The Effect of Politician Stock Ownership on Corporate Tax Strategy

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Abstract:

We examine the relation between politician stock ownership and corporate tax strategy. Specifically, we examine whether politicians' direct stock ownership as a measure of politician-initiated corporate political connections (CPC) is associated with companies' tax aggressiveness. Using hand-collected data on U.S. politicians' stock ownership, we find that companies' tax aggressiveness is not affected by the incidence of politician stock ownership. This contrasts with prior research on tax aggressiveness when political connections are directly initiated by the company. However, we find that the concentration of politician stockholders within a company is strongly associated with tax aggressiveness. This evidence suggests that companies engage in more aggressive tax strategies when they anticipate lower expected costs stemming from a critical mass of politician stock owners. We also find increased tax aggressiveness when politician stockholders have more legislative influence, stronger alignment of economic interests with the company, or when the company is headquartered in the politician's home state. Moreover, politician-induced tax aggressiveness is incremental to the tax avoidance associated with company-initiated CPC gained through corporate campaign contributions. Taken together, our evidence suggests that concentrated politician stock ownership plays an important role in determining companies' tax strategies and that this mechanism is incremental to other forms of corporate political connections.

The Effect of Politician Stock Ownership on Corporate Tax Strategy

The examination of corporate political activity in the United States is prominent in the tax literature. A primary area of focus is the effect of corporate political connections (CPC) on various tax outcomes.[1] While most tax studies focus on CPC initiated by the company such as corporate campaign contributions, lobbying, or the selection of executives with political connections, the tax implications of politician-initiated CPC's reflected in politicians who own stock directly in publicly traded companies is an unexplored area. We therefore answer the call to examine whether politicians' personal stock ownership affects corporate tax strategy (see discussion in Barrick and Brown (2019) literature review).

The Ethics in Government Act of 1978 requires members of Congress and the Senate to make annual public disclosures of their financial holdings to facilitate transparency and accountability over, among other things, potential stock-related CPC. Recent media attention highlights the unique cost-benefit tradeoffs politicians face when investing directly in public companies as compared to those borne by companies making political contributions. For example, Representative Tom Price faced intense public scrutiny for his stockholdings in health-related companies while sponsoring legislation designed to delay regulatory enforcement and expedite drug approvals for those same companies (Faturechi 2017). Despite the relatively small size of these investments (less than $90,000 across six companies), it appeared that he used his power and legislative influence to maximize the value of his personal investments. Moreover, Platikanova (2017) finds that politicians who own stock in companies that will most benefit from pending tax legislation are more likely to vote in favor of the tax policy, suggesting that sponsoring legislation is not a pre-requisite to exerting political influence. Also, companies reduce lobbying activity

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[1] See for example, Baloria and Klassen (2018), Chen, Dyreng, and Li 2018, Minnick and Noga 2017; Kim and Zhang (2016), Brown, Drake and Wellman (2015), Meade and Li (2015).

directed toward their politician shareholders, suggesting that management views politician holdings as an indication that the politician is positively disposed toward the company (Ridge, Hill, and Ingram 2018).

While these arguments suggest that politician stock ownership can be a channel for political influence, it is possible that politician stockholdings represent routine retail investment activity which is unrelated to any political agenda. Consistent with prior research, untabulated descriptive statistics for our sample of politician stockholders suggest that their holdings are relatively small (Platikanova 2017; Tahoun 2014). The average politician stockholding in our sample is $14,000, with the 75% percentile being $100,000. Thus, politician investments could be too small to meaningfully align the interests of politicians with the companies in which they invest.[2] It is also possible that disclosed holdings are made by spouses or independent portfolio managers without the politician's knowledge.[3] The diversity of reasons for a politician directly owning stock motivates our study to examine whether politician stock ownership affects company tax strategy.

Prior research finds a positive association between the incidence of company-initiated CPC and tax aggressiveness (Kim and Zhang 2016; Brown et al. 2015). However, limitations on the ability of individual politicians to exert influence (e.g. lack of sufficient influence, social and political pressures, etc.) make it likely that the incidence of politician-initiated CPC via politician stock ownership does not afford the same benefits as the incidence of intentional company-initiated CPC (Mayhew, 1974; Fenno, 1978). Thus, we expand our primary analysis beyond examining the

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[2] In the example of Representative Tom Price, his pharmaceutical stock holdings were between $6,000-$90,000. At the time he was advocating for beneficial pharmaceutical regulation Representative Price's estimated net worth was 14 million dollars. The pharmaceutical investments were at most a fraction of one percent of Representative Price's net worth. This suggests that even when politician stock ownership is small or insignificant relative to the politician's wealth, it may act as a signal to a company of the politician's positive disposition towards the company. (Faturechi 2017; Luhby 2017).

[3] Recently, Representative Mike McCaul and Senator Paul Rand asserted that they were unaware of investments made by their spouses when the politicians faced scrutiny for reporting or failing to report stockholdings , respectively (Wilkie and Mangan 2021; Bertrand 2020)

incidence of CPC to also consider the concentration of politician stock owners in a single company.[4] We expect that having a critical mass of politician stock owners gives the company more potential paths to political protection and provides individual politicians with increased cover from scrutiny for deploying their political influence (Granovetter 1978), thus facilitating corporate tax aggressiveness.

Importantly, we do not assert that politician stockholders must act in concert to provide political protection. Rather, we posit that when there are more politician stock owners concentrated in one company, there is more likely to be one or more politicians who have sufficiently strong interest alignment with the company to exert influence in the company's favor. This alignment of interests may be driven by a variety of individual motivations, including the politician's economic interest in the company, the politician's strong political influence, the politician supporting a company that operates in their home state and creates benefits for their constituents (Eggers and Hainmueller 2014), or the politician's fulfillment of the tacit quid pro quo exchange for campaign contributions received from the company (Huang and Xuan 2020). Prior research suggests that companies with political connections may expect lower detection risk, better tax code enforcement information, less tax enforcement, and lower political costs of aggressive tax planning that are incremental to the overall benefits that favorable tax policy affords to the entire industry(Chen et al. 2018; Lin, Mills, Zhang and Li 2018; Kim and Zhang 2016). Thus, we expect that in the presence of a critical mass of politician stock owners, companies will pursue more aggressive tax strategies. We examine tax aggressiveness relative to industry peers as an outcome of the

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[4] Brown et al. (2015) measure relational corporate political activity as a company making campaign contributions to multiple tax-writing committee candidates. This form of company-initiated CPC is an example of intentional corporate strategies to support multiple politicians that can influence and facilitate desired tax policy outcomes. In contrast, a company cannot control politicians' decisions to own stock. Thus, it is an empirical question whether the stockholdings of multiple politicians, who may or may not have relevant influence, will have the same effect as intentional forms of company-initiated CPC.

company's anticipation of lower expect costs due to potential political favor from having a critical mass of politician stock owners.[5]

For our empirical tests, we construct a comprehensive database of stock ownership for members of Congress and the Senate in U.S. companies from politicians' mandated annual financial disclosures known as Personal Financial Disclosure (PFD) reports. PFD reports provide information related to family income, personal and business assets and liabilities, and significant financial transactions undertaken during the calendar year. Our sample of 9,534 firm-years is comprised of S&P 1500 companies in the COMPUSTAT/CRSP database from 2004 to 2014.

First, we develop a political connection indicator variable for the presence of at least one politician stock owner in each firm-year. Next, we consider the concentration of multiple politician stock owners for each company using a count variable of the number of politician stock owners. To examine the relation between politician stock ownership and tax aggressiveness, we use a two stage least squares (2SLS) model to mitigate the concern of the endogenous choice of establishing political connections. In the first-stage regression, we examine the determinants of a company having politician stock owners. In our second-stage models, using an indicator variable for the incidence of politician stock ownership, we find little evidence to support that the mere presence of a politician stock owner significantly influences tax aggressiveness. After accounting for the number of politician stock owners, however, we find that the intensity of politician stock ownership is positively associated with tax aggressiveness. Supplemental univariate testing corroborates the notion that a critical mass of politician-initiated CPC is required for companies to engage in increased tax aggressiveness. Specifically, we observe greater tax aggressiveness for

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[5] Zimmerman (1983) notes that variation in effective tax rates provides a measure of a company's success in obtaining tax breaks from political activity. We use industry-adjusted effective tax rates as a measure of the tax benefits captured by companies with politician stockholders that are incremental to the overall benefits that general tax policy affords to other companies in the industry without politician stockholders (Balakrishnan et al. 2019).

those companies with four or more politician stock owners. We find that the strength of politicians'

influence is positively associated with tax aggressiveness. In additional tests, we examine settings

where there may be alignment of interests between the politician and the company and when the

politician may have greater political influence. We find increased tax aggressiveness associated

with companies with; politician owners that represent the company's headquarter state, politicians

whose company investment is larger relative to their overall stock portfolio, more politician

owners that sit on tax-writing,[6] industry oversight, or powerful committees.[7] Lastly, we examine

the effect of the politician owners' political party affiliation and find evidence suggesting that

companies engage in more tax aggressiveness whether there is more Democratic or more

Republican ownership among their politician stock owners.

We test a potential mechanism for this relation by examining the reserves for uncertain tax

positions (unrecognized tax benefits (UTBs)) of companies with politician stockholders. We find

that companies with more politician stockholders increase their UTBs. However, we do not find

evidence of a proportional increase in future UTB settlements with tax authorities. Increased UTBs

in conjunction with lower effective tax rates provides some evidence that companies are not just

reporting more conservatively, suggesting that companies with more politician stock owners have

lower costs associated with their aggressive tax strategies. This evidence provides some

corroboration for our supposition that politician-held companies pursue more aggressive tax

strategies anticipating protection from their politician stock owners. Potential mechanisms for

politician protection include reduced IRS enforcement due to politicians constraining the IRS

budget (Nessa, Schwab, Stomberg, & Towery 2020) or providing companies with "insider"

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[6] Tax-writing committees are defined as House Ways and Means Committee and Senate Finance Committee (Brown et al. 2015; Roberts & Bobeck 2004; Freed and Swenson 1995).
[7] Stewart (2012) defines powerful committees as House: Appropriations, Budget, Commerce, Rules, and Ways & Means and Senate: Appropriations, Armed Services, Commerce, Finance, and Foreign Relations.

information about the strictness of tax enforcement (Kim and Zhang 2016). Limiting the effectiveness of the IRS benefits all companies, but we expect that companies with more politician owners will be more tax aggressive anticipating that their portfolio of politician owners will afford the company access to superior information or greater protection.

In addition to using 2SLS in our primary analyses, we employ several approaches to attempt to mitigate endogeneity concerns. We address concerns regarding sample selection bias and covariate imbalance by testing the consistency of our primary results to entropy balancing. We also try to assuage reverse causality concerns over politicians potentially preferring to invest in tax aggressive companies. We find that a significant change in tax aggressiveness follows increases in politician ownership, but we do not find evidence that politician stock ownership rises following increases in company tax aggressiveness.

Our study contributes to the literature in the following ways. First, our evidence suggesting the anticipation of lower expected costs of aggressive tax planning, answers the call in Barrick and Brown (2019) to examine whether politicians' personal stock ownership affect which companies receive tax benefits. Barrick and Brown (2019) summarize the extensive literature examining company-initiated CPC in the tax setting. Our study fills a gap in the tax literature by examining politician-initiated CPC. Importantly, we do not find evidence that the incidence of politician stock ownership influences increased tax aggressiveness. However, we find strong evidence that the concentration of a critical mass of politician stock owners is associated with increased tax aggressiveness. This result has regulatory implications as the public, media, watchdog groups, regulators and legislators are increasingly concerned about the appearance of conflict of interest and influence peddling surrounding politicians' direct ownership of individual stocks.

We contribute to the tax avoidance literature by providing evidence that politician ownership incrementally contributes to corporate tax aggressiveness after controlling for the company's campaign contributions. Our research also contributes to the literature on the economic consequences and company outcomes of politician stock ownership (Tahoun and Van Lent 2019; Platikanova 2017; Eggers and Hainmueller 2014; Tahoun 2014). Our study adds to this literature by providing evidence that suggests that companies anticipate political protection that facilitates aggressive tax planning when there is a critical mass of politician stock ownership. Finally, our company matched data set of politician stock ownership will be the first publicly available data set of its kind and can be useful for future studies that examine other implications of politicians' direct stock ownership of public companies.

II. Background and Hypothesis Development

2.1. Politician Stock Ownership and Political Influence

Prior research suggests that politician stock ownership reflects a form of political connection between politicians and the companies in which they invest. Politicians have agency when choosing between a variety of potential channels available to invest their wealth, including using blind trusts and professional wealth managers to make their investment decisions (Platikanova 2017). As a result, politicians' direct stockholdings likely reflect intentional choices of politicians to tie their personal wealth to a company (Platikanova 2017). Politicians are more likely to own stock in companies that contribute to their electoral campaigns as compared to those companies who are noncontributors, suggesting that political contributions are an effective way for companies to cultivate political influence and induce politician equity investments (Tahoun 2014). Companies decrease lobbying activity directed toward politicians who own stock in their company, suggesting that companies perceive politician stock ownership as an indication that a politician is positively disposed toward a company, thereby reducing their need to exert effort

toward educating the politician on its preferred policies (Ridge, Hill, and Ingram 2018). Additionally, companies appear to discontinue political contributions to politicians when those politicians divest themselves of the company's stock. These corporate reactions to politician shareholdings reflect the increasingly active role of investor relations professionals in identifying key shareholders as well as any issues of particular concern for a firm's investors (Carey, Charan, and McNabb 2021).[8] Viewed in the context of these prior studies, politicians' direct stock ownership in individual companies may increase companies' anticipation of political favor. This evidence suggests that politician stock ownership serves as a mechanism for enforcing implicit and/or non-contractable quid-pro-quo relationships (Kim, Koo, and Paz 2021).

