Corner-Cutters: Personally Tax Aggressive Executives and Corporate Regulatory Violations

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Abstract

This study investigates the relation between personally tax aggressive executives and corporate regulatory violations across a wide range of areas. We identify personally tax aggressive executives as those who consistently make uncommonly well-timed corporate stock donations, which prior work has shown are the result of insiders exploiting their private information and/or fraudulently backdating gifts to dates with a high stock price. We hypothesize and find evidence that executives with a propensity to "cut corners" on tax laws also make corporate-level decisions leading to more regulatory violations, such as underinvesting in workplace safety and environmental protection measures. We find the link between tax aggressive executives and corporate violations is mitigated in the presence of strong outside monitors and influential stakeholders. Moreover, we find that violations rise (fall) when a tax aggressive executive joins (leaves) the firm, supporting a causal interpretation. Our study contributes to the literature by 1) introducing a novel approach to identifying personally tax aggressive executives that continues to be useful in the post-SOX era, and 2) providing evidence that such executives drive increased regulatory violations in a wide range of areas.

Keywords: Executives' personal traits; Tax evasion; Insider stock gifts; Corporate violations

JEL classifications: G30, H26, K22, L31, M40

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1. Introduction

We study the relation between executives who exploit their position in the firm to reduce their personal tax liabilities ("personally tax aggressive" or "tax aggressive" executives) and corporate violations across a wide range of activities, including violations of workplace safety and environmental regulations.[1] Specifically, we examine executives who consistently gift corporate stock at or near the maximum of the distribution of the firm's stock price during the year, yielding substantial personal tax benefits. Prior research finds that suspiciously well-timed stock gifts are often the result of insiders opportunistically timing gifts based on their private information and/or fraudulently backdating gifts to dates with a high stock price, and that such gifts are routinely made to executives' private foundations (Yermack, 2009; Avci et al., 2016; Yost and Shu, 2022). Our motivation stems from recent work suggesting managers' personal behavioral traits carry over to their corporate decision-making (e.g., Chyz, 2013; Biggerstaff et al., 2015; Hanlon et al., 2022). We hypothesize that personally tax aggressive executives have a greater propensity to "cut corners" regarding other types of regulations, such as underinvesting in workplace safety or environmental protection measures, just as they cut corners on tax laws. Consequently, we expect firms employing such executives to exhibit increased regulatory violations.

Insider stock gifts provide a uniquely powerful setting to identify executives with a tendency to cut corners for personal gain, for two main reasons. First, insiders have a strong monetary incentive to donate corporate stock at a high price. Donors receive sizable tax benefits from making charitable gifts of stock, and the value of those benefits is directly tied to the stock's market value at the time of the gift. Second, unlike other insider stock transactions, stock gifts are only loosely regulated and are subject to relatively low litigation risk. For instance, whereas the

[1] Hanlon and Heitzman (2010) describe tax aggressive behavior as follows: "Intuitively, [tax] aggressiveness can be thought of as pushing the envelope of tax law."

Sarbanes-Oxley Act of 2002 ("SOX") requires insiders' open market stock purchases and sales to be reported to the SEC within two business days, insider stock gifts can be reported up to 45 days after the firm's fiscal year-end. The twin features of motive and opportunity have led to significant abuse, with some insiders using their private information to strategically time corporate stock donations and/or exploit the lax reporting rules to backdate gifts to dates with a high price (Avci et al., 2016; Yost and Shu, 2022). We argue these features provide researchers with a unique opportunity to identify executives with a propensity to cut corners.

We test our central hypothesis by examining the effect of personally tax aggressive executives on the likelihood, number, and severity of corporate regulatory violations. In our main analysis, we focus on the top nine firm executives of the firm (e.g., Adebambo et al., 2015), and classify such executives as personally tax aggressive if at least 30% of their career corporate stock donations occur above the 95th percentile of the distribution of the firm's daily stock prices that could have been chosen within each fiscal year.[2] Using these criteria, 21.2% of our sample firm-years are classified as employing one or more personally tax aggressive executives. We use the Good Jobs First Violation Tracker database to obtain corporate violations and related penalty amounts (e.g., Heese and Pérez-Cavazos, 2020; Raghunandan, 2021; Heese et al., 2022).

Using a firm-year panel and violation data from 2000-2020, we examine the influence of personally tax aggressive executives on corporate violations after controlling for relevant firm characteristics, industry, and year fixed effects. We find the likelihood, number, and severity of corporate violations are significantly higher when the firm employs a tax aggressive executive.

[2] In additional analysis presented in Section 5.4, we show our inferences are robust to a range of alternative measurement choices, including: different subgroups of executives (i.e., the top five executives, CEO and CFO only), different thresholds for stock gifts to be considered tax aggressive (i.e., above the 90th and 99th percentiles of possible stock prices), and different thresholds for the proportion of total career stock gifts made at high prices for an executive to be considered personally tax aggressive (i.e., more than 20%, 50%).

Economically, firms with a personally tax aggressive executive are 5.3% more likely to commit a violation than firms without such an executive; a 33.8% increase relative to the sample mean. Similarly, firms with tax aggressive executives commit 44.3% more violations and incur 35.3% higher penalties, relative to the sample means.[3] The findings translate to approximately $678,000 more annually in direct economic penalties. Grouping the violation types into six major areas – workplace safety, environmental, employment, consumer protection, competition, and financial – we find that tax aggressive executives are associated with significantly more violations in all areas.

Next, we explore cross-sectional variation in the relation between personally tax aggressive executives and corporate violations. We posit that strong outside monitoring and influential stakeholders can ameliorate the observed positive relation by holding managers accountable for corporate decisions leading to violations (e.g., Gupta et al., 2020, Neukirchen et al., 2022). We proxy for outside monitoring using firm-level institutional ownership and analyst coverage, and we proxy for influential stakeholders using the prevalence of labor unions in the firm's headquarters state and county-level social capital (Ding et al., 2020; Bai et al., 2022). Consistent with our expectations, we find that strong outside monitors and influential stakeholders significantly mitigate the link between tax aggressive executives and corporate violations.

The analyses to this point establish a correlation between personally tax aggressive executives and corporate violations, but they do not necessarily indicate a causal link. For instance, firms with an existing culture that fosters violations may attract executives exhibiting personally tax aggressive behavior. To better glean the causal relation, we perform an analysis around the arrivals and departures of tax aggressive executives. Examining four years before and four years after each transition, we find firms exhibit a significant increase (decrease) in corporate violations

[3] Although the economic magnitudes may appear large at first glance, they are in line with recent and concurrent work examining other drivers of corporate violations. We discuss this point in greater detail in Section 4.1.

following the arrival (departure) of a tax aggressive executive, relative to control firms. Moreover, we find evidence that prior to the arrival/departure of a tax aggressive executive, treated and control firms exhibit parallel trends in corporate violations. Overall, the findings are consistent with personally tax aggressive executives driving corporate regulatory violations.

To shed light on the channels through which personally tax aggressive executives drive increased violations, we examine corporate investment into two major areas of regulatory concern: workplace safety and environmental protection, which together constitute 85% of total regulatory violations. We conjecture that executives who exhibit aggressiveness with regard to tax laws may not feel compelled to invest in measures simply to comply with regulatory mandates. Consistent with our conjecture, we find personally tax aggressive executives are associated with lower corporate investments in safety-related expenditures and environmental efficiency (as evidenced by higher toxic releases).

Next, we seek to differentiate our stock gift-based approach to identifying corner-cutting executives from a stock option-based approach used by Biggerstaff et al. (2015) to identify "unethical" executives. Biggerstaff et al. (2015) identify unethical CEOs as those who benefit from backdated stock option grants, and find that firms with such CEOs exhibit greater fraud and earnings management.[4] However, the option-backdating approach is of limited use in recent years due to the accelerated reporting requirements imposed by SOX, which severely curtailed backdating (Heron and Lie, 2009). Since stock gifts were exempt from the SOX reporting requirements, we contend that they continue to be a useful way to identify corner-cutting executives. As expected, we find that executives who benefit from options backdating are

[4] We also differentiate our approach to identifying personally tax aggressive executives from that of Chyz (2013), who shows that executives who benefit from backdated stock option *exercises* are associated with greater corporate tax avoidance. See Section 4.5 and Appendix C for more detailed discussion on this point.

associated with more corporate violations in the pre-SOX era, but that association disappears in the post-SOX era. In contrast, we find that executives who make tax aggressive stock gifts are associated with significantly more corporate violations in both the pre-SOX and post-SOX eras, confirming the continued usefulness of stock gifts in identifying corner-cutting executives.

We conduct several additional analyses to strengthen the validity of our inferences and ensure the robustness of our findings. First, we perform falsification and placebo analyses in which we test and find no relation between executives who tend to donate stock at lower price levels (i.e., "non-tax aggressive executives") and corporate violations. Second, we perform entropy balancing and propensity score matching procedures to mitigate the concern that firms with and without personally tax aggressive executives are fundamentally different. Third, we use historical stock gift transactions over rolling time windows to investigate whether an executive's past gifting behavior can predict future violations. Finally, we perform a battery of robustness tests, including: 1) analyzing different subgroups of top executives, 2) using alternative minimum thresholds for stock gifts and executives to be considered "tax aggressive", and 3) controlling for industry × year, state, and firm fixed effects. Our findings in all cases support our main inferences.

We make three primary contributions to the literature. First, we extend prior research on the role of managerial traits in corporate decision-making by showing that executives who exhibit personally tax aggressive behavior commit more corporate regulatory violations. As outlined in Hanlon et al. (2022), recent studies have used managers' "off-the-job" actions to infer manager traits and relate them to corporate outcomes. Two related studies are Chyz (2013) and Biggerstaff et al. (2015), both of which rely on stock option backdating to infer executives' traits. Chyz (2013) finds that firms with personally tax aggressive executives (those who benefit from option exercise backdating) exhibit greater corporate tax aggressiveness. Biggerstaff et al. (2015) find that firms

with "unethical" CEOs (those who benefit from option grant backdating) exhibit greater financial fraud and earnings management. We extend this work by showing that firms with personally tax aggressive executives commit more regulatory violations across a wide range of areas, including violations of workplace safety and environmental laws, among others.

Second, we introduce a novel method to identify personally tax aggressive executives, and in doing so, we address two problems plaguing the literature on managers' off-the-job behaviors. First, Ge and Moon (2021) note that such studies tend to rely on small, hand-collected samples, raising concerns about generalizability.[5] However, since insider stock gifts are reported to the SEC, our method is applicable for insiders of all public firms. In addition, our gift-based measure has an advantage over the options-based approach in Chyz (2013) and Biggerstaff et al. (2015), which has limited use after SOX imposed stricter reporting requirements on such transactions. Accordingly, we expect our insider stock gift-based measure to be useful for future research.

Third, we add to the literature on the drivers of corporate violations by providing evidence on the role of manager traits. With the recent widespread availability of data on corporate regulatory violations, there has been an explosion of interest in the factors influencing corporate violations. For instance, recent and concurrent work examines the role of monitoring by managers (Heese and Pérez-Cavazos, 2020), boards of directors (Zaman et al., 2021), local media (Heese et al., 2022), institutional investors (Neukirchen et al., 2022), regulators (Raghunandan and Ruchti, 2022), and major corporate customers (Chen et al., 2022), as well as the role of risk-taking equity incentives (Chircop et al., 2022) in corporate violations. However, to our knowledge we are the first to examine the link between managers' behavioral traits and corporate violations.

[5] For example, prior studies have examined executives with criminal records (Davidson et al., 2015), executives with pilot licenses (Cain and McKeon, 2016; Sunder et al., 2017), and executives using a marital infidelity website (Griffin et al., 2019). Although innovative, these prior studies are restricted to a small number of executives, limiting their generalizability.

2. Related Literature and Hypothesis Development

2.1 Insider stock gifts: Institutional setting

Insiders who donate corporate stock to charitable organizations receive two tax benefits. First, they receive a deduction for the fair market value of the gift, offsetting their personal taxable income and reducing their overall tax owed (i.e., the charitable contribution deduction). Second, they escape paying capital gains taxes on any stock price appreciation, which they would have owed had the shares been sold rather than donated (i.e., the capital gains tax exemption). Taken together, the charitable contribution deduction and the capital gains tax exemption constitute sizeable tax savings for the donor, and the value of those benefits is directly tied to the fair market value of the stock on the date of the gift. As a result, insiders have strong incentives to donate corporate stock strategically to ensure the gift occurs at the highest possible stock price.

On top of the tax motive to donate corporate stock at a high price, lax regulation around stock gifts provides considerable opportunity for manipulation. Until quite recently, stock gifts were exempt from the requirement that insiders' open market stock purchases and sales be reported to the SEC on Form 4 within two business days.[6] Instead, stock gifts were allowed to be reported on Form 5, for which the filing deadline occurs 45 days after the fiscal year-end, meaning that gifts could potentially be reported more than 400 days after the effective gift date. In addition, stock gifts are exempt from the short-swing profit prohibition of Section 16(b) barring insiders from acquiring a security and then disposing of it at a higher price (or vice versa) within six months.

Prior work has shown that insiders routinely take advantage of the loose regulatory environment around corporate stock donations for personal benefit. Yermack (2009), studying stock gifts made by CEOs to their own family foundations, finds that stock returns around gifts

[6] In December 2022, the SEC adopted rules requiring insiders to report stock gifts on Form 4 within two business days. The new rules are effective beginning April 1, 2023: https://www.sec.gov/news/press-release/2022-222.

exhibit an inverse-V-shaped pattern with the gift occurring at the peak stock price. Avci et al. (2016) observe a similar pattern for a broader sample of insiders. The findings are strongly suggestive of stock gift backdating, which would likely be considered illegal tax fraud (Avci et al., 2016; Yost and Shu, 2022). Overall, the combination of strong personal tax incentives and a weak regulatory environment makes insider stock gifts a uniquely powerful setting to identify executives with a tendency to engage in aggressive, corner-cutting behavior for their own gain.

2.2 Managers' off-the-job behavior and corporate outcomes

A large and growing literature in recent years has studied the relation between managers' personal characteristics and corporate outcomes (Hanlon et al., 2022), and one strand focuses on the use of managers' "off-the-job" behavior to infer managerial traits (Ge and Moon, 2021). Linking off-the-job behavior to managers' corporate-level decisions relies on behavioral consistency theory (Allport 1937, 1966; Epstein 1979, 1980; Funder and Colvin, 1991), which posits that individuals tend to exhibit consistent behavior across different situations. For instance, prior work has linked managers' use of personal loans to corporate leverage (Cronqvist et al., 2012), past legal infractions to financial fraud (Davidson et al., 2015), and owning a pilot license to corporate risk-taking and innovation (Cain and McKeon, 2016; Sunder et al., 2017).[7]

Perhaps the two most closely related studies to ours are Chyz (2013) who finds that firms with personally tax aggressive executives exhibit greater corporate tax aggressiveness, and Biggerstaff et al. (2015) who find that firms with "unethical" CEOs are more likely to engage in financial fraud and earnings management. Chyz (2013) identifies personally tax aggressive executives as those who benefit from stock option *exercise* backdating, whereas Biggerstaff et al.

