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# **The Inclusion of General Counsel in Top Management and Tax Avoidance\***

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## **The Inclusion of General Counsel in Top Management and Tax Avoidance**

### **Abstract**

We examine whether the inclusion of general counsel in top management is associated with a firm's tax avoidance. We find that firms with general counsel as part of the top management team have lower GAAP effective tax rate, more uncertain tax positions, a higher likelihood of engaging in tax shelter activities, and more tax haven countries in which the firm reports a significant subsidiary, relative to firms without a general counsel in top management. In addition, we find that among firms with general counsel in top management, tax avoidance is greater when (1) the general counsel has tax-related expertise, (2) the firm hires an external auditor with tax expertise or purchases more tax services from its external auditor, and (3) the CEO has more power over the general counsel.

## **The Inclusion of General Counsel in Top Management and Tax Avoidance**

“Positioned as an officer within a corporation, a general counsel who is an influential member of its senior management cohort may help shape the corporation’s activities and policies in directions that are highly desirable, exercising influence that may extend beyond the bare bones of ensuring legal compliance. A general counsel also may be uniquely well positioned to champion a transformation of the organizational culture that shapes how the corporation addresses its relationship with law and regulation.” (DeMott 2005, 955-956)

### **1. Introduction**

The general counsel, who is the chief attorney for a corporation, has the important role of overseeing and advising on legal issues within the firm, including tax compliance. As the business environment gets more complex and litigious, members of senior management have come to expect general counsel to be involved in high-level strategic decisions as an adviser with intimate knowledge of the corporation and its business who is able to contribute business insights as well as legal skill (DeMott 2005). Bagley (2008, 383) argues that top management teams that “include the general counsel have a higher degree of legal astuteness than those that do not.” The heightened legal astuteness is not surprising because when the general counsel is part of top management, she is more likely to be more involved in business strategies and be in a better position to identify legal opportunities and threats. To date, there is little research on how the composition of top management relates to important firm decisions that have legal implications (e.g., Kwak et al. 2012; Hopkins et al. 2015). We extend this line of research by examining whether the inclusion of general counsel in top management is related to corporate tax avoidance.

While it seems obvious that the general counsel’s inclusion in top management increases the legal astuteness of the top management team, it is unclear how the heightened astuteness translates into corporate tax avoidance. Tax avoidance is determined by many

factors such as tax rates, the probability of detection and punishment, penalties, risk-aversion and civic duty. To maximize profits for shareholders, the firm is expected to go after opportunities that reduce tax liabilities, as long as the expected incremental benefits exceed the incremental cost (Slemrod 2004). Given her legal expertise and the potential legal complexities surrounding tax decisions, the general counsel is likely to be instrumental in assessing important aspects of these decisions. We expect the general counsel to make use of her expertise, especially if she is part of the top management team, to facilitate tax planning.

First, the general counsel's involvement in top management strategy meetings and discussions gives her greater insights into the firm's business transactions. This intimate knowledge of the corporation and its business, coupled with the general counsel's legal skills, means that the general counsel can better advise top management on applicable regulations, including tax regulations, and can help the firm to develop and implement more complex and sophisticated tax policies that reduce explicit taxes.<sup>1</sup> Second, by being part of top management, the general counsel is more sensitive to the needs of the top management and shareholders in terms of maximizing after-tax income. She might also be intrinsically motivated to help the firm save on taxes, given the status and expectations that come with being part of top management. As a result, top management is more legally astute as to how to engage in tax planning proactively or at the minimum, more likely to factor in tax (and other regulatory) considerations when developing various business strategies.

Third, given that uncertainty about a firm's tax liability can diminish the firm's tax planning ability (Gallemore and Labro 2014), a general counsel in top management can facilitate tax avoidance by reducing such uncertainty. For instance, top management is likely

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<sup>1</sup> Consistent with Bagley (2008), we make the reasonable assumption that on average, top management that includes the general counsel are more legally astute. In terms of tax knowledge, the general counsel might herself be a tax expert, might be advised by tax experts within the office of the general counsel or from the tax department, and/or might be advised by external counsels. It is also reasonable to assume that a general counsel who is inclined to help the firm minimize taxes would enhance the tax capabilities and competence of the legal department or even hire auditors with tax-specific industry experience to help in tax planning.

to be more confident in and comfortable with proceeding with an uncertain tax position when the team includes a general counsel who advocates the controversial tax strategy and provide assurance that the tax authorities would subsequently consider the strategy sustainable. The general counsel (and her team of internal counsels) may be in a better position to defend the firm's tax strategies if challenged by IRS, and her representation in the tax courts may increase the likelihood of the firm successfully defending certain tax strategies.

Notwithstanding the above arguments, the general counsel can set a conservative tone at the top and promote among the top management team a more cautious approach to the firm's business strategies. Because the general counsel is expected to practice preventive law (DeMott 2005) and to intervene early and prevent the company from being involved in litigation (Brown 2003), it seems conceivable that a general counsel who is part of top management would influence the management team to not proceed with risky tax strategies, especially those that push the envelope of present tax law. Consistent with corporate tax avoidance being risky is the evidence presented in Kim et al. (2011) that more aggressive corporate tax avoidance is associated with a higher stock price crash risk. Aggressive tax strategies also have a greater likelihood of being challenged by the IRS and can subject the firm to significant legal and reputational costs. The general counsel could then be blamed for her failure to mitigate the firm's legal and compliance risks. This alternative view suggests that there would be lower tax avoidance for firms with a general counsel in top management.

Whether the inclusion of the general counsel in top management is associated with the extent of a firm's tax avoidance is ultimately an empirical question. To test this link, we identify firms with a general counsel in top management using data from Compustat ExecuComp, which covers the S&P1500 firms. Given that there is no single universally accepted measure of tax avoidance and each measure has its limitation, we use various measures that capture a broad spectrum of tax avoidance activities—(1) GAAP effective tax

rate, (2) uncertain tax positions which we operationalize using predicted unrecognized tax benefits in Lisowsky et al. (2013), (3) likelihood of engaging in tax shelter activities, which we operationalize using the tax shelter prediction score in Wilson (2009), and (4) the number of tax haven countries in which the firm reports a significant subsidiary.

Firms that elevate the general counsel to top management are likely to be different in several observable dimensions as compared to those that do not. Hence, these observable factors that lead to the general counsel being part of top management could potentially be the same factors that are correlated with tax avoidance and results in an omitted correlated variable problem. We mitigate this potential endogeneity problem using propensity score matching (Rosenbaum and Rubin 1983) in which we match treatment and control firms based on observable characteristics that result in the general counsel being part of top management. Using this matching methodology and controlling for other documented factors that affect tax avoidance, we find that firms with general counsel as part of the top management team have lower effective tax rate, more uncertain tax positions, a higher likelihood of engaging in tax shelter activities, and more tax haven countries in which the firm reports a significant subsidiary, relative to firms without a general counsel in top management. This result is robust to using the full unmatched sample, a difference-in-differences analysis, and controlling for CEO and CFO compensation incentives. In addition, we follow prior literature (e.g., Bertrand and Schoar 2003; Bamber et al. 2010; Dyreng et al. 2010; Ge et al. 2011) and examine whether individual general counsels in top management impose their personal influence over tax avoidance as they move to another firm. We document a significant general counsel (in top management) individual fixed effect, over and above firm, CEO and CFO fixed effect. Overall, our finding suggests that a general counsel in top management can have a significant influence on a firm's tax decisions by using her legal expertise and insights acquired from being part of the top management team to facilitate tax planning in the firm.

To corroborate our main result and to provide more direct evidence on the role of the general counsel in tax avoidance, we examine some cross-sectional variations on the sample of firms with a general counsel in top management. First, we examine the expertise of the general counsel. We predict that if the general counsel has tax expertise or background, she should be able to better advise top management on complex tax issues and regulations, and to help the firm develop more sophisticated tax strategies that can result in substantial tax savings for the firm. Consistent with our expectation, we find that among firms with general counsel in top management, tax avoidance is even greater when the general counsel has tax expertise or expertise in related areas such as accounting or finance. Second, we examine whether a general counsel in top management can better facilitate tax planning when the firm hires an external auditor with tax (or overall) expertise or purchases more non-audit tax services from its external auditor. We find that among firms with general counsel in top management, tax avoidance is positively associated with the presence of an external auditor with tax (or overall) expertise and the magnitude of non-audit tax services fees paid to its external auditor. Finally, we predict that when the CEO is relatively more powerful than the general counsel in the top management team, she is better able to exert more influence on the general counsel to pursue more tax saving strategies. Consistent with our prediction, we find that among firms with general counsel in top management, tax avoidance is even greater when the CEO is relatively more powerful than the general counsel in the top management team. Overall, these results strengthen our inferences that the general counsel in top management plays an important role in influencing the firm's tax decisions.

Our paper contributes to the literature in several ways. First, Dyreng et al. (2010) examine whether individual executives such as the CEO and CFO have an effect on their firms' tax avoidance by tracking the movement of these executives across firms during the period from 1992 to 2006. Their results indicate that individual executives play a significant



role in determining the level of tax avoidance that firms undertake, incremental to firm characteristics. Dyreng et al. (2010) also find that executives' backgrounds cannot explain much of the variation in tax avoidance across executives. Our paper extends their study and focuses on how the inclusion of the general counsel in top management is associated with a firm's tax avoidance, and we find that the presence of the general counsel in top management can influence tax decisions.

Second, our paper adds to the literature on the economic consequences of management composition that includes the general counsel. Kwak et al. (2012) find that firms with a general counsel in top management are more likely to issue forecasts, particularly bad news forecasts, than are other firms. Further, these forecasts are less optimistic and more accurate than those that are issued by others. Hopkins et al. (2015) find that firms with a general counsel in top management have lower accounting quality and engage in more earnings management than firms without. Given the importance and responsibility of the general counsel in ensuring tax compliance, a natural extension of this literature is to investigate how this management composition relates to tax avoidance, especially since there is significant tension in the hypothesis concerning this relation.

The rest of this paper is organized as follows. We discuss related research and develop the hypotheses in the next section. We present the sample selection, measures of tax avoidance and the empirical models used in the study in section three and report the main empirical analyses in section four. We discuss further analyses in section five, and provide our conclusions in the final section.

## **2. Hypotheses Development**

### *2.1. The inclusion of general counsel in top management and the role of general counsel*

The role of general counsel in U.S. corporations has evolved over time (Liggio 1997; DeMott 2005). As the firm's top legal officer, the general counsel is responsible for advising

the board of directors and senior management on regulatory compliances, legal matters and the firm's litigation risk. They also help facilitate transactions such as mergers and acquisitions and the patenting of intellectual property. According to Coffee (2003), the general counsel acts as the firm's gatekeeper, monitoring the accuracy of corporate disclosures and representing the shareholder and public. The general counsel also serves as an internal corporate governance mechanism to monitor managers' unusual or fraudulent behavior (Jagolinzer et al. 2011; Kwak et al. 2012).

As the business environment gets more complex and litigious, members of senior management have come to expect the general counsel to be involved in high-level strategic decisions as an adviser with intimate knowledge of the corporation and its business who is able to contribute business insights as well as legal skill (DeMott 2005). An interview with Bruce Sewall, previous general counsel of Intel (and current general counsel of Apple), provides useful insights into the diverse roles of general counsel beyond legal function.<sup>2</sup> In this interview, he stated that the general counsel is an important partner in the business and the key to doing a successful job as a general counsel is "the ability to be a businessperson" when managing different teams within the firm. He also highlighted that the general counsel has a large number of issues to deal with but is required not to go as deep into each. Sewell also discussed about the need to enlist the services of outside counsel in some instances.

Heineman (2010) puts forward the notion that the general counsel acts as "lawyer-statesman", the essence of which includes moving beyond questions of "is it legal?" to "is it right?"<sup>3</sup> In discussing the role of the general counsel, he states that the general counsel should develop the firm's essential position on corporate citizenship for review by stakeholders. He thinks corporate citizenship includes three elements: (1) sustained economic

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<sup>2</sup> <http://whoswholegal.com/news/counselinterviews/article/12581/california-corporate-counsel-bruce-sewell/>

<sup>3</sup> According to Heineman (2010), the lawyer - statesman role involves not just dealing with past problems, but charting future courses; not just playing defense, but playing offense; not just providing legal advice, broadly defined, but being part of the business team and offering business advice. It means being both a partner to business leadership but ultimately the guardian of the company.

performance, which provides benefits to stakeholders across society, (2) robust adherence to the spirit and the letter of the laws and regulations designed to advance social goods, and (3) adherence to global ethical standards and public policy positions that are in the enlightened self-interest of the firm, but fairly balance private concerns with the public interest.

Consistent with the general counsel's increasing role and importance as a member of the top management team, many general counsels hold the title of vice president and have a close relationship with the CEO and other members of top management (Duggin 2006). In addition, the general counsel is often among the highest paid positions in the company. As reported by Equilar's 2013 Executive Compensation Survey, the median total compensation for general counsels at Fortune 1000 companies was \$1,613,654. In our sample, 40.6 percent of firms have the general counsel among its highest paid executives with an average compensation of \$1,432,640, approximately 27.1 percent of the CEO's remuneration. Positioned as an important member of top management team, the general counsel now wields considerable influence and power within the organizational structure (Duggin 2006).<sup>4</sup>

Recent studies have begun to explore how the presence of a general counsel in the top echelon of management influences the firm's disclosure and financial reporting policies. For instance, Bamber et al. (2010) test the influence of individual executives on a firm's voluntary disclosure policy and find that top managers, including the general counsel, exert economically significant individual-specific influence over five attributes of management earnings forecasts: forecast frequency, forecast precision, news conveyed by the forecast, and

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<sup>4</sup> The webpage of Ford Motor Company provides a good illustration of the increasingly expanded roles of the general counsel among U.S. corporations today. It states that "At Ford Motor Company, our Office of the General Counsel, working together with outside counsel, operates as a team to deliver world class legal, tax, and audit services to client groups throughout the Company. We are committed to working with the Company's business operations to (i) manage legal risk by anticipating exposure, implementing or expanding preventive measures to ensure compliance and avoid costs, increasing employee awareness, and improving Company decision-making, (ii) defend the Company's reputation and products in litigation and before government agencies, (iii) pursue legal and tax reform initiatives, (iv) provide strategic advice to generate business opportunities and provide solutions that increase shareholder value, (v) Manage and advance the Company's intellectual property portfolio, and (vi) ensure corporate compliance throughout all Company activities." Source: <http://corporate.ford.com/careers/career-paths/office-of-the-general-counsel>

the bias in and accuracy of the forecasts. Kwak et al. (2012) find that firms with general counsel in top management issue more management earnings forecasts that are more accurate and less optimistic. Their results are consistent with the general counsel being an important internal advisory and governing mechanism in improving voluntary disclosure. On the other hand, Hopkins et al. (2015) find that firms with general counsel in top management have lower accounting quality and engage in more earnings management, suggesting that having the general counsel on the top management team facilitates aggressive financial reporting behavior on the firm's part. Hence, there appears to be mixed evidence as to the effect of having the general counsel in top management on the aggressiveness and/or quality of firms' disclosures.