Prior research supports that politician stockholders provide the companies, in which they invest, with political protection through the regulatory process. Preuss and Kongsgruber (2021) suggest a channel through which politician owners may exert their political influence is through influencing the level of regulatory enforcement for connected companies. Politically connected companies have been found to be subjected to weaker regulatory and external market-based monitoring (Qian, Pan, and Yeung 2011), resulting in poorer quality accruals and earnings quality (Chaney et al. 2011) and less accurate analyst forecasts (Chen, Ding, and Kim 2010). Creditor monitoring is also weaker for politically connected companies (Houston, Jiang, Lin, and Ma 2014). Weaker monitoring means that politically connected companies are less likely to face SEC enforcement actions and, when prosecuted by the SEC, pay lower fines (Correia 2014).

In addition to politician stock ownership being associated with regulatory protection, there is evidence that politician stockholdings are also associated with accruing similar non-tax benefits

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[8] Anecdotal evidence from an interview we held with a director of investor relations for a Fortune 500 company suggests that investor relations professionals in politically sensitive industries may specifically seek out information on politician shareholdings using politicians PFD disclosures.

to companies as explicit company-initiated CPC (e.g. hiring politicians as employees/directors or consultants). For example, Tahoun (2014) finds that companies with politician stock owners are awarded more government contracts. Several studies also find that politicians legislate in ways that benefit the companies in which they own stock. For example, Tahoun and Van Lent (2019) find that politicians who held equity in financial institutions were more likely to support the Economic Emergency Stabilization Act passed in the wake of the financial crisis in 2008. Platikanova (2017) finds that politicians were more likely to vote in favor of the American Jobs Creation Act when they held stock in companies that were more likely to benefit from the provisions of that legislation and when those companies donated to the campaigns of their politician stock owners. Overall, these results suggest that politician stock ownership fosters political favor and related protections, with stock ownership acting as a mechanism for demonstrating a commitment to a pro-company disposition.

2.2. Corporate political activity and tax outcomes

A large stream of literature explores the influence of corporate political activity on tax outcomes. Much of the evidence to date relates specifically to political connections initiated by the company via campaign contributions and lobbying expenditures (Baloria and Klassen 2018; Garcia 2016; Kim and Zhang 2016; Brown, Drake and Wellman 2015; Meade and Li 2015; Richter, Samphantharak, and Timmons 2009) or boards of directors with political ties (Lin et al. 2018). Mills, Nutter, and Schwab (2013) examine the political sensitivity of companies based on their reliance on federal contracts. Several studies examine the political orientation of executives on tax avoidance (Francis, Hasan, Sun, and Wu 2016; Christensen, Dhaliwal, Boivie, and Graffin 2015). Additional studies examine the influence of political connections on corporate tax benefits in international settings (Chen, Tang, Wu, and Yang 2020; Lin et al. 2018; Wu, Wu, Zhou, and

Wu 2012; Adhikari, Derashid, and Zhang 2006). Corporate political activity is controlled by the company. In contrast, the company cannot control whether politicians choose to directly own stock in the company, nor can the company dictate the intentions of a politician stockholder to exercise influence on the company's behalf.

Most prior studies find that corporate political action results in increased tax avoidance as measured by lower effective tax rates (Baloria and Klassen 2018; Barrick and Frischmann 2017; Minnick and Noga 2017; Chen et al. 2018; Davis, Guenther, Krull, and Williams 2016; Garcia 2016; Brown, Drake and Wellman 2015; Meade and Li 2015; Richter, Samphantharak, and Timmons 2009; Adhikari et al. 2006). Other studies find associations with other tax benefits. Companies with more political activity are more likely than other companies to be singled out in rifle-shot tax legislation and receive company-specific tax relief (Chen et al. 2018), use taxation as a channel through which the politically connected companies improve firm performance (Wu et al. 2012), and weaken tax enforcement effectiveness (Lin et al. 2018). Consistent with media reports about lobbying in advance of the final Tax Cuts and Jobs Act passage (Mann, Mullins, and Rubin 2017), studies find increased corporate political activity in advance of beneficial outcomes for tax law changes (Roberts and Bobek 2004; Freed and Swenson 1995). Additionally, Francis et al. (2016) find Republican CEOs are associated with more corporate tax sheltering.

In contrast, several studies identify cases of political affiliation or corporate political activity that are associated with reduced tax avoidance. Baloria and Klassen (2018) find that companies manage up effective tax rates (ETRs) in the quarters preceding the 2012 U.S. general elections to avoid scrutiny of politicians opposing corporate tax rate cuts and watchdog groups such as the Citizens for Tax Justice (McIntyre et al. 2011). Christensen et al. (2015) find that Republican-leaning executives engage in less tax avoidance. Baloria and Klassen (2018) also find

that companies with more contributions to Republicans manage ETRs up to get more contracts and manage perceptions. In international settings, Chen et al. (2020) and Wu et al. (2012) find that companies decrease their tax avoidance after new political leaders take office in China and Malaysia, respectively. Chen et al. (2020) find that companies that make higher tax payments following politician turnover subsequently receive more government contracts or subsidies.

2.3 Hypothesis Development

Research on CPC has generally focused on whether or not company-initiated CPC exists within a company (i.e. mere presence effects). However, given the more informal nature of equity-based politician-initiated CPC, it is possible that a critical mass of politician stock owners is required to create the expectation of legislative or regulatory protection necessary to embolden increased tax aggressiveness. The model of critical mass developed in Granovetter (1978) suggests that the individual cost of engaging in an action depends in part on the presence of others who are engaged in similar action and thus the likelihood of joining the action increases while the potential cost of doing so declines. This theory applies to the politician owner's perspective as each owner considers the potential costs of directly owning an individual stock and providing political protection to those companies. Through the legislative process, interactions between politicians expose them to colleagues' preferences for specific companies. Thus, we expect that even if politicians are unaware of others' stock holdings, they assess when their peers are favorably disposed to certain companies.

Peoples (2010) highlights the importance of generating a critical mass of support for achieving a company's desired legislative and/or regulatory outcomes. Moreover, there is evidence in prior political research that a critical mass of proponents creates a tipping point that leads to political positioning that can influence business strategies (Vormedal 2017). From the company's

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perspective, there may be a higher potential cost of tax aggressiveness when there is one or only a few politician stockholders who may act on the company's behalf. If, similar to non-tax settings, politician stockholders influence regulatory outcomes, when assessing the riskiness of a particular tax strategy, management will include the presence of a critical mass of politician stockholders in the company's tax strategy decision making. In the context of politician stock owners, critical mass suggests that higher numbers of politician stock owners serve as a stronger signal of potential legislative and/or regulatory protection available to companies directly owned by politicians. This model also suggests that when a politician owner is from the company's headquarter state there is an opportunity for more interaction with the company and more incentive to exert influence on behalf of the company to cultivate support from other legislators.

However, having politician stock owners does not guarantee pro-company legislation or protective regulation will be undertaken given the social and political pressures faced by politicians due to their desire to be re-elected (Mayhew, 1974; Fenno, 1978). Politician stock ownership is subject to annual disclosure and public scrutiny, thereby making direct stock ownership a potential source of reputational risk for politicians. This scrutiny can lead to public pressure and influence campaigns undertaken by voters which, with significant attention, may force politicians to legislate or regulate in ways which may be against the politician's economic self-interest (Baloria 2015; Preuss & Kongsgruber 2021). Being seen as insufficiently responsive to constituent concerns can threaten a politician's reelection prospects and, by extension, their political influence. Thus, politician stock owners may not be able to deliver pro-company legislative or regulatory action despite being positively inclined toward the company and their legislative/regulatory preferences. Further, it is also possible that politician stock ownership is unrelated to political intentions and is only a regular investment in an individual investor's diversified portfolio.

It is *a priori* unclear whether the incidence of politician stock ownership of a company significantly influences a company's tax aggressiveness. While prior research suggests that political connections are associated with company-preferred legislative and regulatory outcomes, the political connections examined in prior research primarily involve company-initiated CPC such as the hiring of former politicians or politically connected executives or directors, lobbying, and corporate PAC contributions. In contrast, politician stock ownership is a politician-initiated CPC. While these connections generally signal the pro-company disposition of the politician stock owners, the strength and reliability of these connections may vary substantially depending on the composition of politician stock owners. But, as the intensity of politician stock owners increases, the strength and reliability of the signal can be expected to increase along with the existence of a critical mass of political protection in the form of more politician stock owners or higher levels of politician-held stock. We offer the following hypotheses to formalize these predictions.

> **H1: The incidence of politician stock ownership in a company is not associated with tax aggressiveness.**

> **H2: The intensity of politician stock ownership in a company is positively associated with tax aggressiveness.**

III. Research Methodology

Sample and Data Description

We construct our sample using data from three distinct sources. First, we develop a comprehensive dataset of the individual stock ownership of U.S. politicians (Members of Congress and the Senate) from mandated financial disclosures known as Personal Financial Disclosure (PFD) reports. These reports provide information related to family income, personal and business assets and liabilities, and significant financial transactions undertaken during the calendar year. We match PFD data to financial statement data company identifiers from the merged

Compustat/CRSP database using a combination of computerized and supplemental manual matching. Manual matching procedures are necessary due to inconsistent presentation of company names and typographical errors present in the PFD reports. After exclusions for missing data in all key variables in our main analysis, as well as dropping financial services and utilities companies, we arrive at a sample of 9,534 firm-years of S&P 1500 companies for the period between 2004 and 2014. There are 3,326 firm-years for companies with politician stock ownership and 6,208 firm-years for companies without politician stock ownership.

Empirical Model

Our primary research model regresses tax aggressiveness on politicians' stock ownership using the following equation:

$$Tax\ Aggressiveness = \beta_0 + \beta_1 D\_POLHELD_t + \beta_1 NUM\_OWNERS_t + \sum \beta_i Controls_t + \varepsilon. \quad (1)$$

In this model, *Tax Aggressiveness* refers to a set of proxies for tax aggressiveness. Following Balakrishnan et al. (2019), we construct our primary tax aggressiveness measure as the average three-year industry-adjusted GAAP (cash) ETR less the company's average three-year GAAP (cash) ETR (*TA_GAAP_3YR* and *TA_CASH_3YR*, respectively). Building on empirical models used in the tax aggressiveness literature (Kim and Zhang 2016; Gupta, Mills, and Towery 2014; Dyreng, Hanlon, and Maydew 2008), we estimate the above model to investigate the effects of politician stock owners on tax behaviors.

This primary model includes two variables to capture the effect of politician stock owners: *D_POLHELD_t,* and *NUM_OWNERS_t. D_POLHELD_t* is an indicator variable equal to 1 if the company has at least one politician stock owner during year *t*, and zero otherwise. We use this variable to test H1, capturing the incidence of politician stock owners and, by extension, the mere presence effect of a company having at least one politician stock owner. While *D_POLHELD* may provide an insight into the primary effect of politician stock ownership, our descriptive statistics

suggest that there may be substantial heterogeneity among politicians in terms of their ability to influence legislative and regulatory outcomes. We include NUM_OWNERS_t as a count variable indicating the number of politicians who own a company's stock in year t to test H2 and examine the extent to which the aggregation of politician owners can affect a company's tax behavior.

We next examine tax monitoring as a mechanism through which politicians may support companies in pursuing more aggressive tax positions. Prior literature suggests that political influence results in reduced monitoring and enforcement from external regulators (Yu & Yu 2011; Correia 2014; Fisman & Wang 2015). We therefore adopt the following model to analyze the influence of politician stockholders on tax monitoring:

$$Tax\ Monitoring = \beta_0 + \beta_1 D\_POLHELD_t + \beta_1 NUM\_OWNERS_t + \sum \beta_i Controls_t + \varepsilon. \tag{2}$$

We use several measures of tax monitoring, including (1) IRS attention (2) uncertain tax benefit settlements, and (3) two measures of tax monitoring proposed by Finley and Stekelberg (2021). Definitions for these variables can be found in the Appendix.

We then provide further insight into the previously mentioned heterogeneity among politician stockholders by extending our primary analysis and adopting measures of politician stockholders' political influence and political or economic motivations which may align the politician's interests with those of the company so the politician uses her influence to benefit the company: the number of politicians (1) that represent the state in which the company is headquartered, (2) whose holdings in the company comprise a large portion of the politician's stock portfolio, (3) who sit on tax writing committees (Brown et al. 2015), (4) who sit on committees with direct legislative and/or regulatory oversight over a company's industry (*NUM_COMMITTEE_FIRM*) or (5) with membership on powerful committees in the House of Representatives or Senate (*NUM_POWER_COMM*) (Stewart 2012). Additionally, we examine the log-adjusted value of all politicians' stock ownership in a company (*LN_TOTAL_HOLDING*).

Finally, we include a variety of control variables which have been identified in prior literature as firm-level determinants of corporate tax avoidance (Kim & Zhang 2016; Dyreng, Hanlon, and Maydew 2010; Frank, Lynch, and Rego 2009). A complete list of the primary and control variable definitions is provided in the Appendix.

Descriptive Statistics and Correlations

Table 1 reports descriptive statistics for our full sample as well as for subsamples of politician-owned and non-politician owned companies. Table 1, Panel A provides full sample descriptive statistics. Of particular note is the observed variation in each of our tax aggressiveness measures, with descriptive statistics for these measures being comparable to those reported by Balakrishnan et al. (2019). Approximately 35% of firm-year observations in our sample have politician stock ownership.

Table 1, Panel B provides subsample descriptive statistics for politician-held companies and non-politician-held companies, as well as tests of differences of the mean and median values for our main variables of interest and control variables. These univariate results suggest significant differences in the types of companies included in each subsample. *TA_GAAP_3YR* is significantly different between the two subsamples, with politician-held companies exhibiting significantly lower levels of *TA_GAAP_3YR* compared to non-politician-held companies. By contrast, we observe no significant differences in *TA_CASH_3YR* between our two subsamples. We also observe significant differences between our subsamples across many of our control variables. Politician-held companies in our sample are generally more profitable, larger, older, more complex, more financially stable, faster growing, and have more volatile accounting returns than non-politician-held companies. Politician-held companies in our sample have an average (median) of approximately five (two) politician stock owners. We further examine the distribution of

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politician stock owners within our subsample of politician-held companies. These details are reported in Table 1, Panel C. Most of the politician-owned companies have a relatively small number of politician owners. However, the number of politician owners is highly skewed. There are 185 firm-years with more than 20 politician owners.[9] Of the 3,326 firm-year observations in the sample with politician stock owners, more than two thirds of these observations, precisely 67.35% (2,240), have three or fewer politician stock owners. Similar concentrations of politician stock owners with membership on tax writing, industry-related, and powerful committees can be observed, with most companies having two or fewer politician stock owners serving in such influential positions.

