How Does the IRS Use Private Information from the SEC?

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ABSTRACT

I examine whether the Internal Revenue Service (IRS) increases its attention to firms subject to private Securities and Exchange Commission (SEC) investigations and whether the increase in attention is associated with effective IRS enforcement outcomes. By analyzing a unique dataset of private SEC investigations, I find that IRS attention increases significantly following SEC investigation initiation and persists for 12 months, with the strongest effect in the first six months post-SEC investigation initiation. In addition, I observe that IRS attention increases substantially even for firms without any public or third-party disclosures regarding their SEC investigations. These findings suggest that the IRS obtains information through private channels, such as direct communication with the SEC. Further, this increased attention is positively associated with both the likelihood and magnitude of future IRS tax settlements, as well as unfavorable IRS tax settlements within two years following an SEC investigation initiation. Consistent with regulatory signaling and efficiency theory, my results provide evidence of when monitoring coordination between the IRS and the SEC begins and how this regulatory interaction can improve tax enforcement outcomes.

Keywords: IRS attention, SEC investigations, private information, regulatory interaction, fraudulent financial reporting, tax enforcement

JEL codes: G38; H25; H26; M40; M41; M48

Data Availability: Contact the author.

I.INTRODUCTION

Regulatory agencies often face difficult decisions regarding the allocation of limited resources to fulfill their objectives (Aviram 2011). Recent federal budget cuts have targeted a variety of federal agencies (Dickey 2025; Brown and Linton 2025), such as the upcoming layoff of thousands of federal employees from the Internal Revenue Service (IRS) (Schwartz et al. 2025). The IRS's budget cuts and firms' increasing tax sophistication in recent decades have undermined the agency's ability to collect tax revenue and enforce tax laws (Marr and Murray 2016; Rappeport 2017; Holtzblatt 2021; Eckstein 2024), and continuing budget cuts worsen the challenge. One potential way the IRS can mitigate this resource constraint is to leverage information from other regulators. Prior literature documents that the IRS pays attention to financial filings mandated by the Securities and Exchange Commission (SEC) (Bozanic et al. 2017; Fox and Wilson 2023). However, it is unclear whether the IRS uses private information from the SEC to support its monitoring activities. To fill the gap in the literature, I employ a unique dataset of private SEC investigations and examine two related questions: 1) whether the IRS increases its oversight of firms in response to a private SEC investigation initiation, and 2) whether such IRS attention is associated with timely and effective enforcement outcomes for the IRS.

This study is important for at least two reasons. First, it contributes to a broader understanding of regulatory monitoring effectiveness for multiple stakeholders, including managers, investors, other stakeholders, and academics, who have limited visibility into interagency regulatory cooperation. My study provides valuable external evidence of possible private information sharing between two regulatory agencies (i.e., the IRS and the SEC) and quantifies its impact on IRS enforcement outcomes. Second, budgetary constraints have led to a 34 percent decline in IRS audit rates for large corporations from 2011 to 2018, resulting in substantial annual revenue losses of at least \$15 billion (IRS Data Book 2020; TRAC Report 2016). In light of budget constraints, it is increasingly important to identify credible signals that can help the IRS allocate its resources more efficiently. This study explores one such potential signal—information from private SEC investigations—as a valuable tool to broadly enhance IRS enforcement efforts.

The Division of Enforcement of the SEC investigates potential violations of federal securities laws to deter misconduct and punish violators to protect investors. A key characteristic of the SEC's investigative process is its confidentiality, aimed at protecting the identity of those under investigation (SEC 2017). However, Section 24(c)-1 of the Exchange Act authorizes the SEC to grant access to nonpublic information in enforcement files to federal, state, or foreign government agencies if these agencies provide assurances of confidentiality. The IRS is among these agencies and can obtain details of private SEC investigations. Additionally, the IRS can obtain information through inter-agency cooperation agreements with the SEC and learn about SEC investigations via companies' public filings and press releases. These information channels suggest that the IRS is informed about at least some ongoing SEC investigations.

Among information from regulatory bodies, SEC investigations represent highly credible signals of potential financial misconduct as the process associated with opening an SEC investigation is rigorous. For all closed SEC investigations of public firms, approximately 80 percent were related to financial reporting issues and insider trading (Blackburne and Quinn 2023). Cockroach theory suggests that one area of financial misconduct often represents just the tip of the iceberg with other potential wrongdoings, including tax-related malfeasance (e.g., Fox and Wilson 2023). Prior studies document that both aggressive financial reporting and insider trading are also positively associated with aggressive tax behaviors (e.g., Desai et al. 2007; Frank et al. 2009; Wilson 2009; Chung et al. 2018). These findings indicate that companies with financial

misconduct, such as those investigated by the SEC, are more likely to engage in aggressive tax avoidance. Given the IRS's primary concern is a company's tax aggressiveness, often reflected in unusually low tax liabilities, it is possible that SEC investigations of a company could serve as a salient signal for the company's tax aggressiveness. This signal, in turn, may lead to increased IRS monitoring of the company.

Additionally, given that financial statement information lays the foundation for tax return calculations (Mullaney et al. 2023; Fox and Wilson 2023; Chen et al. 2024), SEC investigations often uncover fraudulent financial data and questionable calculation processes, which can be carried through into tax calculations, potentially revealing tax misreporting. If the IRS perceives SEC investigations as credible indicators of potential tax misreporting, it may begin to question the accuracy of firms' tax returns and tax disclosures. Therefore, in my first hypothesis, I predict that IRS attention towards a company increases after the SEC opens an investigation into it.

I begin my analysis using a database of formal SEC investigations closed between 2000 and 2017. I measure IRS monitoring using the number of IRS downloads of companies' filings from SEC EDGAR (Bozanic et al. 2017). Employing an event study approach, I find that IRS attention significantly increases following the initiation of an SEC investigation. The increase in attention is concentrated within the first six months following an SEC investigation initiation and attention persists for 12 months. In cases where I can infer specific filing years the SEC investigation targets, I descriptively show that over 75% of IRS downloads pertain to filings within three years before or after the years targeted by SEC investigations. Further, I find the increase in IRS attention in response to SEC investigations occurs for firms without any public or third-party disclosures regarding their SEC investigations. This finding suggests that the IRS obtains SEC investigation information through private channels, such as direct communication with the SEC. With such information, the IRS monitors firms in a timely manner, rather than initiating its monitoring only after firms face SEC enforcement actions or restate their financial filings.

Conditional on my findings that IRS attention increases following the initiation of an SEC investigation, I next examine whether such attention affects IRS enforcement outcomes. Mayer-Schönberger and Somek (2006) highlight that informational interaction is an important form of regulatory interaction, which can occur via the diffusion of information between regulators. Because the SEC has already screened firms for potential financial misconduct and can share investigation documents with the IRS, the IRS can leverage such information to identify audit targets, reducing time and costs to uncover similar information, and improve its information quality to collect more tax revenue. Therefore, my second hypothesis predicts that the increased attention following an SEC investigation initiation is positively associated with both the likelihood and magnitude of future IRS tax settlements in the two years following SEC investigation initiation.

Consistent with my prediction, I find that the increased IRS attention in response to an SEC investigation initiation is associated with an increased probability of IRS tax settlements in the following two years, and that more IRS attention leads to larger tax settlements in these years. Further analysis shows that tax settlements in the second year significantly exceed managers' initial expectations. These findings demonstrate the increased IRS attention following an SEC investigation initiation is associated with more timely and effective IRS enforcement outcomes.

This paper makes two primary contributions. First, the study contributes to the literature examining regulatory interaction between two regulatory bodies. There are three different modes of regulatory interaction: competitive, coordinative, and informational. Whereas the first covers phenomena through the law-of-nature approach, the coordinative and informational modes highlight benefits from regulatory emulation and information sharing between agencies (MayerSchönberger and Somek 2006). This study specifically contributes to understanding the informational interaction between two agencies. While prior studies document how U.S. regulators adjust their monitoring efforts based on publicly observable actions of other regulators (e.g., Tafara and Peterson 2007; Naughton et al. 2018; Fox and Wilson 2023; Chen et al. 2025), little is known about how private interactions between regulators influence enforcement outcomes. This study finds that the IRS increases attention to firms under SEC investigation prior to public disclosures of the investigation and provides evidence that IRS access to private SEC investigation information enables more targeted oversight and increased tax revenue collection. Thus, this study provides novel insights into how private information sharing improves the timing and effectiveness of IRS enforcement outcomes. Because managers are aware of SEC investigations at their initiation, my findings enable managers to better anticipate periods of intensified IRS monitoring and prepare for potential enforcement costs associated with aggressive tax positions. For other stakeholders such as investors and analysts, once they become aware of an SEC investigation, they can expect future tax consequences and make more informed decisions.

Second, my study advances our understanding of the consequences of SEC investigations beyond their direct market effects. Prior research shows that undisclosed SEC investigations create information asymmetry benefiting corporate insiders, and that external monitoring can accelerate managers' disclosures of SEC investigations and credit rating adjustments (Blackburne et al. 2020; Blackburne and Quinn 2023; Bonsall et al. 2024b). However, the impact of private SEC investigations on other regulators' enforcement activities remains unexplored. My study suggests that private SEC investigations prompt immediate IRS attention, and the increased attention is associated with more effective IRS enforcement. Consequently, firms under SEC investigation can anticipate increased IRS scrutiny and increased tax costs—a previously undocumented spillover

effect of SEC oversight.

II. BACKGROUND AND HYPOTHESIS DEVELOPMENT

The SEC Investigation and Enforcement Process

The SEC's Division of Enforcement conducts investigations to determine whether any persons or entities violated federal securities laws. These investigations are confidential and only disclosed by the SEC if public charges are filed (SEC 2023). With respect to corporate malfeasance, at the outset of investigations, the only parties typically aware of their existence are SEC staff, senior managers of the company being investigated, and their legal counsel (Blackburne et al. 2021). The investigative process begins when SEC staff evaluate evidence that suggests potential violations of federal securities laws (i.e., a "lead"). Specifically, a lead can be obtained from many information sources, including public financial filings, newspaper articles, and market surveillance activities (SEC 2017). If the initial evidence is sufficient to suggest a significant violation, an investigation can be opened directly. Following the opening of an SEC investigation, the SEC staff typically begin with requesting documents from firms and conducting interviews with witnesses (McLucas et al. 1997). When the SEC investigation is nearly complete, the Division of Enforcement decides whether to recommend an enforcement action (Nelson et al. 2009; SEC 2017). If there is insufficient evidence to recommend an enforcement action, the SEC investigation can be closed at any stage of the process (GAO 2009).

A growing body of literature examines the determinants and consequences of SEC investigative processes. Regarding the determinants, Holzman et al. (2024) identify key factors that influence how the SEC selects its investigation targets, including the likelihood of regulatory noncompliance, private sector scrutiny, and conspicuous public events. On the consequences of SEC investigations, prior research and SEC annual reports highlight that these investigations are

not trivial (e.g., Blackburne and Quinn 2023; SEC 2023). For instance, in fiscal year 2022 the SEC filed 760 enforcement actions and secured a record of \$6.4 billion in monetary remedies, up from \$3.9 billion in fiscal year 2021 (SEC 2023). Approximately 20 percent of SEC investigations into public companies result in enforcement actions (Blackburne and Quinn 2023), while others often result in SEC comment letters, earnings restatements, or class-action lawsuits (Blackburne et al. 2021). These findings suggest the initiation of an SEC investigations, they draw significant attention from corporate insiders, credit rating agencies, and sophisticated institutional investors even before these investigations are publicly disclosed (Blackburne et al. 2020; Wang and Zhou 2024; Bonsall et al. 2024b). However, there is limited evidence on whether other regulators, including the IRS, are aware of these investigations and whether they pay attention to firms under SEC scrutiny once such investigations are initiated. This is one important issue I investigate in this study.

IRS Use of Private Tax Returns and Public Disclosures

The IRS is primarily responsible for collecting tax revenue and enforcing tax laws in the U.S. (IRS 2025). It is well known that the IRS utilizes information signals from private tax returns (Internal Revenue Manuals 2024).¹ Recent research demonstrates that the IRS also relies on public signals of tax-related disclosures, such as book-tax differences and tax footnote disclosures, to allocate its monitoring and enforcement resources (Mills and Sansing 2000; Mills et al. 2010; Bozanic et al. 2017). The IRS also pays attention to public signals of non-tax-related disclosures including restatement news and overall financial reporting quality (Fox and Wilson 2023; Chen et al. 2025). However, it remains unclear whether the IRS begins monitoring companies before these

¹ For example, the IRS selects returns for tax audit based on suspected participation in abusive tax avoidance transactions and computer-generated tax noncompliance scores (e.g., Nessa et al. 2020).

restatements occur. Since SEC investigations, often triggered by material misreporting in financial disclosures, can result in financial restatements (Blackburne et al. 2021), the initiation of an SEC investigation provides a valuable setting to investigate whether the IRS begins paying attention to a firm when the SEC opens an investigation into it. Next, I enumerate various possible information channels through which the IRS can learn about SEC investigations.

Interactions between the IRS and the SEC

The SEC conducts all investigations privately to maintain the integrity of its investigative process and protect individuals from unfounded charges (SEC 2020). However, the SEC is authorized to grant access to nonpublic information in enforcement files to federal, state, or foreign government agencies if these agencies provide assurances of confidentiality pursuant to Section 24(c) of the Securities Exchange Act of 1934 (SEC 2017). The IRS is among these, enabling it to access critical details of private SEC investigations.

The extent to which the IRS obtains information on SEC investigations also depends on inter-agency cooperation agreements and the specifics of the investigation. Inter-agency cooperation agreements such as Memoranda of Understanding (MOUs) between the IRS and the SEC outline the circumstances under which information can be shared. These agreements are designed to facilitate cooperation while ensuring compliance with legal requirements. For specific high-profile cases, such as the Enron scandal, the IRS and the SEC often participate in joint task forces targeting financial fraud within the Financial Fraud Enforcement Task Force (FFETF), which facilitates information sharing through a shared and up-to-date database (SEC 2009; DOJ 2010).² These direct interactions between the two government regulators highlight the occurrence

² Established in 2009, the FFETF brought together more than 20 federal agencies, including the IRS and the SEC, along with state and local partners. The task force aims to investigate and prosecute significant financial crimes, including securities fraud, mortgage fraud, and tax evasion.

of inter-agency collaboration in tackling complex financial and tax fraud.

In addition to direct cooperation between the two agencies, the IRS can obtain SEC investigation information through indirect channels as well. For instance, the IRS can request information through the Freedom of Information Act (FOIA) (SEC 2017).³ The IRS can also learn about SEC investigations through companies' public filings and news releases because a significant number of public companies disclose the existence of SEC investigations (Blackburne and Quinn 2023).⁴ All the information channels above suggest that the IRS is informed about a portion of firms that are under SEC investigations. If the IRS is aware of SEC investigations, the next set of questions is whether the IRS pays attention to companies in response to SEC investigations and, if any, how such IRS attention may affect the IRS's enforcement actions.

Hypothesis Development

For all closed SEC investigations of public firms from 1997 to 2019, approximately 50 percent were related to financial fraud and reporting issues and 30 percent were related to insider trading (Blackburne and Quinn 2023). Pursuant to Section 24(c) of the Securities Exchange Act of 1934 and as detailed in the SEC enforcement manual, the SEC is authorized to share information from its private investigations with other government agencies, including the IRS. Cockroach theory suggests that visible financial misconduct potentially reveals other wrongdoings, including tax-related malfeasance (e.g., Fox and Wilson 2023). If the SEC investigates a firm for financial

³ Under FOIA, information and documents submitted to the SEC during an investigation may be disclosed to third parties, including the IRS [unless the request is denied under Exemption 7(A)], which allows the SEC to deny requests for documents if their release could interfere with ongoing proceedings (SEC 2018). However, even if an IRS's FOIA request is denied under the exemptions, the IRS can still infer that an ongoing investigation exists (Coleman et al. 2021). SEC FOIA Log files demonstrate that the IRS requests SEC investigation information directly through FOIA for three different companies between 2006 and 2018. These three companies are not present in the dataset used for this study. Due to the rarity of such cases, I do not expand my discussion on the information obtained through FOIA requests.

