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Customer-supplier relationships and corporate tax avoidance*

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ABSTRACT

We investigate whether firms in close customer-supplier relationships are better able to identify and implement tax avoidance strategies via supply chains. Consistent with our prediction, we find that both principal customers and their dependent suppliers avoid more taxes than other firms. Further analysis suggests that principal customers and dependent suppliers likely engage in tax strategies involving shifting profits to tax haven subsidiaries. Moreover, tax benefits appear to explain both principal customer firms’ and dependent supplier firms’ organizational decisions. Overall, our study provides evidence of the importance of tax avoidance as a source of gains from these relationships.

JEL Classification: H25, H26, L14

Keywords: Tax avoidance, customers, suppliers, industrial organization, supply chain

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