

# Trends in empirical tax research

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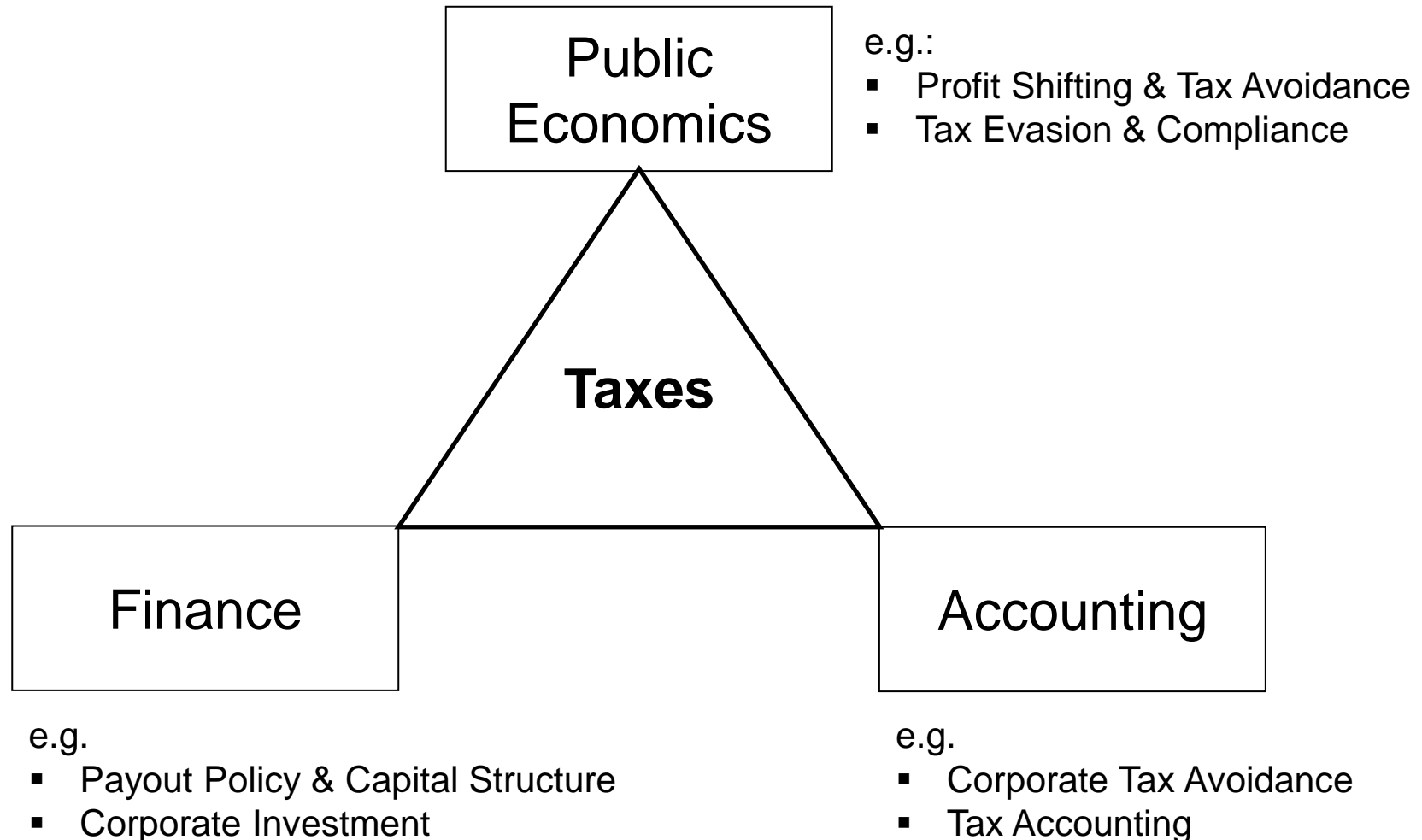
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# Why empirical tax research?

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- Tax research is...
  - ...interesting
  - ...relevant
  - ...important
  
- Aims for today:
  1. Understand the structure of the empirical tax research literature
  2. Discuss potential data sources and research designs
  3. Learn about target journals
  4. Understand the advantages (and challenges) in empirical tax research

