be advantageous, as it aids firms in effectively communicating valuable initiatives like cash management and optimal capital structure (Mobbs, 2018). Our findings show that the influence of CFO directors on corporate tax avoidance is related to the new CEOs' power. Nevertheless, a CFO director neither curbs nor amplifies the new CEOs' impact on tax expenses through earning management.

The remainder of this paper is organized as follows: Section 2 describes hypothesis development and related research, Section 3 demonstrates data and sample, Section 4 describes methodology and results, and Section 5 concludes the paper.

2. Development and Related Research

Assessing the competence of incoming CEOs is challenging for the market due to the divergence of skills and the lack of past performance records (Gibbons and Murphy, 1992). This information gap leads boards to fail in negotiating contracts with managers at arm's length, allowing newly appointed CEOs to negotiate higher compensation packages (Bebchuk and Fried, 2006). Consequently, new CEOs are strongly incentivized during their early tenure than in later years to showcase their capabilities to the board through increasing discretionary accruals and decreasing discretionary expenses with a large amount of write-offs (Ali and Zhang, 2015). We further argue that the overstatement of earnings in the early tenure of CEOs may cause more tax avoidance during these periods.

The heightened incentive to manipulate earnings might not lead to higher tax payments, as accounting strategies aimed at reducing contingent liabilities, such as warranty reserves or valuation allowances, do not affect taxable income (Guenther, Krull, and Williams, 2021). Over time, as CEOs spend more years in office, their motivation for earnings management tends to decrease since they no longer feel the same pressure to establish a strong reputation as they did in their early tenure (Ali and Zhang, 2015). As a result, taxable income is likely to gradually align with accounting income as the impact of discretionary accruals on inflated earnings diminishes, leading to increased tax expenses in the later years of the CEO's tenure. Thus, we expect to observe a positive relationship between an incoming CEO and tax avoidance compared to other years.

A potential scenario where incoming CEOs are more likely to inflate earnings, thereby increasing tax avoidance, is when monitoring is weak (Ali and Zhang, 2015). Similar to Cline and Boumosleh (2022), we assess the power of the incoming CEO under four conditions where internal control can be compromised. For instance, if the new CEO is the only inside director or if the

predecessor CEO is excluded from the board, the incoming CEO has more control over information flows and can exclude other potential successors, thereby reducing the monitoring effectiveness of inside directors. Additionally, beyond the reduction in search committees' bargaining power noted by Cline and Boumosleh (2022), hiring new CEOs after a sudden dismissal is costly for firms and is often linked to increased internal control weaknesses (Huang, Parker, Yan, and Lin, 2014). Furthermore, higher compensation for incoming CEOs reflects the value of their prior experience and relative talents to the firm, implying weak internal monitoring (Bebchuk, Cremers, and Peyer, 2011). Managerial power can distort the relationship between compensation and performance, leading to contracts that are retrospectively manipulated to favor better-performing metrics (Morse, Nandan, and Seru, 2011). A CEO's influence over company decisions can result in the approval of excessive pay packages and advantageous terms, particularly for themselves, as directors often gain social and psychological benefits from aligning with the CEO, while market forces may not be strong enough to correct these deviations from fair contractual practices (Bebchuk and Fried, 2006). These points suggest that the arrival of a powerful CEO can significantly impact monitoring, earnings, tax avoidance, and various other aspects within firms.

We also examine the impact of the SOX on the relationship between CEO power and tax avoidance. In response to the corporate scandals of 2001, regulatory reforms like the SOX and updated listing requirements from major exchanges aimed to enhance board independence and, consequently, limit CEO power (Chhaochharia and Grinstein, 2009). However, increased corporate oversight, as advocated by agency theory through the presence of a majority of non-affiliated directors and independent boards, can sometimes lead to unintended negative consequences. For instance, the prevalence of CEO-only boards has been linked to a higher risk of financial misconduct and greater CEO pay disparities, stemming from the mistaken belief that

other insiders do not contribute valuable oversight and guidance (Zorn, Shropshire, Martin, Combs, and Ketchen, 2017). Cline and Boumosleh (2022) document a higher turnover among top management following the appointment of powerful new CEOs in the post-SOX era, illustrating one aspect of new CEO power over contracting in this regulatory period. Therefore, we hypothesize that powerful new CEOs are likely to engage in larger discretionary accruals to achieve greater tax avoidance, particularly in the post-SOX environment.

H_1: More power to newly appointed CEOs increases tax avoidance.

H_{1a}: Post SOX, new powerful CEOs are significantly affecting tax avoidance.

If we observe higher earnings and increased tax avoidance associated with powerful incoming CEOs, it is still possible that CFOs' influence either drives or moderates this relationship. We then assess whether CEOs predominately delegate tax policy to CFOs or if CFOs serve as a potential check (Chyz, Gaertner, Kausar and Watson, 2019). Jiang, Petroni, and Wang (2010) emphasize the significant role of CFOs' financial expertise and their ability to impact financial outcomes through their own approach to earnings management. Unlike CEOs, who often focus on accrual earnings management, CFOs are more likely to affect real earnings management to influence future corporate performance (Baker, Lopez, Reitenga, and Ruch, 2019). Companies with CFOs on the board generally demonstrate more effective internal controls, better cash management, improved accrual quality, and fewer restatements, as CFOs are more apt to share financial knowledge with board members and obtain resources to enhance internal control systems (e.g., Bedard, Hoitash, and Hoitash, 2014; Mobbs, 2018). Moreover, addressing weaknesses in tax-related internal controls is linked to increased future tax avoidance (Bauer, 2015). Therefore,

we hypothesize that CFOs may enhance tax avoidance by using their financial expertise to influence internal controls and cash flows in the future.

H_2: Firms with powerful CFOs are more likely to engage in tax avoidance activities.

3. Data and sample

The sample is constructed in the following manner. First, we identify new CEO power data in consistent with Dr. Boumosleh. All new CEOs are identified in ExecuComp from 1993 to 2019. The year 2019 is selected as the ending year to observe tax avoidance within 3 years after the new CEO is appointed. We focus on 3 years period to leave sufficient time to examine the influence from CEO power. We eliminate co-CEOs and interim CEOs within 3 years of services. Utility and financial firms are excluded due to differences in accounting and regulations. Following Chyz, Gaertner, Kausar and Watson (2019), we drop firms that are not incorporated in the U.S.

ExecuComp data is matched with accounting data from Compustat. We select 1993 as the first year of the sample because it is the effective date of ASC 740, and the coverage of ExecuComp is not completed until 1993 (e.g., Jiang, Petroni and Wang, 2010; Simone, Nickerson, Seidman and Stomberg, 2020). Finally, a firm is included in the sample only if it has a CEO turnover event identified above and its data is available on Compustat at least one year after the CEO turnover event. The sample selection process is listed in Appendix B.

3.1 Measures of new CEO power

We adopt the methodology from Boumosleh and Cline (2022) to measure the power of the incoming CEO in four ways: if the CEO is the only insider on the board (*Only*); if the predecessor

CEO does not stay on the board (*Nstay*); if the predecessor CEO left the firm unexpectedly (*Forced*) and if the CEO is paid in the upper quintile of the industry (*Pay*).

In our view, this incoming CEO power can also related to factors such as influence and centrality. Influence refers to the executive's ability to affect other board members and senior management in decision-making. For new CEOs, influence is determined by whether the new CEO is the only inside director, whether the predecessor CEO leaves the board, and whether the predecessor leaves unexpectedly. If the new CEO is the only director among all executives, they can monopolize information transition of project qualities and assume concentrated responsibility to present projects on the board. On the other hand, the new CEO's influence over other directors to change strategies substantially diminishes when the predecessor CEO stays on the board. Losing a CEO on short notice, on the other hand, places the board in a weak negotiating position against the prospective candidates.

Centrality captures the importance and capability of an executive to the firm, as indicated by their pay premium. We define a new CEO as powerful if she negotiates to obtain more compensation that places her in the upper quintile of the pay scale of CEOs in the same industry. Consistent with Baker, Lopez, Reitenga and Ruch (2019), our paper combines duality and centrality into one index to select a group of new CEOs as the most powerful if (1) they are the only director on board, (2) the predecessor CEO leaves the board, (3) the predecessor CEO leaves unexpectedly, and (4) they are mong the top pay in the industry,

$$Pindex = Only + Nstay + Forced + Pay \quad (1)$$

3.2 Tax avoidance variables

Our primary tax variable, *CETR1_HA*, is firm i's cash effective tax rate in year t. A large amount of recent research chooses cash effective tax rate because this measure represents firms' ability to save cash tax payments and reflects both permanent and temporary tax deferral strategies (Koester, Shevlin, and Wangerin, 2017). In contrast, GAAP effective tax rates do not cover temporary tax savings such as accelerated depreciation and foreign earnings.

$$CETR1\_HA_{it} = \frac{TXPD_{it}}{PI_{it} - SPI_{it}} \tag{2}$$

$$ETR1\_HA_{it} = \frac{TXT_{it}}{PI_{it} - SPI_{it}} \tag{3}$$

Following Dyreng, Hanlon and Maydew (2010), *CETR1_HA* is constructed as the percentage of cash tax paid over pretax book income before special items. Our alternate variable, one year GAAP effective tax rate (*ETR1_HA*), is defined as the percentage of total income tax expense divided by pretax book income before special items. *CETR1_HA* and *ETR1_HA* are set equal to missing if the denominator is negative.[1] We primarily use a one-year tax rate in our analysis because incoming CEO power variables are constructed at firm-year level.

$$CETR3\_DY_{it} = \frac{\sum_{t=1}^{t=t+2} TXPD_{it}}{\sum_{t=1}^{t=t+2} (PI_{it} - SPI_{it})} \tag{4}$$

$$ETR3\_DY_{it} = \frac{\sum_{t=1}^{t=t+2} TXT_{it}}{\sum_{t=1}^{t=t+2} (PI_{it} - SPI_{it})} \tag{5}$$

$$CETR5\_DY_{it} = \frac{\sum_{t=1}^{t=t+4} TXPD_{it}}{\sum_{t=1}^{t=t+4} (PI_{it} - SPI_{it})} \tag{6}$$

$$ETR5\_DY_{it} = \frac{\sum_{t=1}^{t=t+4} TXT_{it}}{\sum_{t=1}^{t=t+4} (PI_{it} - SPI_{it})} \tag{7}$$

[1] Following Dyreng, Hanlon and Maydew (2010), the remaining non-missing *CETR1_HA* and *ETR1_HA* are winsorized (reset) so that the largest observation is 1 and the smallest is 0.