[7] In a related study, Jang (2020) finds that firms with personally tax aggressive executives exhibit increased corporate philanthropy. Jang (2020) attributes the dissonance between self-dealing behavior at the personal level and prosocial behavior at the corporate level to "moral cleansing" or "conscience accounting."

(2015) identify unethical CEOs as those who benefit from stock option *grant* backdating. While these studies represent important milestones in the literature, the passage of SOX in 2002 severely restricted executives' ability to backdate stock options, limiting the usefulness of option-based measures to identify executives likely to engage in financial fraud or corporate tax avoidance.[8] In contrast, we use insider stock gifts, which were unaffected by SOX and are subject to lower regulatory and litigation risk than other insider transactions, to identify suspect executives.

2.3 Corporate violations

The recent availability of the Good Jobs First Violation Tracker database has led to a surge of interest in understanding the factors driving corporate violations. The data allows researchers to examine a wide range of corporate regulatory violations that previously was difficult for outsiders to observe. For example, researchers can now observe violations related to workplace safety, environmental laws, and labor laws (i.e., violations of wage and hour laws), among other types of violations. The data provide researchers with an opportunity to gain a better sense of the overall consequences of corporate behavior on stakeholders in the firm.

The emerging literature on the drivers of corporate violations includes Heese et al. (2022), who find that local newspaper closures lead to increased violations by facilities in the same geographic area, due to the loss of media monitoring. Zaman et al. (2021) find that corporate misconduct is more prevalent when boards have a higher proportion of co-opted directors (i.e., directors appointed during the current CEO's tenure). Raghunandan (2021) shows that firms engaging in financial misconduct are also more likely to engage in employee wage theft. Several concurrent studies consider factors such as monitoring by institutional investors and corporate customers (Chen et al., 2022; Neukirchen et al., 2022), risk-taking equity incentives (Chircop et

[8] Chyz (2013) notes that SOX "led to changes in the way executives reported stock option exercises to the SEC, thereby precluding identification of suspect executives using stock option exercise data after August 29, 2002."

al., 2022), and regulatory coordination (Raghunandan and Ruchti, 2022). However, to our knowledge, we are the first to examine the role of executives' traits in driving corporate violations.

2.4 Hypothesis

We conjecture that insider stock gifts can be used to identify executives with a tendency to engage in corner-cutting behavior for gain. The tax benefits from donating corporate stock are directly tied to the value of the stock at the time of the gift, providing a strong monetary incentive for insiders to exploit their private information to opportunistically time gifts and/or backdate gifts to a date with a high stock price. We label executives who consistently donate corporate stock at uncommonly high prices as personally tax aggressive, and posit that such executives are inclined to cut corners in their corporate decision-making. For example, they may reduce investment in workplace safety or environmental protection measures if they feel such investments do not benefit them personally. Or they may engage in employee wage theft by refusing to pay overtime wages or forcing employees to underreport the number of hours worked (e.g., Raghunandan, 2021). Such corner-cutting behavior by executives should manifest in a higher rate of regulatory violations at the firm. Formally, we state our hypothesis as:

H: *Firms with personally tax aggressive executives exhibit greater corporate violations.*

Notwithstanding the above arguments, there are reasons we may not observe greater regulatory violations among firms with personally tax aggressive executives. First, if such executives view corporate investment into areas such as workplace safety and environmental protection concerns as in their personal interest (e.g., maximizing firm stock price or ensuring job security), they may choose not to cut corners on investing in these areas. Second, pressure from outside monitors and stakeholders in the firm (e.g., labor unions) may deter executives from underinvesting in these areas. We exploit some of these pressures in our empirical analysis.

3. Research Design and Sample Selection

3.1 Sample selection

Table 1 Panel A summarizes the selection process for insider stock gifts. Stock gift information comes from Thomson Reuters Insider Filing Data Feed (TFN), which captures all U.S. insider activity as reported on SEC Forms 3, 4, 5, and 144. We begin with all stock dispositions with transaction code "G" made by firms' top executives during the 1992-2020 time period.[9] Following prior work (e.g., Adebambo et al., 2015; Avci et al., 2016) we consider the following roles as top executives: CEO, CFO, COO, President, Chairman of the Board, Vice Chairman, Executive Vice President, Senior Vice President, and Vice President. To ensure the accuracy of the data, we limit our sample to transactions with cleanse codes "R" or "H" (Avci et al., 2021). We exclude stock gifts to family members since such gifts do not generate the same tax benefits as charitable donations. Following Brown et al. (2022), transactions are identified as gifts to family members when there is a same-day, indirectly-owned, acquisition of stock for the same number of shares as the gift. We further exclude gifts not directly owned by the insider, gifts missing transaction dates or SEC report dates, and gifts we are unable to match to CRSP and Compustat. If an individual makes multiple gifts of the same firm's stock on the same day, those gifts are consolidated into a single observation. Gifts by insiders in utilities and financial firms are excluded (SIC codes 4900-4949 and 6000-6999) as well as gifts matched to firm-years with missing data required to construct control variables. Our final sample contains 45,337 insider stock gifts from 1992-2020.

Table 1 Panel B outlines the selection process for the sample of corporate violations. We obtain violations from Violation Tracker, a database created by the Corporate Research Project of

[9] Consistent with prior work on insider stock option grants (e.g., Yermack, 1997; Biggerstaff et al., 2015), our sample of stock gifts begins in 1992 due to the sparsity of insider transaction data in earlier years.

Goods Jobs First. Collected from more than 400 agencies including federal and state regulatory agencies in the U.S., Violation Tracker contains more than 512,000 civil and criminal cases carrying penalties of $786 billion since 2000.[10] Because the database is organized at the subsidiary level, we use Violation Tracker's historical parent-subsidiary linking table to link each violation to the correct parent firm at the time of the penalty. Since our focus is on public firms, we exclude violations linked to privately-held parents, violations lacking a historical CIK identifier, and violations we are unable to match to Compustat firms. After excluding violations by utilities and financial firms (SIC codes 4900-4949 and 6000-6999) as well as those matched to firm-years with missing data required to construct control variables, we obtain a final sample of 46,617 violations from 2000-2020.

Table 1 Panel C displays the selection process for the sample of firm-years used throughout the analyses. We start with Compustat fiscal firm-years during the 1999-2019 period and retain only firms with at least one insider transaction in TFN during that window. We exclude foreign firms, utilities and financial service firms (SIC codes 4900-4949 and 6000-6999), as well as firm-years with missing data required to construct control variables. Because Violation Tracker records violations based on the detection or settlement date as opposed to the date during which the violation activity actually occurred (e.g., Gencer, 2021; Raghunandan, 2021), our maintained assumption is that the violation activity occurred in the fiscal year just prior (i.e., year *t-1*) to the year recorded in Violation Tracker (i.e., year *t*).[11] Our final panel comprises 65,044 firm-years from 1999-2019.

[10] Violation Tracker excludes small violations for which the penalty or settlement amount is less than $5,000.

[11] For example, Violation Tracker shows Honeywell International is subject to an environmental offense penalty of $45,000 on March 23, 2010; we assume this violation occurred in Honeywell's 2009 fiscal year. In untabulated analyses, we find our inferences are robust to assuming the violations occurred 1) two years prior to the detection/settlement dates, as well as 2) in the year of the actual detection/settlement dates.

3.2 Variable measurement

3.2.1 Personally tax aggressive executives

We identify personally tax aggressive executives based on their stock gift transactions. As discussed above in Section 2.1, insiders can opportunistically time gifts of stock based on their private information and/or fraudulently backdate gifts to occur on a date with a high stock price in order to maximize their personal tax benefits. For each stock gift, we determine the percentile of the firm's stock price on the gift date relative to the distribution of the firm's closing stock prices on all trading dates that could have been selected in the same fiscal year, and classify gifts occurring at prices above the 95th percentile of the distribution as "tax aggressive". The set of possible gift dates is determined from the start of the fiscal year to the earlier of the SEC report date or the end of the fiscal year (Yost and Shu, 2022).

Figure 1 provides an illustrated example of an insider stock gift classified as tax aggressive, as well as our process for making such a determination. A top executive of Polaris Industries, Inc. made a gift of Polaris stock with a purported transaction date of February 26, 2015, and the gift was reported to the SEC nearly a year later, on January 29, 2016. As such, the window of "possible dates" the executive could claim as the transaction date includes the entire fiscal year (i.e., Jan. 1, 2015 to Dec. 31, 2015), during which Polaris's closing stock price ranged from a low of $69.61 to a high of $157.62. The 95th percentile stock price is $154.18; the cutoff above which stock gifts are considered to be tax aggressive for Polaris in 2015. The closing stock price on February 26, 2015 (the purported transaction date) was $157.62, the firm's peak stock price during the year. Hence, we classify the executive's gift as tax aggressive.

Figure 2 presents a histogram of the percentage of total insider stock gifts occurring within each five-percentile bin of the distribution of possible stock prices (e.g., 0%-5%, 5%-10%, etc.).

If insider stock gifts occurred randomly throughout the year, one would expect each bin to contain approximately 5% of total stock gifts. In contrast, we observe a disproportionately large share of stock gifts (approximately 16.5%) occurring in the top bin, with fewer than expected gifts in the bins below the 75th percentile. We label gifts in the top bin (i.e., 95%-100%) as tax aggressive.

Following the methodology in Biggerstaff et al. (2015) for stock options, we classify executives as personally tax aggressive if 30% or more of their total career stock gifts are labeled as tax aggressive. We define our primary independent variable of interest, *Tax Aggressive Exec*, as an indicator variable equal to one if a firm has one or more personally tax aggressive executives in the fiscal year, and zero otherwise. We obtain the presence of individual executives at a firm in a given year using data from BoardEx.[12]

3.2.2 Corporate violations

We employ three measures at the firm-year level to capture the propensity, frequency, and severity of corporate regulatory violations. *Violation* is an indicator variable equal to one if a firm commits a violation during a fiscal year, and zero otherwise. *Violations Num* is the natural log of one plus the number of violations by the firm during a fiscal year.[13] *Penalty Amount* is the natural log of one plus the total penalties for violations by the firm during a fiscal year.

3.2.3 Control variables

We follow prior literature and control for a number of factors shown to be associated with corporate violations. We control for firm characteristics including size (*Size*), book-to-market value of equity (*BTM*), return on assets (*ROA*), leverage (*Leverage*), the presence of an operating loss (*Loss*), R&D intensity (*R&D*), cash holdings (*Cash*), past abnormal stock returns (*CAR 1-Yr*),

[12] We obtain similar inferences when estimating executive presence in a firm based on the first and last dates of any stock transactions provided in Thomson Reuters Insider Filing Data Feed (Chyz, 2013).

[13] In untabulated analysis, we obtain similar inferences when *Violations Num* is measured as the raw number of violations in a firm-year and Eq. (1) below is estimated as either a Poisson or negative binomial regression.

and return volatility (*Ret Vol*) (e.g., Heese et al., 2021; Raghunandan, 2021; Raghunandan and Rajgopal, 2021). We also include an indicator variable equal to one if at some point during our sample period a firm insider makes a stock gift (*Gift*), in order to control for potential differences between firms with and without insider stock gifts.

3.3 Summary statistics

Table 2 presents the summary statistics for the main sample of firm-years. The average probability that a firm commits one or more violations in any given fiscal year (*Violation*) is 15.7%. The average annual number of violations a firm commits (*Raw Violations Num*) is 0.717. And the average annual value of penalties assessed for violations (*Raw Penalty Amount*) is $1.919 million, comparable to the figure of $1.542 million in Heese et al. (2022). The mean value of *Tax Aggressive Exec* is 0.212, indicating that one or more personally tax aggressive executives is present in 21.2% of sample firm-years. Our figure is comparable to Chyz (2013), who finds that personally tax aggressive executives are employed in approximately 17.9% of sample firm-years.[14]

3.4 Regression specification

We test our central hypothesis by estimating the following linear probability model at the firm-year level:[15]

$$Violation_{i,t} = \alpha + \beta_1 Tax\ Aggressive\ Exec_{i,t} + \beta_k Controls_{i,t} + \delta_{ind} + \gamma_t + \epsilon_{i,t} \qquad (1)$$

In the equation above, *i* and *t* index firms and years, respectively. The dependent variable, $Violation_{i,t}$ represents firm *i*'s corporate violations during year *t*, proxied by *Violation*, *Violations Num*, and *Penalty Amount*. $Tax\ Aggressive\ Exec_{i,t}$ represents the presence of one or more personally tax aggressive executives at firm *i* in year *t*. *Controls* represents the vector of control

[14] This figure is based on Chyz (2013) reporting that 1,402 of 7,821 sample firm-years include a suspect executive.
[15] We opt for a linear probability model rather than a limited dependent variable model when *Violation* is the dependent variable to allow for easy interpretation of the coefficients, as well as to avoid bias imposed by the use of fixed effects (Angrist and Pischke, 2008). However, we find our inferences are unchanged by the use of logit or probit regressions.

variables discussed above, whereas δ_{ind} and γ_t represent two-digit SIC industry fixed effects and fiscal year fixed effects, respectively. Standard errors are clustered at the firm and fiscal year level. We predict a positive β_1, indicating that firms with personally tax aggressive executives exhibit a greater propensity to commit violations, commit more violations, and incur a larger dollar amount of penalties associated with violations.

4. Main Results

4.1 Baseline analysis: Personally tax aggressive executives and corporate violations

Table 3 Panel A tabulates the results from estimating Eq. (1). The results are shown for three proxies for corporate violations: *Violation* (column 1), *Violations Num* (column 2), and *Penalty Amount* (column 3). In column 1, the significantly positive coefficient on *Tax Aggressive Exec* (coef.= 0.053; t-stat.= 6.38) denotes that firms with a personally tax aggressive executive are more likely to commit a violation compared to firms without a tax aggressive executive. Columns 2 and 3 show similar results for *Violations Num* and *Penalty Amount* (coef.= 0.085; t-stat.= 6.30 and coef.= 0.648; t-stat.= 6.56, respectively), indicating that firms with tax aggressive executives also exhibit more violations and incur greater penalties associated with violations.

Our results imply that firms with a personally tax aggressive executive are 5.3% more likely to commit a violation than firms without such an executive. Compared to the sample mean of 15.7%, the effect represents a 33.8% relative increase in violation likelihood. Similarly, firms with personally tax aggressive executives commit 44.3% more violations and incur 35.3% more in penalties, relative to sample means. These findings translate to approximately $678,000 more annually in direct economic penalties. Although the magnitudes may appear large at first glance, they are in line with recent and concurrent work examining other drivers of corporate violations. For instance, Chen et al. (2022) finds that the presence of a major corporate customer reduces a

supplier's penalties by 24.5%, whereas Neukirchen et al. (2022) find that institutional investor distraction is associated with a 30.8% increase in penalties.

Next, we investigate the relation between personally tax aggressive executives and different types of violation. We group together similar types of offenses reported by Violation Tracker to construct six categories of violations: safety, environmental, employment, consumer protection, competition, and financial.[16] Table 3 Panel B shows the results from estimating Eq. (1) for each violation type. For brevity, we tabulate the results only for *Violations Num*, but we find similar inferences for *Violation* and *Penalty Amount*. The results reveal significantly positive coefficients on *Tax Aggressive Exec* for all six violation types, indicating that personally tax aggressive executives are associated with increased regulatory violations across a wide range of corporate activities. Overall, the findings in Table 3 support our main hypothesis.