## *2.2. The inclusion of general counsel in top management and tax avoidance*

While Bagley (2008, 383) argues that top management teams that "include the general counsel have a higher degree of legal astuteness than those that do not", it is unclear how the heightened astuteness translates into corporate tax avoidance. Tax avoidance is determined by many factors such as tax rates, the probability of detection and punishment, penalties, risk-aversion and civic duty. To maximize profits for shareholders, the firm is expected to go after opportunities that reduce tax liabilities, as long as the expected incremental benefits exceed the incremental cost (Slemrod 2004). Given the potential legal complexities surrounding tax decisions, we expect the general counsel to make use of her legal expertise, especially if she is part of the top management team, to influence the tax policies of the company in such a manner so as to maximize shareholders' value. A general counsel in top management can facilitate tax planning in several ways.

First, the general counsel's involvement in top management strategy meetings and discussions gives her greater insights into the firm's business transactions.<sup>5</sup> This intimate knowledge of the corporation and its business, coupled with the general counsel's legal skills, means that the general counsel can better advise top management on applicable regulations, including tax regulations, and help the firm to develop and implement more complex and sophisticated tax policies that can substantially reduce explicit taxes. Note that the general counsel needs only broad legal subject matter expertise and it is not necessary that she has to be a tax attorney or has the tax expertise to influence the firm's tax behavior.<sup>6</sup> The general counsel is likely to be advised by her team of in-house attorneys whose expertise largely reflects the demands of the firm. See, for example, the organization chart of General Electric in which the tax department reports to the general counsel.<sup>7</sup> It is also reasonable to assume that a general counsel who is inclined to help the firm minimize taxes would enhance the tax capabilities and/or competence of the legal department or even hire auditors with tax-specific industry experience to help in tax planning.<sup>8</sup>

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<sup>5</sup> Consistent with this reasoning, Heineman (2010, 13) notes, "a strong inside legal team—that is part of the company culture, understands its rhythms and personality, is in the daily flow of business—is far more effective, and far more cost effective, than outside counsel can possibly be in helping the company achieve both high performance and high integrity." This suggests that a general counsel who is part of top management will have greater insights into the thinking and philosophy of the top management team.

<sup>6</sup> The fact that the general counsel heads a legal department of individuals with different types of expertise, works with external experts, and coordinate with many different departments highlights that the general counsel need not be an expert in any or all fields. What is important is for the general counsel to integrate the different pieces of information made available to him and advises the top management accordingly. Naturally, a legal background helps in collecting and integrating information related to laws and regulations. Consistent with this reasoning, Dyreng et al. (2010) find that CEOs, who are almost never a tax expert, impose significant individual influence over tax avoidance activities.

<sup>7</sup> The organization chart is available at [http://www.law.harvard.edu/programs/corp\\_gov/articles/Heineman-CC-In-the-Beginning-April06.pdf](http://www.law.harvard.edu/programs/corp_gov/articles/Heineman-CC-In-the-Beginning-April06.pdf). Furthermore, on the website of the Office of the General Counsel at Ford Motor Company, tax is listed as one of the areas under the responsibility of the Office. The website also states that the tax team "works in an environment with other legal professionals whose training supports analytic thinking, creative problem solving and client orientation. The tax team is able to deliver solid and thoughtful tax planning that is integral to the company". (Source: <https://corporate.ford.com/careers/departments/office-of-the-general-counsel.html>). Finally, an advertisement for general counsel posted by Intel Corporation states that the general counsel would, among others, "advise officials on tax matters, government regulations, contract negotiation, federal and state tax legislation and/or legal rights" (Source: <http://www.goinside.com/jobs/27966-tax-counsel-at-intel>).

<sup>8</sup> An interesting article titled "The most influential person in the tax world" in NYU law magazine illustrates this point (<http://blogs.law.nyu.edu/magazine/2013/the-most-influential-person-in-the-tax-world/>). In 1987, Jack Welch, the legendary chief executive of General Electric, hired Ben Heineman as the general counsel to

Second, by being part of top management, the general counsel is more sensitive to the needs of the top management and shareholders in terms of maximizing after-tax income. She might also be intrinsically motivated to help the firm save on taxes, given the status and expectations that come with being part of the top management. As a result, the top management becomes more legally astute as to how to engage in tax planning proactively or at the minimum, more likely to factor in tax (and other regulatory) considerations when developing various business strategies. According to Bagley (2008), legally astute management teams include legal constraints and opportunities at each stage of strategy formulation and execution. They also take a proactive approach to regulation, both to avoid more onerous regulation and to take advantage of the opportunities from regulation and deregulation. Consequently, legally astute management teams are better able to incorporate tax planning techniques into their overall business strategy, which leads to an enhanced ability to generate after-tax income. The general counsel may even be pressured by the other members of top management team to enhance firm value through active tax planning.

Third, according to Gallemore and Labro (2014), uncertainty about a firm's tax liability can diminish the firm's tax planning ability, since tax opportunities may not be visible, there may be substantial doubts about the payoffs of particular tax avoidance opportunities, and forecasting over the wide range of potential tax outcomes may be difficult. Scotchmer and Slemrod (1989)'s model predicts that when firms operate in an environment with high uncertainty about the tax liability, firms will pay a higher amount of taxes to reduce the probability that a fine will be assessed. McGuire et al. (2012b) empirically find that firms characterized by high operating uncertainty are less likely to engage in tax shelters. A general counsel in top management can aid in more effective tax avoidance by reducing uncertainty

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develop a significant in-house legal department. Heineman, who is a constitutional lawyer, in turn, hired John Samuels as vice president and senior tax counsel at General Electric. Samuels eventually built up the firm's global tax operation as one of the most aggressive tax operations in the world, with about 1,200 tax experts in 44 countries. According to Samuels, General Electric has obligations to shareholders to take advantage of the tax incentives that governments provide.

in tax planning. For instance, top management is likely to be more confident in and comfortable with proceeding with an uncertain tax positions when the team includes a general counsel who advocates the controversial tax strategy and provides assurance that the tax authorities would subsequently consider the strategy sustainable. Given her intimate knowledge of the business and the circumstances surrounding the tax strategies, the general counsel (and her team of internal counsels) may be in a better position to defend the firm's tax strategies if challenged by IRS, and her representation in the tax courts may increase the likelihood of the firm successfully defending certain tax strategies.<sup>9</sup>

Notwithstanding the above arguments, the general counsel can set a conservative tone at the top and promote among the top management team a more cautious approach to the firm's business strategies, including tax planning. The general counsel is expected to practice preventive law by proactively assisting management with the assessment of legal risks and in making decisions on how to handle them (DeMott 2005). By doing so, the general counsel helps to "intervene early and prevent the company from being involved in litigation" (Brown 2003).<sup>10</sup> Following a series of corporate failures and the enactment of the Sarbanes-Oxley Act in 2002, the general counsel is now expected to assume greater legal and professional responsibilities to ensure that financial goals of the firm are lawfully attained. For instance, the Sarbanes-Oxley Act obligates the general counsel to take certain mandatory measures to prevent corporate malfeasance and to report allegations of corporate misconduct "up the ladder".<sup>11</sup> It is conceivable that a conservative general counsel in top management would influence top management not to proceed with uncertain or controversial tax strategies,

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<sup>9</sup> In a recent court case in 2013, Robert Grey, who is the general counsel and part of top management of PPL Corporation, was credited with the success of PPL's corporation in convincing the Supreme Court to overturn a decision banning its use of foreign tax credits against the UK "windfall tax" law.

<sup>10</sup> Consistent with the general counsel exerting a cautious, conservative influence on the firm, Jagolinzer et al. (2011) find that when the general counsel's approval is required for insider trades, executives are constrained from using their private information to make profitable insider trading.

<sup>11</sup> Following the Sarbanes Oxley Act, the fiduciary and professional responsibilities of the general counsel are increasingly codified and explicit. For example, section 307 of the SOX Act requires "an attorney to report evidence of a material violation of law or breach of fiduciary duty or similar violation by the company or any agent thereof..."

especially those that push the envelope of tax laws. This is because in the event that the tax strategies are being challenged by the IRS or are considered to be non-tax-compliant, the firm can suffer significant legal and reputational costs and the general counsel could be blamed for her failure to mitigate the firm's legal and compliance risks. Presumably, the blame will be greater if the general counsel is part of the top management. Under this view, we expect a negative association between the presence of a general counsel in top management and tax avoidance.

Given the opposing views on whether having a general counsel in top management affects a firm's tax policies, we formulate our first hypothesis in the null form as follows:<sup>12</sup>

*Hypothesis 1: Firms with a general counsel in top management exhibit no different tax avoidance compared to firms without a general counsel in top management.*

As an aside, after establishing the base (i.e., on average) result for the above hypothesis, we develop further hypotheses later in the paper to enrich the analyses of the relation between general counsel in top management and tax avoidance.

### **3. Sample and Research Design**

#### *3.1 Sample of firms with a general counsel in top management*

We construct our initial sample to identify firms with a general counsel in top management from Compustat ExecuComp for the sample period 1996-2012. ExecuComp collects the annual compensation data of the five highest-paid executives from the proxy statements reported by the S&P1500 firms. In our sample, 93.4% (97.4%) of the firms report the compensation details of at least five (four) executives. Following Kwak et al. (2012) and

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<sup>12</sup> Our paper does not take a position as to whether having a general counsel who is a “facilitator” or “gatekeeper” of tax avoidance increases firm value because the firm value outcome hinges on how tax avoidance is associated with firm value. For example, if tax avoidance increases firm value and having a general counsel in top management is associated with greater tax avoidance, then one might expect this composition of top management to increase firm value. The focus of our paper is to establish the link between general counsel in top management and tax avoidance.



Hopkins et al. (2015), we examine the annual title (titleann) of every executive reported by ExecuComp for the presence of general counsel in top management. For the purposes of our study, we consider the following titles on ExecuComp to be a general counsel: general counsel, chief counsel, corporate counsel, senior counsel, chief legal counsel, chief legal officer, chief legal executive, chief counsel, vice president of law, vice president of legal affairs, etc. In our initial sample, 40.6% of firm-year observations report the presence of a general counsel in top management ( $GC = 1$ ). This reported incidence of a general counsel in top management is slightly lower than the 43.0% reported incidence documented in Kwak et al. (2012). The difference is likely due to missing annual titles in the earlier years of the sample, which Kwak et al. (2012) supplement by hand-collecting annual titles from 10-Ks and other sources. When we examine the incidence of general counsel in top management in the later years of the sample after fiscal year 2000, the incidence is 42.1%, which is very similar to what is reported in Kwak et al. (2012).<sup>13</sup> We then merge this sample with Compustat and CRSP to obtain variables necessary to compute the variables for the propensity score matching procedure and the control variables in the main analyses. We exclude firms in financial (2-digit SICs between 60 and 69) and utility (2-digit SICs of 49) industries because firms in regulated industries have different tax and financial reporting incentives from other firms. We also winsorize each continuous variable at the 1% and 99% levels to mitigate the effect of outliers. Our full sample for the propensity score matching procedure yields 17,137 firm-year observations.

### 3.2 *Propensity score matching procedure*

Firms with the general counsel as part of top management are likely to be different in several observable dimensions as compared to those that do not. Hence, these observable factors that lead to the general counsel being part of top management could potentially be the

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<sup>13</sup> Hopkins et al. (2015) report a lower incidence of a general counsel in top management of 36.9%.

same factors (opportunity and incentives) that are correlated with tax avoidance and results in an omitted correlated variable problem. For example, firms with more complex operations may be more likely to have the general counsel as part of top management, and these complex operations may also provide the firm with more opportunities to avoid tax. To mitigate potential endogeneity associated with the presence of the general counsel in top management, we form a matched sample of observations with general counsel in top management and those without using propensity score matching (Rosenbaum and Rubin 1983). Propensity score matching is a methodology used to find a group of comparable treatment (in this case, firms with general counsel in top management) and control observations to mitigate the effect of selection bias, or differences in observable characteristics between treatment and control samples, in observational causal studies. By matching treatment and control firms on these observable characteristics, any difference in outcome can, in the absence of hidden bias, be attributed to the difference in treatment. This research design has gained increased acceptance in the recent accounting literature (e.g., Armstrong et al. 2010; Chan et al. 2012, 2015; Kwak et al. 2012).

To implement this research design, we estimate a logit model where we regress an indicator variable that equals one (zero) for observations with (without) general counsel in top management (*GC*) on a set of firm characteristics that predicts the general counsel's inclusion in top management following the prediction model used by Kwak et al. (2012), and we also include some additional variables to improve the explanatory power of the model. Specifically, we include a set of variables that predict the probability of security class action lawsuits (*TRADVOL*, *BETA*, *RET*, *MINRET*, *RETSKEW*, *RETVOL* and *INDLITIG*) following the litigation model developed by Rogers and Stocken (2005). We also include *LAWSUIT* because firms with historical lawsuits or are currently being sued may be more likely to elevate the general counsel's in-house status. We include *PCTGC* because the industry

practice of having general counsel in top management may influence the firm's decision to have a general counsel in top management. We also include *FIRMAGE* because more established firms are likely to have attained the size and scope of operations that justify substantial internal legal departments and hence general counsels of these firms are more likely to be part of top management. We include *NUMEXEC* because the likelihood of having a general counsel in top management is higher when more executives are named in the annual proxy statement. We include several governance characteristics that may influence firm's decision to have the general counsel in top management (*CEOCHAIR*, *CEOTENURE* and *IOHOLD*). We include *TURNOVER* because recent CEO and/or CFO turnover may affect firm's inclination to place the general counsel in top management. We include *RD*, *INTANG*, *FI* and *NSEG* because firms in research and development intensive industries, firms with intangible assets and firms with foreign and complex operations may require specific legal expertise of having the general counsel in top management. Finally, we include *ROA*, *LEV*, *SIZE*, *MB*, industry and year indicator variables as proxies for firm performance, capital structure, industry-specific and time-specific factors that may affect a firm's decision to place a general counsel in top management. The detailed definition of these variables is outlined in the Appendix.