Table 2 presents correlations among our variables of interest and dependent variables. Consistent with Kim and Zhang (2016), we find significant correlations among our various tax aggressiveness measures. We also observe positive and significant correlations among our politician stock ownership variables.

IV. Empirical Results

4.1. Main Results

We report our primary results in Tables 3 and 4. We use two-stage least squares (2SLS) estimations of our model to account for endogeneity concerns related to the company having politician owners. Following Kim and Zhang (2016), we select two instruments which satisfy the exclusion criteria of these instruments' affecting tax aggressiveness only indirectly through political connections rather than directly: (1) the percentage of companies with politician stock ownership within the industry (*SICH3D_DPOLHELD*) and (2) log of the distance of the

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[9] We use raw counts for number of politician stock owners in our primary regressions for ease of interpretation. To address skewness concerns, in untabulated tests, all results are robust to using the logged number of politician stockholders. Additionally, we drop the 185 firm-year observations with more than 20 politician owners. Results are also robust to this specification.

company's headquarters to the U.S. Capitol Hill in Washington D.C. (*LN_DISTANCE*).[10] We

select the distance of the company's headquarters to the U.S Capitol Hill as an instrumental

variable due to the increased political activity of firms in closer proximity to Washington, D.C.

(Kim & Zhang 2016) and the expected correlation of such activity with politicians' awareness of

a firm as a potential investment (Platikanova 2017).[11] For the second stage model, we regress our

dependent variables on the fitted values for the two endogenous variables and the control variables.

In all second stage regressions that include both D_POLHELD and NUM_OWNERS, we use both

instrumental variables in our estimation. Table 3 reports coefficients for the results of our first-

stage model in Column (1) and the second-stage models in Columns (4) and (7). Our results

provide little evidence of a mere presence effect for politician stockholders on tax aggressiveness,

with *D_POLHELD* having an insignificant effect on *TA_GAAP_3YR* (β = -.018, p = 0.335) and a

marginally significant negative effect on *TA_CASH_3YR* (β = -0.038, p = 0.078). The estimates of

tax aggressiveness, reported in Table 3, Panel B, show the difference in tax aggressiveness between

politician-held companies and companies with no politician stock owners on both a GAAP and

cash basis. Consistent with H1, while both coefficients are negative, the statistical results are

insufficiently strong to conclude a robust mere presence effect of politician stock ownership on

tax aggressiveness.

We next examine the effect of the intensity of politician stock ownership measured as the

number of politician owners. These results are reported in Table 4, Panel A. In contrast to our

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[10] When estimating models with a single politician stock ownership variable, we report results using the industry ownership-based measure. Our results are robust to the use of the distance-based instrumental variable.

[11] We confirm that these instruments meet the necessary econometric exclusion criteria for use as instruments by testing the correlation between each instrument and the error term from the second stage model. Both correlations are relatively small (0.0051 for the percentage of politician-held companies within the industry and -0.0039 for the log distance between the company's headquarters and Capitol Hill) and statistically insignificant (p > 0.10). We also reject the null hypothesis of weak instruments after calculating the relevant minimum eigenvalue statistic proposed by Stock and Yogo (2005).

results using *D_POLHELD_t*, we find that *NUM_OWNERS* is positively related with both *TA_GAAP_3YR* ($\beta = 0.032$, $p = 0.001$) and *TA_CASH_3YR* ($\beta = 0.051$, $p = 0.001$). Consistent with H2, These results suggest that a larger concentration of politician stock owners supports greater tax aggressiveness among politician-held companies.

Our previous tests separately estimate models for the effect of *D_POLHELD_t*, and *NUM_OWNERS_t*. Any implication from including one alone without the other, however, may be misleading. On the one hand, excluding *NUM_OWNERS_t* biases our estimates of the effect of *D_POLHELD_t* on tax aggressiveness downward due to omitted correlated variable bias (i.e. the number of owners was reported in our previous tests to have a distinct and significant effect on tax aggressiveness). On the other hand, when excluding *D_POLHELD_t*, *NUM_OWNERS_t* alone does not provide a complete picture because its relationship to tax aggressiveness is not strictly linear. In an effort to identify their combined effect, we estimate a model including both of these variables simultaneously. *NUM_OWNERS_t* is observable only for companies with politician stock owners (i.e., *D_POLHELD*=1) and essentially captures the interaction between *D_POLHELD_t*, and *NUM_OWNERS_t*. Thus, the two coefficients must be summed together to properly estimate the effect of politician stock owners on tax aggressiveness in the combined model reported in Table 4, Panel B. When combined in a single model, both variables exhibit statistical significance and retain the previously observed directional relationship with both *TA_GAAP_3YR* and *TA_CASH_3YR*, though the coefficient on *D_POLHELD_t* approximately doubles in magnitude when included in a model with *NUM_OWNERS_t* .[12]

Given the conflicting directional relationships between *D_POLHELD_t*, and *NUM_OWNERS_t*, we estimate the significance of differences in tax aggressiveness across levels

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[12] In comparison with Table 3, the suspected downward bias in D_POLHELD is corrected, while the coefficient on NUM_OWNERS maintains its magnitude at a similar level in Table 4, Panel B.

of politician intensity to gain further insight into the nature of the observed relationship between politician stock owners and tax aggressiveness. We report these tests in Table 4, Panel C. It is noteworthy that we find no significant differences in tax aggressiveness between companies held by up to three politicians and companies without politician stock owners. At the level of four politician stock owners, we begin to find marginally significant higher levels of tax aggressiveness when there are a larger number of politician stock owners. A visual representation of these results for zero through 10 politician stock owners, including TA_GAAP_ETR means and 90% confidence intervals, is provided in Figure 1. To clearly show when the critical mass of politician ownership is achieved at four politician owners, zero politician owners is displayed with dotted lines at the 90% confidence interval bounds to show the overlap across confidence intervals.[13]

Overall, these tests suggest that we find little to no effect of politician stock ownership on tax aggressiveness until a company develops a critical mass of politician stock owners. Our results suggest a threshold of four politician stock owners is necessary to observe tax aggressiveness for politician-held companies.

4.2. Alternative Measures of Tax Aggressiveness

We next supplement our results with four widely used measures of tax aggressiveness from prior tax research. Following prior CPC research, we use three-year GAAP and cash basis effective tax rates (Baloria and Klassen 2018; Lin et al. 2018; Brown et al. 2015; Mills, Nutter, and Schwab 2013; Dyreng et al. 2008)). We present discretionary book-tax differences (*DTAX)* (Frank et al. 2009), tax shelter prediction score (*SHELTER*) (Lisowsky 2010), and measures of unrecognized tax benefits following the prediction model in Cazier et al. (2009) (*LN_UTB*, *SC_UTB*, and

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[13] In untabulated tests, to address the concern that results are driven by company size, we estimate results dropping S&P 500, S&P 400, and S&P 600 companies, respectively. Results provide evidence that the largest nor the smallest companies in our sample are driving results.

PRED_UTB). The Appendix provides definitions and details of variable construction for all measures of tax aggressiveness.

For brevity, in Table 5, we only report the results for alternative measures of tax aggressiveness. Overall, results using alternative measures of tax aggressiveness are consistent with our primary analyses and continue to provide evidence to suggest that greater politician stock ownership is positively associated with tax aggressiveness.

4.3. Politicians Holdings and Tax Monitoring

Table 6 reports the results of estimations of Equation (2) and provides insight into the effect of politician stockholders on lowering the potential costs of companies pursuing more aggressive tax strategies. We find in Table 6, Column (1) that the number of politician stockholders is positively associated with attention from the IRS (Bozanic, Hoopes, Thornock, & Williams 2017). Given the previously noted increase in tax aggressiveness associated with higher numbers of politician stockholders, this result is consistent with more tax aggressive companies attracting increased IRS attention. Given results for higher levels of tax aggressiveness and increased IRS attention, we would expect the average company to experience increased costs of pursuing more aggressive tax planning. We proxy for costs of aggressive tax planning use tax monitoring and UTB settlement measures. We test whether politician stock owners affect the monitoring and enforcement costs associated with tax aggressiveness. We report the results in Table 6, columns (2) through (5). While we find that the unscaled UTB settlements are higher as the number of politician stockholders increases, we do not find significant increases in UTB settlements as a proportion of the beginning UTB balance. We also do not find significant differences in tax monitoring, but given that companies with more politician owners are more tax aggressive, we would expect to find a difference. Together, these findings suggest that increased tax

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aggressiveness among companies with more politician owners does not result in higher monitoring and enforcement costs.

4.4. The Political and Economic Motivations of Politician Holdings

There are multiple potential motivations for politician stockholders to use their influence to benefit the companies in which they own shares. Table 7 reports tests of the effect of several political and economic motivations which may align the politician's interests with the company's interests. Politicians may seek to provide benefits to local companies as a means of maintaining or increasing local constituent support for their re-election. Table 7, Panel A reports the results of a modified version of Equation (1) which accounts for the number of politicians holding shares who represent the state where the company is headquartered. We find higher levels of tax aggressiveness associated with these holdings, suggesting that companies perceive a stronger signal of the potential for political favor when there is an alignment of interests between the politician and the company. The company's perception of the potential for political favor facilitates the company's anticipation of a lower expected cost of being more tax aggressive.

Economic interests in the form of wealth concerns may also motivate politician stockholders to exercise influence which may benefit the companies in which they hold shares. We test these motivations using several tests which account for the value and significance of politician holdings. Table 7, Panels B through C report results from a modified version of Equation (1) which replaces the number of politician stockholders with various proxies for the economic significance of politician stockholdings. Results from Table 7, Panel B report that the value of total holdings by all politicians is associated with increased tax aggressiveness using our primary tax aggressiveness measures of *TA_GAAP_3YR* and *TA_CASH_3YR*, as well as across a range of alternative tax aggressiveness measures. The total value of holdings, however, may not properly

account for heterogeneity in the economic importance of holdings to specific politician stockholders. Thus, we employ several measures which capture the relative importance of the direct stockholdings in an individual company as a proportion of each politician's total portfolio of directly owned stocks disclosed in PFD reports. The measures include: the number of politicians (1) whose investment in the company is the largest investment in their portfolio (*NUM_LARGEST*), or (2) whose holdings in the company represent the top 10% or (3) 25% of all portfolio-weighted holdings in our sample (*NUM_TOP10%* and *NUM_TOP25%*, respectively). Table 7, Panel C shows significantly positive associations between tax aggressiveness and *NUM_LARGEST*, *NUM_TOP10%,* and *NUM_TOP25%.* These results suggest that politicians' wealth concerns are viewed as a sufficiently strong signal of economic interest alignment that companies are willing to pursue more aggressive tax strategies when politicians have relatively larger holdings.

4.5. Effect of Holdings of Politicians of Greater Influence

Another potential explanation for our findings is that companies perceive the stock ownership of powerful or influential politician stockholders as a stronger signal of their potential to benefit from the politician connections. We therefore test whether the holdings of politicians with greater influence over tax policy or industry regulation result in increased tax aggressiveness. We use three proxies for influential politicians: the number of politicians stockholders who sit on (1) tax writing committees (*D_TAXCOM* and *NUM_TAXCOM)* (2) regulatory oversight committees for the company's industry (*NUM_COMMITTEE_FIRM*), and (3) on the most powerful committees (*NUM_POWER_COMM*). These results are reported in Table 8, Panels A and B. These results mirror our primary results in that the number of politicians with each type of influence is associated with increased tax aggressiveness. The effect of each individual influential politician appears to much stronger compared to our main results. While we do not find a

significant effect in our main results until more than three politicians own shares of a company, a single influential politician appears to be sufficient to influence increased tax aggressiveness among held companies. This supports the notion that companies perceive the stock ownership of influential politicians as a relatively strong signal of the potential benefits of politician influence that lower the expected cost of tax aggressiveness.

4.6. Political Affiliation of Politician Owners

We next focus on the political affiliation of politician stock owners. Politicians have been shown to consider their political ideologies when deciding which stock investments to undertake (Tahoun 2014). Prior research finds that Republican-leaning CEOs exhibit preferences for stronger tax sheltering compared to Democrat-leaning CEOs (Francis, Hasan, Sun, & Wu 2016). However, when it comes to stock-based incentives as a wealth effect, Democrat-leaning CEOs exhibit preferences for increased tax sheltering compared to Republican-leaning CEOs (Francis et al. 2016). It is possible that companies will adjust their tax aggressiveness based on the ideological preferences of their politician investors as such preferences are indicative of the politician's general attitude toward taxation and tax aggressiveness. We use party affiliation to identify the ideological preferences of politician stock owners.

Table 9, Panel A reports the frequency of stock ownership for both Republican and Democratic politicians. If the number of all politician owners is endogenous without valid instruments, the tax aggressiveness effects for *NUM_OWNERS* could be the result of politicians' concern about tax strategy rather than their political affiliation. To offer more insights for the individual effects of politicians by their ideology preference, we classify companies into three categories: (1) whether a company's shares are held by at least one politician of the party in question, (2) whether a company's shares are held by only politicians in the party in question, and

(3) whether a company's shares are held by more Republicans or Democrats. Table 9, Panel B reports the results for 2SLS regressions of Democrat and Republican-held companies provide evidence that both Democratic and Republican-held companies exhibit increased tax aggressiveness. Results are consistent across alternative measures of tax aggressiveness.

4.7. Supplemental Analyses

Entropy Balancing

Given the univariate evidence of significant differences in firm-level characteristics across our politician-held and non-politician-held subsamples, there is concern with the potential for selection bias and covariate balancing across our sub samples. In part, we address the issue by employing 2SLS in our primary analyses. As an alternative approach, we adopt entropy balancing (Hainmuller 2012) to help further address these concerns following recent research (Wilde 2017).[14] Entropy balancing allows us to conduct our tests using the full sample of 9,534 firm-year observations after weighting. Results using entropy balancing are reported in Table 10.