4.2 Cross sectional analysis: The role of external monitors and influential stakeholders

In this subsection, we examine the influence of external monitoring and influential stakeholders on the relation between personally tax aggressive executives and corporate violations. Recent work suggests that firms commit more violations when monitors such as institutional investors are distracted or compromised (Neukirchen et al., 2022). We conjecture the presence of strong external monitoring will rein in personally tax aggressive executives' behavior and lead to fewer corporate violations. We employ two proxies for external monitoring: institutional ownership and analyst coverage. For each proxy, we construct an indicator variable, *Strong Monitor*, equal to one for firm-years with a value in the top tercile, and zero otherwise.[17] To test

[16] Appendix B shows how we construct the six categories from Violation Tracker and provides details on violation frequency and magnitude by category.

[17] Because institutional ownership and analyst coverage are highly correlated with firm size, we compare values for both proxies within each firm's size decile.

the role of monitoring in our setting, we estimate Eq. (1) after adding terms for *Tax Aggressive Exec* × *Strong Monitor* and *Strong Monitor*, and present the results in Panel A of Table 4.

Columns 1-2 show the results examining the effect of institutional ownership and analyst coverage, respectively, on the number of violations.[18] The columns reveal significantly positive coefficients on *Tax Aggressive Exec* (coef.= 0.110; t-stat.= 6.54 and coef.= 0.089; t-stat.= 5.85), consistent with our findings in Table 3. However, the coefficients on *Tax Aggressive Exec* × *Strong Monitor* are significantly negative in both columns (coef.= -0.070; t-stat.= -3.23 and coef.= -0.038; t-stat.= -1.86), implying that tax aggressive executives commit fewer violations when institutional ownership and analyst coverage are relatively high. Economically, the impact of high institutional ownership (analyst coverage) offsets approximately 63.6% (42.7%) of the increase in violations associated with the presence of a tax aggressive executive.

We conduct a similar analysis examining two groups of influential stakeholders most likely to be adversely affected by corporate regulatory violations: employees and local residents.[19] We capture the role of employees by considering the strength of labor unions, which we proxy for using the share of employees in the firm's headquarters state covered by a collective bargaining agreement in a given year (e.g., Hirsch and Macpherson, 2003; Gupta et al., 2020). We capture the role of local residents by considering the level of social capital around the firm's headquarters.[20] We proxy for social capital using a county-level social capital index developed by the U.S. Congress Joint Economic Committee and designed around four dimensions: (1) family structure and stability, (2) community health, (3) trust and confidence in institutions, and (4) collective

[18] In untabulated analysis, we find our inferences are similar for *Violation* and *Penalty Amount*.
[19] Appendix B shows that workplace safety and environmental issues together constitute 85% of sample violations.
[20] Social capital is viewed as a set of norms facilitating mutual trust, cooperation, and altruistic tendencies (Fukuyama, 1997; Guiso et al., 2004), and past research finds it is associated with socially beneficial behavior such as reduced property crime, improved corporate social responsibility, and higher financial reporting quality (Buonanno et al., 2009; Cox and Jha, 2015; Jha, 2019).

efficacy (i.e., the violent crime rate). The index is based on data from sources such as the American Community Survey, the Election Administration and Voting Survey, etc., and has been used in recent studies on social capital (e.g., Ding et al., 2020; Bai et al., 2022).[21] For each proxy, we construct an indicator variable, *Strong Stakeholder*, equal to one if the firm is headquartered in a region with a value in the top tercile, and zero otherwise.

Table 4 Panel B shows the results examining the role of influential stakeholders. Both columns 1-2 show significantly negative coefficients on *Tax Aggressive Exec* × *Strong Stakeholder* (coef.= -0.080; t-stat.= -2.97 and coef.= -0.071; t-stat.= -2.50, respectively). The results indicate that being located in an area with high labor union presence or high social capital significantly mitigates the positive relation between personally tax aggressive executives and corporate violations. Economically, the influence of strong labor union presence (social capital) offsets approximately 76.9% (65.1%) of the increase in violations associated with the presence of a tax aggressive executive. Overall, the findings in Table 4 suggest that outside monitors and influential stakeholders impose discipline on executives who would otherwise tend to make corporate decisions leading to regulatory violations.

4.3 Tests of causal inference: Tax aggressive executives joining and leaving the firm

Our findings to this point indicate that firms with personally tax aggressive executives commit significantly more violations, and strong external monitors and influential stakeholders can mitigate such outcomes. However, the evidence does not necessarily imply a causal link. For instance, it is possible that executives who engage in personally tax aggressive behavior tend to be attracted to firms with an existing culture that fosters violations. To better understand the direction

[21] See https://www.jec.senate.gov/public/index.cfm/republicans/2018/4/the-geography-of-social-capital-in-america for additional information about the construction of the social capital index.

of causality, we conduct event-time analysis to test for changes in corporate violations around the arrivals and departures of personally tax aggressive executives.

Because the arrivals and departures of tax aggressive executives are staggered over time for different firms, we employ a generalized difference-in-differences approach (e.g., Dube and Zhu, 2021; Lee et al., 2021; Braghieri et al., 2022). For our arrival tests, we identify treated firms as those that hired a tax aggressive executive, and retain four years of data before and after the hiring (inclusive of the hiring year). Similarly, for our departure tests, we identify treated firms as those from which a tax aggressive executive departs, and retain four years of data before and after the departure. We employ two different control samples for the two tests. For the arrival tests, our control group consists of firm-years without a tax aggressive executive, whereas for the departure tests, our control group consists of firms that consistently employ a tax aggressive executive. We estimate the following model separately for our arrival and departure samples:

$$Violation_{i,t} = \beta_1 Treated_i \times Post_{i,t} + \beta_2 Treated_i + \beta_k Controls_{i,t} + \delta_{ind} + \gamma_t + \epsilon_{i,t} \qquad (2)$$

In the equation above, i and t index firms and years, respectively. $Treated_i$ is a time-invariant indicator variable equal to one for firms with a tax aggressive executive hire or departure at some point, and zero otherwise. $Post_{i,t}$ is an indicator variable equal to one for years following a tax aggressive executive's arrival or departure, and zero for earlier years. All other variables are as defined previously. The coefficient of interest is β_1. For firms with personally tax aggressive executives joining (leaving) the firm, we predict a positive (negative) β_1, indicating increased (decreased) corporate violations following the executive's arrival (departure).

Table 5 Panel A displays the results of estimating Eq. (2) for our executive arrivals sample. Columns 1-3 all show significantly positive coefficients on *Treated* × *Post*, indicating an increased likelihood, number, and penalty amount of violations after the arrival of a tax aggressive executive.

In contrast, columns 1-3 of Panel B display significantly negative coefficients on *Treated* × *Post*, denoting a reduced likelihood, number, and penalty amount of violations after the departure of a tax aggressive executive.

Next, we conduct a year-by-year, event-time analysis of tax aggressive executives joining and leaving the firm to examine the validity of the parallel trends assumption (Angrist and Pischke, 2008). Figure 3 Panel A (Panel B) presents the plotted coefficients of a modified Eq. (2) in which *Post* is replaced with separate indicators for each year surrounding a tax aggressive executive's arrival (departure), and includes 90% confidence intervals based on standard errors clustered at the firm and year levels. Panel A shows no difference between treated and control firms before a tax aggressive executive joins the firm (years *t-4* to *t-1*), but violations increase significantly after such an executive arrives (years *t* to *t+3*). Similarly, Panel B shows no difference between treated and control firms before a tax aggressive executive leaves the firm (years *t-4* to *t-1*), but violations drop significantly after the executive departs (years *t* to *t+3*). The figures suggest the existence of parallel trends for the treatment and control groups in the pre-treatment period. Overall, the findings in Table 5 and Figure 3 provide plausibly causal evidence that personally tax aggressive executives drive corporate decisions leading to regulatory violations.[22]

4.4 Channels: Investments in workplace safety and environmental protection

In this subsection, we aim to shed light on the channels through which personally tax aggressive executives' decisions lead to increased violations. We conjecture that executives with a propensity to cut corners on tax laws are more likely to cut corners in other matters of regulatory concern. For instance, such executives may not feel compelled to invest in workplace safety or

[22] Recent studies note that in the presence of treatment effect heterogeneity, staggered difference-in-differences may produce biased estimates (e.g., Callaway and Sant'Anna, 2021; Baker et al., 2022). In untabulated robustness tests, we employ estimators developed by Callaway and Sant'Anna (2021) to correct for the potential bias and find that our inferences are unchanged.

environmental protection measures simply to comply with regulatory mandates. Consequently, we may observe underinvestment in these areas by firms with tax aggressive executives, resulting in more violations. We explore this possibility in two steps. First, we directly examine the relation between tax aggressive executives and firm investment in safety-related expenditures and environmental efficiency. Second, we examine any moderating impact of such investments on the relation between tax aggressive executives and corporate violations.

We proxy for safety-related expenditures following Caskey and Ozel (2017) as abnormal discretionary expenses per employee (*Ab Disc Exp*). We proxy for firms' environmental efficiency following Lyu et al. (2022) as the natural log of toxic releases (in thousands of pounds) scaled by the sum of cost of goods sold and change in inventory (*Envir Efficiency*).[23] We estimate Eq. (1) with *Ab Disc Exp* and *Envir Efficiency* as dependent variables and present the results in Table 6 Panel A. Columns 1-2 display negative and significant coefficients on *Tax Aggressive Exec* (coef.= -0.017; t-stat.= -2.20 and coef.= -0.030; t-stat.= -2.49, respectively), denoting lower investment in both workplace safety and environmental efficiency in the presence of tax aggressive executives.

Next, we validate the influence of workplace safety and environmental investments on the relation between tax aggressive executives and regulatory violations following the approach used in recent work (e.g., Caskey and Ozel, 2017; Amin et al., 2021). We include terms for *Tax Aggressive Exec* × *Investment* and *Investment* in Eq. (1) and present the estimation results in Panel B of Table 6.[24] In column 1, the positive coefficient on *Tax Aggressive Exec* shows tax aggressive executives are linked to more violations (coef.= 0.128; t-stat.= 4.87), whereas the negative coefficient on *Tax Aggressive Exec* × *Investment* (coef.= -0.130; t-stat.= -3.26) indicates that

[23] *Envir Efficiency* is multiplied by negative one such that higher values reflect improved environmental efficiency. Toxic release data are from the Toxics Release Inventory (TRI) program of the U.S. Environmental Protection Agency. We convert *Ab Disc Exp* and *Envir Efficiency* into decile ranks scaled to range from 0 to 1 to facilitate interpretation.
[24] For brevity we tabulate results for *Violations Num*, but we find similar inferences for *Violation* and *Penalty Amount*.

greater investment in workplace safety mitigates the relation between tax aggressive executives and total violations. Column 2 shows that higher safety-related expenditures helps reduce workplace safety-related violations, specifically. Column 3 (column 4) reveals a similar mitigating effect of environmental protection investment on the relation between tax aggressive executives and total (environmental) violations. Overall, the findings in Table 6 provide evidence of personally tax aggressive executives underinvesting in areas of regulatory concern, leading to increased regulatory violations.

4.5 Suspect insider transactions and corporate violations: The impact of SOX

In this subsection we seek to differentiate our stock gift-based approach to identifying "suspect" executives from the stock option-based approach used by Biggerstaff et al. (2015).[25] Biggerstaff et al. (2015) use backdated stock option grants to identify CEOs likely to engage in financial misbehaviors such as financial fraud and earnings management. However, the enactment of SOX in 2002 shortened the window for stock option reporting to two business days, severely curtailing executives' ability to backdate stock options (e.g., Heron and Lie, 2009). Consequently, we conjecture that the ability of the stock option-based approach to identify suspect executives fades in the post-SOX period. In contrast, the reporting requirements for insider stock gifts were unaffected by SOX. Hence, we expect our stock gifts-based approach to effectively identify corner-cutting executives in both the pre-SOX and post-SOX periods.[26]

[25] To maintain consistency with our stock gift-based approach, our options-based approach identifies executives as suspect if at least 30% of their total stock options are granted at a price below the 5th percentile of daily stock prices during the month. In untabulated analysis, we obtain similar inferences when identifying executives as suspect if at least 30% of their total stock options are granted at the lowest possible stock price during the month.

[26] In Appendix C, we also differentiate our approach from that of Chyz (2013), who shows that executives who benefit from backdated stock option *exercises* are associated with greater corporate tax avoidance. We find such executives are associated with greater corporate tax avoidance in the pre-SOX era, but that association disappears in the post-SOX era. In contrast, executives who make tax aggressive stock gifts are associated with greater corporate tax avoidance in both the pre-SOX and post-SOX eras.

To validate our presumption about the effects of SOX on insider transactions, in Figure 4 we plot the relative frequency of different types of "suspect" insider transactions annually during calendar years 1996-2020. The dotted red line represents the percentage of total stock options with likely backdated stock option grant dates, whereas the solid blue line represents the percentage of total insider stock gifts classified as tax aggressive. As shown in the figure, the proportion of backdated stock option grants declines noticeably after the 2002 implementation of SOX. However, the proportion of insider stock gifts occurring at suspiciously high prices exhibits a large and sustained *increase* after 2002, implying SOX did nothing to inhibit tax aggressive stock gifts.[27]

Next, we test our predictions by studying the link between firms with suspect executives and corporate violations in both the pre- and post-SOX periods. In Table 7 Panel A, we estimate Eq. (1) with an indicator variable, *Suspect Exec (Option Grant)*, equal to one for firms with one or more executives involved in option grant backdating, and zero otherwise, for pre- and post-SOX years. Column 1 shows a significantly positive coefficient on *Suspect Exec (Option Grant)* (coef.= 0.032; t-stat.= 2.44), indicating that in the pre-SOX era, firms with executives involved in option grant backdating are more likely to commit violations. However, column 2 shows an insignificant coefficient on *Suspect Exec (Option Grant)* (coef.= 0.014; t-stat.= 1.02), implying no link between firms with suspect executives and corporate violations in the post-SOX era. Columns 3-6 yield similar inferences for the other corporate violation proxies, *Violations Num* and *Penalty Amount*.

Table 7 Panel B presents the results from estimating Eq. (1) with the stock-gift based proxy *Tax Aggressive Exec* in both the pre- and post-SOX periods. In contrast to the results for the stock option-based proxy, both columns 1-2 show positive and significant coefficients on *Tax Aggressive Exec* (coef.= 0.063; t-stat.= 6.29 and coef.= 0.050; t-stat.= 5.56, respectively), denoting a strong

[27] In fact, the patterns in Figure 4 raise the possibility that insiders responded to the loss of option backdating as a channel for self-dealing by making more tax aggressive stock gifts.

positive link between personally tax aggressive executives and corporate violations in both the pre- and post-SOX eras. Columns 3-6 reveal similar findings for *Violations Num* and *Penalty Amount*. Overall, the findings in Table 7 and Figure 4 suggest that our insider stock gift-based approach is more powerful and useful than the previously-used stock option-based measure for identifying executives likely to commit corporate violations, particularly following the implementation of SOX.