Table 1 Panel A provides the descriptive statistics of the 17,137 firm-year observations with available data for the propensity score matching and control variables in the main regression. As reported in this panel, firms with general counsel in top management ( $GC = 1$ ) differ significantly in many observable dimensions as compared to those without ( $GC = 0$ ). Table 1 Panel B provides the results of the logit regression to perform the propensity score matching. To determine the accuracy of the propensity score model in discriminating between observations with general counsel in top management and those without, we assess the area under the ROC (Receiver Operating Characteristic) curve

(Hosmer and Lemeshow 2000). As reported in this table, the area under ROC curve is 0.7056, which is above the acceptable threshold of 0.7 as suggested by DeFond et al. (2015), and thus indicates that the propensity score model has reasonable explanatory power. Based on the results of this model, we compute the propensity score for each observation and then match each treatment observation to a control observation with the closest propensity score without replacement. To ensure a reasonable match and to minimize the observable difference between the treatment and control sample, we require a caliper of 0.01 and a common support. Based on this procedure, we obtain 5,710 pairs of treatment and control sample.

To determine whether the propensity score matching achieves covariate balance, we assess whether the treatment and control sample still exhibits significant difference in the various observable dimensions examined earlier. Panel C provides the descriptive statistics of the 11,420 firm-year observations identified by propensity score matching. As reported in this table, there is no significant difference between the treatment and control sample in any variable. This suggests that our matching procedure achieves a covariate balance, and we will use this propensity score matched sample for our main empirical tests.

### 3.3 *Measures of tax avoidance*

Consistent with Hanlon and Heitzman (2010), we view tax avoidance as encompassing a spectrum of tax planning activities with outcomes that range from certain to uncertain, where uncertain tax positions are those that are supported by a relatively weak set of facts and are, thus, less likely to be sustained upon audit. Given that our research question is about whether general counsel in top management are associated with greater tax avoidance, we are interested in measures that capture a broad spectrum of tax avoidance activities and are likely to capture substantial tax savings in the firm—(1) effective tax rate (*ETR*), (2) the amount of uncertain tax positions (*PRED\_UTB*), (3) the likelihood of engaging in tax shelter activities (*SHELTER*), and (4) the number of distinct tax haven countries in

which the firm has significant operations (*NTAXHAVEN*). Given that each of the above tax measure has its own limitations, the use of four different measures helps triangulate our inferences and increase the robustness of our results.

The first measure, *ETR* reflects the traditional GAAP effective tax rate, and is defined as total tax expense divided by pretax book income. *ETR* reflects any tax avoidance activities (but not tax deferral strategies) that directly affect net income and thus encompasses a broad range of tax planning activities. An *ETR* lower than the statutory tax rates suggests that firm have income included in book income that will never be recorded in taxable income (e.g., municipal bond interest, tax credits and permanently reinvested earnings). *ETR* is commonly used as a measure of a firm's tax burden (e.g., Chen et al. 2010; Dyreng et al. 2010; Armstrong et al. 2012; McGuire et al. 2012a), and we utilize this measure as a general proxy for tax avoidance. We multiply this measure by minus 1 so that all measures utilized in this study are increasing in tax avoidance for ease of interpretation.

The second measure is the predicted unrecognized tax benefits (*PRED\_UTB*) based on Lisowsky et al. (2013), which captures the amount of income taxes associated with uncertain tax positions. We use this measure because we conjecture earlier that a general counsel in top management can reduce uncertainty in tax planning (thus facilitating tax avoidance) by better advocating and defending the firm's uncertain tax positions. The measure is computed as follows:

$$\begin{aligned}
 PRED\_UTB &= 0.0089 \times SIZE - 0.0010 \times PP\&E + 0.0036 \times R\&D + 0.0011 \times M\&A \\
 &+ 0.0008 \times FOR\_SALE + 0.0052 \times CRTY + 0.0010 \times TAXHAVEN \\
 &+ 0.0016 \times EQEARN + 0.0004 \times MEZZFIN + 0.0006 \times AOCI \\
 &+ 0.0036 \times DEFREV + 0.0103 \times STKCOMP + 0.0016 \times NOL \\
 &- 0.0003 \times NEXUS,
 \end{aligned}$$

where *SIZE* is the log of total assets, *PP&E* is the ratio of property, plant and equipment scaled by total assets, *R&D* is research and development expenditure scaled by lagged total assets, *M&A* is an indicator variable equals one if the firm engaged in an M&A transaction as the acquirer in the current year, zero otherwise, *FOR\_SALE* is the percentage of foreign sales, *CRTY* is the natural log of the number of distinct countries (other than the U.S.) in which the firm reports a significant subsidiary per 10-K Schedule 21 of the current year, *TAXHAVEN* is an indicator equals one if firm reports in 10-K Schedule 21 a tax haven subsidiary, zero otherwise, *EQEARN* is the ratio of the absolute value of equity in earnings, divided by the absolute value of income before extraordinary items, *MEZZFIN* is the ratio of convertible debt and preferred stock scaled by total assets, *AOCI* is the ratio of the absolute value of accumulated other comprehensive income scaled by total assets, *DEFREV* is an indicator equals one if deferred revenue is non-zero, zero otherwise, *STKCOMP* is an indicator equals one if stock compensation expense is non-zero, zero otherwise, *NOL* is an indicator equals one if net operating loss carry-forward is non-zero, zero otherwise, *NEXUS* is an indicator equals one if SIC code is in the range (4000-4899) and (5000-5999), zero otherwise.<sup>14</sup>

For our third measure, we use the tax shelter prediction score (*SHELTER*) developed by Wilson (2009) because tax shelter activities reflect the general counsel's ability in helping the firm develop more complex and sophisticated tax strategies that can substantially reduce tax burden. Note that the use of tax shelters does not necessarily imply that the firm engages in some form of illegal activity. As Hanlon and Heitzman (2010, footnote 39) note, "A problem with tax shelters is that it is almost always ambiguous whether the transaction is

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<sup>14</sup> We use Lisowsky et al.'s (2013) model of predicted UTB instead of Rego and Wilson's (2012) model of predicted UTB because the former base their model on the results of a survey of tax practitioners' view of the most complex and uncertain areas of tax law (Burton and Karlinsky 2011). On the other hand, the Rego and Wilson (2012) model is largely based on Gupta and Newberry (1997), a paper that measures the determinants of ETRs. In addition, Lisowsky et al. (2013) use a much larger and diverse sample than Rego and Wilson (2012) (19,271 firm-years from the S&P 1500 versus 2,162 firm-years from the S&P500 and S&P400). Finally, the Lisowsky et al. (2013) model explains 55% of the nondiscretionary tax factors associated with the UTB, while the Rego and Wilson (2012) model explains 22%.

permissible or not.” Further, the IRS recognizes tax planning via tax shelters as legitimate as long as they exhibit ‘economic substance’ or a ‘business purpose’. The measure is computed as follows:

$$\begin{aligned} SHELTER &= -4.30 + 6.63 \times BTD - 1.72 \times LEV + 0.66 \times SIZE + 2.26 \times ROA \\ &+ 1.62 \times FI + 1.56 \times R\&D, \end{aligned}$$

where *BTD* refers to book income less taxable income scaled by lagged total assets, *LEV* refers to long term debt divided by total assets, *SIZE* refers to the log of total assets, *ROA* refers to pre-tax earnings divided by total assets, *FI* refers to an indicator variable equals one for firm observations reporting foreign income, zero otherwise, and *R&D* refers to the research and development expenditure divided by lagged total assets.<sup>15</sup>

Finally, our last measure is the number of distinct tax haven countries in which the firm has significant operations because firms that have material operations in at least one tax-haven country have lower worldwide effective tax rates than firms without tax haven operations (Dyreng and Lindsey 2009). Thus, there is a clear economic link between the use of tax havens and corporate tax avoidance strategies. The use of tax havens for firms’ material operations is also a choice made by firms’ top executives and hence reflects the tone at the top, at least as portrayed in the media. All our measures are increasing in tax avoidance, and the detailed explanation of each measure is described in the Appendix.

### 3.4 Research design for the main analyses

To test H1, we estimate the following regression:

$$TAX_{it} = \alpha + \beta GC_{it} + \psi FIRM\_CONTROLS_{it} + YEAR\_FE + IND\_FE + \varepsilon_{it}, \quad (1)$$

where *TAX* refers to the measure of tax avoidance (*ETR*, *PRED\_UTB*, *SHELTER* and *NTAXHAVEN*); *GC* is an indicator that equals one if the general counsel is in top

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<sup>15</sup> Based on a sample of identified tax shelter participants, Wilson (2009) develops a model to detect potential tax sheltering participants based on several observable firm characteristics. We use the estimated coefficients from his regression model to measure the likelihood of a firm’s involvement in tax sheltering activities.

management for a particular firm-year; *FIRM\_CONTROLS* refers to a vector of firm-level controls and *YEAR\_FE* and *IND\_FE* refer to time and industry fixed-effects, respectively. The appendix includes the detailed definition of all variables.

We select *FIRM\_CONTROLS*, which prior literature has documented as being associated with tax avoidance (e.g., Chen et al. 2010; Hoopes et al. 2012; McGuire et al. 2012a). We include a comprehensive list of control variables to help alleviate the omitted correlated variable concern arising from potential endogeneity of having a general counsel in top management: net operating loss carry forward (*NOL* and *NOLCHG*), foreign income (*FI*), inventory intensity (*INVENTORY*), property, plant and equipment (*PPE*), capital expenditure (*CAPEX*), research and development intensity (*RD*), intangibles (*INTANG*), equity income (*EI*) and number of segments (*NSEG*). In addition, we control for discretionary accruals (*DACC*) because Frank et al. (2009) find that financial reporting aggressiveness is positively associated with tax reporting aggressiveness. We control for legal settlement (*LITIGATION*) because Lisowsky (2010) finds that insurance or litigation payouts are an informative sign of tax sheltering. We control for institutional ownership (*IOHOLD*), Big 5 auditors (*BIG5*) and external monitoring by the IRS (*IRS\_AUDIT*) because these external governance mechanisms can influence tax avoidance (e.g., Desai and Dharmapala 2006; Hoopes et al. 2012). Finally, we control for return-on-assets (*ROA*), leverage (*LEV*), size (*SIZE*) and market-to-book (*MB*) as general controls for firm performance, capital structure other firm characteristics that may influence firm's inclination to avoid tax. In examining *NTAXHAVEN* as a measure of tax avoidance, we additionally control for the number of countries that the firm has a significant subsidiary to avoid a mechanical relation between the number of tax haven countries and the number of countries that the firm operates in. We use ordinary least squares (OLS) regression for our empirical estimation when the dependent variables are *ETR*, *PRED\_UTB* and



*SHELTER*, and we use poisson regression when the dependent variable is *NTAXHAVEN* because the latter is a count variable.

## **4. Main Results**

### *4.1 Descriptive statistics*

Table 2 Panel A reports the descriptive statistics of the regression variables for the propensity score matched sample. The sample size varies for the various tax measures depending on data availability to compute the measures (from 6,849 observations for *NTAXHAVEN* to 11,245 for *SHELTER*). Table 2 Panel B reports the Pearson correlation of the main variables in our paper. The Pearson correlations between the four measures of tax avoidance (*ETR*, *PRED\_UTB*, *SHELTER* and *NTAXHAVEN*) are positively correlated with one another, which suggest that all four capture tax planning activities in general. However, the correlations among the four measures, between 0.08 and 0.67, suggest that each measure likely captures a different dimension of tax avoidance and hence supports our choice of using all four in our analyses to triangulate our results and increase the robustness of our findings. Turning to our variable of interest, we find that the presence of general counsel in top management (*GC*) is positive and significantly correlated with three measures of tax avoidance (*ETR*, *PRED\_UTB* and *NTAXHAVEN*), while it is positive but insignificantly correlated with *SHELTER*. Because these are pairwise univariate correlations, we defer the main analyses to multivariate tests in section 4.2.

### *4.2 Main empirical analyses – Test of H1*

Table 3 reports our results for the test of H1, which examines the association between the presence of a general counsel in top management and corporate tax avoidance. As shown in Panel A where we present the results for the propensity score matched sample, the presence of a general counsel in top management is positive and significantly associated with

all four measures of tax avoidance (significant at the 1% level when we examine *PRED\_UTB* and *SHELTER*, significant at the 5% level when we examine *NTAXHAVEN*, and significant at the 10% level when we examine *ETR*). This result is more supportive of the view that a general counsel in top management uses her legal expertise to facilitate corporate tax avoidance. The effect of having a general counsel in top management on tax avoidance is also economically significant. Specifically, firms with a general counsel in top management are associated with a 1.8%, 1.2%, 7.5% and 2.5% increase in tax avoidance as proxied by *ETR*, *PRED\_UTB*, *SHELTER* and *NTAXHAVEN*, respectively, even after including a comprehensive list of control variables.<sup>16,17</sup>

While the propensity score matching research design helps alleviate potential endogeneity concerns associated with the decision to place the general counsel in top management, a potential drawback of this research design is that it reduces sample size and the generalizability of our findings.<sup>18</sup> To ensure the robustness of our results, we re-estimate our regression on the full sample in Table 3 Panel B. As observed from this table, the coefficients on *PRED\_UTB*, *SHELTER* and *NTAXHAVEN* remain positive and significant at the 1% level, while *ETR* remains positive but loses significance.

Overall, the above analyses indicate that the general counsel in top management likely plays an important facilitating role in advising firms in their strategic tax planning activities.

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<sup>16</sup> The impact of having a general counsel in top management (*GC*) on the *ETR* (OLS regression) is computed as  $0.006$  (coefficient on *GC*)  $\div$   $0.329$  (the absolute value of the sample mean of *ETR*) = 1.8%. The impact of having a general counsel in top management (*GC*) on the *NTAXHAVEN* (poisson regression) is computed as  $(e^{0.066} - 1) \div 2.768$  (the absolute value of the sample mean of *ETR*) = 2.5%. The other comparative statics are computed analogously.

