

## Academic Seminar

# IRS-Related Proprietary Costs of Corporate Disclosure: Evidence from Redactions in Material Contracts

Since material contracts contain information about income shifting and other tax avoidance strategies that facilitates Internal Revenue Service (IRS) enforcement, we contend that the public disclosure of material contracts bears IRS-related proprietary costs. Consistent with proprietary costs preventing full disclosure, we find that firms facing tougher IRS monitoring are more likely to redact material contract disclosure. Cross-sectionally, we find this positive association between IRS monitoring intensity and redactions in material contracts is more pronounced when firms have greater incentives and opportunities to engage in tax avoidance or face more costly IRS enforcement. Redactions in material contracts are also associated with greater level of tax avoidance and less IRS enforcement ex post. Finally, redacting firms have higher cost of capital and lower firm value than non-redacting firms, suggesting that the increase in cost of capital outweighs the benefits of paying lower taxes and having less IRS enforcement through redactions.



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Dr. Dichu Bao is currently an associate professor of accounting at Deakin University, Australia. She received her Ph.D. in Accounting from University of Texas at Dallas. Her research interests lie in the areas of corporate disclosure and auditing. Her research findings have been published in *The Accounting Review*, *Contemporary Accounting Research*, *Accounting Horizons*, and *Journal of Corporate Finance*.



**Date: December 16 , 2021 (Thursday)**

**Time: 10:00 - 11:30 am**

**Venue: SEK104 / Zoom** (id: 920 4823 2957; passcode: classroom)

**Language: English**

**\*\*ALL ARE WELCOME\*\***