Private Letter Rulings: Unlocking Tax Certainty, Triggering IRS Attention

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Abstract

In this study, we investigate whether firms requesting Private Letter Rulings (PLRs) from the Internal Revenue Service (IRS) face higher levels of tax authority monitoring than other firms. PLRs offer tax certainty by clarifying the tax implications of specific transactions, but they also require significant disclosure and involve high direct and indirect costs. Using a sample of 16,383 firm-years from 2010 to 2023, of which 14% of firms requested a PLR, we analyze the effect of PLRs on tax authority scrutiny using the monitoring measure developed by Finley and Stekelberg (2022). Our findings reveal that firms requesting PLRs face heightened tax monitoring, consistent with the evaluability and similarity hypotheses. This conclusion holds even after removing PLR requests related to tax-free mergers, spin-offs, and reorganizations, some of the most common requests from public corporations, suggesting that the results are generally applicable to PLR-requesting firms. Finally, we find that firms requesting a tax opinion from their external tax advisors rather than a PLR from the IRS do not experience increased tax authority monitoring. This research extends the nascent PLR literature and provides insights into the consequences of voluntary tax disclosures on tax authority monitoring. The findings should be relevant to managers and tax advisors weighing the costs and benefits of a PLR request, particularly in light of the IRS' recent expansion of the scope of issues eligible for PLRs.

I. INTRODUCTION

In today's increasingly complex regulatory environment, driven by changes such as the Tax Cuts and Jobs Act (TCJA), OECD Pillar Two, and the changing political landscape, tax uncertainty has become a critical issue for firms operating on a global scale. Tax consequences often play a decisive role in determining the net present value of significant business transactions such as mergers, spin-offs, or research and development initiatives. For firms seeking tax certainty, a Private Letter Ruling (PLR) from the Internal Revenue Service (IRS) can provide clarity by specifying how the IRS will treat a particular transaction.

While PLRs offer tax certainty, they are not without cost. The process of applying for a PLR involves substantial filing fees, legal expenses, and, more importantly, disclosing a significant amount of otherwise private information to the IRS.[1] In this study, we examine whether a firm requesting a PLR faces higher or lower levels of tax authority monitoring than other firms, a particularly important topic as the IRS issued more than 2,000 PLRs in 2023 alone. While many of these PLRs were issued to individual taxpayers, partnerships, and private corporations, we find that 14% of the firms in our CRSP/Compustat merged sample requested at least one PLR during our 2010-2023 sample period. Notably, the number of large firms requesting PLRs is likely to increase as the IRS changed its no-ruling policy in January 2024, becoming more open to issuing PLRs than it has been since 2003.

PLRs play a part in many major business transactions. For example, in 2015, the IRS declined to provide a ruling to Yahoo!, which planned to spin off its 384 million shares in Alibaba in a tax-free manner. However, in the event the transaction would be taxable, Yahoo! would be liable for a $7 *billion* tax bill. Due to the inherent uncertainty and significant potential tax liability,

[1] From our experience in practice, fees charged by tax advisors, whether from law firms or accounting firms, can exceed $100,000 and, in some cases, $1,000,000.

the company did not complete the transaction at the time (Wood, 2015). Ultimately, they proceeded with the spin-off, but in a modified manner due to the absence of a PLR.

Rather than obtaining a PLR, companies may increase their level of tax certainty by engaging their external tax advisors and obtaining a tax opinion. This practice has become more common, especially between 2013 and 2023, after the IRS limited its scope of issues for which it would provide a PLR. While opinions do not provide 100% confidence in the tax treatment, they provide an increased level of cost certainty related to a proposed transaction without requiring the disclosure of private information to the IRS.

Signaling theory suggests that in situations with information asymmetry, like the relationship between taxpayers and tax authorities, firms might use a PLR to signal their intent to be compliant and act cooperatively with the tax authority (Spence, 1973; 2002). By requesting a PLR instead of relying on a tax opinion, a firm may signal a more conservative approach to tax matters since it is proactively seeking the IRS's approval on how to handle a complex transaction. This could lead tax authorities to view PLR requests as a sign of tax conservatism and, in turn, focus their resources on other firms in an effort to use limited enforcement resources efficiently.

On the other hand, the evaluability hypothesis (Hsee, 1996) and similarity hypothesis (Huber, Payne, & Pluto, 1982) suggest that firms requesting PLRs may be more likely to face increased IRS scrutiny. The evaluability hypothesis posits that people rely on easily assessable information when making decisions. In the context of tax audits, while IRS agents may struggle to immediately identify which tax returns contain risky positions, they can easily recognize that PLR-requesting firms have already provided detailed information, making them easier to examine. Since people tend to prioritize more accessible information, IRS agents are more likely to select these firms for audits and conduct thorough audits. Likewise, under the similarity hypothesis, when

agents are choosing between a PLR-requesting firm and another company with a similar tax profile, they may favor the PLR-requesting firm for examination due to the lower cost and effort involved in gathering additional information.

To test our research question, we use the measure of tax authority monitoring developed by Finley and Stekelberg (2022), which increases as firms reduce uncertain tax benefit (UTB) reserves due to settlements with tax authorities, indicative of the presence of a tax examination, and decreases as UTB reserves decrease due to a lapse in the statute of limitations, occurring when the IRS does not select the position for audit. Further, since PLRs are not subject to public disclosure, we determine if a company has requested a PLR by relying on public filings where management discloses this information.[2] Specifically, to measure the presence of a PLR, we analyze all filed Forms 10-K, 10-Q, and 8-K since January 1, 2001, for the mention of a "private letter ruling" within ten words of either: "received," "receive," "issued," "issue," "requested," "request," "receipt," "obtained," or "obtain."[3]

Using a sample of 16,383 firm-years, we find that firms requesting PLRs are larger, more leveraged, and more likely to report foreign activity. They also engage in more tax-free mergers, spin-offs, split-offs, and reorganizations than firms that do not publicly disclose a PLR request, consistent with PLRs providing tax certainty related to material, high-risk transactions. However, we do not find evidence that firms requesting PLRs take more or less aggressive tax positions, as evidenced by reporting similar cash effective tax rates (CETRs), GAAP effective tax rates (ETRs), book-tax differences (BTDs), and unrecognized tax benefits (UTBs) as other firms without a PLR request.

[2] The IRS publicly discloses its issued PLRs only after anonymizing them to prevent taxpayer identification.
[3] Devos et al. (2023) use a similar approach to identify PLR firms.

Using ordinary least squares regression analysis, we find evidence that firms requesting PLRs face additional scrutiny from tax authorities than firms that do not. This finding holds even after removing PLR requests related to tax-free mergers, spin-offs, split-offs, and reorganizations, some of the most common requests from public corporations. This suggests that our results are broadly applicable to PLR-requesting firms, not just those engaging in corporate restructuring.[4]

In a falsification test, we do not find an increased level of tax authority monitoring for firms requesting a tax opinion from an external tax advisor in lieu of pursuing a PLR. This demonstrates that the increased scrutiny is specific to PLR-requesting firms, rather than the presence of a highly complex transaction.[5] In a placebo test, we regress 1,000 iterations of a randomly assigned treatment variable, the results indicate that it is unlikely that our findings were obtained by chance. Finally, our results are robust to using two alternative measures of tax authority monitoring as well as using entropy balancing and propensity score matching.

Our paper is of interest to researchers, policymakers, and managers, especially considering the IRS's recent policy change with respect to the types of transactions eligible for a PLR. Specifically, in January 2024, the IRS reversed its stance with the issuance of Rev. Procs. 2024-1 and 2024-3, which previously limited PLR requests to transactions involving significant issues, discouraging the use of PLRs as an "insurance policy" to guarantee tax-free outcomes (Rievman, Wood, Alexander, & Cardella, 2024). This shift is expected to lead to an increase in the number of PLR requests, highlighting the importance of our research findings which suggest that managers should consider the potential hidden costs before requesting a PLR under the new policy.

[4] Some of the most common types of PLR requests (listed in order of Internal Revenue Code section) are Sec. 61 Definition of gross income, Sec. 338 Stock acquisition treated as asset acquisition, Sec. 351 Transfer to a corporation controlled by the transferor, Sec. 355 Spinoffs, Sec. 368 Corporate reorganizations and mergers, Sec. 1001 Determination of amount of and recognition of gain or loss, Sec. 1502 and 1503 Consolidated corporate tax returns, and Sec. 9100 Extensions of time to make elections. This is based on data extracted from anonymized PLR requests.
[5] In our sample, approximately 76% of firm-years with a tax opinion do not have a PLR request (i.e., the majority of firms use them as a substitute for a PLR).

Our study builds on the theoretical framework developed by Diller, Kortebusch, Schneider, and Sureth-Sloane (2017). In their extended model, they propose that tax authorities benefit from the information provided by the taxpayer in advanced tax ruling (ATR) requests, such as a PLR. Tax authorities may experience reduced audit costs as uncertain tax positions are clearly summarized and the relevant facts are presented upfront. Additionally, the probability of detecting ambitious tax issues is significantly increased when a taxpayer requests an ATR. The authors suggest that when tax authorities account for these benefits in setting ATR fees, the demand from taxpayers and the supply of ATRs will align. To our knowledge, we are the first to empirically examine the direct relationship between PLRs and tax authorities' monitoring decisions.[6]

In this paper, we contribute to the nascent PLR literature and growing voluntary tax disclosure literature by examining tax authority responses to directly receiving otherwise confidential information from taxpayers. Specifically, we find evidence that the IRS focuses additional monitoring on companies disclosing private information as a part of the PLR process, despite no evidence that the PLR-requestor takes more aggressive tax positions than similar firms. This represents a significant unintended consequence of management's decision to solicit the IRS's opinion on a transaction.

This study should also interest domestic and foreign tax policymakers since advance tax rulings, such as PLRs, are a common practice not only in the United States but also across the globe. Except for Sweden, all members of the Organization for Economic Cooperation and Development (OECD), along with numerous other countries, provide private rulings to taxpayers for future transactions. The primary objective of these programs is "to seek clarity and consistency regarding the application of tax law" (International Monetary Fund [IMF], 2016). However,

[6] Devos, Devos, Farber, Li, and Rahman (2023) provide an exploratory analysis of companies requesting PLRs, finding that they report lower ETRs, are more acquisitive, and report lower levels of foreign income.

evidence that revenue agents may use a company's good faith effort to understand the tax consequences of a transaction as an easier means to audit could discourage firms from seeking such guidance before filing a tax return. This unintended consequence of increased tax monitoring might undermine the OECD's goals of fostering a cooperative relationship between large companies and tax authorities, instead fostering distrust and adversarial interactions.

Further, given the potential for increased tax authority monitoring, accounting firms advising on PLR requests should not only help companies evaluate the benefits of obtaining a PLR but also disclose the potential risks associated with increased IRS monitoring. Managers and their tax advisors should be fully informed about the trade-off between securing tax certainty through a PLR and the heightened probability of closer examination by the IRS. This consideration is particularly important in an environment where tax authorities are under pressure to allocate their enforcement resources efficiently.

Finally, our study should also be of interest to managers and their tax advisors planning complex transactions. We find that, unlike PLR requests, tax opinion requests are not related to an increase in tax authority monitoring, even for the subsample of tax-free transactions. While a tax opinion cannot provide the same level of certainty as a PLR, it should be considered as a potentially preferable alternative for managers and tax advisors who are concerned about disclosing private information to the IRS and the increased probability of additional monitoring.

II. BACKGROUND AND HYPOTHESIS DEVELOPMENT

Private Letter Rulings

Given the increasing complexity of the tax law and business transactions, firms are routinely faced with tax uncertainty. When managers are unsure of the tax consequences of a particular transaction, they have two options. First, they may engage tax advisors and lawyers to

obtain a tax opinion as to the proper tax treatment and then take the advised position on the filed tax return.[7] However, in the event of an unfavorable result on examination, the company is potentially subject to interest and penalties associated with any underpayment of tax. Additionally, if the transaction involves a restructuring, it may be costly to revert to the original form.

Alternatively, they may seek the IRS's opinion on the taxability of the transaction before it takes place in the form of a private letter ruling (PLR).[8] According to the IRS, a PLR is:

> "a written determination issued to a taxpayer by an Associate office in response to the taxpayer's written inquiry, filed prior to the filing of returns or reports that are required by the tax laws, about its status for tax purposes or the tax effects of its acts or transactions. A letter ruling interprets the tax laws and applies them to the taxpayer's specific set of facts" (Internal Revenue Bulletin [IRB] 2024-1 Section 2.01).