In addition, as the one-year cash effective tax rate is an inaccurate proxy to predict for long-run tax avoidance, we use a three-year tax rate (*CETR3_DY* and *ETR3_DY*) and a five-year cash effective tax rate (*CETR5_DY* and *ETR5_DY*) to mitigate the concern for the reversal of temporary accounting accrual (Hanlon and Heitzman, 2010). In consistent with Dyreng, Hanlon and Maydew (2008), *CETR3_DY* (*CETR5_DY*) is calculated as using the total cash tax paid in year t through t + 2 (t + 4) scaled by total pretax income before special items in the same period. *CETR* variables incorporate both temporary and permanent tax strategies. *ETR3_DY* (*ETR5_DY*) is calculated as using the total tax expense in year t through t + 2 (t + 4) scaled by total pretax income before special items in the same period. *ETR* variables detects a company's permanent tax avoidance (i.e. investments in municipal bonds).

Following prior literature (e.g., Dyreng, Hanlon and Maydew, 2008; Hsieh, Zhang and Demirkan, 2018), we remove firm-year observations with negative total pre-tax income before total special items for *CETR3_DY*, *CETR5_DY*, *ETR3_DY* and *ETR5_DY*. All tax variables are bound between 0 and 1.

4. Methodology and Result

We employ a multivariate model to test the association between new CEO power and tax avoidance. Our regression controls stationary firm characteristics by firm fixed effects and time trends by year fixed effects.

$$Tax_{it} = \beta_0 + \beta_1 Pindex_{i(t-1)} + \beta_k x_{it} + \beta_i f_i + \beta_t s_t + e_{it} \quad (8)$$

The dependent variable *Tax* is mainly one of the two tax avoidance proxies (*CETR1_HA* and *ETR1_HA*); *Pindex* is a discrete variable equal to the sum of the four categories of incoming

CEO power discussed above; x is a vector of k variables, measured annually to control time-varying firm characteristics. Our controls include a set of accounting variables.

We predict that firms with powerful new CEOs will engage in greater tax avoidance. In Eq. (5), this would be supported by a negative β_1 coefficient estimate, when the dependent variable is *CETR1_HA* and *ETR1_HA*. Because our regression includes firm fixed effects, our method captures variation in tax avoidance driven by new CEO power. In other words, for firms having a powerful new CEO, β_1 captures the average of firm-specific differences in tax avoidance induced by the CEO turnover event.

Specifically, we use a set of control variables in the literature that is known to be associated with executives and tax avoidance (e.g., Koester, Shevlin and Wangerin, 2017; Christensen, Dhaliwal, Boivie and Graffin, 2014).

We employ pre-tax income (PTROA) to assess firms' profitability before taxes and total assets (Size) to evaluate the size of the firm for tax planning purposes (Hsieh, Wang, and Demirkan, 2018). The Internal Revenue Service (IRS) allows companies to reduce their tax burdens through investment credits, which are proportionate to qualified business investments (as detailed in IRS form 3468). Investments, as defined by Armstrong, Blouin, and Larcker (2012), comprise research and development, capital expenditure, acquisitions, minus property sales, and depreciation over the average total asset ((XRD+CAPX+ACQ-SPPE-DPC)/AVG_AT). This assessment aims to comprehend the effects of book-tax differences such as bonus depreciation, accelerated depreciation, and investment credits (e.g., Chen, Ge, Louis, and Zolotoy, 2019; Cen, Maydew, Zhang, and Zuo, 2017). We scrutinize these accounts to analyze their contributions and quantify capital expenditure (CAPX) as cash outflows for property additions over the beginning property, plant, and equipment (CAPX/Lag_ PPEG) (Christensen, Dhaliwal, Boivie, and Graffin, 2015).

Research and development (XRD) tax credits are intended to stimulate more investments by reducing after-tax R&D spending costs. These credits offset federal tax obligations by 20% of excess qualified R&D expenditures, subject to 50% of qualified R&D, encompassing in-house payments for salaries and wages, supplies, and 65% of contract R&D payments (Brown and Krull, 2008). The literature often links increased R&D expenses with higher tax avoidance (e.g., Rego and Wilson, 2012; Christensen, Dhaliwal, Boivie, and Graffin, 2015). Additionally, we include property, plant, and equipment (PPE) as depreciation expenses are frequently adjusted to manipulate earnings (Baghdadi, Podolski and Veeraraghavan, 2022). Then, we incorporate leverage (LEV) due to tax regulations in the United States permitting interest deductions (Baghdadi, Podolski and Veeraraghavan, 2022). We also factor in intangible assets scaled by beginning assets (INTANG) as internally generated patents can shift royalty income to lower-tax jurisdictions, creating more opportunities for tax avoidance (Christensen, Dhaliwal, Boivie, and Graffin, 2015). Furthermore, we use EARNING to control the impact of investments on book-tax differences arising from income from unconsolidated subsidiaries (Christensen, Dhaliwal, Boivie, and Graffin, 2015). Companies with significant foreign business operations often leverage overseas segments to lower production costs and engage in transfer pricing for reduced taxes on foreign source income, hence we use FOREIGN to gauge foreign operation complexity (Baghdadi, Podolski and Veeraraghavan, 2022). Considering the link between firms' cash holdings and tax avoidance, we control after-tax cash flows (ATCF) and net working capital (NWC) (Hanlon, Maydew, and Saavedra, 2017).

4.1 Summary statistics

Table 1 presents the summary statistics of our sample. *Pindex* with a value of 1 to 4 refers to the case when a firm hires a new powerful CEO. All other conditions are represented by *Pindex* equals 0, which includes firm-year observations without CEO turnover events and firm-year observations with CEO turnover events but not powerful CEOs. We identify 3,589 firm-year observations of CEO turnover events in the whole ExecuComp universe from 1993 to 2019 according to the metrics stated in section 3. After matching with variables in formula (5), we have 1,919 observations of CEO turnover events in our sample. Panel A of Table 1 describes power measurements in incoming CEOs' turnover year. Around 29% of the newly hired CEOs join the firm with a total pay which is in the upper quintile of the industry. Regarding predecessor CEOs, 87% depart from the board after turnovers and 13% leave unexpectedly. 53% of the incoming CEOs are the only directors. Table 2 shows summary characteristics. The mean *CETR1_HA* is 25.5%, consistent with recent research (Dyreng, Hanlon and Maydew, 2010). Table 3 shows the Pearson pair-wise correlation coefficients between *Lag_Pindex* and *CETR1_HA*, consistent with our hypothesis that powerful new CEOs affect tax avoidance more. Most of the control variables exhibit significant correlations with our tax avoidance measures, indicating the importance of controlling for these factors in our multivariate tests.

4.2 Tax avoidance

Table 4 regressions (1) to (3) report multivariate results of model (8). All regressions include both firm and year-fixed effects and are performed on a set of new CEO turnover events from Boumosleh and Cline (2022). Our analysis captures the average firm-specific difference in tax avoidance when new powerful CEOs are present, relative to periods when they are not. Consistent with our first hypothesis and pairwise correlation coefficients, we document a negative

and significant relation between *Lag_Pindex* and *CETR1_HA* (coefficient = −0.00537, p value <0.01) and *ETR1_HA* (coefficient = −0.00380, p value <0.05). Overall, our multivariate results imply that powerful new CEOs influence corporate structures toward greater tax avoidance. The results supply evidence to recent literature that explores executive-specific determinants of tax avoidance around incoming CEOs.

Our next analysis examines changes in tax avoidance for firms that have relatively high or low tax rates just prior to a CEO turnover event. Chyz and Gaertner (2018) find low-tax firms face an increase in tax and high-tax firms reduce their tax rates in forced CEO turnovers by using a univariate test. We follow their methods and study if similar trends apply to non-CEO turnover years. Our research designs require each firm to enter the sample exactly twice per turnover, once before and once after, to get rid of biases driven by changes in sample composition. Among 1,919 turnover events in our sample, 1,310 have observations in the year before the CEO departures. Table 5 exhibits the univariate test, and the result is similar to the findings in Chyz and Gaertner (2018). Additional analysis stratifies *Pindex* in panel A exhibits that the most powerful group of new CEOs (*Pindex*=4) decreases *CETR1_HA* by 25 percentage points, which is 17 percentage points larger than the tax reduction through the least powerful groups of new CEOs (*Pindex*=0). The finding is robust for our alternative variables *ETR1_HA*. Further, we compare the turnover sample to a group of control firms which are selected by 30% of firm size and 30% of tax rate in the same industry. The finding in panel A reveals that high-tax firms with turnover events have a sharper decrease. Then, panel B examines if the reduction in high-tax firms is statistically more significant in the turnover sample than in the control sample. Both *CETR1_HA* (reduction = 15%, p value <0.01) and *ETR1_HA* measures (reduction = 7%, p value <0.01) confirm the results.

Previous studies find that capital expenditure or investment can be linked to tax avoidance (*CETR1_HA* and *ETR1_HA*) both positively and negatively because of differences in accounting and tax treatments for newly acquired assets (e.g., Liu, Jin, Zhang and Zhao, 2022; Cen, Maydew, Zhang and Zuo, 2017). Our argument posits that powerful incoming CEOs who manipulate earnings are more inclined to engage in tax management practices. We provide evidence using the following OLS model:

$$CAPX_{it} = \beta_0 + \beta_1 New\_Power_{i(t-1)} + \beta_k x_{it} + \beta_i f_i + \beta_t s_t + e_{it} \quad (9)$$

$$EQINC_{it} = \beta_0 + \beta_1 New\_Power_{i(t-1)} + \beta_k x_{it} + \beta_i f_i + \beta_t s_t + e_{it} \quad (10)$$

$$SIZE_{it} = \beta_0 + \beta_1 New\_Power_{i(t-1)} + \beta_k x_{it} + \beta_i f_i + \beta_t s_t + e_{it} \quad (11)$$

Earning allocation may be one reasonable way for firms to avoid tax since aggressive financial reporting is positively related to tax avoidance (Frank, Lynch and Rego, 2009). For example, Novia and Tiana (2021) find that U.S. multinational corporations tend to shift domestic income to overseas regions where tax rates are lower. Aggressive firms can even write down domestic income to zero. Hence, we aim to investigate the expense and earning conditions in the year following CEO turnover and consider their relevance to tax avoidance. In model (9) and (10), we separately regress *CAPX and EQIN* on *Pindex* and a vector of control variables. *CAPX* measures a firm's capital expenditure divided by its property amount and *EQINC* measures a firm's income from unconsolidated subsidiaries over its beginning assets. We report the regression result of the three models in Table 6. The independent variables are the same as those in the previous table (*Lag_Pindex*). In columns (2) and (5), the coefficients on *Lag_Pindex* are significantly negative, suggesting that capital expenditures are lower upon powerful CEO appointments. On the other hand, column (1) and (4) demonstrate a positive relation between

Lag_Pindex and *EQINC* so powerful new CEOs spending less in capital expenditures possibly manage earnings among subsidiaries to have more tax avoidance.

