Do companies use mergers to avoid corporate income taxes?

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May 2018

ABSTRACT

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Using staggered changes in state corporate income tax rates, we document that firms are more likely to undertake an acquisition and pay cash when taxes increase because higher taxes make the use of debt in mergers more attractive. The likelihood is greater for financially constrained firms. We find no change in the CAR and takeover premia after tax increases, suggesting that mergers are a tool for neutralizing the negative effect of higher taxes on incentives and bringing the firm back to its equilibrium path. Finally, we find that a target is more likely to be acquired if its state corporate income tax rate decreases. The acquisition of targets in lower tax states is followed by a shift in operations by the acquiring firm to the state of the target to reduce its tax burden.

1. Introduction

Do firms use mergers to shield their profits from the government? Although there have been several attempts to study this question in the extant literature, the answer is still inconclusive. The challenge has been to determine the channels through which that happens and to establish causality. The extant literature focuses predominantly on the use of carry-forward of net operating losses of the target firm, and since there are statutory limitations, not surprisingly there is not much evidence that taxes matter for mergers. In this paper, we complement previous research by exploring alternative channels, through which taxes can affect merger activity. In particular, we hypothesize that firms will be more likely to acquire other firms and use cash to pay for the acquisition when corporate taxes increase to take advantage of the debt tax shield. Furthermore, we argue that acquirers can benefit from a tax decrease in the target state to shift their operations to that lower tax state. To address causality concerns, we employ state level changes in corporate income taxes that are largely exogenous to the individual firm.

Mergers for tax reasons have also been in the news and political debates as US firms have merged with foreign counterparts and have incorporated in the foreign country that has a lower tax rate in a process known as "tax inversion". President Obama has called these firms corporate deserters while presidential candidates Hillary Clinton and Bernie Sanders argued that they are unpatriotic.[1] Hillary Clinton even proposed an "exit tax" in her presidential campaign to penalize such mergers. We address this issue in the context of US firms and states by examining whether targets that operate in states that experience a decrease in the state income tax rate are more likely to be acquired. In this way, we avoid concerns about small sample sizes and large observed and

[1] https://www.youtube.com/watch?v=RnOcriWhuYk

unobserved cross country differences such as different legal regimes, culture, tax treatments, and accounting standards.

The extant literature has long recognized that at least in theory, acquirers can use mergers as a means to lower taxes, creating a source of merger gains (Auerbach and Reishus (1988), Scholes and Wolfson (1989)). The empirical evidence, however, on whether tax synergies are actually a motivation for merger activity is mixed. On one hand, tax attributes of the target, like net operating loss carry-forwards, are associated with larger abnormal returns for the merging firms (Hayn (1989)), and financial leverage of combined firms increases following mergers, potentially allowing for greater interest deductibility (Ghosh and Jain (2000)). However, the Tax Reform Act of 1986 placed many restrictions on some of the preferred methods of lowering tax liabilities through acquisitions (Auerbach and Slemrod (1997)). Furthermore, recent evidence from Value Line forecasts indicates that tax considerations may not be a major source of merger gains (Devos, Kadapakkam, and Krishnamurthy (2009)).

A key challenge in pinpointing whether taxes are a motivation for merger activity is the ability to cleanly identify the causal impact of taxation from confounding factors. In much of the prior work, the endogeneity of taxes is rarely taken into account. In this study, we use changes in *state* corporate tax rates to identify a potential casual association between taxes and merger activity. Recent research indicates that corporate leverage and borrowing increases after an increase in the state corporate tax rate (Heider and Ljungqvist (2014)). Some firms, however, may have limited borrowing capacity and may be unable to increase leverage too much after a tax increase. If a firm acquires another firm, the combined entity can have a larger borrowing capacity stemming from a lower cost of capital, and the additional value created by the debt tax shield. Lenders can also use the assets of the target as an additional collateral.

In this paper we complement Heider and Ljungqvist (2014). Faced with a higher state corporate tax rate, a firm may wish to fully utilize the higher debt tax shield by borrowing to finance new acquisitions. In this way, that firm may be better able to increase its leverage and circumvent its limited borrowing capacity.

Our empirical results provide statistical and economic support for our main hypothesis. We use staggered changes in corporate state income tax rates and a differences-in-differences methodology to demonstrate that firms subject to a state corporate income tax increase are 9.2% more likely to acquire another firm than otherwise similar firms not subject to a tax increase. We also show that firms that experience tax increases are more likely to pay cash. The possible reason for that finding is that firms that use cash payments usually increase their debt to finance the acquisition.

We find similar effects when we analyze the data at the state-year level instead of the firm-year level. Tax increases are associated with higher number of firms engaging in acquisitions overall in that state. Furthermore, we find that firms are more likely to acquire targets in states where the tax rate of the target state is lower than the tax rate of the acquiring firm. This effect is magnified during years when the acquiring firm's state taxes increase.

We argue that our empirical design and evidence can be interpreted as showing a causal effect of tax increases on acquisition activity since the variation in taxes is coming from changes in state tax policy. One concern to this causal claim may be that firms could exert political influence in determining state tax policy, drawing into question the exogeneity of the tax increases. However, this seems unlikely because one would expect firms to exert political influence in order to *decrease* taxes in their own state of operations, not increase them. However, we find that tax decreases have no effect on the probability of being an acquirer and that the effect is entirely

concentrated for tax increases. Thus, firms' political influence is highly unlikely to impact our causal claims.

The next question is whether mergers for tax reasons create additional shareholder wealth. On the one hand, since the value of the tax shield increases, we would expect an increase in equity value. On the other hand, if firms are already operating in an equilibrium, a tax increase will destroy that equilibrium and reduce firm productivity by affecting the incentives of different stakeholders (Atanassov and Liu (2015)). Therefore, the firm will acquire a target to restore the status quo and we will see no effect on shareholder wealth.

We find support for the second hypotheses. Tax increases are unrelated to CAR after the merger announcements and to the premium paid for the target.

To lend additional credibility to our main story, we conduct further tests to see if firms are merging to take advantage of the tax shield. As we mention above, if the tax rate increases, firms can just increase their leverage (Heider and Ljungqvist (2014)), without engaging in a costly merger. The main reason why a merger may be preferred is if the acquirer has limited borrowing capacity or has maxed out its borrowing capacity even if it was large to begin with.

We explore this conjecture by interacting the tax change with a measure of financial constraints. We find that tax increases are more likely to lead to a merger for financially constrained firms. Our results are robust for different measures of financial constraints.

Finally, we look at target characteristics to examine if changes in the tax rate of the target can affect the probability of the merger and the choice of a target. We follow a similar intuition as the "tax inversion" rationale described above. Unlike taxation at the federal level that is influenced significantly by the country of incorporation, however, state income taxation is based on the scale of business activity that occurs in a given state such as sales, the number of employees and property

owned by the firm. We find that a decrease in the state corporate income tax rate increases the probability of a target being acquired.

Presumably, the acquirer can take advantage of the lower tax rate by shifting similar operations to the lower income tax state. We find supporting evidence of this by analyzing the number of times a particular state is mentioned in the annual filings before and after the acquisition. We find that when the target firm's state has a lower tax rate than the acquiring firm's state, the acquiring firm's state is mentioned less often and the target firm's state is mentioned more often even three years after the acquisition. Using the number of mentions in the annual filings as a noisy proxy of the operations, sales, or employees in that state, it thus appears that firms shift these factors to the lower tax domicile after an acquisition.

We are cautious in interpreting this last result in a causal manner, however, as it could be possible that firms exert political influence to lobby their state legislatures to decrease taxes. Thus, if firms that wish to increase their attractiveness as a takeover target achieve this through lobbying for lower taxes, then the tax decrease may be endogenous. However, this seems like a very inefficient method, since the firm could more easily simply commit to accepting a lower premium from the buying firm in order to achieve the same outcome. It is, nevertheless, a caveat to the causal interpretation of this particular result.

This paper contributes to the existing literature in several ways. First, it focuses on the tax shield of debt to show that mergers can be advantageous to the acquirer to soften the burden of higher tax rates. Second, it uses an exogenous change in corporate income taxes to mitigate endogeneity concerns. Third, it complements the existing literature on taxes and leverage by arguing that by using mergers, firms can increase their debt capacity and take additional advantage

of the tax shield of debt. Fourth, it shows that the tax rate of the target significantly affects the probability of it being acquired.

The paper is organized as follows. Section 2 presents the data and the empirical methodology. Section 3 describes the main empirical findings. Section 4 concludes.

2. Data

A. Background and Data on State Tax Changes

In practice, state tax is assessed based on three main firm characteristics: percentage of sales, of employees and of physical assets in a given state. Different states assign different weights on these three characteristics. As we do not have specific information on these three components, we try to approximate the most relevant state to which the tax rate is applied by deducing where the firm conducts most of its business.

To this end, we use state count information from Garcia and Norli (2012), who compute the number of times a 10-K report mentions a U.S. state name for all 10-K filings from the SEC's online database from 1994 to 2008. All public firms are required to file a 10-K report with the SEC within 90 days of their fiscal year end. These annual reports contain detailed information regarding the firm's operations and financial performance during the year. More importantly, these reports can also contain information on the location of the firm's properties and sales in different geographic areas.

The state count data consist of 84,117 firm-year observations for 11,811 publicly-traded firms from 1994 to 2008. For each firm-year observation, each state's share of the total number of state counts is reported. California, Texas, New York, Florida, and Illinois are among the most mentioned states, whereas Rhode Island, South Dakota, and North Dakota are among the least

mentioned states. As explained above, state taxes are computed based on the firm's sales, property, and payroll presence in a state. To the extent that the state mentions in 10-K filings are related to the location of the firm's sales, properties, and employees, more frequently mentioned states tend to be more important for tax purposes than less frequently mentioned states.