To obtain a PLR, taxpayers, with the help of their legal or tax representatives, submit a document that includes all the pertinent information, including the facts of the transaction, copies of any legal documents, and an analysis of material facts (Internal Revenue Bulletin [IRB] 2024-1 Section 7.01).

When requesting a PLR, the sections outlining the facts and analysis must include a detailed description of all relevant facts related to the transaction, including the business purpose of the transaction, the taxpayer's business operations, the mechanics of the transaction, and any other pertinent facts. Additionally, the IRS requires copies of legal documents that are likely to disclose significant information related to the transaction in question, as well as any other details relevant to the company's tax positions. In most cases, complying with these requirements results in disclosing a significant amount of information that is not typically included in the standard tax return.

[7] These tax opinions come with differing levels of confidence (e.g., a "will" opinion is the highest level of confidence, followed by "should," then "more likely than not," etc.).
[8] The IRS will not issue a PLR when the issue is clearly addressed by a statute or if the taxpayer has already completed the proposed transaction (IRB 2024-1 Section 2.11 and 2.14).

After providing a response to a PLR, the IRS is beholden to the decision so long as there is not a material change to the facts of the transaction.[9] Therefore, a ruling, whether favorable or unfavorable, provides the taxpayer certainty regarding the tax consequences of a transaction (Marks, 2024). The types of transactions and scope of issues for which a PLR will be issued have decreased in recent decades. Beginning in 2003 with Rev. Proc. 2003-48, the IRS instituted a no-ruling policy on the device and business purpose requirements for certain tax-free transactions. A more significant change occurred in 2013 with the IRS's issuance of Rev. Proc. 2013-32, which limited PLR requests to transactions involving significant issues. [10] As a result, issued PLRs would be narrow in scope, covering only the significant issue and not the entire transaction. However, in January 2024, the IRS reversed course by issuing Rev. Procs. 2024-1 and 2024-3, removing some of these restrictions (Rievman et al., 2024). With these recent changes, more tax-free transactions are now eligible for PLRs than at any time since 2003. The future trend in the number of PLRs issued annually will likely be influenced by these policy shifts.

The current literature on PLRs is limited and primarily uses analytical methods, likely due to the confidential nature of these requests. Givati (2009) concludes that the relatively rare nature of PLRs stems from strategic disadvantages associated with the process. One concern is that PLR requests can attract heightened scrutiny from tax authorities, particularly by experienced revenue agents at the IRS's national office known for their expertise on complex tax issues. The increased monitoring can raise both inspection risk (i.e., risk of an overall audit) and detection risk (i.e., intensity of the audit). Even if the inspection risk is near 100% for large corporations in our sample,

[9] The IRS typically provides an initial response, whether favorable or unfavorable, within two months (Boike & Sharp, 2010). See Table OA 1 in the Online Appendix for the median timing between filing for a PLR and receiving a final ruling.

[10] The device requirement dictates that a spinoff is not allowed to be used principally for the distribution of earnings and profits, essentially avoiding taxation on dividends. The business purpose requirement requires that the proposed tax-free transaction has a legitimate business purpose beyond reducing federal taxes (Harris and Schreiber, 2024).

the scope or intensity of the audit triggered by the PLR request could lead to settlements on issues unrelated to the PLR request. Additionally, Givati (2009) argues that the IRS is less likely to issue a favorable ruling in cases that could decrease overall tax revenues, given that anonymized PLRs are publicly available, potentially influencing broader tax enforcement.[11]

Similarly, Diller et al. (2017) develop a theoretical model showing that firms are more likely to seek ATRs, such as a PLR, when the investment amount is modest or when there is significant potential tax damage due to high tax uncertainty. However, consistent with Givati (2009), the authors argue that tax authorities must consider the potential increased probability of detecting ambiguous tax positions when setting fees to appropriately increase the attractiveness of ATRs. Additionally, the authors show that tax authorities are incentivized to provide ATRs when they may reduce overall audit costs or increase tax revenues by encouraging investment (Diller et al., 2017).

Hayn (1989) finds that there is a positive abnormal return when a favorable PLR is received and a negative abnormal return when an unfavorable ruling is received in the setting of tax-free acquisitions. In their sample, 100% of the firms that received a favorable PLR completed their planned acquisition while less than half that received an unfavorable PLR completed their planned acquisition. More recently, Devos et al. (2023) examine the characteristics of firms requesting PLRs, finding that these firms are more active in tax planning, pursue more acquisitions, possess a higher analyst following, have higher leverage, and have less internal tax expertise compared to firms that do not request PLRs. Motivated by Hanlon et al. (2017), the authors also explore the relationship between PLR requests and cash holdings of the requesting firms, discovering a

[11] While PLRs may only be relied on by the requesting taxpayer, the IRS has a duty to consistently apply the tax law (see *Sirbo Holdings Inc. v. Commissioner*, 31 AFTER 2d 73-1005 [1973])

decrease in cash holdings following PLR requests, which is consistent with PLRs reducing tax uncertainty.

Tax Authority Monitoring

Several studies investigate the factors influencing IRS monitoring of firms. Using proprietary IRS data, Mills (1998) finds that firms reporting larger book-tax differences, a potential indicator of corporate tax aggressiveness, face larger IRS audit adjustments. Using similar IRS data, Kubick, Lockhart, Mills, and Robinson (2017) find evidence that the IRS is more likely to audit firms near an IRS office. The authors conclude that the results provide evidence that the IRS prioritizes local taxpayers, only choosing to examine more distant taxpayers when there is a higher probability of increased collections. Together, the studies provide evidence that revenue agents prioritize efficient collection of additional tax revenues by focusing on tax returns that require fewer resources to examine and those that are more likely to result in large collections.

Using public data, Bozanic, Hoopes, Thornock, and Williams (2017) find that IRS attention, measured as downloads of SEC filings from IP addresses associated with IRS computers, is positively associated with firm size, profitability, foreign operations, UTBs, and deferred tax assets (DTAs) suggesting that the IRS focuses its attention on large, profitable, tax-aggressive corporations.

The prior literature generally measures tax authority monitoring using generalized audit rates by year and size (e.g., Hoopes, Mescall, & Pittman, 2012) or confidential information from the IRS (Nessa, Schwab, Stomberg, & Towery, 2020; Kubick et al., 2017; Mills, 1998). Without access to IRS data, Finley and Stekelberg (2022) develop a firm-year-specific measure of tax authority monitoring based on a firm's publicly available financial information. Specifically, they utilize information in the tax footnote, arguing that UTB reductions due to resolutions (expirations)

with tax authorities indicate greater (less) tax authority monitoring.[12] Our study contributes to the tax authority monitoring literature by investigating the impact of private disclosures made to the IRS through the PLR process and their influence on subsequent tax monitoring.

Evaluability Hypothesis, Similarity Hypothesis, and Task Selection

In making the decision to select a specific tax return for examination, revenue agents must consider agency priorities, computerized scores, and other selection criteria. As a part of this process, revenue agents are presented with items such as the computerized discriminant function (DIF) score, indicating the likelihood of underreported taxes, firm size, and whether the taxpayer is claiming a specific tax credit or deduction that is a current agency focus. However, as noted by former IRS Commissioner Charles Rettig (2016), IRS personnel make the decision to select tax returns for examination after being presented with statistical information, leaving it likely that agents will consider things like the difficulty and costs associated with information gathering and processing in addition to their current caseload.

The evaluability hypothesis suggests that when making a decision involving multiple choices, people tend to focus on attributes that are easier to assess (Hsee, 1996). When selecting tax returns for examination, one attribute that may be considered by revenue agents is the difficulty of obtaining additional taxpayer information, especially when the information has already been provided by one taxpayer. The PLR request process results in a significant amount of information being provided to revenue agents in a manner that is relatively costless to the service. According to IRS policy, all information provided by the taxpayer as part of the PLR request process is provided to the IRS field office assigned to that taxpayer. This information is provided regardless of the PLR's findings or whether the taxpayer ultimately executes the hypothetical transaction

[12] We use the measure created by Finley and Stekelberg (2022) to represent tax authority monitoring. We discuss this further in Section III.

outlined in the PLR request (Devos et al., 2023). Therefore, the IRS may choose to select a PLR-requesting firm due to the reduced information-gathering costs.

In addition to the decreased difficulty of obtaining information, revenue agents may perceive that examinations of PLR requesting firms are easier to complete. This perception may arise from the expectation that the company will be more forthcoming or that the information present in the PLR request decreases the effort required to conduct a comprehensive audit of the tax return. Since employees typically select easy tasks when provided with a choice (KC, Staats, Kouchaki, & Gino, 2020), selecting firms where the necessary information is already provided presents an attractive selection option over another firm where revenue agents would need to incur the costs associated with information gathering, particularly important given current IRS budget constraints (Caplin, 2022; Temkin, 2022).

If the PLR-requesting firm is similar in metrics such as the DIF score and firm size, the similarity hypothesis (Huber et al., 1982) suggests that the revenue agent will still choose the PLR-requesting firm. This is because the additional information provided, even if it is related to a minor portion of the tax return, will make the PLR-requesting firm a more attractive option to the revenue agent than a similar taxpayer due to the presence of additional information. Overall, a significant body of theoretical work suggests that firms may face tax monitoring costs when choosing to disclose tax information voluntarily.

IRS Resource Constraints and Monitoring

While the evaluability and similarity hypotheses suggest that PLR-requesting firms may face heightened tax monitoring costs, the choice by tax authorities to focus on these firms may result in a less efficient IRS, especially if a PLR is a signal of tax compliance. As part of its enforcement efforts, the IRS examined over 700,000 tax year 2017 returns, roughly 1% of all

filings (IRS, 2024). With limited funding, the IRS must allocate resources efficiently to maximize collections. To support this, agents use a computerized score, known as the DIF score, to assess the likelihood of errors or intentional underreporting of taxable income (Hunter & Nelson, 1996). As Rettig (2016) notes, however, the DIF score is only one of many tools the IRS employs to enhance efficiency in achieving its mission.

Prior literature provides evidence of the IRS's efficiency focus. For example, using confidential IRS information, Nessa et al. (2020) provide evidence that the availability of IRS resources affects tax audits, revealing that greater resources increase the likelihood and magnitude of proposed deficiencies. On the other hand, the authors provide evidence that as IRS resources decline, they respond by targeting fewer, yet weaker, taxpayer positions to maximize the amount of additional tax revenues collected. By changing the audit strategy through a reduced scope, the authors provide evidence of the IRS's efficiency focus rather than a particular focus on targeting specific firms due to size, industry, or other characteristics.

The focus on efficiency indicates that the IRS focuses its enforcement resources on tax returns where it is most likely to collect additional tax revenues. Prior literature indicates that the IRS uses other information to determine its level of monitoring, such as a restatement or disclosure of a material weakness (Fox & Wilson, 2023). This suggests that the agency consistently updates its resource allocations based on signals of potential tax underreporting. If a PLR signals taxpayer compliance to the IRS, the agency may choose to allocate its resources elsewhere, leading to lower levels of monitoring for firms that request PLRs.

Given the nascent state of the PLR literature and the presence of theories that suggest that the IRS may either increase or decrease its monitoring efforts over PLR-requesting firms, we state our hypothesis in the null form.

H_1: There is no difference in the level of tax authority monitoring between firms requesting a private letter ruling and firms that do not request a private letter ruling.

