

NHH



Norwegian School of Economics

Bergen, Fall 2021

SPACs – Experts on Taxation?

An empirical study of SPACs and the role of taxation in their choice of jurisdiction

Simen Smit Halstenstad

Thomas Solhaug Feen

Supervisor: Maximilian Todtenhaupt

MSc in Economics and Business administration

Major: Financial Economics

NORWEGIAN SCHOOL OF ECONOMICS

This thesis was written as a part of the Master of Science in Economics and Business Administration at NHH. Please note that neither the institution nor the examiners are responsible – through the approval of this thesis – for the theories and methods used, or results and conclusions drawn in this work.

Preface

This master thesis is conducted as a part of the curriculum of our master's degree in Economics and Business Administration at the Norwegian School of Economics.

We would like to thank our supervisor Maximilian Todtenhaupt from the department of Business and Management Science at the Norwegian School of Economics for pointing us in the right direction and showing interest in our work. Furthermore, we are grateful to be selected for the grant for master thesis in tax economics provided by The Norwegian Tax Administration.

Finally, we offer our warmest thanks to friends, families, and fellow students for their support and trust.

Bergen, 20.12.2021

Simen Smit Halstenstad

Thomas Solhaug Feen

Abstract

A Special Purpose Acquisition Company (SPACs) is a listed shell company that raises money from the public markets for the purpose of acquiring a private company (Deloitte, 2020). This thesis investigates the structure of SPACs and how tax implications affect their choice of jurisdiction. We find that there has been a great resurgence in the number of foreign SPAC incorporations over the past year. Although complex tax issues may arise in cross-border business combinations, SPACs have creative approaches and pragmatic solutions to navigate these in a tax-effective manner. We cannot find evidence that jurisdiction or business combination yields subsequently better returns when adjusting for outliers. Nor can we find evidence that specific underwriters affect the choice of jurisdiction or the structure of the business combination. However, we find that SPACs in certain sectors have a higher probability of incorporating in a foreign jurisdiction. Based on our findings, we conclude that tax implications are less crucial for the jurisdiction of a SPAC than the literature percepts. Even though SPACs aims to reduce the tax burden as any other profit-maximizing corporation, they are experts on navigating the different tax regimes and rules that otherwise could have been costly to the shareholders in the de-SPACing.

Table of Contents

1	Introduction	1
2	SPACs and Their Stakeholders	3
2.1	The SPAC Structure.....	3
2.2	Who are the stakeholders?	6
3	Jurisdiction of a SPAC	10
3.1	SPAC Trends	10
3.2	Foreign Domiciled SPACs.....	12
3.3	Delaware as SPAC jurisdiction.....	15
3.4	The Cayman Islands or BVI as SPAC Jurisdiction	16
4	Tax Implications in the SPAC Process	17
4.1	Relevant IRC Sections and Corporate Inversion	17
4.2	Passive Foreign Investment Company (PFIC)	19
4.3	Tax Implications Related to the Merger Process.....	23
5	Practical Example of a SPAC	28
6	Data and Sample Construction	31
7	Findings and Discussion	33
7.1	Returns	33
7.2	Underwriters.....	38
7.3	Foreign SPACs.....	42
7.4	Summary	48
8	Limitations	49
8.1	Limitations of a Small Sample	49
8.2	Gauss Markov Assumptions.....	49
8.3	Autocorrelation.....	51
8.4	Concluding Remarks on Limitations and Validity	51
9	Conclusion	52
	Appendix	54
	Bibliography	58

1 Introduction

“Special Purpose Acquisition Companies, or SPACs, are garnering a lot of attention lately in corporate boardrooms, on Wall Street, and in the media” (Bazerman & Patel, 2021). SPACs offer an alternative to traditional IPOs, providing an opportunity to companies seeking growth. Even though SPACs have been around since the 1990s, there has been a resurgence over the last two years. In 2019, 59 SPACs were created, raising \$13 billion; in 2020, 248 SPACs were created, raising \$75.3 billion (Ritter, 2021). In the first quarter of 2021, there were 297 initial offerings for SPACs, raising a total of \$86 billion (IBID).

A SPAC is a blank-check company with a two-year lifespan, formed for the sole purpose of raising equity capital through an IPO to merge with an operating business (Bodoh, Magill, Nissan, & Pari, 2020). SPACs raise money primarily from public-equity investors and have the potential to derisk and shorten the IPO process for their target companies, offering better terms than a traditional IPO would (Bazerman & Patel, 2021). When successful, SPACs create value for all stakeholders. It creates profits to sponsors, fair returns for investors, and an effective method of going public for targets (IBID). Despite the “A” in their name, SPACs do not acquire companies (Klausner, Ohlrogge, & Ruan, 2021). Instead, SPACs are usually merged with an operating company or companies, leaving the original SPAC shareholders with minority interests in the combined business entity (IBID).

SPACs have complex structures that have met plenty of skepticism among practitioners and academics. Researchers, such as Klausner et al.'s (2021) “A sober look at SPACs” and Naumovska's (2021), “The SPAC Bubble Is About to Burst” both raise concerns regarding the structure of these vehicles, their performance, and how they destroy shareholder value. There are many considerations regarding the tax treatment of SPACs, both related to the initial choice of jurisdiction and the de-SPACing. Furthermore, there are numerous tax implications to cross-border business combinations, but there are still a great number of SPACs that chose this route when merging with a target. The literature on tax implications for SPACs, however, is somewhat limited.

This thesis contributes to the existing literature by creating an understanding of how taxation and other factors affect a SPAC through its lifecycle from the choice of jurisdiction through the completion of a business combination. Further, we investigate how SPACs navigate U.S. tax regimes in cross-border business combinations and why we, despite these regimes, see an increase in foreign domiciled SPACs.

Research question: We investigate the structure of SPACs and analyze the role of taxation in the choice of jurisdiction and de-SPACing.

This thesis is divided into **nine** chapters. In chapter 1, we briefly introduce the concept of SPACs and the motivation for the chosen topic. In chapter 2 we will present in-depth theory covering the common SPAC structures and their stakeholders. In chapter 3, we present the role of a jurisdiction in addition to the implications of foreign domiciled SPACs and how an F reorganization can help navigate issues of domestication. Chapter 4 describes the tax implications the SPAC may face. This includes the consequences of being subject to the PFIC rules and how corporate inversion may affect jurisdiction choices. Chapter 5 presents a practical example of a typical SPAC life cycle and the obstacles it must navigate to succeed. In chapter 6, we present the data and how the sample is constructed. In chapter 7, we use both linear and logistic regression models to estimate the influence of observable factors on the choice of jurisdiction. These regressions reveal that the initial choice of jurisdiction is not necessarily mainly driven by the tax implications. In chapter 8, we discuss our limitations, while we in chapter 9 answer the research question and share some concluding remarks.

2 SPACs and Their Stakeholders

2.1 The SPAC Structure

“A SPAC, a blank check company created by a sponsor, goes public to raise capital and then find a non-listed operating company to merge with, in the process taking the company public” (Gahng, Ritter, & Zhang, 2021). As mentioned, merging with a SPAC is described as substantially shorter and less risky than a traditional IPO, making it an efficient option for operating companies to go public and raise liquidity (Bazerman & Patel, 2021).

To raise capital, the majority of SPACs issue units priced at \$10 each in the IPO (Gahng, Ritter, & Zhang, 2021). The unit typically consists of a share and a fraction of a warrant, which can be exercised at a prespecified price of \$11.50 (IBID). However, the public warrants can typically not be exercised until a business combination event or at least 12 months after the SPAC IPO. Generally, within 52 days after the IPO, the units of the SPAC become unbundled, allowing the shares and warrants to trade separately (Bazerman & Patel, 2021).

Usually, an individual or a group of individuals called the sponsor creates the SPAC. These sponsors are often highly qualified individuals with expertise and experience in a specific sector (Haredia, Fernandez-Galiano, & Garcia, 2021). Especially more recently, a sponsor may be affiliated with an enterprise devoted solely to forming and managing the SPAC (Klausner, Ohlrogge, & Ruan, 2021). For most SPACs, the sponsor is compensated with 20% of the shares known as the “promote”. Additionally, the sponsor may also invest in warrants in the IPO for \$1.50 each to increase their monetary commitment, or as Rodrigues and Stegemoller (2012) state, put more “skin in the game”. These proceeds will be used to pay up-front fees to underwriters and advisors. Typically, the sponsor contracts an underwriter which charges an accumulated fee of 5,5% of the proceeds, 2% as commissions at the IPO, and 3,5% upon the merger of the SPAC and the target (Gahng, Ritter, & Zhang, 2021).

After going public, the SPAC IPO proceeds are placed in an escrow and invested in Treasury notes until the business combination is completed (Haredia, Fernandez-Galiano, & Garcia, 2021). Proceeds placed in the escrow may only be used (I) to acquire a target, (II) to contribute to the capital in the merger, (III) to distribute to shareholders if the SPAC is liquidated, or (IV) to redeem shares (Klausner, Ohlrogge, & Ruan, 2021).

At this point, the SPAC structure will be similar to the illustration below, where sponsors hold Class A shares and public investors hold Class B shares.

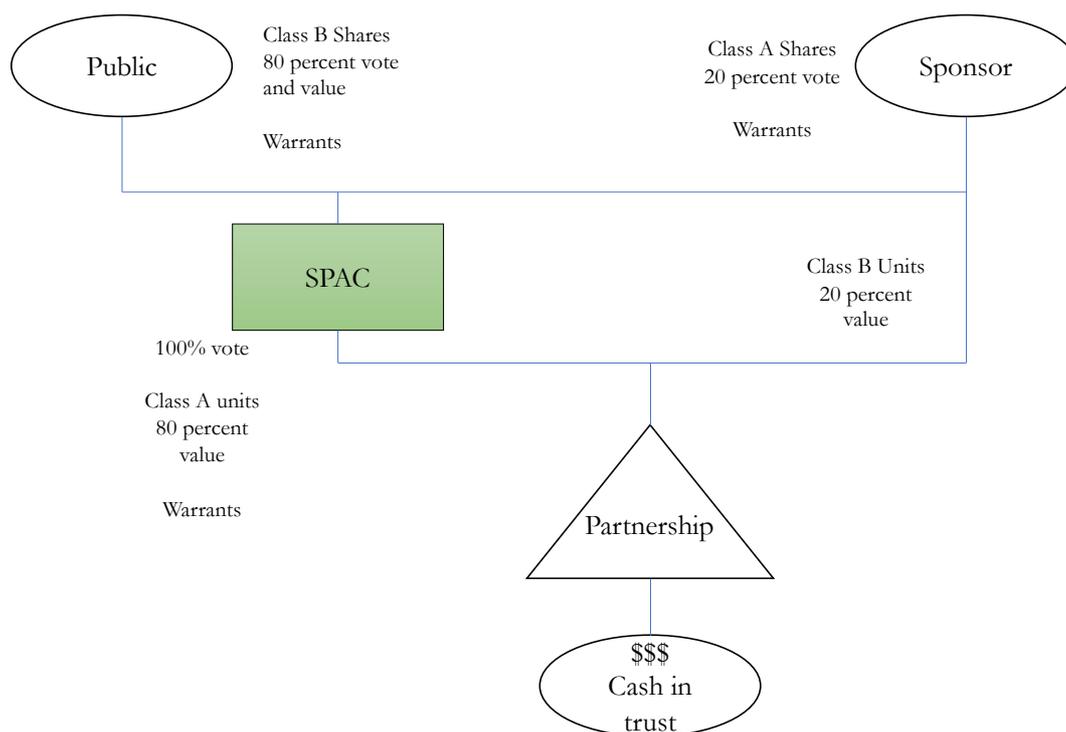


Figure 1: Up-SPAC Structure Post-IPO. Source: (Bodoh, Magill, Nissan, & Pari, 2020)

SPACs do not pre-identify targets and usually set 18 to 24 months as a deadline to complete a merger. If the SPAC happens to identify a target company and reaches an agreement for a merger, the public shareholders of the SPAC may vote whether to approve the proposed business combination or not. Separately, at this time, each public shareholder decides whether to redeem their shares or not. The redemption price is the IPO price of the SPAC share plus accumulated interest from the escrow (Gahng, Ritter, & Zhang, 2021). Shareholders' right to redeem their shares when an agreement is reached is one of the key features of a SPAC, serving as a money-back guarantee for SPAC investors (Bazerman & Patel, 2021).

As SPAC shareholders have the option to redeem their shares, the cash available in a merger is uncertain (Gahng, Ritter, & Zhang, 2021). As this uncertainty might impact the target company, a minimum cash amount is negotiated in the merger agreement. For that reason, the SPAC often invites PIPE investors upon a business combination. Moreover, sponsor occasionally participates as such investors. Securing prominent PIPE investments has a certification effect, encouraging SPAC investors not to redeem. Eventually, after the contribution from PIPEs, target shareholders will receive cash and/or SPAC equity in return for target shares. This is illustrated in Figure 2 below.

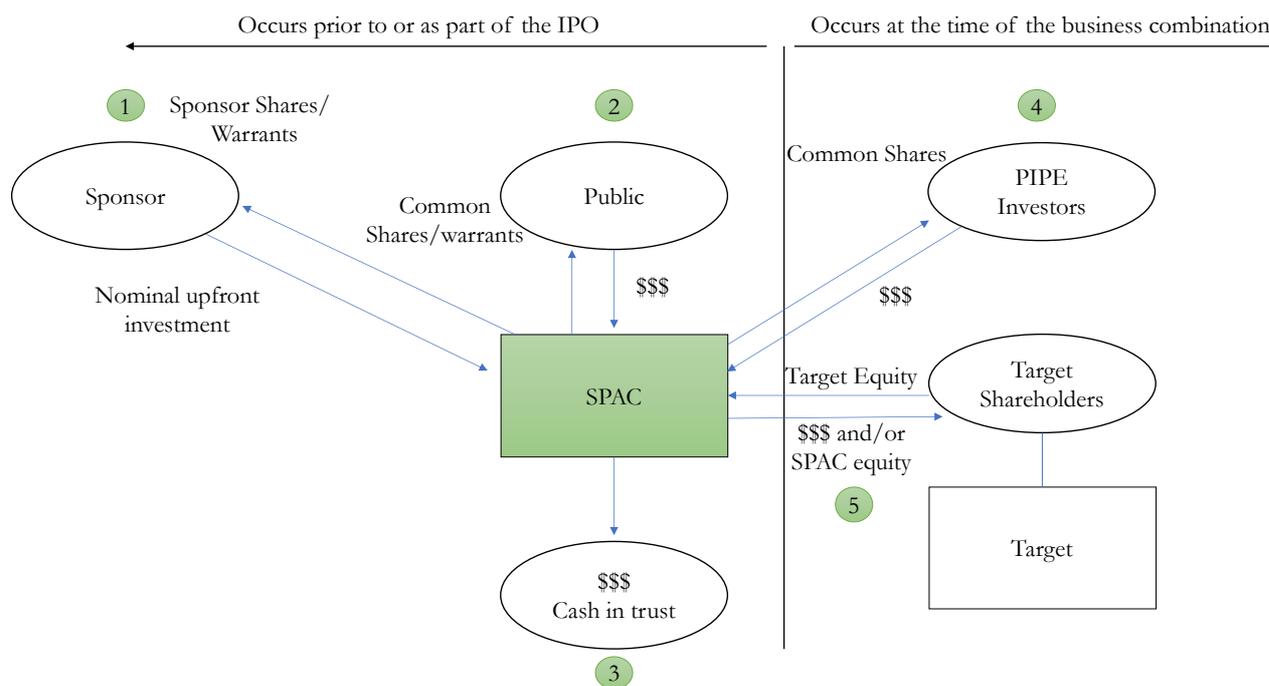


Figure 2: Typical SPAC acquisition structure. Source: (Bodoh, Magill, Nissan, & Pari, 2020)

SPACs may utilize four different measures to meet a target's cash requirement when they expect redemption rates to be high (Santos & Clower, 2020). First, the sponsor can make additional investments in the de-SPACing.¹ Second, the SPAC may raise capital from third-party investors through PIPE investments. Third, the sponsor can make side payments to large investors who will buy a large block of shares on the public market in exchange for not redeeming their shares. Finally, in some transactions, a significant shareholder of the target firm makes an investment in the SPAC.

Figure 3 summarizes the steps of a SPAC's lifecycle beginning with the IPO:

1. Public investors buy units consisting of shares and warrants in the SPAC's IPO.
2. Within 18-24 months, the SPAC proposes a merger by which a private company would go public; over two-thirds of the SPAC's shares are tendered for redemption.
3. Contemporaneously with the merger, the sponsor and/or third parties purchase shares in private placements (PIPEs) to replenish some of the cash paid out to redeeming shareholders.
4. The merger proceeds, leaving the sponsor and remaining shareholders with minority interests in the combined entity.

¹ Sponsors might also commit at the time of the IPO to purchase shares at \$10 each when the merger happens in what is known as a Forward Purchase Agreement (FPA).