# Areas of tax research

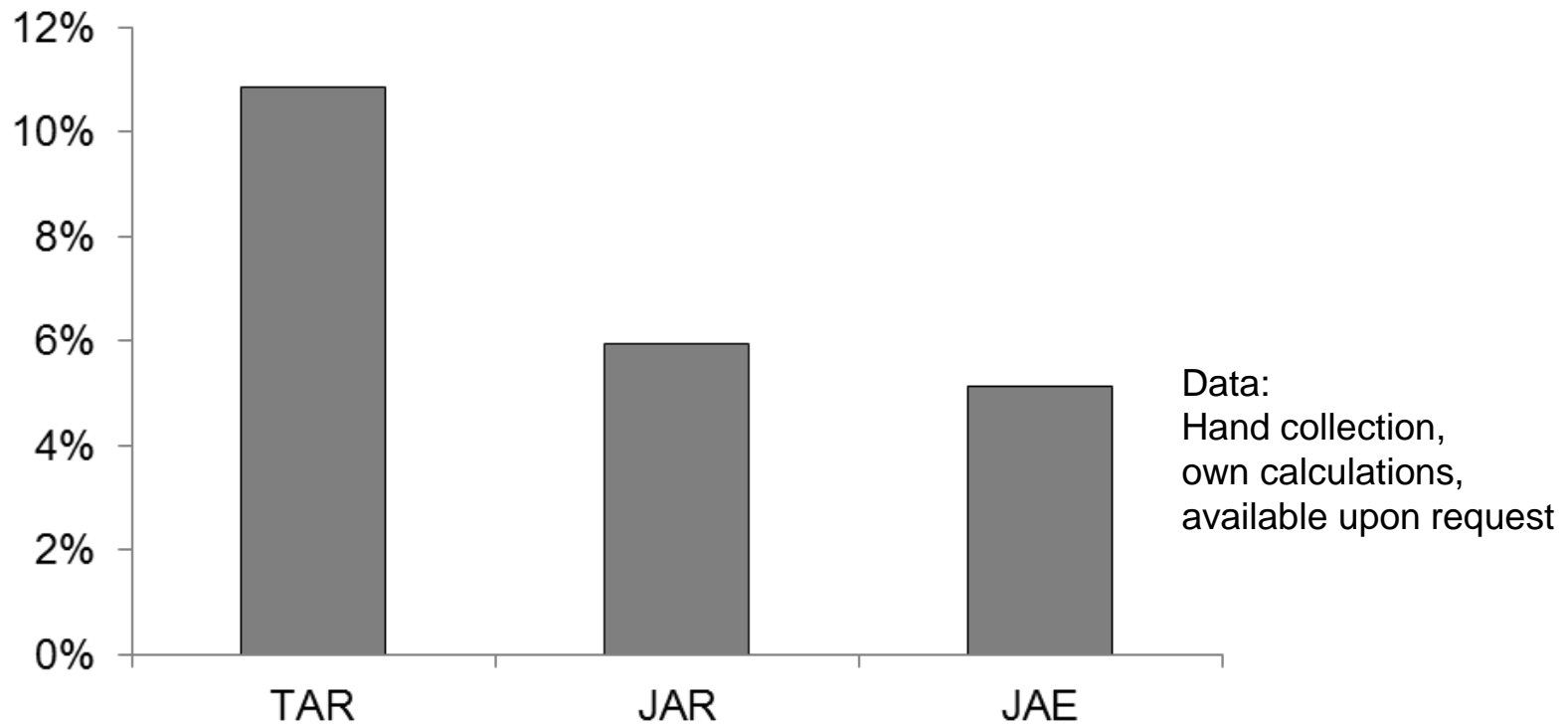


# Target (Top-)Journals in Different Fields

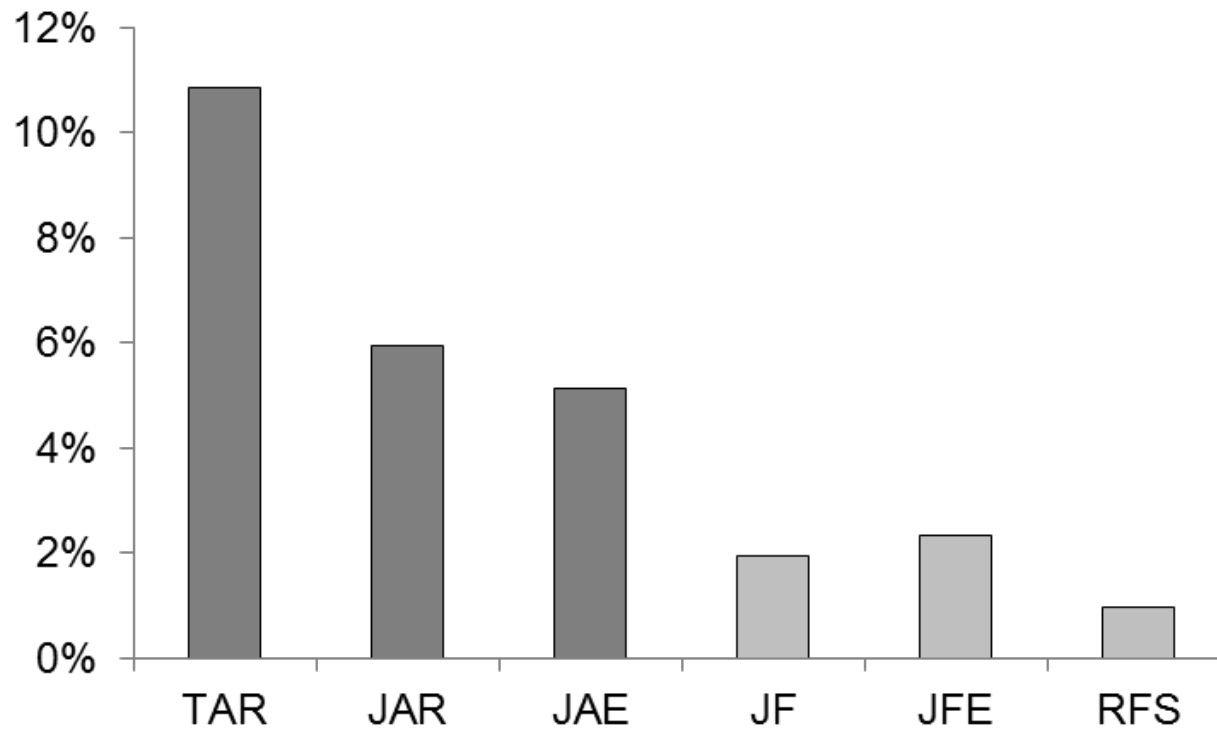
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- Accounting
  - Journal of Accounting and Economics
  - Journal of Accounting Research
  - The Accounting Review
- Finance
  - Journal of Finance
  - Journal of Financial Economics
  - Review of Financial Studies
- Public Economics
  - Journal of Public Economics
  - American Economic Journal: Economic Policy