III. RESEARCH DESIGN

We study the relationship between PLRs and IRS monitoring using a modified version of Finley and Stekelberg (2022)'s model:

$$\begin{aligned} TAX\ MONITOR_{t-3\ to\ t} = {} & \beta_0 + \beta_1 PLR_{t-4} + \beta_2 CASH\ ETR_{t-4} + \beta_3 GAAP\ ETR_{t-4} + \\ & \beta_4 BTD_{t-4} + \beta_5 UTB_{t-4} + \beta_6 DTA_{t-4} + \beta_7 DTL_{t-4} + \beta_8 SIZE_{t-4} + \beta_9 MARKET\ TO\ BOOK_{t-4} \\ & + \beta_{10} MNE_{t-4} + \beta_{11} LEVERAGE_{t-4} + \beta_{12} R\&D\ INTENSITY_{t-4} + \\ & \beta_{13} INVENTORY\ INTENSITY_{t-4} + \beta_{14} CAPITAL\ INTENSITY_{t-4} + \beta_{15} ROA_{t-4} + \\ & \beta_{16} CHANGE\ IN\ NOL_{t-4} + \beta_{17} CASH_{t-4} + \beta_{18} SALES\ GROWTH_{t-4} + \\ & \beta_{19} INTANGIBLE\ INTENSITY_{t-4} + Industry\ FE + Year\ FE + \varepsilon \quad (1) \end{aligned}$$

Identification of Private Letter Rulings and Tax Authority Monitoring

In Model (1), *PLR* (β_1) is our coefficient of interest. We are not able to match PLRs posted on the IRS's website with specific firms since these rulings are anonymized before they are made available to the public. Therefore, we rely on the disclosure of PLR requests in SEC filings as a proxy for the request of a PLR. We use the SEC's EDGAR Full Text Search website to identify the relevant disclosures.[13] To identify PLR requests, we search all 10-Ks, 10-Qs, and 8-Ks that mention "private letter ruling" within ten words of either: "received," "receive," "issued," "issue," "requested," "request," "receipt," "obtained," or "obtain."[14] A firm-year is coded as having a *PLR* (value of 1) if there is a mention in the 10-K for the year, in any of the 10-Qs for the year, or in any 8-K filing released during the firm's fiscal year; otherwise, it is coded as not having a *PLR* (value of 0).[15] Throughout the sample period, the number of total PLRs is decreasing which is

[13] https://www.sec.gov/edgar/search/

[14] In an untabulated analysis, we searched through all SEC filing types (e.g., S-1, S-4, etc.) to create the indicator variable. Our results and conclusions are not sensitive to this design choice.

[15] In another untabulated analysis, we replaced the *PLR* dummy variable with a count variable that represents the number of filings released during the year that reference the PLR request, and the results continued to hold.

attributable to the reduction in the types of transactions eligible for PLR consideration.[16] However, this trend may reverse as the IRS changed its policies in January 2024 and is now open to more types of transactions for which they will issue a PLR.

To measure tax authority monitoring, we employ *TAX MONITOR*, developed by Finley and Stekelberg (2022). In their paper, the authors address the need for a firm-year-specific measure of realized tax authority monitoring using publicly available financial statement data. Traditional proxies for tax authority monitoring, such as broad IRS audit probabilities or confidential data, have limitations that impede their utility in capturing precise firm-level monitoring activities. To overcome these issues, *TAX MONITOR* utilizes firms' UTB disclosures, which are mandated under ASC 740-10.

The UTB reserve reflects tax positions that are uncertain and unlikely to be sustained upon examination by tax authorities. These reserves are adjusted either when uncertainties are resolved through settlements with tax authorities or when the statute of limitations expires. Thus, *TAX MONITOR* is defined as the sum of UTB releases due to settlements, minus the sum of UTB releases due to statute lapses, scaled by the beginning UTB balance over a four-year period. The four-year period is necessary to capture the year of tax return filing plus the following three-year statute of limitations window. This method captures both active tax authority scrutiny (via settlements) and the absence of scrutiny (via statute lapses).

Finley and Stekelberg (2022) validate this measure by demonstrating its significant associations with predicted determinants of tax authority monitoring, such as overall IRS audit probability, R&D intensity, tax haven usage, and the level of UTBs. Additionally, the measure accurately reflects temporal variations in IRS monitoring efforts, corresponding with changes in

[16] Figures OA 1 and OA 2 present the decline in both total issued PLRs and the total number of PLRs issued to publicly-traded companies.

IRS resources and audit practices. This measure provides a robust and accessible tool for researchers exploring the determinants and impacts of tax authority monitoring on corporate behavior.

Control Variables

We control for a series of factors that may influence the relationship between tax monitoring and the presence of a PLR, as indicated by prior research (Bozanic et al., 2017; Kubick et al., 2017). We control for tax aggressiveness by including both *CASH ETR* and *GAAP ETR*. *CASH ETR*, defined as taxes paid scaled by pretax book income net of special items, reflects the actual cash outflow related to taxes for the year. *GAAP ETR*, defined as total tax expense scaled by pretax book income, represents the tax rate reported in a company's financial statements prepared under GAAP.

Next, we control for book-tax differences (*BTD*), which measures the difference between book income and taxable income, as this difference has been shown to be positively associated with tax sheltering (Wilson, 2009). Additionally, we include unrecognized tax benefits (*UTB*), as prior literature links UTBs with tax uncertainty (e.g., Dyreng, Hanlon, & Maydew, 2019; Guenther, Matsunaga, & Williams, 2017; Higgins, Omer, & Phillips, 2015).

We control for Deferred Tax Assets (*DTA*) and Deferred Tax Liabilities (*DTL*), which measure the prepayment or future payment of taxes due to differences between book and tax reporting. Firms with higher levels of book-tax differences are more likely to attract IRS monitoring because of these discrepancies. Next, we include the natural log of total assets (*SIZE*) because audit rates vary depending on the size of the firm, as indicated in IRS Data Books.

A firm's market-to-book ratio (*MARKET TO BOOK*), which controls for tax differences arising from growth opportunities (Chen, 2010), equals the market value of shares outstanding at

the end of the year scaled by the book value of equity. *MNE* is an indicator variable for multinational firms with positive foreign pre-tax income. We control for multinational activity because these firms are subject to increased IRS monitoring due to their ability to easily shift income from high-tax to low-tax jurisdictions through transfer pricing arrangements (Towery, 2017; Dharmapala & Riedel, 2013; Dyreng & Markle, 2016; Dharmapala, 2014). *LEVERAGE*, defined as long-term debt scaled by total assets, allows us to control for variations among firms based on their use of debt (Graham & Tucker, 2006).

Next, we control for firm research and development expenses scaled by sales (*R&D INTENSITY*) because firms with higher levels of research and development are more likely to be monitored by the IRS, as evident by the IRS's decision to identify the research and expenditure tax credit under IRC Section 41 as a Tier 1 audit issue in April of 2007 (Hennig, Schnee, & Sonnier, 2011). Similarly, we control for *INVENTORY INTENSITY* (inventory scaled by total assets), *CAPITAL INTENSITY* (net property, plant, and equipment scaled by total assets), and *INTANGIBLE INTENSITY* (intangible assets scaled by total assets).

Further, we include *ROA* to control for tax-related differences linked with profitability (Gupta & Newberry, 1997). *ROA* equals pretax book income scaled by total assets. Controlling for the change in Net Operating Loss (NOL) balance (*CHANGE IN NOL*) helps us account for the differences in tax situations when a firm incurs a net operating loss. *CHANGE IN NOL* equals the change in tax loss carryforward scaled by total assets. Next, we control for a firm's cash holdings scaled by total assets (*CASH*). Previous research has shown that firms with higher cash holdings tend to engage in more tax avoidance (Dhaliwal, 2011), which may lead to increased IRS monitoring. We also control for firms' sales growth (*SALES GROWTH*), measured by the change in sales scaled by prior year sales. Finally, we include industry (two-digit SIC) and year-fixed

effects to control for industry, macroeconomic, and policy considerations. All variable definitions are provided further in Appendix A.[17] Additionally, Figure 1 outlines our research design and the periods during which *TAX MONITOR*, *PLR*, and all control variables are measured.

IV. SAMPLE SELECTION AND DESCRIPTIVE STATISTICS

Our sample selection process begins with the complete universe of firms with a CRSP and Compustat link. We then remove any firms missing the required UTB data. Since *TAX MONITOR* requires UTB data for years t-3 through t, and UTB data became available on Compustat starting in 2007, our sample includes firm-years between 2010 and 2023. Next, we drop firm-years with two-digit SIC codes for utilities (49) and financial industries (60-69). Finally, we exclude any firm-years for which the primary control variables cannot be computed. This leaves us with a final sample of 16,383 firm-years for our primary analysis. This sample represents 2,242 distinct firms, of which 305 (14%) have a PLR. Table 1 outlines the sample selection process and the number of firm-year observations lost at each step.[18]

For an additional analysis, we investigate an alternative set of firms that request a tax opinion from external tax advisors instead of, or in addition to, requesting a PLR from the IRS. *TO* is an indicator set equal to 1 if the firm-year mentions requesting or receiving a tax opinion from a law firm or accounting firm in their 10-K, 10-Q, or 8-K for the respective year, and 0 otherwise. We include *TO* as an alternative independent variable of interest because tax opinions could serve as either a substitute or a compliment for PLRs. *TAX FREE MSR* is an indicator variable set to 1 if the firm mentions a planned tax-free merger, spin-off, split-off, or reorganization

[17] Unless otherwise specified, all primary control variables are based on their values in period t-4. All continuous variables are winsorized at the 1st and 99th percentiles by year except for *TAX MONITOR* which we bound between -1 and 1, and CASH ETR and GAAP ETR which we bound between 0 and 1.

[18] Our sample covers a more recent time period than Devos et al. (2023), which ended in 2013. However, we observe fewer PLRs on average per year because the variables required to compute *TAX MONITOR* reduce our sample size.

in their 10-K, 10-Q, or 8-K for the respective year, and 0 otherwise. We are interested in this subsample because these transactions are often complex and involve tax uncertainty, making them ideal candidates for firms to request a PLR or tax opinion during the planning phase of the transaction.

Descriptive Statistics

Table 2, Panels A and B provide summary statistics for all the variables used in this paper. Panel A provides the statistics for the entire sample, while Panel B provides the means for the subsamples of firm-years with and without a PLR request. *PLR* is equal to 1 in 617 firm-years in our sample (3.8%).[19] For the full sample, 5.9% of firm-years have a tax opinion requested and 4.8% have a tax-free transaction discussed. We observe that *TAX MONITOR* is statistically higher for the *PLR* firm-years (0.072) than the full sample (-0.053). In Panel B, the differences and p-values are computed based on the difference in the mean for each variable between the treatment (n=617) and control groups (n=15,766).

V. RESULTS

Main Results

Table 3 presents the results of Model (1) testing H_1 and the relationship between tax authority monitoring and a firm's decision to request a private letter ruling. In Columns 1 through 4, we see a positive and significant coefficient on *PLR,* indicating that when a firm requests a PLR, it is subject to increased IRS scrutiny. This result supports the evaluability and similarity hypotheses and suggests that when firms disclose otherwise confidential data to the IRS, it makes it easier and less costly for the IRS to audit them, leading revenue agents to allocate their

[19] In untabulated analysis, we note that the rate of PLR requests is lower for firms that were dropped from the sample due to their beginning UTB balance in year t-3 being $0. PLR requests were disclosed for only 2.3% of such firm-years.

monitoring to PLR-requesting firms over other firms.[20] Column 1 presents the results with no fixed effects, Column 2 presents the results with industry fixed effects, Column 3 presents the results with year fixed effects, and Column 4 presents the results with industry and year fixed effects. Table 3 Column 4 represents our primary research design and is used as a baseline for comparison in later tables. We interpret the coefficient on *PLR* of 0.082 to indicate that, on average, firms that request a PLR report $7 million more of UTB releases due to settlements than UTB releases due to statute of limitations lapses in the 4 years following the PLR request compared to firms that did not request a PLR.[21]

We recognize that many PLRs pertain to events that alter a firm's structure, and such transactions alone (e.g., acquisition or reorganizations) may be significant enough for the IRS to increase monitoring. We address this concern in Table 4 by studying the relationship between IRS monitoring and PLRs, after splitting the *PLR* indicator variable into two components: PLRs with a corresponding tax-free merger, spin-off, split-off, or reorganization (*PLR W TAX FREE MSR*) and those without a corresponding tax-free merger, spin-off, split-off, or reorganization (*PLR WO TAX FREE MSR*). Column 1 repeats the analysis from Table 3 Column 4 to serve as a baseline. In Column 2, we find a positive and significant coefficient on both *PLR W TAX FREE MSR* and *PLR WO TAX FREE MSR*, which indicates that, on average, there is an increase in the monitoring of a firm by the IRS following a PLR request regardless of the transaction underlying the PLR.

In Column 3, we create an indicator variable for firm-years with a tax-free merger, spin-off, split-off, or reorganization mentioned (*TAX FREE MSR*). Surprisingly, we do not find a statistically significant relationship between IRS monitoring and tax-free mergers, spin-offs, split-

[20] The control variables load similarly to Finley and Stekelberg (2022) and Bozanic et al. (2017) serving to the validate the model.
[21] Calculated as 0.082 multiplied by the average beginning balance of UTBs in period t-3 of $84M.

offs, or reorganizations. Finally, in Column 4, we split the *TAX FREE MSR* indicator variable into two components: tax-free mergers, spin-offs, split-offs, or reorganizations with a PLR request (*PLR W TAX FREE MSR*) and those without a corresponding PLR request (*TAX FREE MSR WO PLR*). There is a positive and significant coefficient on *PLR W TAX FREE MSR* and an insignificant coefficient on *TAX FREE MSR WO PLR*. This indicates that it is the act of sharing additional information with the IRS, making the firm more visible, and not the type of transaction that is associated with the increase in IRS monitoring.

