

Leisure Preference and Tax Planning

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Abstract

Using a novel measure of cross-country variation in leisure preference to quantify managerial effort aversion, we examine its impact on corporate tax avoidance. We find a negative association between preference for leisure and corporate tax avoidance. The result is stronger when firms are located in countries with a more complex tax system, or when firms have less access to external tax consulting services — situations in which corporate tax planning can be especially onerous and effort consuming. Finally, tax planning appears to be one mechanism mediating the negative relation between leisure preference and firm value, implying that effort aversion is a source of agency costs that impedes value-enhancing tax planning activities.