<sup>17</sup> By including a comprehensive list of control variables, we are leaving less variation for the general counsel in top management effect to “pick up.” For instance, if the general counsel imposes her influence over tax avoidance via research and development activities (through utilization of tax credits), by including research and development intensity as our control variable, we inevitably biased our general counsel effect towards zero. While our documented economic magnitude is not large *per se*, our tests provide a conservative estimate of the general counsel influence on tax avoidance. In fact, one might even argue that this estimate is a realistic one given that tax avoidance is a function of many determinants, the multiple roles of general counsels, and noise in the measures that we are using to examine the effect of general counsels in top management on tax avoidance.

<sup>18</sup> To ensure the robustness of our findings based on the propensity score matching design, we vary the following design choices: 1) matching with replacement; 2) varying the closeness of the match by adjusting the caliper between 0.01 to 0.05. Our inferences are unchanged (results available upon request).

### 4.3 *Difference-in-differences analysis*

As an alternative approach to address endogeneity concerns using propensity score matching, we conduct a difference-in-differences (DID) analysis. If the omitted correlated variables that affect both the presence of the general counsel in top management and the extent of tax avoidance are time-invariant, they are controlled for in the DID analysis. In particular, we utilize a DID research design on our full sample, as in Bertrand and Mullainathan (2003) and Chan et al. (2012, 2015), and examine the impact on tax avoidance when the general counsel becomes part of top management. We construct two variables: 1) an indicator variable (*GCFIRM*) that equals one if the firm has a general counsel in the top management during the sample period, and zero otherwise; 2) an indicator variable (*POST\_GCFIRM*) that equals one for firms that has a general counsel in the top management (*GCFIRM* = 1) for firm-years after the general counsel becomes part of the top management, and zero otherwise. The coefficient on *GCFIRM* captures the difference in tax avoidance between firms with general counsel in top management (i.e., treatment firm) and the other firms in the period before the general counsel becomes part of top management. The coefficient on *POST\_GCFIRM* captures the incremental effect of *GCFIRM* on tax avoidance after the general counsel becomes part of top management (*POST\_GCFIRM* is essentially the interaction between the *GCFIRM* and an indicator for the period after the general counsel becomes part of top management).<sup>19</sup>

Table 4 Panel A presents the result from this analysis. We find that the coefficient on *GCFIRM* is insignificantly different from zero (with the exception of *ETR*, which is negative

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<sup>19</sup> In Table 4 Panel B, we exclude firm-years where the treatment firm becomes a non-treatment firm to have a cleaner set of treatment firms. In Table 4 Panel B, we separately examine the effect when the general counsel no longer becomes part of top management. In this analysis, we also restrict the treatment sample to firms with at least two periods before the general counsel becomes part of top management and at least two periods after the general counsel becomes part of top management. Our inferences remain the same if we do not impose this restriction.

and significant);<sup>20</sup> that is, there is no significant difference in tax avoidance between firms with general counsel in top management and those without in the period before the general counsel becomes part of top management. However, we observe a significant increase in all four measures of tax avoidance after the general counsel becomes part of top management (significant at the 1% level for *PRED\_UTB* and *SHELTER*, and significant at the 5% level for *ETR* and *NTAXHAVEN*). This result indicates that the general counsel in top management has a causal effect on tax avoidance after she becomes part of top management, presumably as a result of her increased influence within the top management team which thus facilitates her role in advising the firm in its tax planning.

In Table 4 Panel B, we separately examine the incremental effect when the general counsel is no longer part of top management. In particular, we include a new indicator variable *POSTDROPGCFIRM* that equals one for firms that has a general counsel in the top management during the sample period (*GCFIRM* = 1) for firm-years after the general counsel is no longer part of top management, and zero otherwise. As observed from this table, all the coefficients on *POSTGCFIRM* remain positive and significant, while none of the coefficient on *POSTDROPGCFIRM* is significant. This result suggests that the general counsel in top management may have a lasting and continuing impact on tax planning activities even after she is no longer part of top management.

Overall, the robust results based on the DID analysis strengthens our earlier inference that the general counsel in top management influences tax avoidance, mitigating concerns that our results are driven by omitted correlated variables.

#### 4.4 *Are our results driven by CEO and CFO compensation incentives?*

Hopkins et al. (2015) highlight that the documented effects of general counsel in top management could be due to CEO and CFO compensation incentives. Prior research also

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<sup>20</sup> Arguably, firms with high effective tax rates (low values of *ETR*) may decide to have a general counsel in top management to reduce their effective tax rates.

finds that CEO and CFO compensation incentives are associated with tax avoidance (Rego and Wilson 2012).<sup>21</sup> To the extent that the general counsel's compensation incentives are positively correlated with the CEO and CFO compensation incentives, then our finding of an association between general counsel in top management and tax avoidance may be picking CEO and CFO compensation incentives. For instance, the general counsel in top management is one of the highest compensated executives within the firm, and to the extent that firms with highly paid general counsels also have highly paid CEOs and CFOs, our findings may be picking up the effects of highly compensated CEOs and CFOs rather than the effect of having a general counsel in top management.

In the spirit of Hopkins et al. (2015), we conduct additional robustness analyses controlling for CEO and CFO incentives. For this purpose, we include CEO and CFO total compensation in our main regression specification.<sup>22</sup> As observed in Table 5 Panel A, our coefficient of interest (*GC*) remains positive and significant, which suggests that our results are not driven by highly compensated CEO and CFO.

CEO and CFO compensation incentives largely consist of stock-based incentives, and prior work suggests that executives' stock-based compensation exerts significant influence over important reporting decisions such as financial reporting and voluntary disclosure (e.g., Nagar et al. 2003; Cheng and Warfield 2005; Bergstresser and Philippon 2006; Jiang et al. 2010). To the extent that the general counsel's stock-based compensation is positively correlated with the CEO and CFO stock-based compensation, our documented effect of general counsel in top management may be picking up the effect of CEO and CFO stock-based compensation. To mitigate this concern, we include CEO and CFO stock-based

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<sup>21</sup> On the other hand, in a comprehensive analysis of incentives and corporate tax avoidance using proprietary data, Armstrong et al. (2012) do not find robust evidence that CEO and CFO compensation incentives are associated with tax avoidance.

<sup>22</sup> We do not include the general counsel's total compensation in the regression because it would require compensation data for all general counsels, which are not available for firms without the general counsel in top management.

compensation in our main regression, and the results are presented in Table 5 Panel B. As observed from this table, our coefficient of interest (*GC*) remains positive and significant.

Finally, Rego and Wilson (2012) find that executives' risk incentives are positively associated with greater tax avoidance.<sup>23</sup> Therefore, we include both pay-for-performance sensitivity (*PPS*) and risk incentives (*VEGA*) of the CEO and CFO in our main regression to mitigate concerns that our measure of general counsel in top management is merely picking up CEO and CFO risk incentives, and the results are presented in Table 5 Panel C. As reported in this table, our coefficient of interest (*GC*) remains positive and significant.

Overall, the above robustness analyses suggest that our conclusion that the general counsel exerts significant influence over strategic tax planning remains unchanged, after controlling for the compensation incentives of the CEO and CFO.

#### 4.5 *Use of general counsel in top management fixed effects*

Following prior studies that examine whether individual executives impose their personal management style on corporate policies (e.g., Bertrand and Schoar 2003; Bamber et al. 2010; Dyreng et al. 2010; Ge et al. 2011; Law and Mills 2014), we provide further evidence that individual general counsels exert a significant effect on tax avoidance by focusing our analyses on general counsels in top management that move from one firm to another within our sample.<sup>24</sup> The idea here is that facilitating tax planning may be an innate ability and/or individual style of the general counsel and that these characteristics follow the general counsel as she moves from the top management of one firm to that of another. To run the analyses with general counsel (in top management) fixed effects, we perform three sets of tests: 1) analyses of general counsel fixed effects after controlling for firm fixed effects; 2)

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<sup>23</sup> Compensation risk incentives is measured using option vega, which measures the change in value of a manager's equity portfolio in response to a given change in stock return volatility and hence provides an estimate of the payoff to managers for increasing firm risk. Following Rego and Wilson (2012), we only include stock options, but not common shareholdings in our computation of risk incentives because Guay (1999) finds that stock options, but not common stockholdings, play an economically significant role in increasing the convexity of the relation between managers' wealth and stock price.

<sup>24</sup> In our sample, 152 general counsels are part of top management in at least two firms.

analyses of general counsel fixed effects after controlling for firm and CEO fixed effects; and 3) analyses of general counsel fixed effects after controlling for firm, CEO and CFO fixed effects.<sup>25</sup> In this set of analyses, the firm fixed effects in the model control for all stationary firm characteristics such as industry and time-invariant firm-level strategies for tax avoidance. The other control variables capture firm characteristics that can change over time and that could plausibly be related to tax avoidance.

The results are reported in Table 6. As documented in Panel A, we find the individual general counsels who are part of top management impose significant individual influence over tax avoidance activities as they move from one firm to another (significant at the 1% level). The incremental R-square of including the general counsel ranges from 0.5% to 8.6%, even after controlling for firm fixed effects and a comprehensive list of firm-level controls that have been documented to influence tax avoidance. In Panel B and Panel C, we progressively include CEO and CFO fixed effects in the model and we continue to document a significant general counsel effect (at the 5% level or better) in at least three measures of tax avoidance. Overall, the results corroborate our earlier findings that general counsels in top management exert significant influence over tax avoidance.

## **5. Further Analyses of the Positive Association between a General Counsel in Top Management and Tax Avoidance**

In this section, we provide additional analyses to corroborate our earlier findings and provide greater insights into the role of the general counsel in tax avoidance. In section 5.1, we examine whether the extent to which general counsels in top management can influence

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<sup>25</sup> Note that when we control for individual CEO and CFO fixed effects, we follow Ge et al. (2011) and do not require CEOs and CFOs to have worked in more than one firm in our sample because imposing this restriction will reduce our sample size substantially. As such, for some subsets of CEOs and CFOs, we cannot disentangle the CEO or CFO effect from the firm effect. Hence, the joint significance of CEOs and CFOs should be interpreted cautiously. However, given that our purpose for including CEO and CFO fixed effects is to examine whether individual general counsel imposes specific style on tax avoidance over and above CEO and CFO style, our interpretation is not affected.

tax avoidance is a function of their tax expertise, or expertise in other related areas such as accounting and finance. In section 5.2, we examine whether there is greater tax avoidance associated with general counsel in top management when the firm hires an external auditor with tax-specific industry experience or purchases more non-audit tax services from its external auditor. Finally, in section 5.3, we examine whether the extent to which general counsels can influence tax avoidance is moderated by whether the CEO is relatively more powerful than the general counsel in the top management team. For these cross-sectional analyses, we restrict our sample to firms that have the general counsel as part of top management.

### *5.1 General counsel in top management with tax-related expertise*

In our discussions earlier, we argue that the general counsel needs only broad legal subject matter expertise and it is not necessary that she has to be a tax attorney or has the tax expertise to influence the firm's tax behavior. Nonetheless, our inference that the general counsel can influence tax decisions and aid in tax planning can be strengthened if we find some evidence that tax avoidance would be greater when the general counsel has tax expertise. Specifically, with such expertise, the general counsel has a better understanding of complex tax issues and is able to better advise top management on tax planning and develop more sophisticated tax strategies that can result in even greater tax savings. Along similar line of reasoning, Hopkins et al. (2015) find that firms with highly compensated general counsels have lower financial reporting quality, and among firms with highly paid general counsels, general counsels with financial expertise have poorer reporting quality and are more likely to engage in earnings management. Based on the above arguments, we predict as follows:

*Hypothesis 2: Conditional on the general counsel being part of top management, tax avoidance is greater when the general counsel has tax expertise.*



For our sample of general counsels in top management, we obtain their biographies from BoardEx and other online sources such as Bloomberg, Equilar, and Zoominfo. We define an indicator variable *GC\_TAXEXP* that equals one if the general counsel has a tax education background (e.g., a MS in Taxation or an LL.M in Taxation) or work experience in tax, and zero otherwise. A limitation of this approach is that some biographies are more detailed than others and even for many general counsels with a law degree, there is no indication of a specialization. We find limited number of general counsels who provide clear indications that they have a tax background. Hence, we also use an alternative measure of tax expertise with the assumption that a general counsel with an accounting and finance background is also more likely to be somewhat knowledgeable about tax. The indicator variable *GC\_TAXACCFINEXP* equals one if the general counsel has an education background or work experience in tax, accounting, or finance, and zero otherwise.<sup>26</sup>

Panel A of Table 7 first reports the results based on general counsels with solely tax expertise. When we examine *ETR* as proxies for tax avoidance, we find that the coefficient on *GC\_TAXEXP* is positive and statistically significant at the 5% level. This result is consistent with our prediction that conditional on the general counsel as part of top management, tax avoidance is greater when the general counsel has tax expertise. We do not find significant results when we examine *PRED\_UTB*, *SHELTER* and *NTAXHAVEN* as proxies for tax avoidance. However, turning to Panel B, we find that the coefficient on *GC\_TAXACCFINEXP* is positive and statistically significant at the 5% level when we examine *ETR* and *PRED\_UTB* as proxies for tax avoidance and is positive and statistically significant at the 10% level when we examine *SHELTER* as a proxy for tax avoidance. These results provide some evidence on the role of the general counsel in influencing tax avoidance.

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<sup>26</sup> In our sample, 3.2% of the firm-year observations with general counsel in top management have a tax background, while 23.0% have a tax, accounting or finance background.

When the general counsel has expertise in the area of tax, or in related areas such as accounting, or finance, she is in a better position to facilitate greater tax avoidance.

As an additional analysis, we examine how the experience of the general counsel in top management affects tax avoidance. The intuition behind this analysis is that when the general counsel has been part of top management for a longer period of time, she would presumably have gained more intimate knowledge of the firm as well as its business strategies. This expertise enables her to contribute more to the tax planning to reduce taxes. To test this argument, we define a variable *GC\_EXPERIENCE*, which is the number of years the general counsel has been part of the top management team. Panel C of Table 7 tabulates our findings. We find that the coefficient on *GC\_EXPERIENCE* is positive and statistically significant at the 5% level when we examine *ETR* and *SHELTER* as proxies for tax avoidance and is positive and statistically significant at the 10% level when we examine *NTAXHAVEN* as a proxy for tax avoidance. This result suggests that the extent to which the general counsel can facilitate tax planning increases with her experience as part of the top management team of the firm.