⁴ Although I acknowledge the public information channels through which the IRS can learn about SEC investigations, the focus of this study is how the IRS uses private information from the SEC (i.e. IRS attention to firms under SEC investigations before these public disclosures).

reporting misconduct or insider trading, when the IRS is aware of such investigations, the IRS may reasonably infer that the firm is also at risk of engaging in questionable tax practices. Prior studies find that both aggressive financial reporting and insider trading are positively associated with aggressive tax behaviors within a company (e.g., Desai et al. 2007; Frank et al. 2009; Wilson 2009; Chung et al. 2018). These findings may reflect the effects of managerial opportunism, which allows managers to prioritize personal gains at the expense of shareholders not only from financial misconduct (Desai and Dharmapala 2006; Desai et al. 2007; Fried 2014) such as those investigated by the SEC, but also in aggressive tax avoidance. Given that the IRS's primary concern is a company's tax aggressiveness (e.g., Nessa et al. 2020), it is possible SEC investigations provide a salient indicator for the company's tax aggressiveness.

In addition, among information from regulatory bodies, SEC investigations in particular represent credible information as the process associated with opening an SEC investigation is rigorous. The SEC only initiates investigations after evaluating and analyzing sufficient evidence of firm violations against federal securities laws, primarily consisting of material financial misreporting (SEC 2017). Because financial income is the starting point for determining taxable income and various financial accounts are involved in book-tax adjustments, SEC investigations could uncover fraudulent data and questionable calculation processes, potentially revealing tax misreporting. If the IRS considers SEC investigations to be credible, it may question firms' overall financial information quality, including the accuracy of firms' tax returns and tax disclosures. Consequently, when the SEC opens an investigation of a company, the IRS may start increasing its monitoring of the company to identify further evidence of tax misreporting. Based on the discussion, I present my first hypothesis in an alternative form:

H1: IRS attention toward a company increases after the SEC opens an investigation into it.

Although I predict that the IRS will increase its attention to companies under SEC investigations, there are reasons to expect the IRS may not increase its attention. First, because the IRS is resource-constrained (e.g., Marr and Murray 2022), it may not prioritize firms under SEC investigations unless these investigations identify actual financial misconduct, as evidenced by financial restatements or SEC enforcement actions. In this case it is not the opening of an investigation that may cause the IRS to increase attention. Rather, only findings of misconduct by the SEC do. Second, SEC investigations involving financial fraud are also often associated with inflated earnings (e.g., fictitious revenues) (Blackburne et al. 2021). Erickson et al. (2004) document that firms pay taxes on allegedly overstated earnings to reduce the chance of detection of overstatement or low earnings quality. This overpayment of taxes potentially results in lost IRS revenue due to the need for IRS refunds related to these overstated earnings. In addition, tax aggressive firms are less likely to engage in financial fraud (Lennox et al. 2013). This is because simultaneously reporting high book income due to inflated earnings and low taxable income due to aggressive tax positions raises red flags with the IRS (Erickson et al. 2004). Finally, many SEC investigations focus on issues such as insider trading or market manipulation that have little direct connection to tax compliance. This varied nature of SEC investigations makes their relevance to tax oversight uncertain.

Conditional on finding support for H1, I next consider whether such increased IRS attention is associated with improved enforcement outcomes for the IRS. Research suggests that IRS attention is associated with future tax enforcement actions, including IRS tax audits disclosed in 10-K filings and tax settlements (Bozanic et al. 2017; Fox and Wilson 2023). When the IRS increases its attention following the opening of a private SEC investigation, it is likely that this increased attention will transition into future tax enforcement actions. However, it remains unclear

whether the direct and indirect communication between the IRS and the SEC can expedite the IRS's enforcement actions.

Mayer-Schönberger and Somek (2006) highlight the diverse forms of regulatory interaction, one of which is informational. The diffusion of information serves as a key channel through which regulators can interact with one another. Signaling theory is fundamentally concerned with reducing information asymmetry between two parties (Spence 2002; Connelly et al. 2011). Although this theory has been developed to explain behaviors among individuals or groups, such as CEOs signaling firm quality to investors through high-quality financial reporting, it has not yet been widely applied in the context of inter-regulatory interactions. Nevertheless, its principles suggest that information gathered by one regulator can effectively serve as signals that can be utilized by other regulators, potentially enhancing inter-agency cooperation and regulatory effectiveness. Specifically, the existence of an SEC investigation could make the IRS aware of potential information asymmetry related to firms under investigation. This asymmetry arises because the SEC and the IRS collect different types of information: the SEC focuses on financial information, while the IRS collects tax-related data.

By utilizing information from SEC investigations or the signal of SEC investigations, the IRS can avoid duplicating efforts to identify target companies thus optimizing resource allocation and improving overall enforcement results, given its limited budget. Since the SEC has already screened firms for potential financial misconduct, it eliminates the need for the IRS to undertake this process. Rather than beginning with a large pool of firms to identify audit targets, the IRS can benefit from the SEC's initial screening process and use the SEC findings, potentially accelerating tax audit processes and reducing costs associated with independently uncovering similar information. Further, the comprehensive, credible information from an SEC investigation could

improve the IRS's information quality, leading to more tax revenue collection. As a result, information uncovered in SEC probes can provide crucial leads for IRS attention, aiding in the identification and prosecution of tax evaders more effectively. This leads to my second hypothesis: *H2: The increase in IRS attention to a company following the opening of an SEC investigation is associated with more effective subsequent tax enforcement outcomes.*

However, this hypothesis is not without tension. To the extent that the IRS obtains private information from the SEC, such information may not be useful for IRS tax audits or investigations. A significant number of SEC investigation cases involve non-compliance with financial reporting standards, insider trading, and manipulation of stock prices (SEC 2024). These issues may not directly correlate with the tax concerns of the IRS. While the SEC prioritizes investor protection and financial market transparency, the IRS concentrates on underreported taxable income, abusive tax transactions, and aggressive tax avoidance. Due to this divergence in regulatory focus, financial misconduct discovered during SEC investigations may not align with the tax-related malfeasance the IRS seeks to detect. Consequently, the private information gathered through SEC investigations may provide limited value for the IRS to identify appropriate audit targets or enhance tax collection efficiency.

To illustrate the timing of an SEC investigation, I provide an example timeline of the investigative process for NVIDIA, an American multinational corporation, in Figure 1. H1 examines changes in IRS attention in response to the initiation of an SEC investigation, whereas H2 examines changes in the tax settlement of this increased IRS attention in the next two years.

III. RESEARCH DESIGN AND DATA

Research Design for H1

I first examine whether the IRS increases its attention to a company following the initiation

of an SEC investigation. To test this hypothesis, I use a sample of U.S. public companies that have experienced at least one SEC investigation to estimate the following ordinary least square (OLS) regression:

$MONTHLY IRS DOWNLOAD_{i,m} = \alpha + \beta_1 SEC INVESTIGATION_{i,m} + \gamma TAX AVOIDANCE_{i,t} + \delta FIRM CHARACTERISTICS_{i,t} + Firm FE + Month-year FE + \varepsilon_{i,t}. (1)$

where *i* indicates the firm, *m* indexes month, and *t* indexes year. My main variable of interest is *SEC INVESTIGATION*_{*i,m*}, which I measure using two proxies. The first proxy, *SEC INVESTIGATION 12*, is an indicator variable equal to one for firm *i* during the current month and the 12 consecutive months following the open date of an SEC investigation in month *m*, and zero in all other periods. My second proxy is *SEC INVESTIGATION 0*, an indicator variable equal to one for firm *i* during the current month when the SEC opens an investigation in month *m*, and zero in all other periods.

I examine the month of SEC investigation initiation and extend the analysis to subsequent 12-month periods to more accurately attribute any changes in IRS attention to an SEC investigation initiation. For this attribution to be credible, the IRS must receive information either directly from the SEC or through public channels. While the timing of direct communication between the SEC and the IRS is not publicly observable, some firms disclose an SEC investigation on the same day it opens.⁵ According to Blackburne and Quinn (2023), among companies that choose to disclose, the average time to disclosure is 155 days. This finding suggests that the IRS becomes aware of more than half of these disclosed cases within the next couple of months following an SEC investigation. For undisclosed cases, the IRS may still gain information through direct SEC communication or other channels, although the exact timing is less certain. Given that the IRS

⁵ For example, DreamWorks Animation SKG announced that they were subject to an SEC investigation on the same day it was opened. See more details at: <u>https://www.marketwatch.com/story/dreamworks-animation-discloses-sec-probe/</u> and <u>https://www.foxnews.com/story/dreamworks-cuts-05-view-discloses-sec-probe.</u>

requires annual tax returns and monitors companies yearly, I expect any SEC investigation-related increase in IRS attention to occur primarily starting the month the SEC investigation opens and continuing throughout the year.

My primary measure of IRS attention is *MONTHLY IRS DOWNLOAD*_{*i*,*m*}, calculated as the natural logarithm of one plus the number of IRS downloads of firm *i*'s SEC filings in month *m* of year *t*. I follow Fox and Wilson (2023) and aggregate IRS downloads on a monthly basis. I choose these relatively short test windows and conduct my analysis at the firm-month level to confidently attribute a response in IRS attention to the initiation of SEC investigations.⁶ While IRS tax compliance efforts primarily focus on annual returns, prior studies indicate that the IRS also responds to significant financial disclosures on a monthly basis (Fox and Wilson 2023).

I also adopt two alternative proxies that Fox and Wilson (2023) propose to measure IRS attention. The first proxy, *MONTHLY IRS DOWNLOAD BREADTH*_{*i*,*m*} is the natural logarithm of one plus the count of unique SEC filings for firm *i* downloaded by the IRS each month.⁷ This measure ensures that multiple downloads of the same filing or exhibit within a year are recorded as a single instance to avoid overestimation of IRS attention. My second proxy, *MONTHLY IRS DOWNLOAD TYPE*_{*i*,*m*}, is the natural logarithm of one plus the total number of different forms for firm *i* downloaded by the IRS each month, regardless of the year the form was initially filed. For example, all 10-K downloads are counted as one instance for any given month. This measure captures the variety of SEC filings reviewed by the IRS.

⁶ Monthly IRS downloads are also a finer measure than yearly IRS downloads, which may be influenced by confounding events triggered by SEC investigations, such as subsequent SEC enforcement, restatements, and shareholder litigations. My data shows that SEC investigations often lead to financial restatements and shareholder litigation at least six months after the investigation begins, while enforcement actions usually occur within two years of the opening of an investigation (SEC 2023).

⁷ Unique SEC filings are identified by their accession numbers, which are unique identifiers assigned by the SEC to each filing submitted through the EDGAR system.

I include control variables for a firm's tax avoidance and other characteristics that Bozanic et al. (2017) and Fox and Wilson (2023) suggest may affect IRS attention. Prior literature documents that the IRS heightens its attention to firms with high levels of tax avoidance (e.g., Bozanic et al. 2017; Nessa et al. 2020). As such, I include several proxies for TAX AVOIDANCE, including GAAP effective tax rate (GAAP ETR), cash effective tax rate (CASH ETR), book-to-tax differences (BTD), change in tax loss carryforwards (NOL CHANGE), net deferred tax assets (DTA), and net deferred tax liabilities (DTL). Additionally, I control for a vector of other firm characteristics that may also affect IRS attention (Bozanic et al. 2017; Fox and Wilson 2023). I include size (SIZE), market-to-book ratio (MTB), leverage (LEVERAGE), pre-tax profitability (ROA), intangible asset intensity (INTANGIBLES), R&D intensity (R&D), inventory intensity (INVENTORY). capital intensity (CAPITAL), sales growth (SALES GROWTH), cash holdings (CASH), and multinational status (MNE). Further, I include internal control weaknesses (ICW) because Fox and Wilson (2023) find that IRS attention increases following internal control weakness disclosures under Section 404 of the Sarbanes-Oxley Act (SOX 404). All these control variables are measured using fiscal year-end data for year t and then applied to the corresponding month *m* of the fiscal year.

To control for spikes in IRS attention from the release of regular or occasional reporting events in a given month m of year t, I follow Fox and Wilson (2023) and include several firmmonth variables. First, I include indicator variables equal to one for firm-month observations with the release of annual (10-K) or quarterly (10-Q) reports. Second, I include an indicator variable equal to one for all firm-month observations with an announcement of a restatement (*RESTATEMENT_MONTH*), as Fox and Wilson (2023) find increased IRS attention in this case. Third, to account for other public information that may lead to mechanical IRS downloads, I

control for the total number of new forms (*FORMS*) available for download for firm *i* during a given month *m*. Lastly, I include month-year and firm fixed effects. The month-year fixed effects account for time series trends, legislative changes related to tax disclosures (e.g., FIN 48 and Schedule UTP), and macroeconomic shifts that may influence IRS attention. The firm-fixed effects control for any firm-specific characteristics that remain constant over time. Further, I cluster standard errors by firm to adjust the standard errors for heteroskedasticity and serial correlations within a given firm. I include detailed variable definitions in Appendix A.

In Equation (1), when my dependent variable is *SEC INVESTIGATION 12*, the estimated coefficient (β_1) captures the changes in IRS attention during the current month and the following 12 consecutive months after an SEC investigation opens. A positive and significant β_1 indicates increased IRS attention to firms under SEC investigations. This result would support my first hypothesis that the IRS views the initiation of an SEC investigation as a credible indicator of potential tax avoidance or noncompliance by the investigated firms.

