Journal of Forensic and Investigative Accounting
Volume 14: Issue 2, July–December 2022

Corporate Visits to the White House and Tax Aggressiveness

*Elio Alfonso**

I. Introduction

On May 7, 2021, President Joe Biden released its first set of visitor logs of guests visiting the White House to the public (Epstein, 2021). Under former President Donald Trump, the White House had previously cut off access to all visitor logs for the public (Davis, 2017). President Trump had stated that visitor logs were to be removed because of national security risks and privacy concerns of individuals who visit the White House. This policy change was a reversal of President Obama's policy of voluntarily releasing more than six million White House visitor records. In contrast, in 2009, when President Barack Obama took office, he instituted a new policy of voluntary disclosure of the records of all individuals who visit the White House. One of the main objectives of this disclosure policy was to increase transparency and openness regarding the numerous political and business-related meetings that take place in the White House.

Records show that frequent visitors to the White House include the CEOs of some of America's largest corporations. During the first six years of former president Barack Obama's term, Google executives, including former CEO Larry Page and former CEO Eric Schmidt, visited the White House more than 230 (Mullins, 2015). Other companies such as IBM, Honeywell, Comcast, Berkshire Hathaway, and JPMorgan Chase were also frequent visitors to the White House and attended state dinners, one-on-one meetings in the Oval Office with the President, meetings in the famous Situation Room, and in the President's Inner Sanctum (Rampton, 2015). Over the years, government watchdogs and the media have always expressed concerns that certain corporations have special access to top-level administration officials enabling them to extract financial benefits. If firms incur political costs as a result of these fully disclosed visits to the White House, it is possible that the resulting higher political visibility can change firms' tax or financial reporting strategies. In this paper, I examine whether corporate visits to the White House affect firm's tax-related political costs, namely, their tax aggressiveness.

Visits to the White House increase the political visibility of the firm because the media, the press, and government watchdog groups monitor and scrutinize the lists of names that are publicly disclosed in visitor logs monthly. The political cost hypothesis (Watts and Zimmerman, 1986) predicts that when firms face greater government scrutiny, political costs will increase, and firms will attempt to avoid adverse government actions by changing their accounting policies. Prior research finds that firms manage earnings downward to circumvent government scrutiny and to extract economic benefits (Jones, 1991; Key, 1997; Han and Wang, 1998). More recently, Mills et al. (2013) find that politically sensitive firms incur tax-related political costs and subsequently pay higher federal taxes to protect government contract revenues. Therefore, the political cost hypothesis predicts that the increased exposure resulting from White House visits will result in a decrease in tax aggressiveness. However, there is also evidence that politically connected firms have less pressure from the capital markets to provide transparent information. Recent literature shows that politically connected firms have a lesser need to respond to pressures from the capital market or creditors to increase the quality of information (Chaney et al., 2011; Houston et al., 2014). The findings from these studies suggest that the perceived increased monitoring of firms which have political ties to the government is ineffective since these firms can provide lower quality and less transparent information to stakeholders with little or no economic consequences. Thus, the political connections hypothesis predicts that visits to the White House are characteristic of underlying political connectedness, which should increase tax aggressiveness.

I hand-collect all visitor access records from the White House Disclosure database from 2009 to 2014. In order to identify which CEOs visit the White House, I match CEOs' full names from the Execucomp database to the White House visitors log spreadsheets. I find that visits to the White House are associated with lower discretionary book-tax differences and a lower likelihood of engaging in tax sheltering activity. Overall, the findings indicate that White House visits are significantly associated with less tax aggressive activities. In additional analysis, I find that firms which visit the White House multiple times exhibit lower tax aggressiveness and less tax sheltering activity than firms which have only one

*The author is an Assistant Professor of Accounting at The University of Tampa.

isolated visit to the White House. The main results are not driven by firms which operate in regulated industries. In fact, White House visits made by firms in the financial services and utilities industries have little association with any type of tax avoidance activity. Altogether, the results signify that corporate visits to the White House have economic consequences that are associated with tax-related political costs.

This paper contributes to the literature which examines the impact of political costs on corporate tax reporting. Recent research finds that politically sensitive firms, such as federal contractors, incur political costs and pay higher federal taxes to protect contract revenues derived from the government (Mills et al., 2013). This study extends Mills et al. (2013) by showing that a firm's political sensitivity affects its tax-related political costs by reducing tax aggressive behavior. To the best of my knowledge, this is the first study to examine how political visibility from the highest level in the federal government (i.e., the executive branch) directly impacts a corporation's tax reporting.

I also contribute to the political connections literature by providing evidence of firms who reduce tax aggressiveness when they have interactions at, or with, the White House. In general, prior literature on political connections finds that politically connected firms have less transparency, poorer earnings quality, higher tax aggressiveness, and lower capital market pressures to provide high quality reporting compared to non-connected firms (Leuz and Oberholzer-Gee, 2006; Chaney et al., 2011; Kim and Zhang, 2016). However, I employ a new, and previously unexplored, type of political connection. CEO visits to the White House capture a direct measure of political connectedness whereby we can observe the firm's access to members of the executive branch of the government (i.e., President, Vice President, Cabinet members, and heads of independent agencies). Firms that increase political visibility at the highest level of government tend to engage in more conservative tax reporting behavior. Lastly, prior literature finds that government officials often influence firms' financial performance (Snyder, 1992; Aggarwal et al., 2012). Long-term relationships between firms and politicians often manifest into political favors for politically connected firms as opportunities arise during legislators' tenure in office. These types of relationships are often seen as unethical or fraudulent. This paper provides evidence that one specific type of relationship (publicly visible, in-person visits) is associated with a measure of conservative, and not aggressive, financial reporting behavior.

The rest of the paper is organized as follows. Section II presents the background and the hypothesis development. Section III explains the research design of the empirical analyses. Section IV describes the sample selection. Section V reports empirical results, and Section VI explains the additional analyses. Section VII concludes the paper and summarizes the overall implications of the research.

II. Background and Hypothesis Development

On January 20, 2009, the Obama administration created a new policy of voluntary disclosure of all White House visitor access records. The White House discloses, monthly, the records of all visitors from the previous 90 to 120 days. All visits are disclosed except for a small group of appointments that are related to national security imperatives or are necessarily confidential. The goal of the new policy is to increase transparency in the administration and more openness concerning the business conducted inside the White House. However, the nature of the meetings as well as what is discussed in the meetings is not observable through the disclosures.