To construct the relevant state for firms in our sample, we first find the most mentioned state for each firm-year observation, then use the most frequently occurring most mentioned state across all years for a given firm as the most relevant state for that firm. In our main analysis, we use a single time-invariant state that is mentioned the most for each firm during the sample period to alleviate problems with endogenous state moves. For robustness, we also use the time-varying most mentioned state and obtain similar findings.

The list of changes in the top bracket state corporate taxes from 1988 to 2011 comes from Heider and Ljungqvist (2014). They use data from the Tax Foundation, the Book of States and the Journal of State Taxation to identify these tax changes. Based on this list, we create two key indicators. Tax Increase equals one if there is an increase in the top bracket state corporate tax rate in year *t* in the most mentioned state *s*, and zero otherwise. Tax Decrease equals one if there is a decrease in the top bracket state corporate tax rate in year *t* in the most mentioned state *s*, and zero otherwise. The tax variable equals one in the year of the change and zero in all subsequent years. The tax increases and decreases are presented in Appendix Table 1. From 1988 to 2011, there are 41 tax increases and 78 tax decreases.

B. Data on Mergers

Our data for merger announcements come from Thomson One Securities Data Corporation's (SDC) U.S. Mergers and Acquisitions database. We start with all merger announcements in SDC between 1988 and 2011. We exclude all buybacks, share repurchases,

self-tenders, and spinoffs, and require the acquirer to be a publicly traded firm in order to obtain financial statement data. These restrictions reduce the sample to 70,497 merger announcements. After merging with Compustat financial statement data and CRSP stock return data, we create a firm-year unbalanced panel dataset consisting of 99,356 observations of 10,167 firms from 1988 to 2011. We do not place any sample restrictions on the firms or observations in Compustat, and so our sample contains virtually all firms and observations in the Compustat database.

We present the basic summary statistics of our sample in Table 1. Approximately 26% of firm-years in our sample involve the firm engaging in an acquisition, with 9.4% of the observations involving an "all-cash" acquisition. State tax decreases are more common than tax increases, with roughly 7% of the firm-years involving a state tax decrease, while only 2.6% for a state tax increase. The other control variables measuring firm financials, such as market-to-book, leverage, cash intensity, etc., are roughly equal to Compustat averages, as we make no sample restrictions on that database.

3. Results

A. Effect of Tax Changes on Acquisition Probability

We first test whether state tax increases and decreases affect the likelihood that a firm engages in an acquisition. The results from a linear probability regression over a firm-year panel are displayed in Table 2. All models include fixed effects for the firm, year, and the most mentioned state for the firm. Standard errors are clustered at the firm-level. The dependent variable in Column 1 is an indicator equal to 1 if the firm announced an acquisition in the current year and the main independent variable is "Tax Increase", an indicator equal to 1 if state corporate taxes increased in that year, and 0 otherwise. A state tax increase is associated with a 0.015 higher

probability that a firm in that state announces an acquisition, and is statistically significant at the 5% level. Compared to the mean acquisition rate of 0.261, the increase of 0.015 translates into an increase of 5.7%.

Since our conjecture is that firms are more likely to engage in acquisitions after tax increases due to lower borrowing costs stemming from the debt tax shield, columns 2 and 3 test whether tax increases affect the likelihood of acquisitions that are paid in cash (which are more likely to be financed with debt borrowing). The dependent variable in column 2 is an indicator equal to 1 if the firm engaged in an acquisition in the current year that was "mostly cash", i.e. one where more than 50% of the payment to the target will be in the form of cash (as opposed to stock). The dependent variable in column 3 is an indicator equal to 1 if the firm engaged in an acquisition in the current year that was an all-cash payment to the target. In both instances, we find that a state tax increases are associated with a roughly 2 percentage point increase in the probability of cash-based acquisitions, both significant at the 1% level.

The models in Table 2 also include an independent variable for "Tax Decrease", an indicator equal to 1 if state corporate taxes decreased in the current year, and 0 otherwise. We find no association between state tax *decreases* and the probability that a firm engages in an acquisition, whether it be cash-based or stock-based. Furthermore, the coefficient on "Tax Decrease" is actually positive, but statistically insignificant and very close to zero in economic magnitude.

Note that all the models in Table 2 included state, year and firm fixed effects. Note that the firm fixed effect controls for the time-series historical average acquisition likelihood for each firm. Thus, the coefficients can be interpreted as magnitudes relative to the *firm*-level historical average acquisitiveness. A state tax increase is associated with a 1.5 percentage point increase in the

probability that a firm engages in an acquisition, and a 2.2 percentage point increase in an acquisition that is "all-cash", relative to the given firm's historical probability.

A potential concern about our main specification is that there could be omitted time-varying state factors that predict both merger activity and tax increases. In order to further isolate the effect of tax increases on merger activity, we test the timing of the increase in merger activity by including indicators for each event-year in [*t-2, t*+2] around the tax increase. If time-varying omitted variables at the state level explain our result, it is likely that these time-varying factors may also influence merger activity in the year or two prior to the actual tax change. It would certainly be a cause for concern if indicators for year *t-2* or year *t-1* also predict an increase in merger activity. However, this is not the case, as can be seen from the reported results in Table 3. The coefficients on all years except for the year of the tax increase are general insignificant and very close to zero. Moreover, the magnitude of the coefficient for year 0 is virtually identical to that from the prior tables. While we cannot absolutely rule out time-varying omitted factors at the state-level, the fact that the effect *only* exists in the year of the tax increase and not in the years prior speaks against this possibility.

Another empirical strategy we employ is to conduct a "first-difference" linear model, where all variables are coded as *changes* in their respective values. This should effectively purge any omitted factors related the firm, industry, or state that are relatively stable over a two-year period. This places a very restrictive circle around the set of possible omitted factors that could otherwise explain the results. Using this specification, reported in Table 4, we find that tax increases do not explain acquisitions in general, but are positively associated with acquisition activity that is "mostly-cash" or "all-cash" financed. An increase in state taxes is associated with a 1.7 percentage point increase in the probability that an affected firm engages in an "all-cash"

acquisition in the year of the tax increase. We again find no association between tax decreases and acquisition activity.

Our empirical analysis thus far has been at the firm-year level. However, our main independent variable, state taxes, varies only at the state-year level. We thus also explore whether the effect is seen at the state-level, not just at the firm-level, by aggregating all variables for each state and year. Panel A of Table 5 reports the results of a OLS state-year panel regressions where the dependent variable is the number of acquisitions taken by all firms in that state in each year and the main independent variable is an indicator for either a state tax increase or decrease in the year of the change. We also control for the number of firms in that state, the state unemployment rate, and the log of state GSP and include a fixed effect for each state and each year. We find that when a state increases their corporate tax, firms in that state engage in more cash-based acquisitions, however acquisitions in general are unaffected. Once again, tax decreases do not have any association with acquisition activity. We repeat the exercise in Panel B of Table 5, but instead calculate all variables as changes from the prior year. This should effectively purge the model of any fixed omitted variables at the state-level. We find very similar results, with tax increases associated with higher acquisition activity stemming from that state and tax decreases having no effect.

The state-level analysis in Table 5 allows us to make inferences about not just how certain firms respond in a particular state, but how state tax policy could have an impact on aggregate acquisition activity for the *average* firm in that state. It is generally hard to identify the marginal firm that tends to be the central focus of most economic analysis. However, it appears that state tax policy plays a significant role for the *average* firm in that state, at least in terms of how they view the attractiveness of engaging in acquisitions.

We conduct two further data exercises in order to provide further confidence in the causal impact of the tax increases on the likelihood of being an acquirer. First, although we include state fixed effects in all regressions, it may be possible that there are some time-varying regional factors that influence the timing of the state tax increase. To guard against this, we include a control for tax increases or decreases in *neighboring* states, with the assumption that any time-varying regional factors would affect neighboring states roughly equally but the tax increase only affects states with operations in that state. As shown in Table 6, tax increases or decreases in neighboring states have no effect on a firm's likelihood of being an acquirer. Tax increases in the firm's own state however continue to have a positive and statistically significant impact while tax decreases in the own state continue to have no impact.

However, one may still reasonably argue that neighboring states are not a perfect counterfactual. Therefore, we additionally include changes in *other* taxes at the state-level like the personal income tax and capital gains taxes as further controls. These tax changes should capture further time-varying factors at the state level, especially those factors that necessitate changes to the state personal income tax code. As seen in Table 7, the addition of these time-varying state personal tax variables have no effect on the likelihood of a firm in that state engaging in an acquisition. We continue to find our baseline effect of state corporate tax increases resulting in a one to two percentage point increase in the likelihood of a firm engaging in an acquisition, with tax decreases again having no effect.

We conduct three further robustness exercises to provide additional confidence in our findings. First, instead of using one state as the firm's tax location for the entire sample, we allow the most-mentioned state to vary over time, thus allowing for the possibility that a firm could be taxed in one state in one year and another state in another year based on how frequently it mentions

that state in its annual filings. Second, we use a firm's historical headquarter location as the tax domicile instead of the most-mentioned state, since this may be less prone to manipulation in the filings and also has better data coverage. Neither of these alternate methods for assigning a firm to a tax domicile alter our results, as seen from Panels A and B of Table 8. Third, we conduct a falsification exercise where we assign a randomly chosen state as the firm's tax domicile. From Panel C of Table 8, tax increases in this randomly chosen state domicile do not have any statistically significant effect on the likelihood of conducting an acquisition.