Research Design for H2

Conditional on the findings of H1 that IRS attention increases significantly following the opening of an SEC investigation of a company, I next examine whether such IRS attention is associated with subsequent tax settlements. To test this hypothesis, I restrict my sample to firm-year observations in which an SEC investigation is initiated because IRS enforcement actions are only observable in annual reports. I estimate the following regression:

IRS SETTLEMENT_{*i*,*t*+*n*} = $\alpha + \beta_I IRS_SEC_{i,m} + \gamma TAX AVOIDANCE_{i,t}$ + δ FIRM CHARACTERISTICS_{*i*,*t*} + Industry FE + Year FE + $\varepsilon_{i,m}$. (2)

I measure *IRS SETTLEMENT*_{*i*,*t*+*n*} using two sets of proxies. The first captures the likelihood of IRS tax settlement, including *IRS SETTLEMENT*_{*i*,*t*+1} and *IRS SETTLEMENT*_{*i*,*t*+2}. They are indicator variables equal to one if firm *i* reports a tax settlement

in its income tax footnote in year t+1 or t+2, respectively, and zero otherwise. This measure is adapted from Brown et al. (2023) because tax settlements signal the completion of a tax enforcement action against the firm (e.g., Brown et al. 2023; Robinson et al. 2016). I use t+1 and t+2 to account for the time lag between the initiation of an enforcement action and its resolution, as tax settlements typically follow IRS audits or other enforcement activities. My second set of proxies captures tax settlement size, with three metrics to quantify settlement magnitude: (1) the natural logarithm of tax settlement amount (Ln(TAX SETTLEMENT)), (2) the natural logarithm of tax settlement amount scaled by the natural logarithm of lagged total assets (Ln(TAX SETTLEMENT)/Ln(LAGGED ASSETS)), and (3) the natural logarithm of tax settlement amount scaled by the natural logarithm of total revenue (Ln(TAX SETTLEMENT)/Ln(REV)). The first metric captures absolute settlement size, while the latter two control for the impact of firm size on the magnitude of tax settlements.⁸

My main variable of interest in Equation (2) is IRS attention to SEC investigations, $IRS_SEC_{i,m}$, calculated as the natural logarithm of one plus the number of IRS downloads of firm *i*'s SEC filings in the current month *m* and the six consecutive months following an SEC investigation open date. This six-month window is based on the primary results for H1, which show that the majority of increases in IRS attention occur within six months of an SEC investigation's initiation. By focusing on IRS attention during this shorter window, I can more

⁸ I also consider using firms' mentions of IRS audits in 10-K filings as a proxy for IRS enforcement outcomes, as IRS audits are important enforcement processes that often lead to tax settlements (Nessa et al. 2020; Fox and Wilson 2023). To identify firms that disclose an IRS audit in their 10-Ks, I follow the methodology from Bozanic et al. (2017) and conduct textual analysis by searching for audit related words ("audit," "exam," "investigation," or "inspect") within 20 characters of "IRS," "I.R.S.," or "Internal Revenue Service." My untabulated results show that heightened IRS scrutiny following SEC investigations is associated with IRS tax audit disclosures in both the investigation initiation year (*t*) and the subsequent year (*t*+1), indicating accelerated IRS attention compared to Fox and Wilson (2023), who find IRS responses to restatements typically appear in year t+1. However, these disclosures demonstrate substantial heterogeneity (i.e., some reference completed audits, others describe ongoing examinations, and some merely identify years subject to IRS review). Given this inconsistency in disclosure content and timing, I exclude this measure from my primary analyses.

confidently attribute the increase in IRS attention to an SEC investigation initiation and examine how this attention influences subsequent IRS enforcement actions. I include the same set of firmyear level control variables as Equation (1), except that I replace *RESTATEMENT_MONTH* with *RESTATEMENT*, an indicator variable equal to one for all firm-year observations with a restatement, and zero otherwise. Additionally, I include Fama-French 17 industry fixed effects to account for differences across industries, and year fixed effects to control for time trends, legislative changes in tax disclosures, and macroeconomic shifts affecting IRS attention. To adjust for heteroskedasticity and serial correlation within a given firm, I cluster standard errors by firm.

In Equation (2), the estimated coefficient β_1 measures the effect of the increased IRS attention following SEC investigation initiations on future tax settlement. A positive and significant β_1 indicates that the increased IRS attention is positively associated with subsequent IRS enforcement. This result would provide evidence supporting my prediction that the IRS can leverage the information from private SEC investigations to identify audit targets and potential tax issues, allowing for more effective tax enforcement.

Sample Selection

My sample consists of firms that have experienced at least one SEC investigation from 2004 to 2016. I start the sample in 2004 due to the availability of data on IRS downloads of public filings from SEC EDGAR, which covers filings such as 10-Ks, 10-Qs, 8-Ks, and other forms. My sample ends in 2016 because data on IRS downloads from SEC EDGAR server logs are available to the public only until June 30, 2017, and the last complete year of IRS download data is 2016.⁹ I collect financial data from Compustat and gather information on restatement and internal control

⁹ EDGAR provides public access to all SEC-required filings for public companies. The SEC's server log files include the company's Central Index Key (CIK), the user's IP address (available only before June 30, 2017), the date and time of the request, and the accession number for the requested filing. Each day's log records all download activity, allowing me to identify IRS downloads and track the specific filings requested on a daily basis.

weaknesses from Audit Analytics. I identify firms under SEC investigations using SEC investigation data closed between 2000 and 2017, as provided by Blackburne et al. (2020), Blackburne et al. (2021), Blackburne and Quinn (2023), and FOIA. This dataset includes information on firms officially investigated by the SEC, the start and end dates of each investigation, the primary reason for the investigation (e.g., financial fraud, insider trading, or market manipulation), and whether the investigation resulted in an enforcement action.

I require firms to be in the interaction of Compustat, Audit Analytics, and SEC investigation data. Consistent with Fox and Wilson (2023) and Brown et al. (2023), I exclude firm-years with no IRS attention during the sample period. Additionally, I exclude firm-years with missing necessary control variables. To mitigate the influence of outliers, I winsorize all continuous variables at the one percent and 99 percent levels by year at the firm-year level. My final sample consists of 11,761 firm-year observations from 2004 to 2016. I then turn firm-year observations into corresponding firm-month observations of 140,755. Table 1 outlines my sample selection process.

Following the proxy developed by Bozanic et al. (2017), I use IRS downloads of company filings to measure IRS attention toward a company. To identify IRS activities, I first locate IRS-owned IP addresses by searching for "IRS" or "Internal Revenue Service" in the American Registry for Internet Numbers (ARIN) database. This process yields 12 unique IP address blocks exclusively owned by the IRS, consistent with prior literature (Bozanic et al. 2017; Fox and Wilson 2023; Chen et al. 2025). I then use Python to extract the SEC daily filing download log files from 2004 to 2016 that match any one of the 12 IRS IP addresses. Finally, I aggregate the number of unique SEC filings by firm month or firm year and merge the information with Compustat firms using CIK for the corresponding period.

IV. RESULTS

Descriptive Statistics

Figure 2 shows the total number of annual IRS downloads for my sample firms from 2004 to 2016, along with the three most downloaded forms.¹⁰ The total number of IRS downloads and Form 10-K downloads exhibits an upward trend from 2005 to 2011, followed by a decline afterward. This whole pattern aligns with Fox and Wilson (2023), who suggest that the decline in IRS attention reflects the IRS's shift toward alternative data sources like Capital IQ and Bloomberg after 2011. Figure 3 depicts the annual number of SEC investigations initiated over the sample period, showing an upward trend from 2004 to 2006, followed by a steady decline from 2006 to 2012, a resurgence in 2013 and 2014, and decreases in 2015 and 2016.

Figure 4 plots the average daily IRS downloads during the [-200, 200] days around the initiation of SEC investigations. The graph reveals a general increase in IRS download activity around the time investigations are opened, suggesting the IRS may be informed of SEC investigations for certain firms at their initiations and increase its attention to these firms. A sharp spike in downloads occurs around 130-150 days following the initiation of an SEC investigation, indicating the IRS gains more knowledge of firms under SEC investigations over time and intensifies its scrutiny.

Table 2, Panel A presents the descriptive statistics of the variables used in estimating Equation (1). On average, firms receive 2.58 IRS downloads per month, equivalent to approximately 30.96 downloads per year. The median value of zero indicates that most firms do not receive any IRS attention in a given month. The average *MONTHLY IRS DOWNLOAD*

¹⁰ Consistent with findings from Bozanic et al. (2017) and Fox and Wilson (2023), I find that Form 10-K is the most frequently downloaded filing, followed by Forms 8-K, 10-Q, 4, and DEF 14A. These forms contain critical financial and tax disclosures that may help the IRS assess tax noncompliance by comparing disclosed information with tax returns and identifying potentially aggressive tax positions.

BREADTH and *MONTHLY IRS DOWNLOAD TYPE* are 0.62 and 0.52, respectively, equivalent to approximately 7.44 and 6.24 downloads per year. These values are significantly lower than the total monthly IRS downloads, likely because the IRS focuses more on specific filings such as 10-Ks and their related exhibits, which often share the same accession number and form type. In addition, the mean value of *SEC INVESTIGATION 12* is 0.12, indicating that 12% of firm-months fall within the current and the following 12-month periods. The untabulated results show that 77% of these IRS downloads occur within the three years immediately preceding the initiation of an SEC investigation, suggesting that the IRS primarily focuses its attention on the most recent SEC *INVESTIGATION 0* is 0.01, indicating that 1% of firm-months coincide with the initiation month. The average *GAAP ETR* and *CASH ETR* are 23% and 19%, respectively.¹¹ The mean value of *SIZE* is 7.39, equivalent to \$1,617 million in total assets, and an average *ROA* of 0.2%.

I also assess whether IRS attention targets financial filing years under SEC investigation. The private nature of SEC investigations renders identifying specific filing years under SEC scrutiny challenging.¹² Thus, I infer the years of financial filings targeted by the SEC from triggering events and the subsequent SEC enforcement actions. The most frequent investigation triggers include financial restatements and internal control weaknesses (Holzman et al. 2024). The subsequent SEC enforcement actions include Accounting and Auditing Enforcement Releases (AAERs), restatements, and comment letters (Blackburne et al. 2020; SEC 2017). Table 2, Panel B reports the results. For each subsample of firms, I observe that more than 75% of downloads are

¹¹ While the average *GAAP ETR* aligns with previous studies (e.g., Bozanic et al. 2017; Fox and Wilson 2023), the average *CASH ETR* is notably lower. This discrepancy may be due to my conjecture that firms under SEC investigation are more likely to engage in both financial fraud and aggressive tax avoidance.

¹² For example, when the SEC initiated an investigation of Best Buy Co. on February 1st, 2012, the targeted financial reporting periods were not publicly disclosed.

related to filings within three years before or after the years targeted by the SEC. These findings suggest that the IRS aligns its monitoring of public filings with the financial filing years the SEC investigation targets.

Results of H1

Table 3 presents the results of estimating Equation (1), which examines the variation in IRS attention to public SEC filings following the initiation of SEC investigations. In Panel A, I report my main results from 2004 to 2016 with three measures of IRS attention: *MONTHLY IRS DOWNLOAD, MONTHLY IRS DOWNLOAD BREADTH*, and *MONTHLY IRS DOWNLOAD TYPE*. The estimated coefficients on *SEC INVESTIGATION 12* and *SEC INVESTIGATION 0* are positive and statistically significant in five out of six columns, suggesting that IRS attention increases as soon as the SEC investigation begins. In terms of economic magnitude, the coefficient of 0.035 in Column (1) indicates that monthly IRS attention increases by approximately 3.5% during the month an SEC investigation begins and the following 12 months, compared to other months during the sample period.¹³ The estimated coefficient of 0.044 in Column (2) indicates a 4.4% increase in monthly IRS attention during the month of an SEC investigation initiation.¹⁴

The coefficients on the majority of control variables (e.g., *GAAP ETR*, *BTD*, *ROA*, *CAPITAL*, and *MNE*) are not statistically significant. Consistent with Bozanic et al. (2017), this occurs when firm fixed effects are included, as within-firm variation in these variables does not explain changes in IRS attention. However, the coefficients of *SIZE*, *10-K*, and *RESTATEMENT*

¹³ In untabulated results, I find an increase of 10% from the mean in expected downloads (counts) during the month an SEC investigation begins and the following 12 months when using a negative binomial regression.

¹⁴ The main analyses cover the period from 2004 to 2016 but do not include unrecognized tax benefits (UTB) as a control variable. UTB, a tax footnote disclosure mandated since 2007, can positively influence IRS attention (Bozanic et al. 2017) because UTB disclosures provide a "roadmap" for tax authority audits (Blouin and Robinson, 2014). To control for the effect of UTB, I also estimate Equation (1) using two distinct periods: 2004-2006 without UTB as a control, and 2007-2016 with UTB as a control. My untabulated results show that my findings remain robust, suggesting my results are not influenced by UTB.

MONTH, are positive and statistically significant, suggesting that the IRS targets larger firms more frequently (Hoopes et al. 2012) and pays more attention when a firm releases 10-Ks or restatements. These findings are also consistent with Fox and Wilson (2023).

Next, I examine the dynamic patterns of IRS attention around SEC investigations, with a focus on the timing of variations in IRS attention. Specifically, I analyze the changes in attention starting from the initiation of an SEC investigation and through the following 11 months. To perform this test, I modify Equation (1) by replacing *SEC INVESTIGATION* with *SEC INVESTIGATION 1* through *SEC INVESTIGATION 11* separately and report my results in Table 3, Panel B. *SEC INVESTIGATION 1-11* are indicator variables equal to one for firm *i* during the current month and for one to 11 consecutive months following the open date of an SEC investigation in month *m*, and zero otherwise. I find positive and statistically significant coefficients on *SEC INVESTIGATION 1* through *SEC INVESTIGATION 11*, suggesting increased IRS attention immediately after investigation initiation. In terms of the economic magnitude, IRS attention increases progressively through month six, peaking at 0.039, then stabilizing around 0.034 for months seven through eleven. This pattern suggests that the bulk of the increase in IRS attention occurs within the first six months following an SEC investigation initiation.

Mechanism Analyses

In this section, I explore potential underlying information mechanisms through which the initiation of an SEC investigation may affect IRS attention. My hypothesis regarding the relationship between IRS attention and SEC investigation initiation is grounded in the IRS's ability to obtain information through two primary information channels: (1) *private* communication with the SEC, and (2) information acquisition through *public* sources, including firm disclosures, press releases, and FOIA requests. If the IRS utilizes both private SEC communications and public

corporate disclosures as information sources, I expect to observe a more pronounced increase in IRS attention for firms that publicly disclose their SEC investigations following SEC investigation initiations. However, if the IRS has already obtained this information through private SEC communications prior to public disclosures, the effect of public disclosures may be minimal or negative, as they may not provide novel information.

While private communication between the two agencies cannot be observed due to data limitations, I first identify firms with public disclosures about SEC investigations through the firms' or third-party disclosures. Specifically, I collect disclosure dates of SEC investigations through public information channels, including firm and third-party disclosures. Following Blackburne and Quinn (2023), who identify SEC filings (i.e., Form 8-K, 10-K, and 10-Q), and press releases as the predominant disclosure mechanisms, I search these SEC filings on EDGAR and news coverage on LexisNexis for documents between the investigation's initiation date and one year following its closure date. To identify disclosures pertaining to SEC investigations, I conduct textual analysis using Python and locate instances where "SEC" appears within ten words of investigation-related terms, including "investigation," "inquiry," "Wells notice," "settlement," "subpoena," "probe," "complaint," or "cooperation." I estimate the following OLS regression:

I employ *SEC INVESTIGATION 12* as the primary measure because I find that heightened IRS attention following SEC investigation initiations predominantly occurs within the subsequent 12-month period. *DISCLOSURE* is an indicator variable that equals one if information about firm *i*'s SEC investigation becomes public through the firm's or third-party disclosures during the period from investigation initiation through 12 months after investigation closure, and zero otherwise. This measure can separate firms in terms of whether SEC investigation information was conveyed publicly or not. In other words, this measure creates one group whose information is more likely to have been conveyed privately (i.e., *DISCLOSURE*=0). Therefore, I use *DISCLOSURE* to partition the sample into the firms with and without public disclosures of SEC investigations and re-estimate Equation (1).

In Table 3, Panel C, I present results after partitioning the sample based on DISCLOSURE. Columns (1), (3), and (5) report findings for firms without disclosures of SEC investigations (i.e., the private information sample), while columns (2), (4), and (6) present results for firms with disclosures of SEC investigations (i.e., the combined private and public information sample). I find that the coefficients of SEC INVESTIGATION 12 are positive and statistically significant across all columns for both the private and public information samples when using all three measures of IRS attention. These results suggest that IRS attention increases substantially even for firms without any public or third-party disclosures regarding their SEC investigations. In the first two columns, where my dependent variable is MONTHLY IRS DOWNLOADS, I find that the magnitude of the coefficient on SEC INVESTIGATION 12 in column (1) is not statistically significant from that in column (2). I find similar results when using alternative measures of IRS attention. These results suggest that IRS attention to information obtained through public disclosures is not incrementally higher than attention to non-disclosed investigations. This finding supports my prediction that since the IRS has already obtained this information through direct SEC communications prior to public disclosures, the effect of public disclosures may be minimal. Overall, my findings suggest that the IRS likely obtains SEC investigation information through private channels such as direct communication with the SEC.¹⁵

Results of H2

Table 4 presents descriptive statistics for my second set of analyses. Among firm-years

¹⁵ My results remain robust when I control for IRS attention to routine corporate disclosures by including an indicator variable, *8-K*, equal to one for firm-month observations in which the company released a Form 8-K filing.

with SEC investigation initiations, 27% reach a settlement with the IRS in the year following the initiation of an SEC investigation. This rate increases slightly to 28% in the subsequent year. The mean values of the tax settlement size measures in the year following an SEC investigation initiation are as follows: *SETTLEMENT SIZE1* (the natural logarithm of the tax settlement) is 0.64; *SETTLEMENT SIZE2* (the natural logarithm of tax settlement scaled by lagged assets) is 0.06; and *SETTLEMENT SIZE3* (the natural logarithm of tax settlement scaled by revenue) is 0.07. These mean values are similar in the second year to 0.59, 0.06, and 0.07, respectively. The average number of IRS downloads during the month an SEC investigation begins and the six months (*IRS SEC*) following is 20.86 (unlogged).