Regardless of the exact nature of meetings held by firms, White House visits increase the political visibility of the firm. This is because media and government watchdog groups monitor, scrutinize, and publicly report on, the lists of names disclosed in visitor logs monthly.[1] White House visits can raise the level of political visibility even higher when firms are politically sensitive. For example, in 2015, the Wall Street Journal asserted that during a "critical phase" of the Federal Trade Commission's (FTC's) antitrust investigation of Google, Johanna Shelton, Google's director of public policy, and

[1] Anecdotal evidence of media reports includes On May 16, 2016, Watchdog.org reported that visitor logs show how Google has had the most access to the White House among any U.S. company (Kampis, 2016). On October 30, 2009, The New York Times reported that numerous corporate visits have been made by Lloyd C. Blankfein of Goldman Sachs, Vikram Pandit of Citigroup Inc., Jamie Dimon of JPMorgan Chase, Rex W. Tillerson of the Exxon Mobil Corporation, David J. O'Reilly of the Chevron Corporation and Jeffrey R. Immelt of the General Electric Company (Zeleny, 2009). On December 15, 2015, Reuters reported that President Obama and his top advisors have had about 1,000 visits with CEOs of Fortune 100 companies between 2009 and 2015. Reuters also stated, "The logs show only a handful of CEOs have landed one-on-one visits in the Oval Office with the president, including Honeywell's CEO, David Cote, former Wal-Mart Stores Inc. CEO Michael Duke, former Intel CEO Paul Otellini, Merck & Co Inc.'s Ken Frazier, AT&T Inc.'s Randall Stephenson, and FedEx Corp's Fred Smith." (Rampton, 2015).

other Google executives, had a series of regular meetings with top administration officials at the White House. In response, the FTC issued a defensive press release claiming that the article made a number of misleading and incorrect inferences that a series of unrelated meetings compromised the integrity of the investigation and that these meetings affected the Commission's decision to close the search investigation (FTC, 2015). Firms also can be perceived as being more politically sensitive if those firms have received governmental financial assistance during times of distress. For example, Maurice R. Greenberg, the former CEO of American International Group, visited the White House three times prior to the company receiving a federal bailout in the amount of $182.3 billion (Zeleny, 2009). Overall, visits to the White House tend to increase a firm's political visibility because government watchdogs want to ensure that no firm has an unethical or undue influence on politicians in the administration.

The political cost hypothesis provides theory on the impact of the political process on firms' accounting policy choices (Watts and Zimmerman, 1986). One of the main predictions of the political cost hypothesis is that when firms face greater government scrutiny, this can lead to greater political costs, which prompt firms to attempt to avoid negative government actions by altering their accounting choices. For example, during the 1970s, increased media and consumer attention on crude oil supply and rising gas prices led to special taxes on oil companies to recover excess profits through the Crude Oil Windfall Profit Tax Act (Scott, 2012). Prior literature also finds that firms change accounting policies by engaging in downward earnings management to deflate earnings to preempt government scrutiny (Jones, 1991; Key, 1997; Han and Wang, 1998). Early research also finds that there is a positive relation between government scrutiny (e.g., firm size) and effective tax rates providing evidence that the tax component of political costs varies by the size of the firm (Zimmerman, 1983). However, Porcano (1986) finds that the largest firms also have the smallest average effective tax rates. Wilkie and Limberg (1990) attribute the inconsistency between the two studies to differences in sample selection procedures, pre-tax income measures, and data aggregation methods. More recently, Mills et al. (2013) find that politically sensitive firms pay higher federal taxes and have higher effective tax rates. Specifically, they show that federal contractors incur tax-related political costs to protect contract revenues derived from the government. Therefore, the political cost hypothesis predicts that the increased exposure resulting from publicly disclosed White House visits should increase tax-related political costs and decrease tax aggressiveness.

On the other hand, prior research finds that politically connected firms have less pressure from the capital markets to provide transparent information. Chaney et al. (2011) find that politically connected firms have poorer earnings quality than non-connected firms. Furthermore, they show that firms with political connections have a lesser need to respond to capital market pressures to increase the quality of information. Recent research also finds that the cost of bank loans is significantly lower for companies that have board members with political ties versus those companies with no such ties (Houston et al., 2014). The authors' results imply that connected firms therefore have less pressure to supply creditors with transparent financial information. The literature also finds that political connections can decrease the political costs of the firm by increasing the value of the firm. For example, Goldman et al. (2013) show that the political connections of the board of directors positively affect the allocation of government procurement contracts. Most recently, Kim and Zhang (2016) find that politically connected firms are more tax aggressive than their non-politically connected counterparts. They proxy for political connections using the former governmental positions of board members, corporate campaign contributions, and lobbying expenditures. Collectively, these studies suggest that the perceived increased monitoring and scrutiny of firms which have political ties to the government is ineffective since these firms can provide lower quality and less transparent information to investors and creditors with little or no consequences. Therefore, the political connections hypothesis predicts that visits to the White House are representative of underlying political connections, which could serve to increase tax aggressiveness.

H1: Visits to the White House do not affect a firm's level of tax aggressiveness.

III. Sample Selection

I collect all White House visitor access records from January 20, 2009, through December 31, 2014, from the White House Disclosure database.[2] The White House's disclosure policy dictates that it releases visitor access logs on a monthly basis with a time lag of 90 to 120 days. The time lag was put into place to allow the White House to continue to conduct business efficiently without any interruptions. All visits to the White House are subject to the voluntary disclosure with the exception of records related to personal guests of the first and second families (i.e., visits that do not involve any official or

[2] https://www.whitehouse.gov/briefing-room/disclosures/visitor-records

political business) as well as records related to a small group of particularly sensitive meetings (e.g., visits of potential Supreme Court nominees). The data collected includes the visitor's first name, last name, middle initial, appointment start time, appointment end time, meeting room, and, in some cases, a description of the visit. I delete all visits which include the word "tour" in the description since these types of visits are made by groups of individuals and not executives from corporations.