4.3 CFO analysis

For additional insights on powerful CEOs' and CFOs' responsibility and duty on tax reporting, we require a firm-year observation to have one CEO and one CFO in Execucomp in a year to be included in our CFO test (Baker, Lopez, Reitenga and Ruch, 2019). [2] We use the method from Mobbs (2018) to determine CFO directorships by checking the ExecuComp variable 'Execdir'.

Our primary analysis examines CEOs because they are the most powerful leaders in an organization to set up the tone at the top (Dyreng, Hanlon, and Maydew, 2010). Yet tax planning may be relevant to CFO power for at least two reasons.

First, Dyreng, Hanlon, and Maydew (2010) suggest that CEOs do not always possess the necessary financial knowledge and are likely to assign tax policymaking to CFOs. Hence, our results could be attributed to new CEO power correlated with CFO power. Accordingly, we assess whether CFO power is associated with tax avoidance, and, if such a relation exists, whether it encompasses the link between new CEO power and tax avoidance. To achieve this objective, we incorporate the indicator *Lag_CFOdirector*, so that our regression in Table 7 will capture the average within-firm differences in tax avoidance for periods with a powerful CFO. If the effect of new CEO power on tax avoidance were accounted by the effect of CFO power on tax avoidance to some extent, we would expect to see statistically weaker coefficient estimates on

[2] Following (Jiang, Petroni and Wang, 2010), we identify CFOs by the 'CFOann' indicator in the ExecuComp database. Since the database doesn't report the 'CFOann' variable before 2006, we alternatively identify CFOs by searching in managers' titles in ExecuComp (data item ''titleann'') for the following phrases: CFO, chief financial officer, treasurer, controller, finance, and vice president-finance.

Lag_Powerindex and statistically significant coefficient estimates on *Lag_CFOdirector*. As predicted, Table 7, column (1) reports statistically significant coefficient estimates on both *Lag_Powerindex* and *Lag_CFOdirector*. The relationship between *Lag_CFOdirector* and tax avoidance is robust for *CETR3_DY* and provides evidence of increasing cash tax saving under CFO influence, which is consistent with CFOs' roles in effective cash flows management.

Second, because of their financial knowledge in tax, CFOs' power might serve as checks or enablers of CEOs' power over tax avoidance. The check role would occur when powerful CFOs are able to counter the bargaining power of new CEOs. The enabler role would occur when powerful CEOs partnered with powerful CFOs can transform the corporation into a tax-saving form more efficiently. We interact *Lag_Pindex* with *Lag_CFOdirector* to empirically investigate these roles. Because the interaction term *Lag_Pindex*Lag_CFOdirector* is insignificant for all tax variables, we interpret the result as providing no support for the assertion that the presence of a powerful CFO magnifies the relation between new CEO power and tax avoidance.

4.4 The Sarbanes-Oxley Act and tax avoidance

Our sample spans the period 1993 through 2019. The major agency conflicts between managers and corporations in the late 1990s highlighted the weakness in the governance structure of US firms. The enactment of SOX promotes outside director monitoring and shifts power distribution within the board, thereby affecting many aspects of corporate governance. Hence, we partition the CEO sample into pre-SOX and post-SOX to test how the passage of SOX altered the mechanisms for new CEO power to impair tax avoidance. Table 8 columns (1) and (3) reports tests of CEO power on *CETR1_HA* before SOX and column (2) and (4) report tests for the post-SOX. The coefficients on *Lag_Pindex* are more statistically significant in their effect on tax avoidance

in the post-SOX period for both of our tax avoidance variables. Overall, the results provide support to hypothesis H_3 and suggest that SOX may have shifted the focus from board independence to other aspects of corporate governance.

4.5 Firm performance

We then predict that larger CEO power should enable more tax avoidance that increases stock returns and accounting performance. Given the multivariate results in table 4 that more new CEO power is associated with riskier tax avoidance, we now examine the impact of increased tax risk on shareholder wealth. To accomplish this, we calculate buy-and-hold abnormal returns (*BHAR*) for 12 months after the fiscal year-end by using the CRSP value-weighted index as a benchmark. In particular, we use the CEO sample to regress *BHAR* on *CETR1_HA* and other control variables as follows (Rego and Wilson, 2012):

$$BHAR_{i(t+1)} = \beta_0 + \beta_1 Tax_t + \beta_1 New\_Power_{i(t-1)} + \beta_k x_{it} + \beta_i f_i + \beta_t s_t + e_{it} \qquad (12)$$

We use the estimated coefficients for *CETR1_HA* to calculate the impact of increased tax aggressiveness on shareholder wealth. Table 9 presents the results for the estimation of equation (12), the coefficient before *CETR1_HA* in regression (1) and (2) suggests that every one percentage point reduction in *tax* increases 12 months forward abnormal returns (*AR_12*) by 0.2 percentage points. Combining table 4 and table 9, we argue *AR_12* increases by 0.4 percentage points through tax avoidance under the most powerful group of new CEOs.[3] The result is significant even if we control the incoming powerful CEO index. Consistent with the findings in Evans, Nanda and Schloetzer (2010) which document better firm performance for influential new CEOs, the

[3] The coefficient on *Lag_Pindex* in table 4 is -0.005 and the coefficient on *CETR1_HA* in table 9 regression (2) is -0.2. Hence, if a new CEO is the most powerful (*Pindex*=4), tax decreased by |4*-0.005|=2 percentage point. The increase in 12-month forward abnormal returns is thus (2*-0.01)*(-0.2)=0.4%.

coefficients before our *Lag_Pindex* suggest firms' *AR_12* increases by 5 percentage points. These results imply that tax avoidance at the point of incoming CEOs might be a contributing factor for firms' subsequent higher performance. In addition to the market returns, we investigate whether our tax variables change in future accounting performance. If the tax reduction reflects a wealth transfer to shareholders, then we expect firms that achieve tax efficiency to have greater future accounting performance under the lead of powerful new CEOs. Following Bhojaj, Hribar, Picconi and Mcinnis (2009), we examine future changes in ROA through regression (13). Table 9 columns (3) and (4) present the results. Future ROA is shown to be negatively related to our tax variables. Our *ETR1_HA* sample confirms similar results.

$$NI_{i(t+1)} = \beta_0 + \beta_1 Tax_t + \beta_1 New\_Power_{i(t-1)} + \beta_k x_{it} + \beta_i f_i + \beta_t s_t + e_{it} \quad (13)$$

5. Conclusion

Tax avoidance has long been a dispute about whether it is a means of manager malfeasance due to managerial power or a way to improve shareholder value under incentive compensation. In our analysis of 1,310 companies with significant CEO turnovers, we observed that newly appointed powerful CEOs strategically utilized equity income from unconsolidated subsidiaries to optimize tax efficiency within a year of assuming their roles. A decline in capital expenditure correlates with increased levels of tax avoidance. Furthermore, the impact of incoming powerful CEOs on tax efficiency was more pronounced post-SOX, indicating a shift in CEO contracting priorities from board independence to other regulatory policies. We also found that tax avoidance correlated with improved accounting performance and stock returns in the year following powerful CEO appointments, suggesting a connection to the well-known phenomenon of 'big bath' earnings management during CEO turnover periods. The boost in earnings post-CEO change could be

attributed to earnings from subsidiaries with lower tax rates, leading to reduced GAAP tax expenses and cash tax outflows. Alternatively, restructuring earnings and engaging in tax avoidance could result in higher reported earnings after tax cuts in the year following CEO turnovers. While a short-term view might interpret the positive impact of tax avoidance on performance as opportunistic, a longer-term perspective suggests that it could indicate a higher level of inside information held by incoming CEOs, potentially leading to increased corporate activities such as innovation investment in subsequent years. Future studies could explore the performance of high-tax firms under powerful new CEO leadership, as these firms may experience more significant effects due to managerial influence and regulatory changes. Additionally, previous research by Bhojraj, Hribar, Picconi, and McInnis (2009) revealed that firms engaged in aggressive financial reporting initially saw positive abnormal returns over two years, followed by a stock price reversal. We hypothesize a similar trend may occur with tax avoidance firms under new CEO leadership, further highlighting the dynamic nature of these strategies and their impact on firm performance over time.

References

Aboody, D., and Kaznik, R. 2000. CEO Stock Option Awards and the Timing of Corporate Voluntary Disclosure. *Journal of Accounting and Economics* 29, 73-100.

Amiram, D., Bozanic, Z., Cox, J., Dupont, Q., Karpoff, J., and Slone, R. 2018. Financial Reporting Fraud and other forms of Misconduct: A Multidisciplinary Review of the Literatures, *Review of Accounting Studies* 23, 732-783.

Armstrong, C., Blouin, J., and Larcker, D. 2012. The incentives for tax planning. *Journal of Accounting and Economics* 5, 391-411.

Armstrong, C., Blouin, J., Jagolinzer, A., and Larcker, D. 2015. Corporate governance, incentives, and tax avoidance. *Journal of Accounting and Economics* 60, 1-17.

Alldredge, D., and Blank, D. 2023. Insider Trading in Multinational Firms. *European Financial Management* 1, 1–32.

Ahmed, A., McAnally, M., Rasmussen, S., and Weaver, C. 2010. How costly is the Sarbanes Oxley Act? Evidence on the effects of the Act on corporate profitability. *Journal of Corporate Finance* 16, 352-369.

Brown, J., and Krull, L. 2008. Stock Options, R&D, and the R&D Tax Credit. *The Accounting Review* 83, 705-734.

Baker, G., Jensen, M., and Murphy, K. 1988. Compensation and Incentives: Practice vs. Theory. *The Journal of Finance* 3. 593-616.

Bedard, J., Hoitash, R., and Hoitash, U. 2014. Chief Financial Officers as Inside Directors. *Contemporary Accounting Research* 31. 787-817.

Bushman, R. 2009. "Weak" Governance May Be Optimal Governance: A Discussion of "Corporate Governance and Backdating of Executive Stock Options", *Contemporary Accounting Research* 26, 447-51.

