

## Taxes and Private Firms' Capital Structure Choices

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### Abstract

Using limitations to the deductibility of interest payments triggered by the introduction of interest ceiling rules globally, we show that affected private firms reduce leverage relative to unaffected firms. In support of a causal effect of taxes on capital structure, this effect holds for firms near limitation thresholds, in matched samples, and in countries mandating these rules. Falsification tests show no reduction in leverage for affected firms around pseudo-reform years. More broadly, across 93 countries, we document that private firms tend to decrease leverage in response to tax rate cuts and increase leverage in response to corporate tax rate hikes.

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