

Taxes and Corporate Debt Policy : Evidence for unlisted firms of sixteen European Countries

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ABSTRACT

This paper investigates the capital structure choices for a sample of 19,752 unlisted firms for the period 1994- 2004 using a rich data set of unlisted Western European firms. To the best of my knowledge, this is the first large sample study to examine how firm's characteristics and institutional factors affect corporate debt policy for both SMEs and large unlisted European firms. These firms are rarely studied in capital structure contexts and differ from large listed firms in terms of agency and asymmetric information problems and funding sources. The empirical results support three main findings. First, there is a significant debt tax shield impact on the capital structure choice for non-listed firms and the traditional variables used to model bankruptcy risk (collateral), agency problems and ownership structure were generally significant for unlisted firms. Second, institutional factors such as country legal system have an important impact on the capital structure for both SMEs and large unlisted firms.

Keywords: Capital Structure, Debt, Trade-off Theory, Western Europe

JEL classification codes: G3, G32

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