
Corporate Tax Research:

A sample of works-in progress

Making Sense of Reporting Differences

- Financial and tax reporting follow similar, but different rules. Each is designed to convey particular information to particular users.
- Financial reports provide information on taxes, filtered through financial reporting rules. The purpose of these disclosures is to provide information useful to users.
- Research questions center around the informativeness of these disclosures.

Inferring Tax Status

Table 5
Identifying Taxability from Financial Statements

	2004	2005	2006	2007	2008
TI – FS > 0	407	505	522	512	432
TI – TR > 0					
TI – FS > 0	172	180	172	179	195
TI – TR = 0					
TI – FS = 0	400	420	407	387	328
TI – TR > 0					
TI – FS = 0	440	314	318	341	464
TI – TR = 0					
INCORRECT (%)	40	42	41	40	37

The Financial Reporting and Capital Market Benefits of Disclosing Taxable Income

- Investors incorporate information from a firm's financial statement tax expense into its share price.
- Financial statement tax expense is a poor indicator of taxable income on the firm's tax return (Bokulic, Henry and Plesko, 2012).
- Questions:
 - Are investors attempting to price actual taxable income?
 - If not, can disclosure of actual taxable income on a firm's financial statements provide *even more* information about firm value?

The Financial Reporting and Capital Market Benefits of Disclosing Taxable Income

Utilize a panel of firms with both financial statement and tax return information from 1994-2009.

Estimate:

$$Ret_{i,t} = \beta_0 + \beta_1 \Delta PTI_{i,t} + \beta_2 \Delta FSTax_{i,t} + \beta_3 \Delta ActTI_{i,t} + \beta_{j,t} CONTROLS + \varepsilon_{i,t}$$

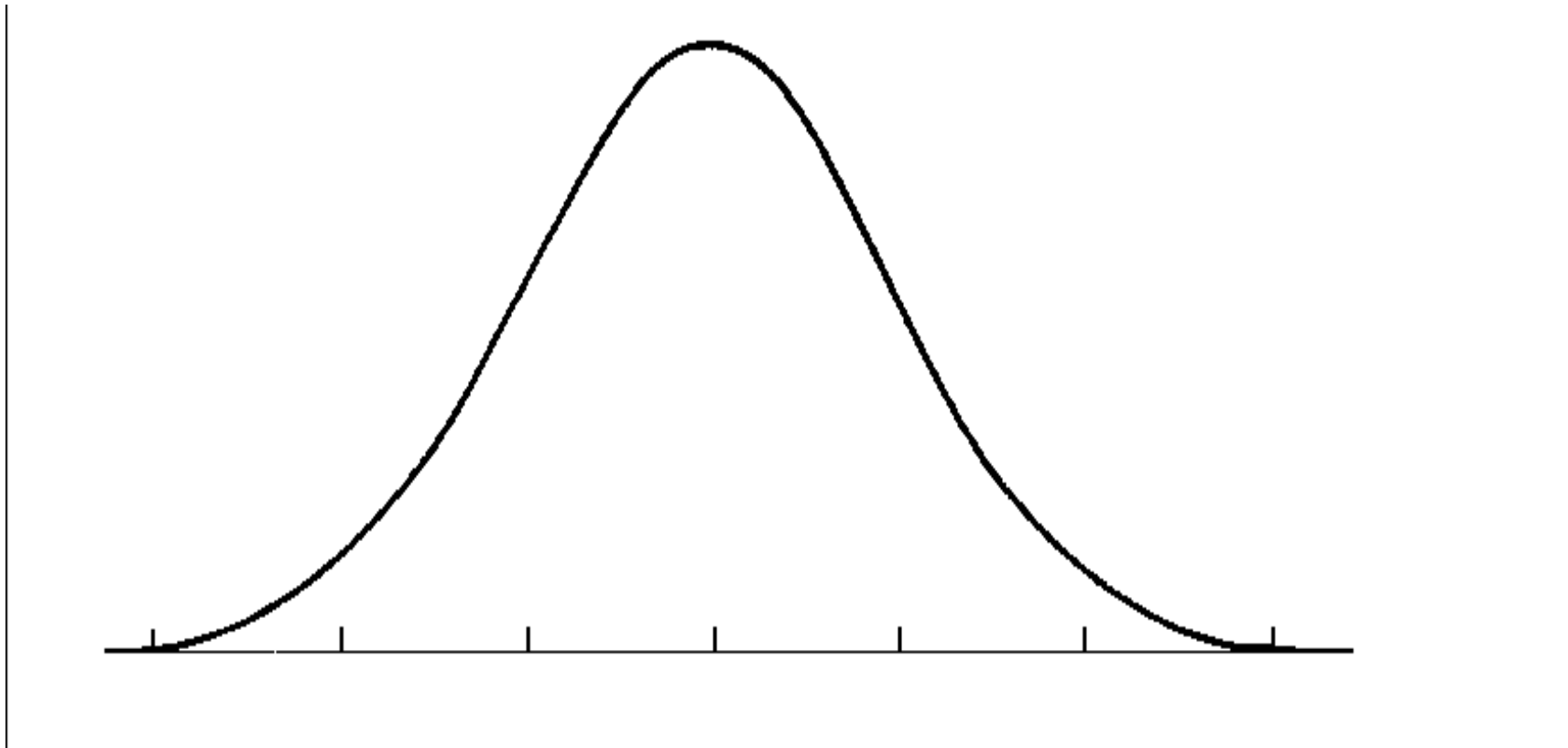
Find that *both* actual taxable income and financial statement tax expense changes are positively associated with returns.