In order to identify which CEOs visit the White House, I require that the first name, last name, and middle initial in the White House visitors log spreadsheets match the same criteria for CEOs' names in the Execucomp database from 2009 to 2014. This results in a final sample of 414 firm-year observations with at least one White House visit during the year consisting of 385 unique CEO names. Approximately 18 percent of the CEOs who visited the White House made multiple visits in the same year. I construct a control sample of firms which have not visited the White House by matching on size (total assets), industry (two-digit SIC code), and year. Therefore, the final sample which includes the control firms equals 828 firm-year observations.

IV. Research Design

Tax Aggressiveness

In this section, I outline the research design and the three different measures used to proxy for tax aggressiveness. The first measure that I utilize is the discretionary permanent book-tax difference ($DTAX_{it}$) following Frank et al. (2009). The advantage of this measure is that it excludes temporary differences (i.e., total book-tax differences) which reflect earnings management via pre-tax accruals (Phillips et al., 2003; Hanlon, 2005). Furthermore, this measure controls for nondiscretionary sources of permanent book-tax differences such as intangible assets. Specifically, *DTAX* is the ε_{it} from the following regression estimated by two-digit SIC code and fiscal year:

$$PERMDIFF_{it} = \alpha_0 + \alpha_1 INTANG_{it} + \alpha_2 UNCON_{it} + \alpha_3 MI_{it} + \alpha_4 CSTE_{it} + \alpha_5 \Delta NOL_{it} + \alpha_6 PERMDIFF_{it-1} + \varepsilon_{it} \quad (1)$$

where:

$PERMDIFF_{it}$ = $BI_{it} - [(CFTE_{it} + CFOR_{it})/STR_{it}] - (DTE_{it}/STR_{it})$;
BI = pre-tax book income for firm *i* in year *t*;
CFTE = current federal tax expense for firm *i* in year *t*;
CFOR = current foreign tax expense for firm *i* in year *t*;
DTE = deferred tax expense for firm *i* in year *t*;
STR = statutory tax rate in year *t*;
INTANG = goodwill and other intangibles for firm *i* in year *t*;
UNCON = income (loss) reported under the equity method for firm *i* in year *t*;
MI = income (loss) attributable to minority interest for firm *i* in year *t*;
CSTE = current income tax expense for firm *i* in year *t*;
ΔNOL = change in net operating loss carryforwards for firm *i* in year *t*.

The second measure of tax aggressiveness captures the discretionary book-tax difference (*DD_BT*) following Manzon and Plesko (2002) and Desai and Dharmapala (2006). The advantage of this measure is that it uses data on total accruals to isolate the component of the book-tax difference that is attributable to earnings management. After estimating the following regression, *DD_BT* is set equal to the residual to capture the portion of the book-tax difference that cannot be explained by the variation in total accruals:

$$BT_{it} = \alpha_1 TA + \mu_i + \varepsilon_{it} \quad (2)$$

where:

BT = book-tax difference measured as U.S. domestic financial income minus U.S. domestic taxable income minus state income taxes minus other income taxes minus equity in earnings divided by lagged total assets for firm *i* in year *t*;
TA = total accruals measured as income before extraordinary items minus cash flows from operating activities minus extraordinary items and discontinued operations divided by total assets for firm *i* in year *t*.
μ_i = average value of the residual for firm *i* over the sample period.
ε_{it} = deviation of the residual in year *t* from firm *i*'s average residual.

Lastly, to capture the most extreme form of tax aggressiveness, I utilize Wilson's (2009) tax sheltering probability equation following recent papers (Kim et al., 2011; Rego and Wilson, 2012; Hoi et al., 2013; Lisowsky et al., 2013). I compute the following sheltering probability equation:

$$SHELTER\_PROB_{it} = -4.86 + 5.20\times BTD_{it} + 4.08\times DA_{it} - 0.41\times LEV_{it} + 0.76\times AT_{it} + 3.51\times ROA_{it} + 1.72\times FOREIGN\_INC_{it} + 2.43\times R\&D_{it} \quad (3)$$

where:

SHELTER_PROB = sheltering probability for firm *i* in year *t*.
BTD = book-tax difference defined as pretax income less taxable income divided by lagged assets. Taxable income is the sum of current federal tax expense and current foreign tax expense divided by the statutory tax rate minus the change in net operating loss carryforwards for firm *i* in year *t*.
DA = discretionary accruals from the performance-adjusted, modified cross-sectional Jones Model for firm *i* in year *t*.
LEV = long-term debt divided by lagged total assets for firm *i* in year *t*.
AT = log of total assets for firm *i* in year *t*.
ROA = pretax income minus extraordinary items divided by lagged total assets for firm *i* in year *t*.
FOREIGN_INC = 1 for firm-years that report foreign income, and 0 otherwise.
R&D = research and development expense divided by lagged total assets for firm *i* in year *t*.

Following the prior literature (Rego and Wilson, 2012; Hoi et al., 2013), I define *SHELTER* as an indicator variable equal to 1 if the firm's estimated sheltering probability is in the top quartile during the year, and 0 otherwise.

Tax Aggressiveness and White House Visits

In this section, I describe the method used to test the relation between tax aggressiveness measures and corporate visits to the White House. I use the regression framework below following prior literature which examine the main determinants of tax aggressiveness (Manzon and Plesko, 2002; Frank et al., 2009; Chen et al., 2010; Hoi et al., 2013):

$$TAX\_AVOID_{it} = \beta_0 + \beta_1 VISIT_{it} + \beta_2 ABS\_DA_{it} + \beta_3 CASH_{it} + \beta_4 ROA_{it} + \beta_5 LEV_{it} + \beta_6 NOL_{it} + \beta_7 \Delta NOL_{it} + \beta_8 FI_{it} + \beta_9 PPE_{it} + \beta_{10} INTANG_{it} + \beta_{11} EQINC_{it} + \beta_{12} R\&D_{it} + \beta_{13} EMP_{it} + \beta_{14} \Delta SALE_{it} + \beta_{15} SIZE_{it} + \beta_{16} MB_{it} + \varepsilon_{it}$$

where:

TAX_AVOID = one of the three measures of tax aggressiveness (*DTAX*, DD_BT, or *SHELTER*).
VISIT = 1 if the CEO visited the White House during the year, and 0 otherwise for firm *i* in year *t*.
ABS_DA = absolute value of discretionary accruals calculated using the performance-adjusted, modified cross-sectional Jones Model for firm *i* in year *t*.
CASH = cash and marketable securities divided by lagged assets for firm *i* in year *t*.
ROA = operating income divided by lagged assets for firm *i* in year *t*.
LEV = long-term debt divided by lagged assets for firm *i* in year *t*.
NOL = 1 if the loss carryforward is positive, and 0 otherwise for firm *i* in year *t*.
ΔNOL = change in the loss carryforward divided by lagged assets for firm *i* in year *t*.
FI = foreign income divided by lagged assets for firm *i* in year *t*.
PPE = property, plant, and equipment divided by lagged assets for firm *i* in year *t*.
INTANG = intangible assets divided by lagged assets for firm *i* in year *t*.
EQINC = equity income in earnings divided by lagged assets for firm *i* in year *t*.
R&D = research and development expense divided by lagged assets for firm *i* in year *t*.
EMP = natural logarithm of the number of employees for firm *i* in year *t*.
$\Delta SALE$ = change in sales divided by lagged sales for firm *i* in year *t*.
SIZE = natural logarithm of the market value of equity for firm *i* in year *t*.
MB = market value of equity divided by the book value of equity for firm *i* in year *t*.

V. Results

In Table 1, pg. 269, I present the descriptive statistics for the full sample as well as the differences between those firms which made visits to the White House during the year and firms that did not which are matched on size, industry, and year. In regard to the main variables of interest, I show that firms which made visits have significantly lower discretionary permanent book-tax differences (*DTAX* = 0.062) than firms that did not make visits (*DTAX* = 0.181). There does not appear to be a difference in the discretionary book-tax differences for corporate visitors (*DD_BT* = 0.046) compared to corporate non-visitors (*DD_BT* = 0.049) in the univariate setting. Firms that visited the White House also tend to have a lower likelihood of engaging in tax shelters (*SHELTER* = 0.626) than firms that did not visit (*SHELTER* = 0.667). The above univariate findings suggest that, in general, firms which visit the White House engage in less tax aggressive activities. In regard to control variables, I show that firms which made visits have significantly higher return on assets (*ROA* = 0.088), lower leverage (*LEV* = 0.226), and higher change in the net operating loss carryforwards (Δ*NOL* = 0.012) than firms which did not make such visits (*ROA* = 0.071, *LEV* = 0.275, and Δ*NOL* = -0.007). Lastly, firms with White House visits have significant higher research and development expenses (*R&D* = 0.024), lower change in sales revenue (Δ*SALE* = 0.027), are larger in size (*SIZE* = 9.978), and have a higher market-to-book ratio (*MB* = 3.285) compared to similar firms without such visits (*R&D* = 0.019, Δ*SALE* = 0.045, *SIZE* = 9.562, and *MB* = 2.468).

Table 2, pg. 270, presents the industry classification breakdown using the two-digit SIC code categorization for the firms whose CEO visited the White House during the year. The industries with the most firms which made White Office visits include Miscellaneous Repair Services (12%), Transportation Equipment (10%), Electric, Gas, and Sanitary Services (9%), Insurance Carriers (8%), Chemical and Allied Products (7%), Instruments and Related Products (6%), and Communications (6%). Therefore, firms from a wide array of different industries hold various meetings in the White House. In an additional analysis, I examine whether firms in regulated industries such as the financial services industry or utilities industry have a larger impact on tax aggressiveness compared to other industries.

In Table 3, pg. 271, I examine whether visits to the White House are associated with different discretionary permanent book-tax differences (*DTAX*) as measured following Frank et al. (2009). There is a significantly negative relation between discretionary permanent book-tax differences and visits to the White House (*VISIT* = -0.155). This indicates that, in general, firms which hold these types of meetings tend to exhibit lower levels of tax aggressive behavior. This result holds after controlling for variables which the prior literature finds to be determinant variables of discretionary permanent book-tax differences, year fixed effects, and industry fixed effects. In regard to control variables, in column 1, I find that discretionary permanent book-tax differences are significantly associated with higher absolute values of discretionary accruals (*ABS_DA* = 0.024), higher return on assets (*ROA* = 0.969), lower levels of intangible assets (*INTANG* = -0.192), lower equity income in earnings (*EQINC* = -6.043), and larger firm size (*SIZE* = 0.065). Overall, the results in Table 3 provide support for the political cost hypothesis in that the political visibility from visits to the White House are associated with less tax aggressive behavior.

In a similar vein, I investigate whether White House corporate visits are associated with different discretionary book-tax differences (*DD_BT*) using the method outlined in Desai and Dharmapala (2006). Similarly, I show, in Table 4, pg. 272 that there is an inverse relation between discretionary book-tax differences and visits to the White House (*VISIT* = -0.014) which is significant at the 5% level after including control variables. This provides additional evidence that business-related, White House meetings are associated with lower tax aggressiveness consistent with the political cost hypothesis. I also find that discretionary book-tax differences are associated with significantly lower cash holdings (*CASH* = -0.103), higher return on assets (*ROA* = 0.363), higher net operating loss carryforwards (*NOL* = 0.014), lower change in loss carryforwards (Δ*NOL* = -0.027), higher foreign income (*FI* = 0.144), lower equity income in earnings (*EQINC* = -1.273), lower change in sales revenue (Δ*SALE* = -0.085), higher firm size (*SIZE* = 0.009), and lower market-to-book ratios (*MB* = -0.001).

In Table 5, pg. 273, I analyze whether visits to the White House are related to a more extreme form of detecting tax aggressiveness which is the probability of engaging in tax sheltering activities (*SHELTER*). I show that there is a significantly negative relation between White House visits and the likelihood of establishing a corporate tax shelter (*VISIT* = -0.098) after including control variables. This result is consistent with the earlier findings of lower discretionary (permanent) book-tax differences, and hence, a lower level of tax aggressiveness, and thereby provides corroborating

evidence for the political cost hypothesis.[3][4] Further, I show that the probability of a tax shelter is significantly associated with higher return on assets (*ROA* = 1.322), lower net operating loss carryforwards (*NOL* = -0.425), and a higher change in loss carryforwards (Δ*NOL* = 0.178). The likelihood of a corporation employing a tax shelter is also associated with significantly higher foreign income (*FI* = 0.759), a lower number of employees (*EMP* = -0.026), and larger firm size (*SIZE* = 0.087).

