WEDNESDAY 11:00-12:30

TXPSD01 *Chair : Christoph Watrin* Room : **Amphi 2**

The Importance Of The Internal Information Environment For Tax Avoidance

Discussant : *Petro Lisowsky*

Author : *EVA LABRO, UNIVERSITY OF NORTH CAROLINA AT CHAPEL HILL*

EA = Empirical Archival

Co-authors : *John Gallemore, University of North Carolina at Chapel Hill*

We show that firms' ability to avoid taxes is greatly affected by the quality of the firm's internal information environment, with effective tax rates (ETRs) substantially lower for high internal information quality firms. Furthermore, we show that firms that experience an internal information quality improvement (reduction) are reducing (increasing) their ETRs. Cross-sectionally, the effect of internal information quality on tax avoidance is strongest for firms in which information is likely to play a more important role. First, firms with high coordination needs because of their dispersed geographical or business industry presence benefit more from the reduced information asymmetry and improved information coordination between their various business units, allowing for more effective tax planning. Second, firms that are operating in a more uncertain environment are able to offset some of the negative effect of uncertainty on their ETRs through the quality of their internal information system. Because lower ETRs are obtained through better internal information quality, they do not come at the cost of increased risk in the tax positions taken: unrecognized tax benefits and ETR volatility are lower in high quality information environments.

WEDNESDAY 11:00-12:30

TXPSD01 *Chair : Christoph Watrin* Room : **Amphi 2**

Profit Shifting Channels Of Multinational Firms - A Meta Study

Discussant : *David Harris*

Author : *MICHAEL OVERESCH, UNIVERSITY OF COLOGNE*

EA = Empirical Archival

Co-authors : *Jost H. Heckemeyer, University of Mannheim*

This paper provides a quantitative review of the empirical literature on profit shifting behavior of multinational firms. We synthesize the evidence from 23 studies and find a substantial response of profit measures to international tax rate differentials. A first interesting result of the meta-regression analysis is a significantly higher tax semi-elasticity of subsidiary profit as compared to EBIT. Moreover, neglecting the worldwide tax incentives of the multinational firm leads to a significant downward bias in estimated tax effects on subsidiary profit while omitting the additional real investment effects of international tax rate differentials is associated with overstated tax effects. The tax response is even smaller if the home country is the US. Moreover, we disentangle the tax response by means of financial planning from the transfer pricing and licensing channel. Interestingly, our results suggest that transfer pricing and licensing is the dominant profit shifting channel.

MONDAY 17:45-19:15

TXPS02 *Chair : Elisabetta Maffrolla* Room : **A411**

Dividend Tax Capitalization And Liquidity

Author : *STEPHANIE SIKES, PENNSYLVANIA UNIVERSITY / THE WHARTON SCHOOL*

EA = Empirical Archival

Co-authors : *Robert Verrecchia, University of Pennsylvania*

We provide a new explanation for cross-sectional variation in dividend tax capitalization. Using historical dividend tax rates from 1988-2006, we find that lower liquidity amplifies the positive relation between expected rates of return and the dividend tax rate documented in prior literature. Our results suggest that prior studies that conclude that institutional ownership mitigates dividend tax capitalization due to institutional investors being tax-exempt or insensitive to dividend tax rate changes suffer from an omitted correlated variable: liquidity.

MONDAY 17:45-19:15

TXPS02 — Chair : Elisabetta Maffrolla — Room : **A411**

The Effects Of Tax Depreciation On The Level Of Investment - An Empirical Analysis

Author : DOROTHEA VORNDAMME, GOETTINGEN UNIVERSITY

Co-authors : ,

EA = Empirical Archival

Investments are of crucial importance for economic growth and employment, and possible determinants of investment behavior are manifold. In theory, enhanced tax depreciation regulations stimulate investment because of their impact on the cost of capital. Against the background of an increasing importance of small and medium-sized firms, the impact of tax incentives on such companies is of particular interest. Using a panel dataset of public and private European companies, this paper investigates the impact of tax depreciation on the level of investment. I apply an OLS approach to determine investment impacts in the cross section. Effects of tax depreciation over time are analyzed using a dynamic panel data model. In this regard, tax depreciation is considered by way of the present value of depreciation allowances. I find a positive association between tax depreciation and investment, both in the cross-section and over time. This relation is most strongly pronounced for companies with a high ratio of depreciable assets to total assets and does only hold for companies that are likely to pay taxes. I consider whether firms respond differently to changes in tax depreciation regulations depending on their size, and find that small companies show the greatest reaction to changes in tax depreciation. The results are important for policy makers aiming to stimulate investment activity, particularly against the background of current discussions concerning the implementation of a CCCTB.

MONDAY 17:45-19:15

TXPS02 — Chair : Elisabetta Maffrolla — Room : **A411**

Tax Planning And Tax Planning Effectiveness In Smes

Author : STEVE VAN UYTBERGEN, K.U.LEUVEN

Co-authors : Kathleen Andries, KU Leuven | Thomas More
Martine Cools, KU Leuven | Thomas More
Alexandra Van Den Abbeele, KU Leuven

SU = Survey

This study documents to what extent small and medium-sized enterprises (henceforth SMEs) are effectively planning their taxes, the determinants of the tax planning process and how the tax planning process influences outcome measures such as effective tax rates. We draw on the upper echelons theory to investigate whether the characteristics of the finance manager determine the likelihood of planning taxes in SMEs. Our study uses the semi-experimental setting of the Belgian Tax Reform in 2005 as an exogenous shock that provided incentives to nearly all companies established in Belgium to plan their corporate income taxes. Using both survey-gathered data and financial statement data on 112 SMEs, we find that the education, the tenure and the knowledge of the finance manager as well as a prior engagement with an external tax advisor prove to be strong determinants of tax planning. Also, our results suggest that an SME's tax planning affects the effective tax rate, but the finance manager or firm characteristics of interest do not.