Bebchuk, L.A. and Fried, J. 2006. Pay Without Performance: An overview, *Academy of Management Perspective* 20, 5-21.

Bargeron, L., Lehn, K., and Zutter, C. 2010. Sarbanes-Oxley and corporate risk-taking. *Journal of Accounting and Economics* 49, 34-52.

Bruhne, A., and Schanz, D. 2022. Defining and managing corporate tax risk: perceptions of tax risk experts. *Contemporary Accounting Research* 39, 2861-2902.

Baker, T., Lopez, T., Reitenga, A., and Ruch, G. 2019. The influence of CEO and CFO power on accruals and real earnings management. *Review of Quantitative Finance and Accounting* 52, 325-345

Bergstresser, D., and Philippon, T. 2006. CEO incentives and earnings management. *Journal of Financial Economics* 80, 511-529.

Boumosleh, A., and Cline, B. 2022. The Influence of Incoming CEOs. *European Financial Management* 03, 1-41.

Blaylock, B. 2015. Is Tax Avoidance Associated with Economically Significant Rent Extraction among U.S. Firms? *Contemporary Accounting Research* 33, 1013-1043.

Bianco, M., and Gamba, A. 2019. Inventory and Corporate Risk Management. *Review of Corporate Finance Studies* 8, 98-145.

Brooks, R., Chance, D., and Cline, B. 2012. Private Information and the Exercise of Executive Stock Options. *Financial Management* 41, 733-764.

Barua, A., Lin, S., and Sbaraglia, A. 2010. Earnings Management Using Discontinued Operations. *The Accounting Review* 85, 1485–1509.

Borokhovich, K., Parrino, R., and Trapani, T. 1996. Outside Directors and CEO Selection. *Journal of Financial and Quantitative Analysis* 31, 337–355.

Core, J., and Guay, W. 1999. The use of equity grants to manage optimal equity incentive levels. *Journal of Accounting and Economics* 28, 151-184.

Core, J., and Guay, W. 2002. Estimate the value of employee stock option portfolios and their sensitivities to price and volatility. *Journal of Accounting Research* 40, 613-630.

Christensen, D., Dhaliwal, D., Boivie, S., and Graffin, S. 2014. Top Management Conservatism and Corporate Risk Strategies: Evidence from Managers' Personal Political Orientation and Corporate Tax Avoidance. *Strategic Management Journal* 36. 1918-1938.

Chen, Y., Ge, R., Louis, H., and Zolotoy, L. 2019. Stock liquidity and corporate tax avoidance. *Review of Accounting Studies* 24, 309-340.

Carver, B., Cline, B., and Hoag, M. 2013. Underperformance of founder-led firms: An examination of compensation contracting theories during the executive stock options backdating scandal, *Journal of Corporate Finance* 23, 294-310.

Cen, L., Maydew, E., Zhang, L., and Zuo, L. 2017. Customer–supplier relationships and corporate tax avoidance. *Journal of Financial Economics* 123, 377-394.

Cohen, D., Dey, A., and Lys, T. 2008. Real and Accrual-Based Earnings Management in the Pre- and Post-Sarbanes-Oxley Periods. *The Accounting Review* 83, 757-787.

Chen, M., Chang, C., and Lee, M. 2020. The Effect of Chief Financial Officers' Accounting Expertise on Corporate Tax Avoidance: the Role of Compensation Design. *Review of Quantitative Finance and Accounting* 54. 273-296.

Coles, J., Daniel, N., and Naveen, L. 2006. Managerial incentives and risk-taking. *Journal of Financial Economics* 79, 431–468.

Cohen, D., Dey, A., and Lys, T. 2012. Corporate Governance Reform and Executive Incentives: Implications for Investments and Risk Taking. *Contemporary Accounting Research* 30, 1296-1332.

Chhaochharia, V., and Grinstein, Y. 2009. CEO Compensation and Board Structure. *The Journal of Finance* 64. 231-261.

Carter, M., Lynch, L., and Zechman, S. 2007. Changes in bonus contracts in the post-Sarbanes–Oxley era. *Review of Accounting Studies* 14, 480-5065.

Chung, S., Goh, B., Lee, J., and Shevlin, T. 2019. Corporate Tax Aggressiveness and Insider Trading. *Contemporary Accounting Research* 36, 230-258.

Cheng, Q., and Lo, and K. 2006. Insider Trading and Voluntary Disclosure. *Journal of Accounting Research* 44, 815-848.

Carpenter, J., and Remmers, B. 2001. Executive Stock Option Exercises and Inside Information. *The Journal of Business* 74, 513–34.

Chyz, J., Gaertner, F., Kausar, A., and Watson, L. 2019. Overconfidence and Corporate Tax Policy. *Review of Accounting Study* 24, 1114–1145.

Chyz, J., and Gaertner, F. 2018. Can Paying "Too Much" or "Too Little" Tax Contribute to Forced CEO Turnover? The Accounting Review 93. 103-130.

Desai, M. 2005. The Degradation of Reported Corporate Profits. *Journal of Economic Perspectives* 19, 171-192.

Dyreng, S., Halon, M., and Maydew, E. 2008. Long-Run Corporate tax Avoidance. *The Accounting Review* 83. 61-82.

Dyreng, S., Halon, M., and Maydew, E. 2010. The Effects of Executives on Corporate Tax Avoidance. *The Accounting Review* 85. 1163-1189.

Desai, M., and Dharmapala, D. 2006. Corporate tax avoidance and high-powered incentives. *Journal of Financial Economics* 79, 145-179.
Desai, M., and Dharmapala, D. 2009. Corporate tax avoidance and firm value. *The Review of Economics and Statistics* 91, 537-546.
Dhaliwal, Gleason, C., and Mills, L. 2004. Last-Chance Earnings Management: Using the Tax Expense to Meet Analysts' Forecasts. *Contemporary Accounting Research* 21, 431-459.
Denis, D., Denis, D., and Yost, K. 2002. Global Diversification, Industrial Diversification, and Firm Value. *The Journal of Finance* 57, 1951–1979.
Edward, A., Schwab, C., and Shevlin, T. 2016. Financial Constraints and Cash Tax Savings. *The Accounting Review* 91, 859-881.
Ferri, F., and Li, N. 2020. Does Option-Based Compensation Affect Payout Policy? Evidence from FAS 123R. *Journal of Financial and Quantitative Analysis* 55. 291-329.
Feng, M, Ge, W, Luo, S, and Shevlin, T. 2011. Why do CFOs become involved in material accounting manipulations? *Journal of Accounting and Economics* 51, 21-36.
Friedman, H. 2014. Implications of power: When the CEO can pressure the CFO to Bias Reports. *Journal of Accounting and Economics* 58. 117-141.
Fama, E., and Jensen, M. 1983. Separation of Ownership and Control. *The Journal of Law & Economics* 26, 301-325.
Fama, E. 1980. Agency Problems and the Theory of the Firm. *Journal of Political Economics* 88, 288-307.
Florackis, C and Sainani, S. 2021. Can CFOs resist undue pressure from CEOs to manage earnings? *Journal of Corporate Finance* 67, 101859.
Guay, W. 1999. The sensitivity of CEO wealth to equity risk: an analysis of the magnitude and determinants. *Journal of Financial Economics* 53, 43–71.
Gaertner, F. 2014. CEO After-Tax Compensation Incentives and Corporate Tax Avoidance. *Contemporary Accounting Research* 31, 1077-1102.
Guenther, F., Krull, L., and Williams, B. 2021. Identifying Different Types of Tax Avoidance: Implications for Empirical Research, *Journal of the American Taxation Association* 43, 27-50.
Graham, K., and Harvey, C. 2001. The theory and practice of corporate finance: evidence from the field. *Journal of Financial Economics* 60, 187-243.
Grinstein, Y and Hribar, P. 2004. CEO compensation and incentives: Evidence from M&A bonuses. *Journal of Financial Economics* 73, 119-143.
Hsieh, T., Wang, Z., and Demirkan, S. 2018. Overconfidence and tax avoidance: The role of CEO and CFO interaction. *Journal of Accounting and Public Policy* 87. 241-253.
Huang, H., and Zhang, W. 2020. Financial Expertise and Corporate Tax Avoidance. *Asia-Pacific Journal of Accounting & Economics* 27. 1608-1625.
Hillier, D., McColgan, P., and Tsekeris, A. 2022. How did the Sarbanes–Oxley Act affect managerial incentives? Evidence from corporate acquisitions. *Review of Quantitative Finance and Accounting* 58, 1395-1450.
Heron, A., and Lie, E. 2007. Does backdating explain the stock price pattern around executive stock option grant? *Journal of Financial Economics* 83, 271-295.
Hope, O., Ma, M., and Thomas, W. 2013. Tax avoidance and geographic earnings disclosure. *Journal of Accounting and Economics* 56, 170-189
Jiang, J., Petroni, K., and Wang, I. 2010. CFOs and CEOs: Who have the most influence on earnings management? *Journal of Financial Economics* 96, 513-526.

Jensen, M., and Murphy, K. 1990. Performance Pay and Top-Management Incentives. *Journal of Political Economy* 98. 225- 264.

Jenter, D., and Kanaan, F. 2015. CEO Turnover and Relative Performance Evaluation. *Journal of Finance* 70. 2155-2184

Jia, Y., and Gao, X. 2021. Is managerial rent extraction associated with tax aggressiveness? Evidence from informed insider trading. *Review of Quantitative Finance and Accounting* 56, 423-452.

Koester, A., Shevlin, T., and Wangerin, D. 2017. The Role of Managerial Ability in Corporate Tax Avoidance. *Management Science* 63, 3285-3301.

Khan, M., Srinivasan, S., and Tan, L. 2017. Institutional Ownership and Corporate Tax Avoidance: New Evidence. *The Accounting Review* 92, 101-122.

Kim, J., Li, Y., and Zhang, L. 2011. Corporate tax avoidance and stock price crash risk: Firm-level analysis. *Journal of Financial Economics* 100, 639-662.

Lie, E. 2005. On the timing of CEO stock option awards. *Management Science* 51, 802-812.

Lisic, L., Neal, T., Zhang, I., and Zhang, Y. 2016. CEO Power, Internal Control Quality, and Audit Committee Effectiveness in Substance Versus in Form. *Contemporary Accounting Research* 33, 1199-1237.

Mamun, M., Balachandran, B., and Duong, H. 2020. Powerful CEOs and stock price crash risk. *Journal of Corporate Finance* 62, 101582.