B. Heterogeneous Treatment Effects – Which Firms are Most Affected?

In attempt to understand the mechanism behind the association between tax increases and merger activity, we analyze heterogeneous treatment effects to explore whether the effect is more pronounced for certain types of firms than others. We focus on three factors separately: financial constraints, profitability, and cash holdings.

Financially constrained firms may find it easier to borrow after a tax increase due to the lower debt borrowing costs stemming from the increased value of the debt tax shield. We thus predict that the effect should be stronger for more constrained firms. Following Whited and Wu (2006) and Hennessy and Whited (2007), we proxy for financial constraints using the Whited-Wu Index.

Second, tax increases should be more relevant for firms that have profits that can be taxed. Firms with negative income would only be affected to the extent of their deferred tax liability, if at all. We thus predict that our baseline effect should be stronger for firms with non-negative income.

Third, firms may be motivated, in part, to engage in acquisition activity in order to spend their "excess" cash. Tax increases may accelerate this process, and so we predict that the effect of tax increases on higher merger activity should be more pronounced in the subsample of firms with larger amounts of excess cash. Excess cash is defined using benchmark models from Opler, Pinkowitz, Stulz, and Williamson (1999) and Dittmar and Mahrt-Smith (2007).

From the results reported in Table 9, we find that tax increases continue to be associated with a higher probability of engaging in an acquisition, and that this effect is more pronounced for firms that are financially constrained, have non-negative income, and have high levels of excess cash. The magnitude of the effect is slightly larger than our sample average, at about 2.5 percentage points (as opposed to 1.5 to 2 percentage points for the entire sample). We find no effect of tax increases on merger activity for the opposite set of firms.

Overall, the results from Table 9 are consistent with tax increases alleviating borrowing constraints for financial constrained firms, allowing them to engage in acquisitions that may not have been feasible prior to the tax change due to lower costs of debt financing through the increased value of the debt tax shield. Furthermore, firms with non-negative income pursue mergers more frequently after a tax increase, again consistent with the increased value of the debt tax shield.

C. Impact of Tax Changes on Merger Quality and Deal Terms

Our results thus far provide support for state tax increases spurring firms to engage in acquisitions. However, it is not clear if these are good deals for shareholders or not. While there is no single variable that can definitively indicate whether deals increase shareholder wealth or not, we use the acquirer's stock price response to the announcement to judge the market's perception of the quality of the deal. Our hypothesis based on debt tax shields would predict that an increase

in the state taxes increases the value of the debt tax shield, decreasing the cost of debt financing, thereby increasing the NPV of acquisitions. This seems to imply that the average announcement return should be higher after a tax increase. However, it may not be so obvious due to the fact that on the margin, certain acquisitions that would have had close to zero but negative NPV prior to the tax increase may have positive NPV after the increase. This may end up lowering the average NPV of the deals that are undertaken, if enough negative NPV deals move into positive territory. Lacking the distribution of the NPV of the full set of deals (both those that are taken and those that are not), our hypothesis does not have a clear prediction for the effect of a tax increase on the average announcement return. Nevertheless, we examine the issue to understand how these returns change before and after changes in state taxes.

For each deal, we calculate the cumulative abnormal return (CAR) to the acquirer's stock over trading days [-1,+1] and [-3,+3] around the announcement date by adjusting the raw return by the size and book-to-market quintile portfolio matched returns, available from Ken French's website. Table 10 reports the results of deal-level OLS regressions where the dependent variable is the acquirer's announcement CAR and the main independent variable is an indicator for whether the acquirer's state taxes increased in the current year. We do not analyze tax decreases, as our prior analysis demonstrates that decreases do not appear to have any effect on acquisitions. Panel A reports the results for all acquisitions, with Column 1 restricting the sample to public targets, Column 2 to private targets, and Column 3 for all targets. In all cases, we find no association between state tax increases and acquirer CARs. Columns 4-6 repeat the exercise with the 3-day announcement window with similar results.

Panel B of Table 10 repeats the exercise from Panel A, but restricting the sample to only those deals where 50% or more of the deal value is paid in cash. The intuition behind this is that

cash deals tend to have much higher announcement returns for public targets as shown in Chang(1998) and in Table 7 Panel A. Moreover, some of the specifications in our earlier tables indicate that tax increases may increase the likelihood of cash deals as opposed to stock deals. Perhaps, the type of deals that firms undertake with cash after a tax increase are different in unmeasurable ways, and so we may be able to find an association between announcement CARs and tax increases in this subsample. However, after restricting the sample to these acquisitions, we still find no association between state tax increases and acquirer announcement CARs.

The results from Table 10 are still entirely consistent with our hypotheses. As noted earlier, tax increases may change the value of marginal deals from NPV negative to NPV positive. If firms engage in enough of these "near-miss" projects after a tax increase that they would not have engaged in prior to the increase, then the NPV of the *average* deal undertaken after the increase may be roughly the same as the NPV of the *average* deal prior to the change.

Moreover, higher taxes have a negative effect on productivity as documented by Atanassov and Liu (2015). Therefore, our results indicate that the positive effect of the increased value of the tax shield are neutralized by the negative effects on firm performance. As a result, we see the negative coefficient on the tax increase variable, which indicates that there is no difference in merger announcement returns before and after the tax change. It appears that firms undertake mergers to get back to their previous equilibrium with no loss (and also no gain) in performance.

We also analyze whether the type of deal undertaken after tax increases is different based on the acquisition premium paid to the target. If the tax increase raises the NPV of the deal through an increase in the debt tax shield *and* acquiring firms pass on the savings to the target, it may be possible that the premia are higher after the tax increase. However, it may also be possible that premia are no different under our hypothesis for two reasons. One, acquirers may not pass on the

increase in value to the target. Second, some marginally negative NPV deals prior to the increase may now be NPV positive, having an uncertain effect on the overall *average* premium. A priori, it is not clear which direction will dominate and as such, we treat it as an empirical question. The results from Table 11, however, indicate that there is no association between tax increases and the average deal premium.

D. Effect of Tax Changes on Selection of Targets

If firms use mergers as a method of reducing their tax liability, especially during periods of tax increases, one would expect them to select target firms that better allow them to do so. For example, they may be more likely to select firms in states with lower tax rates or firms in states that have recently decreased their taxes. We analyze these predictions in this section.

We first analyze the effect of tax changes on the probability that a firm becomes a *target* of an acquisition. The effect of tax changes should be reversed in this scenario, where an acquirer would be more likely to acquire a firm that is located in a low tax state in order to potentially lower its tax bill. This prediction is supported with the results reported in Table 12. Using our standard firm-year panel regression, we find that tax increases reduce the probability of firms in that state becoming the target of an acquisition by about 0.8 to 1 percentage point while a tax decrease is associated with a 0.5 percentage point increase in the probability of a firm in that state becoming a target of an acquisition. Given that the unconditional probability of becoming a target is only 3.0%, these represent non-trivial economic effects.

One reason for the negative relationship between tax increases and probability of being a target may be due to the deductibility of operating losses from taxable income. Acquirers may select targets with high operating losses in order to offset profits in the acquiring firm. We find limited

evidence of this channel. In column 2 of Table 12, we find that while having operating losses is positively associated with the likelihood of being acquired, the interaction between operating losses and the tax increase or tax decrease variables is insignificant.

Alternately, firms may select targets that operate in states with lower tax *rates* than their home state in order to potentially shift some operations to the target state and thereby reduce their tax liability (since firms are taxed, in part, based on the amount of sales and operations in each state). We investigate this possibility in Table 13, where each observation is a $State_A$, $State_B$, year combination. The dependent variable is an indicator equal to 1 if a firm in $State_A$ announced an acquisition for a firm in $State_B$ in that year, and 0 otherwise. The main independent variables are an indicator for whether the acquiring firm's state tax rate is greater than the target firm's state tax rate and an interaction between that indicator and a tax increase at the acquirer's state. Consistent with acquirers selecting targets in lower tax rate states, we find that the probability of a firm in $State_A$ acquiring a firm in $State_B$ is higher when the tax rate in $State_A$ is higher than the tax rate in $State_B$, and that this effect is amplified in the year when the tax rate in $State_A$ is increased. Note that these regression models include fixed effects for each acquirer state and year combination, effectively absorbing any factors that may change at the annual level in each acquiring firm's state. We thus find corroborating evidence that firms choose targets that enjoy a lower tax rate than the acquiring firm.

However, in order to enjoy any tax advantage through such an acquisition, the acquiring firm must shift sales, employees, and/or operations to the lower tax state. The results from Table 14 demonstrate that this indeed is the case. We test this by analyzing the change in the most mentioned state in the annual filings from before and after the acquisition. If the acquiring firm shifts

operations to the target state, we should expect to see more mentions of the target state in subsequent filings and less mentions of the acquiring firm's state. This is exactly what we find.

The dependent variable in Panel A of Table 14 is the number of mentions of the acquiring firm's state in years after the acquisition minus the number of mentions in the year prior to the acquisition. We observe a decrease in the number of mentions for the acquiring firm's state one year after the acquisition (Column 1), two years after the acquisition (Column 2), and three years after the acquisition (Column 3), when the acquiring firm's state tax rate is higher than the target firm's state tax rate. We repeat the exercise in Panel B of Table 14, but analyze the number of mentions of the target firm's state after the acquisition minus the number of mentions of that state in the year prior to the acquisition. We similarly find that the number of mentions for the target firm's state increases one year after (Column 1) two years after (Column 2), and three years after the acquisition (Column 3), when the acquiring firm's state tax rate is higher than the target firm's state tax rate.