Table 5 presents the results of estimating Equation (2), which examines how increased IRS attention following the initiation of an SEC investigation affects subsequent tax enforcement. In Table 5, Panel A, I find positive and significant coefficients on *IRS_SEC*, suggesting heightened IRS scrutiny following SEC investigations increases the likelihood of tax settlements in years t+1 and t+2. ¹⁶ This timing indicates accelerated enforcement relative to prior studies, where restatement-triggered tax settlements typically occur over four to five years (Fox and Wilson 2023) and IRS audits require an average of 4.6 years to complete (Gleason and Mills 2011; Jacob and Tita 2022). While I acknowledge that public financial filings generally do not reveal if the IRS has already examined these firms for identical tax issues prior to an SEC investigation initiation, my finding potentially indicates a shorter time window for IRS enforcement based on the timing of an SEC investigation initiation.

To control for the effect of UTB on IRS enforcement outcomes, I re-estimate Equation (2) using two distinct periods: Columns (3) to (4) report results for the 2004–2006 period without

¹⁶ My results in Table 5, Panel A remain robust when I estimate Equation (2) using OLS regressions.

UTB as a control variable, while Columns (5) to (6) display results for the 2007–2016 period, including UTB as a control variable. The insignificant coefficients in columns (3) and (4) may stem from either the absence of mandatory tax settlement disclosures prior to FIN 48 implementation in 2007 or reduced statistical power due to the smaller sample size. In Columns (5) to (6), the coefficients on *IRS_SEC* are positive and statistically significant, suggesting that the association between increased IRS attention and subsequent tax enforcement outcomes is primarily driven by the 2007-2016 period.

Since increased IRS attention following SEC investigation initiations is positively associated with future tax settlement occurrences, I examine the magnitude of these tax settlements. I posit that if SEC investigations provide valuable information that enhances IRS enforcement efficiency, such regulatory coordination would result in larger subsequent tax settlements. To test this prediction, I modify Equation (2) and replace my dependent variable with tax settlement size.¹⁷ Table 5, Panel B presents the results. The coefficients on *IRS_SEC* are significantly positive (p-value < 0.01) across all columns, suggesting that increased IRS attention to firms under SEC investigation is associated with larger future tax settlements, even after controlling for firm size. In terms of magnitude, the coefficient of 0.014 in Column (3) implies that a one standard deviation increase in *MONTHLY IRS DOWNLOAD* is associated with an average increase of 32.8% in tax settlements.¹⁸ These findings provide evidence that the interaction between the IRS and the SEC enhances the effectiveness of IRS enforcement outcomes.

Tax settlement favorability can be another measure for effective IRS enforcement

¹⁷ Because tax settlements are often reflected in UTB balance changes, which became more comprehensive following the implementation of FIN 48 in 2007, I estimate OLS regressions using firm-year data from 2007 to 2016.

¹⁸ To calculate the magnitude, I multiply the coefficient of 0.014 by the standard deviation of monthly IRS downloads (SD = 1.41), resulting in 0.0197. This represents the predicted change in log(tax settlement)/log(assets). Multiplying by the mean log of lagged assets (7.318) gives a 0.144 increase in log(tax settlement). Adding 0.144 to the mean of log (tax settlement) of 0.636 yields 0.780. Converting from logs to levels, the average tax settlement increases from $e^{0.636}$ -1=0.889 to $e^{0.780}$ -1=1.181, representing a 32.8% [i.e., (1.818-0.889)/0.889] increase.

outcomes. Specifically, access to private information from SEC investigations enables the IRS to better identify promising audit targets and secure larger settlements than managers initially expected (i.e., unfavorable settlements). As such, I predict that the increased IRS attention following an SEC investigation initiation is associated with unfavorable tax settlements. I test this relationship by modifying Equation (2) using tax settlement favorability as the dependent variable. Following Finley (2019), I measure tax settlement favorability by regressing the current period interest and penalties relating to UTBs that affect net income on determinants unrelated to tax settlements.¹⁹ The residual represents tax settlement favorability. A larger residual, indicating incrementally higher interest and penalty accruals than expected in the settlement year, suggests a more unfavorable tax settlement relative to managers' initial expectations.²⁰

Table 5, Panel C reports the results. Columns (1) and (2) present findings using *Tax* Settlement Favorability as the dependent variable for years t+1 and t+2. Columns (3) and (4) employ an indicator variable as the dependent variable, which equals one for observations in the highest tercile of the *Tax Settlement Favorability* measure (representing firm-years with the most unfavorable tax settlements), and zero otherwise. The coefficients of *IRS_SEC* are statistically insignificant in columns (1) and (3), indicating that increased IRS attention is not associated with significant deviations in tax settlements from management's initial expectations at year t+1. However, the coefficient on *IRS_SEC* is positive and statistically significant in column (2), suggesting that heightened IRS attention is associated with unfavorable tax settlements at year t+2.

¹⁹ Finley (2019) identifies three determinants unrelated to tax settlements: (1) net current year increases in UTBs related to current period positions, (2) UTBs accrued at the beginning of the year that remain unresolved at year-end, and (3) UTBs that reverse due to statute of limitations expiration during the current year.

²⁰ To create this measure, I exclude observations with missing value for variables needed in the regression (e.g., firms without tax settlements or current period interest and penalties relating to UTBs are excluded), resulting in a final sample of approximately 300 firm-year observations.

settlements are unfavorable to managers, they do not fall within the highest tercile of unfavorable tax settlements across all firms in the industry. Collectively, these findings indicate that IRS attention following SEC investigations is associated with larger tax settlements in the subsequent two years, with the second-year settlements being unfavorable tax settlements, exceeding management's initial tax liability estimates. These results support my second hypothesis that this increased IRS attention is associated with more effective tax enforcement actions.

V. ADDITIONAL ANALYSES

Cross-Sectional Tests

I conduct several tests to examine cross-sectional variation in the association between the initiation of SEC investigations and IRS attention. First, I investigate whether the level of IRS resources influences the intensity of IRS attention following the initiation of an SEC investigation. Since the IRS increases its attention to SEC investigations starting the month an SEC investigation opens, I expect this increase in IRS attention to be more pronounced when the IRS also has greater resources. To test this prediction, I interact three measures of IRS resources (*IRS BUDGET*, *IRS ENFORCEMENT BUDGET*, *NUMBER OF IRS EMPLOYEES*) with *SEC INVESTIGATION* in Table 6. I obtain each of these IRS resource measures from the IRS's annual data books. The coefficients are positive and statistically significant on the interaction term across all columns in Panel A when I measure *SEC INVESTIGATION* using *SEC INVESTIGATION 12*, the interaction terms are positive but statistically insignificant in all columns. These results suggest that greater IRS resources enable more rapid monitoring deployment in the month of SEC investigation initiation, though the effect of IRS resources diminishes over 12-month horizons.

Second, I examine the variation in the level of tax avoidance. Prior literature finds that the

IRS allocates more resources to monitor companies with high tax avoidance (Bozanic et al., 2017; Nessa et al., 2020). Thus, I predict that SEC investigations with high tax avoidance result in heightened IRS attention. To test this prediction, I partition my sample into high and low tax avoidance subsamples based on terciles of *GAAP ETR* and *CASH ETR*, respectively. In columns (1) to (4) of Table 7, I partition on *GAAP ETR*, whereas in columns (5) to (8), I partition on *CASH ETR*. ²¹ The coefficients are positive and statistically significant on measures of *SEC INVESTIGATION* for the high tax avoidance (i.e., low tercile *GAAP/CASH ETR*) subsamples in columns (1), (5), and (7). Consistent with my prediction, the magnitude of the coefficients on *SEC INVESTIGATION 12* is significantly larger for the high tax avoidance (i.e., low tercile ETR) subsample when the partitioning variable is either *GAAP ETR* or *CASH ETR*. These results provide evidence that the increased attention following the initiation of an SEC investigation is significantly higher for companies with high levels of tax avoidance.

Third, I examine the impact of the primary classification of each investigation. To conduct this test, I merge the investigation classification data from Holzman et al. (2024) and Blackburne et al. (2021) with my sample.²² Table 8, Panel A presents the frequency distribution of investigation types. Consistent with prior findings (Holzman et al. 2024; Wang and Zhou 2024), 48% of SEC investigations pertain to financial fraud and disclosure violations. The remaining cases consist of insider trading (33%), Foreign Corrupt Practices Act (FCPA) violations (6%), and market manipulation (6%). Prior literature has documented a positive association between

²¹ The high tax avoidance subsample comprises observations from the low tercile *GAAP ETR/CASH ETR* group, whereas the low tax avoidance subsample includes observations from the high tercile *GAAP ETR/CASH ETR* group. ²² I obtain the primary classification of each SEC investigation from Bonsall et al. (2024a), who acquired the SEC investigation dates and classifications via FOIA requests, and manually identified corresponding Compustat identifiers (GVKEYs). Holzman et al. (2024b) also credit Blackburne et al. (2021) in the matching process, as their data was cross-referenced to ensure consistency and maximum sample size.

aggressive financial reporting and tax aggressiveness (e.g., Frank et al. 2009). Thus, I predict that the IRS exhibits heightened interest in firms whose SEC investigations involve financial fraud. To validate this prediction, I partition the sample based on SEC investigation type.²³ Panels B and C of Table 8 show that the coefficients for both measures of *SEC INVESTIGATION* are statistically significant only for firms under investigation for financial fraud. In contrast, for firms investigated for other reasons, such as insider trading, the coefficients on my main variable of interest are mostly not statistically significant in both panels. However, I cannot make inferences about these other types of investigations—such as those related to insider trading or market manipulation—since the IRS may evaluate these cases by examining other private information not observable in my dataset. Thus, I interpret my results cautiously and limit my conclusions to IRS attention specifically related to financial fraud and disclosure concerns.²⁴

Fourth, I examine the variation in firm size. While my main results suggest that SEC investigation initiation triggers heightened IRS attention on average, it is unclear whether smaller or larger firms are driving these results. Prior literature documents routine IRS monitoring of larger firms through regular tax audits (e.g., Nessa et al. 2020), but most smaller firms do not receive such overnight. SEC investigations could potentially provide valuable new information about smaller firms and thus trigger heightened IRS attention. To test this prediction, I partition firms into below- and above-median groups using three firm size measures: total assets, revenue, and adjusted pretax income in Table 9, respectively. Across all panels, I find positive and statistically

²³ Because some firms face multiple SEC investigations during the sample period for different types of misconduct, these cases may attract additional IRS attention. To examine how different types of SEC investigations affect IRS attention, I exclude firms with multiple investigation reasons.

²⁴ One limitation of my IRS monitoring measure is that it exclusively captures IRS attention to public company filings, possibly underestimating the full extent of IRS monitoring activities. The IRS has access to additional sources of information including private tax returns, direct information requests from firms, and third-party data platforms such as Capital IQ and Bloomberg. My measure more effectively captures IRS attention triggered by financial reporting issues, as this information is typically disclosed in public filings accessible through SEC EDGAR databases.

significant coefficients on *SEC INVESTIGATION 0* only for below-median firms, suggesting that the IRS pays immediate attention to smaller firms in the month when an SEC investigation begins. In contrast, the coefficients on *SEC INVESTIGATION 12* are positive and statistically significant for above-median firms, with these coefficients significantly more positive than those for belowmedian firms in two out of three comparisons (SUEST test p-value < 0.1). These results suggest that while the IRS pays heightened attention to both below- and above-median firms following an SEC investigation initiation—meaning no single firm size drives my main effect—the timing may differ: below-median firms receive immediate attention (at month 0), whereas above-median firms receive increased scrutiny over longer horizons (12 months).

Lastly, I examine whether the IRS obtains and impounds private information about the materiality of an SEC investigation into its monitoring activities. Specifically, I test whether the IRS pays more attention to firms with SEC enforcement actions by interacting the *SEC INVESTIGATION* variable with an indicator variable equal to one for firms receiving enforcement actions, AAER, restatements, shareholder litigation, internal control weaknesses, or SEC comment letters from investigation initiation until one year after investigation conclusion. My untabulated results show no statistically significant coefficients on the interaction term between *SEC INVESTIGATION* and these consequence variables, suggesting that the IRS responds to SEC investigation initiation regardless of eventual outcome severity.

Falsification Analyses

To mitigate concerns that an unobservable factor drives my results for H1, I perform a placebo test by randomly assigning investigation initiation months between January 2004 and December 2016 as a pseudo-event month, repeating this process 1,000 times. If an unobservable factor rather than actual SEC investigation initiation drives my results, I will still find significant

and positive coefficients for the pseudo-event variables. The untabulated density distributions of t-statistics for the pseudo-event variables *SEC INVESTIGATION 12* and *SEC INVESTIGATION 0* are centered around zero, consistent with the null hypothesis of no effect under random assignment. The two variables are significantly positive at the 5 percent level in only 22 and 47 out of 1,000 regressions, respectively. The low frequency of significant results supports my main findings.

SEC Investigation Triggering Events Tests

I also consider the impact of the triggering events of SEC investigations. Prior literature demonstrates financial restatements and internal control weaknesses trigger SEC investigations and immediately attract IRS attention (Holzman et al. 2023; Fox and Wilson 2023). Hence, an alternative explanation for my H1 results could be that these triggering events—rather than the SEC investigation initiations—lead to increased IRS scrutiny. To mitigate this concern, I exclude firms that announced restatements or internal control weaknesses in the quarter preceding an SEC investigation initiation. The untabulated results show that my primary results remain robust.

Alternative Explanations – Firms Overstating Income and Requesting Tax Refunds

Many firms overpay their taxes because of overstated financial accounting income (Erickson et al. 2004). When such firms have overstated earnings material to current or prior period financials, they must issue income-decreasing restatements mandated by the SEC (Munter 2022). Therefore, they may also file amended tax returns to recover overpaid taxes. Upon receiving amended returns, the IRS may scrutinize these firms' financials closely to verify the legitimacy of the refund claim because the IRS may also owe interest on the overpayment amount. In this scenario, IRS attention to firms under SEC investigation may be triggered not by direct information sharing with the SEC, but rather by the firms' information sharing with the IRS in seeking a refund. To address this alternative explanation, I identify firms that are likely to have overstated earnings

and overpaid taxes using an indicator variable, *RESTATE_REFUND*, which equals one for firms that (1) restate earnings between the initiation of an SEC investigation and 12 months following its closure, (2) restate earnings lower than initially reported, and (3) receive tax refunds within three years following an investigation initiation. The untabulated results show that my main findings for H1 remain robust after excluding these firms, suggesting that IRS attention to firms under SEC investigation is not driven by firms' own initiation of amended returns for tax refunds.