Morse, A., Nanda, V., and Seru, A. 2010. Are Incentive Contracts Rigged by Powerful CEOs? *Journal of Finance* 54, 165-201.

Mobbs, S. 2013. CEOs Under Fire: The Effects of Competition from Inside Directors on Forced CEO Turnover and CEO Compensation. *Journal of Financial and Quantitative Analysis* 48, 669-698.

Mobbs, S. 2018. Firm CFO Board Membership and Departure, *Journal of Corporate Finance* 51, 316-331.

Mansi, S., Qi, J., and Shi, H. 2020. Advertising and tax avoidance. *Review of Quantitative Finance and Accounting* 52, 479-516.

Mian, S. 2001. On the choice and replacement of chief financial officers. *Journal of Financial Economics 60*, 143-175.

Newberry, K., and Dhaliwal, D. 2001. Cross-Jurisdictional Income Shifting by U.S. Multinationals: Evidence from International Bond Offerings. *Journal of Accounting Research* 39, 643-662.

Niehaus, G., and Roth, G. 1999. Insider Trading, Equity Issues, and CEO Turnover in Firms Subject to Securities Class Action. *Financial Management* 28, 52–72.

Powers, K., Robinson, J., and Stomberg, B. 2016. How do CEO incentives affect corporate tax planning and financial reporting of income taxes? *Review of Accounting Study* 21. 672-710.

Peng, L., and Roell, A. 2008. Manipulation and Equity-Based Compensation. *American Economic Review* 98, 285-90.

Roulstone, D. 2003. The Relation Between Insider-Trading Restrictions and Executive Compensation. *Journal of Accounting Research* 42. 525-551.

Richardson, S. 2006. Over-investment of free cash flow. *Review of Accounting Studies* 11, 159–189.

Rego, S., and Wilson, R. 2012. Equity Risk Incentives and Corporate Tax Aggressiveness. *Journal of Accounting Research* 50, 775-809.

Rego, S. 2003. Tax-Avoidance Activities of U.S. Multinational Corporation. *Contemporary Accounting Research 20, 805-833.*

Simone, L., Nikerson, J., Seidman, J., and Stomberg, B. 2020. How Reliably Do Empirical Tests Identify Tax Avoidance? *Contemporary Accounting Research* 37, 1536-1561.

Smith, C., and Stulz, R. 1985. The determinants of firms' hedging policies. *Journal of Financial Quantitative Analysis* 20, 391–405.

Wintoki, B. 2007. Corporate boards and regulation: The effect of the Sarbanes–Oxley Act and the exchange listing requirements on firm value. *Journal of Corporate Finance* 13, 229-250.

Yermack, D. 1995. Do corporations award CEO stock options effectively? *Journal of Financial Economics* 39, 237-269.

Yermack, D. 1997. Good Timing: CEO Stock Option Awards and Company News Announcements. *Journal of Finance* 52, 449-476.

Table 1: Sample selection

Panel A. Sample selection

		CETR1_HA			***ETR1_HA***		
		Turnover sample		Full sample	Turnover sample		Full sample
Line		Firm year observations	Firm	Firm year observations	Firm year observations	Firm	Firm year observations
1	New powerful CEOs from 1993 to 2019	3,589	2,140	41,313	3,589	2,140	41,313
2	Less:						
3	Firms that do not have one year lag data in Compustat	(219)	(133)	(1,689)	(219)	(133)	(1,689)
4	Firms that have missing *CETR1_HA* data in Compustat	(662)	(312)	(10,213)	(590)	(273)	(9,308)
5	Firms that have missing *INTANG* data in Compustat	(203)	(106)	(2,852)	(207)	(106)	(3,017)
6	Firms that have missing *EQINC* data in Compustat	(385)	(150)	(4,809)	(399)	(155)	(4,995)
7	Firms that have missing *ATCF* data in Compustat	(140)	(92)	(2,089)	(146)	(93)	(2,162)
8	Firms that have missing *NWC* data in Compustat	(48)	(33)	(562)	(50)	(34)	(599)
9	Firms that have missing *CAPX* data in Compustat	(13)	(4)	(109)	(14)	(5)	(127)
10	Primary sample	1,919	1,310	18,993	1,964	1,341	19,416
11	From line 10 less: Firms that have missing *NI1* data in Compustat	(3)	(1)	(368)	(3)	(1)	(375)
12		1,916	1,309	18,625	1,961	1,340	19,041
13	From line 10 less: Firms that have missing *AR1* data in CRSP	(279)	(172)	(2,896)	(290)	(180)	(3,073)
14		1,640	1,138	16,097	1,674	1,161	16,343
15	From line 10 less: Firms that have missing *Lag_CFODirector* data in ExecuComp	(395)	(219)	(5,966)	(469)	(231)	(6,189)
16		1,524	1,091	13,027	1,495	1,110	13,227
17	From line 10 less: firms that have missing *TAX* data in the pre-turnover year	(346)	(197)	N/A	(321)	(187)	N/A
18		1,573	1,113	N/A	1,643	1,154	N/A
19	From line 18 match: firms that have non-turnover events but have similar size and tax rates compared to pre-turnover year	2,141	895	N/A	4,019	1,167	N/A

Panel B. Variation of new CEO power

	Firm year observations	*Nstay*	*Pay*	*Forced*	*Only*
CETR1_HA turnover sample in line 10	1,919	86.82%	28.71%	13.39%	52.84%
ETR1_HA turnover sample in line 10	1,964	86.91%	28.97%	13.34%	52.60%

Table 2: Summary statistics

This table reports the descriptive statistics for the *CETR1_HA* full sample in table 1 line 10. *Pay* equals one if the incoming CEO is paid in the upper quintile of the industry; 0 otherwise. *Only* equals one if the incoming CEO is the only director on the board; 0 otherwise. *Nstay* equals one if the predecessor CEOs do not stay in the board; 0 otherwise. *Forced* equals one if the predecessor CEOs leave unexpectedly; 0 otherwise. Detailed definitions of other variables are provided in the Appendix. *CETR1_HA* measures the cash effective tax rate for the one year and winsorized between [0,1]. All other continuous variables are winsorized at the 1st and 99th percentile. Panel B reports the pair-wise correlations in bold indicating statistical significance at the 1 percent level.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
VARIABLES	N	mean	p5	p25	p50	p75	p95	min	max	sd
CETR1_HA	18,993	0.2550	0.0007	0.1310	0.2390	0.3380	0.5670	0.0000	1.0000	0.1880
Lag_Nstaty	18,993	0.0877	0.0000	0.0000	0.0000	0.0000	1.0000	0.0000	1.0000	0.2830
Lag_Pay	18,993	0.0290	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	1.0000	0.1680
Lag_Forced	18,993	0.0135	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	1.0000	0.1160
Lag_Only	18,993	0.0534	0.0000	0.0000	0.0000	0.0000	1.0000	0.0000	1.0000	0.2250
Lag_pindex	18,993	0.1840	0.0000	0.0000	0.0000	0.0000	2.0000	0.0000	4.0000	0.6180
PTROA	18,993	0.1250	0.0185	0.0612	0.1030	0.1650	0.3070	0.0042	0.4920	0.0918
SIZE	18,993	7.2250	4.5620	6.1190	7.1640	8.3300	10.0700	3.2980	11.1500	1.6290
INTANG	18,993	0.2430	0.0000	0.0404	0.1700	0.3730	0.7210	0.0000	1.2660	0.2520
LEV	18,993	0.2430	0.0000	0.0671	0.2050	0.3440	0.6730	0.0000	1.2150	0.2290
R&D	18,993	0.0248	0.0000	0.0000	0.0000	0.0285	0.1250	0.0000	0.2360	0.0454
FOREIGN	18,993	0.0238	-0.0020	0.0000	0.0036	0.0356	0.1090	-0.0328	0.1960	0.0401
PPE	18,993	0.3050	0.0403	0.1240	0.2360	0.4110	0.8260	0.0185	1.1350	0.2440
EQINC	18,993	0.0013	-0.0005	0.0000	0.0000	0.0000	0.0088	-0.0060	0.0309	0.0047
ATCF	18,993	0.0994	0.0283	0.0641	0.0917	0.1260	0.2010	-0.0319	0.2830	0.0538
CAPX	18,993	0.1140	0.0331	0.0621	0.0924	0.1420	0.2750	0.0177	0.4380	0.0777
NWC	18,993	0.0871	-0.1430	-0.0070	0.0765	0.1740	0.3510	-0.2800	0.4820	0.1460

Table 3: Correlation

This table reports the pairwise correlations for the *CETR1_HA* full sample in table 1 line 10 or table 2. Pair-wise correlations in bold indicate statistical significance at the 1 percent level.

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)
(1) *CETR1_HA*	1																
(2) *Lag_Nstay*	**-0.025**	1															
(3) *Lag_Pay*	-0.016	**0.483**	1														
(4) *Lag_Only*	**-0.029**	**0.72**	**0.365**	1													
(5) *Lag_Forced*	-0.017	**0.321**	**0.23**	**0.284**	1												
(6) *Lag_Pindex*	**-0.029**	**0.911**	**0.669**	**0.846**	**0.5**	1											
(7) *Size*	**-0.034**	0.012	**0.035**	0.017	**0.019**	**0.025**	1										
(8) *PTROA*	**-0.036**	-0.015	-0.011	**-0.026**	**-0.038**	**-0.026**	**-0.256**	1									
(9) *INTANG*	-0.018	0	-0.001	-0.001	-0.002	-0.001	**0.153**	**-0.081**	1								
(10) *R&D*	**-0.076**	0.017	**0.021**	**0.019**	0.01	**0.022**	**-0.166**	**0.191**	-0.004	1							
(11) *LEV*	**-0.068**	0.008	-0.001	0.004	-0.009	0.003	**0.179**	**-0.141**	**0.375**	**-0.162**	1						
(12) *EQINC*	**-0.022**	0.01	0.011	0.01	-0.005	0.01	**0.17**	0.013	**-0.031**	**-0.033**	**0.034**	1					
(13) *PPE*	**-0.088**	-0.009	-0.005	-0.009	-0.017	-0.012	0.018	**0.037**	**-0.342**	**-0.235**	**0.216**	**0.062**					
(14) *CAPX*	-0.008	-0.013	0.007	**-0.026**	**-0.027**	**-0.019**	**-0.274**	**0.335**	**-0.024**	**0.148**	**-0.098**	**-0.072**	**0.044**	1			
(15) *FOREIGN*	**-0.075**	0.004	0.006	0.005	-0.003	0.005	**0.186**	**0.218**	-0.01	**0.214**	**-0.042**	**0.054**	**-0.099**	-0.014	1		
(16) *ATCF*	**-0.106**	-0.006	-0.002	-0.009	-0.011	-0.008	**-0.215**	**0.658**	**-0.172**	**0.14**	**-0.152**	**-0.109**	**0.16**	**0.234**	**0.152**	1	
(17) *NWC*	**0.118**	**-0.021**	**-0.031**	**-0.029**	**-0.027**	**-0.033**	**-0.32**	0.012	**-0.185**	**-0.046**	**-0.132**	**-0.085**	**-0.198**	0.005	**-0.048**	**-0.045**	1