5. Additional Analyses

5.1 Falsification and placebo tests

In this subsection, we perform a falsification test and a placebo test to tighten our main inferences. First, we examine executives who make more than 30% of their total career stock gifts at prices between the 70th and 80th percentiles of possible stock prices and label such executives as "non-tax aggressive executives".[28] The idea is that firms with non-tax aggressive executives should be otherwise similar to firms with tax aggressive executives, but non-tax aggressive executives are less likely to engage in corner-cutting behavior leading to regulatory violations.

We estimate Eq. (1) after replacing *Tax Aggressive Exec* with *Non-Tax Aggressive Exec* and display the results in Table 8. Across all three dependent variables, the coefficients on *Non-Tax Aggressive Exec* are statistically indistinguishable from zero, denoting no relation between the presence of non-tax aggressive executives and corporate violations.

Next, to assess the possibility that our main findings in Table 3 Panel A could arise simply by chance, we conduct placebo tests in which we randomly classify firm-years as employing a tax aggressive executive and examine the relation with corporate violations. Following a similar methodology to Pinto (2022), we randomly classify 21.2% of sample firm-years as employing a

[28] Recall that tax aggressive executives are defined as those who make more than 30% of their total career stock gifts at prices above the 95th percentile of the distribution of possible stock prices.

tax aggressive executive (to match the observed percentage of firm-years with tax aggressive executives), and use Eq. (1) to obtain estimates of the "pseudo" *Tax Aggressive Exec* t-statistics. We repeat this process 1,000 times and plot the distribution of the t-statistics arising from the placebo estimates in Figure 5. The figure shows the distribution of t-statistics is centered around zero, with an average of 0.029. Moreover, the placebo estimates never generate a t-statistic as large as that estimated in our true sample (shown as the vertical dotted red line in Figure 5).[29] Thus, based on these simulations, there is a zero in 1,000 chance of randomly observing the effects shown in Table 3 Panel A if the null of no relation between tax aggressive executives and corporate violations is in fact true. Overall, the results in Table 8 and Figure 5 suggest that our main findings are due to the unique, corner-cutting nature of personally tax aggressive executives.

5.2 Matching analysis

To further rule out the concern that our findings are due to underlying differences between firms with and firms without personally tax aggressive executives, we employ two commonly-used matching techniques: entropy balancing and propensity score matching (Hainmueller, 2012; McMullin and Schonberger, 2020). Designating our sample of firms with tax aggressive executives as the treated group, we use entropy balancing to reweight the sample of firms without tax aggressive executives (the control group). We match firms *on Size, BTM, ROA, Leverage, Loss, R&D, Cash, CAR 1-Yr, and Ret Vol,* and require that *Gift* = 1 for all firms included in both the treatment and control groups. Appendix D Panel A shows the entropy balancing procedure yields treatment and control groups with nearly identical distributions for the matching variables.

To match firms based on propensity scores, we estimate a probit regression where the dependent variable is an indicator equal to one (zero) for firms with (without) a tax aggressive

[29] For brevity, we present the results using only *Violations Num* as the dependent variable, but find that our inferences are similar for *Violation* and *Penalty Amount*.

executive, and the independent variables are the same as those used above. We use nearest-neighbor matching within caliper (set at 0.01) and require matched firms to belong to the same two-digit SIC industry code. Appendix D Panel B shows the matching procedure results in control firms with *BTM* marginally higher than for treated firms (t-stat.= 1.67), but otherwise no significant differences between the treated and control firms.

Table 9 shows the results for both matched samples. The table shows that, irrespective of the matching procedure used, a significantly positive relation exists between *Tax Aggressive Exec* and *Violation*, *Violations Num*, and *Penalty Amount*, consistent with our findings in Table 3 Panel A. Overall, the results mitigate concerns that our main findings are due to underlying differences between firms with and firms without personally tax aggressive executives, and strengthen our inference that the elevated levels of corporate violations are driven by the executives themselves.

5.3 Executives' past stock gifting behavior and future corporate violations

In our main analysis, we identify personally tax aggressive executives using all available insider stock gift data (i.e., from 1992 to 2020) and consider the relation between such executives and corporate violations for an overlapping time period. In this subsection, we examine whether past stock gifting behavior can be used to predict future violations. We use historical stock gift transactions over rolling time windows to identify tax aggressive executives (i.e., the construction window) and re-estimate Eq. (1) using this alternative method of identifying such executives.[30]

The results of our analysis are shown in Table 10. In columns 1-3, the construction window consists of cumulative stock gift transactions from 1992 up to the year of interest, whereas in columns 4-6 the construction window consists of stock gift transactions in the prior five years before the year of interest. In both cases, we observe significantly positive coefficients on *Tax*

[30] Note that in our main analysis, our classification method assumes that personal tax aggressiveness is a fixed trait, whereas under this alternative classification method it can be a time-varying trait.

Aggressive Exec for all three measures of corporate violations. Moreover, the coefficient magnitudes are comparable to those in our main analysis shown in Table 3 Panel A.

The findings in Table 10 have three main implications. First, they suggest that regulators and potential employers may be able to use insiders' past stock gifting activity to identify those likely to commit regulatory violations in the future.[31] Second, they allow for the possibility that an executive's nature may change over time (i.e., that a propensity to cut corners with regard to regulations may not be a fixed or immutable trait). Third, by relying on past stock gift transactions, they mitigate concerns that our main results are due to periods of extreme volatility simultaneously driving both insider stock gifts as well as increased corporate violations.

5.4 Robustness tests

5.4.1 Alternative definitions of top executives

In this subsection, we test the robustness of our main inferences to two alternative definitions of top executives (originally defined as the top nine executives of a firm). Our first alternative considers the top five executives (CEO, CFO, COO, President, and Board Chairman), and our second alternative considers the CEO and CFO only. Table 11 Panel A displays the results for both alternatives, with columns 1-3 (4-6) showing the results for "Top 5 Executives" ("CEO and CFO"). In both sets of tests, we find a strong positive link between the presence of personally tax aggressive executives and corporate violations, consistent with our main findings.

5.4.2 Alternative definitions of tax aggressive gifts

Here we examine the robustness of our main findings to alternative definitions of tax aggressive stock gifts (originally defined as gifts made above the 95th percentile of the distribution

[31] In response to our findings during a presentation at the 2023 American Taxation Association Midyear Meeting in Washington, D.C., one audience member with work experience at the SEC remarked that perhaps the regulatory agency should retain its lax reporting requirements for insider stock gifts as a "honeypot" to be used to identify executives with a propensity to commit regulatory violations.

of possible stock prices), and display the results in Table 11 Panel B. In columns 1-3 (4-6) we show our main findings are robust when tax aggressive stock gifts are defined as those made above the 90th (99th) percentile of the distribution of possible stock prices.

5.4.3 Alternative definitions of tax aggressive executives

Next, we test the robustness of our main findings to alternative definitions of tax aggressive executives (originally defined as those who make greater than 30% of their total career stock gifts at prices above the 95th percentile of possible prices), and display the results in Table 11 Panel C. In columns 1-3 (4-6), we show our main findings are robust to setting *Tax Aggressive Exec* = 1 for executives who make greater than 20% (50%) of their total career stock gifts above the 95th percentile of possible prices.

5.4.4 Number of tax aggressive executives

Here we investigate the robustness of our findings to the use of a continuous independent variable representing the number of tax aggressive executives at a firm (*Tax Aggressive Exec Num*). The results, shown in Table 11 Panel D, indicate that the number of tax aggressive executives employed at the firm is strongly positively associated with the likelihood, frequency, and severity of corporate violations.

5.4.5 Alternative fixed effects structures

Next, we examine the robustness of our main findings to alternative fixed effects structures and show the results in Table 11 Panel E. In columns 1-3 (4-6), we include industry × year and state fixed effects (industry × year and firm fixed effects), which account for time-varying industry shocks and time-invariant differences across states (firms). In all cases, we observe a positive and significant relation between the presence of personally tax aggressive executives and corporate regulatory violations, affirming the robustness of our main findings.

6. Conclusion

This study investigates the relation between personally tax aggressive executives and corporate regulatory violations, based on the hypothesis that executives with a propensity to cut corners on tax laws are also more likely to cut corners regarding other types of regulations (e.g., investment into workplace safety and environmental protection measures). We identify personally tax aggressive executives as those who consistently make insider stock gifts at uncommonly high prices; an action likely reflecting the use of private information to opportunistically time donations and/or fraudulent backdating of gifts to dates with a high stock price. We find that firms with personally tax aggressive executives commit significantly more corporate violations and incur larger penalty amounts, although this effect is mitigated by strong external monitoring and influential stakeholders in the firm. Moreover, we find that corporate violations increase when a tax aggressive executive joins the firm, and fall when a tax aggressive executive leaves the firm, consistent with a causal interpretation. Investigating the channels, we find that firms with tax aggressive executives invest less in workplace safety and environmental protection, leading to more violations in these areas.

Our study makes three main contributions to the literature. First, we extend prior work on the role of managerial traits in corporate decision-making by demonstrating that managers who demonstrate a tendency to cut corners for personal tax gains (i.e., personally tax aggressive executives) make decisions leading to more regulatory violations. Second, we introduce a novel method to identify personally tax aggressive executives that we think will be useful for future research. Third, we add to the literature on the drivers of corporate regulatory violations by providing evidence on the role of managers' personal traits.

Our findings, however, should be interpreted with caveats in mind. First, while our results are consistent with personally tax aggressive executives influencing corporate behavior, we cannot be certain about the direction of causality. For instance, it is possible that such executives are attracted to firms with an existing culture that fosters regulatory violations. Although our findings examining the arrivals and departures of tax aggressive executives suggest a causal interpretation, hiring and departure decisions are often jointly determined by the firm and the executive which makes disentangling the two possibilities difficult. Second, although our findings point to a specific cost imposed on the firm and its stakeholders by personally tax aggressive executives in the form of greater regulatory violations and higher penalties, they do not necessarily imply that these executives have a net negative impact on firm value. It is possible that the same executive characteristics leading to costly violations also bring benefits to firms that outweigh the costs. We leave such possibilities for future research.

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Appendix A
Variable definitions

This table provides a detailed description of the procedures used to compute each variable used in the analyses. The data are obtained through Compustat, CRSP, I/B/E/S, BoardEx, Thomson Reuters Insider Filing Data Feed, Thomson Reuters Institutional (13-F) Holdings, Violation Tracker from Good Jobs First, and the Toxics Release Inventory (TRI) program of the US Environmental Protection Agency (EPA). All continuous variables except for *Violations Num* and *Penalty Amount* are winsorized at the 1st and 99th percentiles of their distributions.

Primary dependent variables:

Variable	Definition
Violation	An indicator variable equal to one if the firm experiences one or more violations during the fiscal year, and zero otherwise.
Violations Num	The natural log of one plus the number of violations per firm and fiscal year.
Penalty Amount	The natural log of one plus total penalties for violations per firm and fiscal year.

Primary independent variables:

Variable	Definition
Tax Aggressive Exec	An indicator variable equal to one if the firm has one or more personally tax aggressive executives during the fiscal year, and zero otherwise. Executives with the following titles in Thomson Reuters Insider Filing Data Feed are considered: CEO, CFO, COO, President, Board Chairman, Vice Chairman, Executive Vice President, Senior Vice President, and Vice President (role codes CEO, CFO, CO, P, CB, VC, EVP, SVP, and VP). Executives are classified as personally tax aggressive if at least 30% of their total corporate stock donations occur above the 95th percentile of the distribution of the firm's daily stock prices for all available gift dates in each fiscal year.
Treated	A time-invariant indicator variable equal to one for firms with a tax aggressive executive hire or departure at some point during the sample period, and zero otherwise.
Post	An indicator variable equal to one for fiscal years following a tax aggressive executive's hire (departure), and zero for earlier years.
Suspect Exec (Option Grant)	An indicator variable equal to one if the firm has one or more suspect executives during the fiscal year, and zero otherwise. Executives with the following titles in Thomson Reuters Insider Filing Data Feed are considered: CEO, CFO, COO, President, Board Chairman, Vice Chairman, Executive Vice President, Senior Vice President, and Vice President (role codes CEO, CFO, CO, P, CB, VC, EVP, SVP, and VP). Executives are classified as suspect if at least 30% of their total stock options are granted at the stock price below the 5th stock price percentile of the calendar month.
Non-Tax Aggressive Exec	An indicator variable equal to one if the firm has one or more personally non-tax aggressive executives during the fiscal year, and zero otherwise. Executives with the following titles in Thomson Reuters Insider Filing Data Feed are considered: CEO, CFO, COO, President, Board Chairman, Vice Chairman, Executive Vice President, Senior Vice President, and Vice President (role codes CEO, CFO, CO, P, CB, VC, EVP, SVP, and VP). Executives are classified as personally non-tax aggressive if at least 30% of their total corporate stock donations occur between the 70th and 80th percentiles of the distribution of the firm's daily stock prices for all available gift dates in each fiscal year.
Tax Aggressive Exec Num	The number of personally tax aggressive executives in a firm-year.

Appendix A (continued)

Primary control variables:

Variable	Definition
Size	The natural log of the firm's book value of assets at the prior fiscal year-end.
BTM	The firm's book value of common equity scaled by the firm's market value of equity at the prior fiscal year-end.
ROA	The firm's income before extraordinary items for the current fiscal year scaled by total assets at the prior fiscal year-end.
Leverage	The firm's long-term debt scaled by total assets at the prior fiscal year-end.
Loss	An indicator variable equal to one if the firm's income before extraordinary items for the current fiscal year is negative, and zero otherwise.
R&D	The firm's research and development expense for the current fiscal year scaled by total assets at the prior fiscal year-end. Missing values of research and development expense are set to zero.
Cash	The firm's cash and short-term investments scaled by total assets at the prior fiscal year-end.
CAR 1-Yr	The firm's cumulative monthly returns minus the CRSP value-weighted index's cumulative monthly returns for the current fiscal year.
Ret Vol	The standard deviation of the firm's monthly returns for the current fiscal year.
Gift	An indicator variable equal to one for firms with at least one insider who makes a stock gift transaction in Thomson Reuters Insider Filing Data Feed during the sample period, and zero otherwise.

Additional variables:

Variable	Definition
Inst Ownership	The firm's number of shares held by institutional investors scaled by the total number of shares outstanding at the current fiscal year-end.
Analyst Coverage	The number of analysts covering the firm with earnings forecasts for the current fiscal year.
Labor Unions	The labor union coverage density in the firm's headquarter state, measured as the percentage of each state's nonagricultural wage and salary employees who are covered by a collective bargaining agreement. Data is shared by the authors of Hirsch and Macpherson (2003).
Social Capital	The social capital index score in the firm's headquarter county. Data are obtained from Joint Economic Committee's website: https://www.jec.senate.gov/public/index.cfm/republicans/2018/4/the-geography-of-social-capital-in-america.
Ab Disc Exp	Following Caskey and Ozel (2017), the firm's abnormal discretionary expenditures are the residual from the following model which is estimated for firm *i* in fiscal year *t* within each two-digit SIC code/year with at least 15 observations: $\frac{SGA_{i,t}}{Emp_{i,t-1}} = \beta_0 + \beta_1 \frac{1}{Emp_{i,t-1}} + \beta_2 \frac{Sales_{i,t-1}}{Emp_{i,t-1}} + e_{it}$ where SGA is the total selling, general, and administrative expenditures, Emp is the total number of employees, $Sales$ is total sales.
Envir Efficiency	Following Lyu et al. (2022), the firm's environmental efficiency is the natural log of total toxic releases in thousands of pounds scaled by the sum of cost of goods sold and change in inventory in million dollars for the current fiscal year. We multiply this measure by negative one such that higher values of *Envir Efficiency* reflect greater environmental efficiency. Total toxic releases data are obtained from the Toxics Release Inventory (TRI) program of the US Environmental Protection Agency (EPA).