TUESDAY 11:00-12:30

TXPS01 — Chair : GERARDINE DOYLE — Room : **A305**

Who Participates In Tax Avoidance?

Author : MARTIN JACOB, WHU - OTTO BEISHEIM SCHOOL OF MANAGEMENT

Co-authors : Annette Alstadsæter, University of Oslo

EA = Empirical Archival

This paper analyzes the sources of heterogeneity in tax avoidance strategies across individuals. Three conditions are required for a taxpayer to participate in legal tax avoidance: incentive, access, and awareness. Using a rich Swedish administrative panel data set, we analyze participation in income shifting around the 2006 Swedish tax reform. Using a unique link between corporate and individual tax returns, we can identify income shifting with closely held corporations. Our results suggest that some of these firms are not used to generate additional income, but to facilitate income shifting across tax bases to reduce the overall tax burden. We find that both tax incentives and awareness of the tax incentives matter for the decision to access income-shifting opportunities. Our results show that factors explaining the participation in legal tax avoidance substantially differ from those of illegal tax evasion.

TUESDAY **11:00-12:30**

TXPS01

Chair : GERARDINE DOYLE Room : **A305**

The Effect Of The Shareholder Dividend Tax Policy On Corporate Tax Avoidance And The Conflicts Of Interest Between Managers And Shareholders

Author : *ANDREW BAUER, UNIVERSITY OF ILLINOIS AT URBANA-CHAMPAIGN* EA = Empirical Archival

Co-authors : *Dan Amiram, Columbia University*
Mary Margaret Frank, University of Virginia

This study investigates the effects of shareholder dividend tax policies on the incentives of managers to avoid corporate taxation and to align with shareholders' interests. In contrast to a classical tax system, a dividend imputation tax system eliminates the double taxation of corporate earnings by crediting the shareholders for the amount of taxes that the corporation pays. As a result, corporate tax avoidance is less desirable for these shareholders because tax avoidance structures are costly and do not provide additional after-tax cash flows to them. On the other hand, tax avoidance increases corporate-level net income and free cash-flows and thus may provide incentives to managers to engage in such activities. Using a difference-in-differences design we examine firms from countries that eliminate their imputation system and find that tax avoidance significantly increases after the change relative to a control group of countries that have not changed their tax policy. We also find that firms from countries with imputation systems have significantly lower tax avoidance relative to other firms. In addition, we find that firms from countries with full imputation systems avoid less tax than firms from countries with only partial imputation systems. Our findings have implications for our understanding of agency conflicts, managerial incentives to avoid tax and the debate over tax reform.

TUESDAY **11:00-12:30**

TXPS01

Chair : GERARDINE DOYLE Room : **A305**

Corporate Governance, Incentives, And Tax Avoidance

Author : *ALAN JAGOLINZER, UNIVERSITY OF COLORADO AT BOULDER* EA = Empirical Archival

Co-authors : *Christopher Armstrong, Wharton*
Jennifer Blouin, Wharton
Dave Larcker, Stanford

This paper examines the link between corporate governance, managers' incentives, and tax avoidance. We take the perspective that tax avoidance is simply one of many investment projects faced by the firm and agency problems may cause the manager to over- or under-invest in tax avoidance relative to the desire of shareholders. Using quantile regression, we find that the impact of corporate governance on firms' tax avoidance appears to be most pronounced in the upper and lower tails of the tax avoidance distribution, which is arguably the area of most interest to researchers and regulators. Specifically, we find that that more financially sophisticated and independent boards are positively associated with tax avoidance at the lower end of the tax avoidance distribution and are negatively associated with tax avoidance at the upper end of the tax avoidance distribution. This suggests that corporate governance is associated with the degree of tax avoidance by firms.

TUESDAY **11:00-12:30**

TXPS05

Chair : Elisabetta Mafrolla Room : **A411**

Understanding Why Firms Hold So Much Cash: A Tax Risk Explanation

Author : *EDWARD MAYDEW, UNIVERSITY OF NORTH CAROLINA AT CHAPEL HILL* EA = Empirical Archival

Co-authors : *Michelle Hanlon, MIT*
Daniel Saavedra, MIT

A recent puzzle in the corporate finance literature is the observation that both multinational and domestic U.S. corporations hold large amounts of cash on their balance sheets. We test whether tax risk is a determinant of cash holdings. Because tax authorities can challenge and disallow tax positions, demanding cash tax payments in the future, firms may hold cash in order to satisfy these potential future demands. We find that both domestic and multinational firms that bear tax risk hold significantly larger cash balances than firms that do not. The data suggest that there is a tax-based precautionary motive to hold cash. This particular type of precautionary motive has not been examined before and adds to both our knowledge of why firms hold so much cash and to our knowledge about the real effects of tax avoidance.