Table 10, Panel A reports results using indicators variables for terciles of the number of politician stock owners. These results are consistent in their directional inference but inconsistent in the statistical significance. The primary takeaway from this set of results is two-fold. First, the coefficients for the tercile indicators show a nuanced pattern such that higher terciles are associated with more tax aggressiveness. Second, the top tercile for politician stock owners exhibits the greatest tax aggressiveness, as evidenced by significantly lower effective tax rates, higher shelter scores, and higher predicted UTBs. Figure 2 provides a graphical representation of the coefficients

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[14] Entropy balancing allows us to balance covariates by weighing control sample units. Entropy balancing also allows for covariate balancing at higher moments to ensure greater comparability between our politician-held and non-politician held company subsamples. This technique allows us to address both random and systematic imbalances in our covariates to arrive at a balanced sample. Hainmuller (2012) suggests that entropy balancing is preferable to propensity score matching due to its ability to weight sample observations to achieve balance while maintaining larger sample sizes.

from Table 10, Panel A. Table 10, Panels B and C use alternative measures of the intensity of politician-stock owners in the form of the number of politician-owners on industry oversight committees or powerful committees, respectively. Using the same tercile-based indicator variables for each of these alternative measures of intensity of politician stock owners, each measure exhibits a qualitatively similar effect on tax aggressiveness as observed with the number of politician stock owners overall. Results from our entropy balancing specifications, therefore, continue to support H2 by providing evidence that the intensity of politician stock ownership is positively associated with tax aggressiveness.

Dynamic analysis of changes

In Table 11, we attempt to address concerns regarding reverse causality (i.e. the notion that politicians select companies because of the company's tax aggressiveness). Specifically, we regress changes in *D_POLHELD$_t$* on changes in both *TA_GAAP_3YR* and *TA_CASH_3YR.* Our change analysis model includes not only changes in politician stock ownership measured in past and current periods, but also those in future periods (up to two years) as explanatory variables. This type of change analysis can help account for time-invariant company characteristics, thus mitigating omitted correlated variable concerns. Table 11 reports that the one-year lagged *change in politician ownership* influences a change in tax aggressiveness. In contrast, we do not find evidence to support that changes in tax aggressiveness are significantly associated with future increases in politician stock ownership. Thus, the dynamic analysis provides some comfort, via temporal precedence, that politician stock ownership influences tax aggressiveness while company tax aggressiveness does not appear to influence future politician stock ownership.

Additional Analyses

To ensure that our results are not being driven by the measurement horizon of our primary tax aggressiveness measure, we measure tax aggressiveness at years *t+1* through *t+3* and estimate

Equation (1) for each period. In untabulated results, we find that the number of politician stockholders is significantly associated with increased tax aggressiveness for both *TA_GAAP_3YR* and *TA_CASH_3YR* across all three time horizons. Also in untabulated results, we examine whether the length of politician holdings impacts our primary results. We find that the average length of consecutive holdings, excluding single-year holdings (which are skewed by the starting period for our sample), is 3.3 years. We find that having a larger number of politicians who have held the company's shares for an extended time period is associated with increased tax aggressiveness.

V. Conclusion

We investigate the relation between politicians' personal stock ownership as a measure of politician-initiated CPC and corporate tax strategy. We assemble a large data set of U.S. politicians' stock ownership from federal Personal Financial Disclosure reports for the period 2004 to 2014. Using a two stage least squares model to mitigate endogeneity concerns regarding politicians' investment portfolio selection, we find strong evidence in support of our hypotheses. First, we do not find evidence that the mere incidence of politician stock ownership is associated with increased tax aggressiveness. Second, we find evidence that companies require a critical mass of politician stock owners before anticipating sufficiently lower expected costs to pursue greater tax aggressiveness. We find significant tax aggressiveness after controlling for company-initiated CPC gained through campaign contributions to politicians, after controlling for other determinants of tax aggressiveness, and the endogenous choice of being politically connected. Our findings are robust to several alternative measurements of both corporate tax aggressiveness and politician stock ownership. We provide evidence that there are differences in how politician-initiated and company-initiated CPC affect corporate tax strategy.

We attribute our results to the unique political costs facing individual politicians who face scrutiny due to the public disclosure of their stock ownership. Consistent with Granovetter (1978), results suggest that when there is a critical mass of politician stockholders, the individual cost of using political influence to protect or direct benefits to a company declines as more politicians demonstrate a willingness to engage in an action. We posit that a company having more politician stock owners gives the company more potential paths to political protection and provides the individual politicians cover from scrutiny, thus facilitating greater tax aggressiveness.

An opportunity for future research exists to examine the implications of the alignment of politician-initiated CPC and company-initiated CPC in other tax and non-tax settings. The practical implication is that further consideration should be given to the other tax and non-tax protections and benefits that accrue to companies when there is the overlap of company campaign contributions and the concentration of politician stock ownership. We also acknowledge that a limitation of our study is that our sample is limited to large companies included in the S&P 1500. As a result, findings may differ for small companies where politician stock ownership may be subject to less public and media scrutiny.

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Appendix. Variable Descriptions

Politician stock ownership variables

D_POLHELD	An indicator for a company's shares being held by one or more politicians.
NUM_OWNERS	The number of politician stock owners.
D_HOMESTPOL	An indicator variable set equal to 1 if a company has politician stock owners who represent the firm's headquarter state in year *t*, and zero else
NUM_ HOMESTPOL	The number of politician stock owners who represent the firm's headquarter state in year *t*
LN_TOTAL_HOLDING	Log of the reported dollar value of the politicians' total stockholdings of a firm-year (in millions). The PFD file reports either the range of assets invested in a security or the exact size of the investment. We use the exact investment size wherever is available or the mean of the minimum and the maximum of the range.
NUM_LARGEST	The number of politician stockholders whose holdings in a firm represent their largest portfolio holding.
NUM_TOP10%	The number of politician stockholders whose holdings in a firm fall within the top 10% or more of all portfolio-weighted holdings in our sample.
NUM_TOP25%	The number of politician stockholders whose holdings in a firm fall within the top 25%% or more of all portfolio-weighted holdings in our sample.
D_ TAX_COMM	An indicator variable set equal to 1 if a company has politician stock owners who sit on tax writing committees in year *t*, and zero else
NUM_TAX_COMM	The number of politician stock owners who sit on tax writing committees in year *t*
QRT_NUM_OWNERS	A category of politician ownership based on the number of politicians owning a company's shares: 0 is for non-politician-o companies (zero politician owners) and 1, 2, 3, and 4 are the quartile groups of the number of politician owners computed excluding non-politician-owned companies.
NUM_COMMITTEE_FIRM	The number of legislators serving on committees with regulatory oversight of the companies in which they own stock.
NUM_POWER_COMM	The number of legislators serving on powerful committees. House: Appropriations, Budget, Commerce, Rules, and Ways & Means. Senate: Appropriations, Armed Services, Commerce, Finance, and Foreign Relations (Stewart 2012).
Held by Democrats (Republicans)	An indicator for a company's shares owned by one or more Democrat (Republican) politicians.
Held Only by Democrats (Republicans)	An indicator for a company's shares owned only by one or more Democrat (Republican) politicians.

Appendix. Variable Descriptions (continued)

Held More by Democrats (Republicans)	An indicator for a greater portion of company's shares owned by Democrat (Republican) politicians as compared to the other party politicians.

Tax variables

TA_GAAP_3YR	Industry-size adjusted three-year GAAP-based effective tax rates. (Balakrishnan et al. 2019)
TA_CASH_3YR	Industry-size adjusted three-year Cash-based effective tax rates (Balakrishnan et al. 2019)
GAAP_ETR_3YR	The total tax expense over the three years (t to t - 2) divided by the sum of pre-tax income minus special items over the three years.
CASH_ETR_3YR	The total cash paid for taxes over the three years (t to t - 2) divided by the sum of pre-tax income minus special items over the three years.
DTAX	The discretionary permanent book-tax difference computed as the residual from the following regression, estimated by year and two-digit SIC: $$PERMDIFF_{it} = \alpha_0 + \alpha_1 INTAN_{it} + \alpha_2 UNCON_{it} + \alpha_3 MI_{it} + \alpha_4 CSTE_{it} + \alpha_5 NOL_{it} + \alpha_6 LAGPERM_{it} + \varepsilon_{it},$$ where PERMDIFF is total book-tax difference minus the temporary book-tax difference, [{PI - [(TXFED + TXFO)/STR]} - (TXDI/STR)], scaled by lagged assets (AT); INTAN is goodwill and other intangible assets (INTAN), scaled by lagged assets; UNCON is income (loss) reported under the equity method (ESUB), scaled by lagged assets; MI is income (loss) attributable to minority interests (MII), scaled by lagged assets; CSTE is current state tax expense (TXS), scaled by lagged assets; NOL is change in net operating loss carryforwards (TLCF), scaled by lagged assets; LAGPERM is PERMDIFF in year t-1; and STR is the statutory tax rate.

Appendix. Variable Descriptions (continued)

SHELTER	Tax shelter prediction score based on Wilson (2009): $SHELTER = -4.86 + 5.20(BTD) + 4.08(DA) - 1.41(LEV) + 0.76(LAT) + 3.51(ROA) + 1.72(FI) + 2.43(R\&D)$, where BTD is the total book-tax difference, scaled by lagged total assets (AT); DA is the absolute value of discretionary accruals from the performance-adjusted modified cross-sectional Jones model; LEV is long-term debt (DLTT) divided by total assets (AT); LAT is the logarithm of total assets (AT); ROA is pre-tax earnings (PI) divided by lagged total assets; FI is an indicator variable equal to one for company observations reporting foreign income (PIFO) and zero otherwise; and R&D is research and development (R&D) expenses (XRD) divided by lagged total assets.
LN_UTB	UTBs, calculated as $\log(1 + TXTUBEND)$
SC_UTB	Scaled UTBs, calculated as $(TXTUBEND/AT)$
PRED_UTB	Predicted level of UTB following the method of Rego and Wilson (2012): $Pred\ UTB = -0.004 + 0.011(PT\ ROA) + 0.001(SIZE)$ $+ 0.010(FOR\ SALE) + 0.092(R\&D)$ $- 0.002(DISC\ ACCR) - 0.003(LEV) + 0.000(MTB)$ $+ 0.014(SG\&A) - 0.018(SALES\ GR)$, where PT_ROA is pre-tax earnings (PI) divided by lagged total assets, SIZE is the log of total assets (AT), FOR_SALE is total foreign sales scaled by total sales, R&D is R&D expenses (XRD) divided by lagged total assets, DISC_ACCR is discretionary accruals from the performance-adjusted modified cross-sectional Jones model, LEV is long-term debt (DLTT) divided by total assets (AT), MTB is the market-to-book ratio, SG&A is SG&A expenses (XSGA) scaled by lagged total assets, and SALES_GR is net sales growth rate.
IRS_ATTENTION	Natural logarithm of the number of times an individual with an IRS-affiliated IP address downloaded a company's 10-k from SEC EDGAR during the fiscal year. Source: Bozanic et al. (2017). Available at: http://jeffreyhoopes.com/data/irsattentiondata.html
TAX_MONITOR	$\dfrac{(TXTUBSETTLE_{t-3\ to\ t} - TXTUBSOFLIMIT_{t-3\ to\ t})}{TXTUBBEGIN_{t-3}}$.
GROSS_TAX_MONITOR	$1 - (TXTUBSOFLIMIT_{t-3\ to\ t} / TXTUBBEGIN_{t-3})$

Instrument variables

SICH3D_DPOLHELD	The percentage of politically connected companies in a company's industry group in three-digit SIC.
LN_DISTANCE	Log of the distance from a company's headquarters to Capitol Hill

Appendix. Variable Descriptions (continued)

Control variables

ROA	Return on assets, calculated as pre-tax income (PI) divided by lagged total assets (AT).
SD_ROA_P5Y	Standard deviation of ROA over the past five years.
D_TLCF	An indicator variable that equals one if net operating loss carryforwards is positive (COMPUSTAT: TLCF).
C_TLCF	Change in net operating loss carryforwards (COMPUSTAT TLCF) scaled by lagged total assets (AT).
FOR_ASSETS_TA	Foreign assets, estimated following Oler, Shevlin, and Wilson (2007).
C_GDWL	Change in goodwill (GDWL) scaled by lagged total assets (AT). If the value is negative, then it is set to zero.
NEWINV	New investment, calculated as COMPUSTAT (XRD + CAPX + AQC - SPPE - DPC), scaled by lagged total assets (AT).
NET_PPE	Net property, plant, and equipment at the end the year, calculated as COMPUSTAT PPENT scaled by lagged total assets (AT).
INTAN_ASSETS	Intangible assets at the end of the year, calculated as COMPUSTAT INTAN scaled by lagged total assets (AT). If INTAN = "C," then INTAN = GDWL.
ESUB_AT	Equity income in earnings, calculated as COMPUSTAT ESUB scaled by lagged total assets (AT).
DA_PM_MJONES	The absolute value of discretionary accruals, estimated from the performance-adjusted modified cross-sectional Jones model.
CHE_AT	Cash holdings at the end of the year, calculated as COMPUSTAT CHE scaled by lagged total assets (AT).
FIRM_SIZE	Log of market value of equity at the end of the year, calculated as COMPUSTAT PRCC_F * CSHO.
LEVERAGE	Financial leverage at the end of the year, calculated as long-term debt (DLTT) scaled by total assets (AT).
MTB	Market-to-book ratio at the end of the year, calculated as the market value of equity (COMPUSTAT PRCC_F * CSHO) divided by the book value of equity (COMPUSTAT CEQ).
LN_N_BUSSEG	Log of the number of business segments.
LN_N_GEOSEG	Log of the number of geographic segments.
EINDEX_A2	The entrenchment index of Bebchuk et al. (2009). Missing values are replaced by the most recent available values.
HHI_SICH2D	The Herfindahl index of industry concentration in two-digit SICs computed with company net sales.
INSTOWN_PERC1	The average percentage of shares held by institutional investors over year t (Thomson Financial CDA/Spectrum database).
DUALCLASS	An indicator that takes the value of one if the company has more than one class of stocks and zero otherwise.
LN_CONTRIBUTION	The total corporate political action committees (PAC) that a company made in the previous election period (natural log-transformed).