Appendix A (continued)

Additional variables (continued):

Tax Shelter Score	The firm's estimated tax sheltering probability, based on Wilson's (2009) model: $$PredictedValue = -4.86 + 5.20 \times BTD + 4.08 \times \lvert DAP \rvert - 1.41 \times LEV + 0.76 \times AT + 3.51 \times ROA + 1.72 \times FOREIGN\ INCOME + 2.43 \times R\&D.$$ where BTD is the total book-tax difference, computed as pre-tax income less taxable income scaled by lagged total assets; $\lvert DAP \rvert$ is the absolute value of discretionary accruals from the performance-adjusted modified cross-sectional Jones model; LEV is long-term debt divided by total assets; AT is the natural log of total assets; ROA is the firm's pre-tax income divided by total assets; $FOREIGN\ INCOME$ is an indicator variable set equal to one for firm-year observations reporting foreign income, and zero otherwise; and $R\&D$ is R&D expense divided by lagged total assets. Each firm-year's $PredictedValue$ estimate is used to calculate the predicted probability of tax sheltering ($Tax\ Shelter\ Score\ RW$) as follows: $$Tax\ Shelter\ Score = \frac{e^{(PredictedValue)}}{(1+e^{(PredictedValue)})}.$$
Adj Cash ETR 3-Yr	The firm's 3-year cash ETR less the average 3-year cash ETR for firms in the same Fama-French 48 industry and size quintile (based on total assets), where size and industry are sorted independently. The 3-year cash ETR is the sum of cash paid for taxes over the past three years, divided by the sum of pre-tax income over the past three years.
PPE	The firm's total gross property, plant, and equipment scaled by total assets at the prior fiscal year-end.
Intangible	The firm's total intangible assets scaled by total assets at the prior fiscal year-end.
Foreign Inc	The firm's pretax foreign income for the current fiscal year scaled by total assets at the prior fiscal year-end. Missing values of pretax foreign income are set to zero.
Equity in Earnings	The firm's equity in earnings for the current fiscal year scaled by total assets at the prior fiscal year-end. Missing values of equity in earnings are set to zero.
Pre-Tax ROA	The firm's pretax income after extraordinary and special items for the current fiscal year scaled by total assets at the prior fiscal year-end.
Suspect Exec (Option Exercise)	An indicator variable equal to one if the firm has one or more suspect executives during the fiscal year, and zero otherwise. Executives with the following titles in Thomson Reuters Insider Filing Data Feed are considered: CEO, CFO, COO, President, Board Chairman, Vice Chairman, Executive Vice President, Senior Vice President, and Vice President (role codes CEO, CFO, CO, P, CB, VC, EVP, SVP, and VP). Executives are classified as suspect if at least 30% of their total stock options are exercised at the stock price below the 5th stock price percentile of the calendar month

Appendix B
Details on sample of violations and penalties

Panel A presents the sample composition of violations for the period 2000-2020 by offense type using Violation Tracker's original category descriptions. Panel B provides the sample composition for the period 2000-2020 after grouping the original categories into seven summary categories of offenses based on similarity: workplace safety-related offenses, environment-related offenses, employment-related offenses, consumer protection-related offenses, competition-related offenses, financial-related offenses, and miscellaneous offenses.

Panel A: Violation Tracker categories

	No. of violations	**Pct. of total**	**Penalties ($m)**	**Pct. of total**
Violation type:				
Workplace safety or health violation	16,672	35.8%	342	0.3%
Railroad safety violation	10,274	22.0%	112	0.1%
Environmental violation	9,179	19.7%	22,734	18.2%
Aviation safety violation	2,913	6.2%	292	0.2%
Wage and hour violation	2,222	4.8%	6,209	5.0%
Labor relations violation	1,432	3.1%	304	0.2%
Employment discrimination	669	1.4%	1,766	1.4%
False Claims Act and related	508	1.1%	20,231	16.2%
Consumer protection violation	426	0.9%	3,575	2.9%
Benefit plan administrator violation	165	0.4%	2,594	2.1%
Export control violation	163	0.3%	498	0.4%
Motor vehicle safety violation	158	0.3%	1,194	1.0%
Family and Medical Leave Act	153	0.3%	9	0.0%
Offshore drilling violation	144	0.3%	7	0.0%
Insurance violation	124	0.3%	19	0.0%
Telecommunications violation	114	0.2%	1,804	1.4%
Aviation consumer protection violation	113	0.2%	28	0.0%
Foreign Corrupt Practices Act	106	0.2%	2,429	1.9%
Other	1,082	2.3%	60,706	48.6%
Total offenses	**46,617**	**100.0%**	**124,850**	**100.0%**

Panel B: Summary categories

	No. of violations	**Pct. of total**	**Penalties ($m)**	**Pct. of total**
Violation type:				
Safety-related offenses	30,315	65.0%	22,318	17.9%
Environment-related offenses	9,339	20.0%	22,751	18.2%
Employment-related offenses	4,712	10.1%	11,015	8.8%
Consumer protection-related offenses	898	1.9%	12,406	9.9%
Competition-related offenses	390	0.8%	6,580	5.3%
Financial-related offenses	257	0.6%	12,645	10.1%
Miscellaneous offenses	706	1.5%	37,135	29.7%
Total offenses	**46,617**	**100.0%**	**124,850**	**100.0%**

Appendix C
Personally tax aggressive executives and corporate tax avoidance: Comparison with Chyz (2013) measure

This table presents the results examining the relation between personally tax aggressive executives and corporate tax avoidance before and after SOX, for two alternative measures of personally tax aggressive executives. Panel A uses the measure from Chyz (2013) to identify personally tax aggressive executives as those who benefit from backdated stock option exercises, whereas Panel B uses the measure from this paper (Yost and Yu 2023) to identify personally tax aggressive executives as those who benefit from tax aggressive stock gifts. In both panels, columns 1 and 3 (2 and 4) show the results for pre-SOX (post-SOX) firm-years. Following Chyz (2013), the set of control variables includes: size (*Size*), book-to-market value of equity (*BTM*), leverage (*Leverage*), the presence of an operating loss (*Loss*), property, plant, and equipment (*PPE*), intangible assets (*Intangible*), R&D intensity (*R&D*), foreign income (*Foreign Inc*), equity in earnings (*Equity in Earnings*), and pre-tax return on assets (*Pre-Tax ROA*). The Panel A (Panel B) tests also control for an indicator variable set equal to one for firms with at least one insider who makes a stock option (stock gift) transaction during the sample period, and zero otherwise. All variables are defined in Appendix A. All specifications include industry and year fixed effects. The *t*-statistics are reported below coefficient estimates in parentheses and are calculated based on standard errors clustered by firm. *, **, *** indicate statistics significance at the 0.10, 0.05, and 0.01 levels, respectively, using a two-tailed *t*-test.

Panel A: Executives with backdated stock option exercises (Chyz 2013 measure)

Dependent variable:		*Tax Shelter Score*		*Adj Cash ETR 3-Yr*	
Time period:		Pre-SOX	Post-SOX	Pre-SOX	Post-SOX
	Pr. Sign	(1)	(2)	(3)	(4)
Suspect Exec (Option Exercise)	+,0,-,0	0.025***	0.005	-0.026**	-0.008
		(2.78)	(0.42)	(-2.05)	(-0.51)
p -value for difference in coef.		0.11		0.35	
Controls		Yes	Yes	Yes	Yes
Year FE		Yes	Yes	Yes	Yes
Industry FE		Yes	Yes	Yes	Yes
S.E. clustered by firm		Yes	Yes	Yes	Yes
No. of observations		31,536	45,941	27,789	41,911
Adj. R-Squared		58.80%	57.40%	15.20%	22.50%

Panel B: Executives with tax aggressive stock gifts (Yost and Yu 2023 measure)

Dependent variable:		*Tax Shelter Score*		*Adj Cash ETR 3-Yr*	
Time period:		Pre-SOX	Post-SOX	Pre-SOX	Post-SOX
	Pr. Sign	(1)	(2)	(3)	(4)
Tax Aggressive Exec	+,+,-,-	0.039***	0.016***	-0.027***	-0.019***
		(6.05)	(3.20)	(-3.17)	(-3.29)
p -value for difference in coef.		< 0.01		0.40	
Controls		Yes	Yes	Yes	Yes
Year FE		Yes	Yes	Yes	Yes
Industry FE		Yes	Yes	Yes	Yes
S.E. clustered by firm		Yes	Yes	Yes	Yes
No. of observations		19,552	44,881	17,259	41,679
Adj. R-Squared		58.40%	58.30%	17.00%	22.60%

Appendix D
Summary statistics of matching analysis

This table presents the summary statistics of matching samples used in Table 9. Panel A presents the descriptive statistics for our matching variables after entropy balancing the sample of firm-years without personally tax aggressive executives (*Tax Aggressive Exec* = 0) to match the distributions for the sample of firm-years with at least one personally tax aggressive executive (*Tax Aggressive Exec* = 1). Panel B compares the mean values of the matching variables for firm-years where *Tax Aggressive Exec* = 1 and *Tax Aggressive Exec* = 0 following a propensity score matching procedure using a caliper of 0.01 and requiring matched firms to belong to the same two-digit SIC industry code. All firms included in the matching procedures are required to have an executive who made at least one stock gift transaction during the sample period (*Gift* = 1). All variables are defined in Appendix A. *, **, *** indicate statistics significance at the 0.10, 0.05, and 0.01 levels, respectively, using a two-tailed *t*-test.

Panel A: Entropy balanced matching sample

	Tax Aggressive Exec = 1 (N = 13,534)			*Tax Aggressive Exec* = 0 (N = 41,738)		
Variables	**Mean**	**Variance**	**Skewness**	**Mean**	**Variance**	**Skewness**
Dependent variables:						
Violation	0.310	0.214	0.821	0.266	0.195	1.057
Violations Num	0.415	0.598	2.475	0.332	0.425	2.329
Penalty Amount	3.711	33.023	1.077	3.188	30.036	1.309
Matching variables:						
Size	7.115	3.985	-0.134	7.115	3.987	-0.134
BTM	0.472	0.205	1.974	0.472	0.205	1.974
ROA	0.019	0.034	-4.646	0.019	0.034	-4.644
Leverage	0.196	0.036	1.199	0.196	0.036	1.199
Loss	0.201	0.160	1.496	0.201	0.160	1.495
R&D	0.041	0.008	4.523	0.041	0.008	4.521
Cash	0.171	0.040	1.721	0.171	0.040	1.721
CAR 1-Yr	0.110	0.306	2.581	0.110	0.306	2.581
Ret Vol	0.119	0.006	2.409	0.119	0.006	2.410

Panel B: Propensity score matching sample

	Tax Aggressive Exec = 1	*Tax Aggressive Exec* = 0			
Variables	**Mean**	**Mean**	**Difference in means**	**t-stat**	**N**
Dependent variables:					
Violation	0.265	0.226	0.039***	6.930	23,820
Violations Num	0.319	0.267	0.052***	6.594	23,820
Penalty Amount	3.072	2.670	0.402***	5.977	23,820
Matching variables:					
Size	6.815	6.833	-0.017	-0.720	23,820
BTM	0.479	0.488	-0.009*	-1.672	23,820
ROA	0.016	0.014	0.003	1.203	23,820
Leverage	0.194	0.191	0.003	1.178	23,820
Loss	0.224	0.220	0.004	0.764	23,820
R&D	0.042	0.043	-0.001	-1.170	23,820
Cash	0.179	0.180	-0.001	-0.403	23,820
CAR 1-Yr	0.110	0.112	-0.002	-0.281	23,820
Ret Vol	0.124	0.125	-0.001	-1.181	23,820
Gift	1.000	1.000	0.000	-	23,820

Figure 1
Example of a tax aggressive insider stock gift

This figure provides an example of a tax aggressive insider stock gift, as well as an illustration of our process to identify such stock gifts. The stock gift in the figure below was made by a top executive of Polaris Industries, Inc. The purported transaction date was February 26, 2015, and the gift was reported to the SEC on January 29, 2016. Because the SEC report date occurs after the firm's fiscal year-end (December 31, 2015), the window of possible dates the executive can claim as the transaction date includes the entire fiscal year (from January 1, 2015 to December 31, 2015), during which Polaris's daily closing stock price ranged from a low of $69.61 to a high of $157.62. Examining the distribution of Polaris's closing stock prices during the year, the 95th percentile stock price is $154.18 (represented in the figure below as the horizontal dotted orange line). Hence, insider stock gifts during Polaris's fiscal year 2015 purported to have been made on days with a closing price above $154.18 would be classified as tax aggressive stock gifts. In the example below, Polaris's closing stock price on the purported gift date was $157.62, the firm's peak stock price during the year.

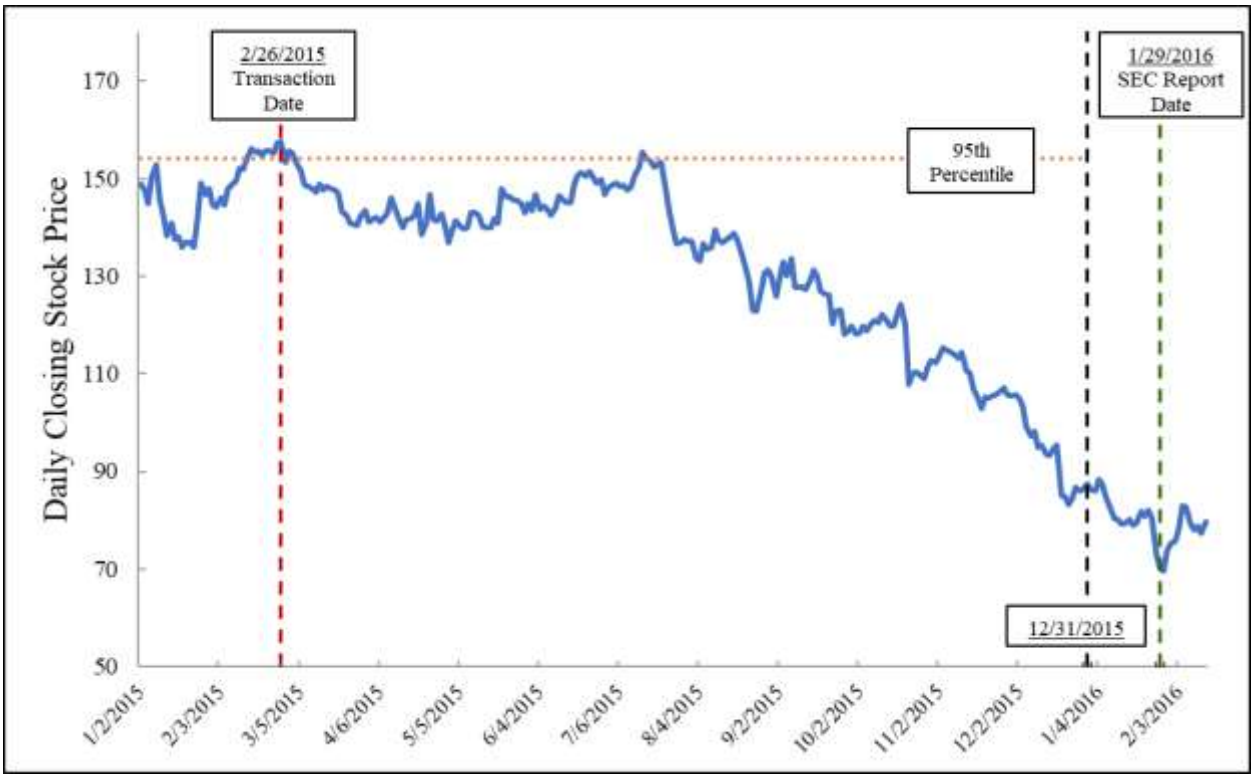


Figure 2
Histogram of insider stock gift frequency using five-percentile bins of overall stock price distribution

This figure provides a histogram illustrating the frequency of insider stock gifts occurring at stock prices within each five-percentile bin of the distribution of stock prices for all available gift dates. Tax aggressive stock gifts are those occurring at prices above the 95th percentile of the distribution of possible stock prices within each firm's fiscal year.