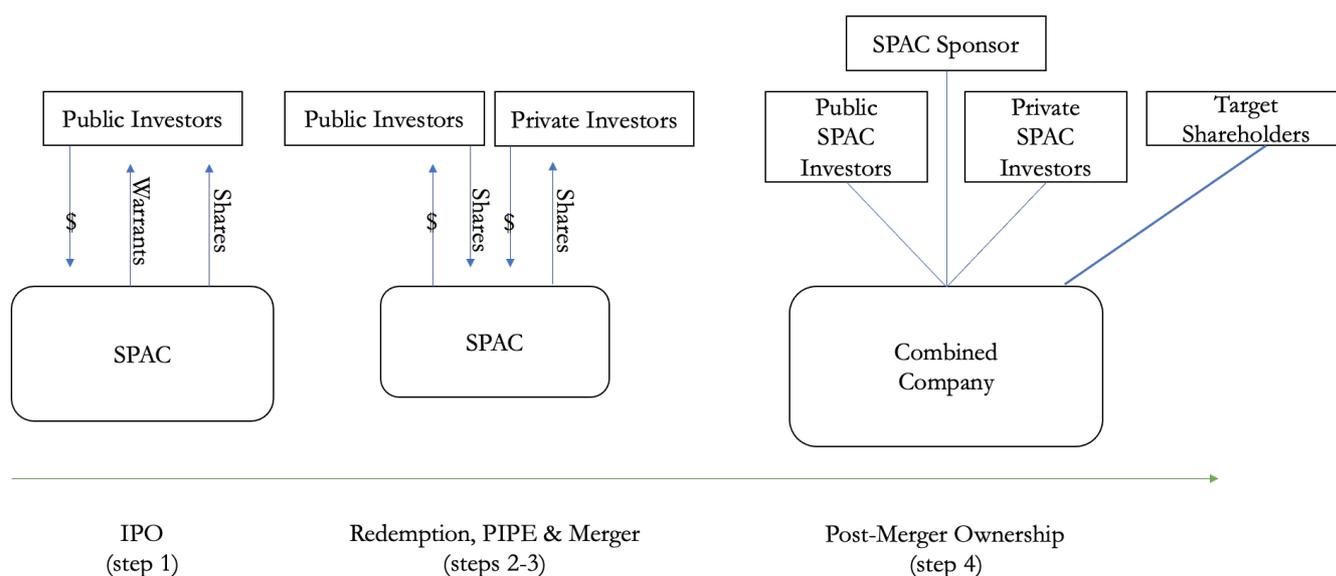


Figure 3: The process of merging a target. The illustration is inspired by the work of Klausner, Ohlrogge, & Ruan, 2021

In sum, SPACs provide a circuitous path to public markets. The SPAC IPO simply prepares for a situation where it can bring a target public. “From a functional perspective, the merger is the actual IPO (Klausner, Ohlrogge, & Ruan, 2021).

2.2 Who are the stakeholders?

SPACs have three primary stakeholder groups: sponsors, investors and underwriters (Shachmurove & Vulanovic, 2017). In the following, we will present each stakeholder and their role in the SPAC. In addition, we will also give a brief presentation of targets.

2.2.1 Sponsors

The sponsor forms the SPAC before entering a managing position in the entity. As the sponsor mainly contributes with expertise and experience within an operating sector, the sponsor usually contracts an underwriter to handle the SPAC IPO in the process of going public (Klausner, Ohlrogge, & Ruan, 2021). Sponsors vary from private equity funds to former S&P 500 CEOs to individuals without relevant background or expertise (IBID). If a sponsor fails to merge with a target within two years, the SPAC is dissolved, and the original investors get their investments returned. Furthermore, “the sponsors lose not only their risk capital but also the not-insignificant investment of their time” (Bazerman & Patel, 2021).

Some critics consider the 20% promote too generous. However, one must remember that this promote is only available if the sponsor develops a strong concept and successfully attract

investors in the IPO. Moreover, the sponsor must identify an appropriate target and negotiate a satisfactory deal with the target shareholders.

In effect, the promote is a tax on the SPAC shareholder's investments and creates a source of dilution as the sponsor only pays a nominal amount for its shares. (Klausner, Ohlrogge, & Ruan, 2021). The promote also creates a divergence between the sponsor and the SPAC shareholders (IBID). The sponsors' upside mirrors the upside of the shareholder, but that is not the case with the downside. If the SPAC gives up more than it receives in a merger, and the post-merger shares decline in value, the SPAC shareholder will lose while the sponsor still gains. On this matter, Lakicevic and Vulcanovic (2013) provides evidence that any post acquisition price higher than \$1 would mean a positive return for the sponsor

As a result, especially as the two-year life span comes close to its end and the options for consummating a merger narrow, the sponsor has an incentive to enter into a value-destroying acquisition if the alternative is to liquidate. As Warren Buffet stated in Berkshire Hathaway's Annual Meeting, "If you put a gun to my head and say I have two years to buy a business, I would buy one, but it would not be much of one" (Buffet, 2021). For that reason, among others, liquidation rates have been too low in critics' eyes. For example, from January 2019 through June 2020, 6 SPACs liquidated compared to 47 that successfully merged – a failure rate of 11% (Klausner, Ohlrogge, & Ruan, 2021).² Even among the 47 SPACs that merged, eight merged with \$10 million or less in cash. In comparison, the liquidation rate was 30% from 2010 to 2014.

In addition to taking a promote, a sponsor typically invests several million dollars in the SPAC at the time of its IPO (Bazerman & Patel, 2021). As sponsors often have superior expertise, this may serve as a certification effect to attract PIPE investors and even induce SPAC investors not to redeem (Batsev & Katz, 2021). However, the investment by the sponsor may worsen the misalignment between the sponsor and the investors. Because the investment will be lost in the scenario of liquidation, the sponsor would want to merge on terms that are unattractive to SPAC shareholders.

2.2.2 Investors

The majority of investments in SPACs to date have come from institutional investors, often highly specialized hedge funds (Bazerman & Patel, 2021). Investors in a SPAC purchase shares prior to identifying the target. As sponsors are not obligated to limit their target to the size, valuation,

² This largely follows recent historical failure rates for SPACs. For instance, among the SPACs that had IPOs between 2015 and 2017, the liquidation rate was roughly 10,5%.

industry, or geographic criteria outlined in their IPO materials, these investments are solely based on trust in the sponsors' expertise. As mentioned, the investor receives two classes of securities: common stock and warrants, where the warrants give the right but not the obligation to buy a share in the future at a prespecified price (IBID). These serve as critical in the risk alignment between sponsors and investors and incentivize them to subscribe in the IPO. However, the greater the number of warrants issued, the higher the perceived risk of the SPAC.

According to interviews with sector insiders conducted by researchers at Stanford and NYU law school, people involved in the market report that investments in SPAC IPOs are dominated by a group of investors colloquially known as the “SPAC Mafia,” who invest in the IPOs and trade shares between the IPO and the business combination (Klausner, Ohlrogge, & Ruan, 2021). Mitchel and Pulvino (Pulvino & Mitchell, 2012) also provide evidence on this matter, showing that investing in SPACs was a dominant strategy for hedge funds in the years preceding 2009.

Figure 4 shows the percentage of publicly traded shares held by 13F-filers.³ Share ownership by these filers is essentially constant from the SPAC IPO until the merger, with mean ownership of 82% and a median of 79.

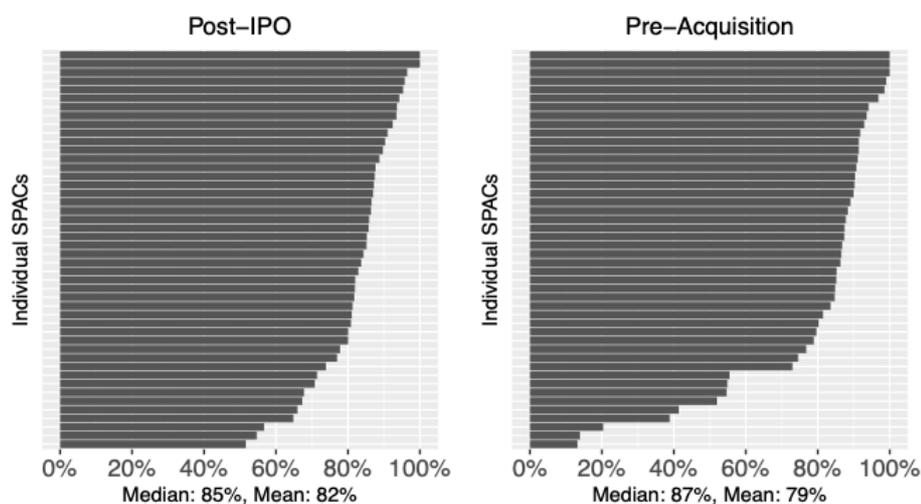


Figure 4: Percent of SPAC shares owned by 13F filers. Source: (Klausner, Ohlrogge, & Ruan, 2021)

Usually, these investors treat SPACs as bond proxies (Batsev & Katz, 2021). This involves detaching the warrants and selling them to generate coupon-like income while retaining the associated SPAC shares. The shares can later be redeemed at par in case they disapprove the

³ «13F filing requirements are established under §13(f) of the Securities Exchange Act, codified as 15 U.S.C.A. §78m. Roughly speaking, disclosure is required from “institutional investment managers,” which covers institutions with at least \$100 million in securities holding investing on their own account and natural persons with at least \$100 million in securities investing on behalf of another. » (Klausner, Ohlrogge, & Ruan, 2021)

merger proposal. However, while some SPAC investors seek high-flying returns, others use the structure on a levered basis to obtain a guaranteed return (Bazerman & Patel, 2021).

2.2.3 Underwriters

Underwriters play an essential role in the emergence of SPACs (Shachmurove & Vulcanovic, 2017). Heyman (2007) argues that the interest from underwriters is primarily due to their perception that SPACs are interesting products when markets are unstable. Underwriters are also actively supporting SPACs as advisers, and it is not uncommon that a sponsor contracts multiple underwriters for both the IPO and advisory. In a study conducted by Lora Dimitrova (2017) on SPAC structures and their performance, she finds that underwriters also serve as advisers in 47 percent of the SPAC deals. Furthermore, underwriters sometimes purchase shares in the SPAC for their own account. As their compensation is divided into two parts where the latter is received upon the merger, there is an alignment of incentives between the sponsor and the underwriter since both parties benefit from the merger being completed.

As the underwriter often serves as adviser, one may argue that they may affect the choice of jurisdiction and the type of business combination. This could be because the underwriter has superior expertise on the rules and regimes related to incorporation and business combinations or that the underwriter has a financially strong group of investors ready to invest in new SPAC IPOs. For that reason, we test whether the underwriter affects the choice of jurisdiction in chapter 7.

2.2.4 Targets

To date, most SPAC targets are start-up companies that have completed the venture capital process (Bazerman & Patel, 2021). Firms commonly consider several liquidity options at this stage, varying from traditional IPOs to selling the business to another company. (IBID). For targets, SPACs can be an attractive alternative to these liquidity options as they are highly customizable and can address a variety of business combination types. Furthermore, SPACs can also take companies public in the U.S. even though they are already publicly listed in another jurisdiction or even combine with multiple SPACs to bring a company public.

3 Jurisdiction of a SPAC

Before 2020 most SPACs were formed in the U.S., but over the last two years, the number of foreign SPACs has increased. Of the SPACs that filed with the SEC in 2020 and 2021, approximately 40% were incorporated in a foreign jurisdiction, typically in the Cayman Islands (Deal Point Data, 2021). As a general matter, the most critical tax factor in selecting the jurisdiction of the SPAC is whether it expects to acquire a U.S. or a foreign target (Hochberg, 2021). For example, if the target is a U.S. corporation, a foreign SPAC will create complexities and potential tax leakage concerning certain types of payment from the U.S. target to the SPAC (BDO, 2021). On the other hand, for a domestic SPAC, it would be inefficient to hold a foreign target (BDO, 2021). This is because a foreign corporation's earnings generally would be subject to U.S. tax regimes.

Each jurisdiction has its own set of tax regimes that applies to SPACs, making some preferable relative to others. In the following, we will present some of the implications related to foreign domiciled SPACs before comparing the most common SPAC jurisdictions and present why these might be preferable.

3.1 SPAC Trends

SPACs have been around since the 1980s, better known as “blind pools” (Gara & Haverstock, 2020). In 2019, David Nussbaum introduced a new form of blank-check companies with similarities to the typical structure of today. SPAC's interest was moderate in the 1990s and suffered during the dot-com bubble when the market for traditional IPOs was booming (IBID). In the subsequent years, the bull market for SPACs returned, and in 2010, SPACs started introducing money-back guarantees. The guarantees included lucrative redemption rights, thereby making SPACs a solid investment for hedge funds and institutional investors (13-F filers), as they were downside protected. Despite the favorable conditions, there were no significant changes in SPAC IPOs in the following years. The trend continued quite stable over the decade until the boom in 2020. To get an overview, we have plotted the number of monthly SPAC IPOs over the last five years below.

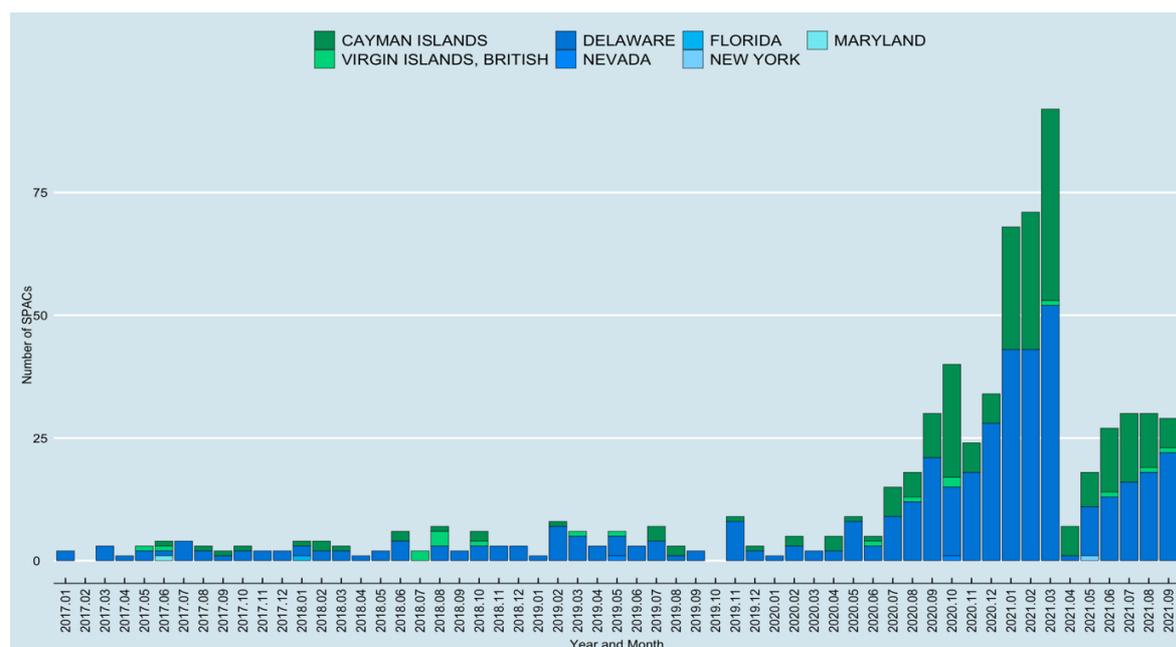


Figure 5: SPAC IPOs in our 2017-21 cohort

As one may extract from the plotted SPAC IPOs in our 2017-21 cohort, there is a marked incline in the IPO volume from June 2020. On this matter, sector experts in Deloitte suggest that the abundance of capital in a low-interest-rate environment, together with high stock market prices are the key drivers (de Heredia, Fernandez-Galiano, & Garcia, 2021).

As for our thesis, we want to examine factors that influence the initial choice of jurisdiction and country of incorporation for the combined entity from a U.S. perspective. The plotted trend shows a notable increase for the total number of SPACs and foreign SPACs, especially in the Cayman Islands, starting from July 2020. As shown, the boom continued throughout 2020 and well into 2021, but in April 2021, there was a significant drop in the number of SPAC IPOs. This slowdown was mainly caused by a new accounting guidance posted by the SEC in the beginning of April.⁴ The announcement stated that warrants, depending on their terms, should be treated as liabilities rather than as equity investments (Freedman, 2021). In practical terms, this means that the SPAC is obligated to report the value of its warrants each quarter and not solely in the IPO (Freedman, 2021). Hence, the renewed accounting guidance introduces additional complexities, making it more costly to run the SPAC. (Li, 2021). Nevertheless, the number of SPAC IPOs is still significantly higher than before the boom, implying that many investors still favor SPACs over traditional IPOs.

⁴ See: <https://www.sec.gov/news/public-statement/accounting-reporting-warrants-issued-spacs>

In addition to SEC's accounting guidance, Joe Biden proposed towards the ending of April 2021 the "Made in America" tax plan, which we discuss in chapter 4. The objective is to make it less favorable to offset proceeds in foreign jurisdictions, thereby making it more lucrative for SPACs and other multinationals to domesticate to the U.S. Some tax experts point out that this proposed change may cause the investment to become less profitable for SPAC sponsors or those who manage these SPACs (Picker, 2021). Hence, the SPAC becomes less attractive for sponsors and managers, leading to a decrease in SPAC IPO activity.

3.2 Foreign Domiciled SPACs

In this thesis, we refer to foreign domiciled SPACs when the SPAC is incorporated outside the U.S. SPACs that domicile in "tax haven" jurisdictions, such as the Cayman Islands or the British Virgin Islands, face their own set of unique U.S. tax considerations and reporting obligations (Oates, Helderman, & Gelernter, 2021). Furthermore, if a foreign SPAC identifies a domestic target to merge with, the SPAC will often perform an F Reorganization. This common domestication strategy may also apply to domestic-foreign business combinations. Note that even though the SPAC is a foreign entity, a U.S. shareholder may be subject to certain US filing obligations (IBID).

3.2.1 F Reorganization

If the SPAC expects to acquire a target in another jurisdiction, it usually performs an F reorganization. F reorganizations are typically used to effectuate a tax-free shift of a single operating company and are defined as a "mere change in identity form, or place of organization of one corporation, however effected" (Bloomberg Tax, 2021)

An F reorganization can have various structures in which a majority involve mergers among related entities and/or reincorporation of a business in a new jurisdiction. In practice, F reorganization typically involves S corporations, either as a target or the acquiring entity (Frost Brown Todd LLC, 2021).⁵ The main reason for organizing as an S-corporation is the attractive pass-through tax treatment of such entities (IBID). However, an S-corporation restricts some type of shareholders, and furthermore, the pass-through tax treatment for business operations may be difficult to obtain due to the limitations of just having a single class of stock (IBID)

⁵ S corporations are corporations that elect to pass corporate income, losses, deductions, and credits through to their shareholders for federal tax purposes.

Foreign SPACs typically migrate via an F reorganization to the appropriate jurisdiction before a cross-border business combination. A common way of completing an F reorganization is through the creation of a new corporation, typically in the target's jurisdiction. Eventually, the newly formed corporation will become the parent of an entity that will operate the existing business (IBID).