VI. Additional Analysis

The Effect of Multiple Visits to the White House

In this section, I investigate whether there is a differential effect between companies which have multiple visits to the White House over the sample period versus companies which have only one isolated visit. It is possible that companies with multiple visits have ongoing negotiations and meetings with different top-level administrators which could lead to greater political visibility than companies which are granted only one isolated visit. In Table 6, pg. 274, I define *MULTIPLE* equal to 1 if the CEO of the company had more than one visit to the White House between 2009-2014, and 0 otherwise. I show that there is a negative relation between multiple visits and discretionary permanent book-tax differences (*MULTIPLE* = -0.079), discretionary book-tax differences (*MULTIPLE* = -0.013), and the likelihood of a tax shelter (*SHELTER* = -0.076). These findings suggest that the more often companies visit the White House, the lower the level of tax aggressiveness.

Regulated Industries and Visits to the White House

Firms in regulated industries often have economic incentives to establish relationships with politicians to further their interests (Faccio et al. 2006, Claessens et al. 2008, Cooper et al. 2010). In this analysis, I examine whether there is a different impact of White House visits on tax aggressiveness for companies operating in industries which are heavily regulated. In Table 7, pg. 275, I define *REGULATE* equal to 1 if the firm operates in the financial services industry (one-digit SIC code 6) or in the utilities industry (two-digit SIC cod 49), and 0 otherwise. There is a significantly negative relation between non-regulated firms which visit the White House and discretionary permanent book-tax differences (*VISIT* = -0.209). However, there is a positive incremental relation for firms in regulated industries (*VISIT*×*REGULATE* = 0.215). Furthermore, the sum of the coefficients for *VISIT* and *VISIT*×*REGULATE* is not significantly different from zero. Therefore, these findings show that the effect of White House visits on lower levels of discretionary permanent book-tax differences holds only for those companies which operate in non-regulated industries.

I also show that there is a significantly negative relation between non-regulated firms which visit the White House and tax sheltering activities (*VISIT* = -0.145). The coefficient for the interaction term is positive and significant (*VISIT*×*REGULATE* = 0.171). Like the findings above, the sum of the coefficients for *VISIT* and *VISIT*×*REGULATE* is not different from zero. This also implies that the negative relation between visits to the White House and the likelihood of a tax shelter is driven by firm in industries which are not regulated.

VII. Conclusion

In recent years, there has been much debate as whether the White House should disclose to the public the records of all individuals who visit the White House. Many of the frequent visitors to the White House include the CEOs of some of America's largest corporations. This article studies whether the political visibility of such corporate visits to the White House affects a firm's tax reporting behavior. I collect all visitor access records from 2009 through 2014 from the White House Disclosure database and match CEOs' names to the White House visitor logs.

In summary, I find that firms which visit the White House have lower discretionary book-tax differences and have a lower likelihood of engaging in tax sheltering activities. These findings provide evidence that firms which are politically visible at the executive branch level of the government employ less tax aggressive strategies. In additional analysis, I find that firms which visit the White House multiple times have lower tax aggressiveness and less tax sheltering activity than firms which have only one isolated visit to the White House over the sample period. This suggests that high levels of political visibility have a stronger relation with lower tax aggressiveness than low levels of visibility. Lastly, I also show that the

[3] The results in Table 3–5 are consistent for the subsample of companies with a significant tax burden (i.e., top decile of average effective tax rates in each year).

[4] The findings in Tables 3–5 are consistent when using the subsample of company visits with top administration officials (the president, senior advisor to the president, and assistant to the president for economic policy and director of the National Economic Council).

main findings are not subsumed by firms which operate in regulated industries. Overall, the results show that corporate visits to the White House have economic consequences that are associated with tax-related political costs.

These findings have important implications for firms that are not aware of some of the tax-related political costs that can result from increasing or reducing their political visibility. The results also have implications for members of the executive branch of the federal government who wish to know about some of the economic consequences of President Obama's prior decision to increase voluntary disclosure in 2009. More importantly, these findings have implications for the controversy whether Presidents should provide unlimited and full disclosure to the public for all White House visitor logs.

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Table 1
Descriptive Statistics

	Full sample				VISIT = 1				VISIT = 0				Difference
Variable	n	Mean	Std. Dev.	Median	n	Mean	Std. Dev.	Median	n	Mean	Std. Dev.	Median	in Means
DTAX	828	0.121	0.615	0.021	414	0.062	0.553	0.009	414	0.181	0.666	0.035	-0.119 ***
DD_BT	708	0.047	0.081	0.055	354	0.046	0.084	0.058	354	0.049	0.078	0.054	-0.003
SHELTER	828	0.646	0.479	1.000	414	0.626	0.484	1.000	414	0.667	0.471	1.000	-0.041 ***
ABS_DA	828	0.684	2.582	0.094	414	0.628	2.412	0.096	414	0.741	2.744	0.093	-0.113
CASH	828	0.145	0.161	0.092	414	0.150	0.149	0.098	414	0.141	0.172	0.087	0.009
ROA	828	0.079	0.083	0.069	414	0.088	0.084	0.079	414	0.071	0.082	0.056	0.018 ***
LEV	828	0.250	0.229	0.198	414	0.226	0.166	0.198	414	0.275	0.277	0.198	-0.049 ***
NOL	828	0.534	0.499	1.000	414	0.546	0.498	1.000	414	0.522	0.500	1.000	0.024
ΔNOL	828	0.002	0.197	0.000	414	0.012	0.203	0.000	414	-0.007	0.190	0.000	0.019 ***
FI	828	0.025	0.043	0.004	414	0.032	0.047	0.012	414	0.018	0.037	0.000	0.015
PPE	828	0.276	0.272	0.172	414	0.264	0.264	0.154	414	0.287	0.280	0.187	-0.023
INTANG	828	0.272	0.259	0.197	414	0.269	0.242	0.206	414	0.275	0.274	0.194	-0.005
EQINC	828	0.002	0.010	0.000	414	0.002	0.009	0.000	414	0.002	0.010	0.000	0.000
R&D	828	0.021	0.038	0.000	414	0.024	0.042	0.000	414	0.019	0.034	0.000	0.005 *
EMP	828	3.361	1.374	3.517	414	3.406	1.251	3.526	414	3.315	1.486	3.451	0.091
ΔSALE	828	0.036	0.136	0.020	414	0.027	0.127	0.016	414	0.045	0.144	0.023	-0.018 *
SIZE	828	9.770	1.200	9.801	414	9.978	1.107	10.009	414	9.562	1.253	9.563	0.416 ***
MB	828	2.876	4.656	2.258	414	3.285	5.127	2.498	414	2.468	4.098	2.012	0.817 **