TXPS05 *Chair : Elisabetta Mafrolla* Room : **A411**

Who Benefits From Employment Tax Credits? A Simulation Study Based On The German Inheritance Tax

Author : *DENNIS VOELLER, UNIVERSITY OF MANNHEIM*

EX = Experimental

Co-authors : *Benedikt Franke, University of Mannheim*
Dirk Simons, University of Mannheim

Employment tax credit programs have been repeatedly used during economic crises, although the empirical evidence on their consequences is mixed. Thus, the objective of this paper is to analyze the tax effects of employment tax credit programs based on a simulation of potential economic developments and individual tax payers' characteristics. We provide evidence on how the preferential treatment of business transfers compared to the transfer of private property affects the effective tax burden. In detail, we show that considerable tax reductions occur for business transfers. These reductions exist irrespective of the economic development, but they are considerably large in times of economic growth. The findings also suggest that employment tax credits affect the differential between the effective tax rates on small and large estates. Specifically, this differential becomes larger under a negative economic scenario. Finally, the simulation highlights that the economic consequences of an employment tax credit program depend on the relation between legator and successor.

TXPS05 *Chair : Elisabetta Mafrolla* Room : **A411**

Impact Of A Common Corporate Tax Base On The Effective Tax Burden In Belgium

Author : *ANNELIES ROGGEMAN, GHENT UNIVERSITY*

EA = Empirical Archival

Co-authors : *Isabelle Verleyen, University College Ghent*
Philippe Van Cauwenberge, Ghent University
Carine Coppens, University College Ghent

In March 2011, the European Commission (EC) launched a proposal for a Common Consolidated Corporate Tax Base (CCCTB). However, a Common Corporate Tax Base (CCTB), leaving consolidation and apportionment out of consideration, appears to be a more realistic proposition for corporate tax harmonization in Europe. Using the European Tax Analyzer (ETA), we simulate the impact of the CCTB on the effective tax burden in Belgium. In particular, we simulate all CCTB rules as recently proposed by the EC and explore the Belgian corporate tax system by implementing all tax measures applicable to our model firm. The results show that the adoption of the proposed CCTB increases the Belgian effective tax burden by 22%. This remarkable increase is mainly driven by the fact that national tax deductions are not allowed under CCTB. In addition, CCTB applies less favourable depreciation and inventory valuation methods than the Belgian system. This study allows policymakers to gain insight into the size effects of certain corporate tax measures and contributes to the current discussion on corporate tax harmonization in Europe.

TXPS06 *Chair : David Harris* Room : **A411**

Managerial Incentives For Tax Planning In A Multi-Task Principal-Agent Model

Author : *RAINER NIEMANN, GRAZ KARL-FRANZENS UNIVERSITY*

AM = Analytical / Modelling

Co-authors : *Ralf Ewert, University of Graz - Institute of Accounting and Auditing*

We extend prevailing principal-agent-models by integrating both corporate and individual income taxation as well as by including tax planning efforts in the agent's action portfolio. In our multi-task LEN-model, the agent is remunerated on the basis of total after-tax cash-flows and decides about her operational and tax planning efforts. We demonstrate novel and apparently paradoxical results regarding the impact of increased tax rates on efforts, risks, incentive schemes and utilities. First, the principal's after-tax profit can increase with a higher corporate tax rate. Second, tax planning effort can decrease in the corporate tax rate. Third, operational effort can increase with increasing corporate taxes. Similar paradoxical tax effects are derived for an extension with two separate bonus coefficients for operating cash flow and tax planning success, respectively. The model provides a basis for assessing the impact of tax rates on economic activities that are subject to agency relationships.

TXPS06 *Chair : David Harris* Room : **A411**

Management Incentives Under Formula Apportionment

Author : DIRK SIMONS, UNIVERSITY OF MANNHEIM

AM = Analytical / Modelling

Co-authors : Rainer Niemann, KFU Graz

The introduction of a common consolidated corporate tax base (CCCTB) and tax allocation via formula apportionment (FA) is hotly debated in the European Union (EU). While the literature has thoroughly analyzed the economic effects of FA from a macro-level perspective, the firm view has been added only recently. Within this micro-level framework discussing possible tax-induced distortions of multi-jurisdictional entities' (MJE) decisions becomes feasible. Anticipating the reactions of MJEs to the introduction of FA requires considering delegation and incentivisation, because management decisions are influenced by agency-relationships. Since FA is a tax on the factors included in the apportionment formula, the impact of FA on employment deserves special attention. How FA affects the demand for managerial effort is a hitherto neglected research question. Accordingly, the objective of this paper is to highlight the tax-induced distortions of managerial incentives caused by FA. For this purpose we set up a LEN-type principal-agent model with agents in two different jurisdictions. Compared to the case with separate taxation (ST) the principal demands increased effort and pays an increased compensation to managers in low-tax jurisdictions, if payroll enters the FA formula. Managers in high-tax jurisdictions face the opposite effect. Further, the composition of the compensation packages changes. Overall, net profit increases, because FA offers potential for profit shifting.

TUESDAY **14:00-15:30**

TXPS06 *Chair : David Harris* Room : **A411**

Tax Consultants' Incentives – A Game Theoretical Explanation For The Behavior Of Tax Consultants, Taxpayers And The Fiscal Authority

Author : JOHANNES LORENZ, UNIVERSITY OF PASSAU

AM = Analytical / Modelling

Co-authors : Markus Grottke, Passau University

We propose a game theoretical investigation of the interaction of the incentives of tax consultants, tax payers and the fiscal authority. Three different settings are considered. In the basic model we analyse which Nash Equilibria are obtained considering costs and benefits of consulting accurate, costs and benefits of auditing the tax return on behalf of the fiscal authority and costs and benefits of checking the tax result on behalf of the taxpayer. In the second setting we extend the first setting with an opportunity for taxpayers to influence tax consultants towards tax evasion and for fine sharing. In the third setting we enlarge the first and the second setting with the opportunity for tax consultants to insure themselves against losses incurred by inaccurate consulting services. We obtain that the incentives cause a complicated and context dependent interaction between the actions of the three parties.