Panel B summarizes when each indicator variable in Panel A is activated and how often they overlap within the same firm-year. Of the 617 firm-years with a *PLR*, 248 (40.2%) also have a *TAX FREE MSR* mentioned, while 369 (59.8%) do not. Of the 784 firm-years with a *TAX FREE MSR*, 248 (31.6%) also have a *PLR* mentioned, while 536 (68.4%) do not. This indicates that while it is common to request a PLR when planning a *TAX FREE MSR*, it is not a requirement, and many firms opt to complete the transaction without tax certainty from the IRS.

Impact of Revenue Procedure 2013-32

In Figure 2, we examine the coefficient on *PLR* over time in our primary specification (i.e., Table 3). This figure represents the coefficient on *PLR* after running the analysis in Table 3 Column 2 (industry fixed effects) separately for each year in the sample. We note that the results are driven by years after 2014. This coincides with Rev. Proc. 2013-32, effective August 2013, where the IRS expanded its no-ruling policy to restrict the scope of letter rulings that address issues with respect to transactions under Sections 332, 351, 355, 368, and 1036 of the IRC (e.g., tax-free mergers, tax-free spin-offs, tax-free split-offs, tax-free reorganizations, and other common corporate transactions). We observe the results starting in 2015 because *TAX MONITOR* is a summation of monitoring from period t-3 to t. 2015 was the first year in which at least half of *TAX MONITOR*

was in the period after Rev. Proc. 2013-32 became effective (i.e., *TAX MONITOR* in 2015 includes data from 2012-2015).[22] Figure 2 shows that as PLRs became more restrictive and less common in the post-Rev. Proc. 2013-32 period, they became more strongly related to an increase in IRS monitoring. It remains unclear whether this relationship will reverse now that the IRS has broadened the scope of issues for which they will issue PLRs following Rev. Procs. 2024-1 and 2024-3.

Alternative Measures of Tax Monitoring

In Table 5 Column 1, we first repeat the results from Table 3 Column 4 as a baseline to compare to other measures of tax monitoring from the prior literature. The first alternative measure of IRS monitoring uses the number of times that an IRS employee downloads the 10-K of a given firm. This data, as utilized by Bozanic et al. (2017), provides insights into the IRS's monitoring behavior.[23] Their findings suggest that the IRS focuses on large, profitable corporations that engage in tax-aggressive behaviors, particularly those with significant foreign operations and complex tax positions. In Column 2, we replace *TAX MONITOR* as our dependent variable (which is measured as a sum from t-3 through t) with *IRS 10-K DOWNLOADS* measured as the log of the sum of IRS employees' downloads of a firm's 10-K from period t-3 through t. We find that the coefficient on *PLR* remains positive and significant. We note that this sample is smaller due to the *IRS 10-K DOWNLOADS* data set ending in 2015.

In Column 3, we replace *TAX MONITOR* as our dependent variable with *IRS EXPOSURE*, measured as the percentage of sentences in a firm's 10-K that reference the Internal Revenue

[22] Finley and Stekelberg (2022) note a decrease in their *TAX MONITOR* variable during their 2010-2018 sample period. We find that for the period 2010-2014, the mean *TAX MONITOR* for firm-years with a PLR request is 0.11, and for those without is -0.01. For 2015-2023, the mean *TAX MONITOR* for firm-years with a PLR request is 0.06, and for those without is -0.09. This represents a larger decrease in tax monitoring for firms without a PLR request (0.08) relative to firms with a PLR request (0.05).

[23] We thank the authors for making this data available.

Service, multiplied by 100 and summed from period t-3 through t. This measure comes from Armstrong, Glaeser, and Hoopes (2024), who found it to vary predictably during times of IRS budget cuts.[24] Their similar measure based on SEC exposure was found to be positively related to undisclosed SEC investigations. We find that the coefficient on *PLR* remains positive and significant.[25] Collectively, these results indicate that our findings of an increase in IRS monitoring following a PLR request are not sensitive to the measure used for tax authority monitoring.

Tax Opinions and Tax Authority Monitoring

As obtaining a PLR became more challenging following Rev. Proc. 2013-32, firms may have increasingly turned to tax opinions (TOs) provided by law firms or accounting firms as an alternative. Figure 3 shows that starting in 2014 there is a large increase in the percentage of firms requesting a TO, while the percentage requesting a PLR remains relatively stable.[26]

In Table 6, Panel A, we examine a key difference between TOs and PLRs – the IRS's monitoring response. As with the previous tables, Column 1 repeats the results from Table 3 Column 4 to serve as the baseline for comparison. In Column 2, the coefficient on *TO* is smaller and not significant at conventional levels. This suggests that, on average, the IRS is unlikely to increase its monitoring of firms following a TO request, likely because the IRS does not receive any additional confidential information when a firm requests a TO from their tax advisor.[27] In Column 3, we focus on the types of TOs most likely to attract IRS monitoring by splitting the *TO*

[24] We thank the authors for making this data available.
[25] In untabulated analysis, the coefficient on *PLR* is positive and significant at the 1% level for our main analysis when using the 11,519 firm-year subsample for which *IRS EXPOSURE* is also available.
[26] Most recently, in January 2024, the IRS issued Rev. Procs. 2024-1 and 2024-3, which eliminated their no-rule policies on the device rules (see footnote 10). This change makes the IRS more open to issuing PLRs for tax-free mergers, spins, splits, and reorganizations than at any time since 2003. Whether taxpayers will respond to this policy change by requesting more PLRs remains to be seen. We leave this topic open to future research to explore.
[27] TO is set equal to 1 in 965 firm-years in our sample which indicates that they are more common than PLRs. Of these 965 firm-years, 235 also have a PLR request in the same year. The full breakout of each variables occurrence and their overlap is available in Table 6 Panel B.

indicator variable into two components: those with a corresponding tax-free merger, spin, split, or reorganization (*TO W TAX FREE MSR)* and those without *(TO WO TAX FREE MSR*).[28] However, even for *TO W TAX FREE MSR*, and despite over half of them having a PLR request in the same year, the coefficient remains statistically insignificant and is less than a quarter of the size of *PLR* in Column 1. This indicates that the IRS is less likely to increase its monitoring for firms receiving a TO compared to those receiving a PLR, likely because the firm has not shared confidential information with the IRS and has not voluntarily drawn more monitoring to itself. Panel B provides a summary of when each indicator variable in Panel A is turned on and how often they overlap in the same firm-year, as well as descriptive statistics for the overlap between our *PLR* and *TO* variables.

Robustness Tests

To assess whether the observed relationship between *PLR* and *TAX MONITOR* could be obtained due to chance, we conduct a placebo test in which we randomly assign treatment firm-years across the full sample and re-estimate the regression model from Table 3 Column 4 for 1,000 iterations. Figure 4 presents the distribution of the estimated coefficients from these placebo regressions.

To implement this procedure, we first set the placebo treatment variable to 0 for all firm-years. We then randomly assign 617 firm-years from the full sample as treated and re-estimate the Table 3 Column 4 regression specification, replacing *PLR* with this newly assigned placebo treatment variable. This process is repeated 1,000 times, using a unique seed (1234 + current iteration count) in each iteration to ensure independent randomizations. The estimated coefficient on the placebo treatment variable from each iteration is plotted as a histogram in Figure 4.

[28] Of the 965 TOs in our sample, 303 are related to tax-free mergers, spins, splits, and reorganizations. Of these 303 TOs, 146 also have a PLR request in the same year.

The regression results indicate that most of the estimated coefficients from the placebo regressions are centered around zero, forming an approximately normal distribution. While all coefficients are reported in Figure 4, we note that 872 of the 1,000 placebo coefficients were statistically insignificant at the 10% level, providing evidence that our original findings are unlikely to emerge from random assignment alone. Among the 128 placebo coefficients that were statistically significant, 68 were negative, and 60 were positive, showing no clear directional bias. Importantly, the highest coefficient obtained across all placebo tests was 0.062, which is lower than the true estimated coefficient of 0.082 (marked by the vertical red line). This finding underscores that the observed effect of *PLR* in Table 3 Column 4 is unlikely to be a product of chance.

One potential concern with our research design is that we might be capturing firms already under audit that settled their positions in the same year as the PLR request, aiming for complete tax certainty. We address this concern in untabulated tests by including lagged *TAX MONITOR* as an additional control variable. Our primary result of a positive and statistically significant coefficient on *PLR* continues to hold.

In Table 7, we perform entropy balancing to test the robustness of our main result from Table 3. This procedure reweights our data to achieve a covariate balance between our treatment and control groups (Hainmueller, 2012). Panel A presents the covariates of our control variables before and after the entropy balancing process is applied to the first and second moments of covariates. Panel B, Column 1 repeats the results from Table 3, Column 4 to serve as the baseline. Column 2 presents the primary results after entropy balancing, and our findings remain consistent. Thus, our results are unlikely to be biased by a functional form misspecification. In untabulated

analysis, the results continue to hold when balancing is performed for only the first moment and when balancing is performed for the first, second, and third moments.

In Table 8, we use propensity score matching (PSM) to construct a control sample of firm-years with *PLR* equal to 0. We model treatment propensity as a function of all control variables in our main test and use one-to-one matching with replacement.[29] Once again, we find that the coefficient on *PLR* is reliably positive and significant. In an additional untabulated analysis, we constructed a PSM control sample of firm-years where no PLR was requested within a four-year window centered on the primary firm-year. This larger window was used to mitigate concerns related to *TAX MONITOR* using data from a 4-year span. The results remain robust.

In a final battery of untabulated robustness tests, we confirm the stability of our results. First, excluding the 48 firms that disclosed a PLR request, had a subsequent gap in disclosure, and then disclosed another PLR request did not alter our findings, as the coefficient on *PLR* remained positive and significant at the 1% level. This suggests that firms with multiple PLR requests do not drive our results. Second, redefining *TAX MONITOR* using total assets from year t-4 instead of *TXTUBBEGIN* from year t-3 as the deflator yields consistent results, demonstrating that our findings are not sensitive to the choice of deflator. Third, removing *UTB* as a control variable does not impact the significance of *PLR*, indicating that our results are not driven by the inclusion of UTB-related variables in both the dependent and independent variables. Fourth, restricting *PLR* to equal 1 only for the first identified firm-year for each firm, rather than for all identified firm-years, does not affect the significance of the *PLR* coefficient. This suggests that our results are not driven by firms that disclose their PLR request for several consecutive years. Fifth, splitting the sample based on profitability (PI>0 versus PI<0) confirms that our results hold for both profitable and

[29] Ideally the sample size would be 1,234 (i.e., 617 * 2) but five observation pairs had to be dropped due to a singleton and the use of fixed effects.

loss-making firm-years. Sixth, analyzing the interaction between *PLR* and a firm's proximity to an IRS office (Kubick, Lockhart, Mills, and Robinson 2017) does not yield a statistically significant effect, suggesting that geographic proximity does not influence our main findings. Finally, removing multinational firms from our sample does not change our findings. This helps mitigate concerns that our *TAX MONITOR* measure picks up the statute of limitation lapses and settlements from foreign governments in addition to those from the IRS. For these domestic-only firms, it is also unlikely that the state audit activity will exceed the federal audit activity.

VI. CONCLUSION

PLRs play a crucial role in providing tax certainty to firms engaging in complex transactions. By offering a clear determination of the tax consequences of specific actions, PLRs allow firms to proceed with confidence, knowing that their tax positions will be sustained on examination, aiding management decision-making and strategic planning, particularly in a global marketplace where tax regulations are intricate and constantly evolving. This study investigates whether the benefits of obtaining a PLR come with an unintended consequence: increased tax authority monitoring.

Using a sample of 16,383 firm-years from 2010-2023, we examine the impact of PLRs on tax authority monitoring. In our study, the PLR indicator is measured based on disclosures in firms' SEC filings. Tax authority monitoring is calculated using the measure created by Finley and Stekelberg (2022), which leverages changes in UTB reserves due to settlements or statute of limitations expirations to create a continuous level of monitoring.