## 5.2 *General counsel in top management and tax services provided by external auditor*

Although the tax expertise of the general counsel is beneficial to tax planning, a general counsel can also enhance the tax capabilities of the firm by relying on external sources, such as the tax services provided by the external auditor.<sup>27</sup> For instance, McGuire et al. (2012a) find that firms purchasing tax services from their external auditor engage in greater tax avoidance when their external auditor is a tax expert or an overall expert (i.e., having combined tax and audit expertise). Cook and Omer (2012) document a positive effect of tax services fees on tax avoidance, and Hogan and Noga (2012) show that companies increasing (decreasing) their tax services are associated with more (less) tax avoidance over

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<sup>27</sup> We thank an anonymous reviewer for suggesting this set of analysis.

the long run. Taken together, these studies suggest that the general counsel can enhance the tax capabilities and/or competence of the legal department, hence better facilitating tax planning, if the firm hires an external auditor with tax (or overall) expertise or purchase more tax services from its external auditor. Hence, we predict as follows:

*Hypothesis 3: Conditional on the general counsel being part of top management, tax avoidance is greater if the firm hires an external auditor with tax (or overall) expertise or when there is higher tax services fees paid to the external auditor.*

Following McGuire et al. (2012a), we define tax (audit) market share as total tax (audit) fees paid to the audit firm divided by total tax (audit) fees paid to all other audit firms in the same industry and Metropolitan Statistical Area (MSA). Tax (audit) expertise is defined as a tax (audit) service market share in a given MSA (city) and industry (two-digit SIC) market share that is greater than or equal to 24 percent before year 2002 or 30 percent on or after year 2002.<sup>28</sup> The indicator variable *AUD\_TAXEXP* equals one if the firm is audited by an audit firm that is a tax expert. The indicator variable *AUD\_OVERALLEXP* equals one if the firm is audited by an audit firm that is both an audit and tax expert. Finally, the variable *TAXFEES* is defined as tax fees divided by the total fees paid to the firm's external auditor.

The results are tabulated in Table 8. In Panel A, when we examine *PRED\_UTB* and *SHELTER* as proxies for tax avoidance, we find that the coefficient on *AUD\_TAXEXP* is positive and statistically significant at the 1% level. This result suggests that conditional on the general counsel as part of top management, tax avoidance is greater when the firm hires an auditor with tax-specific industry experience. The coefficient on *AUD\_TAXEXP* is negative and statistically significant at the 10% level when we examine *NTAXHAVEN* as a proxy for tax avoidance. The unexpected result obtained for *NTAXHAVEN* may reflect

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<sup>28</sup> The minimum national industry market share is 30%, following Neal and Riley (2004), who define the minimum as 1.2 times the inverse of the number of Big N auditors. Following McGuire et al. (2012a), we use their formula to apply to our city-industry auditor expertise setting.

auditors' concern over the use of potentially controversial foreign tax havens. The results based on *AUD\_OVERALLEXP* and *TAXFEES* are generally consistent with those based on *AUD\_TAXEXP*. Specifically, in Panel B (Panel C), we find that the coefficient on *AUD\_OVERALLEXP* (*TAXFEES*) is positive and statistically significant at the 5% level or better when we examine *PRED\_UTB* and *SHELTER* as proxies for tax avoidance. We do not find significant results when we examine *ETR* and *NTAXHAVEN* as proxies for tax avoidance. Overall, the above findings provide some support for our contention that conditional on the general counsel being part of top management, the hiring of an external auditor with tax or overall expertise or greater use of non-audit tax services can further facilitate the general counsel's role in tax planning and developing tax strategies.

### 5.3 *The power of the CEO over the general counsel*

Among the top executives of the firm, the CEO is likely to experience the greatest pressure to maximize firm value (Rego and Wilson 2012). As discussed earlier, a possible way to maximize firm value is to adopt tax policies that maximize after-tax income. Prior studies have investigated the relative power/status of the different constituents within an organization, with the underlying assumption that if one constituent has relatively more power than another, the former is able to exert a greater influence on certain outcomes (e.g., Kwak et al. 2012; Badolato et al. 2013). In the context of tax avoidance, it is plausible that the more power that CEO has within the top management team, the more likely she is able to exert her influence on the general counsel to facilitate active tax planning. Hence, our next prediction is as follows:

*Hypothesis 4: Conditional on the general counsel being part of top management, tax avoidance is greater when the CEO has more power over the general counsel.*

We define three different measures of the CEO's relative power: (1) CEO's total compensation divided by the general counsel's total compensation (*CEO\_RELPOWER*), (2)

CEO's total compensation divided by the total compensation paid to the top five executives of the firm (*CEO\_PAYSLICE*), following Bebchuk et al. (2011), and (3) an indicator variable that equals one if the general counsel becomes part of top management within the first year that the current CEO is appointed, and zero if the general counsel is part of top management before the current CEO is appointed (*CEO\_APPTGC*). Table 9 presents the results. In Panel A, when we examine *SHELTER*, *PRED\_UTB*, and *NTAXHAVEN* as proxies for tax avoidance, the coefficient on *CEO\_RELPOWER* is positive and statistically significant at the 5% level or better. Similarly, in Panel B, for the same tax proxies, the coefficient on *CEO\_PAYSLICE* is positive and statistically significant at the 5% level or better. These results are consistent with our prediction that when the CEO is relatively more powerful than the general counsel in the top management team, she is better able to exert more influence on the general counsel to facilitate active tax planning and pursue tax savings. In Panel C, we do not find any significant results when we examine general counsel's relative power in top management based on when she is part of top management (*CEO\_APPTGC*). One possible explanation is that the inclusion of general counsel in top management after the CEO has taken office is largely based on the legal needs of the organization, as opposed to trying to capture the monitors of the CEO (and the rest of the top management) (Coles et al., 2014).

## **6. Conclusion**

Motivated by calls for more research on the role of the general counsel in corporate tax avoidance and the recent literature studying the economic consequences of having a general counsel in top management (e.g., Hanlon and Heitzman 2010), we document that the presence of a general counsel in top management is associated with greater tax avoidance. Specifically, we find that firms with general counsel as part of the top management team have lower effective tax rate, more uncertain tax positions, a higher likelihood of engaging in tax

shelter activities, and more tax haven countries in which the firm reports a significant subsidiary, relative to firms without a general counsel in top management. We also follow prior literature (e.g., Bertrand and Schoar 2003; Bamber et al. 2010; Dyreng et al. 2010; Ge et al. 2011) and examine whether individual general counsels who are part of top management impose their individual influence over tax avoidance as they move to another firm. We document a significant general counsel (in top management) individual fixed effect, over and above firm, CEO and CFO fixed effect. In addition, we find that among firms with general counsel in top management, tax avoidance is greater when (1) the general counsel has tax-related expertise, (2) the firm hires an external auditor with tax expertise or purchases more tax services from its external auditor, and (3) the CEO has more power over the general counsel. Overall, our results suggest that a general counsel in top management can have a significant influence on a firm's tax decisions, and the general counsel using her legal expertise and insights acquired from being part of the top management team to facilitate tax planning in the firm.

We emphasize that our results should not be taken to mean that firms with a general counsel in top management are more likely to engage in tax evasion or fraud. Greater tax avoidance simply means the adoption of tax strategies that reduce explicit taxes. While the literature generally assumes that greater tax avoidance are more likely to test or go beyond the boundaries of tax laws, our measures are not able to distinguish between legal and illegal tax strategies. Hence, for many firms with general counsels in top management, the reason that they pay less taxes could simply be a reflection of more effective tax planning.

While prior studies have documented that top managers, particularly the CEO and tax directors, exert significant influence over firms' tax policies (e.g., Desai and Dharmapala 2006; Dyreng et al. 2010; Rego and Wilson 2012; Armstrong et al. 2012), our study shows that a general counsel in top management can also affect tax policies. Our findings further

add to the literature on the role of the general counsel in contributing to strategic and operational decisions in the top management team (Nelson and Nielson 2000; DeMott 2005). Finally, our study also contributes to the growing literature on the determinants of tax avoidance (e.g., Chen et al. 2010; Kim and Zhang 2011; Rego and Wilson 2012; McGuire et al. 2012a).

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**APPENDIX**  
**Variable Definitions**

<i>ETR</i>	Annual GAAP effective tax rate, defined as total tax expense (TXT) divided by pre-tax income (PI). The denominator (pre-tax income) is required to be positive to compute this measure, and is then winsorized to 0 and 1. Finally, this variable is multiplied by negative one so that it is increasing in tax avoidance.
<i>PRED_UTB</i>	<p>The predicted unrecognized tax benefits based on Lisowsky et al. (2013), computed as:</p> $PRED\_UTB = 0.0089 \times SIZE - 0.0010 \times PP\&E + 0.0036 \times R\&D + 0.0011 \times M\&A + 0.0008 \times FOR\_SALE + 0.0052 \times CRTY + 0.0010 \times TAXHAVEN + 0.0016 \times EQEARN + 0.0004 \times MEZZFIN + 0.0006 \times AOCI + 0.0036 \times DEFREV + 0.0103 \times STKCOMP + 0.0016 \times NOL - 0.0003 \times NEXUS,$ <p>where <i>SIZE</i> is the log of total assets, PP&amp;E is the ratio of property, plant and equipment scaled by total assets, <i>R&amp;D</i> is research and development expenditure scaled by lagged total assets, M&amp;A is an indicator variable equals one if the firm engaged in an M&amp;A transaction as the acquirer in the current year, zero otherwise, <i>FOR_SALE</i> is the percentage of foreign sales, <i>CRTY</i> is the natural log of the number of distinct countries (other than the U.S.) in which the firm reports a significant subsidiary per 10-K Schedule 21 of the current year, <i>TAXHAVEN</i> is an indicator equals one if firm reports in 10-K Schedule 21 a tax haven subsidiary, zero otherwise, <i>EQEARN</i> is the ratio of the absolute value of equity in earnings, divided by the absolute value of income before extraordinary items, <i>MEZZFIN</i> is the ratio of convertible debt and preferred stock scaled by total assets, <i>AOCI</i> is the ratio of the absolute value of accumulated other comprehensive income scaled by total assets, <i>DEFREV</i> is an indicator equals one if deferred revenue is non-zero, zero otherwise, <i>STKCOMP</i> is an indicator equals one if stock compensation expense is non-zero, zero otherwise, <i>NOL</i> is an indicator equals one if net operating loss carry-forward is non-zero, zero otherwise, <i>NEXUS</i> is an indicator equals one if SIC code is in the range (4000-4899) and (5000-5999), zero otherwise. Following Lisowsky et al. (2013), we compute the above measures based on three-year measures: 1) we set indicator variables equal to 1 if the one-year measure is equal to 1 in any of the current or prior two years; 2) we set ratio and natural log measures equal to the average of the one-year measure for the current and prior two years; 3) for R&amp;D, we compute the sum over the current and prior two years. Because the tax haven data is available up to only August 2010, we extend the tax haven data to 2012 by filling the data forward by up to two years. This assumption is reasonable because the one-year ahead (two-year ahead) time series correlation of tax haven use is 0.90 (0.81). We thank Scott Dyreng for providing the data to compute <i>CRTY</i> and <i>TAXHAVEN</i>.</p>
<i>SHELTER</i>	<p>The tax shelter prediction score developed by Wilson (2009), computed as:</p> $SHELTER = -4.30 + 6.63 \times BTD - 1.72 \times LEV + 0.66 \times SIZE + 2.26 \times$

	$ROA + 1.62 \times FI + 1.56 \times R\&D$ , where <i>BTD</i> refers to book income less taxable income scaled by lagged total assets, <i>LEV</i> refers to long term debt divided by total assets, <i>SIZE</i> refers to the log of total assets, <i>ROA</i> refers to pre-tax earnings divided by total assets, <i>FI</i> refers to an indicator variable equals one for firm observations reporting foreign income, zero otherwise, and <i>R&amp;D</i> refers to the research and development expenditure divided by lagged total assets.
<i>NTAXHAVEN</i>	The number of distinct tax haven countries in which the firm reports a significant subsidiary per 10-K Schedule 21. We thank Scott Dyreng for providing the data to compute <i>NTAXHAVEN</i> .
<i>GC</i>	An indicator variable that equals one if the general counsel is in the top management and zero otherwise.
<i>TRADVOL</i>	The average daily trading volume divided by the number of shares outstanding over the fiscal year.
<i>BETA</i>	The slope coefficient from regressing daily returns on the CRSP Equal-Weighted Index for the fiscal year.
<i>RET</i>	The buy-and-hold returns for the fiscal year.
<i>MINRET</i>	The minimum of the daily stock returns for the fiscal year.
<i>RETSKEW</i>	The skewness of daily stock returns for the fiscal year.
<i>RETVOL</i>	The standard deviation of daily stock returns for the fiscal year.
<i>INDLITIG</i>	An indicator variable that equals one if the firm belongs to the following high litigation industries: Biotechnology (SIC 2833-2836), Computer Hardware (SIC 3570-3577), Electronics (SIC 3600-3674), Retail (SIC 5200-5961) and Computer Software (SIC 7371-7379), and zero otherwise.
<i>LAWSUIT</i>	An indicator variable that equals one if the firm is being sued in the current fiscal year or has a history of lawsuit(s), and zero otherwise. Data for lawsuits is obtained from the Stanford Law School Securities Class Action Clearinghouse.
<i>PCTGC</i>	The percentage of firms with general counsel in the top management in the same industry-year.
<i>FIRMAGE</i>	Firm age measured by the number of years the company has had data on Compustat.
<i>NUMEXEC</i>	The number of executives listed in the annual Proxy statement for the fiscal year.
<i>CEOCHAIR</i>	An indicator variable that equals one if the CEO is also the chairman of the board of directors, and zero otherwise.
<i>CEOTENURE</i>	The number of years that the current CEO has been appointed.
<i>IOHOLD</i>	The percentage of institutional ownership for the fiscal year.
<i>TURNOVER</i>	An indicator variable that equals one if there is either a CEO or CFO turnover in the current or prior fiscal year, and zero otherwise.
<i>RD</i>	Research and development expenses (XRD) scaled by total assets (AT) at the beginning of the fiscal year. XRD is set to zero if missing.
<i>INTANG</i>	Intangible assets (INTAN) scaled by total assets (AT) at the beginning of the fiscal year. INTAN is set to zero if missing.
<i>FI</i>	Foreign income (PIFO) scaled by total assets at the beginning of the fiscal year. PIFO is set to zero if missing.
<i>NSEG</i>	The natural logarithm of the number of segments of the firm for the