WEDNESDAY **14:00-15:30**

TXPS03 *Chair : Christoph Watrin* Room : **A309**

Permanently Reinvested Earnings And The Profitability Of Foreign Cash Acquisitions

Author : ALEXANDER EDWARDS, UNIVERSITY OF TORONTO

EA = Empirical Archival

Co-authors : Alexander Edwards, University of Toronto
Todd Kravet, University of Texas at Dallas
Ryan Wilson, University of Iowa

Current U.S. tax laws create an incentive for some U.S. firms to avoid the repatriation of foreign earnings as the U.S. government charges additional corporate taxes upon repatriation of foreign earnings. Under ASC 740, the financial accounting treatment for taxes on foreign earnings exacerbates this effect. It increases the incentive to avoid repatriation by allowing firms to designate foreign earnings as permanently reinvested earnings (PRE) and delay recognition of the deferred tax liability associated with the U.S. repatriation tax resulting in higher after-tax income. Prior research suggests that the combined effect of these incentives leads some U.S. multinational corporations to delay the repatriation of foreign earnings and, as a result hold a significant amount of cash overseas. In this study, we investigate the effect of PRE held as cash on U.S. MNCs foreign acquisitions. Consistent with expectations, we observe firms with high levels of foreign earnings designated as PRE and held as cash make less profitable acquisitions of foreign target firms using cash consideration than firms without high levels of PRE held as cash. The AJCA of 2004 appears to have reduced this effect by allowing firms to repatriate foreign earnings held as cash abroad at a much lower tax cost.

WEDNESDAY 14:00-15:30

TXPS03

Chair : Christoph Watrin Room : **A309**

Tax Rate Differences, Tax Status And The Capital Structure Choice Of Domestic And Multinational Corporate Groups

Author : *REINALD KOCH, GOETTINGEN UNIVERSITY*

Co-authors : ,

EA = Empirical Archival

The present paper analyzes and compares the tax impact on the capital structure choice within domestic and multinational groups. To this end, a modified version of the analytical model proposed by Moen et al. (2011) is empirically tested for a large panel of EU corporations. In contrast to previous literature, dichotomous tax rates and simulated marginal tax rates are employed, which account for the company's tax status. Empirical results suggest that using these measures of the tax burden improves the predictive power of the regression model and avoids a bias in the estimated tax rate elasticities. Furthermore, regression results suggest that domestic and multinational groups respond in a similar manner to intra-group differences in the tax burden.

WEDNESDAY 14:00-15:30

TXPS03

Chair : Christoph Watrin Room : **A309**

Tax Planning And The Location Of German-Controlled Subsidiaries

Author : *DEBORAH SCHANZ, MUNICH LUDWIG-MAXIMILIANS UNIVERSITY*

Co-authors : *Sara Keller, WHU - Otto Beisheim School of Management*

EA = Empirical Archival

This paper analyzes whether German multinational enterprises locate an increased number of subsidiaries in countries that offer an attractive tax environment. We introduce the self-constructed Tax Incentive Index as a new tax measure. The index covers 18 different dimensions such as the taxation of dividends and capital gains, withholding taxes, the existence of a group taxation regime, and thin capitalization rules. Our analysis is based on a novel hand-collected data set consisting of the subsidiaries of German DAX30 companies. Making use of count data models, we find that the number of German-controlled subsidiaries is significantly positively associated with the Tax Incentive Index. This gives rise to the assumption that German multinationals set up tax-efficient group structures involving intermediate companies in third countries.

WEDNESDAY 9:00-10:30

TXPS04

Chair : EVA EBERHARTINGER Room : **A309**

Does Tax Aggressiveness Reduce Corporate Transparency?

Author : *JENNIFER BLOUIN, UNIVERSITY OF PENNSYLVANIA*

Co-authors : *Karthik Balakrishnan, Wharton School, University of Pennsylvania*
Wayne Guay, Wharton School, University of Pennsylvania

EA = Empirical Archival

This paper investigates whether aggressive tax planning firms have less transparent information environments. Although tax planning provides expected tax savings, it can simultaneously increase the financial complexity of the organization. And, to the extent that this greater financial complexity cannot be adequately communicated to outside parties, such as investors and analysts, transparency problems can arise. Our investigation of the association between a newly developed measure of tax aggressiveness and information asymmetry, analyst forecast errors, and earnings quality suggests that aggressive tax planning decreases corporate transparency. We also find evidence, however, that managers at tax aggressive firms attempt to mitigate these transparency problems by increasing the volume of tax-related disclosure. Overall, our results suggest that firms face a trade-off between financial transparency and aggressive tax planning thereby potentially explaining why some firms appear to engage in more conservative tax planning than would otherwise be optimal.