***, **, * indicate significance at the 1%, 5%, and 10% levels respectively. VISIT equals 1 if the CEO of the company visited the White House during the year, and 0 otherwise. DTAX is the discretionary permanent book-tax difference following Frank et al. (2009). DD_BT is the discretionary book-tax difference following Desai and Dharmapala (2006). SHELTER is calculated using the sheltering probability equation following Wilson (2009). ABS_DA is the absolute value of discretionary accruals computed using the performance-adjusted, modified Jones model. CASH is cash and marketable securities divided by lagged assets. ROA is operating income divided by lagged assets. LEV is long-term debt divided by lagged assets. NOL equals 1 if the loss carryforward is positive, and 0 otherwise. ΔNOL is the change in the loss carryforward divided by lagged assets. FI is foreign income divided by lagged assets. PPE is property, plant, and equipment divided by lagged assets. INTANG is intangible assets divided by lagged assets. EQINC is equity income in earnings divided by lagged assets. R&D is research and development expense divided by lagged assets. EMP is the natural logarithm of the number of employees. ΔSALE is the change in sales divided by lagged sales. SIZE is the natural logarithm of the market value of equity. MB is the market value of equity divided by the book value of equity. All variables are winsorized at the 1st and 99th percentiles.

Table 2
Industry Classification and White House Visits

Two-Digit SIC Code	Industry	n	Percentage
13	Oil and Gas	13	3%
20	Food and Kindred Products	11	3%
21	Tobacco Products	7	2%
24	Lumber and Wood Products	3	1%
26	Paper and Allied Products	3	1%
27	Printing and Publishing	3	1%
28	Chemical and Allied Products	27	7%
29	Petroleum and Coal Products	16	4%
33	Primary Metal Industries	3	1%
34	Fabricated Metal Products	3	1%
35	Industrial Machinery and Equipment	9	2%
36	Electronic and Other Electric Equipment	14	3%
37	Transportation Equipment	41	10%
38	Instruments and Related Products	24	6%
39	Miscellaneous Manufacturing Industries	4	1%
45	Transportation by Air	9	2%
47	Transportation Services	1	0%
48	Communications	23	6%
49	Electric, Gas, and Sanitary Services	39	9%
50	Wholesale Trade - Durable Goods	2	0%
51	Wholesale Trade - Nondurable Goods	3	1%
53	General Merchandise Stores	5	1%
54	Food Stores	2	0%
55	Automotive Dealers and Service Stations	1	0%
56	Apparel and Accessory Stores	1	0%
58	Eating and Drinking Places	4	1%
59	Miscellaneous Retail	7	2%
61	Nondepository Institutions	6	1%
62	Security and Commodity Brokers	13	3%
63	Insurance Carriers	35	8%
70	Hotels and Other Lodging Places	2	0%
73	Business Services	4	1%
74	Miscellaneous Repair Services	49	12%
80	Health Services	1	0%
81	Legal Services	8	2%
82	Educational Services	9	2%
87	Engineering and Management Services	4	1%
100	Other	5	1%
	TOTAL	414	100%

Table 3
White House Visits and Discretionary Permanent Book-Tax Differences

Dependent variable = DTAX

	Parameter	S.E.	t-statistic	Parameter	S.E.	t-statistic
Intercept	-0.419 **	0.197	-2.12			
VISIT	-0.155 ***	0.043	-3.6	-0.166 ***	0.045	-3.67
ABS_DA	0.024 ***	0.008	2.95	0.003	0.012	0.23
CASH	0.012	0.164	0.08	-0.007	0.199	-0.03
ROA	0.969 ***	0.338	2.87	1.107 ***	0.403	2.74
LEV	-0.079	0.114	-0.69	-0.067	0.140	-0.48
NOL	0.012	0.044	0.28	0.037	0.050	0.74
ΔNOL	0.054	0.109	0.49	0.041	0.124	0.33
FI	-0.228	0.626	-0.36	-0.156	0.745	-0.21
PPE	0.069	0.096	0.72	0.129	0.164	0.79
INTANG	-0.192 **	0.097	-1.97	-0.162	0.131	-1.24
EQINC	-6.043 ***	2.253	-2.68	-5.755 **	2.517	-2.29
R&D	0.087	0.634	0.14	0.409	0.830	0.49
EMP	-0.013	0.018	-0.72	-0.011	0.026	-0.45
ΔSALE	0.149	0.163	0.91	0.128	0.199	0.64
SIZE	0.065 ***	0.022	2.94	0.071 **	0.033	2.14
MB	-0.003	0.005	-0.68	0.000	0.005	-0.01
n		828			828	
Adj. R^2		5.91%			17.20%	
Year Fixed Effects		no			yes	
Industry Fixed Effects		no			yes	

***, **, * indicate significance at the 1%, 5%, and 10% levels respectively. VISIT equals 1 if the CEO of the company visited the White House during the year, and 0 otherwise. DTAX is the discretionary permanent book-tax difference following Frank et al. (2009). ABS_DA is the absolute value of discretionary accruals computed using the performance-adjusted, modified Jones model. CASH is cash and marketable securities divided by lagged assets. ROA is operating income divided by lagged assets. LEV is long-term debt divided by lagged assets. NOL equals 1 if the loss carryforward is positive, and 0 otherwise. ΔNOL is the change in the loss carryforward divided by lagged assets. FI is foreign income divided by lagged assets. PPE is property, plant, and equipment divided by lagged assets. INTANG is intangible assets divided by lagged assets. EQINC is equity income in earnings divided by lagged assets. R&D is research and development expense divided by lagged assets. EMP is the natural logarithm of the number of employees. ΔSALE is the change in sales divided by lagged sales. SIZE is the natural logarithm of the market value of equity. MB is the market value of equity divided by the book value of equity. All variables are winsorized at the 1st and 99th percentiles.