In the following, we present a simplified version of how an F reorganization is structured:

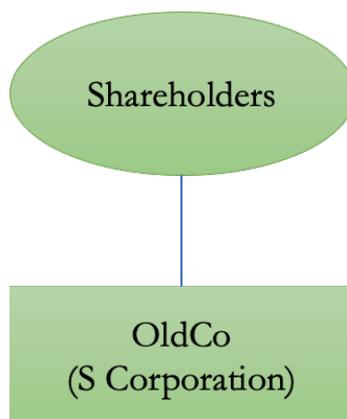


Figure 6: Pre-transaction structure. Source: (Frost Brown Todd LLC, 2021)

The starting point is the pre-transaction structure as shown in chapter 2. The first step is to form a new corporation called the “NewCo.” At this point, individual shareholders own all the issued and outstanding equity of the existing corporation (“OldCo”). When the NEWCO is created, all OldCo shares are transferred to the NEWCO in exchange for all the NEWCO shares issued. Furthermore, the NEWCO would typically treat the OldCo as a qualified subchapter S subsidiary (QSub), a subsidiary corporation 100% owned by an S-corporation. Because a QSub’s separate existence is ignored, items of the subsidiary, such as passive income are considered items of the parent company (Ellentuck, 2012). In this scenario, the OldCo represents the SPAC, which may benefit from the structure as it will be treated as a disregarded entity for tax purposes.

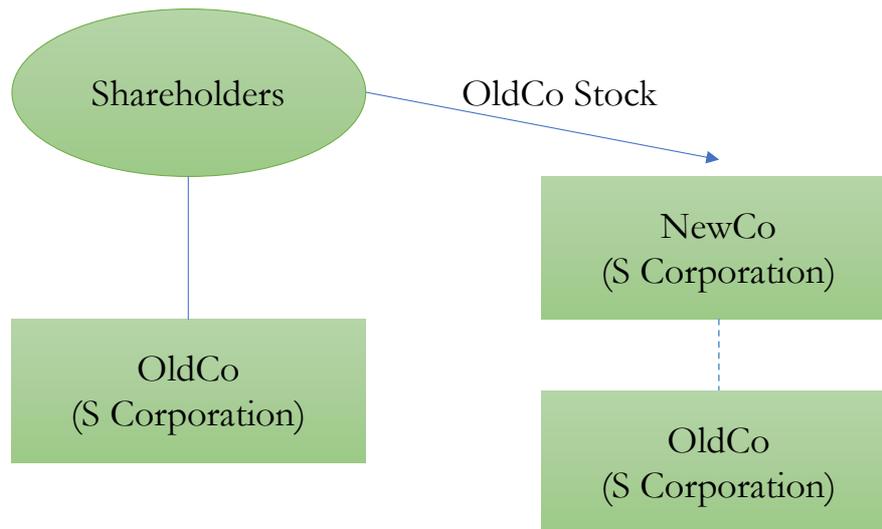


Figure 7: Contribution of shares from OldCo to NewCo

In the final step, the OldCo either converts into a limited liability company or combines with a subsidiary of the NEWCO, as illustrated below (IBID).

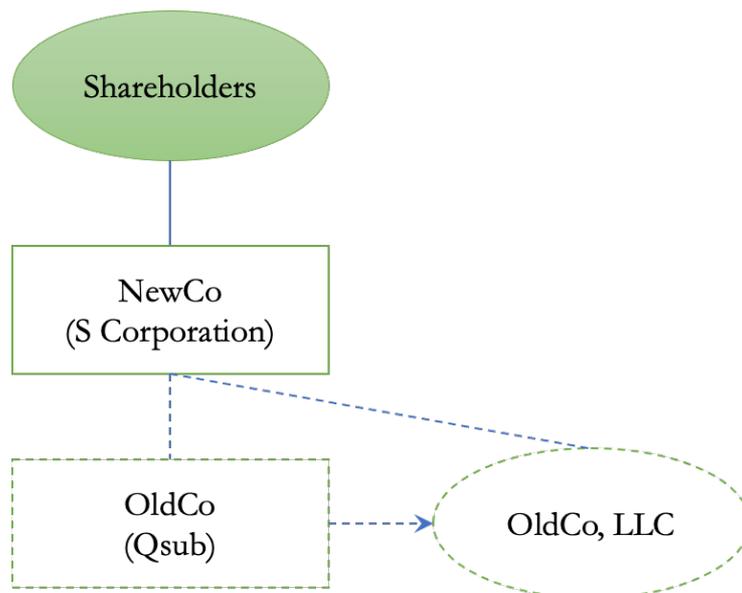


Figure 8: OldCo converts into a LLC

As a result, after the F reorganization, the original shareholders of the OldCo own 100% of the newly issued shares in the NEWCO. Thus, the SPAC has reorganized into a new entity in a different jurisdiction in a tax-effective manner.

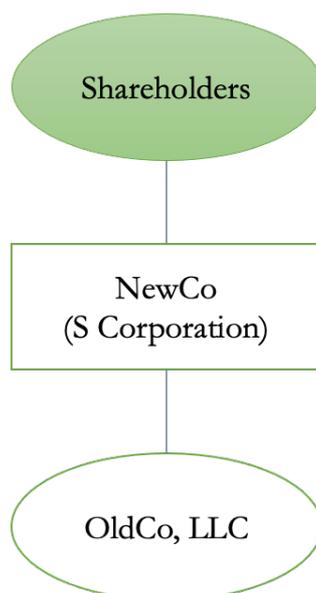


Figure 9: post-transaction structure

3.3 Delaware as SPAC jurisdiction

The data shows that a great majority of domestic SPACs are incorporated in Delaware. To understand these observations, the following subchapter will provide an explanation to why this state is so prevalent for SPACs and corporations in general.

Firstly, Delaware is known together with Nevada to provide favorable tax shelters to U.S. companies (Tarver, 2020). A tax shelter is investments, securities, or tax-planning strategies to legally reduce the company's tax liabilities within a country's tax system (Boyte-White, 2021). In addition to providing these tax shelters, Delaware is also known as a domestic tax haven. A tax haven has less-than-stringent tax laws, and in Delaware they regulate by law which companies pay their general income tax of 8.7%. Moreover, if a company does not conduct its operations in Delaware, it may be exempt from corporate income tax (Uradu, 2021).

Secondly, the state does not require companies to identify their beneficial owners when formed. Identifying beneficial owners may require extensive measures and can be costly for the SPAC. Delaware also provides an online formation platform which makes the formation processes easy and one of the quickest in the U.S (Williams, 2021). Furthermore, the online platform allows the company to file without disclosing personal information. In that way, the privacy of stakeholders is protected.

Lastly, Delaware provides a business-friendly usury law. Delaware has a Chancery court with over 200 years of experience accompanying these laws. This is a court of equity based on fairness and

common sense specializing in corporate issues. Moreover, the court serves without a jury and is the only one of its kind in the U.S. (Semuels, 2016).

3.4 The Cayman Islands or BVI as SPAC Jurisdiction

The selection of the SPAC jurisdiction is, as discussed above, typically driven in large part by complex US tax considerations. The Cayman Islands or the BVI are commonly selected as the jurisdiction of a foreign SPAC for three reasons:

Firstly, the entity may choose to be a “foreign private issuer” from an SEC perspective if correctly structured.⁶ A foreign private issuer is subject to different reporting and regulatory requirements than a U.S. company (Stock Market MBA, 2020). Generally, foreign entities are not obligated to such extensive reporting schemes, thereby reducing costs for the SPAC.

Secondly, the Cayman Islands and the BVI are tax neutral, with no withholding taxes, capital gains taxes, or levying stamp duty. The Cayman Islands is considered tax-neutral because they impose no direct taxes on residents. In addition to not having withholding tax or capital gains taxes, the Cayman Islands qualify as tax neutral by having no income tax, no property tax, and no payroll taxes (Boyte-White, 2021).

Lastly, there is considerable market familiarity (amongst sponsors, institutional investors, bankers, and US counsel) with the use of vehicles incorporated in these jurisdictions (Roberts & Weston, 2021). The tax neutrality implies that if the offshore vehicle is incorporated as an exempted company, it can obtain a renewable undertaking from the Caymans to remain tax-free for 20 years (Appleby, 2020).

⁶ SEC Division of Corporation Finance, ‘Accessing the U.S. Capital Markets – A Brief Overview for Foreign Private Issuers’ (Part II: Foreign Private Issuer Status).

4 Tax Implications in the SPAC Process

As SPACs have limited income pre-merger, many of the tax implications regarding SPACs become relevant once a target has been identified and the de-SPACing begins (CBIZ, 2021). Furthermore, the rules and regimes become even more complex if the SPAC identifies and merges with a target in another jurisdiction.

In the following, we will present some of the relevant IRC Sections regarding SPACs, before discussing the U.S. implications of holding an interest in a foreign domiciled entity. Finally, we shall present and discuss how tax implications affect the different business combinations and how SPACs may navigate and mitigate some of the tax burdens affiliated with such combinations.

Note that regimes and rules presented in chapter 4 will affect stakeholders in the SPAC differently. Some rules may only apply directly to shareholders, while others apply to the SPAC at a corporate level. However, as SPACs generally act in the best interest of their shareholders, individual tax rules indirectly affect the SPAC's decisions. For example, this is a case for SPACs trying to navigate PFIC status even though the tax consequences are at a shareholder level. Hence, this chapter introduces the reader to the consequences of these rules, while we in chapter 7 test their effect on the choice of jurisdiction.

4.1 Relevant IRC Sections and Corporate Inversion

The following subchapter presents three relevant Sections that affect SPACs and their stakeholders. Even though these Sections apply to all SPACs, some raise several considerations for SPACs seeking to merge with a target in another jurisdiction. It is important to underline that the purpose of this chapter is not to gain an in-depth understanding of these Sections but rather to discuss how they affect SPACs.

Section	Description
Section 367	Intend to preserve the U.S.'s ability to tax earnings accumulated by a foreign corporation (IRS, 2020)
Section 368	Defines the different forms of reorganization and the requirements for a corporate reorganization to be deemed tax-free.
Section 7874	Intend to prevent the acquisition of U.S. targets by a foreign corporation.

Table 1: Relevant IRC sections

4.1.1 Corporate inversion and cross-border tax issues

A corporate inversion occurs when U.S. corporations engage in artificial M&A transactions with the sole purpose of relocating their headquarters abroad (Voget, 2010). Both Sheppard (2002) and Thompson (2002) have raised concerns that inverting firms often merge to avoid the rules related to controlled foreign corporations. On this matter, Desai and Hines (2002) examine the role of taxation in 26 corporate inversions and find evidence that foreign subsidiaries of corporations that have inverted face low tax rates. The same goes for Seida and Wempe (2004), who examine the financial consequences of 12 corporate inversions. They find that the effective tax rate is substantially reduced when the corporation inverts, in particular via intercompany debt. Questions arise whether tax-related incentives drive corporate inversion, and if so, does this explain the high number of foreign-domestic business combinations?

To reduce corporate inversions, The U.S. has designed the anti-inversion rules under Sec. 7874 and 367. Under Sec. 367(a), a 50 percent inversion generally results in an otherwise tax-free transaction being treated as taxable to U.S. shareholders. A 60 percent inversion under Sec. 7874(a) will not only result in the application of Sec. 367(a), but also the expatriated entity is subject to a minimum tax for ten years after the inversion. Note that under Sec. 7874(a), it does not matter whether the former shareholders are U.S. shareholders or not. Nor does it matter whether they are subject to U.S. taxation as residents of the United States (VanderWolk, 2010). Finally, an 80 percent inversion under Sec. 7874(b) results in the foreign acquiring corporation being treated as a U.S. entity for all federal income tax purposes.

If both the Acquisition and Continuing ownership tests are satisfied under Sec. 7874, and the threshold of 80 percent is surpassed, a foreign SPAC merging with a U.S. target will be treated as a U.S. corporation for all purposes of the IRC. As a result, the acquisition is considered identical to an acquisition made by a domestic SPAC. U.S. shareholders exchanging shares in the U.S. target are not required to recognize gain under Sec. 367, assuming the transaction is tax-free. Moreover, if the NEWCO is foreign, it will be a “controlled foreign corporation”, which means that the inversion will fail to create any future opportunities for U.S. tax reduction as the foreign corporation is now treated as domestic (VanderWolk, 2010). For a U.S. shareholder with interest in a foreign SPAC surpassing the 80 percent ownership threshold, it would mean that distributions from the NEWCO are subject to U.S. federal income tax. This tax rate is substantially higher than tax rates paid on distributions from low-tax jurisdictions such as the Cayman Islands.

If, on the other hand, between 60 percent and 79,99 percent of the foreign NEWCO is owned by former shareholders in the U.S. target, the new entity will remain a foreign entity for U.S. tax purposes (VanderWolk, 2010). This may induce the target to undergo an inversion through a merger with a foreign SPAC to take advantage of lower tax rates. As long as original shareholders of the target own less than 80% of the newly formed entity, it is only subject to U.S. taxation on the income generated domestically. For a ten-year period, the U.S. target’s taxable income for any year cannot be less than the inversion gain (gain recognized because of the transfer), but this is a low price to pay (IBID). Hence, corporate inversion might explain why there are many foreign-domestic business combinations in our data set (Figure 10). Furthermore, this could also infer that some targets primarily see foreign SPACs as an easy route to avoid U.S. taxation rather than a vehicle of going public to raise liquidity.

According to Voget (2010), six percent of multinationals inverted to another jurisdiction from 1997 to 2007. Furthermore, they find that a one percent decrease in foreign effective tax rates increased the chance of inversion by 22 bp. Hence, foreign SPACs may have an incentive to present themselves as attractive for targets seeking to expatriate into low-tax jurisdictions. In sum, corporate inversion may not only be explanatory to why there are many foreign-domestic combinations. It may also provide an explanation to why some SPACs find it attractive to domicile in low-tax jurisdictions.

4.2 Passive Foreign Investment Company (PFIC)

To prevent U.S. shareholders from deferring income generated in foreign jurisdictions, the SEC has designed the PFIC rules (Mayer Hoffman McCann P.C., 2021). If a U.S. shareholder is treated

as owning an interest in a PFIC, that person will be subject to a punitive tax regime that charges certain distributions and all gains from the disposition of PFIC stock. This subchapter discusses whether a foreign SPAC will be treated as PFIC and ways to reduce the risk of such treatment.

A foreign corporation is treated as a PFIC if it satisfies either of two tests: an “Income test” and an “Asset test.” The income test is satisfied if at least 75 percent of the SPAC’s gross income for the tax year deviates from passive income. For this purpose, passive income generally includes dividends, interest, rents, and royalties (BDO, 2021).⁷ The asset test is satisfied if at least 50 percent of the average assets held by the corporation are passive assets under Section 1297(a)(2).⁸ Finally, once PFIC status is obtained, it cannot be lost in subsequent years (“Once a PFIC, always a PFIC”).⁹ There are some exceptions to these rules, and for SPACs, the startup exception discussed in subchapter 4.2.2 is of particular relevance even though it may be challenging to obtain.

In the following, we will discuss the taxation of a PFIC and its U.S. shareholders. A U.S. shareholder of a PFIC is taxable under one of three regimes, where Section 1291 fund applies by default. In addition, the shareholders may also be obligated to file certain income statements regarding these incomes. The same applies to holders of SPAC warrants, which may not make certain elections to mitigate some of the negative tax implications.

4.2.1 Tax implications of investing in a PFIC

The PFIC rules contain the following three regimes: (I) Excess Distribution Regime (Section 1291 fund), (II) QEF Regime, and (III) MTM Regime. Note that in order to make a QEF election, the PFIC must agree to provide shareholders with certain information.¹⁰ Furthermore, an election into the MTM regime can only be made if the stock is “regularly traded” on a qualified exchange.

In addition to the tax implications of each regime, any U.S. shareholder in a PFIC will be required to file a form 8621 as part of its US tax return. In short, the form will report the regime under which the US shareholder elects into.

4.2.1.1 Excess Distribution regime

The Excess distribution regime is the most punitive for U.S. shareholders holding an interest in a PFIC (Oates, Helderman, & Gelernter, 2021). The regime serves as a default to U.S. shareholders,

⁷ I.R.C. §§ 954(c), 1297(b) (1986)

⁸ A passive asset is one that produces passive income is held for the production of passive income.

⁹ I.R.C. § 1298(b)(1) (1986)

¹⁰ I.R.C. § 1295(a)(2) (1986); Treas. Reg. § 1.1295-1(g).

but it is possible to elect into more favorable regimes such as the QEF and MTM. In general, the regime is based on deferred tax rules, which means that shareholders will be taxed at the highest ordinary rate and interest (IBID).

An excess distribution is a current year distribution that exceeds 125 percent of the average amount of distributions received over the previous three years (Gianni, 2014). If the holding period is shorter, the average is calculated based on the entire holding period. The excess distribution is then proportionally allocated to each day in the taxpayer's holding period of the PFIC stock (IBID). The current year's amount is taxed at the ordinary income rate, while the amount accumulated in the prior years is also taxed in the current year as a deferred tax amount (IBID).

As a result, income generated from investments in PFICs will be fully taxed as opposed to more favorable capital gain rates in the QEF and MTM regimes. Furthermore, a U.S. investor may be taxed at a higher rate than the standard with respect to the deferred tax amount as these amounts also include accruing interest charges (Blikshteyn, 2011)

4.2.1.2 Qualified Electing Fund (QEF) Election

One way for a U.S. investor to reduce the tax burden of holding an interest in a PFIC is to elect into the QEF regime. Under Section 1295, the QEF is an optional method where the shareholder will be required to include a pro-rata share of the PFIC's income and capital gains in the computation of the investor's annual taxable income statement. By electing into the QEF, the shareholder has to include the income and distributions from the PFIC each year regardless of whether or not the PFIC makes a contribution to the shareholder that year. As opposed to the Excess Distribution regime, election into the QEF is done at an individual level. When the QEF regime applies, a U.S. shareholder in a PFIC is subject to similar tax rules and rates as a domestic investment (Gianni, 2014).

For the election to be valid, the PFIC must provide the U.S. shareholder with a signed Annual Information Statement (AIS) for the U.S. investor to make a QEF election. Once an election is made, it remains in effect forever unless the IRS revokes the election (IBID). Furthermore, the QEF election has to be made in the first year of acquisition of SPAC stock by U.S. shareholders. If the election is not made within the initial year, the PFIC will be considered an unpedigreed QEF and continue to be subject to the Excess Distribution regime. Furthermore, note that the QEF election cannot be made with respect to warrants. Thus, if a QEF election is successfully made, warrants in the PFIC are still taxed under the Excess Distribution regime (Bodoh & Greg, Weil, 2021).

4.2.1.3 Mark To Market Regime

If a QEF election is unavailable due to lack of the AIS, an MTM election serves as a better alternative than the Excess Distribution regime, as the implications regarding the deferred tax amounts are avoided (Gianni, 2014).