TXPS04 *Chair : EVA EBERHARTINGER* Room : **A309**

Corporate Tax Compliance: The Role Of Internal And External Preparers

Author : *PETRO LISOWSKY, UNIVERSITY OF ILLINOIS AT URBANA-CHAMPAIGN* EA = Empirical Archival

Co-authors : *Kenneth Klassen, University of Waterloo*
Petro Lisowsky, University of Illinois at Urbana-Champaign
Devan Mescall, University of Saskatchewan

Using confidential data from the U.S. Internal Revenue Service on who signs the corporate tax return, we investigate whether tax preparer type—internal tax department, external auditor, or external non-auditor—is related to a firm's tax aggressiveness. In doing so, we also evaluate the usefulness of publicly disclosed tax fees to infer these parties. We find that internally prepared tax returns claim more aggressive tax positions than externally prepared returns, and that external non-auditor-prepared tax returns claim more aggressive positions than returns prepared by the company's auditors. We also show that publicly disclosed tax fees paid to a company's auditor do not provide information sufficient to replicate this result; applying conventions in tax fee research to infer if the auditor also prepares the tax return, we estimate total error rates that exceed 60 percent. Our findings are important given the paucity of archival research on tax preparers due to a lack of available data, preparers' importance to tax-related decisions in an uncertain corporate environment, and the tax and financial reporting consequences of auditor-provided tax services.

WEDNESDAY **9:00-10:30**

TXPS04 *Chair : EVA EBERHARTINGER* Room : **A309**

Corporate Transparency, Sustainable Tax Strategies, and Uncertain Tax Activities

Author : *THOMAS OMER, TEXAS A&M UNIVERSITY* EA = Empirical Archival

Co-authors : *Stevanie Neuman, Texas A&N University*
Marjorie Shelley, Texas A&M University

We investigate whether the sustainability of firms' tax strategies is associated with corporate transparency. We expect and find that firms with sustainable tax strategies are associated with more transparent information environments. Prior research shows that transparency is associated with better governance; we expect better governed firms to engage in more sustainable tax strategies and we find that firms with more sustainable tax strategies exhibit significantly higher return on assets, free cash flows and cash flows from operations, and higher Altman's Z-Scores. We also find that the likelihood of engaging in uncertain tax activities is negatively related to both transparency and tax strategy sustainability. Finally, we find that firms with lower transparency record higher unrecognized tax benefits. These relationships are important because a firm's degree of transparency significantly affects capital costs and value, and relying on the assumption that tax planning investments lead to more obscure information environments can b?????_???

WEDNESDAY **9:00-10:30**

TXPS07 *Chair : Caren Sureth* Room : **A411**

Review Of The Financial Reporting Versus The Probability Of Fiscal Control, Under Financial Sophistication

Author : *CARMEN GIORGIANA BONACI, BABES-BOLYAI UNIVERSITY* AM = Analytical / Modelling

Co-authors : *Cristian M. Litan, Babes-Bolyai University, Faculty of Economics and Business Administration, Department of Statistics, Forecasting and Mathematics*
Sorina C. Vâju, Universidad Carlos III de Madrid, Deptment of Economics

Our paper provides a model of strategic interaction between the Internal Revenue Service (IRS) and the companies, that analyzes the impact of the increasing financial sophistication, and respectively, of the book profits reporting and its review by the Securities and Exchange Commission (SEC), on tax compliance and fiscal control. In this simple framework we describe basic scenarios in which decreasing IRS audit rates and weaker fiscal discipline appear endogenously, that is, when growing financial sophistication is paralleled by changes in the information on book profits available to the tax authority, or by changes in the distribution of the book profits. We propose the consideration of a substitution effect under certain circumstances, the review of the financial reporting process impacting the probability of fiscal control and thus offering an alternative explanation to that of IRS budget constrains. Our paper contributes to the literature on taxation and financial reporting by proposing a theory that portrays the SEC providing a monitoring mechanism for higher quality reporting and therefore impacting tax enforcement.

WEDNESDAY 9:00-10:30

TXPS07 *Chair : Caren Sureth* Room : **A411**

Cash Tax Deferral And Its Relation To Permanent Tax Avoidance

Author : TIM WAGENER, MUENSTER UNIVERSITY

EA = Empirical Archival

Co-authors : Adrian Kubata, University of Muenster
Tim Wagener, University of Muenster
Christoph Watrin, University of Muenster

This study investigates whether and to what extent cash tax deferral is associated with tax avoidance that generates permanent differences. Although beneficial to the firm, prior literature suggests that firms focus on permanent tax avoidance due to the positive effect on financial accounting earnings, thereby neglecting the benefits of cash tax deferral. By developing a new measure that is able to isolate cash tax deferral from permanent tax avoidance and earnings management through the tax expense, we provide direct evidence consistent with temporary and permanent tax avoidance being substitutes for each other. Firm-years classified as showing a high degree of permanent tax avoidance exhibit a significantly lower degree of cash tax deferral, and the effect is economically significant. The empirical approach to measure cash tax deferral makes use of a Koyck-type distributed-lag model, which considers in which period cash tax deferral originates, and when it reverses. The observed negative relationship between temporary and permanent tax avoidance is robust to the inclusion of other determinants of cash tax deferral, namely investment opportunities, dividend policy, and leverage.

MONDAY 16:00-17:30

TXRF03 *Chair : Reinald Koch* Room : **A411**

Keeping One Or Two Sets Of Books? - Evidence From Large German Companies With Cross-Border Activities

Author : FELIX BOLL, UNIVERSITY OF PASSAU

SU = Survey

Co-authors : Felix Boll, University of Passau
Markus Diller, University of Passau

We investigate the application of one and two sets of books in the field of transfer pricing by large German companies. Using data from a confidential online survey from 2012, we test hypotheses on the relationship between the likelihood of adopting two sets of books and a multitude of soft and hard facts. Moreover, we analyze the extent of transfer pricing adjustments in tax audits with regard to the use of one and two sets of books. We find a significant positive relationship between the internal integration of a company and the likelihood of using two sets of books. Our analysis also reveals a significant negative relationship between the importance attached to the use of international tax differences when setting transfer prices and the likelihood of running two sets of books. In addition, we find a significant positive relationship between the importance attached to managerial incentivization when setting transfer prices and the likelihood of using two sets of books. Finally, we find that participating companies that keep two sets of books experience significantly greater transfer pricing documentation adjustments and double taxation than those running one set of books.