Another way for firms to shift operations to a lower tax state is to move their headquarters to that location. However, this may be harder to accomplish logistically as compared moving some employees or sales. We investigate whether firms are more likely to shift their headquarters to the target firm's state after an acquisition, especially after a tax increase or decrease. We do not find any evidence of such changes to the headquarters. As reported in Table 15, there is no association between a tax increase at the acquiring firm's state and the probability of changing headquarters to a lower tax mentioned state or lower tax headquarter state either in the year after or two years after the acquisition. Thus, it appears that firms are unable or unwilling to move headquarter locations, but are more able or willing to shift sales, employees, or operations to a lower tax rate state (as proxied by the number of mentions in the annual filings) after an acquisition.

E. Do Firms Increase Debt?

A crucial assumption in our argument that firms will increase acquisition activity after a tax increase in order to take advantage of the debt tax shield is that firm do, in fact, borrow more after a tax increase. While Heider and Ljungqvist (2015) demonstrate this is true, we confirm this for completeness using our sample. We define a variable "New Debt Issuance" which is equal to long term debt issuance minus long term debt reduction, all scaled by book assets. We regress this variable in a firm-year panel setup on an acquisition dummy (equal to 1 if a firm engaged in an acquisition that year), a tax increase dummy, and an interaction between the two. We find that firms that engage in an acquisition do indeed issue new debt. Moreover, the interaction between the tax increase dummy and the acquisition dummy is positive and statistically significant, indicating that firms issue even more debt when they engage in an acquisition in the same year as the tax increase. This provides confirmation of the basic assumption underlying our mechanism: when taxes increase, firms borrow more to fund acquisitions in order to take advantage of the debt tax shield.

4. Conclusion

The role of taxes in mergers is hotly debated both in academic and political circles. Despite the popularity and focus on this topic, the extant evidence is unclear as to whether taxes *cause* firms to engage in mergers and whether these mergers are on average value increasing. A primary source of ambiguity in interpreting the existing evidence is that the taxes a firm pays is generally jointly determined by other factors at the firm-level, like productivity or profits, that also may influence acquisition activity. In this paper, we circumvent this empirical problem by analyzing

changes to a firm's tax environment based on changes to *state* taxes, which should be orthogonal to other factors at the firm-level mentioned earlier.

While a firm could certainly have lobbying influence on tax policy, especially at the state-level, it is highly likely that these lobbying efforts are geared towards *decreasing* state taxes. However, all our evidence indicates that tax decreases have relatively little effect on a firm's acquisitions. Instead, the effect on the likelihood of being an acquirer is entirely concentrated on tax increase events. Given that firms would rarely, if ever, lobby their state political leaders to *increase* their tax bill, it would seem unlikely that firm lobbying activity would have an impact on the causal claims in the paper.

Our results demonstrate that tax policy is quite important to how and when firms undertake acquisitions. Moreover, the findings complement other studies of how debt tax shields may influence corporate finance policy. Finally, our findings that tax decreases lead to a higher probability of a firm being a target of an acquisition also speak to the political controversy regarding 'tax inversions'.

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Appendix A – Variable Definitions

Variable Name	Definition	Source
Acquisition Dummy	Indicator equal to 1 if firm engaged in an acquisition this year, equal to 0 otherwise.	SDC
'Most Cash' Acquisition Dummy	Indicator equal to 1 if firm engaged in a "Mostly Cash" acquisition this year, equal to 0 otherwise. A "Mostly Cash" acquisition is defined as one where greater than 50% of the deal value is paid for in cash by the acquirer (as opposed to stock).	SDC
'All Cash' Acquisition Dummy	Indicator equal to 1 if firm engaged in an "All Cash" acquisition this year, equal to 0 otherwise. An "All Cash" acquisition is defined as one where 100% of the deal value is paid for in cash by the acquirer (as opposed to stock).	SDC
Firm is Target of Acquisition	Indicator equal to 1 if the firm is a target of an acquisition in the current year, equal to 0 otherwise.	SDC
Tax Increase	Indicator equal to 1 if the state increased corporate taxes in the current year, equal to 0 otherwise.	Heider and Ljungqvist (2014)
Tax Decrease	Indicator equal to 1 if the state decreased corporate taxes in the current year, equal to 0 otherwise.	Heider and Ljungqvist (2014)
Ln(Assets)	Natural log of book assets	Compustat
Market-book	Market value of assets (book value of debt + market value of equity) divided by book value of assets	Compustat
Book Leverage	The sum of current liability (Dlc)+Long-term debt (dltt) all divided by book assets	Compustat
Cash Intensity	Cash and short-term investments (Che) divided by book assets	Compustat
Dividend Pay	Indicator equal to 1 if the firm pays a dividend in the current year, equal to 0 otherwise.	Compustat
RD Dummy	Indicator equal to 1 if the firm has a positive value for R&D expense, equal to 0 otherwise.	Compustat
Tangibility	The sum of inventory (invt) and net PP&E (ppent) all divided by book assets.	Compustat
Sales Growth	Percentage change in sales from the prior year.	Compustat
Unemp Rate	State level unemployment rate.	Cleveland Federal Reserve
Ln(GSP)	Natural log of state level real GDP.	Cleveland Federal Reserve and the Bureau of

		Economic Analysis
Operating Loss Dummy	Indicator equal to 1 if the firm has negative operating income in the prior fiscal year, equal to 0 otherwise.	Compustat
Whited-Wu Index	Following Whited and Wu (2006) and Hennessy and Whited (2007), the index is constructed as –0.091 [(ib + dp)/at] – 0.062[indicator equals one if dvc + dvp is positive, and zero otherwise] + 0.021[dltt/at] – 0.044[ln(at)] + 0.102[average industry sales growth for each 3-digit SIC industry and year] – 0.035[sales growth].	Compustat
Excess Cash	Following Opler, Pinkowitz, Stulz, and Williamson (1999) and Dittmar and Mahrt-Smith (2007), Excess cash is calculated as the actual cash level minus the predicted cash level from the first stage regression, not including the estimated firm fixed effects. The first stage cash level OLS regression yields: Ln(Cash/Sales) = -0.239·ln(Assets)– 0.004·Cash flow/Assets + 0.047·Working capital/Assets + 0.022·Market-book + 1.039·Capex/Assets – 0.369·Leverage + 1.008·Industry sigma + 0.503·R&D/Sales + 0.122·Dividend dummy + 0.212·Bond rating dummy + Year FE + Firm FE + ϵ_i.	Compustat
1 day Announcement CAR	Size and B/M quintile adjusted CAR for the acquirer over trading window [-1,+1] around the announcement.	Compustat, CRSP, SDC, Fama French's data website.
3 day Announcement CAR	Size and B/M quintile adjusted CAR for the acquirer over trading window [-3,+3] around the announcement.	Compustat, CRSP, SDC, Fama French's data website.
Bid Premium Fiscal Year	Deal value divided by market value of assets of the target from last available fiscal year end.	Compustat, CRSP, SDC.
Bid Premium 1 Mo. Prior	Deal value divided by market value of assets of the target one month prior to announcement date (i.e. book value of debt from prior fiscal year + market value of equity 1 month prior).	Compustat, CRSP, SDC.
Bid Premium from SDC	Variable directly available in SDC, calculated as the price per share offered to the target divided by target share price 4 weeks prior to announcement date.	SDC

Appendix B: State Corporate Income Tax Increases and Decreases

The list of changes in top bracket state corporate taxes from 1988 to 2012.

Year	Tax Increase States	Tax Decrease States
1988		CO, WV
1989	IL, KY, NJ, RI	CO, SC, WV
1990	CT, MO, MT, NE, NY, OK	AZ, CO, WV
1991	AR, ME, NC, NE, PA, RI	CO, MN, MT, WV
1992	DC, KS, KY, MT	CO, CT, MO, NC, WV
1993	MO, MT	CO, CT, ME, NC, NE, NH
1994	DC	AZ, MT, NC, NH, NJ, PA, RI
1995		CT, DC, NC, PA
1996		CT
1997	VT	CA, CT, NC
1998		CT, NC
1999	NH	AZ, CO, CT, NC, NY, OH
2000		AZ, CO, CT, NC, NY
2001	AL, NH	AZ, ID, NY
2002	CA, KS, NJ, TN	
2003	AR, CT, IN	KS
2004	CT	
2005		AR, KY, ND, OH
2006	NJ	CT, VT
2007		ND, NY, VT, WV
2008	MD, MI	CT, KS, KY, TX
2009	CT, NC, OR	KS, ND, WV
2010		MA, NJ
2011	IL	KS, MA, NC, ND, OR
2012	CT, MI	

Table 1: Summary Statistics

This table reports summary statistics for the sample, consisting of firm-year observations from 1988 to 2012. The variables are defined in Appendix A.