First, we find evidence that firms requesting PLRs are, on average, larger, more leveraged, more likely to report foreign activity, and more likely to complete a tax-free transaction compared

to firms that do not request PLRs. This suggests that larger, more complex firms with significant tax planning needs are more inclined to seek tax certainty through PLRs.

Next, using ordinary least squares regression analysis, we find that following a PLR request, firms experience increased tax authority monitoring compared to their peers. This outcome supports the evaluability and similarity hypotheses, which propose that firms disclosing substantial information through PLRs make it easier and less costly for the IRS to audit them.

In further analyses, we confirm that our results are not driven by firms undergoing tax-free mergers, spin-offs, split-offs, and reorganizations. Instead, our results hold for all types of PLR requests. To validate our findings, we also incorporate two other measures of tax authority monitoring from prior literature: *IRS 10-K DOWNLOADS* (Bozanic et al., 2017) and *IRS EXPOSURE* (Armstrong et al. 2024). We replace the Finley and Stekelberg (2022) measure of tax authority monitoring first with *IRS 10-K DOWNLOADS,* and then with *IRS EXPOSURE*, measured over the same period and find that our results continue to hold.

We also examine the relationship between tax authority monitoring and tax opinions from tax advisors. Tax opinions can be used as either a substitute or a compliment to PLRs. They cannot provide the same level of tax certainty as a PLR, but we find that they are not related to an increase in tax authority monitoring. This tradeoff between additional tax certainty and additional tax authority monitoring is one that managers and tax advisors must weigh when planning a transaction. This decision is especially relevant today as the IRS changed its policy in 2024 and is now accepting PLR requests for a broad scope of issues. Finally, we validate the robustness of our findings with a placebo test, which shows that our results were unlikely to be obtained by chance, and by applying both entropy balancing and propensity score matching to our sample and find that our results continue to hold.

Our findings are subject to the important limitation that they are based on publicly available data. Information filed with the IRS is private unless the taxpayer voluntarily provides a public disclosure related to the PLR. However, since the only public disclosure of issued PLRs by the IRS involves anonymizing the information, we are unable to capture the tax monitoring related to firms that request or receive a PLR but do not inform the market. Future researchers with access to proprietary IRS information should examine our results further.

These results have important implications for researchers, policymakers, managers, and tax advisors. We contribute to the PLR and voluntary tax disclosure literature by providing empirical evidence that tax authorities choose to increase the monitoring activity for firms providing voluntary tax disclosure while paying for that right. Additionally, our study provides evidence that the increase persists over time, indicating that revenue agents maintain a higher level of scrutiny for firms voluntarily disclosing tax information over time, even after controlling for avenues of firm tax aggressiveness as well as industry and year-specific factors.

Further, the findings have significant implications for policymakers. While PLRs aim to provide tax certainty and foster compliance, the increased scrutiny following a PLR request may discourage firms from seeking such rulings, potentially undermining efforts to promote a rare opportunity for a cooperative relationship between tax authorities and taxpayers. Policymakers should be cognizant of the potential for revenue agents, empowered with significant leeway in determining which tax returns to examine, to choose those that may require lower levels of effort, especially with the additional information present in a PLR filing. Similarly, for managers and tax advisors, the results highlight that while PLRs offer valuable tax certainty, they could also increase the level of future tax authority scrutiny. These findings also have implications for private companies and individuals, given that an average of over 2,000 PLRs were issued annually during

our sample period, most of which were issued to these taxpayers. Overall, our study provides initial, yet concerning, evidence that firms taking steps to comply with the tax law through the PLR process are rewarded with additional tax authority monitoring when compared to other firms.

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Appendix A. Variable Definitions

Primary Variables

Variable	Definition	Data Source
TAX MONITOR	Sum of TXTUBSETTLE net of TXTUBSOFLIMIT from years t-3 to year t, scaled by TXTUBBEGIN from year t-3. The subcomponent variables are replaced with 0 if missing. We bound TAX MONITOR between -1 and 1.	Compustat
PLR	An indicator variable that takes the value of 1 if there is a mention of a PLR request or receipt in the 10-K for the year, any of the 10-Qs for the year, or any 8-K filing released during the firm's fiscal year. It is otherwise coded as not having a PLR (value of 0). We identify PLR mentions as any mention of "private letter ruling" within 10 words of either: "received," "receive," "issued," "issue," "requested," "request," "receipt," "obtained," or "obtain." This data comes from year t-4.	SEC EDGAR
TAX FREE MSR	An indicator variable set equal to 1 if the firm mentions "tax-free" within 10 words of "merger", "spin-off", "split-off", or "reorganization" in their 10-K, 10-Q, or 8-K for the respective year, and is set equal to 0 otherwise. This data comes from year t-4.	SEC EDGAR
PLR W TAX FREE MSR	An indicator set equal to 1 if PLR = 1 and TAX FREE MSR = 1. Set equal to 0 otherwise.	SEC EDGAR
PLR WO TAX FREE MSR	An indicator set equal to 1 if PLR = 1 and TAX FREE MSR = 0. Set equal to 0 otherwise.	SEC EDGAR
TAX FREE MSR WO PLR	An indicator set equal to 1 if PLR = 0 and TAX FREE MSR = 1. Set equal to 0 otherwise.	SEC EDGAR
IRS 10-K DOWNLOADS	The logged sum of the number of times that an individual with an IRS IP address downloaded a 10-K from SEC EDGAR for the firm from year t-3 through year t.	jeffreyhoopes.com
IRS EXPOSURE	The percentage of sentences in a firm's 10-K that reference the Internal Revenue Service, multiplied by 100 and summed from year t-3 through year t.	daphnemarmstrong.com
TO	An indicator variable that takes the value of 1 if there is a mention of a tax opinion request or receipt in the 10-K for the year, any of the 10-Qs for the year, or any 8-K filing released during the firm's fiscal year. It is otherwise coded as not having a tax opinion (value of 0). We identify tax opinion mentions as any mention of "tax" within 10 words of "opinion" and within 10 words of either: "received," "receive," "issued," "issue," "requested," "request," "receipt," "obtained," or "obtain." This data comes from year t-4.	SEC EDGAR
TO W TAX FREE MSR	An indicator set equal to 1 if TO = 1 and TAX FREE MSR = 1. Set equal to 0 otherwise.	SEC EDGAR
TO WO TAX FREE MSR	An indicator set equal to 1 if TO = 1 and TAX FREE MSR = 0. Set equal to 0 otherwise.	SEC EDGAR

Control Variables

Variable	Definition	Data Source
CASH ETR	Taxes paid (TXPD) divided by pretax book income net of special items (PI-SPI). CASH ETR is bound between 0 and 1. We replace SPI with 0 if missing.	Compustat
GAAP ETR	Total tax expense (TXT) divided by pretax book income (PI). GAAP ETR is bound between 0 and 1.	Compustat
BTD	Pretax income (PI) minus current domestic and foreign tax expense (TXFED + TXFO) grossed up by 35% and adjusted for the change in NOLs (TLCF), scaled by assets (AT). We replace TXFED, TXFO, and TLCF with 0 if missing.	Compustat
UTB	Year-end unrecognized tax benefits (UTBs) (TXTUBEND) divided by total assets (AT).	Compustat
DTA	Net deferred tax assets (TXNDBA) scaled by total assets (AT).	Compustat
DTL	Net deferred tax liabilities (TXNDBL) scaled by total assets (AT).	Compustat
SIZE	The log of total assets (AT).	Compustat
MARKET TO BOOK	Number of shares outstanding at the end of the year multiplied by the price per share at year-end divided by the book value of equity (PRCC_F∗CSHO/CEQ).	Compustat
MNE	An indicator coded to equal one for multinational firms with foreign pre-tax income (PIFO) greater than 0.	Compustat
LEVERAGE	Long-term debt (DLTT) divided by total assets (AT).	Compustat
R&D INTENSITY	R&D expense (XRD) divided by sales (SALE). Set equal to zero if missing.	Compustat
INVENTORY INTENSITY	Inventory (INVT) divided by total assets (AT). Set equal to zero if missing.	Compustat
CAPITAL INTENSITY	Net property, plant, and equipment (PPENT) divided by total assets (AT). Set equal to zero if missing.	Compustat
ROA	Pretax book income (PI) divided by total assets (AT).	Compustat
CHANGE IN NOL	Change in the tax loss carryforward (TLCF) scaled by total assets (AT). Set equal to zero if missing.	Compustat
CASH	Cash holdings (CH) scaled by total assets (AT).	Compustat
SALES GROWTH	The difference between current-year sales (SALE) and prior-year sales, divided by prior-year sales.	Compustat
INTANGIBLE INTENSITY	Intangible assets (INTAN) divided by total assets (AT). Set equal to zero if missing.	Compustat

Appendix B. Results

Figure 1. Timeline of Events and Variables

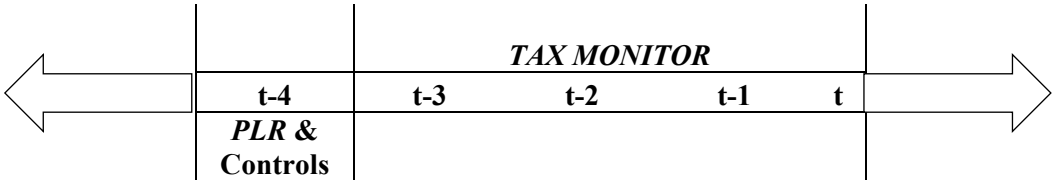


Figure 1 presents the timeline for our research design. *TAX MONITOR* is the sum of TXTUBSETTLE net of TXTUBSOFLIMIT from years t-3 to year t, scaled by TXTUBBEGIN from year t-3. *PLR* is an indicator variable that takes the value of 1 if there is a mention of a PLR request or receipt in the 10-K, 10-Q, or 8-K for the respective firm-year and is set equal to 0 otherwise. All variables are as defined in Appendix A.

Figure 2. The Coefficient on PLR in Table 3 Column 2 by Fiscal Year

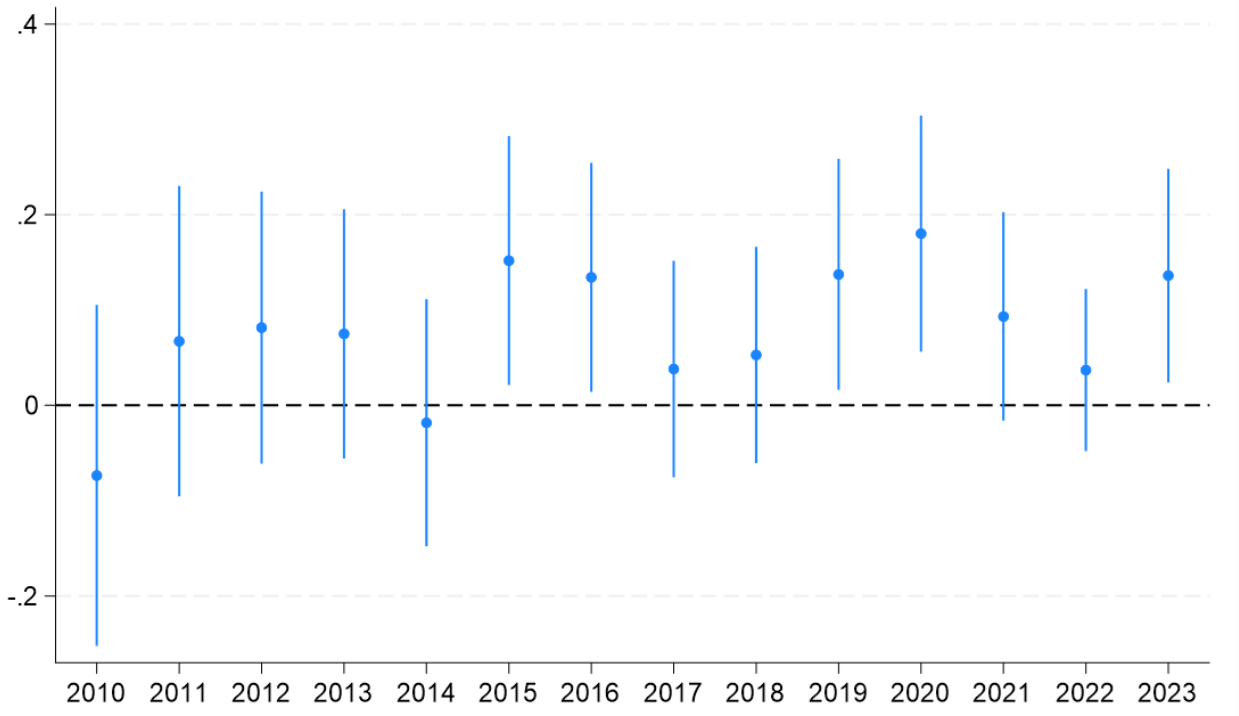


Figure 2 presents confidence intervals at the 90th percentile (two-sided) for the coefficient on *PLR* from the regression in Table 3 Column 2 when run on a year-by-year basis. We find that the positive coefficient is driven by the later years in the sample, following the IRS policy change which limited the scope of PLR requests to significant issues from August 2013 onwards (Rev. Proc. 2013-32).