MONDAY 16:00-17:30

TXRF03 *Chair : Reinald Koch* Room : **A411**

The Impact Of Taxes On Real Business Decisions

Author : MARTIN THOMSEN, MUENSTER UNIVERSITY

EA = Empirical Archival

Co-authors : Robert Ullmann, University of Muenster
Christoph Watrin, University of Muenster

We investigate if tax-driven income shifting is conducted by means of making changes to the real business activity of a firm. To this end we identify a natural experiment within the German tax regime and find that lower tax rates in a particular region are in fact associated with higher real business activity in that respective region. Moreover, we report that changes in tax rates over time are associated with adaptions of firms with regard to their real business activity and that these adaptions are consistent with our hypothesis of tax-induced income shifting. We conclude that the regularly raised argument of business income shifting being conducted mainly by means of accounting changes does not necessarily hold, and that therefore changes in the tax system may not merely decrease accounting income of domestic firms but can in fact decrease an economy's real business activity.

MONDAY 16:00-17:30

TXRF03 *Chair : Reinald Koch* Room : **A411**

The Lock-In Effect Among Individual Investors And Its Effect On Stock Prices: Evidence From Germany

Author : *JAN SCHÖNFELD, CATHOLIC UNIVERSITY OF EICHSTÄTT-INGOLSTADT* EA = Empirical Archival

Co-authors : *Andreas Krenzin, Katholische Universität Eichstätt-Ingolstadt*
Andreas Wengner, Universität Hohenheim

This paper provides evidence that the introduction of the German "final withholding tax", which has increased the long-term capital gains tax rate in Germany from 0% to 25%, creates a lock-in effect among individual investors. In our study we demonstrate that the tax reform leads to tax-related underselling impacting prices around large negative earnings surprises. For stocks with a high percentage of tax-sensitive owners, embedded capital gains are shown to have a positive effect on stock prices around negative earnings surprises.

MONDAY 16:00-17:30

TXRF03 *Chair : Reinald Koch* Room : **A411**

Worldwide Tax System Vs. Territorial Tax System – Learnings From United Kingdom

Author : *ULF VON MANOWSKI, MUENSTER UNIVERSITY* EA = Empirical Archival

Co-authors : ,

Using the tax system change in United Kingdom 2009 that goes from a worldwide to a territorial system, this paper studies the effect of this system change for the informativeness of the deferred taxes for the capital market. We find that deferred taxes are informative and they are more informative in the new territorial system. We control for the financial crisis for the years 2008 and 2009. Also we control with two other European countries that did not face such a tax system change, namely France and Germany. Our results are still robust. Our findings highlight the impact of the tax system change for financial accounting and give a policy implication for the discussion in the United States whether they should adopt the territorial system.

TUESDAY 9:00-10:30

TXRF04 *Chair : Markus Diller* Room : **A411**

Contemporary Professionalism and Competing Institutional Logics: The Impact of Anti-Avoidance Tax Legislation on the Accounting Profession

Author : *SUSAN GRIFFIN, UNIVERSITY COLLEGE DUBLIN* CF = Case / Field Study

Co-authors : *Aileen Pierce, University College Dublin*

The objectives of this two-phase study are to examine (i) the initial perceived resistance of the accounting profession to regulation of its taxation services between 1989 and 2010, in the form of anti-avoidance tax legislation, in Ireland and (ii) the subsequent impact which increased regulation post 2011 has had on the attitudes and work practices of accountants. The first phase uses interviews and documentary evidence to examine the counter-intuitive finding on how regulatory pressures from state agencies appear to have been ineffective in bringing about substantive change in the work practices of accountants. The second phase uses interviews to explore the attitudes of accountants to tax avoidance post 2011 and the impact which it has had on the provision of tax services to their clients.

TUESDAY **9:00-10:30**

TXRF04 *Chair : Markus Diller* Room : **A411**

The Ccctb Option - An Experimental Study

Author : *ANDREAS OESTREICHER, GOETTINGEN UNIVERSITY*

Co-authors : *Claudia Keser, Georg-August-Universität Göttingen*
Gerrit Kimpel, Georg-August-Universität Göttingen

EX = Experimental

The objective of this paper is to assess the probability of corporate groups opting for taxation on a consolidated basis. Consolidation would offer the potential advantage of being able to offset losses cross-border. At the same time, however, the consolidation of entities would deny them the opportunity to exploit international tax rate differentials between these enti-ties via transfer pricing. The questions we are addressing here are, first and foremost, to what extent corporations would be inclined to take up a consolidation option under various condi-tions. If so, the question arises whether this impacts the corporations' location of investment and their transfer pricing activities involving countries outside the consolidated group. In order for us to analyse the possible conditions such as the riskiness of investment (probability of a loss) and tax-rate differentials that factor into the choice of taxation on a consolidated basis (rather than separate accounting), we turn to the method of laboratory experiments. In our experiments we use a 2 by 2-treatment design, with two probability levels of making a loss and two levels of tax-rate differential between two investment options. With a higher probability of a loss, we observe (1) a higher tendency to use consolidated taxa-tion and (2) lower profit shifts. With a higher tax-rate differential we observe (1) a higher tendency to use consolidated taxation and (2) higher profit shifts.

