

Does Disclosure Prominence Affect Firm Activities? Tax Planning Responses to Tax-Related Disclosure Deregulation

Abstract: This study investigates whether disclosure prominence affects firm activities. We exploit a plausibly exogenous shock that reduces the prominence of a tax-related disclosure made by certain Korean firms. We use a difference-in-differences framework to test whether firms' tax planning activities are affected by this disclosure deregulation shock. Consistent with managers responding to the heightened information costs imposed on financial statement users by a reduction in disclosure prominence, we find that affected firms exhibit more tax planning following the change in disclosure prominence relative to unaffected firms. Further, the tax planning effects of disclosure prominence vary with the extent of shareholder information processing costs. Collectively, our findings offer new evidence that disclosure prominence affects firms' activities.