To elect into the MTM regime, U.S. shareholders need to include any stock appreciation during the tax year when documenting their ordinary income (IBID). Like the QEF election, the MTM is made at the shareholder level rather than the PFIC level. Hence, a US shareholder is eligible to make an MTM election with respect to marketable stock in a PFIC as long as it is regularly traded on a qualified exchange or market.¹¹

4.2.2 PFIC Startup Exception

Under the start-up exception, a SPAC will not be considered a PFIC for its first tax year in which it has gross income (Bodoh, Magill, Nissan, & Pari, 2020). This allows SPACs to be exempt from the PFIC rules in their initial tax year. Furthermore, it also gives the SPAC time to raise capital and complete a business combination without having to consider a PFIC qualification (Bakale, 2021). If the exception is granted, the foreign SPAC will be subject to ordinary tax rules under the jurisdiction of incorporation. In addition, U.S. shareholders in the PFIC will not be subject to one of the three regimes.

For the start-up exception to apply, certain requirements must be fulfilled. Firstly, the predecessor of a SPAC cannot be a PFIC. Secondly, the SPAC must guarantee to the IRS that it will not be subject to the PFIC rules for either of the two years following the start-up year. Finally, the corporation is not treated as a PFIC for either of the two years following the SPAC IPO.

Given the timeline of a SPAC, it often takes more than a year to generate active income. Hence, qualifying for the exception rarely happens, as we will present in chapter 7.3. This is because the SPAC will fail the income test and thereby be subject to the PFIC rules in either of the two years following the start-up year. Furthermore, if the SPAC starts its business on the last day of the tax year, that will be the “start-up year”. In practice, this means that the SPAC has to merge within the same tax year as the IPO for the startup exception to apply.

To ensure that the SPAC fulfills the requirements for the start-up exception, it is generally advised that foreign SPACs place the proceeds in a non-interest-bearing escrow between the IPO and the merger (Bodoh & Greg, Weil, 2021). If not, there is a chance that the SPAC satisfies the Asset test

¹¹ I.R.C. §§ 1296(a), (e) (1986).

and thereby becomes a PFIC. However, if the foreign SPAC is relatively sure it will consummate a target within the start-up year, it may still satisfy the exception even though the proceeds are placed in an interest-bearing fund.

4.3 Tax Implications Related to the Merger Process

As previously discussed, there are numerous tax implications related to cross-border business combinations. Thus, one would expect that the majority of mergers occur within the same jurisdiction. However, when plotting the de-SPACing data in Figure 10, one may see that there has been a resurgence in the number of cross-border business combinations since the beginning of the IPO boom, especially foreign-domestic. The green bars represent the foreign SPACs, while the blue represent the domestic.

In the following, we will therefore have a comprehensive look at the various tax implications of these cross-border entities and compare this to mergers within the same jurisdiction. As for the rest of the thesis, the U.S. represents the domestic jurisdiction, while all other jurisdictions are treated as foreign.

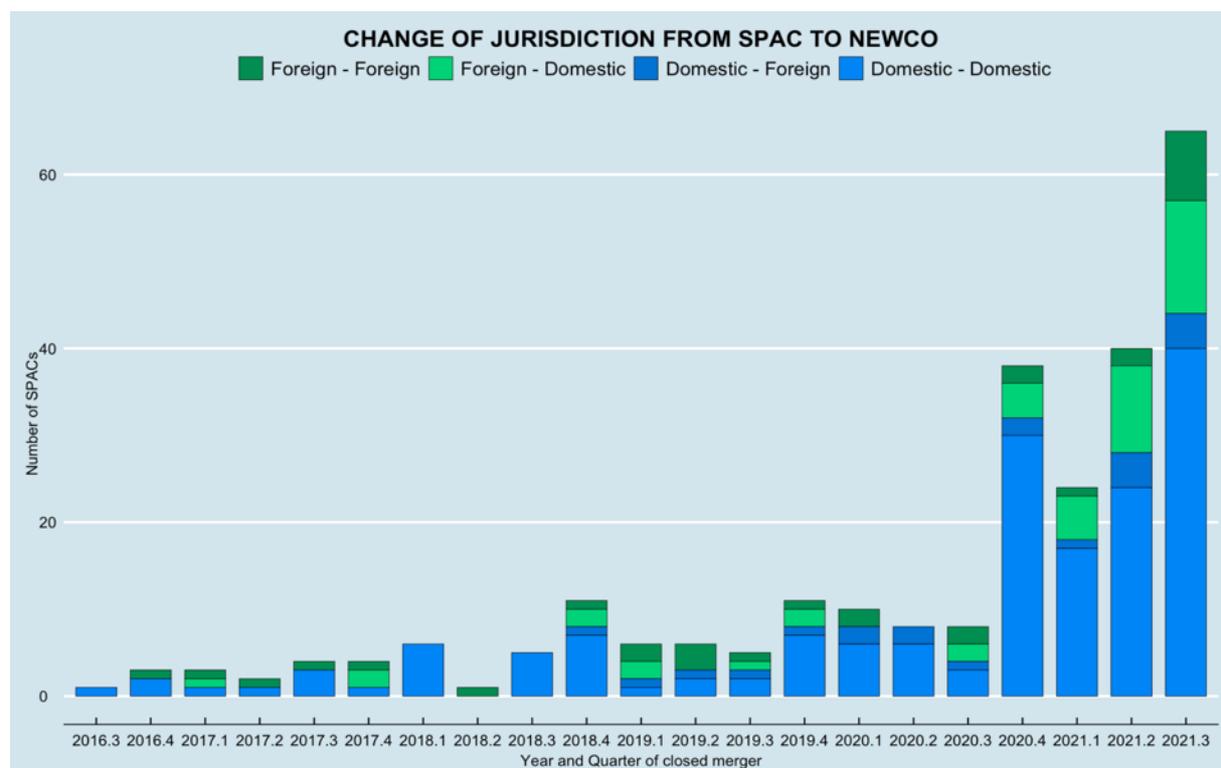


Figure 10: The resurgence in cross-border business combinations

4.3.1 Domestic-Domestic Implications

In a domestic-domestic transaction, tax considerations depend on whether a SPAC is acquiring a target for 100% cash, 100% equity, or a mix of the two (Bodoh, Magill, Nissan, & Pari, 2020). The domestic-domestic business combination involves few tax implications for U.S. shareholders, and the issues tend to relate to a tax-deferred rollover. Note that if a SPAC acquires the target in a 100% cash transaction, the acquisition is taxable (Bodoh & Greg, Weil, 2021). There are only two ways to structure a tax-deferred rollover in a domestic-domestic. In the following, we will briefly present these.

4.3.1.1 Up-C Structure

An Up-C structure is a transaction commonly used for a tax-deferred rollover in a domestic-domestic business combination. In an Up-C structure, the NEWCO is organized as a partnership co-owned by the SPAC and the pre-merger owners of the target. In the partnership, the original target shareholders are compensated with class B voting shares in the SPAC (IBID). Furthermore, the original target shareholders are entitled a right to have their partnership units redeemed in exchange for SPAC equity or cash (IBID). Finally, these structures usually include the use of Tax Receivable Agreements (TRAs), which requires the SPAC to pay a percentage of cash savings delivered by the seller upon the business combination (e.g., additional tax deductions from an increased tax basis).

4.3.1.2 Double Dummy Structure

In addition to the Up-C structure, there is another method to structure a tax-deferred rollover for target shareholders of a flow-through entity, namely the Double Dummy. In general, this is a more straightforward form of the Up-C structure with the following transaction steps, which are also visualized in Figure 11:

1. SPAC forms NewCo, Merger sub 1, and Merger Sub 2.
2. SPAC and Merger Sub 2 merge, with SPAC as the surviving entity, and founders and public shareholders receive Newco stock.
3. Target and Merger Sub 1 merge, with Target surviving the merger, and the seller (Rolling) receives Newco stock and \$[x] cash. Seller (Non-rolling) receives \$[x] cash only. Note that a rolling seller will continue as a shareholder in the NEWCO, while a non-rolling seller will exchange his/her shares in return for cash.
4. Newco may contribute Target units to SPAC.

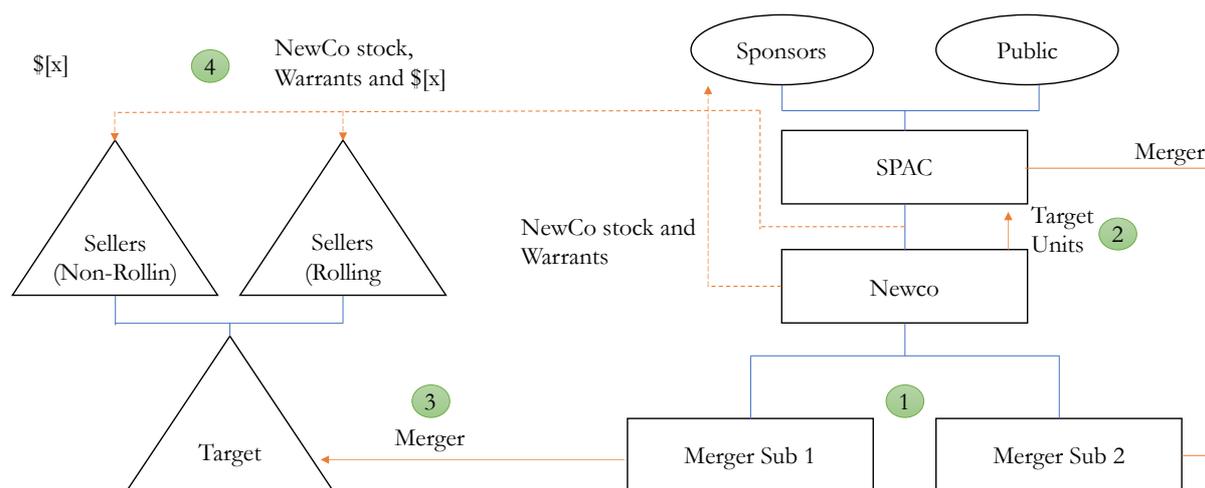


Figure 11: Flow-Through Target: Double Dummy. Source: (Bodoh, Magill, Nissan, & Pari, 2020)

4.3.2 Domestic-Foreign Implications

In order to minimize potential profit shifting out of the U.S., a set of rules have been designed to prevent tax deferral from domestic corporations merging with foreign entities in lower tax jurisdictions (Mayer Hoffman McCann P.C., 2021). In a domestic-foreign business combination, SPAC shareholders will be subject to expatriation considerations because the target is domiciled in a foreign jurisdiction. These considerations include the built-in recognition rules under Internal Revenue Code Section 367 for U.S. shareholders that hold more than 50 percent ownership in a foreign target.

A domestic SPAC with a foreign target would typically attempt to expatriate to the target's jurisdiction prior to the business combination (Bodoh, Magill, Nissan, & Pari, 2020). The structure of an expatriation transaction is usually a "domestic-to-foreign F reorganization", similar to the reorganization presented in 3.2.1 (IBID). This means that the SPAC is treated as transferring all its assets to a newly formed foreign SPAC in exchange for foreign SPAC stock in which the domestic SPAC will distribute to its shareholders in complete liquidation. Thus, the domestic SPAC shareholders are treated as exchanging their domestic SPAC equity for foreign equity. In addition, expatriations in this context implicate the anti-inversion rules in chapter 4.1.

4.3.3 Foreign-Foreign Implications

Section 367 may also apply when a foreign SPAC merges with a foreign target. As previously discussed, the majority of foreign SPACs are incorporated in the Cayman Islands. The foreign targets, on the other hand, usually domicile wherever their operations are located (Mayer Hoffman McCann P.C., 2021). Similar to the domestic-foreign business combination, the SPAC will generally expatriate to the target's jurisdiction through a foreign F reorganization before the merger

(IBID). As with the domestic-domestic combination, the foreign-foreign combination has fewer implications than the cross-border combination, as these do not trigger the anti-inversion rules in Section 7874.

A foreign SPAC avoids PFIC status, like any other SPAC, by satisfying the requirements discussed above. Furthermore, if the foreign target has US shareholders, it may strive to restructure the business combination in a tax-effective manner upon merger. Reincorporating the SPAC in a foreign targets jurisdiction before the merger minimizes Section 367(a) and Section 367(b) rules for U.S. shareholders that hold less than five percent of the foreign SPAC (Mayer Hoffman McCann P.C., 2021).

4.3.4 Foreign-Domestic Implications

According to theory, foreign-domestic transactions are less likely to occur due to the strict U.S. tax regime (Mayer Hoffman McCann P.C., 2021). However, as shown in Figure 10, such merger transactions happen frequently. Generally, there are two ways two structure the combined business entity: (I) the target inverts to the jurisdiction of the SPAC, and (II) the SPAC reincorporates in the U.S.

As the first option is discussed in-depth in chapter 4.1, this part will mainly consider the second. If the SPAC happens to identify a domestic target and seeks to incorporate in the U.S., it would typically reorganize in an inbound F reorganization prior to the merger (Bodoh & Greg, Weil, 2021). This means that the foreign SPAC will transfer its assets to a newly-formed domestic SPAC in exchange for shares in the domestic SPAC. Shareholders in the foreign SPAC are then treated as exchanging foreign SPAC equity for domestic SPAC equity.

Sec. 367(b) generally taxes U.S. investors on all earnings and profits resulting from the reincorporation (IBID). Furthermore, depending on how the reincorporation is structured, the SPAC and its shareholders could also be subject to tax in the foreign jurisdiction. However, as a SPAC usually domesticates prior to the merger, this has practically no economic effects for U.S. shareholders (IBID).

4.3.4.1 Effects of the “Made in America Tax Plan”

In April 2021, the Biden administration introduced the “Made in America Tax Plan.” This proposal would substantially raise taxes on the activities of U.S. multinational corporations, regardless of whether these are located domestically or abroad (Kallen, 2021). Furthermore, the tax plan also

proposes that the 80 percent ownership threshold in the anti-inversion rules under Sec 7874 should be reduced to 50 percent to reduce corporate inversions.

In addition to increasing the US corporate tax rate from 21% to 28%, the Tax Plan also introduced modifications to strengthen the global intangible low-taxed income (GILTI) regime. The Biden administration has criticized the GILTI regime, which allows for cross-crediting (IBID). In short, this means that taxes in high-tax countries offset taxes paid in low-tax jurisdictions such as the Cayman Islands. For shareholders in foreign SPACs, the proposal would restrict investors from cross-crediting the tax rate on the income generated in the foreign SPAC. In turn, one may expect that this would decrease U.S. investments in foreign SPACs. However, according to Kallen (2021), the proposed changes would increase taxes on income generated in the U.S. more than on foreign income, which can result in a net increase in profit shifting out of the U.S. There is no doubt that this is contrary to the stated goals of the tax plan.

Even though the proposed tax plan introduces modifications on multinational corporations, this may partly explain why we cannot see a decline in the number of cross-border business combinations or foreign SPAC IPOs.

5 Practical Example of a SPAC

To better understand how a SPAC works and which challenges it may encounter, we include a detailed example of a SPAC's formation and lifecycle in our thesis. The following chapter will be a walk-through where we present the progress from forming a SPAC until the merger is completed. The upcoming issues are gathered from the actual market, and the example is constructed to present relevant issues when dealing with tax implications.

The sponsor creates the SPAC by forming a corporation and providing the initial capital in return for sponsor shares and warrants (Klausner, Ohlrogge, & Ruan, 2021). Included in the initial proceeds, we find "risk capital" raised to cover expenses for engaged lawyers and underwriters. These engagements help the sponsors commence the IPO process, including SEC approvals, marketing, and fundraising (Founders Circle Capital, 2021).

When creating the SPAC, the sponsor usually contracts multiple underwriters as advisers. Furthermore, the sponsor also has to decide on the jurisdiction of incorporation. The ideal scenario of a SPAC is to domicile within the same jurisdiction as the target, as cross-border mergers may trigger several tax implications. However, the sponsor does not know the target's jurisdiction at this point. Hence, the SPAC will incorporate in the jurisdiction they expect to identify a target. In theory, a SPAC may incorporate anywhere within a foreign or domestic jurisdiction, but as presented in chapter 3.1, there are only two jurisdictions of relevance.

Among the foreign SPACs, the Cayman Islands make up 92,8%, while Delaware makes up 98,85% of the domestic SPACs. To provide an understanding of the foreign-domestic implications, the sponsor incorporates in the Cayman Islands. The Cayman Islands is often the preferred jurisdiction of many SPACs due to its tax neutrality, with no withholding taxes, capital gains, or stamp duties levied (Roberts & Weston, 2021).

Once the SPAC has domiciled, it may begin its fundraising by issuing units to public shareholders. A common way to pitch the SPAC is via roadshows where the sponsor and underwriters present the SPAC and its unique aspects to boost the interest before the IPO (Murphy, 2020). As the SPAC does not have any operations, the roadshow mainly focuses on the sponsor's expertise and its vision (CFI Education Inc.). Even though the SPAC is domiciled in the Cayman Islands, U.S investors are allowed and often invest in foreign IPOs. However, these investors might end up suffering if the SPAC is treated as a PFIC or merged with a domestic target. Usually, 85-100% of the proceeds raised in the IPO are generally deposited into an interest-bearing trust account (Jenkinson & Sousa, 2015).

After the IPO, the sponsor starts searching for a potential target company and usually set 18-24 month as a deadline for completing the merger. Due to the tax implications of cross-border business combinations described above, the sponsor would generally try to identify a target within the same jurisdiction as the SPAC. Furthermore, the sponsor needs to assess which sector to merge into. The sponsor generally describes preferred sectors based on experience and expertise in the merger prospectus. Thus, there needs to be an alignment between the sponsor's expertise and the targets sector in order to provide substantial value to the NEWCO. However, as the SPAC can easily navigate some of the cross-border tax implications, identifying a target within the preferred sector is more important than the target's jurisdiction.

On many occasions, the target hires an adviser to evaluate potential SPACs with shared interests and visions (Founders Circle Capital, 2021). These advisers represent and prepare the targets for public listing by analyzing and reviewing merger prospectuses of different SPACs. In an ideal scenario, the adviser ensures that the sponsor possesses experience and knowledge within the targets sector and thereby is capable of adding value to the combined entity (Founders Circle Capital, 2021).