- Share of tax papers in 3 Top-Accounting Journals 2010 – 2013:

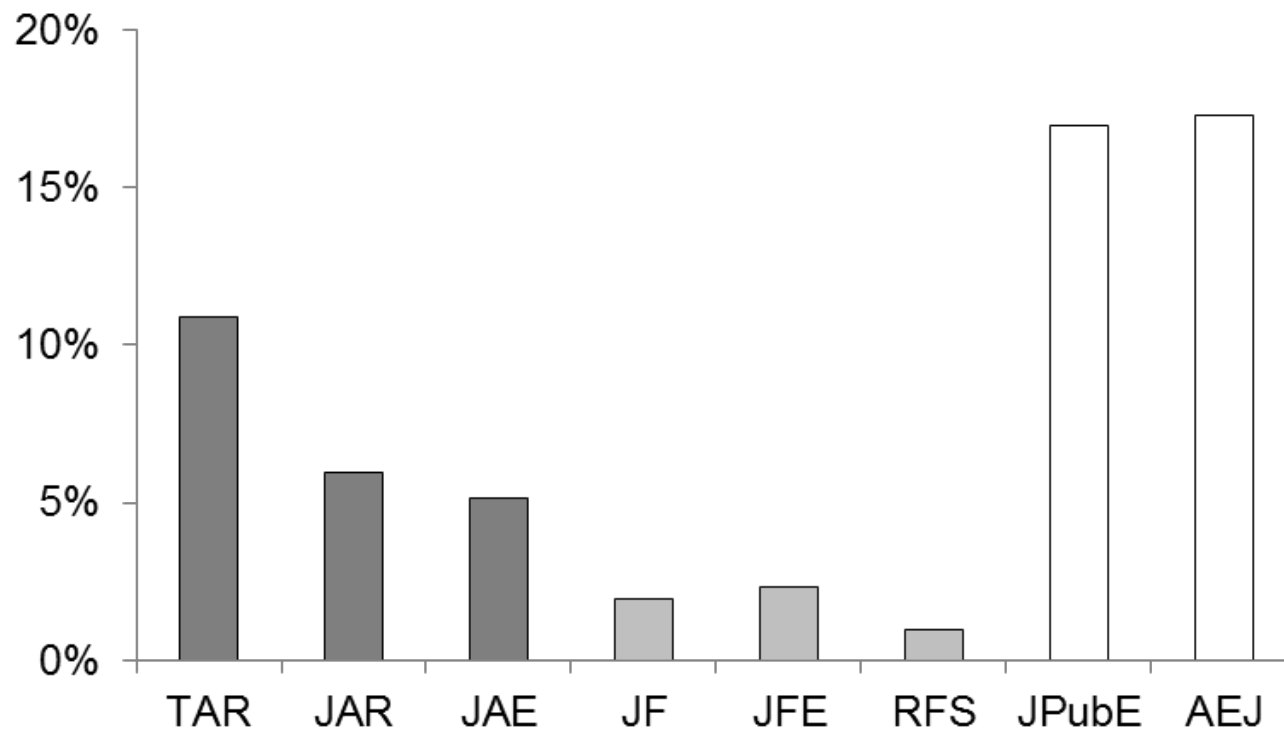


- Share of tax papers in 3 Top-Finance Journals 2010 – 2013:

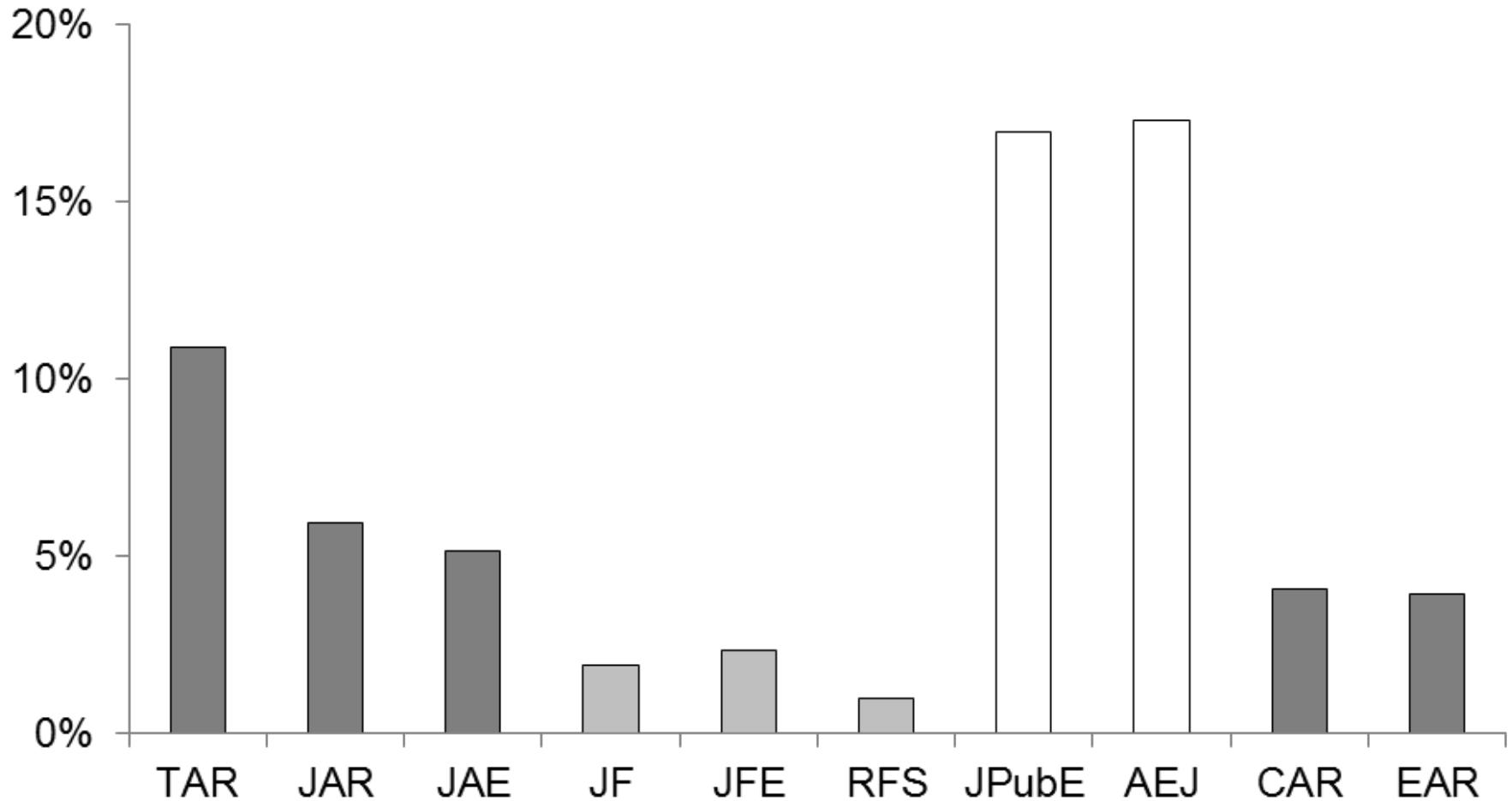


# Public Economics

- Share of tax papers in 3 Top-Field Public Econ Journals 2010 – 2013:

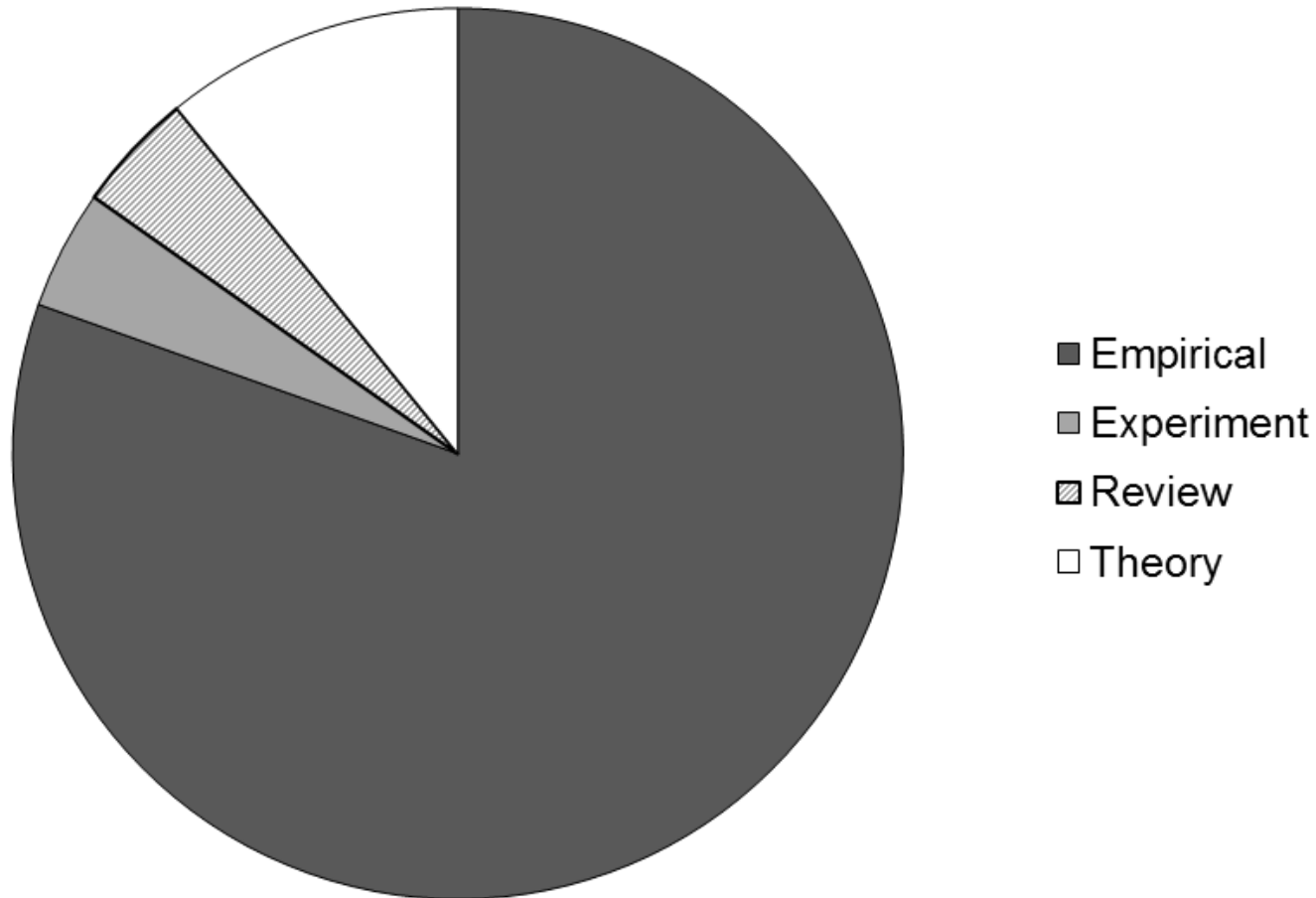


# Similar picture with other accounting journals

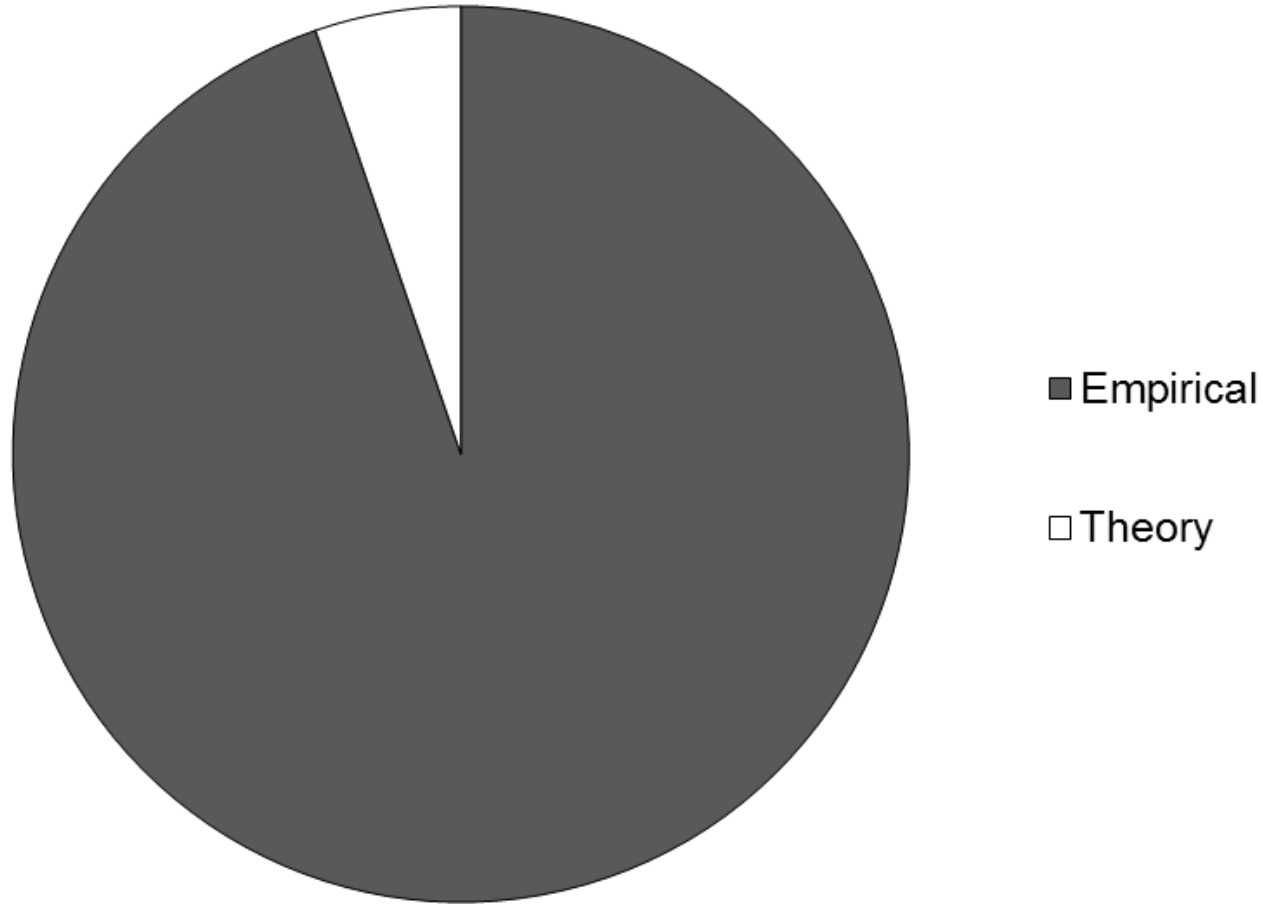




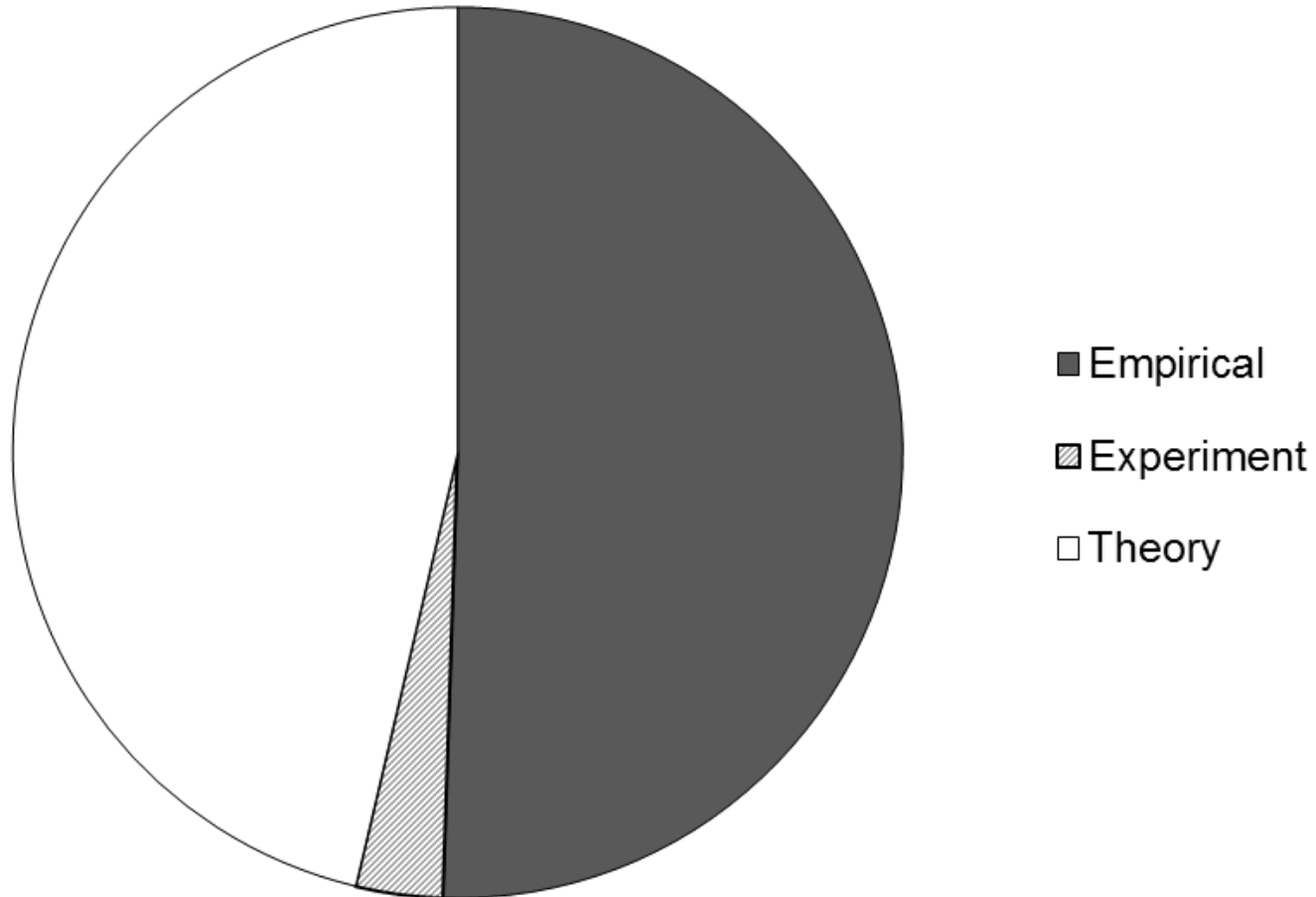
# Share Empirical Papers: Accounting



# Share Empirical Papers: Finance



# Share Empirical Papers: Public Econonmics



# Some observations and conclusions

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## ■ Publishing in Accounting: **Taxes Matter!**

- Advantages: Large tax community, several target journals
- Disadvantage : (1) Publications (so far) are rather US-centered, (2) Focus on regulatory details, (3) High hurdle to publish country-specific (non-US) studies

## ■ Publishing in Finance: **Taxation?**

- Advantages: Institutional knowledge, exogenous events (a.k.a. tax reforms), relevant and interesting research questions, country-specific (non-US) studies possible
- Disadvantage : (1) no real tax-finance community, (2) enormous competition in journals

## ■ Publishing in Public Economics: **Taxes Matter!**

- Advantages: Very large tax community, broad interest in many topics
- Disadvantage: (1) Competition from economists, (2) Only one real top-field journal (JPubE) → high-risk of not publishing in top journal

# What do we need for a good paper?

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- ...if I only knew!
  
