



UNIVERSITY
OF ALBERTA

CPA Speaker Series:

Ryan Wilson, University of Iowa

Hidden in Plain Sight: Havens and Captives

Friday, October 6, 2023

2:00 PM - 3:30 PM

Location: BUS 306

ABSTRACT

Interest in corporate tax planning is a recurring focus of policymakers, the media, activist groups, and researchers. This interest often centers on multinational enterprises' (MNEs) use of tax havens, with a wide body of research utilizing MNEs' use of tax havens as evidence of corporate tax planning activities. However, the common assumption that MNEs operate in tax havens primarily for tax planning purposes overlooks the prominent role tax havens play as a home for captive insurance entities, which allow firms to secure "self" insurance coverage, but do not provide obvious federal tax benefits. We document that non-financial firms' use of captive insurance is pervasive, spanning nearly all Fama-French 49 industries, but MNEs in our sample only disclose 56 percent of captive-years in their annual reports. Importantly, we find captive use is associated with higher levels of family ownership and higher levels of CEO firm wealth, suggesting captives allow managers to guard against risks they incur because they have considerable personal wealth tied up in the firm. We document that captives are not associated with corporate tax planning. However, 12.3 percent of firm-years reporting tax havens in Exhibit 21 appear to do so only because they have a captive in a tax haven and another 13 percent have both captive and noncaptive haven activity. When we remove the effect of captives on tax haven-based measures, we observe nearly a four-fold increase in the magnitude of tax savings specifically associated with noncaptive haven activity, underscoring the importance of separating captive and noncaptive-related haven activity.

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