IRS Attention to Historical Financial Filings

The timeline of financial filings downloaded by the IRS can also provide information regarding whether IRS attention to firms under SEC investigation is associated with SEC investigation initiations. Table 2, Panel B shows that SEC investigations typically target financial filings from at least three years prior to the current year, generally indicating that SEC investigations examine firms' financial activities from prior years. Thus, if the IRS receives private information about these investigations and pays attention to firms under SEC scrutiny, the IRS is more likely to focus on historical financial filings to identify potential tax misreporting or non-compliance. In other words, if the IRS only reviews current-year filings, such IRS attention is less likely to be associated with the initiation of an SEC investigation, but more likely to be driven by other concurrent events. To test this prediction, I exclude IRS downloads of the most recent year's financial filings. The untabulated results show that my primary findings for H1 remain robust, again suggesting that the IRS is likely using private information from the SEC to monitor firms.

Firm-Year Tests (Long Window Tests)

Given that SEC investigations are relatively long-window events with an average of more than three years (Bonsall et al. 2024b), I examine whether the increased IRS attention following an SEC investigation initiation persists in subsequent years. To do so, I employ a difference-indifferences (DiD) research design using a seven-year window, covering three years before and after the SEC investigation initiation event. I define treatment firms as those experiencing at least one SEC investigation, while control firms are industry peers from the same year without any SEC investigations. To ensure comparability between treatment and control firms, I employ propensity score matching (PSM) to construct the control group. First, I require that treatment firms have available observations in both year -1 (the year before the event) and year +1 (the year after the event). My final sample consists of 971 unique treatment firms. Second, I perform a PSM procedure to match each treatment firm with a corresponding control firm in the year before the SEC investigation initiation based on a vector of firm characteristics.²⁵ This procedure results in 1,382 unique pairs of treatment and control firms. Next, for each treatment or control firm, I retrieve the firm-year observations from three years before and after the SEC investigation initiation event. In total, the matched sample contains 22,415 firm-year observations. Table 10, Panel A presents the estimation results. I find positive and statistically significant coefficients on $TREAT_{i,t} * POST_{i,t}$, supporting my main findings that IRS attention increases following the initiation of an SEC investigation.

To ensure that my regression satisfies the parallel trend assumption of the DiD research design, I examine the dynamic effect of SEC investigation initiation on IRS attention and report my results in Panel B of Table 10. I find that the coefficients on *TREAT* * *PRE* [*t*-2] and *TREAT* * *PRE* [*t*-1] are statistically insignificant, whereas the coefficients on *TREAT* * *POST* [0], *TREAT* * *POST* [*t*+1], *TREAT* * *POST* [*t*+2], *TREAT* * *POST* [*t*+3] are positive and statistically

²⁵ These characteristics include *GAAPETR*, *CASHETR*, *BTD*, *NOL CHANGE*, *DTA*, *DTL*, *UTB*, *SIZE*, *MTB*, *LEVERAGE*, *ROA*, *INTANGIBLES*, *R&D*, *INVENTORY*, *CAPITAL*, *SALES GROWTH*, *CASH*, *MNE*, *ICW*, and *RESTATEMENT*. Using the estimates in the logit regression, I compute propensity scores for treatment and control firms. Within each year and Fama-French 12 industry, I match each treatment firm with a control firm that has the closest propensity score without replacement within a caliper of 0.1.

significant. Overall, these results demonstrate that the IRS increases its attention to companies immediately upon SEC investigation initiations, consistent with my main findings.

VI. CONCLUSION

My study examines whether the initiation of an SEC investigation draws IRS attention and how such attention affects the subsequent IRS enforcement actions. Employing a unique dataset of private SEC investigations, I find a substantial increase in IRS attention immediately following the initiation of an SEC investigation, which persists throughout the subsequent 12-month period. Notably, the majority of this increased attention occurs within the first six months postinvestigation initiation. Additional analyses reveal that such IRS attention specifically focuses on the filing years the SEC investigation targets and is primarily driven by companies exhibiting high levels of tax avoidance and by companies under SEC investigation for financial fraud. Further, I observe significant increases in IRS attention occur for firms with and without any public or thirdparty disclosures regarding their SEC investigations. Collectively, these findings indicate that the IRS uses information of private SEC investigations through both public and private channels.

To identify the consequences of IRS monitoring, I find that the increased IRS attention in response to SEC investigation initiations is positively associated with both the likelihood and magnitude of IRS tax settlements over the subsequent two years. Further analysis indicates that tax settlements in the second year are unfavorable to managers, suggesting that the IRS collects higher tax settlements than managers expected. These results suggest that the IRS benefits from direct communication with the SEC. Such informational collaboration enables the IRS to expedite the identification of target firms and evidence collection, thereby achieving more effective enforcement outcomes.

This study provides novel evidence on the monitoring interaction between the IRS and the

SEC, highlighting increased IRS scrutiny as an important externality of private SEC investigations. My findings extend the existing literature on regulatory cooperation by demonstrating how information sharing occurs even before regulators make such information publicly accessible. Additionally, I provide evidence suggesting that IRS attention to SEC investigations can accelerate IRS audit processes, offering new insights into IRS resource allocation decisions and enforcement procedures. This accelerated tax enforcement outcome suggests that firms under SEC investigation may face higher tax costs sooner than expected, expanding our knowledge of the consequences of SEC investigations.

My research is particularly timely because the IRS continues to seek ways to improve its enforcement efficiency despite being defunded. Even if the Inflation Reduction Act of 2022 allocated an additional \$80 billion over 10 years to the IRS, the 2023 budget agreement subsequently reduced this funding by \$20 billion (Waggoner 2024). Currently, the new administration has started laying off thousands of IRS federal employees (Schwartz et al. 2025), challenging the process of enforcement even further. In this climate, my findings are essential for regulators, managers, investors, and academics to understand how regulatory coordination can improve the IRS's enforcement efficiency.²⁶

²⁶ More details on the IRS's updated strategic operating plan following the passage of the Inflation Reduction Act can be found at <u>https://www.irs.gov/newsroom/irs-releases-strategic-operating-plan-update-outlining-future-priorities-transformation-momentum-accelerating-following-long-list-of-successes-for-taxpayers.</u>

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Appendix A: Variable Definitions

This appendix lists variable definitions. I obtain financial data from Compustat and include Compustat data item names in parentheses. I note other data sources as necessary in brackets.

Dependent Variables	
MONTHLY IRS DOWNLOAD	The natural logarithm of one plus the number of IRS downloads of firm <i>i</i> 's SEC EDGAR filings during month m of year t . [SEC website]
MONTHLY IRS DOWNLOAD BREADTH	The natural logarithm of one plus the count of unique accession numbers downloaded by the IRS of firm <i>i</i> 's SEC EDGAR filings during month <i>m</i> of year <i>t</i> . [SEC website]
MONTHLY IRS DOWNLOAD TYPE	The natural logarithm of one plus the total number of different forms downloaded by the IRS of firm <i>i</i> 's SEC EDGAR filings during month m of year t . [SEC website]
IRS SETTLEMENT at t+1	An indicator variable equal to one if firm i reports a settlement (TXTUBSETTLE) in its income tax footnote in year t+1.
IRS SETTLEMENT at t+2	An indicator variable equal to one if firm i reports a settlement (TXTUBSETTLE) in its income tax footnote in year t+2.
IRS SETTLEMENT SIZE	Measure #1: The natural logarithm of one plus tax settlement amount (TXTUBSETTLE). Measure #2: The natural logarithm of one plus tax settlement amount
	(TXTUBSETTLE) scaled by the natural logarithm of lagged total assets (AT). Measure #3: The natural logarithm of one plus tax settlement amount (TXTUBSETTLE) scaled by the natural logarithm of total revenue (REVT)
TAX SETTLEMENT FAVORABILITY	The residual from regressing the current period interest and penalties related to UTBs that affect net income on three determinants unrelated to tax settlements, including (1) net current year increases in UTBs related to current period positions, (2) UTBs accrued at the beginning of the year that remain unresolved at year-end, and (3) UTBs that reverse due to statute of limitations expiration during the current year, following Finley (2019). I multiply the residual by 1,000.
Variables of Interest	
SEC INVESTIGATION 12	An indicator variable equal to one for firm <i>i</i> during the current month and the 12 consecutive months following the open date of an SEC investigation in month <i>m</i> , and zero otherwise. [Blackburne et al. (2020), Blackburne et al. (2021), Blackburne and Quinn (2023), and FOIA]
SEC INVESTIGATION 0	An indicator variable equal to one for firm i during the current month when the SEC opens an investigation in month m , and zero otherwise. [Blackburne et al. (2020), Blackburne et al. (2021), Blackburne and Quinn (2023), and FOIA]
IRS_SEC	The natural logarithm of one plus the number of the IRS downloads of firm <i>i</i> 's SEC filings in the current month m and the six consecutive months following the SEC investigation open date.
GAAP ETR	Total tax expense (TXT) divided by pretax book income net of special items (PI-SPI), winsorized at 0 and 1.
CASH ETR	Taxes paid (TXPD) divided by pretax book income net of special items (PI-SPI), winsorized at 0 and 1.

	Appendix A (continued)
Control Variables	
Tax Avoidance Measures	
BTD	Pretax income (PI) minus current domestic and foreign tax expense (TXFED +TXFO) grossed up by 35%, scaled by assets (AT).
NOL CHANGE	Change in the tax loss carryforward (TLCF) divided by total assets (AT).
DTA	Net deferred tax assets (TXNDBA) divided by total assets (AT)
DTL	Net deferred tax liabilities (TXNDBL) divided by total assets (AT)
LITR	Year-end LITBS (TXTUBEN) divided by total assets (AT)
Other Firm-Level Controls	
SIZE	The natural logarithm of one plus total assets (AT)
MTR	Number of shares outstanding at the end of the year multiplied by
IVIID	the price per share at year-end divided by book value of equity ((PRCC_E*CSHO)/CEO)
IFVERAGE	Long term debt (DLTT) divided by lagged total assets (AT). I reset
LEVERAGE	DLTT to zero if missing.
ROA	Pretax book income (PI) divided by total assets (AT).
INTANGIBLES	Intangible assets (INTAN) divided by lagged total assets (AT). I reset INTAN to zero if missing.
R&D	R&D expense (XRD) divided by sales (SALE). I reset XRD to zero if missing
INVENTORY	Inventory (INVT) divided by lagged total assets (AT). I reset INVT to zero if missing.
CAPITAL	Net property, plant, and equipment (PPENT) divided by lagged total assets (AT). I reset PPENT to zero if missing.
SALES GROWTH	The change in sales (SALE) divided by prior year sales.
CASH	Cash holdings (CHE) divided by lagged total assets (AT).
MNE	An indicator variable set equal to one if a firm is not missing pre-tax
	foreign income (PIFO), indicating a multinational firm.
ICW	The total number of internal control material weaknesses disclosed by a company for a given company-year observation. [Audit Analytics]
10-К	An indicator variable equal to one if a 10-K is released during the month.
10-Q	An indicator variable equal to one if a 10-Q is released during the month
RESTATEMENT MONTH	An indicator variable equal to one for all company-month observations with a restatement, and zero otherwise. [Audit Analytics]
FORMS	The total number of new forms available for download for firm <i>i</i> during each month mover our entire sample period [SEC website]
RESTATEMENT	An indicator variable equal to one for all firm-year observations with a restatement, and zero otherwise.
Additional Variables	
SEC INVESTIGATION 1-11	An indicator variable equal to one for firm i during the current month and one through 11 consecutive months following the open date of an SEC investigation in month m , and zero otherwise. [Blackburne et al. (2020), Blackburne et al. (2021), Blackburne and Quinn (2023), and FOIA]

	Appendix A (continued)
IRS BUDGET	The natural logarithm of the inflation-adjusted annual IRS budget
	in billions of USD. [Internal Revenue Service Data Books]
IRS ENFORCEMENT BUDGET	The natural logarithm of the inflation-adjusted annual IRS
	enforcement budget in billions of USD. [Internal Revenue Service
	Data Books]
NUMBER OF IRS	The natural logarithm of the total number of IRS employees.
EMPLOYEES	[Internal Revenue Service Data Books]
FINANCIAL FRAUD	An indicator variable equal to one if the primary classification of an
	SEC investigation pertains to financial fraud or issuer disclosure, and
	zero otherwise. [Holzman et al. (2024) and Blackburne et al. (2021)]
INSIDER TRADING	An indicator variable equal to one if the primary classification of an
	SEC investigation pertains to insider trading, and zero otherwise.
	[Holzman et al. (2024) and Blackburne et al. (2021)]
FCPA	An indicator variable equal to one if the primary classification of an
	SEC investigation pertains to the Foreign Corrupt Practices Act and
	zero otherwise [Holzman et al. (2024) and Blackburne et al. (2021)]
MARKET MANIPULATION	An indicator variable equal to one if the primary classification of an
	SEC investigation pertains to market manipulation and zero
	otherwise. [Holzman et al. (2024) and Blackburne et al. (2021)]
DISCLOSURE M	An indicator variable equal to one if firm <i>i</i> has at least one public
	disclosure regarding its SEC investigation during the month m of
	vear t, zero otherwise. [Form 10-Ks, 10-Os, 8-Ks, and news releases
	from LexisNexis]
DISCLOSURE	An indicator variable equal to one if information about firm <i>i</i> 's SEC
	investigation becomes public through either the firm's own
	disclosures or third-party sources during the period from
	investigation initiation through twelve months after investigation
	closure, and zero otherwise. [Form 10-Ks, 10-Os, 8-Ks, and news
	releases from LexisNexis]
DISCLOSURE FIRST POST	An indicator variable equal to one for the period from the first public
	disclosure month through one year following the closure of an SEC
	investigation for firm <i>i</i> , and zero otherwise. [Form 10-Ks, 10-Qs, 8-
	Ks, and news releases from LexisNexis]
YEARLY IRS DOWNLOAD	The natural logarithm of one plus the number of IRS downloads of
	firm <i>i</i> 's SEC EDGAR filings in year <i>t</i> . [SEC website]
TREAT	An indicator variable equal to one if firm <i>i</i> is classified as a treatment
	firm (i.e., a firm that experiences an SEC investigation initiation) in
	year t, and zero if firm i is classified as a matched control firm (i.e.,
	a similar firm without SEC investigations during the sample period).
	[Blackburne et al. (2021) and FOIA]
POST	An indicator variable that equals one in the years following the
	initiation of an SEC investigation, zero otherwise. [Blackburne et al.
	(2021) and FOIA]
PRE [t-n]	An indicator variable that equals one in n year(s) preceding the
	initiation of an SEC investigation, zero otherwise. [Blackburne et al.
	(2021) and FOIA]
PRE[t+n]	An indicator variable that equals one in n year(s) following the
	initiation of an SEC investigation, zero otherwise. [Blackburne et al.
	(2021) and FOIA]

Figure 1: Timeline of the SEC investigation initiation

Example: NVIDIA



Figure 1 illustrates an example of the timing of an SEC investigation. H1 addresses changes in IRS attention after the initiation of an SEC investigation. H2 addresses the changes in tax settlement of this increased IRS attention in the next two years.



Figure 2: IRS Downloads by Year

Figure 2 displays the total number of IRS downloads and IRS downloads for the top three forms for my sample firms between 2004 and 2016.



Figure 3: Total Number of SEC Investigations by Year

Figure 3 shows the total number of SEC investigations opened each year for Compustat firms from 2004 to 2016.



Figure 4: Daily IRS Downloads Around SEC Investigation Open Date

Figure 4 plots average daily IRS downloads in the [-200, 200] window around the initiation of SEC investigations with firm-years where an SEC investigation was opened. The x-axis spans from 200 days before to 200 days after SEC investigations, with day 0 representing the day of the investigation. The y-axis displays the average number of daily downloads. This graph is based on a sample of 1,405 unique SEC investigations.