By choosing the Cayman Islands as the jurisdiction of incorporation, the SPAC may trigger the anti-inversion rules of Section 7874 and Section 367 by merging with a domestic target (Stern & Hubbard, 2021). To avoid triggering these sections, the SPAC has to domesticate through an “F reorganization” under Section 368. This process does create a potential upfront tax because the SPACs existing earnings and profits would be subject to taxation. However, as described in chapter 4, the income and earnings of the SPAC between the IPO and merger are somewhat limited, and the taxation exposure accordingly low.

When a SPAC has identified a target, the parties enter into a merger negotiation. If an agreement is reached, investors meet, and the shareholders vote for the merger. If the voting is approved, the SPAC enters the de-SPACing process. However, if the shareholders or the target disapprove the proposal, the SPAC must search for another target. After the merger is announced, any shareholder has the opportunity to redeem their shares. A high redemption rate may cause interruptions in the merging process, as the SPAC may be short on liquidity. To achieve additional funds, the SPAC may issue debt or additional shares through PIPE investments. In the PIPE deal, investors contribute with cash and receive common shares of the SPAC in return.

The actual merger is relatively straightforward in most cases. The merger is usually structured as a reversed merger in which the target merges into the SPAC or a subsidiary of the SPAC (U.S. SEC, 2021). For the sponsor, the main question is whether to pay cash or equity in the merger (Shanda

Consult, 2018). To achieve the majority interest in the NEWCO, the sponsor must pay cash in return for target shares. By paying cash exclusively in the merger, the SPAC receives a fraction of shares in the new company originally intended to the target shareholders. Hence, the SPAC gets the majority interest in the new company with a sufficient amount of cash. As the SPAC already has domesticated, the SPAC manages to navigate Section 7874 and may conduct the transaction in a tax-effective manner. When the merger is completed, the new company carries on with the target's original business operations, and the SPAC is dissolved.

6 Data and Sample Construction

In this thesis, we utilize four broad data sources. First, the primary data sources we use are two commercial databases: Boardroom Alpha’s “SPAC Intelligence database” and SPAC Research.¹² These databases provide detailed information regarding the structure of each SPAC and its derivative securities, such as sector, unit prices, and the fraction of common share that a warrant converts into. Furthermore, the data also provides information regarding redemption history, the initial trust amount, and the identity of merging companies. We validate the accuracy of the data by cross-examining the two commercial databases together with Refinitiv Eikon to make necessary adjustments if discrepancies or irregularities are present. We also extend the data by hand, collecting further information related to SPAC jurisdiction and the jurisdiction of the merged, combined entity from the U.S. SEC. On this matter, errors may occur.

We construct two different cross-sectional data sets for our regression. The first set contains data on post-merger SPACs, providing data, sector, fraction of redeemed shares, underwriters, returns, and jurisdiction of the new company. To run all regressions properly, we remove the SPACs with missing data and then construct multiple variables of interest. Initially, we make the binary variable “*SPAC_not_US*” to differentiate the foreign SPACs from the domestic. The variable is 1 if the SPAC is foreign and 0 if domestic. In addition, we construct the same dummy variable for the new company “*Newco_not_US*”. Furthermore, we extract month and year from the date column to illustrate the trends as well as control for time in the regressions. In the data set, the first observation is in July 2016, while the last one is from September 14th in 2021. In total, this data set contains 261 observations.

The SPAC market is well-known for its volatile returns. To get an impression of this volatility, we include an overview of the post-merger returns for one and six months below. However, it is important to keep in mind that the dataset contains fewer observations of six-month returns than one-month returns. This is because many business combinations have not been combined for six months yet. As Table 2 shows, SPACs, on average, had positive unadjusted returns (5.17%) as of one month following a merger. However, there are some extreme observations, which can be misleading for interpretation. The median return may therefore be a more precise estimate of the returns. As is the case for both one- and six months, median values are negative, with a significant decrease for the six-months post-merger median returns. Furthermore, we see that domestic

¹² <https://www.boardroomalpha.com/spac/> and <https://www.spacresearch.com>

NEWCO's perform slightly better on a one-month basis, while foreign NEWCO's perform slightly better on a six-month basis

	One-Month			Six-Month		
	All	Domestic	Foreign	All	Domestic	Foreign
Mean Return	5,17%	-4,13%	29,49%	-10,01%	-10,38%	-8,89%
Median Return	-7,95%	-7,95%	-8,35%	-19,15%	-23%	-16%
75% percentile	8,67%	8,55%	10,30%	15,80%	14,50%	22,60%
25% percentile	-23,02%	-23,28%	-21,90%	-41,80%	-41,90%	-40,20%
Highest observation	1486,30%	190%	1486,30%	162,60%	162,60%	149,20%
Lowest observation	-68,10%	-68,10%	-49,40%	-86,40%	-86,40%	-81,30%
Number of SPACs	246	178	68	150	113	37

Table 2: Overview over returns in the data set

The second data set is an extended version where we combine the post-merger SPACs with the pre-merger SPACs. This combination restricts us from using “new jurisdiction,” “the fraction of shares redeemed”, “return”, and “underwriters” in the analysis as a significant part of the data set lacks this data. We extract the year, month, and quarter for descriptive purposes and to control for time in the regressions. The only variable we construct for this data set is the binary variable “SPAC_not_US”, which possesses the same characteristics as the variable in the first data set. This data set contains 686 observations, ranging from September 1st 2017 to October 1st 2021. Furthermore, the second data set uses SPAC IPO dates as the date of reference. Hence, SPACs included in both data sets will generate two different dates in the two data sets. This data set is mainly used to provide more complementary data for the regressions and detect trends over an extended period.

7 Findings and Discussion

In the following, we will present our findings and discuss how these may provide an explanation to our research question. As discussed, when considering and testing how taxation affects SPAC decisions, there are numerous considerations and unobservables. As every SPAC has its unique features, the reasons why they chose a particular jurisdiction or business combinations may differ. However, as we want to estimate the effects on the larger population of SPACs, we can utilize regressions to get a profound understanding of factors that do affect SPAC decisions and the ones that do not.

Many of the tax considerations discussed in this thesis are unquantifiable, and thereby, challenging to estimate. For that reason, we are testing multiple variables that are expected to have an effect on the choice of jurisdiction, such as returns, sector, or underwriter. For example, assume that a specific jurisdiction subsequently produced higher returns than others. Then, one would expect that newly formed SPACs would incorporate in the same jurisdiction. By doing so, we may not only control for quantifiable variables that have an effect. We may also exclude variables that do not have a significant effect on the jurisdiction, and hence, disprove an assumed relationship between the variables.

Each subchapter presents a variable that is assumed to have an effect on the choice of jurisdiction, where we motivate new regressions based on the results from the previous. Throughout the regressions, we use a threshold level of significance of 5 percent.

7.1 Returns

Table 2 shows that SPACs in our data set have a negative median return of -7,95% after one month and a negative return of -19,15% after six months. Dimitrova (2017) may provide an explanation of this as she implies that the SPAC sponsors generally pursue any acquisition over liquidation, leading to poor post-merger returns. However, the returns between the two jurisdictions differ, and the foreign SPACs tend to deliver a somewhat better return after six months. This difference might incentivize the SPAC sponsor to incorporate in a foreign jurisdiction rather than a domestic jurisdiction. Hence, returns might explain that some SPACs chose to incorporate in a foreign jurisdiction, despite the related tax implications.

In the first regression, we run SPAC jurisdiction on post-merger returns. This could be helpful to gain insight on the jurisdictions and how they perform relative to each other. Suppose, for example, that a specific jurisdiction holds SPACs that perform significantly better, either on a one-month

or six-month basis. In that case, SPACs would prefer to locate in a jurisdiction that outperforms its peers on post-merger returns. As the jurisdiction chosen before the returns are generated, we must regress the jurisdictions' effect on return, as return on jurisdiction would be illogical.

Thus, we run a regression on both one-month and six-month returns, including the variable “*SPAC_not_US*” as one of the explanatory variables.

We include “*Year*” and “*Sector*” as control variables when running a regression on the one-month post-merger return. If neglected, these may lead to violation of the zero conditional mean assumption, resulting in problems of identification. We include “*year*” to control for any time trend due to economic fluctuations in the financial markets, while “*Sector*” is included to control for sector preferences among the different SPACs. Hence, we explicitly hold fixed other factors that otherwise would be in the error term. Additionally, based on the same arguments as for the other control variables, we include “*Redeemed*”. In Klausner's (2021) paper, they find a strong correlation between the fraction of shares redeemed and post-merger returns, where high redemption rates subsequently produce the lowest post-merger returns. For that reason, we find it appropriate to include the variable as it may increase the precision of our estimates.

Finally, we enter our value of interest as an interaction between “*SPAC_not_US*” and “*NEWCO_not_US*”. By including these variables in the regression, we may observe the potential effect on post-merger returns for all four business combinations (domestic-domestic, domestic-foreign, foreign-domestic, foreign-foreign) where the intercept represents the domestic-domestic combination.

Table 2 shows an observation of an extremely high one-month return among foreign SPACs. If this observation is far from any other observation, this could cause misleading inference in the regression. Thus, we study the data and find two SPACs merged in 2018 with extreme one-month returns of 1486,3% and 973,2%, respectively. Both possess a foreign-domestic combination structure, and due to our limited sample, these returns have a considerable impact on the regression and lead to misleading inference. For that reason, we chose to classify these values as outliers and exclude the highest and lowest 1% percentile observations of one-month return from the regression.

When excluding the extreme one-month returns, the coefficient “*SPAC_not_US*” is not statistically different from zero, which means we cannot accept its value as genuine and generalizable to the larger population. In other words, we cannot find evidence that any business combination provides better returns after one month than the other combinations.

<i>Predictors</i>	1 month return			
	<i>Estimates</i>	<i>std. Error</i>	<i>CI</i>	<i>p</i>
(Intercept)	9.55	17.01	-23.98 – 43.07	0.575
Newco not US [2]	-0.49	7.59	-15.45 – 14.47	0.949
SPAC not US [1]	-1.42	5.71	-12.68 – 9.84	0.804
Sector [Cannabis]	-31.64	18.52	-68.14 – 4.86	0.089
Sector [Consumer]	-3.29	9.36	-21.74 – 15.17	0.726
Sector [Energy]	0.84	9.63	-18.14 – 19.82	0.931
Sector [Financial]	-7.16	8.09	-23.10 – 8.77	0.377
Sector [Food]	-21.23	11.74	-44.37 – 1.90	0.072
Sector [Healthcare]	-4.82	7.19	-19.00 – 9.35	0.503
Sector [Industrial]	-11.66	8.00	-27.42 – 4.10	0.146
Sector [Materials]	-3.75	16.25	-35.77 – 28.27	0.818
Sector [Media & Entertainment]	-2.34	10.07	-22.18 – 17.51	0.817
Sector [Real Estate]	5.40	11.99	-18.23 – 29.03	0.653
Sector [Technology]	-5.08	7.43	-19.72 – 9.56	0.495
Sector [Travel & Hospitality]	-21.45	13.88	-48.79 – 5.90	0.124
year [2017]	0.88	18.61	-35.79 – 37.56	0.962
year [2018]	-9.52	17.30	-43.62 – 24.59	0.583
year [2019]	-5.92	17.29	-40.00 – 28.15	0.732
year [2020]	1.08	16.35	-31.13 – 33.30	0.947
year [2021]	-12.76	16.26	-44.80 – 19.28	0.433
TEV/IPO	0.35	0.43	-0.50 – 1.20	0.419
Redeemed	-7.23	5.58	-18.23 – 3.77	0.196
Newco not US [2] * SPAC not US [1]	1.37	10.93	-20.18 – 22.92	0.900
Observations	243			
R ² / R ² adjusted	0.086 / -0.006			

Table 3: Regression on one-month return (outliers excluded)

We assume that the one-month return indicates how the market responds to the merger, while the six-month return gives a more compound interpretation of how newly formed companies perform over time. Therefore, we investigate the effect of a SPAC jurisdiction below. When estimating the effect of SPAC jurisdiction on six-month returns, we run a regression containing the same explanatory variables. Due to fewer observations in this regression, attrition problems may occur, so one should be careful when interpreting the results.

<i>Predictors</i>	6 month return			
	<i>Estimates</i>	<i>std. Error</i>	<i>CI</i>	<i>p</i>
(Intercept)	-9.67	28.20	-65.47 – 46.13	0.732
SPAC not US [1]	-11.90	12.49	-36.62 – 12.81	0.342
Newco not US [2]	-4.14	14.53	-32.90 – 24.62	0.776
Sector [Cannabis]	-3.11	36.25	-74.85 – 68.63	0.932
Sector [Consumer]	39.30	19.87	-0.02 – 78.62	0.050
Sector [Energy]	30.07	19.22	-7.95 – 68.10	0.120
Sector [Financial]	19.43	17.51	-15.22 – 54.09	0.269
Sector [Food]	27.95	20.96	-13.53 – 69.42	0.185
Sector [Healthcare]	40.71	16.61	7.85 – 73.57	0.016
Sector [Industrial]	15.10	16.62	-17.78 – 47.98	0.365
Sector [Materials]	44.86	35.70	-25.78 – 115.49	0.211
Sector [Media & Entertainment]	36.57	19.69	-2.39 – 75.53	0.066
Sector [Real Estate]	52.34	30.15	-7.33 – 112.01	0.085
Sector [Technology]	32.77	16.92	-0.71 – 66.25	0.055
Sector [Travel & Hospitality]	18.47	25.16	-31.31 – 68.26	0.464
year [2017]	-12.71	29.27	-70.62 – 45.21	0.665
year [2018]	-46.69	26.98	-100.08 – 6.69	0.086
year [2019]	-27.93	27.34	-82.04 – 26.18	0.309
year [2020]	-17.90	25.80	-68.95 – 33.15	0.489
year [2021]	-42.91	26.57	-95.49 – 9.67	0.109
Redeemed	7.34	11.27	-14.97 – 29.65	0.516
SPAC not US [1] * Newco not US [2]	14.17	21.30	-27.97 – 56.31	0.507
Observations	149			
R ² / R ² adjusted	0.171 / 0.034			

Table 4: Linear regression on six-month post-merger return

As Table 4 shows, some coefficients are significantly different from zero but do not meet our threshold level of significance. However, “SectorHealthcare” is significantly different from zero. The coefficient estimate of the variable is 40,71, which indicates that one may expect the sector to perform 40,71% better than automotive. Note that this performance is in absolute differences and not relative. However, the most important takeaway is that even for six-month post-merger returns, none of the variables for business combinations are significant. Hence, we cannot find evidence that a specific business combination performs significantly better than others.

Furthermore, we want to check for potential differences when using all SPAC and NEWCO jurisdictions as explanatory variables. We think this could provide a more detailed inference on the performance of each jurisdiction. However, we find close to no effect of neither SPAC nor NEWCO jurisdiction on either one- or six-month returns. The only significant coefficients we obtain are SPACs incorporated in Maryland on six-month returns and SPAC jurisdiction Nevada on one-month returns. The output is included in the Appendix. Even though there are some coefficients that are significant, we cannot draw inferences based on these as the number of observations is too low.

7.1.1 Outliers

Figure 12 is a boxplot displaying how the returns over one and six months are distributed in the data set. The plot divides the data set into the median, first quartile, and third quartile, in addition to including extreme observations. Furthermore, it provides information regarding the outliers, their values, and how tightly the data is grouped. We have excluded the highest 1% return and the lowest 1% return in the boxplot to make it more illustrative.

The boxplot shows that the median is slightly worse on a 6-month post-merger than the one-month, with the six-month returns having a larger interquartile range (IQR). Moreover, some outliers are still included in the plot due to some post-merging entities having outstanding returns.

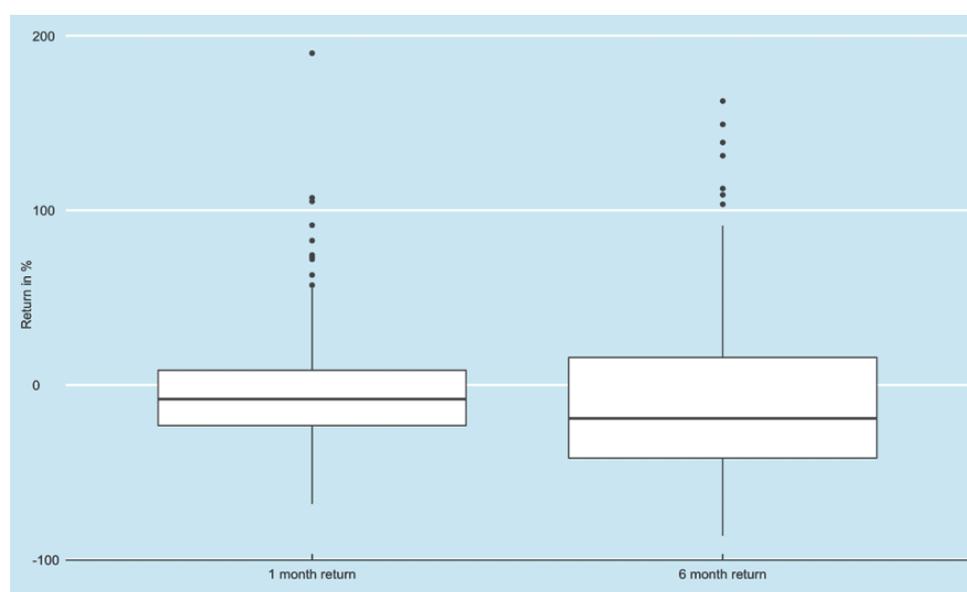


Figure 12: Boxplot of return in accordingly 1- and 6- months

7.2 Underwriters

Having shown that the post-merger returns do not affect whether a SPAC incorporates foreign or domestic, we provide evidence that a factor assumed highly relevant for incorporation does not significantly affect the choice of SPAC jurisdiction. We now continue by analyzing the underwriter's role in the SPAC's decision on jurisdiction. Underwriters assist the sponsor in raising capital in the SPAC IPO and charge the accumulated fee of 5,5% of the IPO proceeds. This fee may provide an incentive for underwriters to convince the sponsor to incorporate in a specific jurisdiction for raising higher IPO proceeds. Hence, to discover a possible incentive, we might examine whether a specific jurisdiction generates higher proceeds than others. To do so, we run a linear regression model on proceeds with jurisdiction as the explanatory variable in addition to controlling for year and sector. Despite that our data set only provides underwriter data on the post-merger SPACs, we include proceeds from both pre-and post-merger SPACs in the regression to increase the precision of our estimates.