Variable	Mean	Median	SD	P25	P75
Acquisition Dummy	0.261	0.000	0.439	0.000	1.000
Most Cash Acquisition Dummy	0.119	0.000	0.323	0.000	0.000
All Cash Acquisition Dummy	0.094	0.000	0.292	0.000	0.000
Target Dummy	0.030	0.000	0.172	0.000	0.000
Tax Increase	0.027	0.000	0.161	0.000	0.000
Tax Decrease	0.068	0.000	0.252	0.000	0.000
Ln(Assets)	5.531	5.473	2.243	3.907	7.023
Market-book	1.923	1.300	2.310	1.026	2.026
Book Leverage	0.226	0.175	0.287	0.035	0.341
Cash Intensity	0.168	0.078	0.207	0.025	0.234
Dividend Pay	0.448	0.000	0.497	0.000	1.000
RD Dummy	0.419	0.000	0.493	0.000	1.000
Tangibility	0.365	0.350	0.267	0.111	0.577
Sales Growth	1.671	1.084	48.807	0.975	1.236
Unemp Rate	5.809	5.500	1.838	4.600	6.800
Ln(GSP)	12.820	12.843	0.997	12.217	13.676
Operating Loss Dummy	0.319	0.000	0.466	0.000	1.000
Whited-Wu Index	-0.163	-0.224	0.320	-0.327	-0.107
Excess Cash	0.235	0.347	1.587	-0.833	1.370
Acq. 1 day Announcement CAR	1.242	0.297	10.039	-1.999	3.135
Acq. 3 day Announcement CAR	1.623	0.484	12.244	-3.016	4.622
Bid Premium Fiscal Year	84.015	49.184	261.881	14.286	99.168
Bid Premium 1 Mo. Prior	78.888	44.806	252.502	20.274	82.320
Bid Premium from SDC	53.936	36.170	247.045	18.335	61.740

Table 2: Tax Changes and Acquisition Likelihood

This table reports the results of a linear probability model where the dependent variable is indicated in the column title. "Acquisition" is an indicator variable equal to 1 if the firm engaged in an acquisition in the current year, and 0 otherwise. "Most Cash Acquisition" and "All Cash Acquisition" are defined similarly. The sample consists of firm year observations from 1988 to 2012. The control variables are defined in Appendix A. Firm, state, and year fixed effects are included. Heteroskedasticity-consistent standard errors (in parentheses) are corrected for clustering at the firm level. *, **, and *** denotes significance at the 10%, 5%, and 1% levels, respectively.

	Acquisition	Most Cash Acquisition	All Cash Acquisition
	(1)	(2)	(3)
Tax Increase	0.015**	0.018***	0.022***
	(0.008)	(0.006)	(0.006)
Tax Decrease	0.001	0.005	0.006
	(0.006)	(0.005)	(0.004)
Ln(Assets)	0.073***	0.045***	0.036***
	(0.003)	(0.002)	(0.002)
Market-book	0.007***	0.001***	0.001***
	(0.001)	(0.000)	(0.000)
Book Leverage	-0.020**	0.003	0.000
	(0.009)	(0.004)	(0.003)
Cash Intensity	-0.201***	-0.126***	-0.088***
	(0.015)	(0.011)	(0.010)
Dividend Pay	0.008	0.003	0.003
	(0.005)	(0.004)	(0.004)
RD Dummy	-0.008	-0.004	-0.003
	(0.011)	(0.008)	(0.007)
Tangibility	-0.255***	-0.178***	-0.122***
	(0.019)	(0.014)	(0.012)
Sales Growth	0.000	0.000	0.000
	(0.000)	(0.000)	(0.000)
Unemp Rate	-0.003	-0.002	-0.004***
	(0.002)	(0.002)	(0.001)
Ln(GSP)	-0.019	-0.042	-0.036
	(0.035)	(0.027)	(0.024)
Firm FE	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes
State FE	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
Observations	101,207	101,207	101,207
R-squared	0.291	0.216	0.205

Table 3: Dynamic Effects

This table reports the results of a linear probability model where the dependent variable is indicated in the column title. "Acquisition" is an indicator variable equal to 1 if the firm engaged in an acquisition in the current year, and 0 otherwise. "Most Cash Acquisition" and "All Cash Acquisition" are defined similarly. The sample consists of firm year observations from 1988 to 2012. The same set of control variables as Table 2 is used. Firm, state, and year fixed effects are included. Heteroskedasticity-consistent standard errors (in parentheses) are corrected for clustering at the firm level. *, **, and *** denotes significance at the 10%, 5%, and 1% levels, respectively.

	Acquisition	Most Cash Acquisition	All Cash Acquisition
	(1)	(2)	(3)
Tax Increase (-2)	0.012	-0.002	0.002
	(0.009)	(0.007)	(0.006)
Tax Increase (-1)	0.010	0.005	0.007
	(0.008)	(0.006)	(0.006)
Tax Increase (0)	0.018**	0.020***	0.025***
	(0.008)	(0.007)	(0.006)
Tax Increase (+1)	0.001	0.004	0.006
	(0.008)	(0.006)	(0.006)
Tax Increase (+2)	-0.007	-0.004	-0.002
	(0.008)	(0.006)	(0.006)
Tax Decrease (-2)	-0.005	-0.001	-0.000
	(0.006)	(0.005)	(0.004)
Tax Decrease (-1)	0.004	0.002	0.006
	(0.006)	(0.005)	(0.004)
Tax Decrease (0)	0.001	0.005	0.005
	(0.006)	(0.005)	(0.004)
Tax Decrease (+1)	0.004	0.003	0.002
	(0.006)	(0.005)	(0.004)
Tax Decrease (+2)	0.004	0.006	0.006
	(0.006)	(0.005)	(0.004)
Controls	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes
State FE	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
Observations	101,207	101,207	101,207
R-squared	0.291	0.216	0.205

Table 4: First Differencing

This table reports the results of a linear probability model where the dependent variable is indicated in the column title. "Acquisition" is an indicator variable equal to 1 if the firm engaged in an acquisition in the current year, and 0 otherwise. "Most Cash Acquisition" and "All Cash Acquisition" are defined similarly. The sample consists of firm year observations from 1988 to 2011. The control variables are defined in Appendix A. Industry (3-digit SIC), state, and year fixed effects are included. t-statistics (in parentheses) are computed using heteroskedasticity-consistent standard errors that are corrected for clustering at the firm level. *, **, and *** denotes significance at the 10%, 5%, and 1% levels, respectively.

	Acquisition	Most Cash Acquisition	All Cash Acquisition	Acquisition	Most Cash Acquisition	All Cash Acquisition
	(1)	(2)	(3)	(4)	(5)	(6)
Tax Increase	0.013	0.016**	0.017***			
	(0.009)	(0.007)	(0.007)			
Tax Decrease				-0.004	0.001	0.001
				(0.007)	(0.006)	(0.005)
Change in						
Ln(Assets)	0.131***	0.086***	0.059***	0.131***	0.086***	0.059***
	(0.006)	(0.005)	(0.004)	(0.006)	(0.005)	(0.004)
Market-book	0.004***	0.001***	0.001**	0.004***	0.001***	0.001**
	(0.001)	(0.001)	(0.000)	(0.001)	(0.001)	(0.000)
Book Leverage	0.036***	0.043***	0.029***	0.036***	0.043***	0.029***
	(0.009)	(0.013)	(0.009)	(0.009)	(0.013)	(0.009)
Cash Intensity	-0.330***	-0.229***	-0.156***	-0.330***	-0.229***	-0.156***
	(0.023)	(0.019)	(0.016)	(0.023)	(0.019)	(0.016)
Dividend Pay	0.018**	0.020***	0.013**	0.018**	0.020***	0.013**
	(0.008)	(0.006)	(0.005)	(0.008)	(0.006)	(0.005)
RD Dummy	-0.003	0.004	0.001	-0.003	0.004	0.001
	(0.017)	(0.012)	(0.010)	(0.017)	(0.012)	(0.010)
Tangibility	-0.203***	-0.166***	-0.106***	-0.203***	-0.166***	-0.106***
	(0.029)	(0.022)	(0.019)	(0.029)	(0.022)	(0.019)
Sales Growth	0.000	0.000*	0.000	0.000	0.000*	0.000
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Unemp Rate	0.001	-0.002	-0.004	0.001	-0.002	-0.004
	(0.004)	(0.003)	(0.003)	(0.004)	(0.003)	(0.003)
Ln(GSP)	0.112	-0.154*	-0.187**	0.108	-0.159*	-0.192**
	(0.113)	(0.087)	(0.080)	(0.113)	(0.087)	(0.080)
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
State FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	88,407	88,407	88,407	88,407	88,407	88,407
R-squared	0.013	0.010	0.006	0.013	0.010	0.006

Table 5: State Level Analysis

This table reports the results of a linear probability model where the dependent variable is indicated in the column title. "No. of Acquisitions" is the aggregate number of acquisitions announced by all firms headquartered in a state in that year. "No. of Most Cash Acquisition" and "No. of All Cash Acquisition" are defined similarly. The sample consists of state year observations from 1988 to 2012. The control variables are defined in Appendix A. State and year fixed effects are included. Heteroskedasticity-consistent standard errors (in parentheses) are corrected for clustering at the state level. *, **, and *** denotes significance at the 10%, 5%, and 1% levels, respectively.

Panel A: Fixed Effects

	No. of Acquisitions	No. of 'Most Cash'' Acquisition	No. of 'All Cash' Acquisition
	(1)	(2)	(3)
Tax Increase	0.900	2.356**	2.427***
	(2.421)	(0.962)	(0.795)
Tax Decrease	5.440	1.385	0.913
	(4.352)	(1.114)	(0.742)
No. of Firms	0.829***	0.218***	0.163***
	(0.119)	(0.025)	(0.016)
Unemp Rate	-0.193	-0.222	-0.282
	(0.474)	(0.234)	(0.203)
Ln(GSP)	4.468	-1.566	-0.566
	(7.299)	(4.189)	(3.232)
State FE	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
Observations	1,222	1,222	1,222
R-squared	0.925	0.915	0.910

Panel B: First Differencing

	No. of Acquisitions	No. of 'Most Cash'' Acquisition	No. of 'All Cash' Acquisition
	(1)	(2)	(3)
Tax Increase	3.145**	1.965**	1.958***
	(1.427)	(0.949)	(0.670)
Tax Decrease	2.242	1.096	0.364
	(1.768)	(0.858)	(0.738)
Change in			
No. of Firms	0.904***	0.216***	0.158***
	(0.094)	(0.026)	(0.020)
Unemp Rate	0.405	-0.159	-0.266
	(0.564)	(0.302)	(0.283)
Ln(GSP)	43.501	-4.988	-4.541
	(29.402)	(8.999)	(6.182)
State FE	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
Observations	1,172	1,172	1,172
R-squared	0.405	0.246	0.210

Table 6: Tax Changes in Neighboring States

This table reports the results of a linear probability model where the dependent variable is indicated in the column title. "Acquisition" is an indicator variable equal to 1 if the firm engaged in an acquisition in the current year, and 0 otherwise. "Most Cash Acquisition" and "All Cash Acquisition" are defined similarly. The sample consists of firm year observations from 1988 to 2012. The control variables are defined in Appendix A. Firm, state, and year fixed effects are included. Heteroskedasticity-consistent standard errors (in parentheses) are corrected for clustering at the firm level. *, **, and *** denotes significance at the 10%, 5%, and 1% levels, respectively.