TUESDAY **9:00-10:30**

TXRF04 *Chair : Markus Diller* Room : **A411**

Should Multinational Companies Request An Advance Pricing Agreement (apa) - Or Shouldn`t They?

Author : *PIA VOLLERT, UNIVERSITY OF PADERBORN*

Co-authors : ,

AM = Analytical / Modelling

Advance Pricing Agreements (APAs) are commonly used by multinational groups to gain certainty about their transfer prices for tax purposes. We focus on a multinational company that invests in a foreign subsidiary in a low-tax country. Applying a binomial model for flexible investment planning we analyse whether and under what circumstances the request for an APA of this multinational company is worth to be undertaken. We show that multinational groups should consider requesting an APA when the tax rates in the involved countries differ sufficiently to outweigh drawbacks from time and fee effects. Furthermore, we find that an increasing tax rate differential increases the relative attractiveness of an APA request. Nevertheless, multinational companies need to also control for opposing effects when considering an APA request.

TUESDAY **9:00-10:30**

TXRF04 *Chair : Markus Diller* Room : **A411**

Common Consolidated Corporate Tax Base – Analysis Of The Formulary Apportionment Factors

Author : *MATTHIAS PETUTSCHNIG, VIENNA UNIVERSITY OF ECONOMICS AND BUSINESS*

Co-authors : ,

AM = Analytical / Modelling

This paper aims at evaluating the effects of the allocation procedure proposed for the Common Consolidated Corporate Tax Base (CCCTB) on an individual entity of a corporate group applying the CCCTB. The paper compares the traditional income determination used in the majority of EU member states' tax systems (Separate Accounting) with the proposed consolidation and formulary apportionment. This paper evaluates the effects of this prospective apportionment procedure on any given corporate group entity and finds that the share of the group's income allocated to a particular entity using the apportionment formula does regularly not equal the pre-consolidation income of the respective group entity. In doing so the paper focuses on the differences between income determination factors (revenues and expenditures) and income apportionment factors. The analysis shows a number of differences between these factors. It shows that various components of income determination factor are not represented in the formula apportioning the consolidated income and on the other hand the apportionment factors contain definitions that are not represented in the income determination.

TXRF01 *Chair : Katrin Haussmann* Room : **A409**

Tax-Loss Selling On The German Stock Market! - An Emprical Examination

Author : *CHRISTOPH ENGELHARD, ILMENAU UNIVERSITY OF TECHNOLOGY*

EA = Empirical Archival

Co-authors : *Gernot Braehler, Ilmenau Technical University/Chair of Taxation and Auditing*

The tax-loss selling hypothesis posits that individual investors tend to sell depreciated stocks held in private property especially towards tax year-end in order to reduce their current tax liability. Hence it predicts a selling pressure for those stocks prior to year-end. The paper establishes proof that tax-loss selling occurs on the German capital market. We contribute to the literature in four points: a) Contrary to other examinations of the German capital market on implications of the capital gains taxation to which tax-loss selling belongs to we test the tax-loss selling hypothesis on the German capital market as a year-end effect. b) The focus is on the tax system which came into force in Germany in 2009, while former studies of the German capital market referred to the characteristics of the previous tax system. c) We test directly for tax-loss selling and do not implicitly assume that an abnormal turnover and return development is due to a selling activity. d) The change in the German tax law of 2009 enables us to employ a new approach to evaluate institutional window dressing against individual tax-loss selling.

WEDNESDAY 11:00-12:30

TXRF01 *Chair : Katrin Haussmann* Room : **A409**

Analysis Of The Effects Of Transaction-Related Taxation On The Pricing Of German Private Companies

Author : *MARKUS DILLER, UNIVERSITY OF PASSAU*

EA = Empirical Archival

Co-authors : *Thomas Theelen, University of Passau*

By modeling the tax effects of a transaction under German law we show theoretically that a partnership representing an asset deal can sell for a purchase price premium compared to a share deal in the shape of an acquisition of a corporation. Furthermore, we prove theoretically that a changing book value should have a much stronger price effect in the case of an acquisition of a corporation than with an acquisition of a partnership. The theory is tested by comparing transaction multiples, for which we use a sample of matched acquisitions of partnerships and privately owned corporations. We find only limited evidence that the organizational form influences the purchase price, yet significant evidence of the stronger influence of a changing book value in the case of an acquisition of a corporation.

WEDNESDAY 11:00-12:30

TXRF01 *Chair : Katrin Haussmann* Room : **A409**

The Effects Of Income Taxation On M&a Transaction Prices - Empirical Evidence From Investments In German Corporations

Author : *SIEBELT CHRISTIAN HABBEN, GOETTINGEN UNIVERSITY*

EA = Empirical Archival

Co-authors : *Andreas Oestreicher, University of Göttingen Director of the Division for Domestic and International Taxation*

This paper examines the impact of income taxation on transactions prices in mergers and acqui-sitions. Based on both market data relating to M&A transactions conducted in Germany over the years 1997 to 2008 and financial information on the companies concerned, we test the price ef-fect of possible tax consequences resulting from the transaction on the part of the acquirer and the vendor. We find that both tax cost on the part of the vendor and tax benefits on the part of the acquirer result in an increase of the transaction price negotiated between the acquirer and vendor. The results indicate that the effects of income taxation on M&A transaction prices are substantial. However, removing capital gains taxation (i.e., tax cost at the part of the vendor) as was the case with the German tax reform 1999/2000/2001 shows an ambiguous effect on M&A transaction prices.