<i>Predictors</i>	Proceeds (\$M)			
	<i>Estimates</i>	<i>std. Error</i>	<i>CI</i>	<i>p</i>
(Intercept)	125.70	82.43	-36.16 – 287.55	0.128
Jurisdiction [CAYMAN ISLANDS]	240.79	59.83	123.32 – 358.26	<0.001
Jurisdiction [DELAWARE]	211.35	58.53	96.41 – 326.28	<0.001
Jurisdiction [FLORIDA]	44.79	254.22	-454.39 – 543.97	0.860
Jurisdiction [MARYLAND]	94.33	247.16	-390.99 – 579.65	0.703
Jurisdiction [NEVADA]	353.89	177.95	4.48 – 703.30	0.047
Jurisdiction [NEW YORK]	83.28	243.68	-395.20 – 561.76	0.733
year [2018]	-29.95	58.98	-145.76 – 85.85	0.612
year [2019]	-82.36	57.10	-194.49 – 29.77	0.150
year [2020]	15.10	49.12	-81.36 – 111.55	0.759
year [2021]	-62.89	48.16	-157.46 – 31.67	0.192
Sector [Cannabis]	-119.71	92.33	-301.01 – 61.59	0.195
Sector [Consumer]	-21.86	50.04	-120.11 – 76.40	0.662
Sector [Energy]	0.41	58.64	-114.74 – 115.56	0.994
Sector [Financial]	-22.80	49.36	-119.71 – 74.12	0.644
Sector [Food]	-134.72	88.71	-308.91 – 39.47	0.129
Sector [General]	62.92	45.98	-27.36 – 153.19	0.172
Sector [Healthcare]	-74.79	45.45	-164.03 – 14.45	0.100
Sector [Industrial]	-28.32	54.14	-134.63 – 77.99	0.601
Sector [Materials]	67.71	112.69	-153.56 – 288.99	0.548
Sector [Media & Entertainment]	-59.94	55.80	-169.50 – 49.63	0.283
Sector [Real Estate]	-20.31	70.73	-159.18 – 118.57	0.774
Sector [Technology]	-4.43	44.04	-90.91 – 82.04	0.920
Sector [Travel & Hospitality]	-14.48	81.47	-174.46 – 145.49	0.859
Observations	685			
R ² / R ² adjusted	0.078 / 0.046			

Table 5: Regression of proceeds in each jurisdiction

As Table 5 shows, some jurisdictions have a significant effect on proceeds raised in the IPO. Both Nevada, Delaware, and the Cayman Islands provide an estimate with p-values below our threshold level of significance at 5 percent. Hence, the underwriters have an incentive to persuade the sponsor to choose a specific jurisdiction as they are related to significantly higher proceeds. In addition to having an incentive to maximize proceeds, the underwriter might have a network in a specific jurisdiction, making the IPO process more efficient.

Based on these incentives, we analyze whether the underwriters affect the initial choice of jurisdiction. As previously discussed, our main interest is to analyze why we experience an increase

in foreign domiciled SPACs. To potentially exclude underwriters as explanatory to a SPACs initial choice of jurisdiction, we utilize a logistic regression on whether the SPAC incorporates domestic or foreign using underwriter as the explanatory variable.

As the list of underwriters contains over 50 different underwriters, we present the results descriptively. Figure 13 includes the top ten underwriters by the number of IPO deals among our post-merger SPACs.

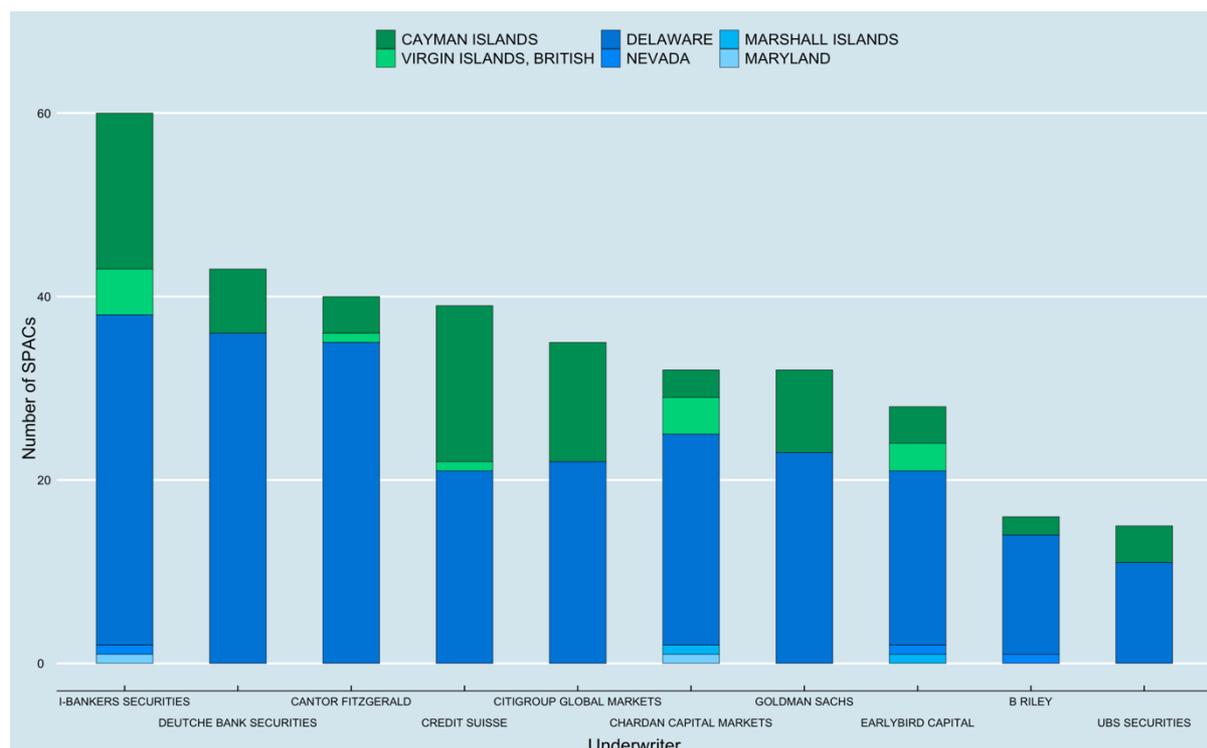


Figure 13: Top 10 underwriters by number of IPO deals

The figure displays that no underwriter within our top ten list solely assists SPACs in one jurisdiction. If any of the top ten underwriters solely assisted SPACs in one jurisdiction, this could imply that the underwriter had strong preferences towards this jurisdiction due to the incentives discussed above. As there are no such observations, it might insinuate no such effect. The regression substantiates this point as no underwriter significantly affects SPAC jurisdiction.

Almost 50 percent of underwriters also act as advisers to the SPAC and even purchase securities of their own (Shachmurove & Vulanovic, 2017). As advisers, the underwriters have influence on SPAC decisions. We infer that a single underwriter can affect SPAC decisions to a more considerable extent alone than together with other underwriters.

With no statistical evidence on influence by the different underwriters, we now want to analyze whether having only one underwriter has an effect on the jurisdiction of incorporation. To do so, we use the same regression as above in addition to including the dummy variable “*single underwriter*,” where 1 represents SPACs with a single underwriter and 0 is a SPAC with multiple underwriters.

Underwriter [WELLS FARGO SECURITIES]	0.29	7478.32	-73.25 – 72.10	1.000
Underwriter [WILLIAM BLAIR]	0.00	9224.40	-87.39 – 85.54	1.000
single underwriter	0.90	0.44	0.04 – 1.40	0.039
Sector [Cannabis]	-0.21	1.00	-2.39 – 1.67	0.832
Sector [Consumer]	0.59	0.61	-0.66 – 1.76	0.335

Table 6: Cropped version of regression of foreign SPAC on underwriters

The included regression output is a cropped version of the regression output as the other coefficients were insignificant and thereby irrelevant to the following discussion. As the regression in Table 6 shows, having only one underwriter significantly increases the probability of incorporation in a foreign jurisdiction. This provides evidence that having one underwriter does affect the choice of jurisdiction, and we cannot exclude this variable in our general explanation of why SPACs incorporate in a foreign jurisdiction.

Another possible explanation to our findings in Table 6 may be that foreign SPACs generate lower proceeds than domestic SPACs, requiring fewer underwriters. The relationship between proceeds and the number of underwriters is proven and included in Table 12 included in the Appendix. However, as shown in Table 13, we cannot find any evidence that the foreign SPACs generate lower proceeds than domestic SPACs.

Finally, to round off our discussion on an underwriter's effect on a SPAC, we want to investigate if underwriters are related to a specific type of business combination. Assume, for example, that an underwriter has assisted 100 SPACs and that 95 of these have been foreign-domestic business combinations. In that case, one would expect the subsequent SPACs with the same underwriter to perform a foreign-domestic transaction as well. This could be the case for underwriters with particular expertise in specific types of business combinations.

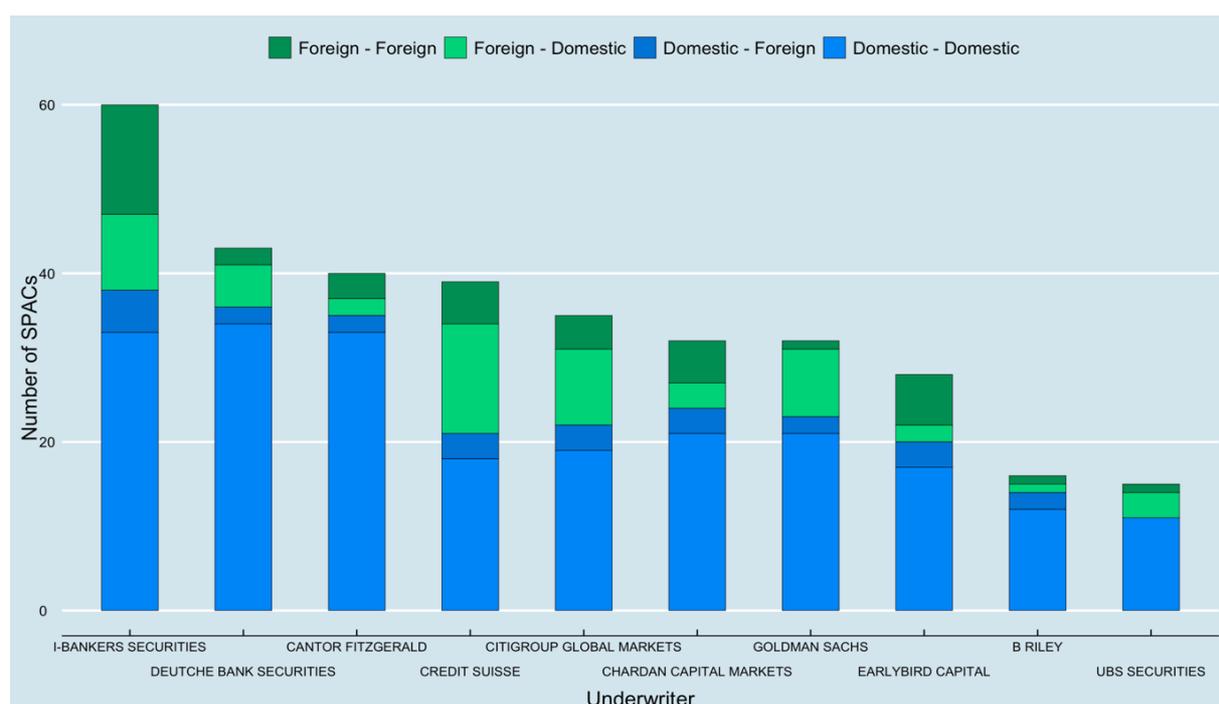


Figure 14: Top ten underwriters and the business combinations they assist

As Figure 14 shows, none of the ten largest underwriters assist exclusively in one type of business combination. For example, Credit Suisse assists many foreign-domestic combinations, while Cantor Fitzgerald works with many domestic-domestic combinations. However, all underwriters seem to assist in all four possible types of combinations. Therefore, one cannot infer that the underwriters solely assist in a specific type of combination, and that their corporate preferences influence the SPACs choice of jurisdiction.

7.3 Foreign SPACs

The main focus of this thesis is to analyze the role of taxation on the choice of jurisdiction. In chapter 7.2, we find that SPACs with a single underwriter has a greater probability of foreign incorporation. To further increase our understanding of what factors that affect the choice of jurisdiction, we want to analyze the effect of sector and year. The sponsors usually have a preferred sector chosen prior to the choice of jurisdiction. We believe that SPACs within specific sectors tend to incorporate in a foreign jurisdiction, while some SPACs in other sectors tend to incorporate domestically. Assume, for example, that a SPAC within the automotive sector incorporates domestically and achieves solid post-merger returns. In that case, one would expect that the following SPACs within the same sector would try to replicate their structure. This may include contracting the same underwriter, replicating the structure, or incorporating in the same jurisdiction. The variable year gives an insight into trends that might affect the SPAC and allows to control for fluctuations in the economy.

It is important to note that all SPACs have individual characteristics that are unobservable. An example could be that the sponsor may have individual preferences towards a specific jurisdiction. In sum, however, analyzing these variables together with our previous findings may provide a good indication of how tax implications' impact the choice of jurisdiction.

We run a regression on “*SPAC_not_US*” based on the results discussed above. This is a binary variable, which means that the outcome can only take on two values; one if the SPAC is foreign and zero if the SPAC is domestic. Due to the attributes of the dependent variable, we run a logistic regression as it is more efficient on binary classification problems. We use the data set containing pre- and post-merger observations to increase the sample size.

The regression equation can be written as:

$$\ln\left(\frac{P(SPAC_not_US = 1)}{P(SPAC_not_US = 0)}\right) = \beta_0 + \beta_1 X_{year} + \beta_2 X_{sector}$$

Contemporaneously to the previous regression, we exclude specific variables in the logistic regression. The intuition is that some variables represent choices made after the initial choice of jurisdiction. Hence, it is sensible to exclude these from the regression.

SPAC_not_US				
<i>Predictors</i>	<i>Odds Ratios</i>	<i>std. Error</i>	<i>CI</i>	<i>p</i>
(Intercept)	0.19	0.12	0.05 – 0.59	0.006
year [2018]	2.39	1.38	0.80 – 7.85	0.130
year [2019]	0.95	0.56	0.30 – 3.18	0.924
year [2020]	2.16	1.07	0.86 – 6.22	0.121
year [2021]	2.54	1.24	1.03 – 7.22	0.056
Sector [Industrial]	0.53	0.30	0.17 – 1.60	0.265
Sector [Consumer]	0.84	0.41	0.33 – 2.22	0.719
Sector [Energy]	1.58	0.86	0.54 – 4.65	0.401
Sector [Cannabis]	1.56	1.31	0.27 – 7.97	0.593
Sector [Healthcare]	1.53	0.66	0.68 – 3.68	0.320
Sector [General]	1.59	0.68	0.70 – 3.83	0.285
Sector [Financial]	1.24	0.58	0.50 – 3.18	0.643
Sector [Food]	1.47	1.21	0.26 – 7.13	0.640
Sector [Materials]	1.48	1.47	0.17 – 10.38	0.691
Sector [Media & Entertainment]	1.78	0.91	0.66 – 4.98	0.260
Sector [Real Estate]	0.76	0.53	0.18 – 2.85	0.697
Sector [Technology]	1.81	0.76	0.82 – 4.26	0.157
Sector [Travel & Hospitality]	0.77	0.59	0.15 – 3.28	0.733
Observations	686			
R ² Tjur	0.040			

Table 7: Regression output SPAC_not_US on year and sector (Automotive in intercept)

The coefficient estimates β_x can be converted to probabilities by the formula:

$$P(\text{SPAC_not_US} = 1) = \frac{e^{\beta_0 + \beta_1 X_{\text{year}} + \beta_2 X_{\text{Sector}}}}{1 + e^{\beta_0 + \beta_1 X_{\text{year}} + \beta_2 X_{\text{Sector}}}}$$

Thus, we can calculate the probability of the SPAC being foreign given the factors “Sector” and “Year”. Table 7 shows the regression output for the logistic regression, where the intercept coefficient (β_0) represents a SPAC in the automotive sector that completed their IPO in 2017. The intercept estimate is the only estimate significantly different from zero at a 1% significance level and has a value of -1,65571. When using the formula for converted probabilities, we get the

value of $P = \frac{e^{-1,65571}}{1+e^{-1,65571}} = 0,1603$. Thus, the probability of being a foreign entity in the automotive sector with IPO date in 2017 is 16%.

This is the only coefficient that is significantly different from zero on a 5% level of significance. However, it is worth noticing that the year 2021 is significant at a 10% significance level with an estimate of 0,93294, which indicates that a SPAC has a 33% chance of being foreign in that year.¹³ This represents nearly a 50% increase relative to the automotive sector in 2017. Even though we cannot reject the null hypothesis due to our threshold, it is an interesting observation that converges with the trend in Figure 5.