	fiscal year.
<i>ROA</i>	Pre-tax income (PI) scaled by total assets (AT) at the beginning of the fiscal year.
<i>LEV</i>	Long term debt (DLTT) scaled by total assets at the beginning of the fiscal year.
<i>SIZE</i>	The natural logarithm of the market value of equity ( $PRCC\_F \times CSHO$ ) at the end of the fiscal year.
<i>MB</i>	The market value of equity ( $PRCC\_F \times CSHO$ ) scaled by the book value of equity (CEQ), measured at the end of the fiscal year.
<i>NOL</i>	An indicator variable that equals one if the loss carry forward (TLCF) is positive at the beginning of the fiscal year and zero otherwise.
<i>NOLCHG</i>	Change in loss carry forward (TLCF) scaled by total assets (AT) at the beginning of the fiscal year.
<i>INVENTORY</i>	Total inventory (INVT) scaled by total assets (AT) at the beginning of the fiscal year.
<i>PPE</i>	Net property, plant and equipment (PPENT) scaled by total assets at the beginning of the fiscal year.
<i>CAPEX</i>	Total capital expenditures (CAPX) scaled by total assets (AT) at the beginning of the fiscal year.
<i>EI</i>	Equity income in earnings (ESUB) scaled by total assets at the beginning of the fiscal year. ESUB is set to zero if missing.
<i>DACC</i>	Discretionary accruals from the performance-adjusted modified cross-sectional Jones (1991) model with lagged return-on-assets, following Kothari et al. (2005).
<i>LITIGATION</i>	An indicator variable that equals one if pre-tax (SETP) or after-tax (SETA) litigation/insurance settlement is negative, indicating a payout, and zero otherwise.
<i>BIG5</i>	An indicator variable that equals one if the firm is audited by Deloitte & Touche, PricewaterhouseCoopers, Ernst & Young, KPMG or Arthur Andersen, and zero otherwise.
<i>IRS_AUDIT</i>	The probability of IRS audit, measured by the number of face-to-face corporate audits completed in IRS fiscal year t in asset class a, divided by the total number of 1120s filed in the same year t and same asset class a. Data obtained from the Transactional Records Access Clearinghouse.
<i>NCOUNTRIES</i>	The number of distinct countries (other than the U.S.) in which the firm reports a significant subsidiary per 10-K Schedule 21. We thank Scott Dyreng for providing the data to compute <i>NCOUNTRIES</i> .
<i>GCFIRM</i>	An indicator variable that equals one if the firm has a general counsel in the top management during the sample period, and zero otherwise.
<i>POSTGCFIRM</i>	An indicator variable that equals one for firms that has a general counsel in the top management ( $GCFIRM = 1$ ) for firm-years after the general counsel becomes part of the top management, and zero otherwise.
<i>POSTDROPGCFIRM</i>	An indicator variable that equals one for firms that has a general counsel in the top management during the sample period ( $GCFIRM = 1$ ) for firm-years after the general counsel is no longer part of top management, and zero otherwise.
<i>LNCEOCOMP</i>	The natural logarithm of the CEO's total compensation for the fiscal



	year.
<i>LNCFOCOMP</i>	The natural logarithm of the CFO's total compensation for the fiscal year.
<i>CEOSTKCOMP</i>	CEO's stock-based compensation, scaled by total compensation for the fiscal year.
<i>CFOSTKCOMP</i>	CFO's stock-based compensation, scaled by total compensation for the fiscal year.
<i>CEOPPS</i>	The natural logarithm of the sensitivity of the change in the CEO's equity portfolio value to a 1% change in stock price, computed similarly to Core and Guay (2002).
<i>CEOVEGA</i>	The natural logarithm of the sensitivity of the change in the CEO's option portfolio value to a 1% change in stock price, computed similarly to Guay (1999).
<i>CFOPPS</i>	The natural logarithm of the sensitivity of the change in the CFO's equity portfolio value to a 1% change in stock price, computed similarly to Core and Guay (2002).
<i>CFOVEGA</i>	The natural logarithm of the sensitivity of the change in the CFO's option portfolio value to a 1% change in stock price, computed similarly to Guay (1999).
<i>GC_TAXEXP</i>	An indicator variable that equals one if the general counsel in the top management has an education background or work experience in tax, and zero otherwise. Data obtained from Bloomberg, BoardEx, Equilar, Zoominfo and other online sources.
<i>GC_TAXACCFINEXP</i>	An indicator variable that equals one if the general counsel in the top management has an education background or work experience in tax, accounting or finance, and zero otherwise. Data obtained from Bloomberg, BoardEx, Equilar, Zoominfo and other online sources.
<i>GC_EXPERIENCE</i>	The general counsel's number of years of experience in the top management.
<i>AUD_TAXEXP</i>	An indicator variable that equals one if the firm is audited by an audit firm that is a tax expert. Tax expertise is defined as a tax service market share in a given MSA (city) and industry (two-digit SIC) market share that is greater than or equal to 24 percent before year 2002 or 30 percent on or after year 2002. Market share is defined as total tax fees paid to the audit firm divided by total tax fees paid to all other audit firms in the same industry and MSA.
<i>AUD_ALLEXP</i>	An indicator variable that equals one if the firm is audited by an audit firm that is both an audit and tax expert. Audit (tax) expertise is defined as an audit (tax) service market share in a given MSA (city) and industry (two-digit SIC) market share that is greater than or equal to 24 percent before year 2002 or 30 percent on or after year 2002. Market share is defined as total (audit) tax fees paid to the audit firm divided by total (audit) tax fees paid to all other audit firms in the same industry and MSA.
<i>AUD_TAXFEES</i>	Tax fees divided by the total fees paid to the firm's external auditor.
<i>CEO_RELPOWER</i>	CEO's total compensation divided by the general counsel's total compensation.
<i>CEO_PAYSLICE</i>	CEO's total compensation divided by the total compensation paid to the top five executives of the firm.

<i>CEO_APPTGC</i>	An indicator variable that equals one if the general counsel becomes part of top management within the first year that the current CEO is appointed, and zero if the general counsel is part of top management before the current CEO is appointed.
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**TABLE 1**  
**Descriptive Statistics and Results of the Propensity Score Matching Procedure**

<i>Panel A: Full sample</i>					
	Total (n=17,137)	GC=0 (n=10,438)	GC=1 (n=6,699)	Diff.	
	Mean	Mean	Mean	t-stat	
<i>TRADVOL</i>	0.9590	0.9788	0.9282	4.29	***
<i>BETA</i>	1.3159	1.3414	1.2761	6.56	***
<i>RET</i>	0.1565	0.1649	0.1434	2.56	*
<i>MINRET</i>	-0.1189	-0.1208	-0.1161	-4.16	***
<i>RETSKEW</i>	0.1826	0.1889	0.1729	1.06	
<i>RETVOL</i>	0.0293	0.0299	0.0284	7.16	***
<i>INDLITIG</i>	0.3125	0.3473	0.2584	12.30	***
<i>LAWSUIT</i>	0.1390	0.1368	0.1424	-1.03	
<i>PCTGC</i>	0.4001	0.3751	0.4391	-34.31	***
<i>FIRIMAGE</i>	21.5412	20.5629	23.0655	-11.68	***
<i>NUMEXEC</i>	5.8800	5.7303	6.1132	-19.21	***
<i>CEOCHAIR</i>	0.5590	0.5389	0.5902	-6.61	***
<i>CEOTENURE</i>	7.9204	8.7013	6.7037	17.18	***
<i>IOHOLD</i>	0.7103	0.6981	0.7293	-9.11	***
<i>TURNOVER</i>	0.3431	0.3162	0.3850	-9.28	***
<i>RD</i>	0.0406	0.0445	0.0343	10.05	***
<i>INTANG</i>	0.1997	0.1894	0.2158	-7.53	***
<i>FI</i>	0.0217	0.0219	0.0215	0.64	
<i>NSEG</i>	1.0248	0.9999	1.0638	-10.67	***
<i>ROA</i>	0.0866	0.0932	0.0764	8.01	***
<i>LEV</i>	0.1932	0.1772	0.2179	-13.81	***
<i>SIZE</i>	7.3124	7.2502	7.4093	-6.28	***
<i>MB</i>	3.3543	3.3870	3.3034	1.58	

TABLE 1 (continued)

<i>Panel B: Determinants of General Counsel in Top Management for Propensity Score Matching</i>	
	GC
<i>CONSTANT</i>	-3.678*** (0.560)
<i>TRADVOL</i>	-0.032 (0.060)
<i>BETA</i>	0.050 (0.060)
<i>RET</i>	0.065* (0.038)
<i>MINRET</i>	-1.615*** (0.579)
<i>RETSKEW</i>	0.069** (0.027)
<i>RETVOL</i>	-13.913*** (4.948)
<i>INDLITIG</i>	-0.090 (0.146)
<i>LAWSUIT</i>	0.038 (0.111)
<i>PCTGC</i>	4.367*** (0.333)
<i>FIRMAGE</i>	0.006* (0.003)
<i>NUMEXEC</i>	0.286*** (0.022)
<i>CEOCHAIR</i>	0.349*** (0.072)
<i>CEOTENURE</i>	-0.041*** (0.006)
<i>IOHOLD</i>	0.543*** (0.185)
<i>TURNOVER</i>	0.044 (0.048)
<i>RD</i>	-1.064 (0.730)
<i>INTANG</i>	0.225 (0.184)
<i>FI</i>	-0.714 (0.958)
<i>NSEG</i>	0.280*** (0.100)
<i>ROA</i>	-0.686*** (0.241)
<i>LEV</i>	0.380* (0.195)
<i>SIZE</i>	-0.071** (0.032)
<i>MB</i>	0.016 (0.011)
Year fixed effects	YES
Industry fixed effects	YES
Observations	17,137
Pseudo R-squared	0.0999
Area under ROC Curve	0.7056

**TABLE 1 (continued)**

<i>Panel C: Propensity-Score Matched Sample</i>				
	Total (n=11,420)	GC=0 (n=5,710)	GC=1 (n=5,710)	Diff.
	Mean	Mean	Mean	t-stat
<i>TRADVOL</i>	0.9299	0.9260	0.9337	-0.58
<i>BETA</i>	1.2782	1.2729	1.2835	-0.93
<i>RET</i>	0.1480	0.1492	0.1467	0.26
<i>MINRET</i>	-0.1167	-0.1165	-0.1169	0.31
<i>RETSKEW</i>	0.1702	0.1667	0.1736	-0.38
<i>RETVOL</i>	0.0285	0.0284	0.0286	-0.64
<i>INDLITIG</i>	0.2784	0.2753	0.2814	-0.73
<i>LAWSUIT</i>	0.1469	0.1497	0.1441	0.85
<i>PCTGC</i>	0.4163	0.4171	0.4155	0.77
<i>FIRMAGE</i>	22.5572	22.5925	22.5219	0.27
<i>NUMEXEC</i>	5.9869	5.9830	5.9907	-0.33
<i>CEOCHAIR</i>	0.5693	0.5676	0.5709	-0.36
<i>CEOTENURE</i>	7.0416	7.0262	7.0570	-0.26
<i>IOHOLD</i>	0.7245	0.7259	0.7232	0.67
<i>TURNOVER</i>	0.3651	0.3662	0.3639	0.25
<i>RD</i>	0.0373	0.0374	0.0373	0.10
<i>INTANG</i>	0.2149	0.2167	0.2130	0.85
<i>FI</i>	0.0220	0.0223	0.0218	0.62
<i>NSEG</i>	1.0506	1.0532	1.0479	0.72
<i>ROA</i>	0.0807	0.0807	0.0807	-0.03
<i>LEV</i>	0.2065	0.2072	0.2057	0.42
<i>SIZE</i>	7.3792	7.3916	7.3669	0.82
<i>MB</i>	3.3320	3.3559	3.3081	0.74

This table presents the results of the propensity score matching procedure. Panel A provides the descriptive statistics of the 17,137 firm-year observations with available data for the propensity score matching and control variables in the main regression. Panel B provides the results of the logit regression to perform the propensity score matching. Panel C provides the descriptive statistics of the 11,420 firm-year observations identified by propensity score matching. The detailed definitions of the variables are provided in the appendix. All continuous variables are winsorized at the 1 and 99 percentiles. \*\*\*, \*\*, and \* indicate statistical significance at the 0.01, 0.05 and 0.10 levels or better, respectively (two-tailed).

**TABLE 2**  
**Descriptive Statistics and Pearson Correlation of the Main Variables for the Propensity Score Matched Sample**

<i>Panel A: Descriptive Statistics</i>						
	Obs.	Mean	Median	Std. Dev.	Q1	Q3
<i>ETR</i>	9,453	-0.3291	-0.3461	0.1488	-0.3830	-0.2800
<i>PRED_UTB</i>	8,503	0.0857	0.0844	0.0180	0.0727	0.0983
<i>SHELTER</i>	11,245	1.3400	1.4688	1.7936	0.1368	2.5666
<i>NTAXHAVEN</i>	6,849	2.7678	2.0000	3.0805	0.0000	4.0000
<i>GC</i>	11,420	0.5000	0.5000	0.5000	0.0000	1.0000
<i>NOL</i>	11,420	0.0733	0.0000	0.2245	0.0000	0.0364
<i>NOLCHG</i>	11,420	0.0111	0.0000	0.0709	0.0000	0.0007
<i>FI</i>	11,420	0.0220	0.0032	0.0404	0.0000	0.0344
<i>INVENTORY</i>	11,420	0.1198	0.0928	0.1228	0.0185	0.1749
<i>PPE</i>	11,420	0.2987	0.2192	0.2515	0.1113	0.4084
<i>CAPEX</i>	11,420	0.0623	0.0406	0.0659	0.0225	0.0757
<i>RD</i>	11,420	0.0373	0.0067	0.0620	0.0000	0.0491
<i>INTANG</i>	11,420	0.2149	0.1449	0.2291	0.0286	0.3277
<i>EI</i>	11,420	0.0009	0.0000	0.0042	0.0000	0.0000
<i>NSEG</i>	11,420	1.0506	1.0986	0.3899	0.6931	1.3863
<i>DACC</i>	11,420	-0.0132	-0.0069	0.0983	-0.0531	0.0357
<i>LITIGATION</i>	11,420	0.0985	0.0000	0.2980	0.0000	0.0000
<i>IOHOLD</i>	11,420	0.7245	0.7538	0.2137	0.6056	0.8710
<i>BIG5</i>	11,420	0.9536	1.0000	0.2104	1.0000	1.0000
<i>IRS_AUDIT</i>	11,420	31.3091	30.5000	9.1701	26.3000	37.3000
<i>ROA</i>	11,420	0.0807	0.0845	0.1282	0.0276	0.1457
<i>LEV</i>	11,420	0.2065	0.1796	0.1901	0.0322	0.3116
<i>SIZE</i>	11,420	7.3792	7.2222	1.6108	6.2820	8.3773
<i>MB</i>	11,420	3.3320	2.2900	3.4468	1.5002	3.7068
<i>NCOUNTRIES</i>	6,849	14.0892	9.0000	14.4673	3.0000	21.0000

  

<i>Panel B: Pearson Correlation of the Main Variables</i>					
	<i>GC</i>	<i>ETR</i>	<i>PRED_UTB</i>	<i>SHELTER</i>	<i>NTAXHAVEN</i>
<i>GC</i>	1.0000				
<i>ETR</i>	0.0239**	1.0000			
<i>PRED_UTB</i>	0.0348***	0.1941***	1.0000		
<i>SHELTER</i>	0.0158	0.0752***	0.6712***	1.0000	
<i>NTAXHAVEN</i>	0.0292**	0.0889***	0.4046***	0.6225***	1.0000

This table presents the descriptive statistics of the variables used in the main regression for the 11,420 firm-year observations identified by propensity score matching (Panel A) and the Pearson correlation of the main variables (Panel B). The detailed definitions of the variables are provided in the appendix. *ETR* is multiplied by -1 so that all measures of tax avoidance measures are increasing in tax avoidance. All continuous variables are winsorized at the 1 and 99 percentiles. \*\*\*, \*\*, and \* indicate statistical significance at the 0.01, 0.05 and 0.10 levels or better, respectively (two-tailed).