Table 4
White House Visits and Discretionary Book-Tax Differences

Dependent variable = DD_BT

	Parameter	S.E.	t-statistic	Parameter	S.E.	t-statistic
Intercept	-0.034	0.027	-1.26			
VISIT	-0.014 **	0.006	-2.41	-0.012 **	0.006	-2.10
ABS_DA	0.001	0.001	0.67	0.000	0.002	-0.15
CASH	-0.103 ***	0.023	-4.51	-0.094 ***	0.027	-3.52
ROA	0.363 ***	0.044	8.23	0.344 ***	0.049	6.98
LEV	0.015	0.016	0.91	-0.012	0.019	-0.66
NOL	0.014 **	0.006	2.4	0.017 ***	0.006	2.61
ΔNOL	-0.027 *	0.015	-1.74	-0.029 *	0.017	-1.78
FI	0.144 *	0.083	1.74	0.051	0.091	0.56
PPE	-0.014	0.013	-1.02	0.008	0.022	0.38
INTANG	-0.016	0.013	-1.17	-0.015	0.017	-0.91
EQINC	-1.273 ***	0.296	-4.31	-1.028 ***	0.315	-3.26
R&D	-0.003	0.088	-0.04	-0.311 ***	0.109	-2.85
EMP	-0.003	0.002	-1.43	-0.006 *	0.003	-1.79
ΔSALE	-0.085 ***	0.024	-3.51	-0.105 ***	0.028	-3.76
SIZE	0.009 ***	0.003	2.89	0.011 **	0.004	2.39
MB	-0.001 **	0.001	-2.03	-0.001 **	0.001	-2.01
n		708			708	
Adj. R^2		15.31%			35.97%	
Year Fixed Effects		no			yes	
Industry Fixed Effects		no			yes	

***, **, * indicate significance at the 1%, 5%, and 10% levels respectively. VISIT equals 1 if the CEO of the company visited the White House during the year, and 0 otherwise. DD_BT is the discretionary book-tax difference following Desai and Dharmapala (2006). ABS_DA is the absolute value of discretionary accruals computed using the performance-adjusted, modified Jones model. CASH is cash and marketable securities divided by lagged assets. ROA is operating income divided by lagged assets. LEV is long-term debt divided by lagged assets. NOL equals 1 if the loss carryforward is positive, and 0 otherwise. ΔNOL is the change in the loss carryforward divided by lagged assets. FI is foreign income divided by lagged assets. PPE is property, plant, and equipment divided by lagged assets. INTANG is intangible assets divided by lagged assets. EQINC is equity income in earnings divided by lagged assets. R&D is research and development expense divided by lagged assets. EMP is the natural logarithm of the number of employees. ΔSALE is the change in sales divided by lagged sales. SIZE is the natural logarithm of the market value of equity. MB is the market value of equity divided by the book value of equity. All variables are winsorized at the 1st and 99th percentiles.

Table 5
White House Visits and Tax Shelters

Dependent variable = SHELTER

	Parameter	S.E.	t-statistic	Parameter	S.E.	t-statistic
Intercept	0.095	0.130	0.73			
VISIT	-0.098 ***	0.028	-3.45	-0.100 ***	0.028	-3.62
ABS_DA	0.008	0.005	1.51	0.007	0.007	0.93
CASH	-0.082	0.108	-0.76	0.051	0.122	0.42
ROA	1.322 ***	0.223	5.92	1.437 ***	0.247	5.81
LEV	-0.008	0.075	-0.1	-0.141 *	0.086	-1.65
NOL	-0.425 ***	0.029	-14.78	-0.425 ***	0.031	-13.80
ΔNOL	0.178 **	0.072	2.48	0.200 ***	0.076	2.62
FI	0.759 *	0.414	1.84	0.696	0.457	1.52
PPE	-0.025	0.063	-0.39	0.123	0.100	1.23
INTANG	-0.087	0.064	-1.35	0.024	0.080	0.30
EQINC	-0.381	1.488	-0.26	-0.041	1.544	-0.03
R&D	-0.349	0.419	-0.83	-0.403	0.509	-0.79
EMP	-0.026 **	0.012	-2.24	-0.023	0.016	-1.44
ΔSALE	-0.014	0.108	-0.13	-0.015	0.122	-0.12
SIZE	0.087 ***	0.015	5.97	0.080 ***	0.020	3.93
MB	-0.003	0.003	-1.15	-0.004	0.003	-1.25
n		828			828	
Adj. R^2		32.28%			48.58%	
Year Fixed Effects		no			yes	
Industry Fixed Effects		no			yes	

***, **, * indicate significance at the 1%, 5%, and 10% levels respectively. VISIT equals 1 if the CEO of the company visited the White House during the year, and 0 otherwise. SHELTER is calculated using the sheltering probability equation following Wilson (2009). ABS_DA is the absolute value of discretionary accruals computed using the performance-adjusted, modified Jones model. CASH is cash and marketable securities divided by lagged assets. ROA is operating income divided by lagged assets. LEV is long-term debt divided by lagged assets. NOL equals 1 if the loss carryforward is positive, and 0 otherwise. ΔNOL is the change in the loss carryforward divided by lagged assets. FI is foreign income divided by lagged assets. PPE is property, plant, and equipment divided by lagged assets. INTANG is intangible assets divided by lagged assets. EQINC is equity income in earnings divided by lagged assets. R&D is research and development expense divided by lagged assets. EMP is the natural logarithm of the number of employees. ΔSALE is the change in sales divided by lagged sales. SIZE is the natural logarithm of the market value of equity. MB is the market value of equity divided by the book value of equity. All variables are winsorized at the 1st and 99th percentiles.