Figure 3. Tax Opinions as an Alternative to PLRs (% of Firm-Years)

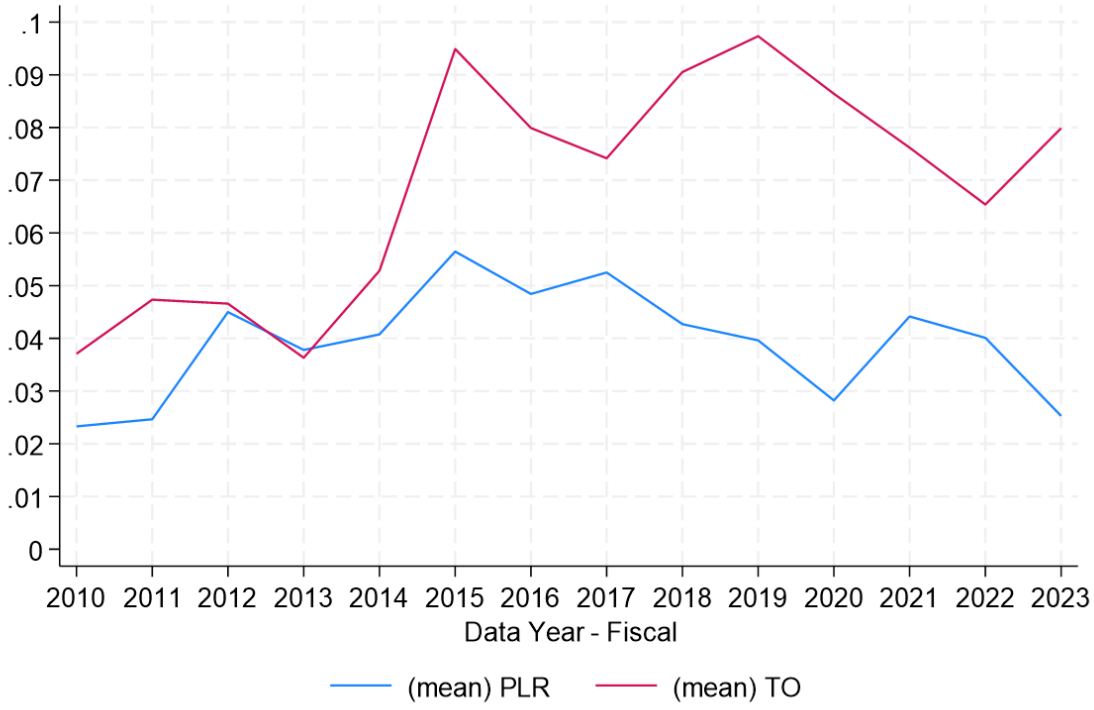


Figure 3 presents the percentage of SEC filings mentioning a PLR or TO request between 2010 and 2023. *PLR* represents the percentage of PLR requests mentioned in 10-Ks, 10-Qs, and 8-Ks in a given year. TO represents the percentage of TO requests mentioned in 10-Ks, 10-Qs, and 8-Ks in a given year. A PLR or TO request match requires the word "obtained", "obtain", "receipt", "issued", "issue", "received", "receive", "requested", or "request" to be within 10 words of "private letter ruling" or "tax opinion" respectively (where "tax" and "opinion" are within 10 words of each other). We note a large increase in the usage of TOs relative to PLRs following Rev. Proc. 2013-32, effective August 2013, through which the IRS expanded its no-ruling policy to restrict the scope of PLR requests. No such restriction was placed in TO requests.

Figure 4. The Coefficient on PLR Following Random Assignment of Treatment

Figure 4 presents the coefficient on *PLR* from Table 3 Column 4 from 1,000 placebo tests where the treatment variable was randomly assigned across the full sample. First, we create a new treatment variable that is equal to 0 for all firm-years. Then, we randomly assign a value of 1 for the new treatment variable to 617 firm-years from the full sample. The regression specification from Table 3 Column 4 is then used with the new treatment variable replacing *PLR*. We repeat this process 1,000 times using a seed of (1234 + current iteration count) and report the coefficient on the variable of interest from each iteration in the histogram above. While all coefficients are included in the figure above, we note that 872 were statistically insignificant at the 10% level. Of the coefficients with statistical significance, 68 had a negative coefficient, and 60 had a positive coefficient. The vertical red line at 0.082 represents the true coefficient on *PLR* from Table 3 Column 4. Of the 1,000 placebo tests, the highest coefficient reported was 0.062.

Table 1. Sample Selection

Firms incorporated in the U.S. between 2010–2023 (CRSP/Compustat)	51,101
Less: firm-years missing variables required to compute *TAX MONITOR*	-29,001
Less: firm-years in utility or financial industries	-2,022
Less: firm-years missing control variables	-3,695
Final Sample	16,383

Table 1 presents the sample selection process. The subcomponents of *TAX MONITOR* are available beginning in 2007, and *TAX MONITOR* uses data from year t-3 to year t, which is why our sample period starts in 2010.

Table 2 Panel A. Summary Statistics (Full Sample)

Variable	N	Mean	SD	P25	P50	P75
TAX MONITOR	16,383	-0.053	0.495	-0.331	0.000	0.152
PLR	16,383	0.038	0.190	0.000	0.000	0.000
TAX FREE MSR	16,383	0.048	0.213	0.000	0.000	0.000
TO	16,383	0.059	0.235	0.000	0.000	0.000
CASH ETR	16,383	0.212	0.202	0.040	0.191	0.308
GAAP ETR	16,383	0.261	0.205	0.100	0.280	0.364
BTD	16,383	0.015	0.169	-0.012	0.019	0.053
UTB	16,383	0.013	0.018	0.003	0.007	0.015
DTA	16,383	0.050	0.042	0.022	0.039	0.066
DTL	16,383	0.051	0.045	0.017	0.040	0.072
SIZE	16,383	7.301	1.818	6.070	7.272	8.505
MARKET TO BOOK	16,383	3.248	5.043	1.353	2.252	3.867
MNE	16,383	0.585	0.493	0.000	1.000	1.000
LEVERAGE	16,383	0.206	0.196	0.018	0.177	0.315
R&D INTENSITY	16,383	0.112	0.826	0.000	0.006	0.065
INVENTORY INTENSITY	16,383	0.115	0.125	0.009	0.084	0.173
CAPITAL INTENSITY	16,383	0.227	0.202	0.076	0.159	0.319
ROA	16,383	0.045	0.157	0.009	0.064	0.117
CHANGE IN NOL	16,383	0.029	0.167	-0.002	0.000	0.009
CASH	16,383	0.180	0.184	0.044	0.116	0.252
SALES GROWTH	16,383	0.086	0.287	-0.022	0.057	0.148
INTANGIBLE INTENSITY	16,383	0.227	0.208	0.041	0.173	0.367

Panel B. Summary Statistics (PLR Firm-Years vs Non-PLR Firm-Years)

	PLR=1	PLR=0		
Variable	**Mean**	**Mean**	**Difference**	**P-Value**
TAX MONITOR	0.072	-0.058	0.130	0.000
PLR	1.000	0.000		
TAX FREE MSR	0.402	0.034	0.368	0.000
TO	0.381	0.046	0.335	0.000
CASH ETR	0.209	0.212	-0.003	0.754
GAAP ETR	0.262	0.261	0.001	0.923
BTD	0.014	0.015	-0.002	0.776
UTB	0.012	0.013	0.000	0.621
DTA	0.055	0.050	0.005	0.009
DTL	0.067	0.050	0.017	0.000
SIZE	8.521	7.253	1.268	0.000
MARKET TO BOOK	2.987	3.258	-0.271	0.190
MNE	0.642	0.583	0.059	0.004
LEVERAGE	0.260	0.204	0.056	0.000
R&D INTENSITY	0.051	0.114	-0.064	0.059
INVENTORY INTENSITY	0.076	0.117	-0.041	0.000
CAPITAL INTENSITY	0.234	0.226	0.008	0.350
ROA	0.051	0.045	0.007	0.289
CHANGE IN NOL	0.012	0.029	-0.017	0.011
CASH	0.142	0.182	-0.040	0.000
SALES GROWTH	0.060	0.087	-0.027	0.020
INTANGIBLE INTENSITY	0.300	0.224	0.076	0.000

Table 2 presents descriptive statistics of the variables used in this paper. All variables are as defined in Appendix A. Panel A presents the descriptive statistics for the full sample, while Panel B presents the means for the subsample of firm-years with a PLR request mentioned (i.e., PLR = 1) and without a PLR request mentioned (i.e., PLR = 0). The differences and p-values are based on the difference in the mean of each variable between the treatment (n=617) and control groups (n=15,766). All continuous variables are winsorized at the 1st and 99th percentiles.

Table 3. Tax Monitoring and PLRs

VARIABLES	(1) *TAX MONITOR$_t$*	(2) *TAX MONITOR$_t$*	(3) *TAX MONITOR$_t$*	(4) *TAX MONITOR$_t$*
PLR$_{t-4}$	0.080***	0.073***	0.087***	0.082***
	(3.973)	(2.685)	(3.071)	(2.976)
CASH ETR$_{t-4}$	-0.015	-0.011	-0.037	-0.035
	(-0.727)	(-0.453)	(-1.463)	(-1.402)
GAAP ETR$_{t-4}$	0.041**	0.046**	0.024	0.030
	(2.027)	(2.116)	(1.070)	(1.343)
BTD$_{t-4}$	-0.047	-0.031	-0.018	0.001
	(-0.986)	(-0.528)	(-0.293)	(0.014)
UTB$_{t-4}$	1.568***	1.469***	1.304***	1.203***
	(6.987)	(4.180)	(3.750)	(3.439)
DTA$_{t-4}$	0.431***	0.309*	0.319*	0.193
	(4.540)	(1.816)	(1.870)	(1.133)
DTL$_{t-4}$	-0.691***	-0.635***	-0.749***	-0.691***
	(-6.398)	(-2.862)	(-3.344)	(-3.063)
SIZE$_{t-4}$	0.059***	0.060***	0.062***	0.063***
	(23.161)	(10.586)	(11.861)	(11.078)
MARKET TO BOOK$_{t-4}$	-0.001	-0.001	0.000	0.000
	(-0.743)	(-0.894)	(0.406)	(0.000)
MNE$_{t-4}$	0.025***	0.017	0.030*	0.020
	(2.947)	(1.045)	(1.822)	(1.223)
LEVERAGE$_{t-4}$	-0.150***	-0.157***	-0.115**	-0.116**
	(-6.644)	(-3.515)	(-2.572)	(-2.527)
R&D INTENSITY$_{t-4}$	0.002	-0.001	0.003	0.000
	(0.371)	(-0.326)	(1.041)	(0.090)
INVENTORY INTENSITY$_{t-4}$	-0.088**	-0.049	-0.086	-0.034
	(-2.122)	(-0.389)	(-0.914)	(-0.269)
CAPITAL INTENSITY$_{t-4}$	0.112***	0.036	0.108	0.039
	(3.290)	(0.427)	(1.446)	(0.462)
ROA$_{t-4}$	-0.115**	-0.127*	-0.143**	-0.157**
	(-2.492)	(-1.950)	(-2.141)	(-2.401)
CHANGE IN NOL$_{t-4}$	0.051	0.037	0.025	0.009
	(0.981)	(0.572)	(0.374)	(0.132)
CASH$_{t-4}$	0.041	-0.023	0.055	-0.002
	(1.140)	(-0.306)	(0.760)	(-0.028)
SALES GROWTH$_{t-4}$	-0.001	-0.003	-0.012	-0.015

	(-0.038)	(-0.194)	(-0.858)	(-1.064)
INTANGIBLE INTENSITY$_{t-4}$	-0.124***	-0.147*	-0.103	-0.118
	(-3.626)	(-1.928)	(-1.391)	(-1.543)
Constant	-0.476***	-0.439***	-0.493***	-0.466***
	(-16.152)	(-6.303)	(-7.702)	(-6.642)
Observations	16,383	16,383	16,383	16,383
Fixed Effects		Industry	Year	Industry, Year
Clustered SEs		Firm	Firm	Firm
R-squared	0.051	0.069	0.062	0.080

Table 3 presents regressions of *TAX MONITOR* on *PLR* where *TAX MONITOR* uses data from period t-3 through t, and *PLR* uses data from period t-4. *TAX MONITOR* is the sum of TXTUBSETTLE net of TXTUBSOFLIMIT from years t-3 to year t, scaled by TXTUBBEGIN from year t-3. *PLR* is an indicator variable that takes the value of 1 if there is a mention of a PLR request or receipt in the 10-K, 10-Q, or 8-K for the respective firm-year and is set equal to 0 otherwise. All columns include the same set of control variables which are measured in period t-4. This analysis is designed to test whether there is a higher level of tax authority monitoring, on average, following the request of a PLR. In Column 1, no fixed effects are included. In Column 2, industry fixed effects are included. In Column 3, year fixed effects are included. Finally, in Column 4, industry and year fixed effects are included. In Columns 2-4, standard errors are clustered at the firm level. All variables are as defined in Appendix A. T-statistics are in parentheses. *,**,*** represent two-tailed significance at 0.1, 0.05, and 0.01, respectively.