**TABLE 3**  
**General Counsel in Top Management and Tax Avoidance**

<i>Panel A: Propensity Score Matched Sample</i>				
	<i>ETR</i>	<i>PRED_UTB</i>	<i>SHELTER</i>	<i>NTAXHAVEN</i>
<i>CONSTANT</i>	-0.220*** (0.054)	0.005 (0.004)	-5.409*** (0.198)	-1.946*** (0.355)
<i>GC (H1: +/-)</i>	0.006* (0.003)	0.001*** (0.000)	0.101*** (0.025)	0.066** (0.029)
<i>NOL</i>	0.101*** (0.016)	0.001 (0.001)	0.167*** (0.063)	0.109 (0.071)
<i>NOLCHG</i>	-0.032 (0.045)	-0.000 (0.002)	-0.977*** (0.166)	-0.006 (0.119)
<i>FI</i>	0.463*** (0.058)	0.043*** (0.004)	10.935*** (0.444)	1.058** (0.431)
<i>INVENTORY</i>	-0.105*** (0.021)	-0.004* (0.002)	-0.116 (0.181)	-0.095 (0.209)
<i>PPE</i>	0.002 (0.015)	-0.006*** (0.001)	0.177 (0.113)	0.182 (0.151)
<i>CAPEX</i>	-0.076* (0.045)	-0.022*** (0.004)	-2.189*** (0.276)	-0.473 (0.466)
<i>RD</i>	0.135** (0.060)	-0.015*** (0.004)	-0.772** (0.307)	0.881*** (0.309)
<i>INTANG</i>	-0.029*** (0.011)	-0.005*** (0.001)	-0.132* (0.074)	0.004 (0.088)
<i>EI</i>	0.115 (0.503)	0.075** (0.038)	5.156 (3.175)	-0.816 (3.249)
<i>NSEG</i>	0.002 (0.005)	0.001** (0.000)	0.157*** (0.039)	-0.066 (0.044)
<i>DACC</i>	0.214*** (0.020)	0.006*** (0.001)	1.360*** (0.111)	0.020 (0.099)
<i>LITIGATION</i>	0.013** (0.006)	0.001* (0.000)	0.046 (0.034)	0.020 (0.030)
<i>IOHOLD</i>	-0.024** (0.010)	-0.001 (0.001)	0.162** (0.073)	0.138 (0.100)
<i>BIG5</i>	-0.004 (0.010)	0.002** (0.001)	0.094 (0.065)	-0.130 (0.102)
<i>IRS_AUDIT</i>	-0.001* (0.000)	0.000*** (0.000)	0.023*** (0.002)	0.029*** (0.004)
<i>ROA</i>	0.064** (0.029)	-0.036*** (0.002)	3.968*** (0.155)	-0.358** (0.153)
<i>LEV</i>	0.029** (0.012)	0.010*** (0.001)	-0.228*** (0.085)	0.081 (0.103)
<i>SIZE</i>	0.002 (0.002)	0.009*** (0.000)	0.635*** (0.013)	0.053*** (0.017)
<i>MB</i>	-0.001 (0.001)	-0.001*** (0.000)	-0.087*** (0.006)	-0.011** (0.006)
<i>NCOUNTRIES</i>				0.039*** (0.001)
Year fixed effects	YES	YES	YES	YES
Industry fixed effects	YES	YES	YES	YES
Observations	9,453	8,503	11,245	6,849
Adj./Pseudo R-squared	0.1332	0.7998	0.7952	0.3777

TABLE 3 (continued)

<i>Panel B: Full Sample</i>				
	<i>ETR</i>	<i>PRED_UTB</i>	<i>SHELTER</i>	<i>NTAXHAVEN</i>
<i>CONSTANT</i>	-0.236*** (0.043)	0.006 (0.004)	-5.294*** (0.169)	-1.781*** (0.351)
<i>GC (H1: +/-)</i>	0.004 (0.003)	0.001*** (0.000)	0.146*** (0.023)	0.069*** (0.027)
<i>NOL</i>	0.111*** (0.013)	0.001** (0.001)	0.180*** (0.058)	0.126** (0.064)
<i>NOLCHG</i>	-0.026 (0.036)	-0.000 (0.001)	-1.126*** (0.148)	-0.088 (0.101)
<i>FI</i>	0.467*** (0.048)	0.042*** (0.004)	11.232*** (0.401)	0.955** (0.384)
<i>INVENTORY</i>	-0.081*** (0.016)	-0.004** (0.002)	-0.097 (0.149)	0.123 (0.224)
<i>PPE</i>	0.008 (0.013)	-0.006*** (0.001)	0.169* (0.101)	0.140 (0.142)
<i>CAPEX</i>	-0.051 (0.037)	-0.022*** (0.003)	-2.281*** (0.245)	-0.347 (0.394)
<i>RD</i>	0.108** (0.044)	-0.012*** (0.004)	-0.509* (0.267)	0.734** (0.306)
<i>INTANG</i>	-0.035*** (0.009)	-0.004*** (0.001)	-0.096 (0.066)	-0.035 (0.083)
<i>EI</i>	0.470 (0.398)	0.105*** (0.037)	5.089 (3.137)	-2.724 (3.084)
<i>NSEG</i>	0.002 (0.005)	0.001*** (0.000)	0.167*** (0.036)	-0.031 (0.042)
<i>DACC</i>	0.199*** (0.016)	0.006*** (0.001)	1.295*** (0.093)	0.019 (0.086)
<i>LITIGATION</i>	0.009* (0.005)	0.001** (0.000)	0.032 (0.029)	0.020 (0.030)
<i>IOHOLD</i>	-0.019** (0.008)	-0.001 (0.001)	0.158** (0.065)	0.165* (0.089)
<i>BIG5</i>	-0.004 (0.008)	0.002*** (0.001)	0.103* (0.052)	-0.053 (0.093)
<i>IRS_AUDIT</i>	-0.001*** (0.000)	0.000*** (0.000)	0.021*** (0.002)	0.028*** (0.003)
<i>ROA</i>	0.030 (0.022)	-0.036*** (0.001)	3.823*** (0.139)	-0.488*** (0.133)
<i>LEV</i>	0.016 (0.011)	0.011*** (0.001)	-0.169** (0.075)	0.105 (0.097)
<i>SIZE</i>	0.003* (0.002)	0.009*** (0.000)	0.635*** (0.012)	0.053*** (0.016)
<i>MB</i>	-0.000 (0.001)	-0.001*** (0.000)	-0.094*** (0.005)	-0.012** (0.005)
<i>NCOUNTRIES</i>				0.038*** (0.001)
Year fixed effects	YES	YES	YES	YES
Industry fixed effects	YES	YES	YES	YES
Observations	14,194	12,357	16,866	10,248
Adj./Pseudo R-squared	0.1464	0.8076	0.7923	0.3754



**TABLE 3 (continued)**

This table reports the regression results for the relation between a general counsel in top management and tax avoidance. Panel A presents the results based on the propensity score matched sample, and Panel B presents the results based on the full sample. The detailed definitions of the variables are provided in the appendix. *ETR* is multiplied by -1 so that all measures of tax avoidance tax avoidance measures are increasing in tax avoidance. Robust standard errors are reported in parentheses below the regression coefficients, and are adjusted for clustering by firm. \*\*\*, \*\*, and \* indicate statistical significance at the 0.01, 0.05 and 0.10 levels or better, respectively (one-tailed test where there is a prediction, two-tailed test otherwise).

**TABLE 4**

**General Counsel in Top Management and Tax Avoidance - Difference-in-Differences Analysis**

<i>Panel A: Difference-in-Differences Analysis (Period after the general counsel becomes part of top management)</i>				
	<i>ETR</i>	<i>PRED_UTB</i>	<i>SHELTER</i>	<i>NTAXHAVEN</i>
<i>CONSTANT</i>	-0.308*** (0.080)	-0.011* (0.006)	-5.392*** (0.215)	-1.666*** (0.443)
<i>GCFIRM</i>	-0.013** (0.005)	-0.000 (0.001)	0.014 (0.044)	0.037 (0.054)
<i>POSTGCFIRM</i> (H1: +/—)	0.014** (0.006)	0.003*** (0.001)	0.239*** (0.042)	0.114** (0.048)
Controls	YES	YES	YES	YES
Year fixed effects	YES	YES	YES	YES
Industry fixed effects	YES	YES	YES	YES
Observations	8,172	6,862	9,769	5,896
Adj./Pseudo R-squared	0.1570	0.8158	0.7943	0.3687
<i>Panel B: Difference-in-Differences Analysis (Period after the general counsel becomes part of top management or is no longer part of top management)</i>				
	<i>ETR</i>	<i>PRED_UTB</i>	<i>SHELTER</i>	<i>NTAXHAVEN</i>
<i>CONSTANT</i>	-0.301*** (0.080)	-0.010* (0.006)	-5.375*** (0.212)	-1.634*** (0.434)
<i>GCFIRM</i>	-0.012** (0.005)	0.000 (0.001)	0.014 (0.045)	0.036 (0.054)
<i>POSTGCFIRM</i> (H1: +/—)	0.012** (0.006)	0.003*** (0.001)	0.241*** (0.042)	0.114** (0.047)
<i>POSTDROPGCFIRM</i>	0.008 (0.006)	0.000 (0.001)	0.033 (0.045)	-0.071 (0.051)
Controls	YES	YES	YES	YES
Year fixed effects	YES	YES	YES	YES
Industry fixed effects	YES	YES	YES	YES
Observations	9,009	7,786	10,733	6,470
Adj./Pseudo R-squared	0.1608	0.8184	0.7987	0.3646

This table reports the regression results for the relation between a general counsel in top management and tax avoidance using a difference-in-differences research design. Panel A presents the results examining the incremental effect of having the general counsel in top management on tax avoidance, and Panel B presents the results examining the incremental effect of having and not having the general counsel in top management on tax avoidance. The detailed definitions of the variables are provided in the appendix. *ETR* is multiplied by -1 so that all measures of tax avoidance measures are increasing in tax avoidance. Robust standard errors are reported in parentheses below the regression coefficients, and are adjusted for clustering by firm. \*\*\*, \*\*, and \* indicate statistical significance at the 0.01, 0.05 and 0.10 levels or better, respectively (one-tailed test where there is a prediction, two-tailed test otherwise).

**TABLE 5**  
**General Counsel in Top Management and Tax Avoidance - Controlling for Executive Compensation**

<i>Panel A: Controlling for CEO &amp; CFO Compensation</i>				
	<i>ETR</i>	<i>PRED_UTB</i>	<i>SHELTER</i>	<i>NTAXHAVEN</i>
<i>CONSTANT</i>	-0.203*** (0.057)	-0.012*** (0.004)	-5.957*** (0.222)	-2.315*** (0.368)
<i>GC (H1: +/-)</i>	0.007* (0.004)	0.001* (0.000)	0.086*** (0.025)	0.078*** (0.030)
<i>LNCEOCOMP</i>	0.004 (0.003)	0.002*** (0.000)	0.103*** (0.020)	0.076*** (0.019)
<i>LNCFOCOMP</i>	-0.007* (0.004)	0.001*** (0.000)	0.063*** (0.022)	-0.012 (0.022)
Controls	YES	YES	YES	YES
Year fixed effects	YES	YES	YES	YES
Industry fixed effects	YES	YES	YES	YES
Observations	8,450	8,007	10,088	6,018
Adj./Pseudo R-squared	0.1324	0.8080	0.7966	0.3800
<i>Panel B: Controlling for CEO &amp; CFO Stock-based Compensation</i>				
	<i>ETR</i>	<i>PRED_UTB</i>	<i>SHELTER</i>	<i>NTAXHAVEN</i>
<i>CONSTANT</i>	-0.213*** (0.057)	-0.000 (0.004)	-5.332*** (0.204)	-2.030*** (0.356)
<i>GC (H1: +/-)</i>	0.007* (0.004)	0.001** (0.000)	0.100*** (0.025)	0.081*** (0.030)
<i>CEOSTKCOMP</i>	0.007 (0.009)	0.002*** (0.001)	0.075 (0.052)	0.120** (0.050)
<i>CFOSTKCOMP</i>	-0.006 (0.011)	-0.001 (0.001)	-0.187*** (0.054)	0.002 (0.061)
Controls	YES	YES	YES	YES
Year fixed effects	YES	YES	YES	YES
Industry fixed effects	YES	YES	YES	YES
Observations	8,450	8,007	10,088	6,018
Adj./Pseudo R-squared	0.1321	0.8012	0.7942	0.3792
<i>Panel C: Controlling for CEO &amp; CFO Pay-for-performance Sensitivity and Risk Incentives</i>				
	<i>ETR</i>	<i>PRED_UTB</i>	<i>SHELTER</i>	<i>NTAXHAVEN</i>
<i>CONSTANT</i>	-0.199*** (0.058)	-0.006 (0.004)	-5.085*** (0.220)	-2.234*** (0.379)
<i>GC (H1: +/-)</i>	0.007* (0.004)	0.001** (0.000)	0.099*** (0.025)	0.077*** (0.030)
<i>CEOPPS</i>	-0.001 (0.002)	-0.001*** (0.000)	-0.032** (0.013)	0.011 (0.016)
<i>CEOVEGA</i>	-0.000 (0.001)	0.000*** (0.000)	0.009* (0.005)	0.011* (0.006)
<i>CFOPPS</i>	-0.001 (0.001)	0.000 (0.000)	-0.009 (0.009)	0.025** (0.012)
<i>CFOVEGA</i>	0.001 (0.001)	-0.000* (0.000)	0.002 (0.005)	-0.010 (0.007)

**TABLE 5 (continued)**

Controls	YES	YES	YES	YES
Year fixed effects	YES	YES	YES	YES
Industry fixed effects	YES	YES	YES	YES
Observations	8,462	8,015	10,103	6,031
Adj./Pseudo R-squared	0.1324	0.8031	0.7945	0.3796

This table reports the regression results for the relation between a general counsel in top management and tax avoidance, controlling for executive compensation. Panel A presents the results controlling for CEO's and CFO's total compensation, Panel B presents the results controlling for CEO's and CFO's stock-based compensation, and Panel C presents the results controlling for CEO's and CFO's pay-for-performance sensitivity and risk incentives. The detailed definitions of the variables are provided in the appendix. *ETR* is multiplied by -1 so that all measures of tax avoidance tax avoidance measures are increasing in tax avoidance. Robust standard errors are reported in parentheses below the regression coefficients, and are adjusted for clustering by firm. \*\*\*, \*\*, and \* indicate statistical significance at the 0.01, 0.05 and 0.10 levels or better, respectively (one-tailed test where there is a prediction, two-tailed test otherwise).