Table 4: Incoming CEO Power and Tax Avoidance

This table reports the results of OLS regression analysis of tax avoidance on new CEO power and control variables in the primary full sample. *CETR1_HA* measures the cash effective tax rate and winsorized between [0,1]. *ETR1_HA* measures the GAAP effective tax rate and winsorized between [0,1]. *X* is a set of control variables that are defined in the Appendix. The regression includes year-specific and firm-specific fixed effects. Robust standard errors are clustered at the firm level and reported in parentheses. $u_{i,t}$ is a dummy variable for each firm, and $v_{i,t}$ is a dummy variable for fiscal years. All other continuous variables are winsorized at the 1st and 99th percentile. *, ** and *** denote statistical significance at the 10%, 5% and 1% levels, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)
VARIABLES	*CETR1_HA*	*CETR1_HA*	*CETR1_HA*	*ETR1_HA*	*ETR1_HA*	*ETR1_HA*
Lag_Pindex	-0.00559***	-0.00585***	-0.00537***	-0.00379**	-0.00342*	-0.00380**
	(0.00202)	(0.00199)	-0.00197	(0.00190)	(0.00189)	-0.00173
SIZE		0.0205***	0.0239***		0.0129***	0.0153***
		(0.00422)	-0.00423		(0.00334)	-0.00343
PTROA		-0.269***	-0.0801**		0.172***	0.774***
		(0.0309)	-0.0377		(0.0236)	-0.0409
INTANG			-0.00505			-0.0643***
			-0.0136			-0.0111
R&D			0.0776			-0.299***
			-0.114			-0.0855
LEV			-0.0202			-0.0661***
			-0.0135			-0.0104
EQINC			-2.648***			-1.675***
			-0.526			-0.467
PPE			-0.00184			0.00481
			-0.0192			-0.016
CAPX			0.0767**			-0.0412*
			-0.0302			-0.0236
FOREIGN			-0.546***			0.00673
			-0.0772			-0.0696
ATCF			-0.398***			-1.616***
			-0.0579			-0.0758
NWC			0.0687**			0.00284
			-0.028			-0.0217
Constant	0.302***	0.226***	0.212***	0.337***	0.235***	0.343***
	(0.00754)	(0.0268)	-0.0289	(0.00582)	(0.0216)	-0.0249
Observations	18,993	18,993	18,993	19,416	19,416	19,416
R-squared	0.025	0.044	0.058	0.058	0.064	0.172
Number of firms	1,310	1,310	1,310	1,341	1,341	1,341

Table 5: Tax Outcomes before and after CEO Turnover

This table reports the results of univariate tests of changes in tax rates one year before and one year after the CEO turnover events in the turnover sample of line 18 table 1. *CETR1_HA* measures the cash effective tax rate and winsorized between [0,1]. *ETR1_HA* measures the GAAP effective tax rate and winsorized between [0,1]. *, ** and *** denote statistical significance at the 10%, 5% and 1% levels, respectively.

Panel A: This panel reports means for every power level, conditioning on tax quartiles.

Low Tax

	(1)	(2)	(3)	(2)-(3)	(4)		(1)	(2)	(3)	(2)-(3)	(4)
CETR1_HA	N	Before Turnover	After Turnover	Diff	P-value	*ETR1_HA*	N	Before Turnover	After Turnover	Diff	P-value
Pindex=0	15	0.069	0.133	-0.065	0.144	*Pindex*=0	10	0.135	0.208	-0.074	0.04**
Pindex=1	104	0.054	0.163	-0.108	<0.01***	*Pindex*=1	112	0.084	0.24	-0.156	<0.01***
Pindex=2	180	0.053	0.18	-0.126	<0.01***	*Pindex*=2	187	0.089	0.234	-0.145	<0.01***
Pindex=3	80	0.06	0.179	-0.12	<0.01***	*Pindex*=3	78	0.09	0.226	-0.136	<0.01***
Pindex=4	14	0.068	0.111	-0.042	0.214	*Pindex*=4	23	0.098	0.179	-0.082	0.018**
Event	393	0.056	0.171	-0.115	<0.01***	*Event*	410	0.089	0.231	-0.141	<0.01***
Control	125	0.091	0.2	-0.109	<0.01***	*Control*	149	0.176	0.196	-0.02	0.145

Middel Low Tax

	(1)	(2)	(3)	(2)-(3)	(4)		(1)	(2)	(3)	(2)-(3)	(4)
CETR1_HA	N	Before Turnover	After Turnover	Diff	P-value	*ETR1_HA*	N	Before Turnover	After Turnover	Diff	P-value
Pindex=0	32	0.192	0.215	-0.024	0.273	*Pindex*=0	16	0.282	0.262	0.019	0.549
Pindex=1	117	0.2	0.23	-0.03	<0.01***	*Pindex*=1	115	0.275	0.253	0.022	0.054*
Pindex=2	161	0.2	0.25	-0.051	<0.01***	*Pindex*=2	176	0.274	0.251	0.022	0.037**
Pindex=3	71	0.192	0.22	-0.028	0.139	*Pindex*=3	98	0.263	0.258	0.006	0.725
Pindex=4	12	0.205	0.213	-0.008	0.377	*Pindex*=4	6	0.268	0.202	0.066	0.339
Event	393	0.198	0.235	-0.037	<0.01***	*Event*	411	0.272	0.253	0.019	<0.01***
Control	499	0.208	0.244	-0.036	<0.01***	*Control*	984	0.302	0.281	0.021	<0.01***

Middle High Tax

	(1)	(2)	(3)	(2)-(3)	(4)		(1)	(2)	(3)	(2)-(3)	(4)
CETR1_HA	N	Before Turnover	After Turnover	Diff	P-value	*ETR1_HA*	N	Before Turnover	After Turnover	Diff	P-value
Pindex=0	28	0.317	0.297	0.019	0.296	*Pindex*=0	32	0.35	0.347	0.004	0.865
Pindex=1	117	0.302	0.286	0.017	0.177	*Pindex*=1	130	0.349	0.315	0.034	0.002***
Pindex=2	166	0.301	0.298	0.004	0.786	*Pindex*=2	179	0.349	0.298	0.051	<0.01***
Pindex=3	75	0.306	0.278	0.029	0.145	*Pindex*=3	63	0.344	0.257	0.087	<0.01***
Pindex=4	8	0.307	0.352	-0.046	0.652	*Pindex*=4	7	0.344	0.266	0.078	0.205
Event	394	0.304	0.291	0.012	0.117	*All*	411	0.349	0.3	0.048	<0.01***
Control	891	0.302	0.302	0.000	0.932	*Control*	1438	0.348	0.322	0.027	<0.01***

High Tax

	(1)	(2)	(3)	(2)-(3)	(4)		(1)	(2)	(3)	(2)-(3)	(4)
CETR1_HA	N	Before Turnover	After Turnover	Diff	P-value	*ETR1_HA*	N	Before Turnover	After Turnover	Diff	P-value
Pindex=0	38	0.439	0.356	0.082	0.026**	*Pindex*=0	55	0.411	0.364	0.047	0.002***
Pindex=1	119	0.485	0.302	0.183	<0.01***	*Pindex*=1	122	0.431	0.364	0.067	<0.01***
Pindex=2	169	0.514	0.286	0.229	<0.01***	*Pindex*=2	167	0.487	0.347	0.14	<0.01***
Pindex=3	59	0.516	0.293	0.222	<0.01***	*Pindex*=3	60	0.481	0.34	0.142	<0.01***
Pindex=4	8	0.462	0.209	0.252	0.023**	*Pindex*=4	7	0.443	0.355	0.088	0.122
Event	393	0.497	0.297	0.200	<0.01***	*Event*	411	0.459	0.353	0.105	<0.01***
Control	626	0.377	0.328	0.049	<0.01***	*Control*	1448	0.372	0.342	0.031	<0.01***

Panel B: This panel reports a comparison of changes in tax rates for event firms and control firms.

CETR1_HA	(1) Δ in Event	(2) N1	(3) Δ in Control	(4) N2	(1)-(3) Diff	(5) P-value
Low tax	-0.115	393	-0.109	125	-0.006	0.730
Middle Low	-0.037	393	-0.036	499	-0.001	0.943
Middle High	0.012	394	0.000	891	0.012	0.217
High Tax	0.200	393	0.049	626	0.151	<0.01***

ETR1_HA	(1) Δ in Event	(2) N1	(3) Δ in Control	(4) N2	(1)-(3) Diff	(5) P-value
Low tax	-0.141	410	-0.020	149	-0.12	<0.01***
Middle Low	0.019	411	0.021	984	0.00	0.754
Middle High	0.048	411	0.027	1438	0.02	<0.01***
High Tax	0.105	411	0.031	1448	0.07	<0.01***

Table 6: Channel Analysis

This table presents the impact of powerful incoming CEOs on corporate tax avoidance through possible channels—*CAPX* and *EQINC*. We report the regression results on the relationship between new CEO power and capital expenditures and income from unconsolidated subsidiaries. The definitions of variables are presented in the Appendix. *X* is a set of control variables that are defined in the Appendix. The regression includes year-specific and firm-specific fixed effects. Robust standard errors are clustered at the firm level and reported in parentheses. $u_{i,t}$ is a dummy variable for each firm, and $v_{i,t}$ is a dummy variable for fiscal years. All other continuous variables are winsorized at the 1st and 99th percentile. *, ** and *** denote statistical significance at the 10%, 5% and 1% levels, respectively.