	Number of observations
IRS Attention Sample	
All SEC investigation firm-years from 2004 to 2016	3,463
Add: All other firm-years from 2004 to 2016 that pertain to SEC investigation firms	59,571
Less: Firm-years with no IRS attention during the sample period	(25,328)
Less: Observations with missing controls	(25,945)
Final sample of firm-year observations	11,761
Final sample of firm-month observations for H1 test	140,755
IRS Settlement Sample	
All SEC investigation firm-years from 2004 to 2016	2,499
Less: Observations with missing controls	(1,287)
Final sample of firm-year observations for H2 test	1,212

Table 1: Sample Selection

Table 1 details our sample selection procedures. I begin with firm-year observations from 2004 to 2016 when SEC investigations were initiated. Next, I add firm-year observations pertaining to the firms under SEC investigation during the sample period. I exclude firm-years with missing necessary data to calculate regression variables. My sample for H1 test consists of 11,761 firm-years, which are expanded to 140,755 firm-months over the sample period. A firm month contains the applicable fiscal year-end data to which the month belongs. For tests of H1, my regression sample includes firms with at least one closed SEC investigation from 2004 to 2016. For H2 tests, I focus on firm-years when an SEC investigation was initiated.

Panel A: Descriptive Statistics for Firm-month Observations	Ν	Mean	SD	p25	Median	p75
MONTHLY IRS DOWNLOAD (UNLOGGED)	140,755	2.58	7.98	0	0	1
MONTHLY IRS DOWNLOAD	140,755	0.53	0.94	0	0	0.69
MONTHLY IRS DOWNLOAD BREADTH (UNLOGGED)	140,755	0.62	1.85	0	0	0
MONTHLY IRS DOWNLOAD BREADTH	140,755	0.26	0.54	0	0	0
MONTHLY IRS DOWNLOAD TYPE (UNLOGGED)	140,755	0.52	1.04	0	0	1
MONTHLY IRS DOWNLOAD TYPE	140,755	0.28	0.46	0	0	0.69
SEC INVESTIGATION 12	140,755	0.12	0.33	0.00	0.00	0.00
SEC INVESTIGATION 0	140,755	0.01	0.10	0.00	0.00	0.00
GAAP ETR	140,755	0.23	0.21	0.02	0.25	0.35
CASH ETR	140,755	0.19	0.21	0.00	0.15	0.30
BTD	140,755	0.006	0.27	-0.02	0.02	0.06
NOL CHANGE	140,755	0.04	0.25	0	0	0.01
DTA	140,755	0.05	0.05	0.02	0.04	0.07
DTL	140,755	0.05	0.05	0.01	0.03	0.07
SIZE	140,755	7.39	2.31	6.00	7.42	8.87
MTB	140,755	2.79	5.41	1.15	1.99	3.46
LEVERAGE	140,755	0.20	0.21	0.01	0.16	0.31
ROA	140,755	0.002	0.27	-0.01	0.05	0.11
INTANGIBLES	140,755	0.20	0.25	0.01	0.11	0.32
R&D	140,755	0.10	0.38	0	0	0.07
INVENTORY	140,755	0.11	0.13	0.002	0.05	0.16
CAPITAL	140,755	0.26	0.26	0.06	0.17	0.38
SALES GROWTH	140,755	0.10	0.36	-0.04	0.06	0.17
CASH	140,755	0.21	0.23	0.05	0.13	0.28
MNE	140,755	0.58	0.49	0	1	1
ICW	140,755	0.19	0.94	0	0	0
10-К	140,755	0.06	0.24	0	0	0
10-Q	140,755	0.23	0.42	0	0	0
RESTATEMENT MONTH	140,755	0.01	0.10	0	0	0
FORMS	140,755	7.63	16.504	2	5	10

 Table 2: Description of Sample for H1

Table 2, Panel A provides descriptive statistics for variables that I use to estimate equations (1). See Appendix A for all variable definitions. I winsorize all continuous variables at the 1st and 99th percentiles.

Panel B: The distribution of IRS downloads within the 12 months following SEC investigation initiations											
	(1	l)	(2)		(3	(3)		+)	(5)		
	For observation	ations with						ations with	For observations with		
	restatement	s preceding	For observations with		For observ	ations with	restatements following		comment letters issued		
	SEC inve	stigation	ICWs prec	eding SEC	AAERs foll	owing SEC	SEC investigation		followi	following SEC	
	initiations (Number of	investigation	n initiations	investigation	n initiations	initiations (Number of	investigatio	n initiations	
	SEC invest	tigations =	(Number	r of SEC	(Number	r of SEC	SEC invest	tigations =	(Number	r of SEC	
	60	0)	investigati	ons = 294)	investigati	ons = 100)	65	5)	investigati	ons = 100)	
SEC filing years of											
the IRS downloads											
around the years for											
events that precede											
or follow SEC											
investigation											
initiations	Frequency	Percent	Frequency	Percent	Frequency	Percent	Frequency	Percent	Frequency	Percent	
<= -5	15	1.89%	95	6.90%	5	0.41%	11	4.60%	2688	15.58%	
-4	16	2.00%	83	6.03%	10	0.82%	18	7.53%	1896	8.62%	
-3	13	1.63%	203	14.75%	47	3.86%	18	7.53%	2498	11.35%	
-2	14	1.75%	172	12.50%	36	2.96%	18	7.53%	3506	15.93%	
-1	22	2.75%	210	15.26%	55	4.52%	17	7.11%	4203	19.10%	
Within event period	465	58.13%	264	19.19%	675	55.42%	60	25.10%	6093	27.69%	
1	204	25.50%	306	22.24%	190	15.60%	80	33.47%	304	1.38%	
2	48	6.00%	38	2.76%	109	8.95%	15	6.28%	70	0.32%	
3	0	0.00%	1	0.07%	31	2.55%	2	0.84%	3	0.01%	
4	0	0.00%	0	0.00%	35	2.87%	0	0.00%	5	0.02%	
>= 5	3	0.38%	4	0.30%	25	2.05%	0	0.00%	0	0.00%	

Table 2 (continued)

Table 2, Panel B presents the distribution of SEC filing years for IRS downloads relative to the event years for five subsample firms that experienced public triggering events or SEC enforcement actions. These events include (1) public triggering events (i.e., restatements and ICWs) occurring in the quarter preceding SEC investigation initiations, and (2) SEC enforcement actions (i.e., AAER, restatements, and comment letters) occurring during the period from SEC investigation initiation through one-year period post-investigation conclusion.

Panel A: Main Results for Sample Pe	riod from	a 2004 to 2016					
Dependent Variable =	U			MONTHLY IR	S DOWNLOAD		
-	-	(1)	(2)	(3)	(4)	(5)	(6)
				MONTHLY IR	S DOWNLOAD	MONTHLY IR	S DOWNLOAD
	Pred.	MONTHLY IR	RS DOWNLOAD	BRE	ADTH	TY	'PE
SEC INVESTIGATION 12	+	0.035***		0.025***		0.019***	
		(3.003)		(4.009)		(3.557)	
SEC INVESTIGATION 0	+	. ,	0.044*		0.027*		0.013
			(1.837)		(1.876)		(1.135)
GAAP ETR		-0.006	-0.006	-0.007	-0.007	-0.003	-0.003
		(-0.312)	(-0.299)	(-0.735)	(-0.720)	(-0.348)	(-0.336)
CASH ETR		-0.008	-0.007	-0.005	-0.004	-0.006	-0.006
		(-0.379)	(-0.339)	(-0.444)	(-0.387)	(-0.622)	(-0.577)
BTD		0.014	0.015	0.003	0.004	-0.001	-0.000
		(0.648)	(0.681)	(0.286)	(0.331)	(-0.051)	(-0.015)
NOL CHANGE		0.005	0.004	0.008	0.008	0.012	0.012
		(0.206)	(0.163)	(0.643)	(0.583)	(0.951)	(0.902)
DTA		0.016	0.016	0.004	0.004	0.044	0.044
		(0.108)	(0.112)	(0.054)	(0.060)	(0.638)	(0.643)
DTL		0.010	0.002	0.013	0.007	0.010	0.005
		(0.040)	(0.007)	(0.095)	(0.050)	(0.085)	(0.043)
SIZE		0.087***	0.088***	0.041***	0.041***	0.045***	0.046***
		(6.088)	(6.153)	(5.797)	(5.897)	(6.617)	(6.694)
MTB		-0.001	-0.001	-0.000	-0.000	-0.000	-0.000
		(-1.079)	(-1.095)	(-0.375)	(-0.397)	(-0.631)	(-0.649)
LEVERAGE		0.064*	0.064*	0.020	0.021	0.024	0.025
		(1.688)	(1.703)	(1.091)	(1.113)	(1.353)	(1.371)
ROA		-0.035	-0.037	-0.012	-0.013	-0.006	-0.008
		(-1.300)	(-1.381)	(-0.831)	(-0.944)	(-0.471)	(-0.565)
INTANGIBLES		-0.019	-0.021	-0.014	-0.015	-0.013	-0.015
		(-0.543)	(-0.601)	(-0.772)	(-0.856)	(-0.808)	(-0.878)
<i>R&D</i>		0.003	0.001	-0.007	-0.008	-0.006	-0.007
		(0.153)	(0.082)	(-0.642)	(-0.735)	(-0.618)	(-0.692)
INVENTORY		-0.077	-0.081	-0.048	-0.051	-0.048	-0.051
		(-0.859)	(-0.902)	(-1.084)	(-1.144)	(-1.140)	(-1.190)
CAPITAL		-0.040	-0.040	-0.008	-0.009	-0.021	-0.021
		(-0.830)	(-0.845)	(-0.352)	(-0.372)	(-0.929)	(-0.944)

Table 3: IRS Attention to SEC Investigations (H1)

SALES GROWTH	-0.032***	-0.033***	-0.015***	-0.016***	-0.018***	-0.019***
	(-2.959)	(-3.034)	(-2.654)	(-2.758)	(-3.311)	(-3.397)
CASH	-0.022	-0.022	-0.021	-0.021	-0.016	-0.016
	(-0.795)	(-0.820)	(-1.476)	(-1.511)	(-1.158)	(-1.184)
MNE	-0.009	-0.008	0.002	0.002	-0.001	-0.000
	(-0.405)	(-0.386)	(0.170)	(0.199)	(-0.053)	(-0.027)
ICW	0.006	0.007	0.003	0.004	0.003	0.003
	(1.283)	(1.420)	(1.294)	(1.476)	(1.059)	(1.214)
10-К	0.326***	0.326***	0.224***	0.224***	0.173***	0.173***
	(25.934)	(25.944)	(30.034)	(30.052)	(27.809)	(27.824)
10-Q	-0.012**	-0.012**	-0.006	-0.006	-0.008***	-0.008***
	(-2.004)	(-2.009)	(-1.638)	(-1.644)	(-2.680)	(-2.686)
RESTATEMENT MONTH	0.052**	0.052**	0.049***	0.049***	0.046***	0.046***
	(2.294)	(2.276)	(3.697)	(3.675)	(3.972)	(3.955)
FORMS	0.001	0.001	0.001	0.001	0.000	0.000
	(1.355)	(1.357)	(1.336)	(1.337)	(1.456)	(1.457)
Observations	140,755	140,755	140,755	140,755	140,755	140,755
Adjusted R-squared	0.22	0.22	0.16	0.16	0.21	0.21
Month-year FE	Y	Y	Y	Y	Y	Y
Firm FÉ	Y	Y	Y	Y	Y	Y
Clustering by Firm	Y	Y	Y	Y	Y	Y

MONTHLY IRS DOWNLOAD_{*i*,*m*} = α + β_1 SEC INVESTIGATION_{*i*,*m*} + γ TAX AVOIDANCE_{*i*,*t*} + δ FIRM CHARACTERISTICS_{*i*,*t*}

+ Firm FE + Month-year FE + $\varepsilon_{i,t}$. (1)

Table 3, Panel A reports the results of IRS attention to the initiation of an SEC investigation from 2004 to 2016. I use three proxies to measure IRS attention: *MONTHLY IRS DOWNLOAD* is the natural logarithm of one plus the number of the IRS downloads of firm *i*'s SEC filings in month *m* of year *t. MONTHLY IRS DOWNLOAD BREADTH* is the natural logarithm of one plus the count of unique accession numbers downloaded by the IRS each month. *MONTHLY IRS DOWNLOAD TYPE* is the natural logarithm of one plus the total number of different forms downloaded by the IRS each month. *SEC INVESTIGATION is* measured in two ways: *SEC INVESTIGATION 12* is an indicator variable equal to one for firm *i* during the current month and the 12 consecutive months following the open date of an SEC investigation in month *m*, and zero in all other periods. *SEC INVESTIGATION 0* is an indicator variable equal to one for firm *i* during the current month when the SEC opens an investigation in month *m*, and zero in all other periods. See Appendix A for all variable definitions. I winsorize all continuous variables at the 1st and 99th percentiles. All regressions contain an intercept and month-year and firm fixed effects. Standard errors are clustered by firm. I present t-statistics in parentheses. *, **, and *** represent two-tailed statistical significance at the 10 percent, 5 percent, and 1 percent levels, respectively.

Table 5. Dynamic Analyses 101 111												
Panel B: Dynamic Analyses for H1												
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Dependent Variable =	-					MONTH	LY IRS DO	WNLOAD				
											10	11
Variable	Pred.	1 month	2 months	3 months	4 months	5 months	6 months	7 months	8 months	9 months	months	months
SEC INVESTIGATION	+	0.031*	0.030*	0.036**	0.038***	0.036***	0.039***	0.034***	0.034***	0.031***	0.035***	0.034***
		(1.683)	(1.919)	(2.454)	(2.754)	(2.609)	(2.991)	(2.770)	(2.789)	(2.627)	(2.985)	(2.897)
Observations		140,755	140,755	140,755	140,755	140,755	140,755	140,755	140,755	140,755	140,755	140,755
Adjusted R-squared		0.22	0.22	0.22	0.22	0.22	0.22	0.22	0.22	0.22	0.22	0.22
Controls		Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Year FE		Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Firm FE		Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Clustering by Firm		Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y

Table 2. Dynamia Analyzas for U1

MONTHLY IRS DOWNLOAD_{i,m} = $\alpha + \beta_1$ SEC INVESTIGATION_{i,m} + γ TAX AVOIDANCE_{i,t} + δ FIRM CHARACTERISTICS_{i,t} + Firm FE

+ Month-year $FE + \varepsilon_{i.t}$. (1)

Table 3, Panel B reports the results of IRS attention to the initiation of an SEC investigation beginning in the month when the investigation is opened and continuing through the 11 consecutive months following the open date of an SEC investigation. My main variables of interest across columns (1) through (11) are *SEC INVESTIGATION 1* through *SEC INVESTIGATION 11*. *SEC INVESTIGATION 1-11* are indicator variables equal to one for firm *i* during the current month and for one to 11 consecutive months following the open date of an SEC investigation in month *m*, and zero otherwise. My dependent variable is *MONTHLY IRS DOWNLOAD*, which is the natural logarithm of one plus the number of the IRS downloads of firm *i*'s SEC filings in month *m* of year *t*. I omit tabulating control variables for brevity. Untabulated controls include *GAAPETR*, *CASHETR*, *BTD*, *NOL CHANGE*, *DTA*, *DTL*, *SIZE*, *MTB*, *LEVERAGE*, *ROA*, *INTANGIBLES*, *R&D*, *INVENTORY*, *CAPITAL*, *SALES GROWTH*, *CASH*, *MNE*, *ICW*, *10-Q*, *RESTATEMENT MONTH*, and *FORMS*. See Appendix A for all variable definitions. I winsorize all continuous variables at the 1st and 99th percentiles. All regressions contain an intercept and month-year and firm fixed effects. Standard errors are clustered by firm. I present t-statistics in parentheses. *, **, and *** represent two-tailed statistical significance at the 10 percent, 5 percent, and 1 percent levels, respectively.

