Introduction

Conflicting Conceptual Views
- **Bright Side View:** Private equity-backed portfolio firms increase in value through operating efficiencies and better-aligned incentive contracts
- **Dark Side View:** Value extraction from other stakeholders, such as employees or the government

Value Extraction from the Government
- **Tax Efficiency:** Lower effective tax rates (ETR) increase the profits distributable to shareholders
- **Tax Base:** Shielding income from taxes increases firm value
- **Real Effects:** Tax savings are not complementary with investments or productivity

Data and Methodology

Data Sources
- **Zephyr:** Private Equity Deals
- **Orbis:** Company Financial and Ownership Data
- **OECD:** Country Level Data
- **KPMG / IBFD:** Tax Rate & Regulations Data

(One-to-One) Matching Algorithm
- Eight Discrete Matching Variables: Country, Year, Industry, Positive Tax Expenses and EBT Dummies, (Foreign; Tax Haven) Subsidiary Dummies
- Seven Continuous Matching Variables: Effective Tax Rate, ROA, Cash Ratio, Growth, Size, Leverage, Tax Differential

Estimation Models
- Panel Difference-in-Differences Models:
  \[ Y_{it} = \alpha_1 + \sum_{t=3}^{T} \gamma_t D_{it} + \text{Treated}_t * \sum_{t=3}^{T} \beta_t D_{it} + \epsilon_{it} \]
- Triple Differences Models:
  \[ Y_{it} = \alpha_1 + \sum_{t=3}^{T} \gamma_t D_{it} + \text{Treated}_t * \sum_{t=3}^{T} \beta_t D_{it} + \text{Char}_t * \sum_{t=3}^{T} \delta_t D_{it} + \epsilon_{it} \]

Buyouts and Tax Efficiency

Effective Tax Rate (ETR)

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<th>Close-to-Group Tax</th>
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<th>Public Target, ( t=0 )</th>
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Buyouts and Tax Base

Profit Shifting
- **Use of Profit Shifting Opportunities**
- **Creation of Profit Shifting Opportunities**

Leverage
- Increase in Leverage after the acquisition
- Relation to Tax Regulations

Real Effects

Two-step methodology
- **First Step:** predictive OLS regression to identify likely tax avoidance deals (ex-ante variables):
  - Likely tax-avoidance deals
  - Unlikely tax-avoidance deals

- **Second Step:** difference-in-differences and triple differences regressions on resulting sub-samples

Conclusion

- Findings are in line with the hypothesis that private equity investors create shareholder value through extracting money from the government
- While findings suggest that target firms engage more heavily in profit shifting, they lack direct evidence in support of a tax-motivated leverage channel
- Post-transaction more tax efficient firms experience significantly lower asset and employment growth - tax savings are transferred to shareholders

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