Table 4 Panel A. Tax Monitoring, PLRs, and Tax-Free Transactions

VARIABLES	(1) *TAX MONITOR$_t$*	(2) *TAX MONITOR$_t$*	(3) *TAX MONITOR$_t$*	(4) *TAX MONITOR$_t$*
PLR$_{t-4}$	0.082***			
	(2.976)			
TAX FREE MSR$_{t-4}$			0.038	
			(1.348)	
PLR W TAX FREE MSR$_{t-4}$		0.114***		0.112***
		(2.634)		(2.579)
PLR WO TAX FREE MSR$_{t-4}$		0.061*		
		(1.920)		
TAX FREE MSR WO PLR$_{t-4}$				0.004
				(0.130)
Observations	16,383	16,383	16,383	16,383
Controls	Yes	Yes	Yes	Yes
Fixed Effects	Industry, Year	Industry, Year	Industry, Year	Industry, Year
Clustered SEs	Firm	Firm	Firm	Firm
R-squared	0.080	0.080	0.079	0.080

Panel B. Subsample Matrix

		TAX FREE MSR		
		0	1	
PLR	0	15,230	536	15,766
	1	369	248	617
		15,599	784	16,383

Table 4 Panel A presents regressions of *TAX MONITOR* on *PLR* and of *TAX MONITOR* on *TAX FREE MSR* where *TAX MONITOR* uses data from period t-3 through t, and *PLR* and *TAX FREE MSR* use data from period t-4. *TAX MONITOR* is the sum of TXTUBSETTLE net of TXTUBSOFLIMIT from years t-3 to year t, scaled by TXTUBBEGIN from year t-3. *PLR* is an indicator variable that takes the value of 1 if there is a mention of a PLR request or receipt in the 10-K, 10-Q, or 8-K for the respective firm-year and is set equal to 0 otherwise. *TAX FREE MSR* is an indicator variable set equal to 1 if the firm mentions a "tax-free" within 10 words of "merger", "spin-off", "split-off", or "reorganization" in the 10-K, 10-Q, or 8-K for the respective firm-year and is set equal to 0 otherwise. This analysis is designed to test whether the PLR result in Table 3 is driven by the type of transaction for which it is requested. Column 1 is the same as Table 3 Column 4. Column 2 breaks the indicator variable *PLR* into two components, firm-years with a PLR request related to a tax-free event (*PLR W TAX FREE MSR*) and firm-years with a PLR request not related to a tax-free event (*PLR WO TAX FREE MSR*). Column 3 is designed to test whether there is a higher level of tax authority monitoring, on average, following a tax-free event. Column 4 breaks the indicator variable *TAX FREE MSR* into two components, firm-years with a tax-free event for which there is a PLR request (*PLR W TAX FREE MSR*) and firm-years with a tax-free event for which there is not a PLR request (*TAX FREE MSR WO PLR*). All columns include the same set of control variables as Table 3, which are measured in period t-4. All columns include industry and year fixed effects, and standard errors are clustered at the firm level. All variables are as defined in Appendix A. T-statistics are in parentheses. *,**,*** represent two-tailed significance at 0.1, 0.05, and 0.01, respectively. Panel B provides a breakout of the subsamples used in Panel A and shows where they overlap.

Table 5. Alternative Measures of Tax Monitoring

VARIABLES	(1) *TAX MONITOR*$_t$	(2) *IRS 10-K DOWNLOADS*$_t$	(3) *IRS EXPOSURE*$_t$
PLR$_{t-4}$	0.082***	0.125*	0.184***
	(2.976)	(1.727)	(10.647)
Observations	16,383	6,655	11,519
Controls	Yes	Yes	Yes
Fixed Effects	Industry, Year	Industry, Year	Industry, Year
Clustered SEs	Firm	Firm	Firm
R-squared	0.080	0.475	0.090

Table 5 Column 1 presents a regression of *TAX MONITOR* on *PLR* that is the same as Table 3 Column 4 to serve as a baseline. *TAX MONITOR* uses data from period t-3 through t, and *PLR* uses data from period t-4. *TAX MONITOR* is the sum of TXTUBSETTLE net of TXTUBSOFLIMIT from years t-3 to year t, scaled by TXTUBBEGIN from year t-3. *PLR* is an indicator variable that takes the value of 1 if a PLR request or receipt is mentioned in the 10-K, 10-Q, or 8-K for the respective firm-year and is set equal to 0 otherwise. In Column 2, we replace *TAX MONITOR* with *IRS 10-K DOWNLOADS*. In this column, *IRS 10-K DOWNLOADS* is the logged sum of the number of times that the IRS downloaded a firm's 10-K from the SEC's EDGAR website from period t-3 through t. *TAX MONITOR* and *IRS 10-K DOWNLOADS* both represent the IRS's attention to a firm. However, the first is an output of that attention, while the second is a proxy for the input of the attention. In Column 3, we replace *TAX MONITOR* with *IRS EXPOSURE*, the percentage of sentences in a firm's 10-K that reference the Internal Revenue Service, multiplied by 100 and summed from year t-3 through year t. The results continue to hold for these alternative measures of tax authority monitoring. All columns include the same set of control variables as Table 3, which are measured in period t-4. All columns include industry and year fixed effects, and standard errors are clustered at the firm level. All variables are as defined in Appendix A. T-statistics are in parentheses. *,**,*** represent two-tailed significance at 0.1, 0.05, and 0.01, respectively.

Table 6 Panel A. Tax Opinions as an Alternative to PLRs

VARIABLES	(1) *TAX MONITOR$_t$*	(2) *TAX MONITOR$_t$*	(3) *TAX MONITOR$_t$*
PLR$_{t-4}$	0.082***		
	(2.976)		
TO$_{t-4}$		0.004	
		(0.207)	
TO W TAX FREE MSR$_{t-4}$			0.020
			(0.586)
TO WO TAX FREE MSR$_{t-4}$			-0.003
			(-0.117)
Observations	16,383	16,383	16,383
Controls	Yes	Yes	Yes
Fixed Effects	Industry, Year	Industry, Year	Industry, Year
Clustered SEs	Firm	Firm	Firm
R-squared	0.080	0.079	0.079

Panel B. Subsample Matrices

		TAX FREE MSR		
		0	1	
TO	0	14,937	481	15,418
	1	662	303	965
		15,599	784	16,383

		PLR		
		0	1	
TO	0	15,036	382	15,418
	1	730	235	965
		15,766	617	16,383

Table 6 Panel A presents regressions of *TAX MONITOR* on *TO* where *TAX MONITOR* uses data from period t-3 through t, and *TO* uses data from period t-4. *TAX MONITOR* is the sum of TXTUBSETTLE net of TXTUBSOFLIMIT from years t-3 to year t, scaled by TXTUBBEGIN from year t-3. *PLR* is an indicator variable that takes the value of 1 if a PLR request or receipt is mentioned in the 10-K, 10-Q, or 8-K for the respective firm-year and is set equal to 0 otherwise. *TO* is an indicator variable that takes the value of 1 if there is a mention of a Tax Opinion request or receipt in the 10-K, 10-Q, or 8-K for the respective firm-year and is set equal to 0 otherwise. This falsification analysis is designed to test whether the PLR result in Table 3 is driven by the type of transaction for which it is requested or by the act of sharing information with the IRS. Column 1 is the same as Table 3 Column 4. In Column 2, we replace *PLR* with *TO* and find that the results do not hold. Column 3 breaks the indicator variable *TO* into two components, firm-years with a TO request related to a tax-free event (*TO W TAX FREE MSR*) and firm-years with a TO request not related to a tax-free event (*TO WO TAX FREE MSR*). Neither subgrouping is significant. All columns include the same set of control variables as Table 3, which are measured in period t-4. All columns include industry and year fixed effects, and standard errors are clustered at the firm level. All variables are as defined in Appendix A. T-statistics are in parentheses. *,**,*** represent two-tailed significance at 0.1, 0.05, and 0.01, respectively. Panel B provides a breakout of the subsamples used in Panel A and shows where they overlap.

Table 7 Panel A. Entropy Balancing - Covariate Balancing

	Treatment			Control		
Before e(balance)	Mean	Variance	Skewness	Mean	Variance	Skewness
CASH ETR	0.209	0.039	1.742	0.212	0.041	1.601
GAAP ETR	0.262	0.046	1.183	0.261	0.042	1.132
BTD	0.014	0.024	-0.972	0.015	0.029	-0.833
UTB	0.012	0.000	3.591	0.013	0.000	3.085
DTA	0.055	0.002	1.624	0.050	0.002	1.832
DTL	0.067	0.002	0.990	0.050	0.002	1.380
SIZE	8.521	2.719	-0.129	7.253	3.266	0.107
MARKET TO BOOK	2.987	29.220	1.785	3.258	25.290	2.228
MNE	0.642	0.230	-0.592	0.583	0.243	-0.338
LEVERAGE	0.260	0.036	0.894	0.204	0.038	1.064
R&D INTENSITY	0.051	0.039	14.770	0.115	0.707	16.100
INVENTORY INTENSITY	0.076	0.007	1.584	0.117	0.016	1.495
CAPITAL INTENSITY	0.234	0.045	1.398	0.226	0.041	1.319
ROA	0.051	0.014	-4.031	0.045	0.025	-3.105
CHANGE IN NOL	0.012	0.020	6.727	0.029	0.028	5.406
CASH	0.142	0.020	1.706	0.182	0.034	1.550
SALES GROWTH	0.060	0.097	2.494	0.087	0.082	4.290
INTANGIBLE INTENSITY	0.300	0.046	0.351	0.224	0.043	0.813
	Treatment			Control		
After e(balance)	Mean	Variance	Skewness	Mean	Variance	Skewness
CASH ETR	0.209	0.039	1.742	0.209	0.039	1.838
GAAP ETR	0.262	0.046	1.183	0.262	0.046	1.394
BTD	0.014	0.024	-0.972	0.014	0.024	-0.762
UTB	0.012	0.000	3.591	0.012	0.000	3.216
DTA	0.055	0.002	1.624	0.055	0.002	1.776
DTL	0.067	0.002	0.990	0.067	0.002	0.988
SIZE	8.521	2.719	-0.129	8.519	2.719	0.016
MARKET TO BOOK	2.987	29.220	1.785	2.986	29.200	1.621
MNE	0.642	0.230	-0.592	0.640	0.230	-0.585
LEVERAGE	0.260	0.036	0.894	0.260	0.036	0.843
R&D INTENSITY	0.051	0.039	14.770	0.051	0.039	40.280
INVENTORY INTENSITY	0.076	0.007	1.584	0.076	0.007	1.762
CAPITAL INTENSITY	0.234	0.045	1.398	0.234	0.045	1.293
ROA	0.051	0.014	-4.031	0.051	0.014	-3.174
CHANGE IN NOL	0.012	0.020	6.727	0.012	0.020	6.978
CASH	0.142	0.020	1.706	0.142	0.020	1.768
SALES GROWTH	0.060	0.097	2.494	0.060	0.097	5.309
INTANGIBLE INTENSITY	0.300	0.046	0.351	0.300	0.046	0.344

Panel B. Entropy Balancing - Regression Analysis

VARIABLES	(1) *TAX MONITOR*$_t$	(2) *TAX MONITOR*$_t$
PLR$_{t-4}$	0.082***	0.066***
	(2.976)	(2.642)
Observations	16,383	16,383
Controls	Yes	Yes
Entropy Balancing	Off	On
Fixed Effects	Industry, Year	Industry, Year
Clustered SEs	Firm	Firm
R-squared	0.080	0.153

Table 7 presents an alternative version of the primary analysis in Table 3 and Table 4. Here we use entropy balancing to balance our sample for differences between firm-years with a PLR and those without by reweighting the first and second moments of covariates. Panel A presents the covariate balancing before and after weighting. Panel B presents the results from Table 3 Column 4 first without and then with entropy balancing. The results continue to hold when entropy balancing is applied. In untabulated analysis, the results continue to hold when balancing is performed for only the first moment and when balancing is performed for the first, second, and third moments. All control variables listed in Panel A are applied in Panel B. All variables are as defined in Appendix A. T-statistics are in parentheses. *,**,*** represent two-tailed significance at 0.1, 0.05, and 0.01, respectively.