Panel C: The effect of private and public information channels										
Information Channel	Private	Private + Public	Private	Private + Public	Private	Private + Public				
	(1)	(2)	(3)	(4)	(5)	(6)				
			MONTHLY IR	S DOWNLOAD	MONTHLY IR.	S DOWNLOAD				
Dependent Variable =	MONTHLY IR.	S DOWNLOAD	BREA	ADTH	TY	PE				
SEC INVESTIGATION 12	0.025*	0.041**	0.018**	0.028***	0.013*	0.023***				
	(1.707)	(2.420)	(2.251)	(3.072)	(1.890)	(2.850)				
Observations	70,356	70,398	70,356	70,398	70,356	70,398				
Adjusted R-squared	0.12	0.23	0.12	0.23	0.12	0.23				
Controls	Y	Y	Y	Y	Y	Y				
Year-Month FE	Y	Y	Y	Y	Y	Y				
Firm FE	Y	Y	Y	Y	Y	Y				
Clustering by Firm	Y	Y	Y	Y	Y	Y				
Test of difference SEC INVESTIGATIO	Ν									
χ^2	0.4	41	1.	12	0.	01				
<i>p</i> -value	0.5	522	0.2	290	0.9	043				

Table 3: Private and Public Information Channel Test for H1

MONTHLY IRS DOWNLOAD_{*i*,*m*} = $\alpha + \beta_1$ SEC INVESTIGATION_{*i*,*m*} + γ TAX AVOIDANCE_{*i*,*t*} + δ FIRM CHARACTERISTICS_{*i*,*t*}

+ Firm FE + Month-year FE + $\varepsilon_{i,t}$. (1)

Table 3, Panel C presents the results examining how private versus combined private and public information channels affect the association between the initiation of an SEC investigation and subsequent IRS attention. I use *DISCLOSURE* to partition the sample into the firms with and without public disclosures of SEC investigations. *DISCLOSURE* is an indicator variable that equals one if information about firm *i*'s SEC investigation becomes public through either the firm's own disclosures or third-party sources during the period from investigation initiation through 12 months after investigation closure, and zero otherwise. Columns (1), (3), and (5) report findings for firms without disclosures of SEC investigations (i.e., the private information sample), while columns (2), (4), and (6) present results for firms with disclosures of SEC investigations (i.e., the combined private and public information channels). I omit tabulating control variables for brevity. Untabulated controls include *GAAPETR*, *CASHETR*, *BTD*, *NOL CHANGE*, *DTA*, *DTL*, *SIZE*, *MTB*, *LEVERAGE*, *ROA*, *INTANGIBLES*, *R&D*, *INVENTORY*, *CAPITAL*, *SALES GROWTH*, *CASH*, *MNE*, *ICW*, *10-Q*, *RESTATEMENT MONTH*, and *FORMS*. See Appendix A for all variable definitions. I winsorize all continuous variables at the 1st and 99th percentiles. All regressions contain an intercept and month-year and firm fixed effects. Standard errors are clustered by firm. I present t-statistics in parentheses. *, **, and *** represent two-tailed statistical significance at the 10 percent, 5 percent, and 1 percent levels, respectively.

	Ν	Mean	SD	p25	Median	p75
IRS SETTLEMENT at T+1	1212	0.27	0.44	0	0	1
IRS SETTLEMENT at T+2	1212	0.28	0.45	0	0	1
SETTLEMENT SIZE1 at T+1	913	0.64	1.33	0	0	0.49
SETTLEMENT SIZE1 at T+2	915	0.59	1.27	0	0	0.34
SETTLEMENT SIZE2 at T+1	917	0.06	0.13	0	0	0.06
SETTLEMENT SIZE2 at T+2	917	0.06	0.12	0	0	0.04
SETTLEMENT SIZE3 at T+1	842	0.07	0.14	0	0	0.09
SETTLEMENT SIZE3 at T+2	788	0.07	0.14	0	0	0.08
IRS SEC (unlogged)	1212	20.86	34.66	2	6	22.50
IRS SEC	1212	2.12	1.41	1.10	1.95	3.16
GAAP ETR	1212	0.22	0.20	0.01	0.23	0.34
CASH ETR	1212	0.18	0.21	0	0.13	0.30
BTD	1212	-0.22	4.66	-0.03	0.01	0.05
NOL CHANGE	1212	0.01	1.80	0	0	0.01
DTA	1212	0.05	0.10	0.02	0.04	0.06
DTL	1212	0.05	0.11	0.01	0.03	0.07
UTB	917	0.02	0.32	0	0.00	0.01
SIZE	1212	7.69	2.41	6.16	7.64	9.23
MTB	1212	3.91	25.98	1.13	2.01	3.55
LEVERAGE	1212	0.23	0.33	0.02	0.17	0.33
ROA	1212	-0.08	2.40	-0.02	0.04	0.10
INTANGIBLES	1212	0.21	0.29	0.02	0.12	0.32
R&D	1212	0.77	17.67	0	0	0.07
INVENTORY	1212	0.10	0.15	0	0.04	0.14
CAPITAL	1212	0.27	0.36	0.06	0.15	0.38
SALES GROWTH	1212	0.14	0.86	-0.05	0.06	0.18
CASH	1212	0.24	0.49	0.05	0.13	0.28
MNE	1212	0.60	0.49	0	1	1
ICW	1212	0.31	1.15	0	0	0
RESTATEMENT	1212	0.20	0.40	0	0	0

 Table 4: Description of Sample for H2

Table 4 provides descriptive statistics for variables that I use to estimate equations (2). See Appendix A for all variable definitions. I winsorize all continuous variables at the 1st and 99th percentiles. Most variables cover the period from 2004 to 2016. However, the unrecognized tax benefits (UTB) and settlement size variables have relatively fewer observations because tax footnote disclosures related to UTBs only became available starting in 2007, following the implementation of FIN 48.

Panel A: Main Results for Sample Period from 2004 to 2016											
		2004-	-2016	2004-	-2006	2007-	-2016				
		(1)	(2)	(3)	(4)	(5)	(6)				
		IRS	IRS	IRS	IRS	IRS	IRS				
Dependent Variable =	Pred.	SETTLEMENT	Settlement	Settlement	Settlement	Settlement	SETTLEMENT				
		at t+1	<i>at t</i> +2	at t+1	<i>at t</i> +2	at t+1	<i>at t</i> +2				
IRS SEC	+	0.210***	0.116*	0.203	-0.257	0.215***	0.185**				
		(3.025)	(1.752)	(0.637)	(-1.376)	(2.817)	(2.363)				
GAAP ETR		1.064**	0.398	0.493	-1.458	1.073**	0.830				
		(2.477)	(0.837)	(0.273)	(-1.160)	(2.228)	(1.442)				
CASH ETR		0.993**	1.099***	4.580*	2.566***	0.715*	0.750				
		(2.554)	(2.702)	(1.720)	(2.853)	(1.743)	(1.629)				
BTD		-0.019	-0.233***	1.416	-0.434	0.121	-0.224***				
		(-0.152)	(-2.911)	(0.670)	(-0.525)	(1.019)	(-2.777)				
NOL CHANGE		0.001	0.491***	-1.100	0.617	-0.295	0.463***				
		(0.004)	(2.914)	(-0.556)	(0.744)	(-1.169)	(2.586)				
DTA		4.635**	2.161	4.396	-0.330	3.954*	2.400				
		(2.288)	(1.287)	(0.636)	(-0.051)	(1.905)	(1.296)				
DTL		-1.682	1.397	-4.821	1.043	-1.683	1.772				
		(-0.828)	(0.741)	(-0.419)	(0.171)	(-0.765)	(0.821)				
SIZE		0.413***	0.585***	0.270	0.545***	0.430***	0.588***				
		(7.711)	(10.055)	(0.963)	(2.946)	(7.290)	(9.307)				
MTB		-0.001	-0.001	0.034	-0.011	-0.001	-0.001				
		(-0.532)	(-0.474)	(0.811)	(-0.459)	(-0.697)	(-0.438)				
LEVERAGE		0.626**	0.348	7.337***	2.314*	0.329	0.244				
		(2.394)	(0.984)	(3.244)	(1.812)	(0.911)	(0.537)				
ROA		0.185	0.434***	11.253**	3.410	-0.091	0.452***				
		(0.716)	(3.836)	(2.510)	(1.447)	(-0.488)	(3.300)				
INTANGIBLES		0.819***	0.398	0.614	0.546	1.240***	0.462				
		(3.105)	(1.100)	(0.732)	(1.028)	(3.020)	(0.986)				
R&D		-1.528	-1.009	2.683**	-0.323	-3.508**	-1.790				
		(-1.382)	(-1.459)	(2.298)	(-0.535)	(-2.540)	(-1.368)				
INVENTORY		-0.107	1.062	-5.542	1.300	0.313	0.979				
		(-0.123)	(1.383)	(-1.607)	(0.849)	(0.345)	(1.066)				
CAPITAL		-0.441	-0.662	-1.874	-2.001	-0.316	-0.555				
		(-1.165)	(-1.643)	(-1.020)	(-1.276)	(-0.840)	(-1.340)				
SALES GROWTH		-0.856**	-0.847**	-2.756	-1.843	-0.959***	-0.875*				

 Table 5: IRS Settlement Test (H2)

	(-2.432)	(-2.041)	(-1.170)	(-1.279)	(-2.590)	(-1.958)
CASH	-0.394	-0.730	-5.471*	-2.175	0.031	-0.459
	(-0.744)	(-1.292)	(-1.930)	(-1.061)	(0.058)	(-0.790)
MNE	1.167***	1.013***	2.761***	0.368	1.114***	1.111***
	(5.283)	(4.655)	(2.835)	(0.653)	(4.793)	(4.689)
ICW	-0.013	-0.029	-0.334	-0.275	0.001	0.021
	(-0.191)	(-0.342)	(-0.557)	(-1.393)	(0.018)	(0.251)
RESTATEMENT	-0.149	0.174	0.121	0.719*	0.051	0.047
	(-0.653)	(0.769)	(0.153)	(1.698)	(0.207)	(0.171)
UTB					3.876***	0.991
					(3.096)	(0.905)
Observations	1,035	1,120	111	199	914	914
Pseudo R-squared	0.27	0.30	0.480	0.276	0.280	0.326
Year FE	Y	Y	Y	Y	Y	Y
Industry FE	Y	Y	Y	Y	Y	Y
Clustering by Firm	Y	Y	Y	Y	Y	Y

 $IRS ENFORCEMENT_{i,t+n} = \alpha + \beta_1 IRS_SEC_{i,m} + \gamma TAX AVOIDANCE_{i,t} + \delta FIRM CHARACTERISTICS_{i,t} + Industry FE + Year FE + \varepsilon_{i,m}.$ (2)

Table 5, Panel A reports the results of whether the increase in IRS attention following the opening of an SEC investigation of a company is associated with subsequent tax enforcement.

*IRS SETTLEMENT*_{*i*,*t*+1} and *IRS SETTLEMENT*_{*i*,*t*+2} are indicator variables equal to one if firm *i* reports a tax settlement in its income tax footnote in year t+1 or t+2, respectively, and zero otherwise. *IRS_SEC* is calculated as the natural logarithm of one plus the number of the IRS downloads of firm *i*'s SEC filings in the current month m and the six consecutive months following the SEC investigation open date. I estimate the logistic regression in Equation (2) using firm-year data from 2004 to 2016. Columns (1) and (2) report results for 2004–2016. Columns (3) and (4) report results for 2004–2006, while columns (5) and (6) present results for 2007–2016, including UTB as a control variable. See Appendix A for all variable definitions. I winsorize all continuous variables at the 1st and 99th percentiles. All regressions contain an intercept and year and industry fixed effects. Standard errors are clustered by firm. I present t-statistics in parentheses. *, **, and *** represent two-tailed statistical significance at the 10 percent, 5 percent, and 1 percent levels, respectively.

Funel D. INS Sellem	eni size					
		Future '	Tax Settlemen	t Size (OLS R	egression)	
Dependent			Ln(TAX SET	TLEMENT)	ln(TAX SET	TLEMENT)
Variable =	Ln(TAX SET	TLEMENT)	/Ln(LAGGE	D ASSETS)	/Ln(1	REV)
	(1)	(2)	(3)	(4)	(5)	(6)
	at t+1	at t+2	at t+1	at t+2	at t+1	at t+2
IRS SEC	0.147***	0.145***	0.014***	0.014***	0.014***	0.015***
	(4.201)	(3.988)	(4.032)	(3.901)	(3.758)	(3.641)
Observations	910	912	914	914	839	785
Adjusted R-squared	0.286	0.272	0.251	0.241	0.298	0.280
Controls	Y	Y	Y	Y	Y	Y
Year FE	Y	Y	Y	Y	Y	Y
Industry FE	Y	Y	Υ	Y	Y	Υ
Clustering by Firm	Y	Y	Y	Y	Y	Y

Table 5 (continued)

TAX SETTLEMENT SIZE_{*i*,*t*+*n*} = $\alpha + \beta_I IRS_SEC_{i,m} + \gamma TAX AVOIDANCE_{i,t}$

+ δ FIRM CHARACTERISTICS_{i,t} + Industry FE + Year FE + $\varepsilon_{i,m}$.

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Panel C: Tax Settlement Favorability				
	OLS Re	gression	Logit Re	egression
Dependent Variable =	Tax Settlement Favorability		High Tercile of Favor	^r Tax Settlement ability
	(1) at t+1	(2) at t+2	(3) at t+1	(4) at t+2
IRS_SEC	-0.260 (-1.124)	0.393** (2.357)	-0.120 (-0.560)	0.192 (1.029)
Observations Adjusted/Pseudo R-squared	181 0.17	188 0.42	195 0.18	185 0.25
Controls Vear FE	Y	Y	Y	Y
Industry FE	Y	Y	Y	Y
Year FE Industry FE Clustering by Firm	Y Y Y	Y Y Y	Y Y Y	Y Y Y

TAX SETTLEMENT FAVORABILITY_{*i*,*t*+n} = $\alpha + \beta_I$ IRS_SEC_{*i*,*m*} + γ TAX AVOIDANCE_{*i*,*t*}

+ δ FIRM CHARACTERISTICS_{i,t} + Industry FE + Year FE + $\varepsilon_{i,m}$.

Table 5, Panels B and C show the results of whether the increase in IRS attention following the opening of an SEC investigation of a company is associated with subsequent tax enforcement size and favorability. Because tax settlements are often reflected in UTB balance changes, which became more comprehensive following the implementation of FIN 48 in 2007, I estimate regressions using firm-year data from 2007 to 2016 for both panels. In Panel C, Columns (1) and (2) report findings using *Tax Settlement Favorability* as the dependent variable for years *t*+1 and *t*+2. Columns (3) and (4) employ an indicator variable that equals one for observations in the highest tercile of the *Tax Settlement Favorability* measure (representing firm-years with the most unfavorable tax settlements) and zero otherwise. I omit tabulating control variables for brevity. Untabulated controls include *GAAPETR*, *CASHETR*, *BTD*, *NOL CHANGE*, *DTA*, *DTL*, *SIZE*, *MTB*, *LEVERAGE*, *ROA*, *INTANGIBLES*, *R&D*, *INVENTORY*, *CAPITAL*, *SALES GROWTH*, *CASH*, *MNE*, *ICW*, and *RESTATEMENT*. See Appendix A for all variable definitions. I winsorize all continuous variables at the 1st and 99th percentiles. All regressions contain an intercept and year and industry fixed effects. Standard errors are clustered by firm. I present t-statistics in parentheses. *, **, and *** represent two-tailed statistical significance at the 10 percent, 5 percent, and 1 percent levels, respectively.