	CETR1_HA			*ETR1_HA*		
	(1)	(2)	(3)	(4)	(5)	(6)
VARIABLES	*EQINC*	*CAPX*	*SIZE*	*EQINC*	*CAPX*	*SIZE*
Lag_Pindex	0.00006*	-0.00206***	-0.00923**	0.00006*	-0.00199***	-0.0123***
	(0.00003)	(0.000612)	(0.00452)	(0.00003)	(0.000621)	(0.00469)
SIZE	-0.000004	0.00170		0.00004	0.00120	
	(0.000109)	(0.00198)		(0.000114)	(0.00199)	
PTROA	0.00690***	0.249***	-2.025***	0.00678***	0.252***	-1.982***
	(0.00108)	(0.0157)	(0.150)	(0.00105)	(0.0157)	(0.148)
INTANG	-0.000411	0.0177***	0.566***	-0.000486*	0.0151***	0.560***
	(0.000283)	(0.00525)	(0.0647)	(0.000283)	(0.00528)	(0.0646)
R&D	0.00328*	0.117**	-5.597***	0.00292*	0.111**	-5.500***
	(0.00194)	(0.0520)	(0.552)	(0.00175)	(0.0519)	(0.527)
LEV	0.00002	-0.0212***	-0.320***	0.000047	-0.0178***	-0.311***
	(0.000248)	(0.00539)	(0.0594)	(0.000238)	(0.00546)	(0.0592)
EQINC		-0.354	-0.0853		-0.359	0.823
		(0.218)	(2.420)		(0.219)	(2.602)
PPE	-0.000913	0.0553***	-0.622***	-0.000781	0.0597***	-0.649***
	(0.000771)	(0.00972)	(0.102)	(0.000733)	(0.00987)	(0.0981)
CAPX	-0.00118		0.126	-0.00113		0.0866
	(0.000737)		(0.146)	(0.000697)		(0.144)
FOREIGN	0.00197	-0.0880***	1.327***	0.00207	-0.0888**	1.381***
	(0.00226)	(0.0330)	(0.335)	(0.00220)	(0.0345)	(0.351)
ATCF	-0.00988***	-0.119***	0.748***	-0.00974***	-0.130***	0.724***
	(0.00176)	(0.0229)	(0.231)	(0.00173)	(0.0230)	(0.225)
NWC	-0.00156**	0.0551***	-0.340**	-0.00150**	0.0524***	-0.282**
	(0.000711)	(0.0114)	(0.137)	(0.000692)	(0.0116)	(0.136)
Constant	0.00190**	0.0976***	6.472***	0.00161*	0.102***	6.466***
	(0.000822)	(0.0139)	(0.0587)	(0.000842)	(0.0139)	(0.0584)
Observations	18,993	18,993	18,993	19,416	19,416	19,416
R-squared	0.021	0.235	0.640	0.020	0.232	0.634
Number of firms	1,310	1,310	1,310	1,341	1,341	1,341

Table 7: CFO Power ant Tax Avoidance

This table reports the results of OLS regression analysis of tax avoidance on new CEO power, CFO power and control variables. *CETR1_HA* is the annual cash effective tax rate and winsorized between [0,1]. *ETR1_HA* measures the annual GAAP effective tax rate and winsorized between [0,1]. *CETR3_DY* is the 3 year cash effective tax rate and winsorized between [0,1]. *ETR3_DY* measures the 3 year GAAP effective tax rate and winsorized between [0,1]. *X* is a set of control variables that are defined in the Appendix. The regression includes year-specific and firm-specific fixed effects. Robust standard errors are clustered at the firm level and reported in parentheses. $u_{i,t}$ is a dummy variable for each firm, and $v_{i,t}$ is a dummy variable for fiscal years. All other continuous variables are winsorized at the 1st and 99th percentile.

	(1)	(2)	(3)	(4)
VARIABLES	*CETR1_HA*	*CETR3_DY*	*ETR1_HA*	*ETR3_DY*
Lag_Pindex	-0.00538**	-0.00340*	-0.00286	-0.00161
	(0.00222)	(0.00187)	(0.00189)	(0.00214)
Lag_CFODirector	-0.0206***	-0.0174**	-0.000507	0.00197
	(0.00651)	(0.00729)	(0.00545)	(0.00648)
SIZE	0.0319***	0.0441***	0.0116**	0.0151**
	(0.00647)	(0.00735)	(0.00495)	(0.00614)
PTROA	-0.119**	0.116**	1.039***	0.680***
	(0.0502)	(0.0496)	(0.0552)	(0.0444)
INTANG	0.00963	0.0384**	-0.0724***	-0.0667***
	(0.0163)	(0.0181)	(0.0145)	(0.0162)
R&D	-0.0228	-0.0671	-0.327**	-0.461***
	(0.186)	(0.194)	(0.148)	(0.138)
LEV	-0.0376**	-0.0351**	-0.101***	-0.0457***
	(0.0174)	(0.0175)	(0.0148)	(0.0158)
EQINC	-3.006***	-1.251*	-2.914***	-2.670***
	(0.664)	(0.653)	(0.625)	(0.703)
PPE	-0.00674	0.0342	0.0257	-0.000978
	(0.0257)	(0.0288)	(0.0218)	(0.0285)
CAPX	0.0794*	0.0285	-0.0838**	-0.0315
	(0.0439)	(0.0414)	(0.0374)	(0.0442)
FOREIGN	-0.535***	-0.341***	-0.0384	-0.156*
	(0.0907)	(0.0883)	(0.0876)	(0.0927)
ATCF	-0.362***	-0.246***	-2.019***	-1.163***
	(0.0708)	(0.0678)	(0.0981)	(0.0781)
NWC	0.0942***	0.0640*	0.00997	0.00889
	(0.0341)	(0.0370)	(0.0281)	(0.0361)
Constant	0.154***	0.00480	0.379***	0.301***
	(0.0473)	(0.0512)	(0.0368)	(0.0456)
Observations	13,027	12,168	13,227	11,352
R-squared	0.066	0.053	0.203	0.137
Number of firms	1,091	1,065	1,110	1,032

Table 8: New CEO Power and Tax Avoidance across SOX

This table reports the results of OLS regression analysis of tax avoidance on new CEO power and control variables across SOX. *CETR1_HA* measures the cash effective tax rate and winsorized between [0,1]. *X* is a set of control variables that are defined in the Appendix. The regression includes year-specific and firm-specific fixed effects. Robust standard errors are clustered at the firm level and reported in parentheses. $u_{i,t}$ is a dummy variable for each firm, and $v_{i,t}$ is a dummy variable for fiscal years. All other continuous variables are winsorized at the 1st and 99th percentile. *, ** and *** denote statistical significance at the 10%, 5% and 1% levels, respectively.

	(1)	(2)	(3)	(4)
	Pre	Post	Pre	Post
VARIABLES	*CETR1_HA*	*CETR1_HA*	*ETR1_HA*	*ETR1_HA*
Lag_Pindex	-0.00703	-0.00469**	-0.00175	-0.00399**
	(0.00468)	(0.00222)	(0.00390)	(0.00192)
SIZE	0.00961	0.0248***	0.0314***	0.00919*
	(0.00941)	(0.00629)	(0.00900)	(0.00483)
PTROA	-0.152**	-0.128***	0.614***	0.915***
	(0.0617)	(0.0478)	(0.0693)	(0.0556)
INTANG	0.0469	-0.00968	0.00118	-0.0781***
	(0.0313)	(0.0151)	(0.0252)	(0.0130)
R&D	0.0115	0.156	-0.246**	-0.300**
	(0.164)	(0.194)	(0.110)	(0.144)
LEV	-0.0654***	-0.0140	-0.101***	-0.0819***
	(0.0231)	(0.0151)	(0.0202)	(0.0125)
EQINC	-2.567**	-3.354***	-1.549*	-2.457***
	(1.244)	(0.661)	(0.850)	(0.674)
PPE	0.0326	-0.00922	-0.0181	-0.00278
	(0.0385)	(0.0250)	(0.0340)	(0.0201)
CAPX	0.163***	0.0618	0.0326	-0.0562
	(0.0482)	(0.0390)	(0.0399)	(0.0342)
FOREIGN	-0.772***	-0.553***	0.383**	-0.0910
	(0.213)	(0.0872)	(0.162)	(0.0813)
ATCF	-0.547***	-0.379***	-1.580***	-1.798***
	(0.137)	(0.0597)	(0.146)	(0.0938)
NWC	0.116**	0.0809**	0.0379	0.0184
	(0.0561)	(0.0355)	(0.0464)	(0.0288)
Constant	0.295***	0.106**	0.248***	0.366***
	(0.0619)	(0.0457)	(0.0575)	(0.0366)
Observations	4,775	14,218	4,932	14,484
R-squared	0.043	0.059	0.129	0.178
Number of firms	937	1,253	972	1,281

Table 9: Firm Performance

This table reports the results of OLS regression analysis of tax avoidance and CEO power on buy-and-hold abnormal return. *CETR1_HA* measures the cash effective tax rate and winsorized between [0,1]. *ETR1_HA* measures the GAAP effective tax rate and winsorized between [0,1]. *AR12* measures buy-and-hold abnormal returns of the future12 months after the fiscal year end by using CRSP value index as a benchmark. *AR24* measures buy-and-hold abnormal returns of the future 24 months after the fiscal year end by using CRSP value index as a benchmark. *X* is a set of control variables that are defined in the Appendix. The regression includes year-specific and firm-specific fixed effects. Robust standard errors are clustered at the firm level and reported in parentheses. $u_{i,t}$ is a dummy variable for each firm, and $v_{i,t}$ is a dummy variable for fiscal years. All other continuous variables are winsorized at the 1st and 99th percentile.