We find it odd that none of the sectors differs from zero, and for that reason, we run an alternative regression changing the intercept sector to see how that might affect the other variables. Interestingly, when using the industrial sector (so that it serves as an intercept), multiple sectors become significantly different from zero. The intercept remains significant with an even lower p-value. The estimates for “*Year*” remain unchanged, which is intuitive as they are compared to the same year as in the previous regression. The intercept coefficient of -2,28465 indicates a probability of 9,2% for a SPAC to be foreign if they conducted the IPO in 2017 and operate in the Industrial sector.¹⁴

¹³ $P = \frac{e^{-1,65571+0,93294}}{1+e^{-1,65571+0,93294}} = 0,3268$

¹⁴ $P = \frac{e^{-2,28465}}{1+e^{-2,28465}} = 0,0924$

<i>Predictors</i>	SPAC_not_US			
	<i>Log-Odds</i>	<i>std. Error</i>	<i>CI</i>	<i>p</i>
(Intercept)	-2.28	0.63	-3.60 – -1.12	<0.001
year [2018]	0.87	0.58	-0.22 – 2.06	0.130
year [2019]	-0.06	0.59	-1.21 – 1.16	0.924
year [2020]	0.77	0.50	-0.15 – 1.83	0.121
year [2021]	0.93	0.49	0.03 – 1.98	0.056
Sector [Automotive]	0.63	0.56	-0.47 – 1.77	0.265
Sector [Consumer]	0.45	0.52	-0.53 – 1.52	0.378
Sector [Energy]	1.09	0.57	-0.02 – 2.25	0.058
Sector [Cannabis]	1.08	0.86	-0.70 – 2.76	0.210
Sector [Healthcare]	1.06	0.47	0.19 – 2.04	0.024
Sector [General]	1.09	0.47	0.22 – 2.07	0.019
Sector [Financial]	0.84	0.50	-0.10 – 1.88	0.092
Sector [Food]	1.01	0.84	-0.75 – 2.65	0.229
Sector [Materials]	1.02	1.01	-1.14 – 3.01	0.309
Sector [Media & Entertainment]	1.21	0.54	0.17 – 2.32	0.027
Sector [Real Estate]	0.36	0.72	-1.12 – 1.74	0.616
Sector [Technology]	1.22	0.46	0.37 – 2.19	0.008
Sector [Travel & Hospitality]	0.37	0.79	-1.32 – 1.87	0.644
Observations	686			
R ² Tjur	0.040			

Table 8: Regression output SPAC_not_US on year and sector (Industrial as intercept)

Table 8 shows that four coefficients are significantly different from zero at a 5% significance level. This indicates that certain sectors have a significant effect on the choice of jurisdiction. For Technology, Healthcare, General and Media & Entertainment, these are 25,6%, 22,64%, 23,25% and 25,39%, respectively. Hence, one may expect that certain sectors have a higher probability of being related to foreign SPAC jurisdictions relative to the industrial sector.

Based on our findings in this regression, we want to gain an understanding of whether the same variables affect the structure of the business combination as well. Thus, we run a regression using the same explanatory variables but where the business combination is the dependent variable.

In this regression, it turns out that none of the estimated coefficients are significantly different from zero. For that reason, we cannot find evidence that SPACs in specific sectors tend to have a “preferred” type of business combination. However, the lack of significance in this scenario could also indicate that SPACs have effective mechanisms to manage and navigate unfavorable tax issues in cross-border business combinations (“dom-for” or “for-dom”). If this is the case, the SPACs can easily domesticate upon merger in a tax-effective manner. Hence, the initial choice of jurisdiction is of less importance than initially precepted.

It is important to keep in mind that there are only a few genuine options when choosing jurisdictions. When discussing if the SPAC is domestic or foreign, it is often a matter of whether it is based in the Caymans or Delaware. Both are well-known as preferred SPAC jurisdictions due to the favorable taxation and corporate environment. SPACs incorporated in Delaware and the Cayman Islands make up 98,85% and 92,8% of the domestic and foreign SPACs.

The initial choice of jurisdiction is complex and compound, and based on our findings, it is challenging to provide an exhaustive explanation of a SPACs jurisdiction preferences. The same applies for tax implications and their indirect and direct effects on the choice of SPAC jurisdiction and the choice of target. However, there are many interesting aspects in our findings that provide valuable insight on tax implications in the IPO process and de-SPACing. Firstly, we know that domestic SPACs prefer Delaware while foreign SPACs prefer the Caymans as the jurisdiction of incorporation. Both provide a favorable tax environment that is preferred among various corporations. Furthermore, Delaware has a business-friendly court system which makes it hassle-free to establish and domesticate to the jurisdiction.

To further increase our insight on tax implications, we may investigate how foreign SPACs consider the PFIC rules. As discussed in chapter 4.2, the PFIC rules include punitive tax regimes for some U.S. shareholders holding an interest in foreign SPACs. Generally, between 85% and 100% of the IPO proceeds are placed in interest-bearing U.S. short-term government securities (Jenkinson & Sousa, 2015). The passive income generated from the trust makes the SPAC subject to the income test under the PFIC rules. Furthermore, as SPACs do not generate any active income, the start-up exception is the only exception applicable for SPACs to avoid the PFIC status. To test whether foreign SPACs consider the PFIC rules, we examine the number of foreign SPACs that close a merger within the same tax year as the SPAC IPO.

As the SPAC is not allowed to identify a target prior to the IPO, it is challenging to find and merge with a target within the same tax year. This is mainly because most SPACs use more than 12 months to complete a merger. Furthermore, as SPAC IPOs are spread over the entire year, this

leaves certain SPACs only a few weeks or months to complete the merger. Thus, a high number of foreign SPACs merging within the same tax year as the IPO will imply that foreign SPACs strive to pursue the start-up exception. However, of our 261 post-merger SPACs, only 18 completed their merger within the same tax year as the IPO. Furthermore, only 3 of these 18 were foreign SPACs. As the PFIC rules only apply to foreign SPACs, this infers that the PFIC rules do not affect foreign SPACs to an extent where they actively pursue the start-up exception, and hence, avoid the PFIC rules.

7.4 Summary

Based on the discussion in chapter 7, we round off by summarizing the key findings. Firstly, no jurisdictions subsequently hold SPACs that yield higher returns post-merger. Secondly, there are no specific underwriters that have an effect on the choice of jurisdiction. However, we find that SPACs with only one underwriter has a significantly higher probability of foreign incorporation than SPACs with multiple underwriters. Third, multiple sectors have an effect on the choice of jurisdiction.

8 Limitations

This chapter discusses limitations and potential weaknesses to the study and the measures we take to mitigate these. Hopefully, this will enrich the reader's understanding of the study limitations and support future investigation as it ensures transparency and provides transferability and reproducibility of methods. Furthermore, it also helps with proper interpretation and validity of our findings.

8.1 Limitations of a Small Sample

When conducting research on a relatively small sample, the exact distribution of the t-statistic is complicated and depends on the unknown population distribution of the data. Hence, we may get an imprecise estimate of the effect, as visualized in Figure 15. However, if the Gauss-Markov assumptions hold, which will be discussed in the following, the OLS estimators are consistent and have sampling distributions that are normal (Stock & Watson, 2020).

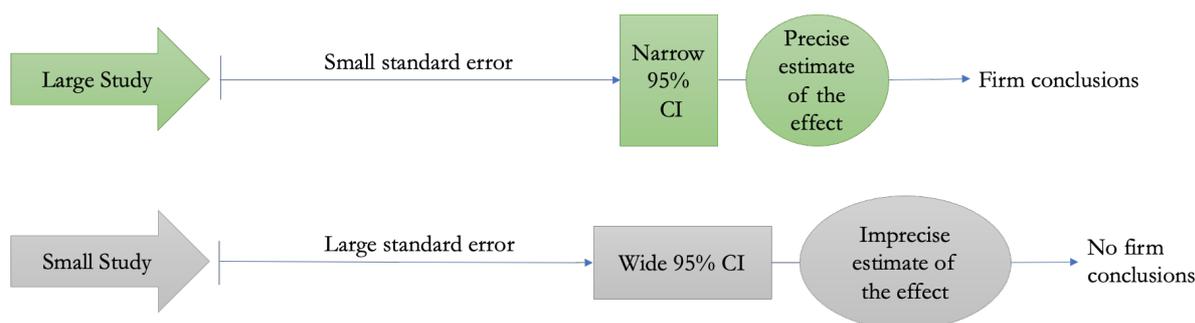


Figure 15: Schematic diagram showing how study size can influence conclusions.

8.2 Gauss Markov Assumptions

The Gauss-Markov theorem states that under a set of conditions known as the Gauss-Markov conditions, the OLS estimator $\hat{\beta}_1$ has the smallest conditional variance given X_1, \dots, X_n of all linear conditionally unbiased estimators of β_1 . In other words, the OLS estimator is the Best Linear conditionally Unbiased Estimator – that is, it is BLUE (Stock & Watson, 2020). In the following, we will give a brief introduction to these assumptions and discuss how deviations may affect our findings. One should remember that statistical properties have nothing to do with a particular sample but instead with the property of estimators when random sampling is done repeatedly (Wooldridge, 2015)

Assumption 1	The Conditional Distribution of u_i has a mean of zero
Assumption 2	Random sampling
Assumption 3	Linear in Parameters
Assumption 4	No perfect multicollinearity
Assumption 5	Homoskedasticity

Table 9: Gauss-Markov assumption 1-5

The first condition is that the conditional distribution of u_i given X_{1i}, \dots, X_{ki} has a mean of zero. In our study, there are mainly two violations of concern that may violate the first assumption, namely simultaneity and omitted variable bias. Simultaneity or reverse causation is a situation in which the explanatory variable is jointly determined with the dependent variable. For example, this might be the case for jurisdiction and geography. To mitigate the concern of these factors being determined simultaneously, we run two regressions using sector and underwriters as explanatory variables. From the regressions, we can infer that these factors only have a limited effect on jurisdiction. Thus, we can mitigate the issue of simultaneity in the analysis.

Omitted variable bias is an issue where the explanatory variable is correlated with factors in the error term, and that in part determines the dependent variable (Wooldridge, 2015). When a SPAC chooses a jurisdiction in which it seeks to incorporate, there are unobservable factors in this choice that are challenging to control for. For example, these could be personal preferences among sponsors, advice from underwriters, or a business colleague in a particular jurisdiction. However, there are still many factors that can be controlled for, and most of these apply to all SPACs. We use control variables for underwriter, time, and sector in our regression to increase the probability of discovering true effects among the population parameters. Note, however, that including too many variables may induce problems of overfitting the model, causing problems of multicollinearity.

Multicollinearity is a problem that occurs when there is high but not perfect correlation between one or more variables. It is not a violation of any of the assumptions, and hence the OLS estimators we produce are still “BLUEs”. However, multicollinearity causes a large variance of the estimators and, therefore, large standard errors, making inference difficult. To look for potential multicollinearity in our models, we apply the Variance Inflation Factor (VIF), a test that identifies correlation between the explanatory variables. When interpreting the results, we look for lower values as they infer a low correlation between the explanatory variables. When running the VIF-

tests, we obtain relatively low values where the highest one is 1,5. As 5-10 are considered critical values, we do not need to worry about multicollinearity.

Finally, our last concern regarding the Gauss-Markov assumption is that our model exhibits heteroskedasticity. With heteroskedasticity, the variance-formulas are invalid. Hence, we cannot know how precise our estimators are. We use a Breuch-Pagan with a null hypothesis of homoskedasticity and obtain a p-value of 0,0028. Hence, we have to reject the null hypothesis. One might infer that using heteroskedasticity-robust standard errors could solve the issue. However, as our sample size is small, this could throw off valuable inference. For that reason, we find it more legitimate to exclude extreme observations. Moreover, heteroskedasticity does not result in biased estimators, and hence, we can causally interpret the point estimates obtained from our regressions.

8.3 Autocorrelation

Autocorrelation is the correlation between the values of an independent variable in the data set. This type of correlation may implicate the conventional analysis, which assumes independence of observations (Statistic solutions, 2021). Autocorrelation usually causes problems in time-series data, but as it may also occur within cross-sectional data, we need to test whether this causes problems to our model. To test for autocorrelation, we use a Durbin-Watson test, which yields an estimator that ranges from 0 to 4, where values close to 2 indicate no or little autocorrelation. When we run the test on our logistic regression on foreign domiciled SPACs, we achieve a test statistic of 1,8435 with a p-value of 0,024. Hence, there is close to no autocorrelation in the model, which means that the choice of jurisdiction in the past has no effect on the choice of jurisdiction today.

8.4 Concluding Remarks on Limitations and Validity

To conclude our discussion on limitations to our study, one might infer that we must settle for less conclusive results when constrained with a relatively small sample. However, as the Gauss Markov assumptions 1-4 seem to be satisfied, the OLS estimator is unbiased. Hence, we can infer that the coefficients we obtain in our regressions represent causal effects on the dependent variable, as heteroskedasticity does not threaten the interpretation of the point estimates. Furthermore, by using the Durbin-Watson estimator, we can also conclude that there is no autocorrelation in our model.

9 Conclusion

This thesis investigates how taxation affects SPACs' initial choice of jurisdiction. Furthermore, we seek to understand how SPACs navigate cross-border tax issues and why we see an increasing preference towards incorporation abroad despite harsh tax regimes on foreign corporations. In order to answer the research question, we utilize multiple regression models to measure how explanatory factors may affect jurisdiction preferences. The variables included in our models are based on extensive literature readings and data from our primary sources.

The main takeaway from the first regression is that no jurisdiction subsequently produces higher returns when controlling for outliers. This accounts for both one-month and six-month post-merger returns. Even though some SPACs have outstanding one-month post-merger returns, both domestic and foreign SPACs yield negative returns with six-month returns worse than one-month. From these findings, we cannot infer that a SPAC incorporates in a specific jurisdiction based on expected returns.

In subchapter 7.2, we look at how underwriters may affect SPAC decisions. We find no evidence that an underwriter solely assists in one specific type of business combination. Furthermore, we cannot evidence that a specific underwriter affects the SPACs choice of jurisdiction. However, we find that if only one underwriter is contracted in the SPAC IPO, there is a significantly higher probability that the SPAC will be domiciled offshore. Hence, we can infer that an underwriter assisting alone has an effect on the initial choice of jurisdiction.

In the following subchapter, we find that some sectors have an effect on the choice of SPAC jurisdictions. More precisely, we indicate that Healthcare, Media & Entertainment, and Technology hold the respective probabilities of being foreign: 22,64%, 25,39%, and 25,66%. This is significantly higher than multiple other sectors, which implies that the SPACs' preferred sector influences the choice of jurisdiction. However, one cannot argue that the effect is exhaustive, and that sector explains variation in jurisdiction as such.

In chapter 3.1, we observe the increase in foreign SPACs over the last year. Despite this trend, most SPACs still merge with a domestic target, which causes an increase in cross-border business combinations. As neither underwriters nor post-merger returns can explain why there is an increased preference towards the foreign jurisdiction, one might argue that cross-border mergers have less tax implications than precepted. SPACs have effective mechanisms to avoid and navigate complex tax issues such as the anti-inversion rules and the PFIC rules. For that reason, tax implications are not as crucial for a SPACs initial choice of jurisdiction.

Further supporting this theory, we discuss in chapter 4 how targets may use SPACs to invert into a foreign jurisdiction to take advantage of lower tax rates. As long as the original shareholders of the domestic target own less than 80 percent of the newly merged entity, it will be treated as foreign for U.S. tax purposes. Voget (2010) finds that 6% of the corporations in his data set invert to foreign jurisdictions. This provides an attractive opportunity for SPACs because they can incorporate foreign and just wait for a target that seeks to invert, hence increasing the probability of a successful merger. This represents a win-win both for the inverting targets and for the sponsor that pockets a solid profit upon the completion of the transaction. If this is the case, SPACs provide a low-tax getaway for domestic companies as long as the anti-inversion rules are navigated.

As with any other profit-maximizing corporation, SPACs consider tax implications in order to optimize costs. Even though many SPACs seem relatively indifferent to being a foreign or domestic entity, the pattern within a jurisdiction is clear. SPACs incorporated in Delaware and the Cayman Islands make up 98,85% and 92,8% of the domestic and foreign SPACs. In other words, the great majority are incorporated in tax havens, which also provides an attractive inversion opportunity to targets. Based on our findings, we conclude that SPACs consider the various tax implications when incorporating. However, these implications are not crucial as SPACs have efficient mechanisms for navigating cross-border transactions in a tax-effective manner, thereby making them experts on taxation.

Appendix

Table 10: Cropped version of regression on one-month return with SPAC and NEWCO jurisdiction as explanatory and year and sector as control variables. The regression output is cropped due to no other significant variables.

<i>Predictors</i>	1 month return			
	<i>Estimates</i>	<i>std. Error</i>	<i>CI</i>	<i>p</i>
(Intercept)	37.10	37.79	-37.43 – 111.63	0.327
SPAC jurisdiction [DELAWARE]	-2.55	5.55	-13.50 – 8.39	0.646
SPAC jurisdiction [FLORIDA]	-40.68	34.15	-108.02 – 26.67	0.235
SPAC jurisdiction [MARYLAND]	6.97	31.87	-55.88 – 69.82	0.827
SPAC jurisdiction [NEVADA]	76.77	32.14	13.39 – 140.16	0.018
SPAC jurisdiction [VIRGIN ISLANDS, BRITISH]	0.07	18.40	-36.22 – 36.35	0.997
Newco jurisdiction [BERMUDA]	-17.58	37.73	-91.98 – 56.82	0.642
Newco jurisdiction [BRITISH COLOMBIA, CANADA]	-8.31	50.62	-108.14 – 91.53	0.870
Newco jurisdiction [CAYMAN ISLAND]	-28.35	32.79	-93.01 – 36.31	0.388
Newco jurisdiction [CYPRUS]	-45.63	49.63	-143.52 – 52.25	0.359
Newco jurisdiction [DELAWARE]	-24.56	32.71	-89.07 – 39.96	0.454
Newco jurisdiction [GUERNSEY]	-8.41	46.13	-99.39 – 82.56	0.855
Newco jurisdiction [HONG KONG]	-16.09	47.69	-110.13 – 77.95	0.736
Newco jurisdiction [INDIA]	-12.40	45.95	-103.03 – 78.22	0.788
Newco jurisdiction [ISRAEL]	-37.24	35.63	-107.51 – 33.02	0.297
Newco jurisdiction [JERSEY, CHANNEL ISLANDS]	-8.52	43.99	-95.27 – 78.22	0.847
Newco jurisdiction [LUXEMBOURG]	6.71	44.88	-81.81 – 95.23	0.881
Newco jurisdiction [MARYLAND]	-13.90	44.92	-102.48 – 74.68	0.757

Table 11: Cropped version of regression on six-month return with SPAC and NEWCO jurisdiction as explanatory and year and sector as control variables. The output is cropped due to no other significant variables.