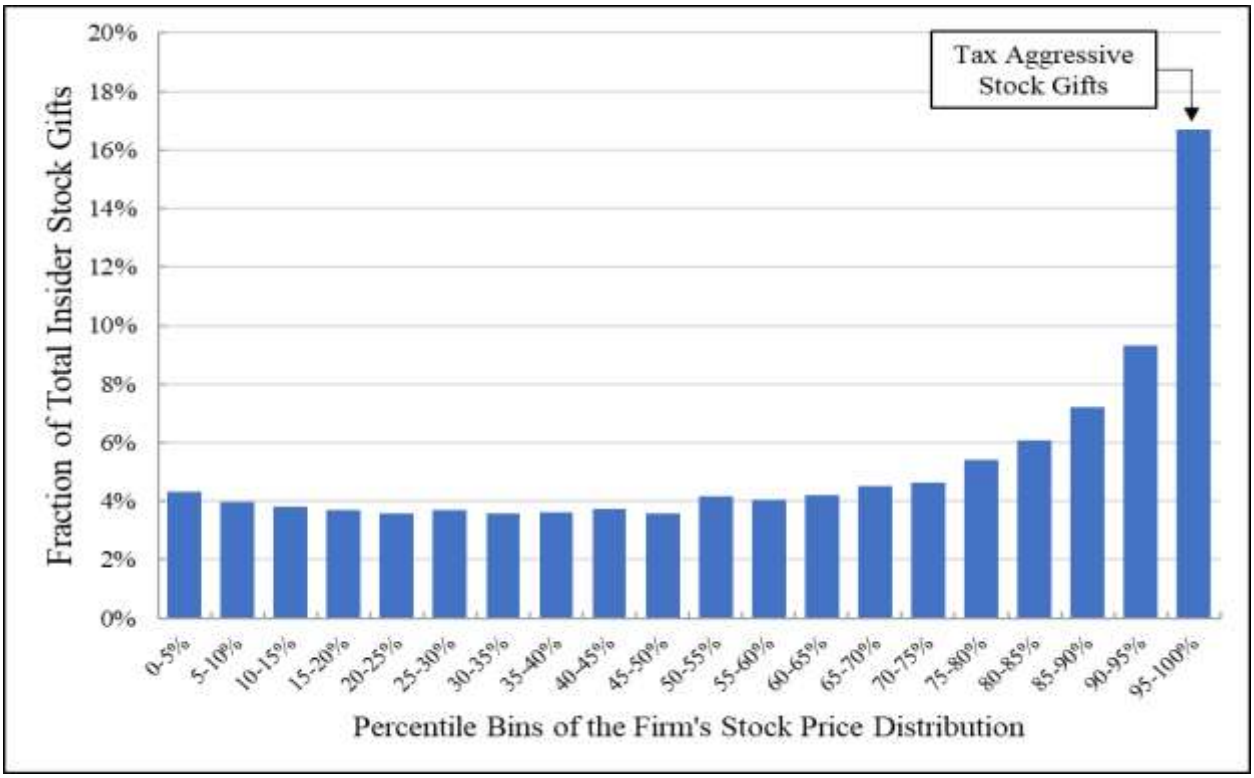
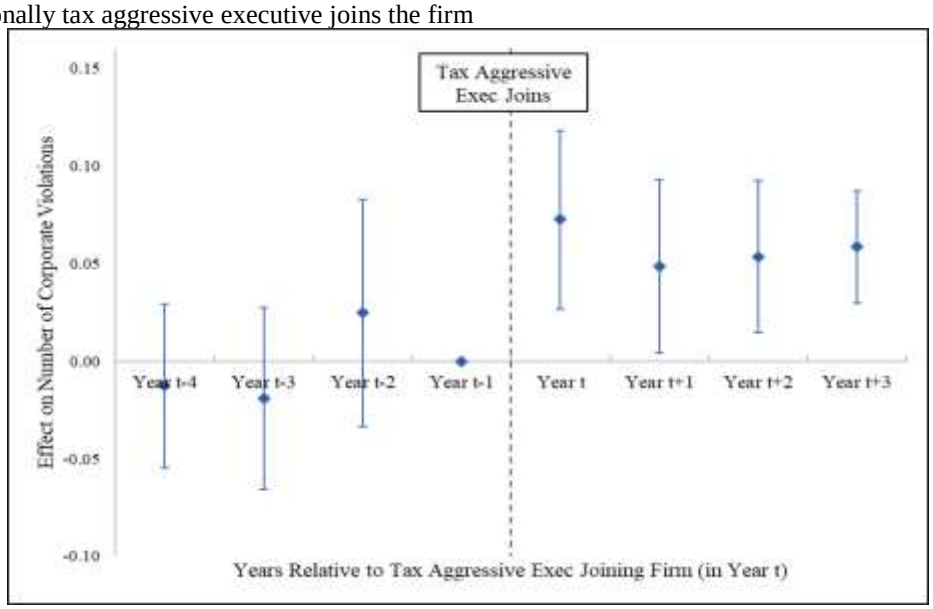


Figure 3
Tests of causal inference: Personally tax aggressive executives joining and leaving the firm

The figure in Panel A (Panel B) below reports the coefficients of an ordinary least squares regression investigating the effects of a personally tax aggressive executive joining (leaving) the firm on the number of corporate violations in event time. Formally, we estimate *Violations Num* = β_1*Year t-4* + β_2 *Year t-3* + β_3 *Year t-2* + β_4 *Year t* + β_5 *Year t+1* + β_6 *Year t+2* + β_7 *Year t+3* + β_8*Treated* + β_k*Controls* + δ_{ind} + γ_t + ϵ, where δ_{ind} and γ_t represent industry and year fixed effects, respectively. In Panel A (Panel B), *Year t* is an indicator variable equal to one in the year a tax aggressive executive joins (leaves) the firm, and zero otherwise. *Year t-4* (*Year t-3, Year t-2*) is an indicator variable equal to one when a tax aggressive executive will join (leave) the firm four (three, two) years in the future, and zero otherwise. *Year t+1* (*Year t+2, Year t+3*) is an indicator variable equal to one when a tax aggressive executive joined (left) the firm one (two, three) years prior, and zero otherwise. *Treated* is an indicator variable equal to one if a tax aggressive executive joins (leaves) the firm at some point during the sample, and zero otherwise. Each point estimate is accompanied by a 90% confidence interval calculated based on standard errors clustered at the firm and year levels. Note that *Year t-1* has a coefficient of zero and no confidence interval because it serves as the benchmark period.

Panel A: Personally tax aggressive executive joins the firm



Panel B: Personally tax aggressive executive leaves the firm

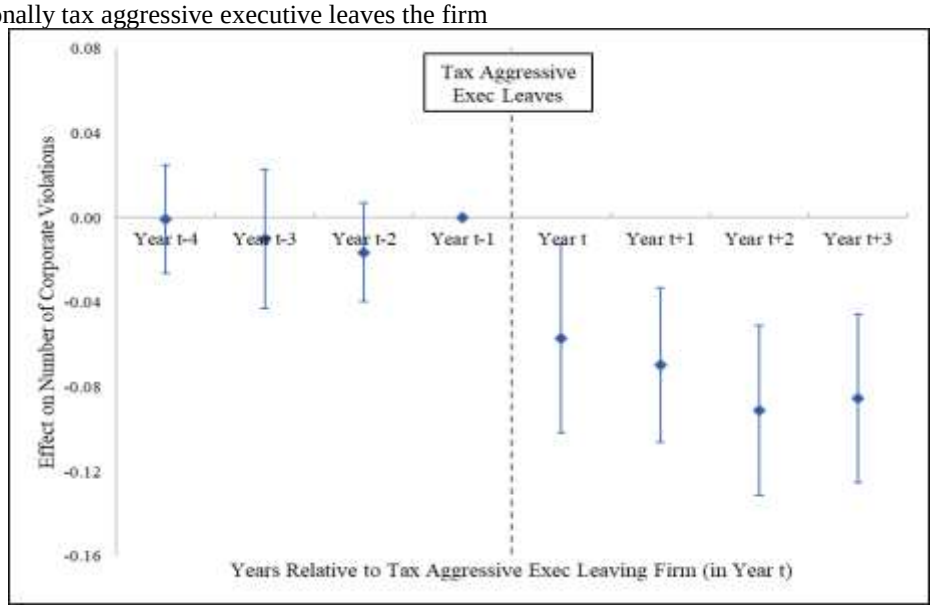


Figure 4
Suspect insider stock transactions by year

This figure provides a visual representation of the relative frequencies of tax aggressive stock gifts and backdated option grants from 1996 to 2020. The x-axis represents the calendar year. The y-axis represents the relative frequency of "suspect" transactions compared to total transactions of the same type. The solid blue line (dotted red line) represents the percentage of total insider stock gifts (stock option grants) classified as tax aggressive stock gifts (backdated stock option grants) in each calendar year.

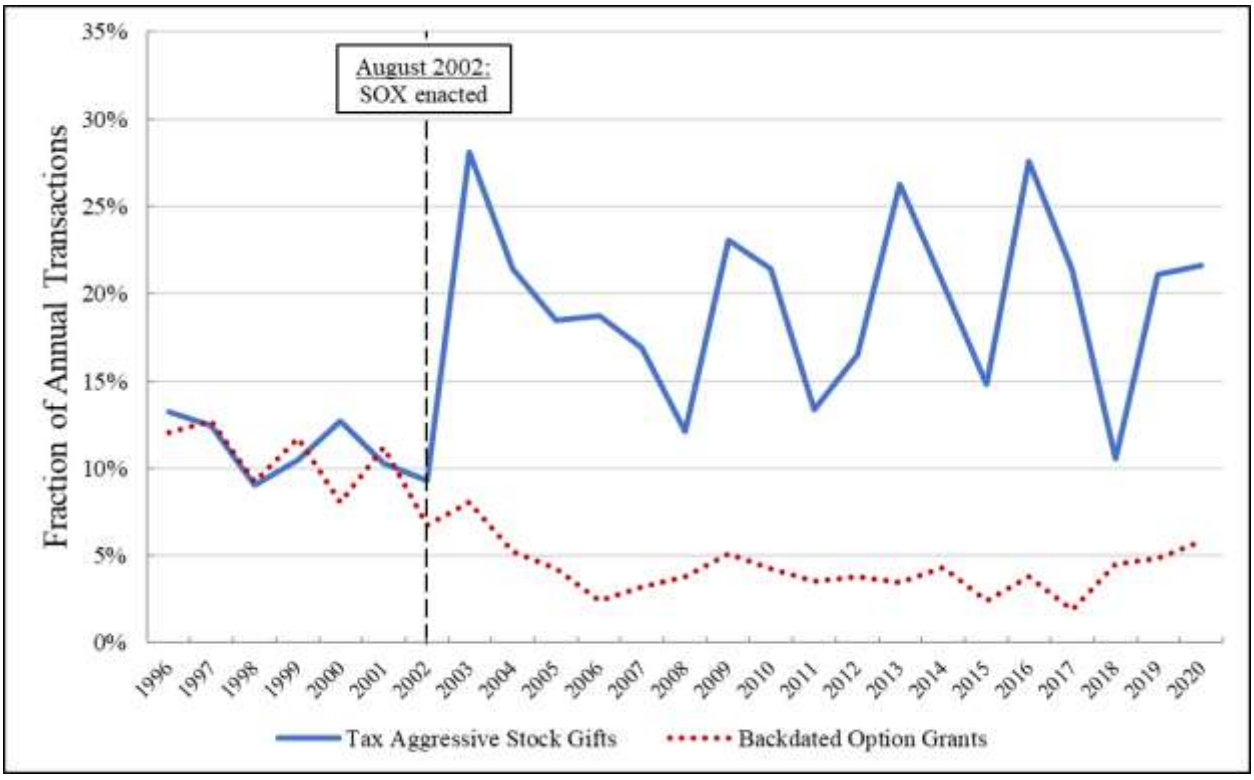


Figure 5
Falsification test: Placebo t-statistics

This figure compares t-statistic estimates from placebo treatments with the t-statistic estimate from the coefficient on *Tax Aggressive Exec* in column (2) of Table 3 Panel A. Specifically, we conduct 1,000 placebo tests in which we randomly assign *Tax Aggressive Exec* = 1 for 21.2% of sample firm-years and plot the frequency distribution of the resulting t-statistic estimates in the figure below. For comparison, the vertical red dotted line represents the t-statistic estimate from the coefficient on *Tax Aggressive Exec* in column (2) of Table 3 Panel A.