	(1)	(2)	(3)	(4)
VARIABLES	*NI1*	*AR12*	*NI1*	*AR12*
CETR1_HA	-0.0182***	-0.211***		
	(0.00403)	(0.0244)		
ETR1_HA			-0.0186***	0.0283
			(0.00540)	(0.0293)
Lag_Pindex	0.00198**	0.0136**	0.00179*	0.0134**
	(0.000978)	(0.00576)	(0.000987)	(0.00576)
SIZE	-0.0316***	-0.162***	-0.0320***	-0.167***
	(0.00207)	(0.0111)	(0.00208)	(0.0114)
PTROA	0.546***	0.461***	0.562***	0.461***
	(0.0209)	(0.0966)	(0.0218)	(0.103)
INTANG	-0.0155**	-0.0336	-0.0162**	-0.0334
	(0.00754)	(0.0322)	(0.00760)	(0.0324)
R&D	-0.0156	-0.0117	-0.00162	0.0761
	(0.0624)	(0.283)	(0.0607)	(0.308)
LEV	0.00671	-0.0310	0.00551	-0.0210
	(0.00646)	(0.0370)	(0.00661)	(0.0377)
EQINC	0.496**	1.305	0.481**	1.917
	(0.223)	(1.281)	(0.219)	(1.306)
PPE	-0.0214**	-0.181***	-0.0225**	-0.186***
	(0.00938)	(0.0540)	(0.00939)	(0.0545)
CAPX	-0.0434***	-0.795***	-0.0531***	-0.828***
	(0.0151)	(0.0816)	(0.0152)	(0.0824)
FOREIGN	0.0623*	-0.0889	0.0788**	0.0470
	(0.0340)	(0.181)	(0.0343)	(0.182)
ATCF	0.0931***	0.253	0.0697**	0.388**
	(0.0304)	(0.155)	(0.0322)	(0.166)
NWC	-0.0511***	-0.457***	-0.0522***	-0.466***
	(0.0118)	(0.0622)	(0.0118)	(0.0655)
Constant	0.233***	1.262***	0.238***	1.196***
	(0.0147)	(0.0800)	(0.0147)	(0.0808)
Observations	18,625	16,097	18,829	16,202
R-squared	0.325	0.129	0.321	0.125
Number of firms	1,309	1,138	1,309	1,138

Table 10: Incoming CEO Power Indicator and Tax Avoidance

This table reports the results of OLS regression analysis of tax avoidance on new CEO power indicators and control variables. *CETR1_HA* measures the cash effective tax rate and winsorized between [0,1]. *ETR1_HA* measures the GAAP effective tax rate and winsorized between [0,1]. *X* is a set of control variables that are defined in the Appendix. The regression includes year-specific and firm-specific fixed effects. Robust standard errors are clustered at the firm level and reported in parentheses. $u_{i,t}$ is a dummy variable for each firm, and $v_{i,t}$ is a dummy variable for fiscal years. All other continuous variables are winsorized at the 1st and 99th percentile. *, ** and *** denote statistical significance at the 10%, 5% and 1% levels, respectively.

VARIABLES	(1) *CETR1_HA*	(2) *CETR1_HA*	(3) *CETR1_HA*	(4) *CETR1_HA*	(5) *ETR1_HA*	(6) *ETR1_HA*	(7) *ETR1_HA*	(8) *ETR1_HA*
Lag_Only	-0.0144***				-0.00944*			
	(0.00555)				(0.00492)			
Lag_Nstay		-0.0101**				-0.00769**		
		(0.00425)				(0.00376)		
Lag_Pay			-0.0119*				-0.0123**	
			(0.00699)				(0.00583)	
Lag_Forced				-0.0148				-0.00165
				(0.0120)				(0.0109)
SIZE	0.0239***	0.0239***	0.0241***	0.0240***	0.0153***	0.0153***	0.0155***	0.0154***
	(0.00422)	(0.00422)	(0.00422)	(0.00422)	(0.00343)	(0.00343)	(0.00343)	(0.00343)
PTROA	-0.0798**	-0.0797**	-0.0799**	-0.0806**	0.774***	0.774***	0.774***	0.774***
	(0.0376)	(0.0377)	(0.0377)	(0.0377)	(0.0409)	(0.0409)	(0.0410)	(0.0410)
INTANG	-0.00493	-0.00502	-0.00471	-0.00468	-0.0642***	-0.0643***	-0.0641***	-0.0639***
	(0.0136)	(0.0136)	(0.0136)	(0.0136)	(0.0111)	(0.0111)	(0.0111)	(0.0111)
R&D	0.0774	0.0774	0.0779	0.0789	-0.299***	-0.299***	-0.299***	-0.298***
	(0.114)	(0.114)	(0.114)	(0.114)	(0.0855)	(0.0855)	(0.0856)	(0.0856)
LEV	-0.0201	-0.0201	-0.0202	-0.0202	-0.0661***	-0.0661***	-0.0663***	-0.0662***
	(0.0135)	(0.0135)	(0.0135)	(0.0135)	(0.0104)	(0.0104)	(0.0104)	(0.0104)
EQINC	-2.652***	-2.653***	-2.652***	-2.658***	-1.678***	-1.679***	-1.674***	-1.684***
	(0.526)	(0.526)	(0.527)	(0.527)	(0.467)	(0.467)	(0.467)	(0.468)
PPE	-0.00177	-0.00181	-0.00152	-0.00171	0.00488	0.00482	0.00504	0.00501
	(0.0192)	(0.0192)	(0.0192)	(0.0193)	(0.0160)	(0.0160)	(0.0160)	(0.0160)
CAPX	0.0769**	0.0771**	0.0779***	0.0774**	-0.0411*	-0.0410*	-0.0404*	-0.0404*
	(0.0302)	(0.0302)	(0.0302)	(0.0302)	(0.0236)	(0.0236)	(0.0236)	(0.0236)
FOREIGN	-0.546***	-0.546***	-0.546***	-0.545***	0.00669	0.00681	0.00667	0.00700
	(0.0773)	(0.0772)	(0.0773)	(0.0773)	(0.0695)	(0.0696)	(0.0696)	(0.0696)
ATCF	-0.398***	-0.398***	-0.398***	-0.398***	-1.616***	-1.616***	-1.615***	-1.615***
	(0.0580)	(0.0579)	(0.0580)	(0.0580)	(0.0758)	(0.0758)	(0.0759)	(0.0759)
NWC	0.0688**	0.0690**	0.0695**	0.0691**	0.00304	0.00302	0.00340	0.00356
	(0.0280)	(0.0280)	(0.0280)	(0.0280)	(0.0217)	(0.0217)	(0.0217)	(0.0218)
Constant	0.212***	0.212***	0.210***	0.210***	0.343***	0.343***	0.341***	0.341***
	(0.0289)	(0.0289)	(0.0289)	(0.0289)	(0.0249)	(0.0249)	(0.0249)	(0.0249)
Observations	18,993	18,993	18,993	18,993	19,416	19,416	19,416	19,416
R-squared	0.058	0.058	0.058	0.058	0.172	0.172	0.172	0.172
Number of firms	1,310	1,310	1,310	1,310	1,341	1,341	1,341	1,341

Appendix A. Variables Definitions and Reference

Variable Name	Description
Tax variables	
CETR1_HA	Cash taxes paid (TXPD) divided by pretax book income before special items (PI-SPI) in Dyreng, Hanlon and Maydew (2010). *CETR1_HA* is set equal to missing if the denominator is negative, and all tax avoidance measures are bound between 0 and 1.
CETR3_DY	Cash taxes paid (TXPD) over the last 3 years scaled by total pretax income minus total special items over the same period of time in Dyreng, Halon, and Maydew (2008). We truncate *CETR3_DY* to the range [0,1] and remove firm-year observations with negative total pre-tax income, net of total special items, over the last 3 years.
CETR5_DY	Cash taxes paid (TXPD) over the last 5 years scaled by total pretax income minus total special items over the same period of time in Dyreng, Halon, and Maydew (2008). We truncate *CETR5_DY* to the range [0,1] and remove firm-year observations with negative total pre-tax income, net of total special items, over the last 5 years.
ETR1_HA	Total income tax expense (TXT) divided by pretax book income before special items (PI-SPI) in Dyreng, Hanlon and Maydew (2010). *ETR1_HA* is set equal to missing if the denominator is negative, and all tax avoidance measures are bound between 0 and 1.
ETR3_DY	Total income tax expense (TXT) over the last 3 years scaled by total pretax income minus total special items over the same period of time in Dyreng, Halon, and Maydew (2008). We truncate *ETR3_DY* to the range [0,1] and remove firm-year observations with negative total pre-tax income, net of total special items, over the last 3 years.
ETR5_DY	Total income tax expense (TXT) over the last 5 years scaled by total pretax income minus total special items over the same period of time in Dyreng, Halon, and Maydew (2008). We truncate *ETR5_DY* to the range [0,1] and remove firm-year observations with negative total pre-tax income, net of total special items, over the last 5 years.
Power variables	
Pay	Dummy that equals 1 if CEO pay is in the upper quintile of CEO pay in the same 2-digit industry (Cline and Boumosleh, 2022).
Nstay	Dummy that equals 1 if the leaving CEO does not stay as a director on the board (Cline and Boumosleh, 2022).
Forced	Dummy that equals 1 if the predecessor CEO was forced out (Cline and Boumosleh, 2022).
Only	Dummy that equals 1 if the incoming CEO is the only director on the board (Cline and Boumosleh, 2022).
CFODirector	A dummy variable that equals 1 if a Chief Financial Officer (CFO) is a director in the year; 0 otherwise in Mobbs (2018).
Firm characteristics	
SIZE	Natural logarithm of total assets at the beginning of the year (AT) in Hsieh, Wang and Demirkan (2018).
PTROA	Pre-tax income (PI) before special items (SPI) divided by beginning total assets (AT) in percentage in Hsieh, Wang and Demirkan (2018).
INTANG	Intangible Assets (INTAN) divided by beginning total assets (AT) in percentage in Christensen, Dhaliwal, Boivie and Grffin (2015).
R&D	Research and Development (XAD) divided by beginning total asset (AT) in percentage in Christensen, Dhaliwal, Boivie and Grffin (2015).
LEV	Total long-term debt (DLTT) divided by beginning total asset (AT). We set missing observations of DLTT equal to 0 in Baghdadi, Podolski and Veeraraghavan (2022).
EQINC	Equity income in subsidiaries (ESUB) divided by beginning total assets (AT) in Christensen, Dhaliwal, Boivie and Grffin (2015).
PPE	Tangibility calculated as net property, plant, and equipment (Compustat PPENT) divided by lagged total assets (Compustat AT). We set missing observations of PPENT equal to 0 in Baghdadi, Podolski and Veeraraghavan (2022).
CAPX	Capital expenditures (CAPX) scaled by beginning-of-period capital (PPEGT) in percentage in Christensen, Dhaliwal, Boivie and Grffin (2015).
FOREIGN	Foreign income calculated as pretax income from foreign operations (Compustat PIFO) divided by lagged total assets (Compustat AT). We set missing observations of PIFO equal to 0 in Baghdadi, Podolski and Veeraraghavan (2022).
ATCF	Earnings after interest, dividends, and taxes but before depreciation, divided by total assets ((OIBDP-XINT-TXT-DVC)/AT) in Hanlon, Maydew and Saavedra (2017).
NWC	The difference between working capital and cash holdings scaled by total assets ((WCAP-CHE)/AT) in Hanlon, Maydew and Saavedra, (2017).
AR12	Buy-and-hold abnormal returns of the future 12 months after the fiscal year end by using CRSP value index as a benchmark in Fama (1998).
NI1	Net income (NI) at t+1 scaled by beginning total assets (AT) in Bhojaj, Hribar, Picconi and Mcinnis (2009).