Table 8. Propensity Score Matching

VARIABLES	(1) *TAX MONITOR*$_t$	(2) *TAX MONITOR*$_t$
PLR$_{t-4}$	0.083***	0.067**
	(3.087)	(1.993)
Observations	1,224	1,224
Controls	Yes	Yes
Fixed Effects		Industry, Year
Clustered SEs		Firm
R-squared	0.095	0.180

Table 8 presents an alternative version of the primary analysis in Table 3, Column 4. Here, we use propensity score matching to create a one-for-one control group with replacement. This reduces the sample size to double the number of PLR firm-years (10 firm-years had to be dropped due to singletons and fixed effects). The results continue to hold. All control variables from Table 3 are applied here. All variables are as defined in Appendix A. T-statistics are in parentheses. *,**,*** represent two-tailed significance at 0.1, 0.05, and 0.01, respectively.

Online Appendix

Anonymized Private Letter Ruling Data

To understand the population of PLRs, we start with the full sample of anonymized PLRs on the IRS website.[30] Between the period of January 1999 and March 2024 there were over 73,000 PLRs issued by the IRS to taxpayers. Figure OA 1 provides a graph of the numbers of PLRs made available to the public, for which we were able to extract text, by the year in which they were released. We can see an overall downward trend as fewer PLRs were issued in the later year across all taxpayers. Figure OA 2 looks at a small subset of Figure OA 1, just PLRs that use the phrase "publicly traded."[31] The same overall downward trend is noted in both figures, demonstrating that the IRS issued fewer PLRs in the later part of our sample to both public and private taxpayers. The year-to-year trends between Figure OA 1 and OA 2 do not line up exactly as the timing, tax issues, and ability to request a PLR vary significantly by taxpayer type (e.g., individual vs corporation).

Table OA 1 shows the types of PLR requests that are most common and those that take the longest for the IRS to issue a response. This data was obtained by downloading all of the PLRs from the IRS website and using textual analysis on the PDFs to extract information on the relevant dates. We believe there are future research opportunities using the data in the text of the PLRs.

Example of PLR = 1, MSR = 0, TO = 0

AmerisourceBergen Corporation's 10-K for the year ended 9/30/15

"On November 23, 2015, the Company **received a private letter ruling** from the Internal Revenue Service determining that the Company may recognize the tax consequences of the

[30] https://www.irs.gov/written-determinations

[31] "Public" is too broad of a search term as it includes matches such as "public accountant," "public law," and "general public." "Publicly traded" is too narrow of a search and the actual result for public taxpayers is likely higher.

Warrants when they are exercised. As a result, the Company will be entitled to an income tax deduction when the Warrants are exercised for the Warrant expense equal to the difference between the fair value of the Warrants on the date of exercise and the strike price to be paid to exercise the Warrants. As a result of the receipt of the private letter ruling, in the quarter ending December 31, 2015, the Company will recognize in earnings a tax benefit adjustment of approximately $456 million representing the estimated tax deduction for the increase in the value of the Warrants since the inception of the arrangement through September 30, 2015. Additionally, the Company also expects to recognize the tax impact of the change in fair value of the Warrants, through the date of exercise, within the Company's results of earnings subsequently at the applicable tax rate, currently estimated to be 36.5%."[32]

Example of PLR = 1, MSR = 1, TO = 1

Hilton Worldwide Holdings Inc.'s 10-K for the year ended 12/31/16

"We **received** a **private letter ruling** from the IRS on certain issues relevant to qualification of the **spin-offs** as **tax-free** distributions under Section 355 of the Internal Revenue Code of 1986, as amended (the "Code"). Although the private letter ruling generally is binding on the IRS, the continued validity of the private letter ruling will be based upon and subject to the accuracy of factual statements and representations made to the IRS by us. Further, the private letter ruling is limited to specified aspects of the spin-offs under Section 355 of the Code and does not represent a determination by the IRS that all of the requirements necessary to obtain tax-free treatment to holders of our common stock and to us have been satisfied. Moreover, if any statement or representation upon which the private letter ruling was based was incorrect or untrue in any

[32] https://www.sec.gov/Archives/edgar/data/1140859/000104746915008939/a2226704z10-k.htm

material respect, or if the facts upon which the private letter ruling was based were materially different from the facts that prevailed at the time of the spin-offs, the private letter ruling could be invalidated. The **opinion** of **tax** counsel we **received** in connection with the spin-offs regarding the qualification of the spin-offs as tax-free distributions under Section 355 of the Code similarly relied on, among other things, the continuing validity of the private letter ruling and various assumptions and representations as to factual matters made by each of the spun-off companies and us which, if inaccurate or incomplete in any material respect, would jeopardize the conclusions reached by counsel in its opinion. The opinion is not binding on the IRS or the courts, and there can be no assurance that the IRS or the courts will not challenge the conclusions stated in the opinion or that any such challenge would not prevail. Additionally, recently enacted legislation denies tax-free treatment to a spin-off in which either the distributing corporation or the spun-off corporation is a REIT and prevents a distributing corporation or a spun-off corporation from electing REIT status for a 10-year period following a tax-free spin-off. Under an effective date provision, the legislation does not apply to distributions described in a ruling request initially submitted to the IRS before December 7, 2015. Because our initial request for the private letter ruling was submitted before that date and because we believe the distribution has been described in that initial request, we believe the legislation does not apply to the spin-off of Park. However, no ruling was obtained on that issue and thus no assurance can be given in that regard. In particular, the IRS or a court could disagree with our view regarding the effective date provision based on any differences that exist between the description in the ruling request and the actual facts relating to the spin-offs. If the legislation applied to the spin-off of Park, either the spin-off would not qualify for tax-free treatment or Park would not be eligible to elect REIT status for a 10-year period following the spin-off. If the spin-offs and certain related transactions were determined to be

taxable, the Company would be subject to a substantial tax liability that would have a material adverse effect on our financial condition, results of operations and cash flows. In addition, if the spin-offs were taxable, each holder of our common stock who received shares of Park and HGV would generally be treated as receiving a taxable distribution of property in an amount equal to the fair market value of the shares received."[33]

[33] https://www.sec.gov/Archives/edgar/data/1585689/000158568917000038/a2016hwh10-knospin.htm

Figure OA 1. PLRs Issued by Year

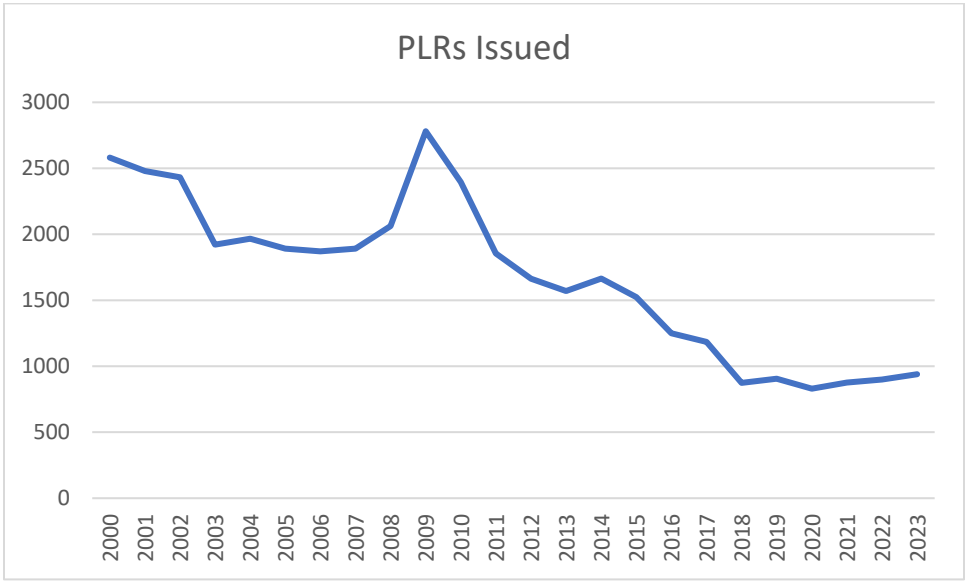
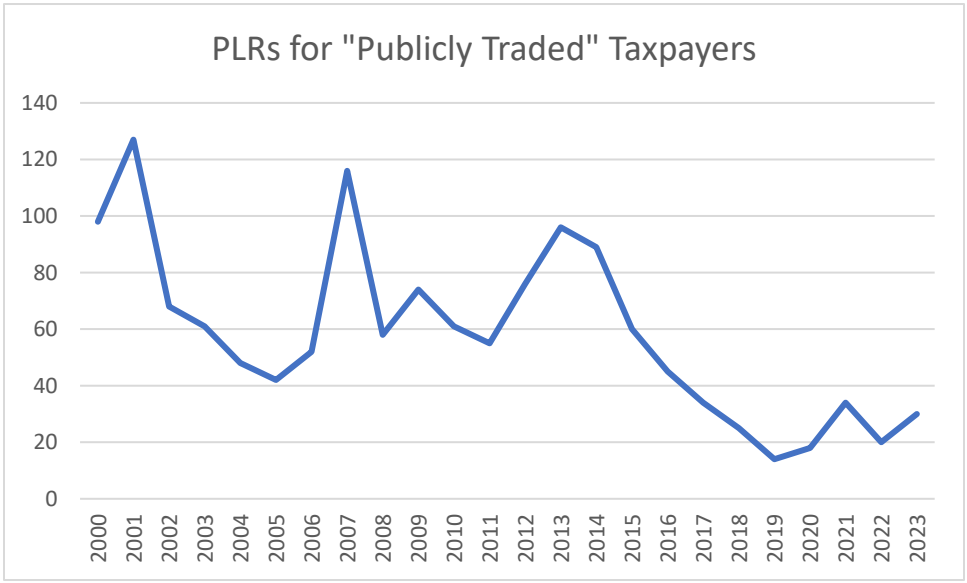


Figure OA 2. PLRs Issued by Year for "Publicly Traded" Taxpayers



Figures OA 1 and OA 2 show the number of PLRs issued by the IRS by year for which were we able to extract text. This data comes from the IRS website, and the year is based on the year the PLR was made publicly available. There is generally a several-month lag between when the taxpayer receives the PLR and when the anonymized version is made available. This is the total number of PLRs, including those issued to public, private, and even individuals.

Table OA 1 – Median Days Between PLR Request and IRS Response by IRC Code Section

IRC Sec.	Days to Issue	PLR Count
61	182	278
338	121	415
351	155	258
355	147	1585
368	134	1367
468A	200	574
501	138	340
754	168	430
856	175	487
877	167	311
1001	182	470
1361	174	1055
1362	149	5288
1502	122	706
1503	240	278
2010	140	456
2041	181	343
2501	182	511
2514	180	253
2601	187	980
2632	176	336
2642	168	381
7701	174	2513
9100	167	8820

Table OA 1 presents the median number of days between a PLR request receipt and a PLR request response by the IRS. This table is sorted by IRC section number for all code sections with at least 250 PLR requests between 2000 and 2023. This sample only includes PLRs for which an initial request date by the taxpayers and the final issuance date by the IRS to the taxpayer (not the date that PLR became available to the public) could be determined through textual analysis of the PLR PDF. These dates were determined by downloading all PLRs and using textual analysis to extract the information. This table includes PLRs for both public and private taxpayers.