	Acquisition	Most Cash Acquisition	All Cash Acquisition
	(1)	(2)	(3)
Tax Increase	0.014*	0.018***	0.022***
	(0.008)	(0.006)	(0.006)
Tax Decrease	0.001	0.005	0.006
	(0.006)	(0.005)	(0.004)
Tax Increase in Neighbor States	-0.004	0.002	0.005
	(0.005)	(0.003)	(0.003)
Tax Decrease in Neighbor States	-0.002	-0.003	-0.001
	(0.004)	(0.003)	(0.003)
Ln(Assets)	0.073***	0.045***	0.036***
	(0.003)	(0.002)	(0.002)
Market-book	0.007***	0.001***	0.001***
	(0.001)	(0.000)	(0.000)
Book Leverage	-0.020**	0.003	0.000
	(0.009)	(0.004)	(0.003)
Cash Intensity	-0.201***	-0.127***	-0.088***
	(0.015)	(0.011)	(0.010)
Dividend Pay	0.008	0.003	0.003
	(0.005)	(0.004)	(0.004)
RD Dummy	-0.008	-0.004	-0.003
	(0.011)	(0.008)	(0.007)
Tangibility	-0.255***	-0.178***	-0.122***
	(0.019)	(0.014)	(0.012)
Sales Growth	0.000	0.000	0.000
	(0.000)	(0.000)	(0.000)
Unemp Rate	-0.003	-0.002	-0.004***
	(0.002)	(0.002)	(0.001)
Ln(GSP)	-0.020	-0.043	-0.036
	(0.035)	(0.027)	(0.024)
Firm FE	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes
State FE	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
Observations	101,207	101,207	101,207
R-squared	0.291	0.216	0.205

Table 7: Controlling for Other Tax Changes

This table reports the results of a linear probability model where the dependent variable is indicated in the column title. "Acquisition" is an indicator variable equal to 1 if the firm engaged in an acquisition in the current year, and 0 otherwise. "Most Cash Acquisition" and "All Cash Acquisition" are defined similarly. The sample consists of firm year observations from 1988 to 2012. The control variables are defined in Appendix A. Firm, state, and year fixed effects are included. Heteroskedasticity-consistent standard errors (in parentheses) are corrected for clustering at the firm level. *, **, and *** denotes significance at the 10%, 5%, and 1% levels, respectively.

	Acquisition	Most Cash Acquisition	All Cash Acquisition
	(1)	(2)	(3)
Tax Increase	0.015*	0.017***	0.021***
	(0.008)	(0.006)	(0.006)
Tax Decrease	0.002	0.006	0.006
	(0.006)	(0.005)	(0.004)
Personal Income Tax Increase	-0.015	-0.011	-0.009
	(0.010)	(0.007)	(0.006)
Personal Income Tax Decrease	0.010	0.000	0.001
	(0.010)	(0.007)	(0.007)
Capital Gain Tax Increase	0.016*	0.017**	0.011*
	(0.010)	(0.007)	(0.006)
Capital Gain Tax Decrease	-0.006	-0.002	-0.005
	(0.010)	(0.007)	(0.007)
Ln(Assets)	0.073***	0.045***	0.036***
	(0.003)	(0.002)	(0.002)
Market-book	0.007***	0.001***	0.001***
	(0.001)	(0.000)	(0.000)
Book Leverage	-0.020**	0.003	0.000
	(0.009)	(0.004)	(0.003)
Cash Intensity	-0.202***	-0.127***	-0.088***
	(0.015)	(0.011)	(0.010)
Dividend Pay	0.008	0.003	0.003
	(0.005)	(0.004)	(0.004)
RD Dummy	-0.008	-0.004	-0.003
	(0.011)	(0.008)	(0.007)
Tangibility	-0.255***	-0.178***	-0.121***
	(0.019)	(0.014)	(0.012)
Sales Growth	0.000	0.000	0.000
	(0.000)	(0.000)	(0.000)
Unemp Rate	-0.003	-0.002	-0.004**
	(0.002)	(0.002)	(0.001)
Ln(GSP)	-0.020	-0.042	-0.035
	(0.035)	(0.027)	(0.024)
Firm FE	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes
State FE	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
Observations	101,207	101,207	101,207
R-squared	0.291	0.217	0.205

Table 8: Robustness Checks

This table reports the results of a linear probability model where the dependent variable is indicated in the column title. "Acquisition" is an indicator variable equal to 1 if the firm engaged in an acquisition in the current year, and 0 otherwise. "Most Cash Acquisition" and "All Cash Acquisition" are defined similarly. The sample consists of firm year observations from 1988 to 2012. The control variables are defined in Appendix A. Firm, state, and year fixed effects are included. Heteroskedasticity-consistent standard errors (in parentheses) are corrected for clustering at the firm level. *, **, and *** denotes significance at the 10%, 5%, and 1% levels, respectively.

Panel A: Use Time-Varying Most Mentioned State

	Acquisition	Most Cash Acquisition	All Cash Acquisition
	(1)	(2)	(3)
Tax Increase	0.028**	0.020**	0.019**
	(0.011)	(0.009)	(0.009)
Tax Decrease	0.004	-0.002	-0.001
	(0.008)	(0.006)	(0.006)
Controls	Yes	Yes	Yes
Firm, Industry, State, Year FE	Yes	Yes	Yes
Observations	58,770	58,770	58,770
R-squared	0.346	0.270	0.260

Panel B: Use Historical Headquarter States

	Acquisition	Most Cash Acquisition	All Cash Acquisition
	(1)	(2)	(3)
Tax Increase	0.027***	0.015**	0.018***
	(0.009)	(0.007)	(0.006)
Tax Decrease	0.001	0.001	0.003
	(0.007)	(0.006)	(0.005)
Controls	Yes	Yes	Yes
Firm, Industry, State, Year FE	Yes	Yes	Yes
Observations	66,134	66,134	66,134
R-squared	0.324	0.253	0.244

Panel C: Use Randomly Assigned State

	Acquisition	Most Cash Acquisition	All Cash Acquisition
	(1)	(2)	(3)
Tax Increase	-0.015*	-0.007	-0.005
	(0.008)	(0.006)	(0.005)
Tax Decrease	-0.009	-0.001	-0.001
	(0.006)	(0.005)	(0.004)
Controls	Yes	Yes	Yes
Firm, Industry, State, Year FE	Yes	Yes	Yes
Observations	101,207	101,207	101,207
R-squared	0.291	0.216	0.205

Table 9: Heterogeneous Effects

This table reports the results of a linear probability model where the dependent variable is indicated in the column title. "Acquisition" is an indicator variable equal to 1 if the firm engaged in an acquisition in the current year, and 0 otherwise. The control variables are defined in Appendix A. Industry (3-digit SIC), state, and year fixed effects are included. Heteroskedasticity-consistent standard errors (in parentheses) are corrected for clustering at the firm level. *, **, and *** denotes significance at the 10%, 5%, and 1% levels, respectively.

	Acquisition					
	Financially Constraint	Non-financially Constraint	Negative Income	Non-negative Income	High Excess Cash	Low Excess Cash
	(1)	(2)	(3)	(4)	(5)	(6)
Tax Increase	0.025**	0.009	-0.002	0.023**	0.021**	0.001
	(0.010)	(0.011)	(0.013)	(0.010)	(0.009)	(0.013)
Tax Decrease	0.002	0.001	0.008	0.000	0.006	-0.014
	(0.008)	(0.009)	(0.011)	(0.007)	(0.007)	(0.011)
Ln(Assets)	0.076***	0.064***	0.057***	0.073***	0.067***	0.084***
	(0.004)	(0.006)	(0.004)	(0.004)	(0.004)	(0.007)
Market-book	0.006***	0.015***	0.004***	0.009***	0.006***	0.009***
	(0.001)	(0.003)	(0.001)	(0.002)	(0.001)	(0.002)
Book Leverage	-0.003	-0.085***	0.002	-0.006	-0.021**	-0.014
	(0.007)	(0.021)	(0.007)	(0.017)	(0.010)	(0.014)
Cash Intensity	-0.182***	-0.224***	-0.147***	-0.242***	-0.232***	-0.177***
	(0.017)	(0.034)	(0.020)	(0.023)	(0.017)	(0.037)
Dividend Pay	-0.009	0.014*	-0.008	0.006	0.004	0.013
	(0.007)	(0.009)	(0.008)	(0.007)	(0.006)	(0.009)
RD Dummy	-0.009	-0.001	-0.011	0.006	-0.009	-0.003
	(0.013)	(0.019)	(0.014)	(0.014)	(0.013)	(0.018)
Tangibility	-0.254***	-0.247***	-0.207***	-0.288***	-0.245***	-0.247***
	(0.023)	(0.033)	(0.026)	(0.027)	(0.023)	(0.033)
Sales Growth	0.000	0.009***	0.000	0.002*	0.000	0.025*
	(0.000)	(0.003)	(0.000)	(0.001)	(0.000)	(0.013)
Unemp Rate	-0.003	-0.003	-0.004	-0.002	-0.003	-0.002
	(0.003)	(0.003)	(0.004)	(0.003)	(0.003)	(0.004)
Ln(GSP)	0.055	-0.050	-0.008	-0.020	-0.007	-0.005
	(0.048)	(0.050)	(0.060)	(0.042)	(0.042)	(0.064)
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
State FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	48,355	51,066	29,468	69,784	69,707	29,822
R-squared	0.316	0.310	0.347	0.317	0.323	0.320

Table 10: Announcement Returns

This table reports the results of OLS regressions where the dependent variable is the acquirer's size and book-to-market adjusted announcement CAR over the window indicated in the column titles. Panel A reports the results for all acquisitions while Panel B restricts the sample to acquisitions where greater than 50% of the deal price is paid using acquirer cash (as opposed to stock). The control variables are defined in Appendix A. Industry (3-digit SIC), State and year fixed effects are included. t-statistics (in parentheses) are computed using heteroskedasticity-consistent standard errors. *, **, and *** denotes significance at the 10%, 5%, and 1% levels, respectively.