Figure 1 | Predicted Tax Aggressiveness on Politician Holdings

Number of Politician Owners
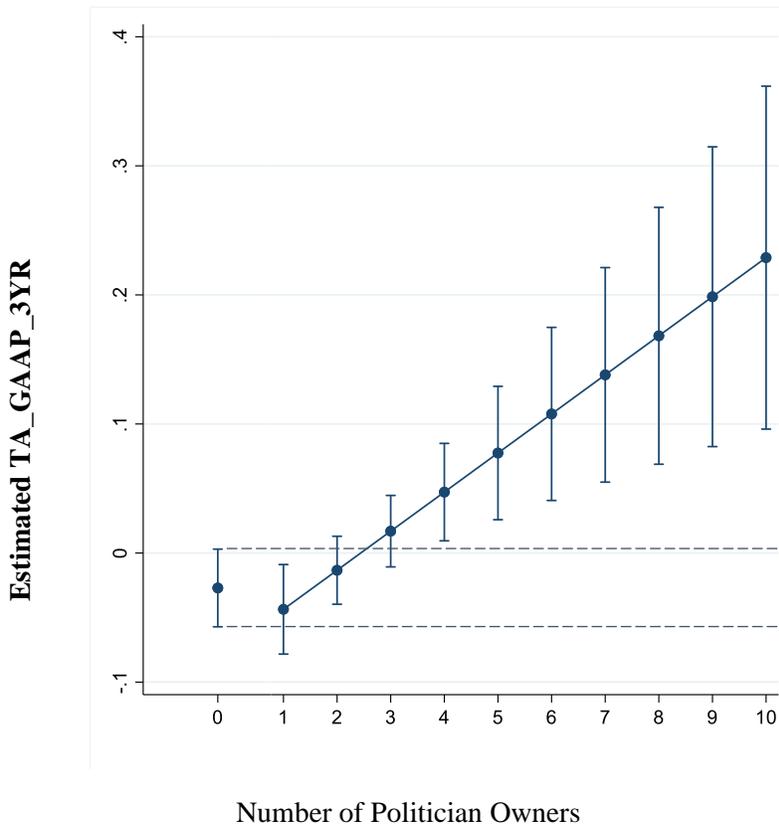
Notes: In Figure 1, we observe the 90% confidence intervals as well as average TA_GAAP_ETR by the number of politician stock owners. The confidence intervals for zero through three owners overlap, demonstrating that there are no significant differences in TA_GAAP_ETRs across firm-year observations between 0 and 3 politician stock owners. There is some overlap in confidence intervals between zero and four politician stock owners, thus we only observe a marginally significant difference in TA_GAAP_ETRs at the 10% level as reported in Table 4, Panel C. At five or more politician owners, we observe no overlap in the confidence intervals denoting a significant difference in TA_GAAP_ETRs significant at the 1% level.

Figure 2 | Comparison of the Coefficients among Politician Holdings Groups

Panel A: Tax Aggressiveness
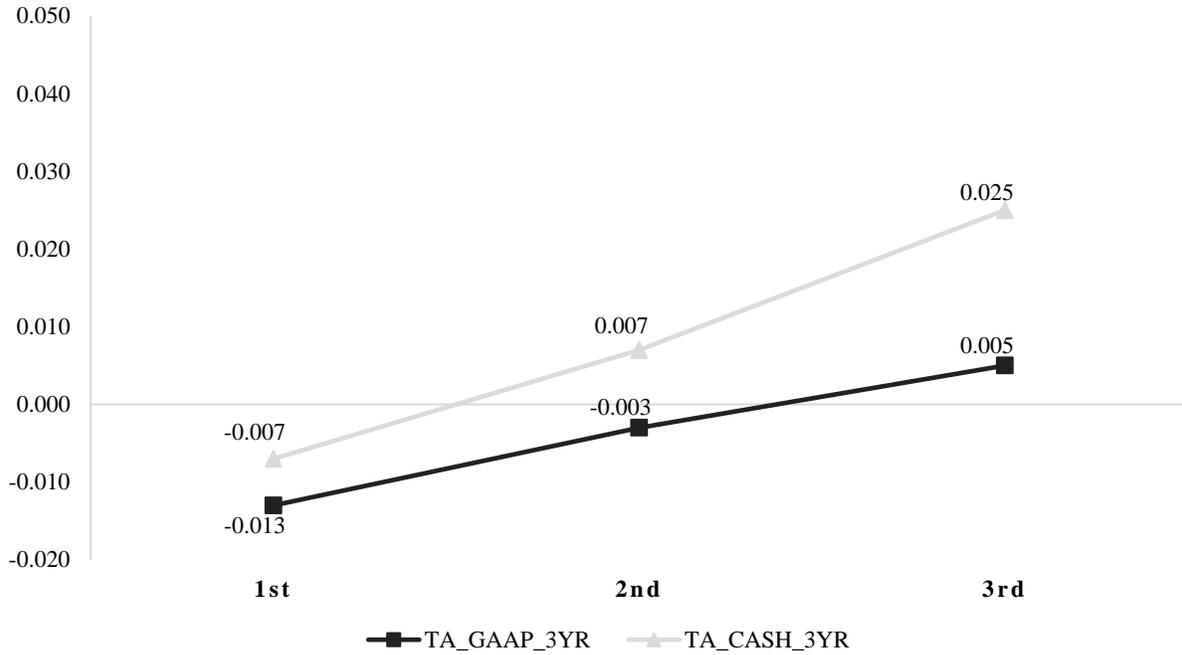
Panel B: Other Tax Measures
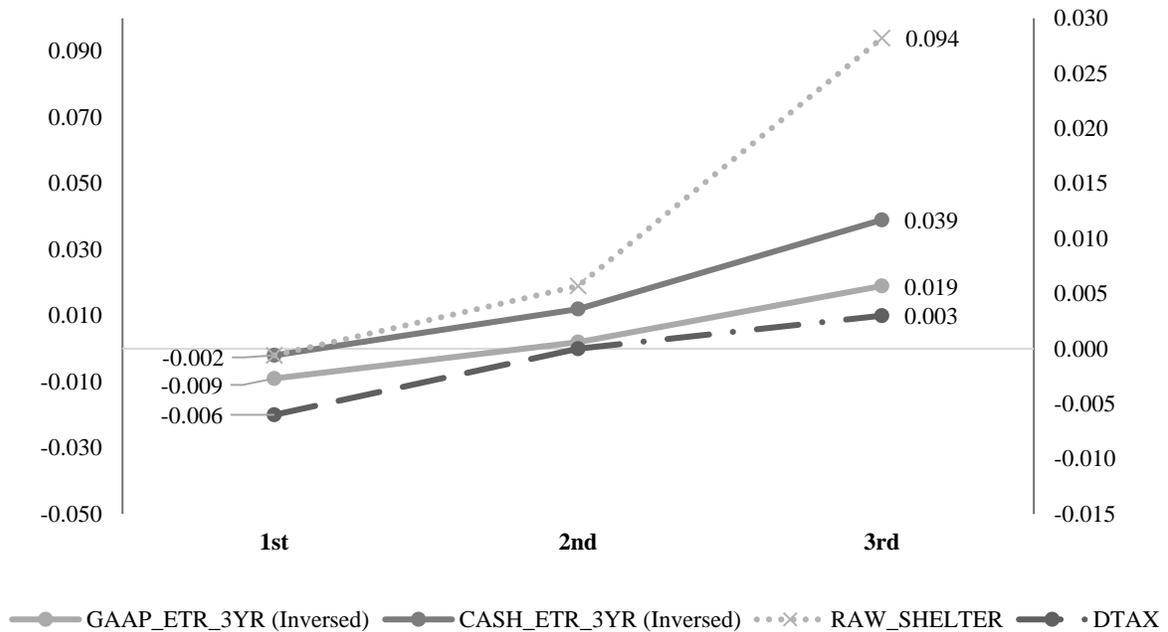
Notes: Figure 2, Panels A and B present the results from Table 6, Panel A. Figure 2, Panel A illustrates the tercile means for TA_GAAP_ETRs while Panel B illustrates the tercile means for the alternative measures of tax avoidance.

Table 1 | Descriptive Statistics

Panel A: Full Sample (N=9,534)

VARIABLES	Mean	Std Dev	Q1	Median	Q3
Politician Holdings					
D_POLHELD	0.349	0.477	0.000	0.000	1.000
NUM_OWNERS	1.862	5.988	0.000	0.000	1.000
NUM_COMMITTEE_FIRM	0.726	2.529	0.000	0.000	0.000
NUM_POWER_COMM	0.940	3.443	0.000	0.000	0.000
NUM_TAX_COMM	0.199	0.748	0.000	0.000	0.000
NUM_HOMESTPOL	0.112	0.450	0.000	0.000	0.000
NUM_LARGEST	0.268	1.251	0.000	0.000	0.000
NUM_TOP10%	0.134	0.681	0.000	0.000	0.000
NUM_TOP25%	0.388	1.769	0.000	0.000	0.000
Tax					
TA_GAAP_3YR	0.013	0.206	-0.044	0.029	0.118
TA_CASH_3YR	0.045	0.237	-0.014	0.086	0.182
Control Variables					
ROA	0.095	0.115	0.042	0.086	0.147
SD_ROA_P5Y	0.065	0.099	0.023	0.043	0.079
D_TLCF	0.521	0.500	0.000	1.000	1.000
C_TLCF	0.010	0.289	0.000	0.000	0.002
C_GDWL	0.024	0.121	0.000	0.000	0.015
NEWINV	0.084	0.159	0.011	0.046	0.108
NET_PPE	0.292	0.265	0.097	0.199	0.418
INTAN_ASSETS	0.240	0.271	0.042	0.174	0.357
ESUB_AT	0.001	0.008	0.000	0.000	0.000
CHE_AT	0.173	0.190	0.036	0.107	0.246
FIRM_SIZE	7.859	1.523	6.796	7.699	8.828
LEVERAGE	0.180	0.160	0.023	0.168	0.280
MTB	3.352	16.578	1.569	2.330	3.636
HHI_SICH2D	0.068	0.056	0.034	0.047	0.081
DA_PM_MJONES	-0.025	0.142	-0.070	-0.011	0.039
LN_N_BUSSEG	0.810	0.758	0.000	1.099	1.386
LN_N_GEOSEG	0.900	0.756	0.000	1.099	1.386
FOR_ASSETS_TA	0.338	0.510	0.000	0.243	0.534
INSTOWN_PERC1	0.845	2.767	0.721	0.836	0.924
DUALCLASS	0.066	0.249	0.000	0.000	0.000
EINDEX_A2	2.169	1.237	1.000	2.000	3.000
LN_CONTRIBUTION	2.684	4.662	0.000	0.000	6.909

Table 1 | Descriptive Statistics

Panel B: Politician-Held vs. Non-Politician-Held Companies

VARIABLES	Politician-Held Companies (D_POLHELD=1) N=3,326		Non-Politician-Held Companies (D_POLHELD=0) N=6,208		Difference			
	Mean	Median	Mean	Median	Mean	p-value	Median	p-value
Politician Holdings								
NUM_OWNERS	5.336	2.000	-	-	-	-	-	-
NUM_COMMITTEE_FIRM	2.080	1.000	-	-	-	-	-	-
NUM_POWER_COMM	2.695	1.000	-	-	-	-	-	-
NUM_TAX_COMM	0.570	0.000	-	-	-	-	-	-
NUM_HOMESTPOL	0.321	0.000	-	-	-	-	-	-
NUM_LARGEST	0.769	0.000	-	-	-	-	-	-
NUM_TOP10%	0.385	0.000	-	-	-	-	-	-
NUM_TOP25%	1.111	0.000	-	-	-	-	-	-
Tax								
TA_GAAP_3YR	0.001	0.027	0.020	0.030	**-0.019**	0.000	**-0.003**	0.010
TA_CASH_3YR	0.045	0.090	0.045	0.083	0.000	0.904	**0.007**	0.073
Control Variables								
ROA	0.114	0.103	0.084	0.079	**0.030**	0.000	**0.024**	0.000
SD_ROA_P5Y	0.057	0.037	0.070	0.045	**-0.013**	0.000	**-0.008**	0.000
D_TLCF	0.478	0.000	0.544	1.000	**-0.066**	0.000	**-1.000**	0.000
C_TLCF	0.010	0.000	0.010	0.000	0.000	0.992	0.000	0.363
C_GDWL	0.024	0.001	0.023	0.000	0.001	0.738	**0.001**	0.033
NEWINV	0.081	0.045	0.086	0.046	-0.005	0.132	**-0.001**	0.056
NET_PPE	0.322	0.220	0.276	0.190	**0.046**	0.000	**0.030**	0.000
INTAN_ASSETS	0.246	0.176	0.236	0.171	0.010	0.102	**0.005**	0.034
ESUB_AT	0.002	0.000	0.001	0.000	**0.001**	0.000	**0.000**	0.000
CHE_AT	0.159	0.101	0.180	0.111	**-0.021**	0.000	**-0.010**	0.000
FIRM_SIZE	9.052	9.063	7.220	7.191	**1.832**	0.000	**1.872**	0.000
LEVERAGE	0.193	0.185	0.173	0.156	**0.020**	0.000	**0.029**	0.000
MTB	4.276	2.825	2.858	2.128	**1.418**	0.000	**0.697**	0.000
HHI_SICH2D	0.065	0.044	0.069	0.050	**-0.004**	0.003	**-0.006**	0.000
DA_PM_MJONES	-0.031	-0.014	-0.022	-0.010	**-0.009**	0.002	**-0.004**	0.001
LN_N_BUSSEG	0.884	1.099	0.771	1.099	**0.113**	0.000	**0.000**	0.000
LN_N_GEOSEG	0.988	1.099	0.853	0.693	**0.135**	0.000	**0.406**	0.000
FOR_ASSETS_TA	0.385	0.306	0.313	0.204	**0.072**	0.000	**0.102**	0.000
INSTOWN_PERC1	0.785	0.797	0.877	0.858	-0.092	0.123	**-0.061**	0.000
DUALCLASS	0.057	0.000	0.071	0.000	**-0.014**	0.012	**0.000**	0.012
EINDEX_A2	2.081	2.000	2.216	2.000	**-0.135**	0.000	**0.000**	0.000
LN_CONTRIBUTION	4.788	0.000	1.557	0.000	**3.231**	0.000	**0.000**	0.000