**TABLE 6**  
**General Counsel and Tax Avoidance – General Counsel Fixed Effects**

<i>Panel A: Firm and General Counsel Fixed Effects</i>							
	F-test on fixed effects for:		Controls/ Year F.E. Obs.		R <sup>2</sup>		
	FIRM	GC			Excl. GC	Incl. GC	
<i>ETR</i>	2.143***	1.483***	YES	787	0.478	0.564	
<i>PRED_UTB</i>	11.940***	3.767***	YES	773	0.950	0.965	
<i>SHELTER</i>	6.806***	2.435***	YES	1038	0.911	0.933	
<i>NTAXHAVEN</i>	19.654***	2.963***	YES	663	0.977	0.982	

  

<i>Panel B: Firm, CEO and General Counsel Fixed Effects</i>							
	F-test on fixed effects for:			Controls/ Year F.E. Obs.		R <sup>2</sup>	
	FIRM	CEO	GC			Excl. GC	Incl. GC
<i>ETR</i>	2.080***	1.490**	1.935***	YES	720	0.554	0.611
<i>PRED_UTB</i>	12.300***	3.289***	2.698***	YES	700	0.967	0.973
<i>SHELTER</i>	6.430***	2.617***	2.187***	YES	949	0.935	0.945
<i>NTAXHAVEN</i>	17.689***	3.319***	1.592**	YES	610	0.984	0.986

  

<i>Panel C: Firm, CEO, CFO and General Counsel Fixed Effects</i>								
	F-test on fixed effects for:				Controls/ Year F.E. Obs.		R <sup>2</sup>	
	FIRM	CEO	CFO	GC			Excl. GC	Incl. GC
<i>ETR</i>	1.884***	1.558**	1.585**	2.214***	YES	568	0.621	0.669
<i>PRED_UTB</i>	10.906***	3.277***	1.781***	1.703**	YES	597	0.974	0.977
<i>SHELTER</i>	6.140***	2.415***	1.266	1.793***	YES	770	0.938	0.946
<i>NTAXHAVEN</i>	15.449***	2.471***	2.762***	0.700	YES	483	0.988	0.988

This table reports the test results for the relation between a general counsel in top management using general counsel fixed effects. The test sample is the set of firm-year observations for firms that have at least one general counsel observed in multiple firms. This sample includes observations for these firms in the years in which they have other general counsels that we do not observe in multiple firms. Panel A presents the results including firm and general counsel fixed effects, Panel B presents the results including firm, CEO and general counsel fixed effects, and Panel C presents the results including firm, CEO, CFO and general counsel fixed effects. The detailed definitions of the variables are provided in the appendix. *ETR* is multiplied by -1 so that all measures of tax avoidance tax avoidance measures are increasing in tax avoidance. \*\*\*, \*\*, and \* indicate statistical significance at the 0.01, 0.05 and 0.10 levels or better, respectively.

**TABLE 7**  
**General Counsel in Top Management and Tax Avoidance when the General Counsel has Tax or other Expertise**

<i>Panel A: GC's Tax Expertise</i>				
	<i>ETR</i>	<i>PRED_UTB</i>	<i>SHELTER</i>	<i>NTAXHAVEN</i>
<i>CONSTANT</i>	-0.142** (0.057)	0.001 (0.005)	-5.309*** (0.283)	-1.772*** (0.572)
<i>GC_TAXEXP</i> (H2: +)	0.021** (0.011)	-0.001 (0.001)	-0.077 (0.113)	0.035 (0.091)
Controls	YES	YES	YES	YES
Year fixed effects	YES	YES	YES	YES
Industry fixed effects	YES	YES	YES	YES
Observations	4,547	4,143	5,401	3,364
Adj./Pseudo R-squared	0.1528	0.7853	0.7686	0.3763
<i>Panel B: GC's Tax, Accounting or Finance Expertise</i>				
	<i>ETR</i>	<i>PRED_UTB</i>	<i>SHELTER</i>	<i>NTAXHAVEN</i>
<i>CONSTANT</i>	-0.148** (0.057)	-0.000 (0.005)	-5.346*** (0.284)	-1.767*** (0.571)
<i>GC_TAXACCFINEXP</i> (H2: +)	0.011** (0.006)	0.001** (0.001)	0.064* (0.043)	-0.003 (0.054)
Controls	YES	YES	YES	YES
Year fixed effects	YES	YES	YES	YES
Industry fixed effects	YES	YES	YES	YES
Observations	4,547	4,143	5,401	3,364
Adj./Pseudo R-squared	0.1531	0.7857	0.7688	0.3763
<i>Panel C: GC's Experience in Top Management</i>				
	<i>ETR</i>	<i>PRED_UTB</i>	<i>SHELTER</i>	<i>NTAXHAVEN</i>
<i>CONSTANT</i>	- (0.057)	0.001 (0.004)	-5.321*** (0.282)	-1.857*** (0.568)
<i>GC_EXPERIENCE</i> (H2: +)	0.002** (0.001)	0.000 (0.000)	0.014*** (0.005)	0.008* (0.005)
Controls	YES	YES	YES	YES
Year fixed effects	YES	YES	YES	YES
Industry fixed effects	YES	YES	YES	YES
Observations	4,728	4,220	5,604	3,479
Adj./Pseudo R-squared	0.1544	0.7841	0.7689	0.3767

This table reports the regression results for the relation between a general counsel in top management and tax avoidance when the general counsel has tax or other expertise. Panel A presents the results when the general counsel has tax expertise, Panel B presents the results when the general counsel has tax, accounting or finance expertise, and Panel C presents the results when the general counsel has years of experience in top management. The detailed definitions of the variables are provided in the appendix. *ETR* is multiplied by -1 so that all measures of tax avoidance tax avoidance measures are increasing in tax avoidance. Robust standard errors are reported in parentheses below the regression coefficients, and are adjusted for clustering by firm. \*\*\*, \*\*, and \* indicate statistical significance at the 0.01, 0.05 and 0.10 levels or better, respectively (one-tailed test where there is a prediction, two-tailed test otherwise).

**TABLE 8**  
**General Counsel in Top Management and Tax Avoidance when the Auditor is a Tax Expert**

<i>Panel A: Auditor Tax Expertise</i>				
	<i>ETR</i>	<i>PRED_UTB</i>	<i>SHELTER</i>	<i>NTAXHAVEN</i>
<i>CONSTANT</i>	-0.038 (0.046)	-0.003 (0.005)	-4.646*** (0.478)	-1.845*** (0.494)
<i>AUD_TAXEXP</i> (H3: +)	-0.001 (0.007)	0.001*** (0.000)	0.190*** (0.045)	-0.072* (0.050)
Controls	YES	YES	YES	YES
Year fixed effects	YES	YES	YES	YES
Industry fixed effects	YES	YES	YES	YES
Observations	2,845	3,173	3,385	2,092
Adj./Pseudo R-squared	0.1447	0.7895	0.7754	0.3877
<i>Panel B: Auditor Audit and Tax Expertise</i>				
	<i>ETR</i>	<i>PRED_UTB</i>	<i>SHELTER</i>	<i>NTAXHAVEN</i>
<i>CONSTANT</i>	-0.038 (0.046)	-0.004 (0.005)	-4.660*** (0.480)	-1.846*** (0.498)
<i>AUD_ALLEXP</i> (H3: +)	-0.001 (0.007)	0.001** (0.001)	0.207*** (0.047)	-0.053 (0.054)
Controls	YES	YES	YES	YES
Year fixed effects	YES	YES	YES	YES
Industry fixed effects	YES	YES	YES	YES
Observations	2,845	3,173	3,385	2,092
Adj./Pseudo R-squared	0.1447	0.7890	0.7755	0.3875
<i>Panel C: Auditor Tax Fees Importance</i>				
	<i>ETR</i>	<i>PRED_UTB</i>	<i>SHELTER</i>	<i>NTAXHAVEN</i>
<i>CONSTANT</i>	-0.037 (0.047)	-0.003 (0.005)	-5.058*** (0.489)	-1.878*** (0.502)
<i>AUD_TAXFEES</i> (H3: +)	0.001 (0.025)	0.004*** (0.001)	0.350** (0.153)	0.055 (0.142)
Controls	YES	YES	YES	YES
Year fixed effects	YES	YES	YES	YES
Industry fixed effects	YES	YES	YES	YES
Observations	2,840	3,168	3,379	2,092
Adj./Pseudo R-squared	0.1453	0.7890	0.7737	0.3873

This table reports the regression results for the relation between a general counsel in top management and tax avoidance when the auditor is a tax expert. Panel A presents the results when the auditor is a tax expert, Panel B presents the results when the auditor is both an audit and tax expert, and Panel C presents the results as a function of tax fees paid to the auditor. The detailed definitions of the variables are provided in the appendix. *ETR* is multiplied by -1 so that all measures of tax avoidance tax avoidance measures are increasing in tax avoidance. Robust standard errors are reported in parentheses below the regression coefficients, and are adjusted for clustering by firm. \*\*\*, \*\*, and \* indicate statistical significance at the 0.01, 0.05 and 0.10 levels or better, respectively (one-tailed test where there is a prediction, two-tailed test otherwise).

**TABLE 9**  
**General Counsel in Top Management and Tax Avoidance when CEO is Powerful**

<i>Panel A: CEO's Relative Compensation to the GC</i>				
	<i>ETR</i>	<i>PRED_UTB</i>	<i>SHELTER</i>	<i>NTAXHAVEN</i>
<i>CONSTANT</i>	-0.154** (0.063)	0.002 (0.004)	-5.394*** (0.285)	-2.044*** (0.571)
<i>CEO_RELPOWER</i> (H4: +)	-0.000 (0.001)	0.000*** (0.000)	0.014** (0.007)	0.013** (0.007)
Controls	YES	YES	YES	YES
Year fixed effects	YES	YES	YES	YES
Industry fixed effects	YES	YES	YES	YES
Observations	4,282	3,978	5,068	3,049
Adj./Pseudo R-squared	0.1515	0.7885	0.7718	0.3801
<i>Panel B: CEO's Pay Slice</i>				
	<i>ETR</i>	<i>PRED_UTB</i>	<i>SHELTER</i>	<i>NTAXHAVEN</i>
<i>CONSTANT</i>	-0.167*** (0.058)	0.001 (0.004)	-5.391*** (0.281)	-1.981*** (0.563)
<i>CEO_PAYSLICE</i> (H4: +)	0.024 (0.021)	0.003** (0.002)	0.264** (0.133)	0.362*** (0.120)
Controls	YES	YES	YES	YES
Year fixed effects	YES	YES	YES	YES
Industry fixed effects	YES	YES	YES	YES
Observations	4,733	4,224	5,609	3,483
Adj./Pseudo R-squared	0.1531	0.7842	0.7682	0.3775
<i>Panel C: GC Becomes Part of Top Management after the CEO is appointed</i>				
	<i>ETR</i>	<i>PRED_UTB</i>	<i>SHELTER</i>	<i>NTAXHAVEN</i>
<i>CONSTANT</i>	-0.064 (0.067)	-0.004 (0.005)	-5.472*** (0.340)	-1.594** (0.652)
<i>CEO_APPTGC</i> (H4: +)	-0.003 (0.010)	-0.000 (0.001)	-0.052 (0.056)	-0.033 (0.062)
Controls	YES	YES	YES	YES
Year fixed effects	YES	YES	YES	YES
Industry fixed effects	YES	YES	YES	YES
Observations	2,423	2,315	2,934	1,862
Adj./Pseudo R-squared	0.1426	0.7765	0.7761	0.3767

This table reports the regression results for the relation between a general counsel in top management and tax avoidance when the CEO is powerful. Panel A presents the results using CEO's relative compensation to the general counsel as a proxy for CEO power, Panel B presents the results using CEO's pay slice as a proxy for CEO power, and Panel C presents the results based on whether the general counsel becomes part of top management in the first year that the current CEO is appointed as a proxy for CEO power. The detailed definitions of the variables are provided in the appendix. *ETR* is multiplied by -1 so that all measures of tax avoidance tax avoidance measures are increasing in tax avoidance. Robust standard errors are reported in parentheses below the regression coefficients, and are adjusted for clustering by firm. \*\*\*, \*\*, and \* indicate statistical significance at the 0.01, 0.05 and 0.10 levels or better, respectively (one-tailed test where there is a prediction, two-tailed test otherwise).