Table 6

The Effect of Multiple Visits to the White House on Tax Avoidance

	DTAX		DD_BT		SHELTER	
	Parameter	t-statistic	Parameter	t-statistic	Parameter	t-statistic
Intercept	-0.445 **	-2.23	-0.037	-1.38	0.068	0.51
MULTIPLE	-0.079 *	-1.77	-0.013 **	-2.17	-0.076 ***	-2.60
ABS_DA	0.025 ***	3.02	0.001	0.73	0.009	1.59
CASH	0.037	0.22	-0.102 ***	-4.44	-0.066	-0.61
ROA	0.950 ***	2.79	0.360 ***	8.18	1.299 ***	5.79
LEV	-0.072	-0.63	0.014	0.88	-0.008	-0.10
NOL	0.011	0.25	0.014 **	2.39	-0.426 ***	-14.76
ΔNOL	0.052	0.47	-0.025	-1.64	0.183 **	2.53
FI	-0.374	-0.59	0.142 *	1.71	0.717 *	1.73
PPE	0.070	0.72	-0.014	-1.02	-0.024	-0.38
INTANG	-0.190 *	-1.94	-0.015	-1.16	-0.085	-1.31
EQINC	-5.891 ***	-2.60	-1.279 ***	-4.32	-0.321	-0.22
R&D	0.021	0.03	-0.011	-0.13	-0.417	-0.99
EMP	-0.010	-0.59	-0.003	-1.37	-0.025 **	-2.15
ΔSALE	0.174	1.06	-0.086 ***	-3.53	-0.004	-0.04
SIZE	0.062 ***	2.78	0.009 ***	2.93	0.088 ***	5.95
MB	-0.004	-0.84	-0.001 **	-2.11	-0.004	-1.26
n	828		708		828	
Adj. R^2	4.8%		15.2%		31.8%	

***, **, * indicate significance at the 1%, 5%, and 10% levels respectively. MULTIPLE equals 1 if the CEO of the company visited the White House more than one time over the sample period, and 0 otherwise. DTAX is the discretionary permanent book-tax difference following Frank et al. (2009). DD_BT is the discretionary book-tax difference following Desai and Dharmapala (2006). SHELTER is calculated using the sheltering probability equation following Wilson (2009). ABS_DA is the absolute value of discretionary accruals computed using the performance-adjusted, modified Jones model. CASH is cash and marketable securities divided by lagged assets. ROA is operating income divided by lagged assets. LEV is long-term debt divided by lagged assets. NOL equals 1 if the loss carryforward is positive, and 0 otherwise. ΔNOL is the change in the loss carryforward divided by lagged assets. FI is foreign income divided by lagged assets. PPE is property, plant, and equipment divided by lagged assets. INTANG is intangible assets divided by lagged assets. EQINC is equity income in earnings divided by lagged assets. R&D is research and development expense divided by lagged assets. EMP is the natural logarithm of the number of employees. ΔSALE is the change in sales divided by lagged sales. SIZE is the natural logarithm of the market value of equity. MB is the market value of equity divided by the book value of equity. All variables are winsorized at the 1st and 99th percentiles.

Table 7
The Effect of Regulated Industries and Visits to the White House on Tax Avoidance

	DTAX		DD_BT		SHELTER	
	Parameter	t-statistic	Parameter	t-statistic	Parameter	t-statistic
Intercept	-0.349 *	-1.75	-0.037	-1.35	0.123	0.94
VISIT	-0.209 ***	-4.22	-0.010	-1.47	-0.145 ***	-4.44
REGULATE	-0.127	-1.64	-0.003	-0.27	0.011	0.22
VISIT×REGULATE	0.215 **	2.23	-0.017	-1.24	0.171 ***	2.69
ABS_DA	0.024 ***	2.89	0.001	0.54	0.010 *	1.78
CASH	-0.019	-0.12	-0.102 ***	-4.44	-0.078	-0.72
ROA	0.971 ***	2.85	0.354 ***	7.98	1.402 ***	6.27
LEV	-0.058	-0.51	0.017	1.03	-0.021	-0.28
NOL	0.011	0.25	0.013 **	2.17	-0.411 ***	-14.20
ΔNOL	0.065	0.60	-0.025	-1.63	0.167 **	2.32
FI	-0.198	-0.31	0.124	1.49	0.931 **	2.25
PPE	0.035	0.34	-0.018	-1.26	0.007	0.10
INTANG	-0.233 **	-2.24	-0.019	-1.36	-0.054	-0.79
EQINC	-5.927 ***	-2.63	-1.299 ***	-4.39	-0.134	-0.09
R&D	0.088	0.13	-0.041	-0.45	-0.045	-0.11
EMP	-0.015	-0.81	-0.004 *	-1.74	-0.017	-1.42
ΔSALE	0.162	0.98	-0.082 ***	-3.35	-0.049	-0.45
SIZE	0.064 ***	2.82	0.010 ***	3.22	0.076 ***	5.15
MB	-0.003	-0.64	-0.001 **	-2.2	-0.002	-0.82
n	828		708		828	
Adj. R^2	6.3%		15.5%		33.3%	

***, **, * indicate significance at the 1%, 5%, and 10% levels respectively. VISIT equals 1 if the CEO of the company visited the White House during the year, and 0 otherwise. REGULATE equals 1 if the firm operates in the financial services industry (one-digit SIC code 6) or in the utilities industry (two-digit SIC code 49), and 0 otherwise. DTAX is the discretionary permanent book-tax difference following Frank et al. (2009). DD_BT is the discretionary book-tax difference following Desai and Dharmapala (2006). SHELTER is calculated using the sheltering probability equation following Wilson (2009). ABS_DA is the absolute value of discretionary accruals computed using the performance-adjusted, modified Jones model. CASH is cash and marketable securities divided by lagged assets. ROA is operating income divided by lagged assets. LEV is long-term debt divided by lagged assets. NOL equals 1 if the loss carryforward is positive, and 0 otherwise. ΔNOL is the change in the loss carryforward divided by lagged assets. FI is foreign income divided by lagged assets. PPE is property, plant, and equipment divided by lagged assets. INTANG is intangible assets divided by lagged assets. EQINC is equity income in earnings divided by lagged assets. R&D is research and development expense divided by lagged assets. EMP is the natural logarithm of the number of employees. ΔSALE is the change in sales divided by lagged sales. SIZE is the natural logarithm of the market value of equity. MB is the market value of equity divided by the book value of equity. All variables are winsorized at the 1st and 99th percentiles.