Table 1 | Descriptive Statistics

Panel C: Distribution of Number of Politician Owners

#	NUM_OWNERS			NUM_COMMITTEE_FIRM			NUM_POWER_COMM			NUM_TAX_COMM			NUM_HOMESTPOL		
	Freq.	%	Cum%	Freq.	%	Cum%	Freq.	%	Cum%	Freq.	%	Cum%	Freq.	%	Cum%
0	6,208	65.1%	65.1%	7,418	77.8%	77.8%	7,211	75.6%	75.6%	8,459	88.7%	88.7%	8,740	91.6%	91.6%
1	1,329	13.9%	79.0%	1,068	11.2%	89.0%	1,101	11.5%	87.2%	701	7.4%	96.0%	630	6.6%	98.2%
2	600	6.3%	85.3%	342	3.6%	92.6%	410	4.3%	91.5%	184	1.9%	98.0%	107	1.1%	99.4%
3	311	3.3%	88.6%	201	2.1%	94.7%	192	2.0%	93.5%	88	0.9%	98.9%	29	0.3%	99.7%
4	195	2.0%	90.6%	116	1.2%	95.9%	127	1.3%	94.8%	41	0.4%	99.3%	15	0.2%	99.8%
5	127	1.3%	92.0%	79	0.8%	96.7%	91	1.0%	95.8%	26	0.3%	99.6%	7	0.1%	99.9%
6	102	1.1%	93.0%	57	0.6%	97.3%	67	0.7%	96.5%	14	0.1%	99.7%	2	0.0%	99.9%
7	72	0.8%	93.8%	46	0.5%	97.8%	44	0.5%	96.9%	5	0.1%	99.8%	1	0.0%	99.9%
8	61	0.6%	94.4%	25	0.3%	98.1%	42	0.4%	97.4%	8	0.1%	99.9%	3	0.0%	100.0%
9	63	0.7%	95.1%	25	0.3%	98.4%	36	0.4%	97.7%	2	0.0%	99.9%			
10	46	0.5%	95.6%	23	0.2%	98.6%	24	0.3%	98.0%	2	0.0%	99.9%			
11	31	0.3%	95.9%	12	0.1%	98.7%	28	0.3%	98.3%	2	0.0%	99.9%			
12	39	0.4%	96.3%	14	0.1%	98.9%	19	0.2%	98.5%	1	0.0%	100.0%			
13	34	0.4%	96.7%	15	0.2%	99.0%	15	0.2%	98.6%	1	0.0%	100.0%			
14	22	0.2%	96.9%	9	0.1%	99.1%	6	0.1%	98.7%						
15	25	0.3%	97.1%	13	0.1%	99.3%	8	0.1%	98.8%						
16	26	0.3%	97.4%	9	0.1%	99.3%	9	0.1%	98.9%						
17	20	0.2%	97.6%	12	0.1%	99.5%	10	0.1%	99.0%						
18	17	0.2%	97.8%	4	0.0%	99.5%	7	0.1%	99.1%						
19	8	0.1%	97.9%	6	0.1%	99.6%	5	0.1%	99.1%						
20	14	0.1%	98.0%	4	0.0%	99.6%	6	0.1%	99.2%						
Over 20	185	1.9%	100.0%	36	0.4%	100.0%	76	0.8%	100.0%						

Notes: Table 1, Panel A presents descriptive statistics of variables used to estimate equation (1), which examines both the effect of incidence (D_POLHELD) and intensity *(D_POLHELD; NUM_OWNER; NUM_COMMITTEE_FIRM; NUM_POWER_COMM; NUM_TAX_COMM; NUM_HOMESTPOL)* of politician stock owners. Panel B presents descriptive statistics of variables used to estimate equation (1), for subsamples of companies with a politician stock owner (D_POLHELD=1) and without a politician stock owner ((D_POLHELD=0[HM1]). Panel C presents the distribution of politician stock owners for each of our primary measures of intensity of politician ownership. We define all variables in the Appendix.

Table 2 | Correlations

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
(1) D_POLHELD_ALT	1.000									
(2) NUM_OWNERS_ALT	0.425***	1.000								
(3) LN_DISTANCE	-0.028***	0.037***	1.000							
(4) SICH3D_DPOLHELD	0.392***	0.172***	-0.066***	1.000						
(5) NUM_COMMITTEE_FIRM	0.392***	0.868***	0.037***	0.145***	1.000					
(6) NUM_POWER_COMM	0.373***	0.881***	0.032***	0.142***	0.972***	1.000				
(7) NUM_TAX_COMM	0.363***	0.849***	0.041***	0.137***	0.809***	0.817***	1.000			
(8) NUM_HOMESTPOL	0.341***	0.643***	0.028***	0.134***	0.642***	0.633***	0.548***	1.000		
(9) LN_CONTRIBUTION	0.330***	0.309***	-0.054***	0.229***	0.387***	0.375***	0.289***	0.264***	1.000	
(10) TA_GAAP_3YR	-0.043***	-0.037***	0.041***	-0.040***	-0.047***	-0.041***	-0.021**	-0.064***	-0.040***	1.000
(11) TA_CASH_3YR	-0.001	-0.028***	0.016	0.039***	-0.030***	-0.026**	-0.010	-0.037***	-0.003	0.560***

Notes: Table 2 presents correlations for political stock ownership variables of interest and tax avoidance dependent variables. ***, **, and * indicate significance at the 0.01, 0.05, and 0.10 levels, respectively. All variables are defined in the Appendix.

Table 3 | 2SLS for the Effect of the Presence of Politician Owners

Panel A: 2SLS

	First-Stage D_POLHELD			Second-Stage TA_GAAP_ 3YR			Second-Stage TA_CASH_ 3YR		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
VARIABLES	Coefficient	Std Error	p-value	Coefficient	Std Error	p-value	Coefficient	Std Error	p-value
D_POLHELD				**-0.018**	**0.018**	**0.335**	**-0.038*****	**0.022**	**0.078**
SICH3D_DPOLHELD	**0.780*****	**0.027**	**0.000**						
LN_CONTRIBUTION	0.009***	0.001	0.000	-0.001	0.001	0.363	-0.001*	0.001	0.076
ROA	-0.138***	0.041	0.001	-0.104***	0.022	0.000	0.096***	0.027	0.000
SD_ROA_P5Y	0.063	0.041	0.123	0.117***	0.023	0.000	0.020	0.026	0.444
D_TLCF	-0.009	0.008	0.280	0.007	0.005	0.103	0.018***	0.005	0.001
C_TLCF	0.009	0.006	0.106	0.000	0.004	0.985	0.003	0.005	0.484
FOR_ASSETS_TA	0.012**	0.005	0.026	0.011**	0.005	0.022	0.005	0.004	0.162
C_GDWL	-0.021	0.055	0.699	-0.028	0.041	0.500	-0.097**	0.043	0.023
NEWINV	0.012	0.031	0.702	0.025	0.022	0.262	0.027	0.026	0.292
NET_PPE	0.018	0.027	0.493	0.032**	0.015	0.029	0.106***	0.021	0.000
INTAN_ASSETS	-0.013	0.028	0.632	0.005	0.015	0.755	0.058***	0.018	0.002
ESUB_AT	-0.490	0.407	0.229	-0.321	0.295	0.277	0.136	0.287	0.635
DA_PM_MJONES	-0.016	0.026	0.547	0.033*	0.017	0.061	0.013	0.017	0.451
CHE_AT	-0.003	0.026	0.920	0.075***	0.015	0.000	0.068***	0.019	0.000
FIRM_SIZE	0.158***	0.003	0.000	0.005	0.004	0.188	0.011**	0.004	0.015
LEVERAGE	-0.057**	0.029	0.050	0.014	0.017	0.406	0.029	0.019	0.137
MTB	0.000	0.000	0.434	-0.000	0.000	0.780	0.000	0.000	0.489
LN_N_BUSSEG	0.004	0.005	0.458	-0.004	0.003	0.200	-0.008**	0.003	0.022
LN_N_GEOSEG	-0.002	0.006	0.687	0.000	0.004	0.984	-0.009**	0.004	0.028
EINDEX_A2	-0.004	0.004	0.313	0.001	0.002	0.557	0.002	0.002	0.542
INSTOWN_PERC1	-0.001***	0.000	0.001	-0.000	0.000	0.367	-0.000	0.000	0.225
DUALCLASS	-0.019	0.015	0.227	0.014	0.009	0.115	-0.030***	0.011	0.008
HHI_SICH2D	-0.158	0.097	0.105	-0.068	0.058	0.239	-0.259***	0.068	0.000
Constant	-0.865***	0.074	0.000	0.000	0.055	0.995	-0.030	0.090	0.741
Fixed Effects	Ind & Year			Ind & Year			Ind & Year		
Observations	9,534			9,534			9,534		

Table 3 | 2SLS for the Effect of the Presence of Politician Owners

Panel B: Estimated Tax Aggressiveness

TA by	Politician-Held *Diff in TA (No-Yes)*	Estimated TA GAAP_3YR	Std. Error	Z-stat [Chi2]	P-value	95% Confidence Interval	
GAAP	N	0.019	0.007	2.850	0.004	0.006	0.032
	Y	0.002	0.012	0.130	0.897	-0.022	0.025
	Difference	**0.018**		**[0.931]**	**0.335**		
CASH	N	0.059	0.008	7.400	0.000	0.043	0.074
	Y	0.020	0.014	1.390	0.164	-0.008	0.048
	Difference	**0.038**		**[3.112]**	**0.078**		

Notes: Table 3 presents two-stage least-squares (2SLS) regression results from estimating the effect of politician stock ownership on corporate tax aggressiveness. Our primary variable of interest is D_POLHELD, an indicator variable set equal to 1 if a company has politician stock owners in year t, and zero else. We present coefficient estimates with standard errors and p-values in columnar form. Panel B presents univariate chi-square tests comparing tax aggressiveness (on a GAAP basis) between politician-held and non-politician-held companies. ***, **, * denote significance at the 0.01, 0.05, and 0.10 level, respectively (two-tailed). See Appendix for detailed variable definitions.

Table 4 | 2SLS for the Effect of the Intensity of Politician Holdings

Panel A: Estimation without the Effect of the Presence of Politician Owners

VARIABLES	First-Stage NUM_OWNERS			Second-Stage TA_GAAP_ 3YR			Second-Stage TA_CASH_ 3YR		
	Coefficient	Std Error	p-value	Coefficient	Std Error	p-value	Coefficient	Std Error	p-value
NUM_OWNERS				0.032***	0.011	0.004	0.051***	0.015	0.001
LN_DISTANCE	0.229***	0.039	0.000						
LN_CONTRIBUTION	0.134***	0.015	0.000	-0.005***	0.002	0.002	-0.009***	0.002	0.000
ROA	-3.234***	0.420	0.000	0.006	0.044	0.884	0.275***	0.061	0.000
SD_ROA_P5Y	0.918**	0.356	0.010	0.085***	0.022	0.000	-0.031	0.036	0.389
D_TLCF	-0.647***	0.103	0.000	0.028***	0.009	0.002	0.052***	0.012	0.000
C_TLCF	-0.084	0.127	0.507	0.003	0.006	0.666	0.007	0.009	0.409
FOR_ASSETS_TA	0.435	0.308	0.159	-0.003	0.008	0.709	-0.018	0.016	0.260
C_GDWL	1.541**	0.634	0.015	-0.079	0.049	0.110	-0.178***	0.058	0.002
NEWINV	0.528	0.381	0.165	0.008	0.027	0.766	0.000	0.035	0.991
NET_PPE	-0.998***	0.349	0.004	0.066***	0.022	0.003	0.159***	0.033	0.000
INTAN_ASSETS	-1.572***	0.406	0.000	0.056**	0.026	0.031	0.140***	0.036	0.000
ESUB_AT	26.777**	10.644	0.012	-1.175*	0.617	0.057	-1.232	0.776	0.112
DA_PM_MJONES	0.078	0.389	0.841	0.030	0.021	0.166	0.009	0.026	0.744
CHE_AT	-0.592*	0.353	0.094	0.090***	0.019	0.000	0.093***	0.028	0.001
FIRM_SIZE	2.055***	0.077	0.000	-0.064***	0.023	0.005	-0.102***	0.030	0.001
LEVERAGE	-2.793***	0.369	0.000	0.105***	0.038	0.006	0.175***	0.049	0.000
MTB	-0.004***	0.002	0.005	0.000	0.000	0.616	0.000	0.000	0.115
LN_N_BUSSEG	0.292***	0.083	0.000	-0.013***	0.005	0.008	-0.023***	0.007	0.001
LN_N_GEOSEG	-0.027	0.116	0.816	0.001	0.005	0.881	-0.008	0.007	0.263
EINDEX_A2	-0.677***	0.062	0.000	0.023***	0.008	0.004	0.037***	0.011	0.001
INSTOWN_PERC1	-0.008	0.015	0.577	0.000	0.001	0.772	0.000	0.001	0.877
DUALCLASS	-1.431***	0.171	0.000	0.061***	0.019	0.002	0.046*	0.025	0.067
HHI_SICH2D	7.919**	3.262	0.015	-0.323**	0.140	0.021	-0.670***	0.201	0.001
Constant	-12.181***	1.900	0.000	0.376***	0.137	0.006	0.583***	0.203	0.004
Fixed Effects	Ind & Year			Ind & Year			Ind & Year		
Observations	9,534			9,534			9,534		

