Abstract

The main objective of the proposed research is to investigate and compare, with reference to the book-tax tradeoff theory, the relationship between taxable and accounting earnings immediately before and after a firm's Initial Public Offering (IPO). IPO is an important event for a firm and its shareholders. The Shanghai and Shenzhen Stock Exchanges are two of the leading players in the global IPO market. Between 2016 and 2019, the Shanghai Stock Exchange ranked as one of the Top 5 worldwide in terms of IPO fund raised. The Shenzhen Stock Exchange also ranked as one of the Top 5 in 2017. Given the large number of foreign and institutional investors involved in IPO, our research findings from China should also be relevant for economies beyond China. In particular, the Shanghai and Shenzhen-Hong Kong Stock Connect facilitates Hong Kong investors to invest in the Mainland Chinese market.

If the framework of a sound theory can help establish a significant relationship between corporate tax avoidance and IPO, then the proposed research will provide important implications for investors (domestic and foreign), tax authorities, regulators, auditors, and other capital market stakeholders. Our research results can help various stakeholders make more informed decisions and formulate policies and regulations to address tax avoidance during the pre- and post-IPO periods.