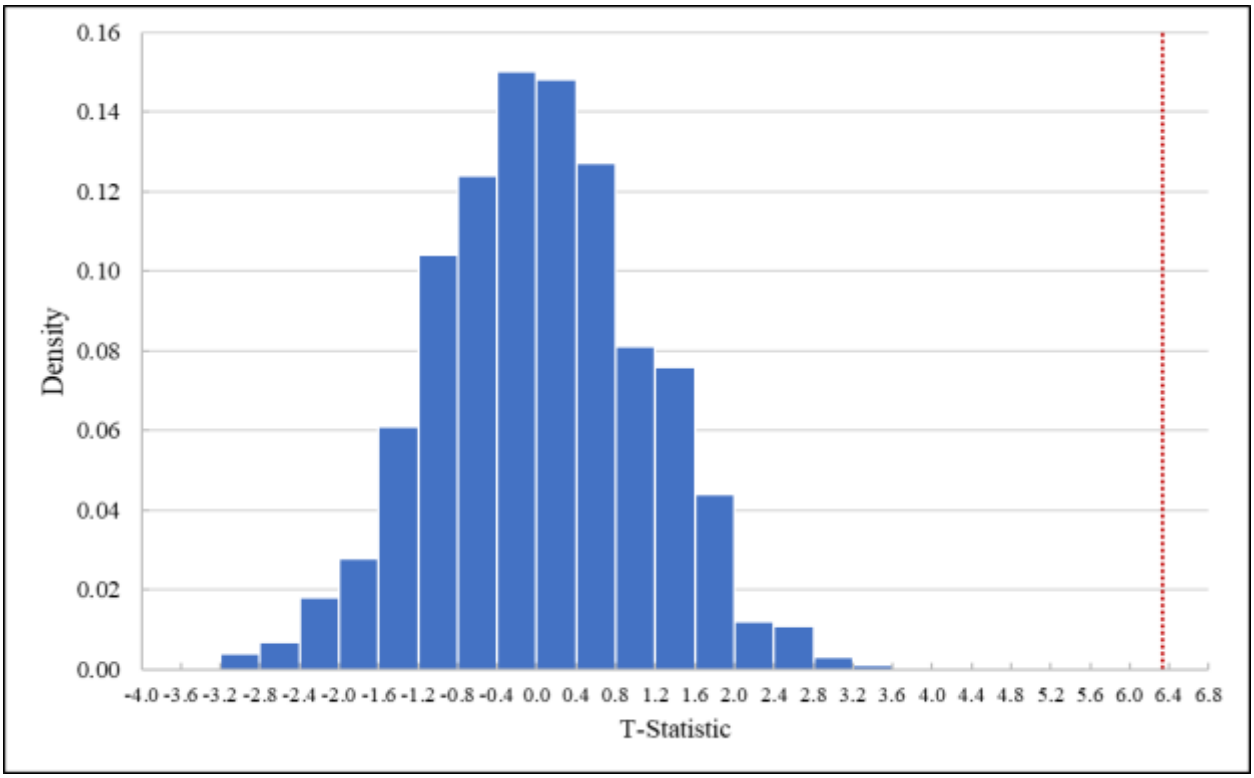


Table 1
Sample selection

Panel A: Insider stock gift sample

Description	No. of gifts dropped	No. of gifts remaining
Gifts of stock made by firms' top nine executives during years 1992-2020		153,175
Exclude gifts with a cleanse code other than 'R' or 'H'	(20,605)	132,570
Exclude gifts missing CUSIP, transaction date, or SEC report date	(1,156)	131,414
Exclude gifts unable to match to PERMNO	(3,365)	128,049
Exclude gifts given to family members	(10,484)	117,565
Exclude gifts not directly owned by insiders	(34,841)	82,724
Consolidate same-day, same-firm gifts by an insider	(10,960)	71,764
Exclude gifts unable to get stock price percentile or match to Compustat	(2,499)	69,265
Exclude gifts in utilities and financial firms	(19,700)	49,565
Exclude gifts in firm-years missing data for key variable construction	(4,228)	45,337
Final sample of stock gifts made by firms' top nine executives		**45,337**

Panel B: Violation sample

Description	No. of violations dropped	No. of violations remaining
Violations committed at the facility-level		546,191
Exclude violations unable to match to parent firms	(436,621)	109,570
Exclude violations missing a historical CIK	(38,696)	70,874
Exclude violations unable to match to Compustat	(1,142)	69,732
Exclude violations for utilities and financial firms	(9,876)	59,856
Exclude violations occuring outside fiscal firm-years 2000 to 2020	(3,418)	56,438
Exclude violations for firm-years missing data for key variable construction	(9,821)	46,617
Final sample of violations		**46,617**

Panel C: Firm-year sample

Description	No. of firm-years dropped	No. of firm-years remaining
Fiscal firm-years from 1999-2019		237,880
Exclude firm-years unable to match to Thomson Reuters	(100,913)	136,967
Exclude firm-years missing CIK	(3,811)	133,156
Exclude utilities and financial firms (SIC codes 4900-4949, 6000-6999)	(41,635)	91,521
Exclude firms not headquartered in the United States	(6,114)	85,407
Exclude firm-years missing data for key variable construction	(20,363)	65,044
Final sample of firm-years		**65,044**

Table 2
Sample descriptive information

This table presents descriptive information for the sample and variables of interest. The sample consists of firm-years with the necessary data for the corporate violation tests during the fiscal years 1999 to 2019. Details of variable construction are contained in Appendix A.

Variables	N	Mean	SD	P25	P50	P75
Dependent variables:						
Violation	65,044	0.157	0.364	0.000	0.000	0.000
Violations Num	65,044	0.192	0.527	0.000	0.000	0.000
Raw Violations Num	65,044	0.717	6.227	0.000	0.000	0.000
Penalty Amount	65,044	1.834	4.371	0.000	0.000	0.000
Raw Penalty Amount ($m)	65,044	1.919	56.437	0.000	0.000	0.000
Ab Disc Exp	56,313	0.009	0.164	-0.044	-0.009	0.024
Envir Efficiency	45,937	-0.046	0.187	0.000	0.000	0.000
Independent variables:						
Tax Aggressive Exec	65,044	0.212	0.409	0.000	0.000	0.000
Size	65,044	5.899	2.041	4.372	5.819	7.324
BTM	65,044	0.567	0.601	0.227	0.434	0.755
ROA	65,044	-0.062	0.285	-0.066	0.026	0.071
Leverage	65,044	0.183	0.210	0.000	0.123	0.298
Loss	65,044	0.375	0.484	0.000	0.000	1.000
R&D	65,044	0.066	0.131	0.000	0.004	0.075
Cash	65,044	0.223	0.247	0.035	0.123	0.332
CAR 1-Yr	65,044	0.067	0.680	-0.324	-0.051	0.259
Ret Vol	65,044	0.155	0.103	0.085	0.126	0.190
Gift	65,044	0.850	0.357	1.000	1.000	1.000

Table 3
Personally tax aggressive executives and corporate regulatory violations

This table presents the results examining the relation between personally tax aggressive executives and corporate regulatory violations. Panel A (Panel B) displays the results for all violation types combined (individual groups of violation types separately). In Panel A, column 1 (2, 3) shows the results using *Violation* (*Violation Num*, *Penalty Amount*) as the dependent variable. In Panel B, column 1 (2, 3, 4, 5, 6) shows the results using *Violation Num* for the subset of violations pertaining to workplace safety (environmental, employment, consumer protection, competition, financial) issues. In both panels, the sample consists of firm-year observations from 1999-2019. All variables are defined in Appendix A. All specifications include industry and year fixed effects. The *t*-statistics are reported below coefficient estimates in parentheses and are calculated based on standard errors clustered by firm and year. *, **, *** indicate statistics significance at the 0.10, 0.05, and 0.01 levels, respectively, using a two-tailed *t*-test.

Panel A: All types of corporate regulatory violations

Dependent variable:		*Violation*	*Violations Num*	*Penalty Amount*
	Pr. Sign	(1)	(2)	(3)
Tax Aggressive Exec	+	0.053***	0.085***	0.648***
		(6.38)	(6.30)	(6.56)
Size		0.076***	0.110***	0.975***
		(22.28)	(17.10)	(19.68)
BTM		-0.026***	-0.033***	-0.311***
		(-6.34)	(-5.10)	(-6.16)
ROA		-0.116***	-0.172***	-1.435***
		(-9.11)	(-8.41)	(-8.58)
Leverage		-0.083***	-0.155***	-1.235***
		(-6.13)	(-6.96)	(-7.06)
Loss		-0.020***	-0.017**	-0.199***
		(-4.90)	(-2.67)	(-3.88)
R&D		-0.079***	-0.061*	-0.730**
		(-3.46)	(-1.96)	(-2.77)
Cash		-0.108***	-0.120***	-1.224***
		(-11.56)	(-8.68)	(-11.20)
CAR 1-Yr		0.014***	0.014***	0.148***
		(6.01)	(4.05)	(5.12)
Ret Vol		-0.002	0.048	0.114
		(-0.10)	(1.30)	(0.39)
Gift		0.014**	0.003	0.108
		(2.28)	(0.32)	(1.50)
Year FE		Yes	Yes	Yes
Industry FE		Yes	Yes	Yes
S.E. clustered by firm and year		Yes	Yes	Yes
No. of observations		65,044	65,044	65,044
Adj. R-Squared		29.90%	36.10%	31.10%

Table 3 (continued)

Panel B: Individual types of corporate regulatory violations

Dependent variable:		*Violations Num*					
Violation type:		Safety	Environment	Employment	Consumer	Competition	Financial
	Pr. Sign	(1)	(2)	(3)	(4)	(5)	(6)
Tax Aggressive Exec	+	0.054***	0.023***	0.027***	0.005**	0.002**	0.001*
		(5.37)	(2.96)	(5.64)	(2.81)	(2.41)	(2.00)
Controls		Yes	Yes	Yes	Yes	Yes	Yes
Year FE		Yes	Yes	Yes	Yes	Yes	Yes
Industry FE		Yes	Yes	Yes	Yes	Yes	Yes
S.E. clustered by firm and year		Yes	Yes	Yes	Yes	Yes	Yes
No. of observations		65,044	65,044	65,044	65,044	65,044	65,044
Adj. R-Squared		32.00%	21.80%	11.30%	6.50%	1.30%	1.00%

Table 4
Cross-sectional analysis: Role of external monitors and influential stakeholders

This table presents the results of cross-sectional tests examining the role of external monitoring (Panel A) and influential stakeholders (Panel B) in moderating the relation between personally tax aggressive executives and corporate violations. The dependent variable in both panels is *Violations Num*. In Panel A, two proxies for external monitoring are used: institutional ownership (Inst Ownership) and analyst coverage (Analyst Coverage). Within each year and firm size decile, firms are classified as having strong monitoring (*Strong Monitor* = 1) if they have a value for the proxy in the top tercile of the sample. In Panel B, two proxies for influential stakeholders are used: the prevalence of labor unions in the firm's headquarter state (Labor Unions) and county-level social capital (Social Capital). Within each year, firms are classified as having strong stakeholders (*Strong Stakeholder* = 1) if they have a value for the proxy in the top tercile of the sample. All variables are defined in Appendix A. All specifications include industry and year fixed effects. The *t*-statistics are reported below coefficient estimates in parentheses and are calculated based on standard errors clustered by firm and year. *, **, *** indicate statistics significance at the 0.10, 0.05, and 0.01 levels, respectively, using a two-tailed *t*-test.

Panel A: External monitoring

Dependent variable:		*Violations Num*	
Monitoring proxy:		Inst Ownership	Analyst Coverage
	Pr. Sign	(1)	(2)
Tax Aggressive Exec	+	0.110***	0.089***
		(6.54)	(5.85)
Tax Aggressive Exec × Strong Monitor	-	-0.070***	-0.038*
		(-3.23)	(-1.86)
Strong Monitor		-0.000	-0.031***
		(-0.06)	(-4.40)
Controls		Yes	Yes
Year FE		Yes	Yes
Industry FE		Yes	Yes
S.E. clustered by firm and year		Yes	Yes
No. of observations		64,890	65,044
Adj. R-Squared		36.20%	34.40%

Panel B: Influential stakeholders

Dependent variable:		*Violations Num*	
Stakeholder proxy:		Labor Unions	Social Capital
	Pr. Sign	(1)	(2)
Tax Aggressive Exec	+	0.104***	0.109***
		(6.30)	(5.98)
Tax Aggressive Exec × Strong Stakeholder	-	-0.080***	-0.071**
		(-2.97)	(-2.50)
Strong Stakeholder		-0.008	0.008
		(-0.97)	(0.96)
Controls		Yes	Yes
Year FE		Yes	Yes
Industry FE		Yes	Yes
S.E. clustered by firm and year		Yes	Yes
No. of observations		64,935	64,707
Adj. R-Squared		36.20%	36.10%

Table 5
Tests of causal inference: Personally tax aggressive executives joining and leaving the firm

Panel A (Panel B) presents the results examining changes in corporate regulatory violations following the hiring (departures) of personally tax aggressive executives. In Panel A (Panel B), *Treated* is a time-invariant indicator variable equal to one for firms with a tax aggressive executive hire (departure) at some point, and zero otherwise; *Post* is an indicator variable equal to one for fiscal years following a tax aggressive executive's hire (departure), and zero for earlier years. All variables are defined in Appendix A. All specifications include industry and year fixed effects. The *t*-statistics are reported below coefficient estimates in parentheses and are calculated based on standard errors clustered by firm and year. *, **, *** indicate statistics significance at the 0.10, 0.05, and 0.01 levels, respectively, using a two-tailed *t*-test.

Panel A: Personally tax aggressive executive joins the firm

Post variable:		Personally tax aggressive executive joins the firm		
Dependent variable:		*Violation*	*Violations Num*	*Penalty Amount*
	Pr. Sign	(1)	(2)	(3)
Treated × *Post*	+	0.026**	0.059***	0.386***
		(2.09)	(3.56)	(2.98)
Treated		0.021	0.024	0.275
		(1.26)	(0.90)	(1.34)
Controls		Yes	Yes	Yes
Year FE		Yes	Yes	Yes
Industry FE		Yes	Yes	Yes
S.E. clustered by firm and year		Yes	Yes	Yes
No. of observations		22,247	22,247	22,247
Adj. R-Squared		26.00%	31.30%	26.60%

Panel B: Personally tax aggressive executive leaves the firm

Post variable:		Personally tax aggressive executive leaves the firm		
Dependent variable:		*Violation*	*Violations Num*	*Penalty Amount*
	Pr. Sign	(1)	(2)	(3)
Treated × *Post*	-	-0.032**	-0.067***	-0.392**
		(-2.31)	(-3.18)	(-2.43)
Treated		-0.006	0.032	-0.002
		(-0.39)	(1.09)	(-0.01)
Controls		Yes	Yes	Yes
Year FE		Yes	Yes	Yes
Industry FE		Yes	Yes	Yes
S.E. clustered by firm and year		Yes	Yes	Yes
No. of observations		11,871	11,871	11,871
Adj. R-Squared		32.50%	43.50%	34.80%

Table 6
Channels: Investments in workplace safety and environmental protection

Panel A presents the results examining the relation between personally tax aggressive executives and corporate investments into workplace safety and environmental protection. Panel B presents the results examining the effects of workplace safety and environmental protection investments on regulatory violations. In Panel B, the dependent variable in columns 1 and 3 is *Violations Num* for all violation types, whereas the dependent variable in column 2 (column 4) is *Violations Num* for workplace safety-related (environmental-related) violations only. *Ab Disc Exp* and *Envir Efficiency* have been converted into decile ranks scaled to range from 0 to 1. All variables are defined in Appendix A. All specifications include industry and year fixed effects. The *t*-statistics are reported below coefficient estimates in parentheses and are calculated based on standard errors clustered by firm and year. *, **, *** indicate statistics significance at the 0.10, 0.05, and 0.01 levels, respectively, using a two-tailed *t*-test.