Table 4 | 2SLS for the Effect of the Intensity of Politician Holdings

Panel B: Estimation with the Effect of the Presence of Politician Owners

VARIABLES	TA_GAAP_ 3YR			TA_CASH_ 3YR		
	Coefficient	Std Error	p-value	Coefficient	Std Error	p-value
D_POLHELD	**-0.047***	**0.025**	**0.062**	**-0.085****	**0.034**	**0.013**
NUM_OWNERS	**0.030****	**0.010**	**0.004**	**0.048****	**0.014**	**0.001**
LN_CONTRIBUTION	-0.004***	0.001	0.004	-0.007***	0.002	0.000
ROA	-0.007	0.041	0.861	0.251***	0.057	0.000
SD_ROA_P5Y	0.089***	0.022	0.000	-0.024	0.034	0.477
D_TLCF	0.026***	0.008	0.002	0.048***	0.011	0.000
C_TLCF	0.003	0.006	0.619	0.008	0.008	0.353
FOR_ASSETS_TA	-0.002	0.008	0.809	-0.016	0.015	0.294
C_GDWL	-0.077	0.048	0.109	-0.176***	0.057	0.002
NEWINV	0.008	0.026	0.764	0.000	0.034	0.995
NET_PPE	0.065***	0.021	0.002	0.158***	0.032	0.000
INTAN_ASSETS	0.053**	0.025	0.033	0.135***	0.034	0.000
ESUB_AT	-1.144*	0.596	0.055	-1.176	0.736	0.110
DA_PM_MJONES	0.029	0.021	0.167	0.007	0.025	0.774
CHE_AT	0.090***	0.019	0.000	0.092***	0.027	0.001
FIRM_SIZE	-0.052**	0.020	0.011	-0.080***	0.027	0.003
LEVERAGE	0.098***	0.036	0.007	0.162***	0.046	0.000
MTB	0.000	0.000	0.588	0.000*	0.000	0.089
LN_N_BUSSEG	-0.013***	0.005	0.008	-0.022***	0.006	0.001
LN_N_GEOSEG	0.001	0.005	0.907	-0.008	0.007	0.225
EINDEX_A2	0.022***	0.008	0.004	0.034***	0.010	0.001
INSTOWN_PERC1	0.000	0.001	0.832	0.000	0.001	0.950
DUALCLASS	0.057***	0.018	0.002	0.038	0.024	0.103
HHI_SICH2D	-0.305**	0.133	0.022	-0.638***	0.188	0.001
Constant	0.313**	0.125	0.012	0.469**	0.185	0.011
Fixed Effects	Ind & Year			Ind & Year		
Observations	9,534			9,534		

Table 4 | 2SLS for the Effect of the Intensity of Politician Holdings

Panel C: Estimated TA_GAAP_3YR

Pol-Held	NUM_OWNERS *Diff in ETR(#0-#N)*	Estimated TA_GAAP _3YR	Std. Error	Z-stat [Chi2]	P-value	95% Confidence Interval	
N	0	-0.027	0.018	-1.480	0.139	-0.063	0.009
Y	1	-0.044	0.021	-2.070	0.039	-0.085	-0.002
		0.017		**[0.489]**	**0.484**		
	2	-0.013	0.016	-0.830	0.405	-0.045	0.018
		-0.014		**[0.267]**	**0.605**		
	3	0.017	0.017	1.010	0.314	-0.016	0.050
		-0.044		**[1.813]**	**0.178**		
	4	0.047	0.023	2.060	0.040	0.002	0.092
		-0.074		[3.351]	0.067		
	5	0.077	0.031	2.470	0.014	0.016	0.139
		-0.105		[4.478]	0.034		
	6	0.108	0.041	2.640	0.008	0.028	0.188
		-0.135		[5.267]	0.022		
	7	0.138	0.051	2.730	0.006	0.039	0.237
		-0.165		[5.827]	0.016		
	8	0.168	0.061	2.780	0.005	0.050	0.287
		-0.195		[6.237]	0.013		
	9	0.199	0.071	2.810	0.005	0.060	0.337
		-0.226		[6.545]	0.011		
	10	0.229	0.081	2.830	0.005	0.071	0.387
		-0.256		[6.785]	0.009		

Notes: Table 4, Panels A and B present two-stage least-squares (2SLS) regression results from estimating the effect of politician stock ownership on corporate tax aggressiveness. Our primary variables of interest are *D_POLHELD*, an indicator variable set equal to 1 if a company has politician stock owners in year *t*, and zero else, and *NUM_OWNERS*, a variable measuring the number of politician stock owners in year *t*. We present coefficient estimates with standard errors in brackets and p-values in columnar form. Panel C presents univariate chi-square tests comparing tax aggressiveness (on a GAAP basis) between politician-held and non-politician-held companies based on the number politician stock owners. ***, **, * denote significance at the 0.01, 0.05, and 0.10 level, respectively (two-tailed). See Appendix for detailed variable definitions.

Table 5 | Alternative Measurements of Tax Aggressiveness (Second Stage Only)

VARIABLES	(1) GAAP_ETR 3YR	(2) CASH_ETR 3YR	(3) DTAX	(4) RAW_ SHELTER	(5) LN_UTB	(6) SC_UTB	(7) PRED_UTB
D_POLHELD	0.062**	0.100***	-0.028***	-0.130	-0.459*	-0.009***	-0.002**
	[0.026]	[0.035]	[0.009]	[0.080]	[0.275]	[0.003]	[0.001]
NUM_OWNERS	-0.033***	-0.051***	0.009*	0.086**	0.375***	0.004***	0.002***
	[0.011]	[0.014]	[0.005]	[0.034]	[0.101]	[0.001]	[0.000]
LN_CONTRIBUTION	-0.004***	-0.007***	-0.001	0.002	-0.014	-0.000***	-0.000***
	[0.001]	[0.002]	[0.001]	[0.005]	[0.011]	[0.000]	[0.000]
Constant	0.309**	0.461**	0.058	-2.336***	-2.303*	0.016	0.021***
	[0.123]	[0.183]	[0.052]	[0.397]	[1.355]	[0.015]	[0.005]
Control Variables	Included	Included	Included	Included	Included	Included	Included
Fixed Effects	I/Y	I/Y	I/Y	I/Y	I/Y	I/Y	I/Y
Observations	9,534	9,534	9,425	9,534	5,595	5,597[HM2]	9,534

Notes: Table 5 present two-stage least-squares (2SLS) regression results from estimating the effect of politician stock ownership on corporate tax aggressiveness using several alternative measures of tax aggressiveness. Our primary variables of interest are *D_POLHELD*, an indicator variable set equal to 1 if a company has politician stock owners in year *t*, and zero else, and *NUM_OWNERS*, a variable measuring the number of politician stock owners in year *t*. We present coefficient estimates with standard errors printed in brackets below. ***, **, * denote significance at the 0.01, 0.05, and 0.10 level, respectively (two-tailed). See Appendix for detailed variable definitions.

Table 6 | Politician Holdings and Tax Monitoring (2nd Stage Only)

VARIABLES	(1) IRS_ATTENTION	(2) Unscaled UTB Settlement[HM3]	(3) UTB Settlement scaled by Beg. UTB Reserve	(4) TAX_ MONITORING	(5) GROSS_TAX_ MONITORING
D_POLHELD	-0.1519	-6.9065	0.0280	-3.2147	8.2996
	[0.125]	[4.380]	[0.023]	[9.109]	[6.664]
NUM_OWNERS	0.1655***	5.5082***	0.0074	-0.2138	-1.6643
	[0.051]	[1.125]	[0.007]	[1.511]	[1.365]
LN_CONTRIBUTION	0.0013	-0.4575**	0.0001	0.4026**	0.0033
	[0.007]	[0.182]	[0.001]	[0.191]	[0.094]
Constant	0.0633	-15.0545	-0.0025	-10.7116	1.3232
	[0.648]	[15.660]	[0.074]	[7.426]	[10.438]
Control Variables	Included	Included	Included	Included	Included
Fixed Effects	I/Y	I/Y	I/Y	I/Y	I/Y
Observations	9,506	9,534	9,534	2,795	2,795

Notes: Table 6 presents two-stage least-squares (2SLS) regression results from estimating the effect of politician stock ownership on IRS tax monitoring. Our primary variables of interest are *D_POLHELD*, an indicator variable set equal to 1 if a company has politician stock owners in year *t*, and zero else, and *NUM_OWNERS*, a variable measuring the number of politician stock owners in year *t*. We present coefficient estimates with standard errors in brackets and p-values in columnar form. ***, **, * denote significance at the 0.01, 0.05, and 0.10 level, respectively (two-tailed). See Appendix for detailed variable definitions.

Table 7 | The Effect of the Alignment of Interests of Politician Stock Owners (Second Stage Only)

Panel A: Company Headquarter in the Politician Owner' Home State

VARIABLES	(1) TA_ GAAP_3YR	(2) TA_ CASH_3YR	(3) TA_ GAAP_3YR	(4) TA_ CASH_3YR
D_POLHELD	-0.068**	-0.118***	-0.026	-0.052
	[0.038]	[0.008]	[0.377]	[0.210]
D_HOMESTPOL	0.659**	1.050***		
	[0.012]	[0.004]		
NUM_ HOMESTPOL			0.481**	0.766***
			[0.010]	[0.004]
LN_CONTRIBUTION	-0.004**	-0.007***	-0.006***	-0.010***
	[0.012]	[0.003]	[0.009]	[0.002]
Constant	0.272*	0.402*	0.378**	0.571**
	[0.061]	[0.053]	[0.027]	[0.019]
Control Variables	Included	Included	Included	Included
Fixed Effects	I/Y	I/Y	I/Y	I/Y
Observations	9,534	9,534	9,534	9,534

Panel B: Total Stock Value for All Politician Stock Owners

VARIABLES	(1) TA _GAAP_3YR	(2) TA _CASH_3YR	(3) GAAP _ETR_3YR	(4) CASH _ETR_3YR	(5) DTAX	(6) RAW_ SHELTER	(7) PRED_UTB
D_POLHELD	-1.772**	-2.834***	1.916**	2.978***	-0.537*	-4.986**	-0.101***
	[0.746]	[1.096]	[0.769]	[1.116]	[0.299]	[2.369]	[0.033]
LN_TOTAL_HOLDING	0.177**	0.281**	-0.190**	-0.295***	0.052*	0.497**	0.010***
	[0.075]	[0.111]	[0.078]	[0.113]	[0.030]	[0.239]	[0.003]
LN_CONTRIBUTION	-0.003**	-0.005**	0.003**	0.005***	-0.000	0.006	-0.000*
	[0.001]	[0.002]	[0.001]	[0.002]	[0.000]	[0.004]	[0.000]
Constant	0.160	0.224	0.143	0.079	0.015	-2.755***	0.012***
	[0.102]	[0.162]	[0.100]	[0.158]	[0.036]	[0.294]	[0.004]
Fixed Effects	I/Y	I/Y	I/Y	I/Y	I/Y	I/Y	I/Y
Observations	9,534	9,534	9,534	9,534	9,425	9,534	9,534

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Table 7 | The Effect of the Alignment of Interests of Politician Stock Owners (Second Stage Only)

Panel C: The Effect of the Size of Politician Stockholding to Relative Wealth

VARIABLES	(1) TA_GAAP 3YR	(2) TA_CASH 3YR	(3) TA_GAAP 3YR	(4) TA_CASH 3YR	(5) TA_GAAP 3YR	(6) TA_CASH 3YR
D_POLHELD	-0.025	-0.050	-0.007	-0.023	-0.023	-0.047
	[0.026]	[0.036]	[0.027]	[0.024]	[0.024]	[0.033]
NUM_LARGEST	0.154***	0.245***				
	[0.055]	[0.074]				
NUM_TOP10%			0.114***	0.182***		
			[0.041]	[0.056]		
NUM_TOP25%					0.221***	0.353***
					[0.076]	[0.102]
LN_CONTRIBUTION	-0.005***	-0.008***	-0.004***	-0.007***	-0.003***	-0.005***
	[0.002]	[0.002]	[0.002]	[0.002]	[0.001]	[0.002]
Constant	0.349***	0.526***	0.410***	0.623***	0.336***	0.506***
	[0.135]	[0.199]	[0.157]	[0.223]	[0.130]	[0.194]
Control Variables	Included	Included	Included	Included	Included	Included
Fixed Effects	I/Y	I/Y	I/Y	I/Y	I/Y	I/Y
Observations	9,534	9,534	9,534	9,534	9,534	9,534

Notes: Table 7 presents two-stage least-squares (2SLS) regression results from estimating the effect of politician stockholders' political and economic motivations on corporate tax aggressiveness. For Panel A, our primary variables of interest are *D_HOMESTATEPOL*, an indicator variable set equal to 1 if a company has politician stock owners who represent the firm's headquarter state in year *t*, and zero else, and *NUM_HOMESTATEPOL*, a variable measuring the number of politician stock owners who represent the firm's headquarter state in year *t*. For Panel B, our primary variable of interest is *LN_TOTAL_HOLDING*, a variable equal to the natural log of total US dollar value of politician stockholdings. For Panel C, our primary variables of interest are *NUM_LARGEST, NUM_TOP10%,* and *NUM_TOP25%*. These variables measure the number of politician stockholders whose holdings in a firm represent their largest portfolio holding, 10% or more of their total portfolio, or 25% or more of their total portfolio, respectively. We present coefficient estimates with standard errors in brackets and p-values in columnar form. ***, **, * denote significance at the 0.01, 0.05, and 0.10 level, respectively (two-tailed). See Appendix for detailed variable definitions.