- Here are three important things for a successful empirical (tax) paper
  1. Research question
  
  2. Data
  
  3. Empirical Strategy

# 1. Research Question

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- You need to spend a lot of time on the research question
  
- Some questions you may want to answer to formulate your contribution:
  - What are the two, three papers closest to your idea?
  - How do you extend these papers?
  - Which discussion do you extend?
  - Which puzzling result / observation do you explain?
  
- Note: Answering the same question with a new dataset / exogenous shock is not a contribution! (e.g. *XYZ – Evidence from my home country*)

## 2. Data

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- A tricky part in tax research is the availability of tax data
- Tax data are typically secret and not available
  
- What can we do?
  1. Use financial accounting data (CRSP, Compustat, WorldScope, Amadeus,...)
  2. Use publicly available macroeconomic data (e.g. OECD, Worldbank, IMF, ...)
  3. Use administrative tax data (those are long-term projects!)
  4. “Create” your own dataset: experiments, surveys, etc.

### 3. Empirical Strategy

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- Have a clean identification of the hypothesized effect
- Don't write (and talk) about "effects", "impact", or any causal link unless you have good identification strategy
- Sometimes associations are fine, but then don't use causal language
  
- Empirical tax research has one big advantage with respect to identification and research design:
  - **Frequent tax reforms and tax changes**
  
- You can exploit these changes, e.g., in Difference-in-Difference settings
- Without shocks, you may use sample splits as a source of identification (e.g. in Sub-Sample A, relation is negative, in Sub-Sample B positive)



# Example 1 - Accounting

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- Goncharov, Igor and Jacob, Martin (2014): Why do Countries Mandate Accrual Accounting for Tax Purposes?, *Journal of Accounting Research*, 52(5), 1127-1163
- Research question: Why do countries mandate accrual accounting for tax purposes and what are the consequences?
  - Contributes to financial accounting literature on use of accruals (Hung 2001)
  - Previous tax literature assesses tax accounting rules and their effect on policy goals (Samuelson 1964, Stiglitz 1976, Auerbach 1979), but these studies do not explain observed cross-country differences.
- Data:
  - Open source data from OECD & Worldbank
  - Tax Accrual Rules: Hand-collected from tax overviews.
- Research Design:
  - OLS, graphical results, sample split analysis

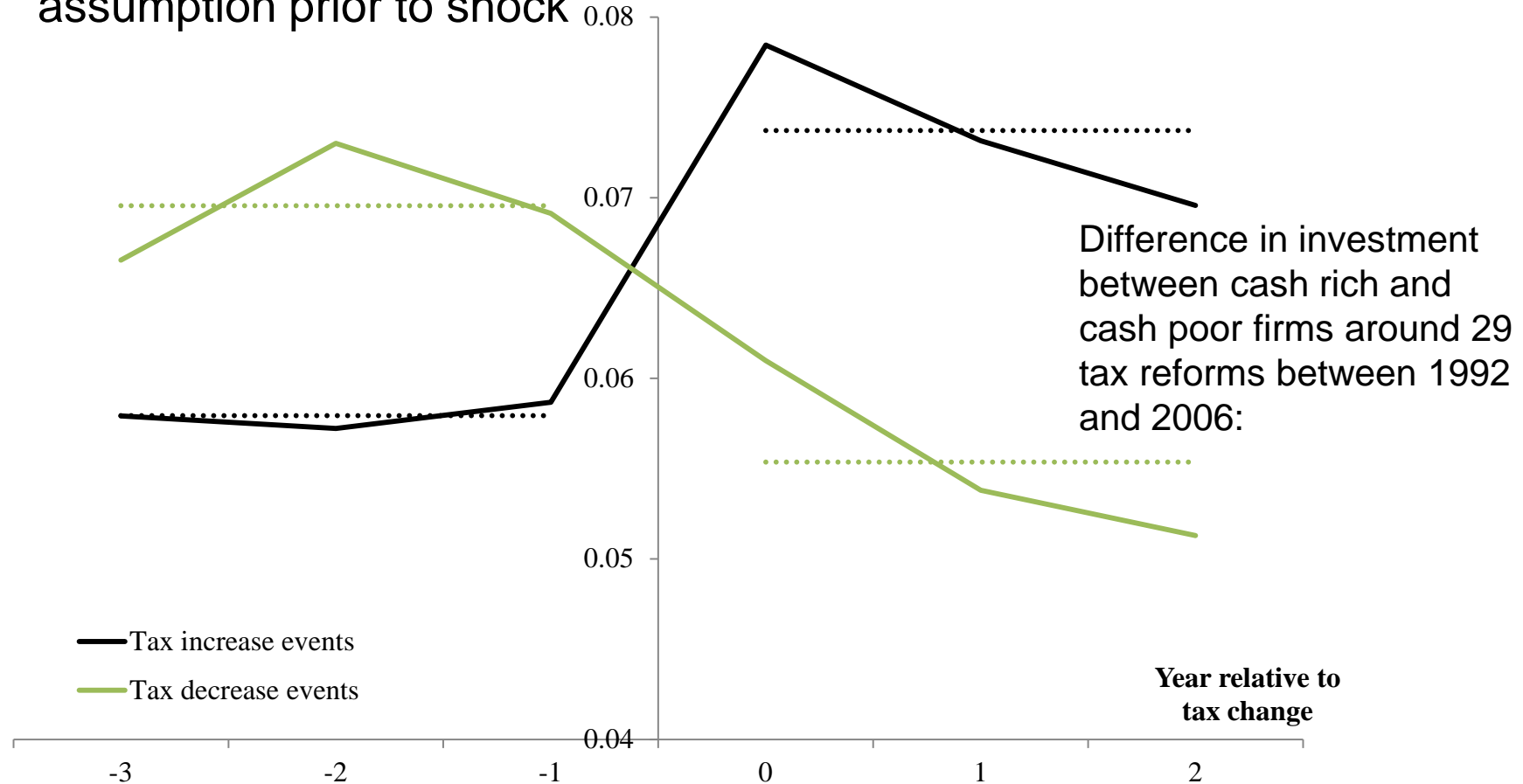
## Example 2 - Finance (1/2)