- The value relevant information correlated with book tax expense is not a substitute for actual taxable income – there is some mutually exclusive info in each.
- Even though this number is not publicly disclosed, investors obtain its information content from other sources.

Earnings Discontinuities

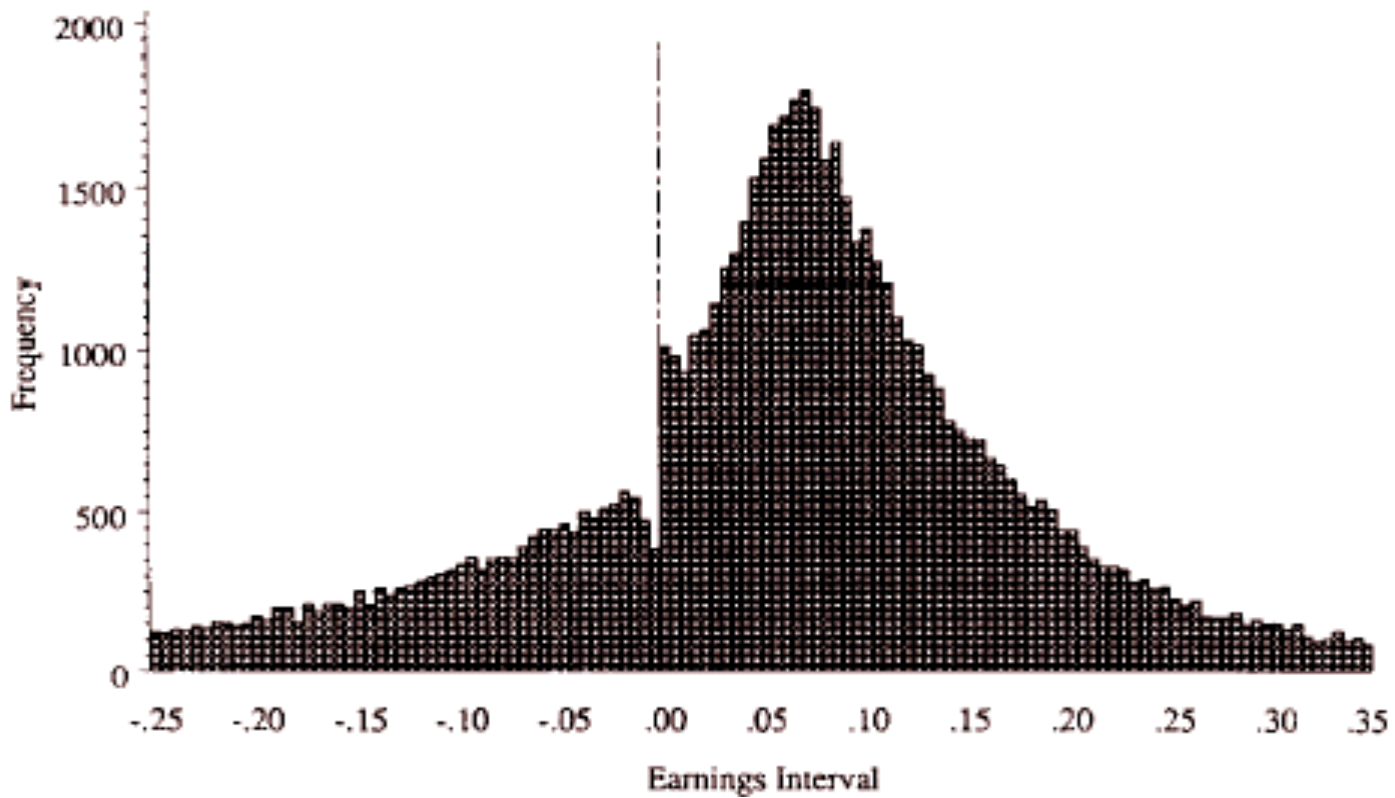
- What are the factors that should (or can) affect earnings patterns.
- What is to be inferred from earnings patterns.

