

Tax Planning in Norwegian Private Equity-Backed Companies

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Prior research performed on American and Finnish data shows that private equity (PE)-backed companies tax plan to a much larger extent than comparable companies in these countries. In our thesis we wish to investigate if this is the case for Norwegian PE-backed companies as well. We have examined whether PE-backed portfolio companies engage in tax planning activities to a larger extent than their peers, and whether PE-firms actively seek out targets that have a potential for greater tax planning. We conclude that PE-firms operating in Norway and their Norwegian PE-backed companies exhibit much less aggressive tax planning practices than PE-backed companies in the US and Finland.

To test whether PE-backed portfolio companies engage in tax planning activities to a larger extent than their peers, we use a method called propensity score matching (PSM). We compare the level of tax planning activities in PE-backed companies to a PSM-generated comparison group that is not PE-backed. We compare the two groups using five proxies for tax planning. We find that Norwegian PE-backed companies differ from the comparison group only on one out of our five proxies. This proxy is the Leverage Ratio. Norwegian PE-backed companies' leverage ratios are on average 101 percentage points higher than the leverage ratios of non-PE-backed companies.

As a lot of debt related to the PE-backed companies can be kept in holding companies we have identified each PE-backed company's holding structure and added the holding company's debt to the PE-backed company's debt if possible. A problem with this procedure is that we do not have information on the holding structures of all the non-PE-backed companies. Due to the large number of non-PE-backed companies, the job of manually identifying any possible holding structures of the non-PE-backed companies is beyond the scope of our research. Therefore, no additional debt has been attached to the non-PE-backed companies. The finding that Norwegian PE-backed companies' leverage ratios are higher than the leverage ratios of non-PE-backed companies might therefore be biased in the PE-backed companies' disfavor. This questions the level of significance of our result.

We find no indications of PE-backed companies utilizing other tools of tax planning. This result is very different from the findings in similar studies performed on American and Finnish data. Hence, our results indicate that Norwegian PE-backed companies are much less tax aggressive than similar foreign companies.

We also investigate whether PE-firms actively seek out target companies that hold a potential for tax optimization. In order to investigate this, we compare the tax planning activities in PE-backed companies prior to their PE-backing (called PE-Targets) with comparable non-PE-backed companies. We use the same five proxies for tax planning here as in our first hypothesis, and find no significant differences between the tax planning

activities performed in the PE-Target companies and in the comparable non-PE-backed companies. We thus conclude that PE-firms operating in Norway do not actively seek out target companies that hold a potential for tax optimization.

Prior to performing this analysis, we believed that Norwegian PE-firms might view tax planning as an additional source of income. In addition to this, research from US and Finland shows that PE-backed companies in these countries tax plan to a much greater extent than their peers. Based on our analysis, we conclude that PE-firms operating in Norway and their Norwegian PE-backed companies exhibit much less aggressive tax planning practices than PE-backed companies in the US and Finland.