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- Becker, Bo, Jacob, Marcus, and Jacob, Martin (2013): Payout Taxes and the Allocation of Investment, *Journal of Financial Economics*, 107(1), 1-24
- Research question: Do payout taxes matter for corporate investment?
  - Conflicting theories: old view (*there is an effect*) versus new view of dividend taxation (*there is no effect*)
  - We contribute to this discussion and show that dividend taxation drives a wedge between cash-rich and cash-constrained firms.
- Data:
  - 25 countries, 19 years of data from Worldscope
  - Dividend & Capital Gains Tax Rates: Hand-collected from tax overviews.
- Research Design:
  - Difference-in-Difference, graphical results, FE panel regressions

# Graphical Evidence Figure 4 from Becker, Jacob, Jacob (2013)

- Always try to provide a convincing figure, e.g., to support common trend assumption prior to shock



## Example 3 - Finance (2/2)

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Jacob, Martin, Michaely, Roni, and Alstadsæter, Annette (2015), Taxation and Dividend Policy: The Muting Effect of Diverse Ownership Structure, *Working Paper*.

- Research question: When and why do dividend taxes matter for payout?
  - Conflict between theory and empirical results: In contrast to theory, dividend taxation appears to have only second-order importance. Why?
  - We try to explain this puzzling result and argue that the dividend tax elasticity is a declining function of ownership
- Data:
  - Sweden, 10 years of administrative data for closely held corporations
  - Integrated tax data with firm-owner link for the all these corporations.
- Research Design:
  - Difference-in-Difference-in-Difference: (1) around the 2006 tax reform, (2) High-tax versus low-tax owners, (3) differences in number of owners

## Example 4 – Public Economics

Alstadsæter, Annette, Jacob, Martin, and Michaely, Roni (2015): Do Dividend Taxes Affect Corporate Investment?, *Working Paper*

- Research question: Do dividend taxes matter for investment?
  - Evidence for listed firms (Becker, Jacob, Jacob, 2013), but no results for unlisted firms (Yagan 2015).  
So, maybe dividend taxes don't matter for private firms?
  - We contribute to this debate and show that there are no aggregate investment effects, but allocation effects.
- Data:
  - Sweden, 10 years of administrative data for all corporations
  - Integrated tax data with firm-owner link for the all these corporations.
- Research Design:
  - Difference-in-Difference-in-Difference: (1) Around the 2006 tax reform, (2) Widely versus closely held firms, (3) cash-rich versus cash-poor firms

## Some advice (also to myself...)

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- Find a topic that interests you and, most importantly, others
  - Remember, a paper is not automatically interesting because you have a great dataset, new data, new identification strategy and you replicate an old result!
- Write a short proposal: max. two pages of text (research question, contribution, main results) and main table & figure
- Have a theory behind your results
- Have a clean empirical setting and do not oversell your results
- Discuss also the economic magnitude of your effects
- Talk to senior researchers about your paper or research proposal (e.g. at conferences such as EAA or when they visit your school for seminars)
- Present your paper as often as possible
- Be prepared to abandon certain projects

## Some more advice (again also to myself...)

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- Recall that we can potential publish in finance, accounting, economics
- Have an idea about the target journal → your references and the two/three closest papers are good proxies for this!
- Adjust your writing to the type of journal. Some examples:
  - In accounting, you find hypotheses in Section 2 of almost all empirical papers
  - In finance, section 2 is often the data section
  - In economics, you really need to show that the underlying assumptions of your identification strategy are fulfilled (e.g., common trend assumption and random assignment to treatment and control group in a DD setting)

# Summary

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- Remember: Tax is interesting and relevant!
- Journals are interested in tax research
  - Currently, there is an open call for papers for a special issue on tax research in the European Accounting Review
- Which topics are interesting? Tomorrow is a panel discussion on the future of tax research!
- Good luck and have fun with your papers!



# Questions?

# Potential target journals

<b>Accounting</b>	<b>Finance</b>	<b>Public Economics</b>
Journal of Accounting and Economics	Journal of Finance	Journal of Public Economics
Journal of Accounting Research	Journal of Financial Economics	American Economic Journal: Economic Policy
The Accounting Review	Review of Financial Studies	
Contemporary Accounting Research	Journal of Financial and Quantitative Analysis	National Tax Journal
Review of Accounting Studies	Journal of Banking and Finance	International Tax and Public Finance
European Accounting Review	Journal of Corporate Finance	Public Finance Review