Earnings Discontinuities

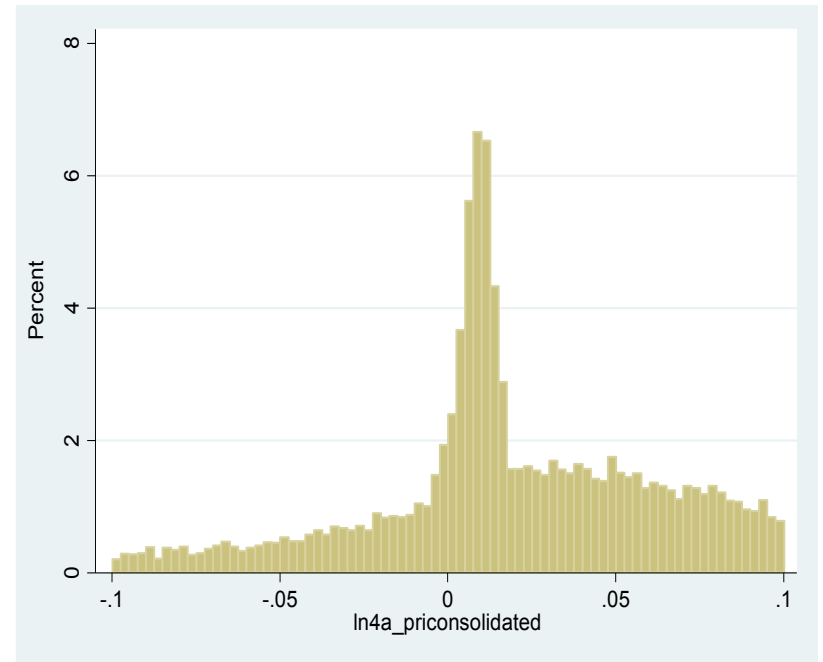
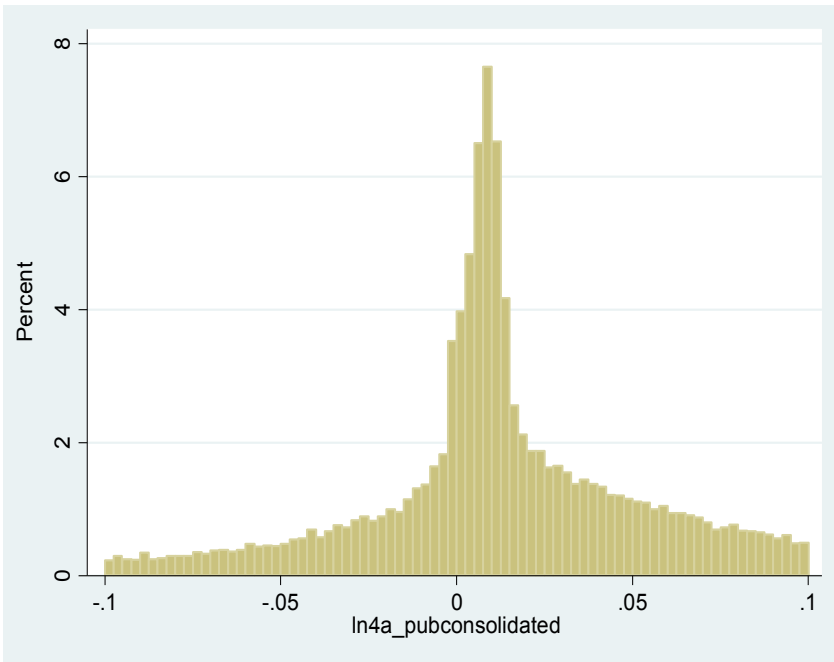