Panel A: All Acquisitions

	Acq. Announcement CAR [-1,+1]			Acq. Announcement CAR [-3,+3]		
	Public Targets	Private Targets	All Targets	Public Targets	Private Targets	All Targets
	(1)	(2)	(3)	(4)	(5)	(6)
Tax Increase	-2.016**	-0.226	-0.590	-2.314**	-0.241	-0.668
	(0.916)	(0.454)	(0.396)	(1.082)	(0.536)	(0.462)
Tax Decrease	0.415	-0.002	-0.002	-0.605	-0.518	-0.591*
	(0.586)	(0.324)	(0.275)	(0.706)	(0.396)	(0.337)
Mostly Cash Deal	2.393***	-0.946***	-0.284*	2.268***	-1.215***	-0.517**
	(0.306)	(0.196)	(0.161)	(0.375)	(0.245)	(0.202)
Ln(Acq. Assets)	-0.124	-0.726***	-0.670***	-0.148	-0.908***	-0.824***
	(0.106)	(0.055)	(0.047)	(0.131)	(0.068)	(0.058)
Relative Size	-0.004			-0.007		
	(0.004)			(0.005)		
Acq. M/B	-0.271***	-0.122***	-0.128***	-0.231*	-0.080*	-0.090*
	(0.086)	(0.032)	(0.033)	(0.118)	(0.048)	(0.046)
Acq. Leverage	-1.548	2.590***	2.189***	0.499	4.614***	3.936***
	(1.518)	(0.604)	(0.553)	(1.881)	(0.766)	(0.695)
Acq. Tangibility	1.243	0.415	0.232	3.019*	0.694	0.696
	(1.287)	(0.677)	(0.604)	(1.682)	(0.798)	(0.717)
Acq. Cash/Assets	-1.652	0.109	-0.182	-1.149	0.301	0.059
	(1.357)	(0.640)	(0.574)	(1.737)	(0.839)	(0.749)
Acq. Pays Div.	0.095	-0.241	-0.125	0.125	-0.570**	-0.402**
	(0.406)	(0.173)	(0.156)	(0.493)	(0.225)	(0.202)
Acq. Stock Return	0.000	-0.004***	-0.004***	0.004	-0.007***	-0.006***
	(0.004)	(0.002)	(0.001)	(0.006)	(0.002)	(0.002)
Bid Premium	-0.001			-0.002		
	(0.001)			(0.002)		
Tgt. M/B	0.084			0.226*		
	(0.192)			(0.136)		
Tgt. Leverage	-0.185			-0.359		
	(0.978)			(1.119)		
Tgt. Cash/Assets	-1.693			-2.495*		
	(1.074)			(1.325)		
Tgt. Pays Div.	0.287			-0.152		
	(0.352)			(0.449)		
Tgt. Stock Returns	-0.001			0.003		
	(0.003)			(0.004)		
Tgt. Is Public			-2.233***			-2.592***
			(0.157)			(0.196)
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes

State FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	3,416	19,375	24,099	3,419	19,375	24,103
R-squared	0.158	0.061	0.065	0.141	0.065	0.065

Panel B: Only 'Most Cash' Acquisitions

	Acq. Announcement CAR [-1,+1]			Acq. Announcement CAR [-3,+3]		
	Public Targets	Private Targets	Public Targets	Private Targets	Public Targets	Private Targets
	(1)	(2)	(3)	(4)	(5)	(6)
Tax Increase	-0.893	-0.201	-0.357	-0.061	0.603	0.423
	(1.289)	(0.448)	(0.408)	(1.613)	(0.564)	(0.515)
Tax Decrease	-0.624	0.110	0.072	-1.182	-0.105	-0.189
	(0.745)	(0.291)	(0.265)	(0.868)	(0.361)	(0.327)
Ln(Acq. Assets)	-0.260*	-0.522***	-0.486***	-0.237	-0.677***	-0.618***
	(0.134)	(0.063)	(0.056)	(0.172)	(0.072)	(0.064)
Relative Size	-0.012***			-0.013***		
	(0.004)			(0.005)		
Acq. M/B	0.008	-0.158***	-0.154***	0.164	-0.147**	-0.136**
	(0.182)	(0.041)	(0.039)	(0.290)	(0.067)	(0.063)
Acq. Leverage	2.573	2.018***	2.031***	3.402	3.324***	3.268***
	(2.642)	(0.623)	(0.592)	(3.093)	(0.793)	(0.745)
Acq. Tangibility	-2.537	-0.022	-0.210	-1.361	0.034	-0.234
	(1.873)	(0.669)	(0.624)	(2.346)	(0.750)	(0.704)
Acq. Cash/Assets	-0.616	-1.587**	-1.539***	-1.585	-1.612*	-1.620**
	(1.995)	(0.634)	(0.588)	(2.485)	(0.855)	(0.799)
Acq. Pays Div.	-0.050	-0.393**	-0.359**	-0.604	-0.767***	-0.768***
	(0.530)	(0.166)	(0.153)	(0.681)	(0.216)	(0.200)
Acq. Stock Return	0.003	-0.002	-0.002	-0.008	-0.004*	-0.004**
	(0.006)	(0.002)	(0.002)	(0.010)	(0.002)	(0.002)
Bid Premium	0.001			-0.000		
	(0.002)			(0.002)		
Tgt. M/B	-0.221			-0.056		
	(0.186)			(0.202)		
Tgt. Leverage	-0.879			-1.248		
	(1.474)			(1.575)		
Tgt. Cash/Assets	-0.405			-1.488		
	(1.284)			(1.678)		
Tgt. Pays Div.	0.501			0.069		
	(0.471)			(0.574)		
Tgt. Stock Returns	0.001			0.006		
	(0.005)			(0.006)		
Tgt. Is Public			-0.670***			-0.899***
			(0.178)			(0.228)
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
State FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	1,344	13,597	15,439	1,345	13,589	15,432
R-squared	0.244	0.056	0.056	0.230	0.059	0.057

Table 11: Bid Premium

This table reports the results of OLS regressions where the dependent variable is the deal bid premium. The control variables are defined in Appendix A. Industry (3-digit SIC), State and year fixed effects are included. t-statistics (in parentheses) are computed using heteroskedasticity-consistent standard errors. *, **, and *** denotes significance at the 10%, 5%, and 1% levels, respectively.

:	Bid Premium Fiscal Year	Bid Premium 1 Mo. Prior	Bid Premium from SDC
	(1)	(2)	(3)
Tax Increase	7.094	-29.552	-13.207
	(22.527)	(31.779)	(10.981)
Tax Decrease	-5.411	-10.159	-5.987
	(7.229)	(10.376)	(3.814)
'Mostly Cash' Acq.	2.359	10.230	8.327***
	(5.554)	(9.373)	(2.189)
Ln(Acq. Assets)	-1.030	-0.104	-1.057
	(1.587)	(1.849)	(0.737)
Relative Size	-0.161***	-0.166***	-0.070***
	(0.045)	(0.054)	(0.021)
Acq. M/B	0.626	1.361	0.258
	(0.963)	(0.864)	(0.451)
Acq. Leverage	-37.134**	-5.888	-0.466
	(18.598)	(49.082)	(8.159)
Acq. Tangibility	-8.739	23.722	-6.754
	(23.866)	(44.392)	(7.586)
Acq. Cash/Assets	-32.456**	14.764	9.817
	(15.871)	(31.592)	(10.365)
Acq. Pays Div.	-2.537	-12.905	6.410**
	(5.124)	(9.229)	(2.542)
Acq. Stock Return	0.100**	0.114**	0.092***
	(0.042)	(0.046)	(0.022)
Same Industry	13.910**	5.315	1.270
	(5.874)	(8.680)	(1.210)
Tgt. M/B	-7.679***	-2.565*	-2.154***
	(1.696)	(1.382)	(0.604)
Tgt. Leverage	146.113***	184.288***	7.073
	(31.730)	(52.404)	(6.935)
Tgt. Cash/Assets	21.113*	36.527	6.598
	(11.923)	(23.747)	(9.870)
Tgt. Pays Div.	-13.520**	-14.585**	-6.811***
	(5.320)	(6.822)	(1.629)
Tgt. Stock Returns	0.527***	-0.323***	-0.073***
	(0.092)	(0.112)	(0.021)
Industry FE	Yes	Yes	Yes
State FE	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
Observations	3,519	3,519	3,230
R-squared	0.236	0.131	0.141

Table 12: Tax changes and the Likelihood a Target is Acquired

This table reports the results of a linear probability model where the dependent variable is indicated in the column title. "Firm is Target of Acquisition" is an indicator variable equal to 1 if the firm is a target of an acquisition in the current year, and 0 otherwise. The sample consists of firm year observations from 1988 to 2012. The control variables are defined in Appendix A. Firm, state, and year fixed effects are included. Heteroskedasticity-consistent standard errors (in parentheses) are corrected for clustering at the firm level. *, **, and *** denotes significance at the 10%, 5%, and 1% levels, respectively.