Panel A: Investment into workplace safety and environmental protection

Dependent variable:		*Ab Disc Exp*	*Envir Efficiency*
	Pr. Sign	(1)	(2)
Tax Aggressive Exec	-	-0.017**	-0.030**
		(-2.20)	(-2.49)
Controls		Yes	Yes
Year FE		Yes	Yes
Industry FE		Yes	Yes
S.E. clustered by firm and year		Yes	Yes
No. of observations		56,313	45,937
Adj. R-Squared		31.80%	32.20%

Panel B: Effects of workplace safety and environmental protection investments on regulatory violations

Dependent variable:		*Violations Num*		*Violations Num*	
Violation type:		All	Safety	All	Environment
Investment type:		*Ab Disc Exp*	*Ab Disc Exp*	*Envir Efficiency*	*Envir Efficiency*
	Pr. Sign	(1)	(2)	(3)	(4)
Tax Aggressive Exec	+	0.128***	0.077***	0.310***	0.165***
		(4.87)	(4.43)	(6.32)	(4.65)
Tax Aggressive Exec × *Investment*	-	-0.130***	-0.084***	-0.317***	-0.184***
		(-3.26)	(-3.28)	(-6.23)	(-5.12)
Investment		-0.126***	-0.084***	-0.153***	-0.086***
		(-9.07)	(-7.31)	(-4.52)	(-4.18)
Controls		Yes	Yes	Yes	Yes
Year FE		Yes	Yes	Yes	Yes
Industry FE		Yes	Yes	Yes	Yes
S.E. clustered by firm and year		Yes	Yes	Yes	Yes
No. of observations		56,313	56,313	45,937	45,937
Adj. R-Squared		33.00%	25.30%	37.80%	27.60%

Table 7
Suspect insider transactions and corporate violations: The impact of SOX

This table presents the results examining the impact of SOX on the relation between executives who engage in suspect insider transactions and corporate regulatory violations. The sample of firm-years is partitioned into two subperiods: pre-SOX and post-SOX. Panel A (Panel B) displays the results examining the relation between executives who benefit from backdated stock option grants (tax aggressive stock gifts) and corporate violations. In both panels, columns 1, 3, and 5 (2, 4, and 6) show the results for pre-SOX (post-SOX) firm-years. All variables are defined in Appendix A. All specifications include industry and year fixed effects. The *t*-statistics are reported below coefficient estimates in parentheses and are calculated based on standard errors clustered by firm. *, **, *** indicate statistics significance at the 0.10, 0.05, and 0.01 levels, respectively, using a two-tailed *t*-test.

Panel A: Executives with backdated stock option grants

Dependent variable:		*Violation*		*Violations Num*		*Penalty Amount*	
Time period:		Pre-SOX	Post-SOX	Pre-SOX	Post-SOX	Pre-SOX	Post-SOX
	Pr. Sign	(1)	(2)	(3)	(4)	(5)	(6)
Suspect Exec (Option Grant)	+,0	0.032**	0.014	0.036**	-0.004	0.353**	0.150
		(2.44)	(1.02)	(2.04)	(-0.18)	(2.36)	(0.90)
p -value for difference in coef.		0.24		0.06		0.25	
Controls		Yes	Yes	Yes	Yes	Yes	Yes
Year FE		Yes	Yes	Yes	Yes	Yes	Yes
Industry FE		Yes	Yes	Yes	Yes	Yes	Yes
S.E. clustered by firm		Yes	Yes	Yes	Yes	Yes	Yes
No. of observations		19,919	45,125	19,919	45,125	19,919	45,125
Adj. R-Squared		25.80%	30.40%	30.00%	36.80%	27.20%	31.60%

Panel B: Executives with tax aggressive stock gifts

Dependent variable:		*Violation*		*Violations Num*		*Penalty Amount*	
Time period:		Pre-SOX	Post-SOX	Pre-SOX	Post-SOX	Pre-SOX	Post-SOX
	Pr. Sign	(1)	(2)	(3)	(4)	(5)	(6)
Tax Aggressive Exec	+,+	0.063***	0.050***	0.077***	0.085***	0.709***	0.627***
		(6.29)	(5.56)	(5.83)	(5.66)	(6.24)	(5.76)
p -value for difference in coef.		0.21		0.57		0.49	
Controls		Yes	Yes	Yes	Yes	Yes	Yes
Year FE		Yes	Yes	Yes	Yes	Yes	Yes
Industry FE		Yes	Yes	Yes	Yes	Yes	Yes
S.E. clustered by firm		Yes	Yes	Yes	Yes	Yes	Yes
No. of observations		19,919	45,125	19,919	45,125	19,919	45,125
Adj. R-Squared		26.30%	30.60%	30.50%	37.00%	27.70%	31.80%

Table 8
Falsification test: Non-tax aggressive executives and corporate regulatory violations

This table presents the results examining the relation between non-tax aggressive executives and corporate regulatory violations. *Non-Tax Aggressive Exec* = 1 for executives who make more than 30% of their total stock gifts at prices between the 70th and 80th percentiles of the distribution of stock prices for all available gift dates in each fiscal year, otherwise *Non-Tax Aggressive Exec* = 0. All variables are defined in Appendix A. All specifications include industry and year fixed effects. The *t*-statistics are reported below coefficient estimates in parentheses and are calculated based on standard errors clustered by firm and year. *, **, *** indicate statistics significance at the 0.10, 0.05, and 0.01 levels, respectively, using a two-tailed *t*-test.

Dependent variable:		*Violation*	*Violations Num*	*Penalty Amount*
	Pr. Sign	(1)	(2)	(3)
Non-Tax Aggressive Exec	0	0.006	0.011	0.142
		(0.57)	(0.59)	(1.10)
Controls		Yes	Yes	Yes
Year FE		Yes	Yes	Yes
Industry FE		Yes	Yes	Yes
S.E. clustered by firm and year		Yes	Yes	Yes
No. of observations		65,044	65,044	65,044
Adj. R-Squared		29.6%	35.7%	30.8%

Table 9
Matching analysis

This table presents the results examining the relation between personally tax aggressive executives and corporate regulatory violations for matched samples of firms. Columns 1-3 show the results after entropy balancing the sample of firm-years without personally tax aggressive executives (*Tax Aggressive Exec* = 0) to match the distributions for the sample of firm-years with at least one personally tax aggressive executive (*Tax Aggressive Exec* = 1). Columns 4-6 show the results using a propensity score matched sample where matched firms are required to belong to the same industry. All firms included in the matching procedures are required to have an executive who made at least one stock gift transaction during the sample period (*Gift* = 1). All variables are defined in Appendix A. All specifications include industry and year fixed effects. The *t*-statistics are reported below coefficient estimates in parentheses and are calculated based on standard errors clustered by firm and year. *, **, *** indicate statistics significance at the 0.10, 0.05, and 0.01 levels, respectively, using a two-tailed *t*-test.

Matching method:		Entropy balanced matching			Propensity score matching		
Dependent variable:		*Violation*	*Violations Num*	*Penalty Amount*	*Violation*	*Violations Num*	*Penalty Amount*
	Pr. Sign	(1)	(2)	(3)	(4)	(5)	(6)
Tax Aggressive Exec	+	0.038***	0.065***	0.448***	0.041***	0.055***	0.434***
		(4.30)	(4.10)	(4.13)	(4.69)	(4.02)	(4.23)
Controls		Yes	Yes	Yes	Yes	Yes	Yes
Year FE		Yes	Yes	Yes	Yes	Yes	Yes
Industry FE		Yes	Yes	Yes	Yes	Yes	Yes
S.E. clustered by firm and year		Yes	Yes	Yes	Yes	Yes	Yes
No. of observations		55,272	55,272	55,272	23,820	23,820	23,820
Adj. R-Squared		31.70%	42.60%	33.90%	27.40%	33.50%	28.50%

Table 10
Executives' past stock gifting behavior and future corporate regulatory violations

This table presents the results examining the relation between personally tax aggressive executives and corporate regulatory violations where *Tax Aggressive Exec* is constructed using historical stock gift transactions in alternative rolling time windows. In columns 1-3, *Tax Aggressive Exec* is constructed based on the executive's cumulative stock gift transactions from 1992 to the focal year. In columns 4-6, *Tax Aggressive Exec* is constructed based on the executive's stock gift transactions over the past five years before the focal year. All variables are defined in Appendix A. All specifications include industry and year fixed effects. The *t*-statistics are reported below coefficient estimates in parentheses and are calculated based on standard errors clustered by firm and year. *, **, *** indicate statistics significance at the 0.10, 0.05, and 0.01 levels, respectively, using a two-tailed *t*-test.

Tax Aggressive Exec construction window:		Cumulative			Past 5-Yrs		
Dependent variable:		*Violation*	*Violations Num*	*Penalty Amount*	*Violation*	*Violations Num*	*Penalty Amount*
	Pr. Sign	(1)	(2)	(3)	(4)	(5)	(6)
Tax Aggressive Exec	+	0.035***	0.072***	0.448***	0.043***	0.088***	0.553***
		(4.38)	(4.94)	(4.59)	(5.45)	(5.89)	(5.75)
Controls		Yes	Yes	Yes	Yes	Yes	Yes
Year FE		Yes	Yes	Yes	Yes	Yes	Yes
Industry FE		Yes	Yes	Yes	Yes	Yes	Yes
S.E. clustered by firm and year		Yes	Yes	Yes	Yes	Yes	Yes
No. of observations		65,044	65,044	65,044	65,044	65,044	65,044
Adj. R-Squared		29.70%	35.90%	30.90%	29.70%	35.90%	30.90%

Table 11
Robustness tests

This table presents the results of robustness tests examining the relation between personally tax aggressive executives and corporate regulatory violations. Panel A displays the results using two alternative groups of top executives: columns 1-3 show the results for the top 5 executives (CEO, CFO, COO, President, and Chairman of the Board), and columns 4-6 show the results for the CEO and CFO only. Panel B displays the results using two alternative definitions to classify tax aggressive stock gifts: columns 1-3 (4-6) show the results where tax aggressive stock gifts are those made at prices at or above the 90th (99th) percentile of the distribution of stock prices for all available gift dates in each fiscal year. Panel C displays the results using two alternative definitions of personally tax aggressive executives: columns 1-3 (4-6) show the results where *Tax Aggressive Exec* = 1 for executives who make more than 20% (50%) of their total stock gifts at or above the 95th percentile of the distribution of stock prices for all available gift dates in each fiscal year, and zero otherwise. Panel D shows the results using the number of suspect executives as the independent variable of interest. Panel E shows the results including alternative fixed effects structures: columns 1-3 (4-6) show the results including industry × year and state fixed effects (industry × year and firm fixed effects). All variables are defined in Appendix A. All specifications include industry and year fixed effects. The *t*-statistics are reported below coefficient estimates in parentheses and are calculated based on standard errors clustered by firm and year. *, **, *** indicate statistics significance at the 0.10, 0.05, and 0.01 levels, respectively, using a two-tailed *t*-test.

Panel A: Alternative definitions of top executives

Top exec definition:		Top 5 Executives			CEO and CFO		
Dependent variable:		*Violation*	*Violations Num*	*Penalty Amount*	*Violation*	*Violations Num*	*Penalty Amount*
	Pr. Sign	(1)	(2)	(3)	(4)	(5)	(6)
Tax Aggressive Exec	+	0.039***	0.052***	0.457***	0.041***	0.065***	0.491***
		(4.45)	(3.62)	(4.34)	(3.82)	(3.63)	(3.75)
Controls		Yes	Yes	Yes	Yes	Yes	Yes
Year FE		Yes	Yes	Yes	Yes	Yes	Yes
Industry FE		Yes	Yes	Yes	Yes	Yes	Yes
S.E. clustered by firm and year		Yes	Yes	Yes	Yes	Yes	Yes
No. of observations		65,044	65,044	65,044	65,044	65,044	65,044
Adj. R-Squared		29.70%	35.80%	30.90%	29.70%	35.80%	30.90%

Panel B: Alternative definitions of tax aggressive stock gifts

Tax aggressive gift definition:		Gift >= 90th price percentile			Gift >= 99th price percentile		
Dependent variable:		*Violation*	*Violations Num*	*Penalty Amount*	*Violation*	*Violations Num*	*Penalty Amount*
	Pr. Sign	(1)	(2)	(3)	(4)	(5)	(6)
Tax Aggressive Exec	+	0.041***	0.055***	0.475***	0.040**	0.069**	0.479**
		(5.95)	(5.08)	(5.87)	(2.71)	(2.67)	(2.61)
Controls		Yes	Yes	Yes	Yes	Yes	Yes
Year FE		Yes	Yes	Yes	Yes	Yes	Yes
Industry FE		Yes	Yes	Yes	Yes	Yes	Yes
S.E. clustered by firm and year		Yes	Yes	Yes	Yes	Yes	Yes
No. of observations		65,044	65,044	65,044	65,044	65,044	65,044
Adj. R-Squared		29.80%	35.90%	31.00%	29.70%	35.80%	30.80%

Table 11 (continued)

Panel C: Alternative definitions of tax aggressive executives

Tax aggressive exec definition:		Exec >= 20% tax aggressive gifts			Exec >= 50% tax aggressive gifts		
Dependent variable:		*Violation*	*Violations Num*	*Penalty Amount*	*Violation*	*Violations Num*	*Penalty Amount*
	Pr. Sign	(1)	(2)	(3)	(4)	(5)	(6)
Tax Aggressive Exec	+	0.044***	0.066***	0.536***	0.047***	0.059***	0.527***
		(6.11)	(5.67)	(6.16)	(4.38)	(3.38)	(4.11)
Controls		Yes	Yes	Yes	Yes	Yes	Yes
Year FE		Yes	Yes	Yes	Yes	Yes	Yes
Industry FE		Yes	Yes	Yes	Yes	Yes	Yes
S.E. clustered by firm and year		Yes	Yes	Yes	Yes	Yes	Yes
No. of observations		65,044	65,044	65,044	65,044	65,044	65,044
Adj. R-Squared		29.80%	35.90%	31.00%	29.80%	35.80%	30.90%

Panel D: Number of tax aggressive executives

Main independent variable:		Number of tax aggressive executives		
Dependent variable:		*Violation*	*Violations Num*	*Penalty Amount*
	Pr. Sign	(1)	(2)	(3)
Tax Aggressive Exec Num	+	0.036***	0.064***	0.448***
		(5.93)	(5.64)	(6.02)
Controls		Yes	Yes	Yes
Year FE		Yes	Yes	Yes
Industry FE		Yes	Yes	Yes
S.E. clustered by firm and year		Yes	Yes	Yes
No. of observations		66,309	66,309	66,309
Adj. R-Squared		30.00%	36.20%	0.311

Panel E: Alternative fixed effects structures

Dependent variable:		*Violation*	*Violations Num*	*Penalty Amount*	*Violation*	*Violations Num*	*Penalty Amount*
	Pr. Sign	(1)	(2)	(3)	(4)	(5)	(6)
Tax Aggressive Exec	+	0.050***	0.081***	0.620***	0.016**	0.035***	0.231**
		(6.12)	(6.15)	(6.33)	(2.09)	(3.23)	(2.50)
Controls		Yes	Yes	Yes	Yes	Yes	Yes
Industry × Year FE		Yes	Yes	Yes	Yes	Yes	Yes
State FE		Yes	Yes	Yes	No	No	No
Firm FE		No	No	No	Yes	Yes	Yes
S.E. clustered by firm and year		Yes	Yes	Yes	Yes	Yes	Yes
No. of observations		64,968	64,968	64,968	63,973	63,973	63,973
Adj. R-Squared		30.60%	37.90%	31.70%	53.70%	71.10%	55.50%