WEDNESDAY 11:00-12:30

TXRF01 *Chair : Katrin Haussmann* Room : **A409**

Tax Aggressiveness, Reputation, Corporate Social Responsibility: Family And Non-Family Firms

Author : *MANON DESLANDES, UNIVERSITY OF QUÉBEC IN MONTRÉAL* EA = Empirical Archival

Co-authors : *Suzanne Landry, ESG-UQAM*

Management generally attempts to minimize tax expenditures that significantly affect the firm's operating results and financial position. Aggressive tax planning may allow shareholders to maximize their wealth, but the cost of a loss of reputation may adversely impact a firm's value. Based on the assumption that a firm has a social responsibility to pay its fair share of taxes, our study verifies whether socially responsible firms are less tax aggressive in order to preserve their reputation, i.e., whether their talk and actions are aligned. Overall, our results indicate that family firms are less tax aggressive than non-family firms. They also suggest that the relationship between tax aggressiveness and social responsibility varies across corporate social responsibility dimensions and ownership structure. More specifically, relationships between tax aggressiveness and CSR dimensions are found for non-family firms but not for family firms.

WEDNESDAY 14:00-15:30

TXRF02 *Chair : Richard Baker* Room : **A409**

Does Executive Compensation Reflect The Equity Risk Incentive And Corporate Tax Avoidance?evidence In Japan

Author : *HIROSHI OHNUMA, TOKYO UNIVERSITY OF SCIENCE* EA = Empirical Archival

Co-authors : ,

This study examines corporate tax avoidance as one determinant of executive compensation, based on equity risk incentives. Prior research provides evidence that equity risk incentives motivate managers to make more risky – but positive net present value – investing and financing decisions. In this research, it is demonstrated in correlation analyses that my measures of tax risk are negatively associated with both the adoption of stock option and tax aggressive measures. In multivariate analyses, executive compensations are significantly associated with our measures of tax risk positions despite the inclusion of numerous control variables. I also find consistent evidence that executive equity risk incentives are significantly associated with aggressive tax positions, regardless of estimation method and the strength of the corporate governance function, and across several measures of tax risk.

WEDNESDAY 14:00-15:30

TXRF02 *Chair : Richard Baker* Room : **A409**

Who Bears The Tax Burden? - A Panel Data Analysis Of German Property And Trade Tax Capitalization

Author : *KATRIN HAUSSMANN, ILMENAU UNIVERSITY OF TECHNOLOGY* EA = Empirical Archival

Co-authors : *Andreas Schweinberger, Frankfurt School of Finance & Management*
Gernot Braehler, TU Ilmenau

A tax capitalization exists when future tax payments are reflected in the current evaluation of options of economic subjects. To what extent different regional taxes (property and trade taxes) influence real estate prices is controversial. In the following paper a panel data analysis is used to analyze whether different tax rates are reflected in the price of real estate in Germany, as the theory of tax capitalization would predict. In contrast to a plurality of international studies, no tax capitalization of property tax can be evidenced in Germany. The economic tax burden remains with the purchaser or tenant of a real estate object. However, it can be demonstrated empirically that the rate of the trade tax influences rents for certain office real estate. Thereby, the owner of the real estate also bears at least part of the tax burden in this case.

WEDNESDAY 14:00-15:30

TXRF02 *Chair : Richard Baker* Room : **A409**

Earnings Management And Corporate Tax Rate Change: Evidence From The Finnish 2005 Tax Reform

Author : *HENRIK HÖGLUND, HANKEN SCHOOL OF ECONOMICS* EA = Empirical Archival

Co-authors : *,*

The Finnish 2005 tax reform included, among other things, a reduction of the corporate tax rate from 29% to 26% and a partial taxation of dividends. The reduction in the corporate tax rate created a strong incentive for the firms to shift earnings from the period prior to the tax reform to the period after the tax reform. There are a number of previous studies where the results are unambiguous in that firms manage their earnings downwards prior to a decrease in the corporate tax rate. The results in this study suggests that firms that do not pay dividends in the year prior to the tax reform engage in income decreasing earnings management prior to the tax reform and that the earnings management reverses the year after the tax reform. For the firms that have paid dividends in the year prior to the tax reform there is only weak evidence of similar earnings management behavior as for the firms that have not paid dividends.

WEDNESDAY 14:00-15:30

TXRF02 *Chair : Richard Baker* Room : **A409**

The Un-Solved Dilemma Of Tax Avoidance In Family Firms

Author : *ELISABETTA MAFROLLA, UNIVERSITY OF FOGGIA* EA = Empirical Archival

Co-authors : *Eugenio D'Amico, ROME THIRD UNIVERSITY*

Tax aggressiveness is predominantly investigated by accounting scholars in US, and is in a great fashion in the last few years. Relations between tax aggressive behaviors and governance patterns of the firm have recently been variously analyzed, and still wide areas of investigation are unexplored. This paper tests whether family firms are more tax aggressive than non-family firms in the special environment of Italian enterprises, where the overwhelming majority of firms has a family group as an ultimate owner. To the best of our knowledge, no prior research analyzes this topic in EU, and the only existing paper is settled in US. We partially confirm findings of the prior literature. If the firm has a concentrate ownership structure and the top managerial positions are held by members of controlling family group, the firms is less tax aggressive. In fact, family owners prefer to suffer greater tax pressure and avoid non-tax costs due to minority shareholders' concerns about the eventuality of family tax aggressive activity. Nevertheless, where the ownership structure is lead by a single individual (i.e. the shares are not controlled by a company or organization), a tax aggressive behavior prevails.