Abstract: We find that foreign institutional investors (FIIs) are negatively associated with their investee firms' tax avoidance. We provide evidence that the effect is driven by the costs associated with institutional distance between FIIs' home countries and host countries. Specifically, we find that the negative effect is driven by the influence of FIIs from countries with high-quality formal institutions (i.e., high-shareholder-protection, high-government-effectiveness, and high-regulatory-quality) / high-quality informal institutions (i.e., high-tax-morality, low-corruption, and high-religiosity) on investee firms located in countries with low-quality formal institutions/low-quality informal institutions. Finally, we show that the effect is also concentrated on FIIs with stronger monitoring incentives.

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