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Table 8 | Measures of Political Power and Influence (Second Stage Only)

Panel A: Membership on Tax Committees

VARIABLES	(1) TA_ GAAP_3YR	(2) TA_ CASH_3YR	(3) TA_ GAAP_3YR	(4) TA_ CASH_3YR
D_POLHELD	-0.143***	-0.238***	-0.025	-0.051
	[0.055]	[0.079]	[0.025]	[0.034]
D_ TAX_COMM	0.637***	1.015***		
	[0.247]	[0.353]		
NUM_TAX_COMM			0.244***	0.389***
			[0.086]	[0.117]
LN_CONTRIBUTION	-0.004**	-0.007***	-0.005***	-0.008***
	[0.002]	[0.002]	[0.002]	[0.002]
Constant	0.055	0.057	0.214*	0.310**
	[0.092]	[0.103]	[0.111]	[0.143]
Control Variables	Included	Included	Included	Included
Fixed Effects	I/Y	I/Y	I/Y	I/Y
Observations	9,534	9,534	9,534	9,534

Panel B: Membership on Industry Oversight or Powerful Committees

VARIABLES	(1) TA_GAAP_3YR	(2) TA_CASH_3YR	(3) TA_GAAP_3YR	(4) TA_CASH_3YR	(5) TA_GAAP_3YR	(6) TA_CASH_3YR
D_POLHELD	-0.439***	-0.710***	-0.021	-0.045	-0.031	-0.060
	[0.153]	[0.208]	[0.024]	[0.034]	[0.026]	[0.037]
QRT_NUM_OWNERS	0.277***	0.442***				
	[0.101]	[0.136]				
NUM_COMMITTEE_FIRM			0.074***	0.118***		
			[0.025]	[0.034]		
NUM_POWER_COMM					0.061***	0.098***
					[0.022]	[0.029]
LN_CONTRIBUTION	-0.003***	-0.006***	-0.009***	-0.014***	-0.009***	-0.015***
	[0.001]	[0.002]	[0.003]	[0.004]	[0.003]	[0.004]
Constant	0.159*	0.224	0.267**	0.395**	0.288**	0.428**
	[0.088]	[0.138]	[0.120]	[0.171]	[0.124]	[0.188]
Fixed Effects	I/Y	I/Y	I/Y	I/Y	I/Y	I/Y
Observations	9,534	9,534	9,534	9,534	9,534	9,534

Notes: Table 8 presents two-stage least-squares (2SLS) regression results from estimating the effect of politician stockholders' political influence on corporate tax aggressiveness. For Panel A, our additional primary variables of interest are *D_ TAX_COMM*, an indicator variable set equal to 1 if a company has politician stock owners who sit on tax writing committees in year *t*, and zero else, and *NUM_TAX_COMM*, a variable measuring the number of politician stock owners who sit on tax writing committees in year *t*. For Panel B, our additional primary variables of interest are *QRT_NUM_OWNERS*, a variable equal to 0 for non-held firms and between 1 and 4 depending on which quartile of politician ownership intensity the firm belongs to, *NUM_COMMITTEE_FIRM*, a variable measuring the number of politician stockholders who sit on committees with direct industry oversight over the firm, and *NUM_POWER_COMM*, a variable measuring the number of politician stockholders who sit on powerful committees. We present coefficient estimates with standard errors in brackets and p-values in columnar form. ***, **, * denote significance at the 0.01, 0.05, and 0.10 level, respectively (two-tailed). See Appendix for detailed variable definitions.

Table 9 | Political Affiliation of Politician Owners

Panel A: Holdings of Politician Owners by Party Affiliation

		Held by Republicans		
		0	1	Total
Held by Democrats	0	7,061	1,046	8,107
	1	456	974	1,430
	Total	7,517	2,020	9,537

		Held Only by Republicans		
		0	1	Total
Held Only by Democrats	0	8,422	768	9,190
	1	347	-	347
	Total	8,769	768	9,537

		Held More by Republicans		
		0	1	Total
Held More by Democrats	0	7,986	1,139	9,125
	1	412	-	412
	Total	7,520	2,021	9,541

Table 9 | Political Affiliation of Politician Owners

Panel B: Effect of Holdings by Party Affiliation (Second-Stage Only, all models include control variables and Year/Industry Indicators)

	Whether Held by		Held Only by		Held More by	
	(1)	(2)	(3)	(4)	(5)	(6)
VARIABLES	Democrat	Republican	Democrat	Republican	Democrat	Republican
	Dependent: **TA_GAAP_3YR**					
D_POLHELD	-0.017	-0.026	-0.242**	-0.091*	-0.197*	-0.070
	[0.065]	[0.033]	[0.122]	[0.054]	[0.117]	[0.045]
	Dependent: **TA_GAAP_3YR**					
D_POLHELD	-0.201*	-0.093*	-0.277*	-0.133*	-0.273*	-0.112*
	[0.116]	[0.050]	[0.145]	[0.069]	[0.147]	[0.059]
NUM_OWNERS	0.037***	0.033***	0.024**	0.027***	0.026***	0.028***
	[0.013]	[0.011]	[0.010]	[0.010]	[0.010]	[0.010]
	Dependent: **GAAP_ETR_3YR**					
D_POLHELD	0.264**	0.122**	0.364**	0.175**	0.358**	0.147**
	[0.123]	[0.052]	[0.149]	[0.071]	[0.153]	[0.060]
NUM_OWNERS	-0.042***	-0.036***	-0.024**	-0.028***	-0.027***	-0.029***
	[0.014]	[0.011]	[0.010]	[0.010]	[0.010]	[0.010]
	Dependent: **SHELTER SCORE**					
D_POLHELD	-0.550	-0.253	-0.758	-0.364	-0.745	-0.307
	[0.368]	[0.160]	[0.471]	[0.221]	[0.472]	[0.187]
NUM_OWNERS	0.105**	0.093**	0.068**	0.076**	0.074**	0.078**
	[0.042]	[0.037]	[0.033]	[0.033]	[0.033]	[0.033]
	Dependent: **DTAX**					
D_POLHELD	-0.121**	-0.054***	-0.165***	-0.077***	-0.164***	-0.065***
	[0.047]	[0.019]	[0.056]	[0.027]	[0.059]	[0.022]
NUM_OWNERS	0.013**	0.011**	0.005	0.007	0.007	0.008
	[0.006]	[0.005]	[0.004]	[0.005]	[0.005]	[0.005]
	Dependent: **PRED_UTB**					
D_POLHELD	-0.010**	-0.005**	-0.014**	-0.007**	-0.014**	-0.006**
	[0.005]	[0.002]	[0.006]	[0.003]	[0.006]	[0.002]
NUM_OWNERS	0.002***	0.002***	0.001***	0.002***	0.002***	0.002***
	[0.000]	[0.000]	[0.000]	[0.000]	[0.000]	[0.000]

Notes: Table 9, Panel A categorizes companies by the party affiliation of their politician stock owners. Panel B presents two-stage least-squares (2SLS) regression results from estimating the effect of politician stock owner party affiliation on corporate tax avoidance Our primary independent variables of interest for these tests are D_POLHELD, an indicator variable set equal to 1 if a company has politician stock owners in year t, and zero else and NUM_OWNERS, a variable measuring the number of politician stock owners in year *t*. We present coefficient estimates with standard errors printed in brackets below. ***, **, * denote significance at the 0.01, 0.05, and 0.10 level, respectively (two-tailed). See Appendix for detailed variable definitions.

Table 10 | Entropy Balancing

Panel A: Regression of Tax Variables on the Indicators of the NUM_OWNERS Terciles

VARIABLES	(1) TA_ GAAP_3YR	(2) TA_ CASH_3YR	(3) GAAP_ ETR_3YR	(4) CASH_ ETR_3YR	(5) DTAX	(6) RAW_ SHELTER	(6) PRED_ UTB
T1.NUM_OWNERS	-0.013	-0.007	0.009	0.002	-0.006	-0.002	-0.000
	[0.008]	[0.009]	[0.008]	[0.009]	[0.004]	[0.025]	[0.000]
T2.NUM_OWNERS	-0.003	0.007	-0.002	-0.012	0.000	0.019	-0.000
	[0.013]	[0.014]	[0.013]	[0.014]	[0.005]	[0.029]	[0.000]
T3.NUM_OWNERS	**0.005**	**0.025**	**-0.019**	**-0.039***	**0.003**	**0.094*****	**0.001*****
	[0.022]	**[0.021]**	**[0.022]**	**[0.022]**	**[0.007]**	**[0.035]**	**[0.000]**
Constant	-0.028	-0.033	0.303***	0.307***	0.001	-3.168***	0.008***
	[0.078]	[0.121]	[0.056]	[0.097]	[0.030]	[0.158]	[0.001]
Control Variables	Included	Included	Included	Included	Included	Included	Included
Fixed Effects	I/Y	I/Y	I/Y	I/Y	I/Y	I/Y	I/Y
Observations	9,534	9,534	9,534	9,534	9,425	9,534	9,534
R-squared	0.129	0.151	0.175	0.172	0.145	0.849	0.627

Panel B: Regression of Tax Variables on the Indicators of the NUM_COMMITTEE Terciles

VARIABLES	(1) TA_ GAAP_3YR	(2) TA_ CASH_3YR	(3) GAAP_ ETR_3YR	(4) CASH_ ETR_3YR	(5) DTAX	(6) RAW_ SHELTER	(6) PRED_ UTB
T1.NUM_COMMITTEE_FIRM	-0.018*	-0.009	0.013	0.005	-0.005	0.006	0.000
	[0.011]	[0.011]	[0.011]	[0.011]	[0.005]	[0.026]	[0.000]
T2.NUM_COMMITTEE_FIRM	-0.007	0.001	-0.001	-0.009	0.002	-0.020	0.000
	[0.016]	[0.018]	[0.017]	[0.018]	[0.006]	[0.038]	[0.000]
T3.NUM_COMMITTEE_FIRM	**0.010**	**0.035◆**	**-0.024**	**-0.049****	**-0.001**	**0.074****	**0.001*****
	[0.023]	**[0.022]**	**[0.023]**	**[0.023]**	**[0.007]**	**[0.036]**	**[0.000]**
Constant	-0.031	-0.037	0.307***	0.313***	-0.003	-3.193***	0.007***
	[0.077]	[0.120]	[0.054]	[0.096]	[0.029]	[0.158]	[0.001]
Control Variables	Included	Included	Included	Included	Included	Included	Included
Fixed Effects	I/Y	I/Y	I/Y	I/Y	I/Y	I/Y	I/Y
Observations	9,534	9,534	9,534	9,534	9,425	9,534	9,534
R-squared	0.129	0.152	0.175	0.173	0.144	0.849	0.627

Panel C: Regression of Tax Variables on the Indicators of the NUM_POWER_COMM Terciles

VARIABLES	(1) TA_ GAAP_3YR	(2) TA_ CASH_3YR	(3) GAAP_ ETR_3YR	(4) CASH_ ETR_3YR	(5) DTAX	(6) RAW_ SHELTER	(6) PRED_ UTB
T1.NUM_POWER_COMM	-0.004	0.004	-0.002	-0.010	-0.001	0.047*	0.000
	[0.010]	[0.010]	[0.010]	[0.010]	[0.005]	[0.027]	[0.000]
T2.NUM_POWER_COMM	-0.004	0.005	0.001	-0.008	0.003	0.025	-0.000
	[0.017]	[0.018]	[0.018]	[0.019]	[0.006]	[0.037]	[0.000]
T3.NUM_POWER_COMM	**0.010**	**0.037**♦♦	**-0.024**	**-0.051****	**0.003**	**0.065***	**0.001*****
	[0.023]	**[0.022]**	**[0.023]**	**[0.023]**	**[0.007]**	**[0.036]**	**[0.000]**
Constant	-0.039	-0.046	0.316***	0.323***	-0.004	-3.221***	0.007***
	[0.078]	[0.120]	[0.054]	[0.096]	[0.029]	[0.156]	[0.001]
Control Variables	Included	Included	Included	Included	Included	Included	Included
Fixed Effects	I/Y	I/Y	I/Y	I/Y	I/Y	I/Y	I/Y
Observations	9,534	9,534	9,534	9,534	9,425	9,534	9,534
R-squared	0.129	0.151	0.174	0.173	0.144	0.849	0.627

Notes: Table 10, Panels A through C presents entropy balanced regression results from estimating the effect of politician stock ownership on corporate tax avoidance. These tests utilize a variety of proxies for politician stock ownership intensity and tax avoidance as supplemental tests of our research hypotheses. For Panel A, our primary variable of interest is *NUM_OWNERS*, a variable measuring the number of politician stock owners in year *t*. For Panel B, our primary variable of interest is *NUM_COMMITTEE_FIRM*, a variable measuring the number of politician stockholders who sit on committees with direct industry oversight over the firm. For Panel C, our primary variable of interest is *NUM_POWER_COMM*, a variable measuring the number of politician stockholders who sit on powerful committees. For each of these primary variables of interest, we rank the number of politician stockholders of each type into terciles (identified as T1, T2, and T3 for the first, second, and third tercile) to test the intensity of politician stock ownership. We present coefficient estimates with standard errors printed in brackets below. ***, **, * denote significance at the 0.01, 0.05, and 0.10 level, respectively (two-tailed). ♦ *p-value* = 0.112. ♦♦ *p-value* = 0.101. See Appendix for detailed variable definitions.

Table 11 | Dynamic Analysis of Changes

ΔVARIABLES	(1) Δ TA_GAAP_3YR$_t$			(2) Δ TA_CASH_3YR$_t$		
	Coeff	Std Err	p-value	Coeff	Std Err	p-value
ΔD_POLHELD$_{t-2}$	**0.002**	**0.008**	**0.838**	**-0.001**	**0.008**	**0.922**
ΔD_POLHELD$_{t-1}$	**-0.020****	**0.010**	**0.037**	**-0.025*****	**0.009**	**0.009**
ΔD_POLHELD$_t$	**-0.007**	**0.010**	**0.474**	**-0.019***	**0.010**	**0.061**
ΔD_POLHELD$_{t+1}$	-0.011	0.009	0.212	-0.014	0.009	0.133
ΔD_POLHELD$_{t+2}$	-0.012	0.009	0.194	-0.013	0.009	0.155
ΔControl Variables	Included			Included		
Observations	3,983			3,983		
Fixed Effects	Year			Year		
R-squared	0.013			0.027		

Notes: Table 11 presents a dynamic analysis of changes related to the effect of politician stock ownership on corporate tax avoidance. Our primary variable of interest is Δ*D_POLHELD*, an indicator variable set equal to 1 if a company shifted from having no politician stock owners to having at least one such owner during a specified year (between years *t-2* and *t+2*). We present coefficient estimates with standard errors and p-values in columnar form. ***, **, * denote significance at the 0.01, 0.05, and 0.10 level, respectively (two-tailed). See Appendix for detailed variable definitions.