<i>Predictors</i>	6 month return			
	<i>Estimates</i>	<i>std. Error</i>	<i>CI</i>	<i>p</i>
(Intercept)	43.59	57.84	-71.08 – 158.27	0.453
SPAC jurisdiction [FLORIDA]	-96.78	51.90	-199.66 – 6.11	0.065
SPAC jurisdiction [CAYMAN ISLANDS]	3.70	11.83	-19.75 – 27.16	0.755
SPAC jurisdiction [MARSHALL ISLANDS]	-53.45	46.80	-146.24 – 39.35	0.256
SPAC jurisdiction [MARYLAND]	141.18	47.27	47.46 – 234.90	0.004
SPAC jurisdiction [NEVADA]	3.48	48.93	-93.54 – 100.49	0.943
SPAC jurisdiction [VIRGIN ISLANDS, BRITISH]	4.16	27.95	-51.25 – 59.57	0.882
Newco jurisdiction [BERMUDA]	-45.13	57.65	-159.42 – 69.16	0.435
Newco jurisdiction [BRITISH COLOMBIA, CANADA]	-0.92	84.64	-168.72 – 166.88	0.991
Newco jurisdiction [CAYMAN ISLAND]	-61.25	49.97	-160.31 – 37.81	0.223
Newco jurisdiction [DELAWARE]	-45.73	50.27	-145.41 – 53.94	0.365
Newco jurisdiction [GUERNSEY]	-22.43	70.36	-161.93 – 117.07	0.751
Newco jurisdiction [HONG KONG]	-103.67	71.81	-246.05 – 38.70	0.152
Newco jurisdiction [ISRAEL]	-44.68	68.30	-180.10 – 90.74	0.514
Newco jurisdiction [JERSEY, CHANNEL ISLANDS]	-13.73	66.33	-145.25 – 117.78	0.836
Newco jurisdiction [LUXEMBOURG]	-68.43	67.66	-202.57 – 65.70	0.314
Newco jurisdiction [MARYLAND]	-73.45	69.90	-212.03 – 65.12	0.296
Newco jurisdiction [MEXICO]	105.06	70.23	-34.18 – 244.30	0.138

Table 12: Regression of Proceeds (\$M) in the IPO with number of underwriters as explanatory and sector and year as control variables.

<i>Predictors</i>	Proceeds		
	<i>Estimates</i>	<i>CI</i>	<i>p</i>
(Intercept)	207.44	-37.64 – 452.53	0.097
Number of underwriters	27.49	10.72 – 44.27	0.001
Sector [Cannabis]	-156.14	-419.67 – 107.40	0.244
Sector [Consumer]	-64.83	-195.51 – 65.85	0.329
Sector [Energy]	41.71	-90.05 – 173.47	0.533
Sector [Financial]	-12.77	-124.41 – 98.87	0.822
Sector [Food]	-61.35	-218.86 – 96.15	0.444
Sector [Healthcare]	-36.47	-137.94 – 64.99	0.480
Sector [Industrial]	-10.51	-122.41 – 101.39	0.853
Sector [Materials]	113.17	-117.70 – 344.05	0.335
Sector [Media & Entertainment]	-61.60	-205.32 – 82.12	0.399
Sector [Real Estate]	17.06	-147.46 – 181.58	0.838
Sector [Technology]	10.36	-92.87 – 113.59	0.843
Sector [Travel & Hospitality]	40.59	-157.62 – 238.81	0.687
year [2017]	29.34	-231.23 – 289.90	0.825
year [2018]	-25.60	-266.05 – 214.85	0.834
year [2019]	12.15	-230.17 – 254.46	0.921
year [2020]	10.06	-222.53 – 242.65	0.932
year [2021]	41.43	-189.04 – 271.90	0.724
Observations	260		
R ² / R ² adjusted	0.082 / 0.013		

Table 13: Regression on Proceeds with a dummy indicating foreign SPAC as explanatory and sector and year as control variables.

<i>Predictors</i>	Proceeds (\$M)			
	<i>Estimates</i>	<i>std. Error</i>	<i>CI</i>	<i>p</i>
(Intercept)	328.87	59.86	211.33 – 446.41	<0.001
SPAC not US [1]	11.46	19.30	-26.44 – 49.36	0.553
year [2018]	-48.48	58.42	-163.19 – 66.24	0.407
year [2019]	-73.11	56.89	-184.81 – 38.59	0.199
year [2020]	33.10	48.66	-62.45 – 128.65	0.497
year [2021]	-41.47	47.61	-134.95 – 52.01	0.384
Sector [Cannabis]	-113.18	93.19	-296.17 – 69.80	0.225
Sector [Consumer]	-29.75	50.45	-128.81 – 69.31	0.556
Sector [Energy]	-10.96	59.09	-126.98 – 105.06	0.853
Sector [Financial]	-25.78	49.66	-123.29 – 71.74	0.604
Sector [Food]	-118.37	89.45	-294.01 – 57.27	0.186
Sector [General]	49.11	46.22	-41.66 – 139.87	0.288
Sector [Healthcare]	-88.09	45.70	-177.82 – 1.64	0.054
Sector [Industrial]	-35.02	54.62	-142.26 – 72.22	0.522
Sector [Materials]	71.02	113.75	-152.34 – 294.37	0.533
Sector [Media & Entertainment]	-73.95	56.19	-184.27 – 36.37	0.189
Sector [Real Estate]	-22.23	71.39	-162.41 – 117.94	0.756
Sector [Technology]	-8.91	44.37	-96.03 – 78.22	0.841
Sector [Travel & Hospitality]	-27.82	79.60	-184.11 – 128.48	0.727
Observations	685			
R ² / R ² adjusted	0.053 / 0.028			

Bibliography

- Appleby. (2020, July 27). *THE USE OF CAYMAN ISLANDS STRUCTURES FOR SPAC IPOs*. Retrieved from Appleby: <https://www.applebyglobal.com/publications/the-use-of-cayman-islands-structures-for-spac-ipos/>
- Bakale, A. (2021). *The Tax Adviser*. Retrieved from PFIC considerations for non-US SPACs: <https://www.thetaxadviser.com/issues/2021/aug/pfic-non-us-spacs.html>
- Batsev, D., & Katz, J. (2021). *Lazard Insights*. Retrieved from How SPAC Skepticism Has Given PIPE Investors an Edge: https://www.lazardassetmanagement.com/us/en_us/research-insights/lazard-insights/spac-skepticism-pipe-edge
- Bazerman, M., & Patel, P. (2021). *Harvard Business Review*. Retrieved from <https://hbr.org/2021/07/spacs-what-you-need-to-know>
- BDO. (2021). Retrieved from <https://www.bdo.com/insights/assurance/accounting-and-reporting-advisory/bdo-knows-spacs-tax-considerations-for-choosing-th>
- Blikshteyn, V. (2011, October 1). *Passive Foreign Investment Companies*. Retrieved from The Tax Advisor: <https://www.thetaxadviser.com/issues/2011/oct/clinic-story-04.html>
- Bloomberg Law. (2021). *Bloomberg Law*. Retrieved from <https://news.bloomberglaw.com/bloomberg-law-analysis/analysis-post-merger-spac-performance-is-mixed>
- Bloomberg Tax. (2021). 'Domesticating' SPACs Gives Rise to Shareholder Level Tax Consequences.
- Boardroom Alpha. (2021). *SPAC Analytics*. Retrieved from boardroom alpha: https://app.boardroomalpha.com/spac_tracking/despac
- Bodoh, D. (2021). *U.S. and Latin America Tax Practice Trends*. International Bar Association.
- Bodoh, D., & Greg, F. (2021). *Weil*. Retrieved from Practical PFIC Considerations in Connection with SPACs: <https://tax.weil.com/legal-developments/practical-pfic-considerations-in-connection-with-spacs/>
- Bodoh, D., Magill, G., Nissan, M., & Pari, J. (2020). *Cutting Edge Tax Issues with SPACs: Creative Approaches and Pragmatic Solutions*. Weil, Gotshal & Manges LLP.

- Boyte-White, C. (2021, June 8). *Tax Haven Vs. Tax Shelters: Is There a Difference?* Retrieved from Investopedia: <https://www.investopedia.com/articles/personal-finance/093015/tax-haven-vs-tax-shelters-there-difference.asp>
- Boyte-White, C. (2021, January 27). *Why Are the Cayman Islands Considered a Tax Haven?* Retrieved from Investopedia: <https://www.investopedia.com/ask/answers/100215/why-cayman-islands-considered-tax-haven.asp>
- Buffet, W. (2021). Berkshire Hathaway Annual Shareholders Meeting.
- Button et al. (2013). *Power failure: why small sample size undermines the reliability of neuroscience*. Nature Reviews Neuroscience volume.
- CBIZ. (2021). *Tax and SPAC - The Tax Ramifications of Going Public with a SPAC*. Retrieved from CBIZ: <https://www.cbiz.com/insights/articles/article-details/tax-and-spac-the-tax-ramifications-of-going-public-with-a-spac>
- CFI Education Inc. (n.d.). *What is a Special Purpose Acquisition Company (SPAC)?* Retrieved from Corporate Finance Institute: <https://corporatefinanceinstitute.com/resources/knowledge/strategy/special-purpose-acquisition-company-spac/>
- Damodoran, A. (2021). *The Rise of SPACs: IPO Disruptors or Blank Check Distortions?* Retrieved from Musings on Markets: <https://aswathdamodaran.blogspot.com/2021/06/the-rise-of-spacs-ipo-disruptors-or.html>
- Deal Point Data. (2021). Retrieved from https://www.dealpointdata.com/res/dpd_spac_study_q2_update_july_2021.pdf
- de Heredia, T., Fernandez-Galiano, J., & Garcia, M. (2021). *The SPACs boom: Europe picks up the pace*. Deloitte Insights.
- Deloitte. (2020). *IPOs and the resurgence of SPACs*. Retrieved from <https://www2.deloitte.com/content/dam/Deloitte/us/Documents/Tax/ma-tax-talk-private-equity-series-ipos-and-spacs.pdf>
- Desai, & Hines. (2002). Expectations and expatriations: tracing the causes and consequences of corporate inversions. *National Tax Journal*.
- Dimitrova, L. (2017). Perverse incentives of special acquisition companies, the "poor man's private equity funds". *Journal of Accounting and Economics (JAE)*.

- Ellentuck, A. (2012). *The Tax Advisor*. Retrieved from <https://www.thetaxadviser.com/issues/2012/aug/casestudy-aug12.html>
- Founders Circle Capital. (2021). *SPAC - An Alternative Route to Going Public*. Retrieved from Founders Circle: <https://www.founderscircle.com/spac-an-alternate-route-to-going-public/>
- Freedman, R. (2021, April 15). *SEC taking hard look at SPAC warrants, disclosures*. Retrieved from CFO DIVE: <https://www.cfodive.com/news/sec-spac-warrants-disclosures-Munter-coates-pslra-accounting/598470/>
- Freedman, R. (2021, April 19). *SPAC warrants as liability called an expensive change*. Retrieved from CFO DIVE: <https://www.cfodive.com/news/spac-warrants-liability-change-SEC-CFO-accounting-antoniades/598655/>
- Frost Brown Todd LLC. (2021). A Tax Practitioner's Guide to F Reorganizations.
- Gahng, M., Ritter, J., & Zhang, D. (2021). *SPACs*. University of Florida.
- Gara, A., & Haverstock, E. (2020). How SPACs became Wall Street's money tree. *Forbes*.
- Gianni, M. (2014). PFICS GONE WILD! *Akron Tax Journal*.
- Haredia, T., Fernandez-Galiano, J., & Garcia, M. (2021). *The SPACs boom*. Deloitte.
- Heyman, W. (2007). From Blank Check to SPAC: The Regulator's Response to the Market, and the Market's Response to the Regulation. *Entrepreneurial Business Law Journal*.
- Hochberg, J. (2021). *Are Foreign SPACs PFICs and should investors care?* Tax Forum.
- IRS. (2020). *Development of IRC 367 Transactions and Issues*. Retrieved from https://www.irs.gov/irm/part4/irm_04-061-011#idm140361038602432
- Jenkinson, T., & Sousa, M. (2015). Why SPAC Investors Should Listen to the Market. *Journal of Applied Finance*.
- Kallen, C. (2021, April). *Tax Foundation*. Retrieved from <https://taxfoundation.org/biden-international-tax-proposals/>
- Klausner, M., Ohlrogge, M., & Ruan, E. (2021). *A Sober Look at SPACs*. ECGI.
- Lakicevic, & Vulcanovic. (2013). A Story on SPACs. In *Managerial Finance* (pp. 384-403).

- Li, Y. (2021, April 21). *SPAC transactions come to a halt amid SEC crackdown, cooling retail investor interest*. Retrieved from CNBC Markets: <https://www.cnbc.com/2021/04/21/spac-transactions-come-to-a-halt-amid-sec-crackdown-cooling-retail-investor-interest.html?&qsearchterm=spac>
- Mayer Brown. (2021). *The Up-C Structure in IPOs*. Retrieved from <https://www.mayerbrown.com/-/media/files/perspectives-events/publications/2019/05/on-point--upc-structure-7311324018converted.pdf>
- Mayer Hoffman McCann P.C. (2021). Retrieved from <https://www.mhmcpa.com/insights/article/tax-and-spac-the-tax-ramifications-of-going-public-with-a-spac>
- Murphy, C. (2020, November 1). *Roadshow*. Retrieved from Investopedia: <https://www.investopedia.com/terms/r/roadshow.asp>
- Nathan, A., Galbraith, G. L., & Grimberg, J. (2021, January 28). *TOP of MIND: The IPO SPAC-tacle*. Retrieved from Goldman Sachs: <https://www.goldmansachs.com/insights/pages/top-of-mind/the-ipo-spac-tacle/report.pdf>
- Naumovska, I. (2021). *The SPAC Bubble Is About to Burst*. Retrieved from Harvard Business Review: <https://hbr.org/2021/02/the-spac-bubble-is-about-to-burst>
- Oates, M., Helderman, P., & Gelernter, J. (2021). *Foreign Domiciled Special Purpose Acquisition Companies (SPACs)*. Retrieved from Withum: <https://www.withum.com/wp-content/uploads/2021/01/FOREIGN-DOMICILED-SPACs.pdf>
- Picker, L. (2021, May 3). How Biden's new capital gains tax proposal is could impact SPACs. (A. R. Sorkin, Interviewer)
- Pulvino, & Mitchell. (2012). Arbitrage crashes and the speed of capital. *Journal of Financial Economics*.
- Ritter, J. R. (2021). *Initial Public Offerings*. University of Florida.
- Roberts, M., & Weston, G. (2021, June 15). *'De-SPAC' Transactions: A Cayman Islands and British Virgin Islands Perspective*. Retrieved from Business Law Today: <https://businesslawtoday.org/2021/06/de-spac-transactions-a-cayman-islands-and-british-virgin-islands-perspective/>

- Rodrigues, & Stegemoller. (2012). Exit, Voice, and Reputation: The Evolution of SPACs. *37 Del. J. Corp. L.* 849.
- Ross, P., & Zaidi, N. (2019). *Limited by our limitations*. Nederlandse Vereniging voor Medisch Onderwijs.
- Santos, D., & Clower, C. (2020). *Adaptive*. Retrieved from What Is A SPAC?:
<https://www.adaptive.sg/content/uploads/Adaptive-SPAC-2021-FINAL.pdf>
- Seida, & Wempe. (2004). Effective tax rate changes and earnings stripping following corporate inversion. *National Tax Journal*.
- Samuels, A. (2016, October 3). *Tee Tiny State Whose Laws Affect Workers Everywhere*. Retrieved from The Atlantic: <https://www.theatlantic.com/business/archive/2016/10/corporate-governance/502487/>
- Shachmurove, Y., & Vulanovic, M. (2017). SPAC IPOs. *Oxford Handbook of IPOs*, 1-25.
- Shanda Consult. (2018). *SPACs Step-By-Step - from the Sponsor to IPO to Acquisition*. Retrieved from Shanda Consult: <https://shandaconsult.com/spacs/spacs-how-does-it-work/>
- Sheppard, & Thompson. (2002). Preventing corporate inversions. *Tax Notes International*.
- Sorkin, A. R., Hirsch, L., de la Merced, M., & Karaian, J. (2020). The Urge to Reverse Merge. *The New York Times*.
- Statistic solutions. (2021). *Autocorrelation*. Retrieved from Complete Dissertation:
<https://www.statisticssolutions.com/dissertation-resources/autocorrelation/>
- Stern, C., & Hubbard, M. (2021, June 7). *Special Purpose Acquisition Company (SPAC) - Is this tax vehicle a BLANK CHECK?* Retrieved from mazars: <https://blog.mazars.us/special-purpose-acquisition-company-spac-is-this-tax-vehicle-a-blank-check/>
- Stock Market MBA. (2020, August 5). *What is a private foreign issuer?* Retrieved from Stock Market MBA: <https://stockmarketmba.com/whatisforeignprivateissuer.php>
- Stock, J., & Watson, M. (2020). *Introduction to Econometrics 4th edition*. Pearson.
- Sullivan & Cromwell LLP. (2017). *Corporate Inversion Transactions*. New York: Sullivan & Cromwell LLP.

-
- Tarver, E. (2020, December 31). *Why Delaware Is Considered a Tax Shelter*. Retrieved from Investopedia: <https://www.investopedia.com/articles/personal-finance/092515/4-reasons-why-delaware-considered-tax-shelter.asp>
- U.S. SEC. (2021, May 25). *What You Need to Know About SPASs - Updated Investor Bulletin*. Retrieved from U.S. SECURITIES AND EXCHANGE COMMISSION: <https://www.sec.gov/oiea/investor-alerts-and-bulletins/what-you-need-know-about-spacs-investor-bulletin>
- Uradu, L. (2021, June 12). *Why Is Delaware Considered a Domestic Tax Haven?* Retrieved from Million acres: <https://www.millionacres.com/taxes/articles/why-is-delaware-considered-a-domestic-tax-haven/>
- VanderWolk, J. P. (2010). Inversions under Section 7874 of the Internal Revenue Code: Flawed Legislation, Flawed Guidance. *Northwestern Journal of International Law & Business*, 699-720.
- Voget, J. (2010). Relocation of headquarters and international taxation. *Journal of Public Economics*.
- Voxco. (2021). *A Detailed Guide On Control Variables: What, Why, And How*. Retrieved from Voxco: <https://www.voxco.com/blog/a-detailed-guide-on-control-variables-what-why-and-how/>
- Williams, W. (2021, February 5). *How Delaware Thrives as a Business Tax Haven*. Retrieved from Incfile: <https://www.incfile.com/blog/post/how-delaware-thrives-business-tax-haven>
- Wong, A. (2012). *The Tax Adviser*. Retrieved from <https://www.thetaxadviser.com/issues/2012/oct/clinic-story-07.html>
- Wooldridge, J. (2015). *Introductory Econometrics 6th edition*.