Panel A: The effect of IRS resources on the cu	esources on the current month						
Dependent Variable = <u>MONTHLY IRS DOWNLOAD</u>							
		(1)	(2)	(3)			
			IRS	NUMBER OF			
		IRS	ENFORCEMENT	IRS			
Variable	Pred.	BUDGET	BUDGET	EMPLOYEES			
SEC INVESTIGATION 0		-3.011**	-1.498**	-6.586**			
		(-2.221)	(-2.406)	(-2.075)			
SEC INVESTIGATION 0*IRS RESOURCES	+	1.141**	0.841**	0.576**			
		(2.246)	(2.461)	(2.087)			
Observations		140,755	140,755	140,755			
Adjusted R-squared		0.22	0.22	0.22			
Controls		Y	Y	Y			
Year-Month FE		Y	Y	Y			
Firm FE		Y	Y	Y			
Clustering by Firm		Y	Y	Y			

Table 6: Cross-Sectional Analyses for H1 (IRS Resources)

Panel B: The effect of IRS resources within 1	2 months following SEC investigation initiation
Dependent Variable =	MONTHLY IRS DOWNLOAD

Dependent variable		monthe		
		(1)	(2)	(3)
			IRS	NUMBER OF
Variable		IRS	ENFORCEMENT	IRS
	Pred.	BUDGET	BUDGET	EMPLOYEES
SEC INVESTIGATION 12		-0.439	-0.313	-2.426
		(-0.717)	(-1.146)	(-1.575)
SEC INVESTIGATION 12*IRS RESOURCES	+	0.177	0.190	0.214
		(0.772)	(1.268)	(1.596)
Observations		140,755	140,755	140,755
Adjusted R-squared		0.22	0.22	0.22
Controls		Y	Y	Y
Year-Month FE		Y	Y	Y
Firm FE		Y	Y	Y
Clustering by Firm		Y	Y	Y

MONTHLY IRS DOWNLOAD_{*i*,*m*} = $\alpha + \beta_1$ SEC INVESTIGATION_{*i*,*m*} + β_2 SEC INVESTIGATION_{*i*,*m*} * IRS RESOURCES_{*t*} + γ TAX AVOIDANCE_{*i*,*t*} + δ FIRM CHARACTERISTICS_{*i*,*t*}

+ Firm FE + Month-year FE + $\varepsilon_{i.t.}$

Table 6 presents the results of estimating the effect of IRS resources on the association between the initiation of an SEC investigation and IRS attention. I employ three measures of IRS resources: *IRS BUDGET, IRS ENFORCEMENT BUDGET*, and *NUMBER OF IRS EMPLOYEES*. My dependent variable is *MONTHLY IRS DOWNLOAD*. In Panel A, I measure *SEC INVESTIGATION* using *SEC INVESTIGATION 0*. In Panel B, I measure *SEC INVESTIGATION* using *SEC INVESTIGATION 12*. I omit tabulating control variables for brevity. See Appendix A for all variable definitions. I winsorize all continuous variables at the 1st and 99th percentiles. All regressions contain an intercept and month-year and firm fixed effects. Standard errors are clustered by firm. I present t-statistics in parentheses. *, **, and *** represent two-tailed statistical significance at the 10 percent, 5 percent, and 1 percent levels, respectively.

Dependent Variable =	MONTHLY IRS DOWNLOAD										
		GAAI	P ETR		CASH ETR						
	Low	High	Low	High	Low	High	Low	High			
	Tercile	Tercile	Tercile	Tercile	Tercile	Tercile	Tercile	Tercile			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)			
SEC INVESTIGATION 12	0.045**	0.004			0.043**	0.007					
	(2.182)	(0.216)			(2.217)	(0.383)					
SEC INVESTIGATION			0.048	-0.025			0.077*	0.019			
			(1.225)	(-0.606)			(1.962)	(0.496)			
	44.015	16.005	46.015	46.005	46.004	16.000	46.004	46.000			
Observations	46,917	46,927	46,917	46,927	46,924	46,922	46,924	46,922			
Adjusted R-squared	0.21	0.22	0.21	0.22	0.19	0.22	0.19	0.22			
Controls	Y	Y	Y	Y	Y	Y	Y	Y			
Year-Month FE	Y	Y	Y	Υ	Y	Y	Y	Y			
Firm FE	Y	Y	Y	Y	Y	Y	Y	Y			
Clustering by Firm	Y	Y	Y	Y	Y	Y	Y	Y			
Test of difference SEC INVESTIGATION											
χ^2	3.4	46	1.	42	4.	19	1.	53			
p-value	0.0)63	0.2	326	0.04	406	0.2	163			

Table 7: Cross-Sectional Analyses for H1 (Tax Avoidance)

MONTHLY IRS DOWNLOAD_{*i*,*m*} = $\alpha + \beta_1$ SEC INVESTIGATION_{*i*,*m*} + γ TAX AVOIDANCE_{*i*,*t*} + δ FIRM CHARACTERISTICS_{*i*,*t*} + Firm FE

+ Month-year $FE + \varepsilon_{i.t}$.

Table 7 presents the results of estimating the effect of tax avoidance on the association between the initiation of an SEC investigation and IRS attention. In columns (1) to (4), I partition the sample based on terciles of GAAP ETR. In columns (5) to (8), I partition the sample based on terciles of CASH ETR. Low (High) Tercile corresponds to high (low) levels of tax avoidance. I use Seemingly Unrelated Regression Estimation (SURE) tests to assess coefficient differences between subsamples. I omit tabulating control variables for brevity. Untabulated controls include *GAAPETR*, *CASHETR*, *BTD*, *NOL CHANGE*, *DTA*, *DTL*, *SIZE*, *MTB*, *LEVERAGE*, *ROA*, *INTANGIBLES*, *R&D*, *INVENTORY*, *CAPITAL*, *SALES GROWTH*, *CASH*, *MNE*, *ICW*, *10-K*, *10-Q*, *RESTATEMENT MONTH*, and *FORMS*. See Appendix A for all variable definitions. I winsorize all continuous variables at the 1st and 99th percentiles. All regressions contain an intercept and month-year and firm fixed effects. Standard errors are clustered by firm. I present t-statistics in parentheses. *, **, and *** represent two-tailed statistical significance at the 10 percent, 5 percent, and 1 percent levels, respectively.

Table 8: Investigation Type

Panel A: Investigation Classification		
Investigation Classification	Frequency	Percent
Financial Fraud/Issuer Disclosure	669	48.30
Insider Trading	456	32.92
FCPA	86	6.22
Market Manipulation	83	6.00
Other	42	3.03
Securities Offering	25	1.81
IA / IC	17	1.23
Corporate Control	2	0.14
SRO/Exchange	2	0.14
Delinquent Filings	1	0.07
Fraud Against Reg Entity	1	0.07
Public Finance	1	0.07
Total	1385	100.00

Panel B: The effect of investigation types in the month of SEC investigation initiation Dependent Variable = MONTHLY IRS DOWNLOAD

Dependent variable											
	(1)	(2)	(3)	(4)	(5)						
	FINANCIAL	INSIDER	ECDA	MARKET	OTHEDS						
	FRAUD	TRADING	<i>I'CI'A</i>	MANIPULATION	OTTERS						
SEC INVESTIGATION 0	0.063*	0.051	0.064	-0.152	0.021						
	(1.714)	(1.081)	(0.634)	(-1.471)	(0.352)						
Observations	41,498	27,139	4,392	6,246	43,939						
Adjusted R-squared	0.204	0.167	0.144	0.210	0.188						
Controls	Y	Y	Y	Y	Y						
Year-Month FE	Y	Y	Y	Y	Y						
Firm FE	Y	Y	Y	Y	Y						
Clustering by Firm	Y	Y	Y	Y	Y						

 Panel C: The effect of investigation types within 12 months following SEC investigation initiation

 Dependent Variable =
 MONTHLY IRS DOWNLOAD

	(1)	(2)	(3)	(4)	(5)						
	FINANCIAL FRAUD	INSIDER TRADING	FCPA	MARKET MANIPULATION	OTHERS						
SEC INVESTIGATION 12	0.047***	-0.020	-0.015	-0.085*	0.008						
	(2.625)	(-1.102)	(-0.365)	(-1.866)	(0.289)						
Observations	41,498	27,139	4,392	6,246	43,939						
Adjusted R-squared	0.204	0.167	0.144	0.210	0.188						
Controls	Y	Y	Y	Y	Y						
Year-Month FE	Y	Y	Y	Y	Y						
Firm FE	Y	Y	Y	Y	Y						
Clustering by Firm	Y	Y	Y	Y	Y						

Table 8 Panel A presents the frequency distribution of investigation types. Panels B and C present the results of estimating the effect of SEC investigation type on the association between the initiation of an SEC investigation and IRS attention. I partition the sample based on SEC investigation type and re-estimate Equation (1) for each subsample. Columns (1) through (5) report results for different SEC investigation types: financial fraud and issuer disclosure, insider trading, Foreign Corrupt Practices Act (FCPA) violations, market manipulation, and other types, respectively.

Dependent Variable =		MONTHLY IRS DOWNLOAD										
		SIZE (Tot	al assets)			SIZE (Re	evenue)		SIZE (Pretax income)			
	Below	Above	Below	Above	Below	Above	Below	Above	Below	Above	Below	Above
	Median	Median	Median	Median	Median	Median	Median	Median	Median	Median	Median	Median
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
SEC INVESTIGATION 12	0.018	0.051***			0.015	0.055***			0.018	0.051***		
	(1.427)	(2.879)			(1.225)	(3.087)			(1.388)	(2.743)		
SEC INVESTIGATION 0			0.061**	0.015			0.049*	0.032			0.058*	0.017
			(2.091)	(0.415)			(1.649)	(0.911)			(1.893)	(0.472)
Observations	70,356	70,398	70,356	70,398	70,363	70,392	70,363	70,392	70,361	70,393	70,363	70,392
Adjusted R-squared	0.12	0.23	0.12	0.23	0.12	0.22	0.12	0.22	0.16	0.23	0.12	0.22
Controls	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Year-Month FE	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Firm FE	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Clustering by Firm	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Test of difference SEC INV	ESTIGATI	ON										
χ^2	4	.70	0.0)9	3.	79	0.	00	1	.30	0.	10
p-value	0.	030	0.7	67	0.0	052	0.9	62	0.	253	0.7	'49

Table 9: Cross-Sectional Analyses for H1 (Firm Size)

MONTHLY IRS DOWNLOAD_{i,m} = $\alpha + \beta_1$ SEC INVESTIGATION_{i,m} + γ TAX AVOIDANCE_{i,t} + δ FIRM CHARACTERISTICS_{i,t} + Firm FE

+ Month-year $FE + \varepsilon_{i,t}$.

Table 9 presents the results of estimating the effect of firm size on the association between the initiation of an SEC investigation and IRS attention. Panels A, B, and C reporting findings using total assets, revenue, and adjusted pretax income as firm size measures, respectively. For each proxy, I partition firms into below- and above-median groups. Columns (1), (2), (5), (6), (9), and (10) report results for below- and above-median size subsamples using *SEC INVESTIGATION 12* as the main variable of interest. Columns (3), (4), (7), (8), (11), and (12) report results for *SEC INVESTIGATION12*. I use SURE tests to assess coefficient differences between subsamples. I omit tabulating control variables for brevity. Untabulated controls include *GAAPETR*, *CASHETR*, *BTD*, *NOL CHANGE*, *DTA*, *DTL*, *SIZE*, *MTB*, *LEVERAGE*, *ROA*, *INTANGIBLES*, *R&D*, *INVENTORY*, *CAPITAL*, *SALES GROWTH*, *CASH*, *MNE*, *ICW*, *10-K*, *10-Q*, *RESTATEMENT MONTH*, and *FORMS*. See Appendix A for all variable definitions. I winsorize all continuous variables at the 1st and 99th percentiles. All regressions contain an intercept and month-year and firm fixed effects. Standard errors are clustered by firm. I present t-statistics in parentheses. *, **, and *** represent two-tailed statistical significance at the 10 percent, 5 percent, and 1 percent levels, respectively.

uons YEARLY IRS DOWNLOA					
Pred.	(1)	(2)			
+	0.059***	0.059***			
	(3.046)	(3.096)			
	22,415	22,415			
	0.621	0.623			
	Ν	Y			
	Y	Y			
	Y	Y			
	Y	Y			
	Pred. +	YEARLY IRS DOW Pred. (1) + 0.059*** (3.046) 22,415 0.621 N Y Y Y Y Y Y Y Y			

Table 10: Firm-Year Tests

+ δ FIRM CHARACTERISTICS_{*i*,*t*} + Firm FE + Year FE + $\varepsilon_{i,t}$. (5)

<i>Panel B: Dynamic Tests</i> Dependent Variable=		YEARLY IRS DOWNLOAD	
•	Pred.	(1)	-
TREAT * PRE [t-2]		0.002	
ĽJ		(0.092)	
TREAT * PRE [t-1]		0.010	
		(0.621)	
TREAT * POST [0]	+	0.049***	
		(2.815)	
TREAT * POST [t+1]	+	0.037**	
		(2.031)	
TREAT * POST [t+2]	+	0.047**	
		(2.303)	
TREAT * POST [t+3]	+	0.053**	
		(2.518)	
Observations		22,415	
Adjusted R-squared		0.623	
Controls		Ŷ	
Year FE		Ŷ	
Firm FE		Ŷ	
Clustering by Firm		Y	

 $\begin{aligned} & \underline{YEARLY IRS DOWNLOAD_{i,t} = \alpha + \beta_1 TREAT_{i,t} * PRE [t-2]_{i,t} + \beta_2 TREAT_{i,t} * PRE [t-1]_{i,t} + \beta_3} \\ & TREAT_{i,t} * POST [0]_{i,t} + \beta_4 TREAT_{i,t} * POST [t+1]_{i,t} + \beta_5 TREAT_{i,t} * POST [t+2]_{i,t} + \beta_6 TREAT_{i,t} \end{aligned}$

* POST $[t+3]_{i,t}$ + γ TAX AVOIDANCE_{i,t} + δ FIRM CHARACTERISTICS_{i,t} + Firm FE + Year FE + $\varepsilon_{i,t}$.

Table 10, Panels A and B report the results of the DiD regressions and the dynamic analysis on IRS attention. *YEARLY IRS DOWNLOAD* is the natural logarithm of one plus the number of IRS downloads of firm *i*'s SEC EDGAR filings in year *t. TREAT* is an indicator equal to one if firm *i* is classified as a treatment firm. *POST* is an indicator variable equal to one in the years following the initiation of an SEC investigation, zero otherwise. Panel B reports the results of the dynamic analysis. I omit tabulating control variables for brevity. Untabulated controls include *GAAPETR*, *CASHETR*, *BTD*, *NOL CHANGE*, *DTA*, *DTL*, *SIZE*, *MTB*, *LEVERAGE*, *ROA*, *INTANGIBLES*, *R&D*, *INVENTORY*, *CAPITAL*, *SALES GROWTH*, *CASH*, *MNE*, *ICW*, and *RESTATEMENT*. See Appendix A for all variable definitions. I winsorize all continuous variables at the 1st and 99th percentiles. All regressions contain an intercept and year and firm fixed effects. Standard errors are clustered by firm. I present t-statistics in parentheses. *, **, and *** represent two-tailed statistical significance at the 10 percent, 5 percent, and 1 percent levels, respectively.