	Firm is Target of Acquisition	
	(1)	(2)
Tax Increase	-0.008***	-0.010***
	(0.003)	(0.003)
Tax Decrease	0.005*	0.006**
	(0.003)	(0.003)
Operating Loss Dummy	0.009***	0.009***
	(0.002)	(0.002)
Tax Increase×Operating Loss Dummy		0.007
		(0.007)
Tax Decrease×Operating Loss Dummy		-0.004
		(0.005)
Ln(Assets)	0.000	0.001
	(0.001)	(0.001)
Market-book	-0.000	-0.000
	(0.000)	(0.000)
Book Leverage	0.002	0.002
	(0.003)	(0.003)
Cash Intensity	-0.003	-0.003
	(0.006)	(0.006)
Dividend Pay	0.002	0.002
	(0.002)	(0.002)
RD Dummy	-0.006	-0.006
	(0.004)	(0.004)
Tangibility	-0.012*	-0.013*
	(0.008)	(0.008)
Sales Growth	-0.000	-0.000
	(0.000)	(0.000)
Unemp Rate	0.001***	0.000
	(0.000)	(0.000)
Ln(GSP)	0.032***	0.055***
	(0.008)	(0.006)
Firm FE	Yes	Yes
Industry FE	Yes	Yes
State FE	Yes	Yes
Year FE	Yes	Yes
Observations	101,206	101,206
R-squared	0.134	0.134

Table 13: State Pair-wise Analysis

This table reports the results of a linear probability model where the dependent variable is indicated in the column title. "I($State_A$ Acquire $State_B$)" is an indicator variable that equals one if a firm in state A acquires a firm in state B in a given year. The sample consists of state pair-wise observations from 1988 to 2012, excluding pairs of State A with its own state. The control variables are defined in Appendix A. $State_A$×Year and year fixed effects are included. Heteroskedasticity-consistent standard errors (in parentheses) are corrected for clustering at the acquirer state level. *, **, and *** denotes significance at the 10%, 5%, and 1% levels, respectively.

	I($State_A$ Acquire $State_B$)	
	(1)	(2)
I($State_A$ Tax Rate> $State_B$ Tax Rate)	0.028***	0.027***
	(0.008)	(0.008)
I($State_A$ Tax Rate>$State_B$ Tax Rate)×$State_A$ Tax Increase		0.033*
		(0.018)
$State_A$ Unemp Rate−$State_B$ Unemp Rate	0.002	0.002
	(0.002)	(0.002)
$State_A$ GSP−$State_B$ GSP	-0.000***	-0.000***
	(0.000)	(0.000)
$State_A$×Year FE	Yes	Yes
Year FE	Yes	Yes
Observations	63,750	63,750
R-squared	0.372	0.372

Table 14: Post-Merger Firm Relocation

This table reports the results of OLS regressions where the dependent variable is the difference between the count of state mentions in the 10k filing post- and pre-merger in the acquirer's state and in target's state. Column 1 measures the difference in state mentions from *t-1* to *t+1* after the merger, while Columns 2 and 3 measure the difference between *t-1* and *t+2*, and *t-1* and *t+3*, respectively. The control variables are defined in Appendix A. Firm, acquirer state, and year fixed effects are included. Heteroskedasticity-consistent standard errors (in parentheses) are corrected for clustering at the firm level. *, **, and *** denotes significance at the 10%, 5%, and 1% levels, respectively.

Panel A: Changes in Acquirer State Count

	Acq. State Count$_{post1}$- Acq. State Count$_{pre1}$	Acq. State Count$_{post2}$- Acq. State Count$_{pre1}$	Acq. State Count$_{post3}$- Acq. State Count$_{pre1}$
	(1)	(2)	(3)
I(Acq. Tax Rate> Tgt. Tax Rate)	-0.011***	-0.011***	-0.009***
	(0.003)	(0.003)	(0.003)
Ln(Acq. Assets)	0.017**	0.022**	0.024***
	(0.008)	(0.008)	(0.008)
Acq. M/B	-0.001	-0.001	-0.002
	(0.002)	(0.001)	(0.001)
Acq. Leverage	0.016	-0.013	-0.035
	(0.039)	(0.037)	(0.036)
Acq. Tangibility	-0.025	0.029	0.040
	(0.041)	(0.041)	(0.042)
Acq. Unemp Rate-Tgt. Unemp Rate	-0.001	-0.001	-0.000
	(0.002)	(0.002)	(0.002)
Acq. GSP- Tgt. GSP	-0.000	-0.000	-0.000
	(0.000)	(0.000)	(0.000)
Firm FE	Yes	Yes	Yes
Acquirer State FE	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
Observations	22,465	22,465	22,465
R-squared	0.392	0.435	0.463

Panel B: Changes in Acquirer State Count in Target State

	Tgt. State Count$_{post1}$- Tgt. State Count$_{pre1}$	Tgt. State Count$_{post2}$- Tgt. State Count$_{pre1}$	Tgt. State Count$_{post3}$- Tgt. State Count$_{pre1}$
	(1)	(2)	(3)
I(Acq. Tax Rate> Tgt. Tax Rate)	0.016***	0.016***	0.016***
	(0.003)	(0.003)	(0.003)
Ln(Acq. Assets)	-0.010***	-0.008**	-0.006*
	(0.003)	(0.003)	(0.003)
Acq. M/B	-0.000	-0.000	-0.000
	(0.001)	(0.001)	(0.001)
Acq. Leverage	-0.016	-0.014	-0.024
	(0.019)	(0.019)	(0.018)
Acq. Tangibility	-0.030	-0.008	-0.003
	(0.021)	(0.021)	(0.021)
Acq. Unemp Rate-Tgt. Unemp Rate	-0.002	-0.001	-0.001
	(0.001)	(0.001)	(0.001)
Acq. GSP- Tgt. GSP	0.000**	0.000**	0.000**
	(0.000)	(0.000)	(0.000)
Firm FE	Yes	Yes	Yes
Acquirer State FE	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
Observations	22,492	22,492	22,492
R-squared	0.273	0.290	0.296

Table 15: Firm State Move

This table reports the results of a linear probability model where the dependent variable is indicated in the column title. "Move to Lower Tax Mentioned State" is an indicator variable equal to 1 if the firm has moved to a most mentioned state that has lower tax rate than the last most mentioned state. "Move to Lower Tax Headquarters" is an indicator variable equal to 1 if the firm has moved to a headquarters state that has lower tax rate than the last headquarters state. The sample consists of firm year observations from 1988 to 2012. The control variables are defined in Appendix A. Firm, state, and year fixed effects are included. Heteroskedasticity-consistent standard errors (in parentheses) are corrected for clustering at the firm level. *, **, and *** denotes significance at the 10%, 5%, and 1% levels, respectively.

	Move to Lower Tax Mentioned State$_{t+1}$	Move to Lower Tax Mentioned State$_{t+2}$	Move to Lower Tax Headquarters $_{t+1}$	Move to Lower Tax Headquarters $_{t+2}$
	(1)	(2)	(3)	(4)
Tax Increase	0.001	0.000	-0.001	0.000
	(0.009)	(0.010)	(0.002)	(0.002)
Tax Decrease	0.005	-0.007	-0.002	0.000
	(0.006)	(0.006)	(0.001)	(0.002)
Ln(Assets)	0.009***	0.013***	-0.000	0.000
	(0.004)	(0.004)	(0.001)	(0.001)
Market-book	0.000	0.001**	-0.000	-0.000
	(0.000)	(0.001)	(0.000)	(0.000)
Book Leverage	0.001	0.002	0.003	0.005
	(0.009)	(0.011)	(0.003)	(0.004)
Tangibility	-0.006	-0.032*	-0.004	-0.003
	(0.018)	(0.019)	(0.005)	(0.005)
Unemp Rate	-0.007**	-0.006*	-0.001	-0.001
	(0.003)	(0.003)	(0.001)	(0.001)
Ln(GSP)	-0.137***	-0.159***	0.005	-0.002
	(0.050)	(0.048)	(0.010)	(0.010)
Firm FE	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
State FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Observations	53,242	44,583	59,684	51,791
R-squared	0.307	0.187	0.225	0.193

Table 16: New Debt Issuance

This table reports the results of OLS regressions where the dependent variable is new debt issuance, which equals to (long term debt issuance - long term debt reduction)/total assets. The sample consists of firm year observations from 1988 to 2012. The control variables are defined in Appendix A. Fixed effects are included as indicated. Heteroskedasticity-consistent standard errors (in parentheses) are corrected for clustering at the firm level. *, **, and *** denotes significance at the 10%, 5%, and 1% levels, respectively.

	New Debt Issuance	
	(1)	(2)
Tax Increase	-0.006	
	(0.005)	
Acquisition Dummy	0.029***	0.029***
	(0.001)	(0.001)
Tax Increase×Acquisition Dummy	0.014**	0.012**
	(0.007)	(0.006)
Ln(Assets)	-0.011***	-0.011***
	(0.001)	(0.001)
Market-book	0.002***	0.002***
	(0.001)	(0.001)
Tangibility	0.026***	0.026***
	(0.007)	(0.007)
ROA	0.003	0.003
	(0.006)	(0.006)
Unemp Rate	0.001**	
	(0.001)	
Ln(GSP)	0.007	
	(0.009)	
Firm FE	Yes	Yes
State FE	Yes	Yes
Year FE	Yes	Yes
State×Year FE		Yes
Observations	88,046	88,044
R-squared	0.196	0.206