Financial Affiliates, Tax Aggressiveness, and Firm Performance in Business Groups

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Abstract: — Many large firms in Canada belong to business groups - made up of listed and unlisted enterprises as well as other entities controlled by an ultimate owner. Business groups are common around the world outside the U.S. and the U. K. The aim of this paper, is to examine the importance of financial affiliates in business groups. This study investigates the relationship between financial affiliates and tax aggressiveness as well as firm performance in business groups. Design/methodology/approach: This paper is an empirical study using a sample of Canadian publicly traded firms for nine years from 2010 to 2018. Findings: This paper finds that (1) firms that belong to business groups with financial affiliates are more likely to engage in tax aggressiveness, and (2) firms that belong to business groups with financial affiliates perform poorly compared with all other firms. Collectively, evidence from this study highlights the importance of financial affiliates in business groups. Originality/value: Business groups play an important role in the global economy, and their specific features vary from country to country. This paper contributes to the current tax and governance literature by highlighting the importance of financial affiliates in business groups in shaping firms’ tax aggressiveness. It also examines the effect of financial affiliates on firm performance.

Keywords: business group, financial affiliate, tax aggressiveness, firm performance