Loss Avoidance

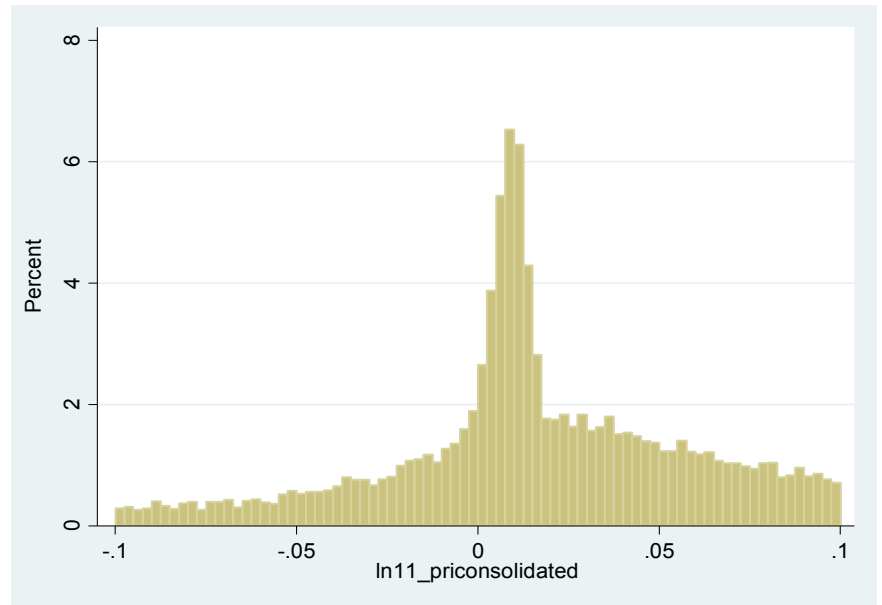
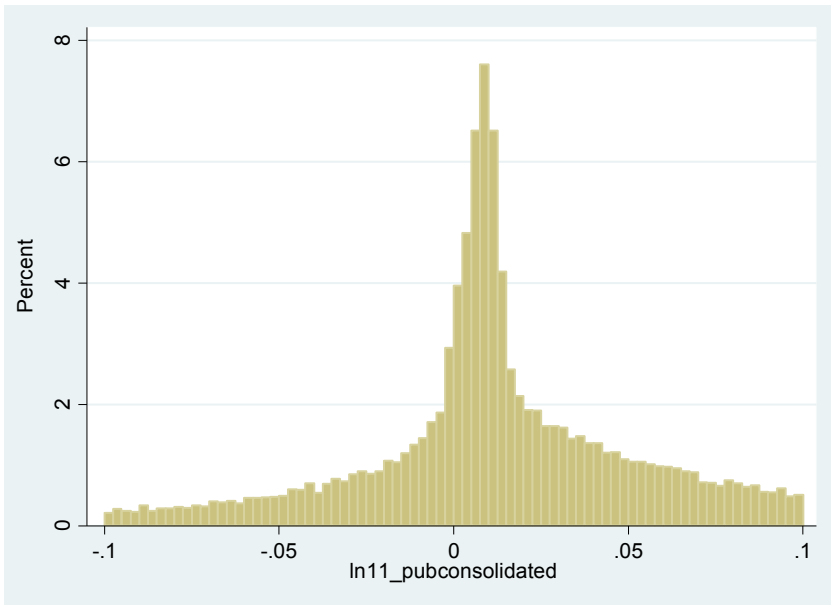
D. Burgstahler, I. Dichev / Journal of Accounting and Economics 24 (1997) 99–126 109



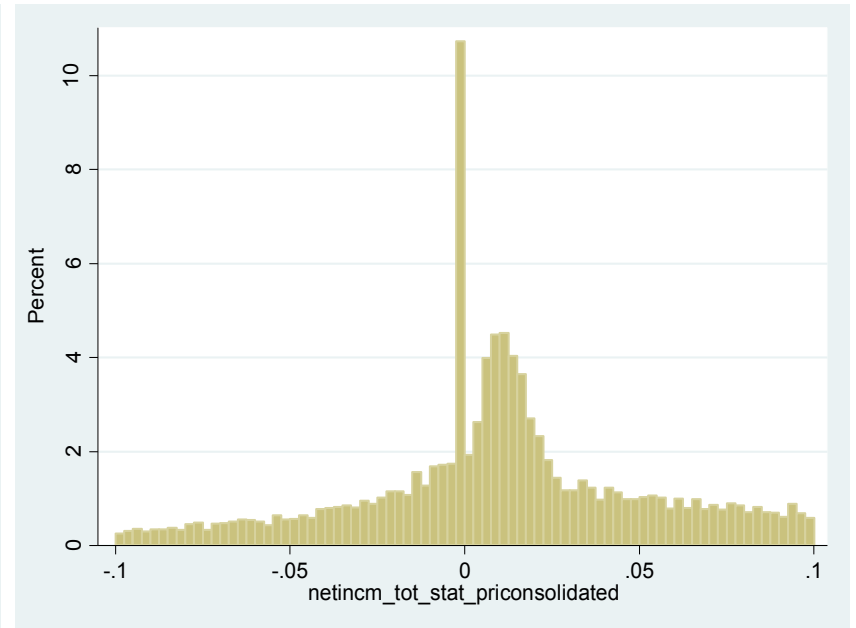
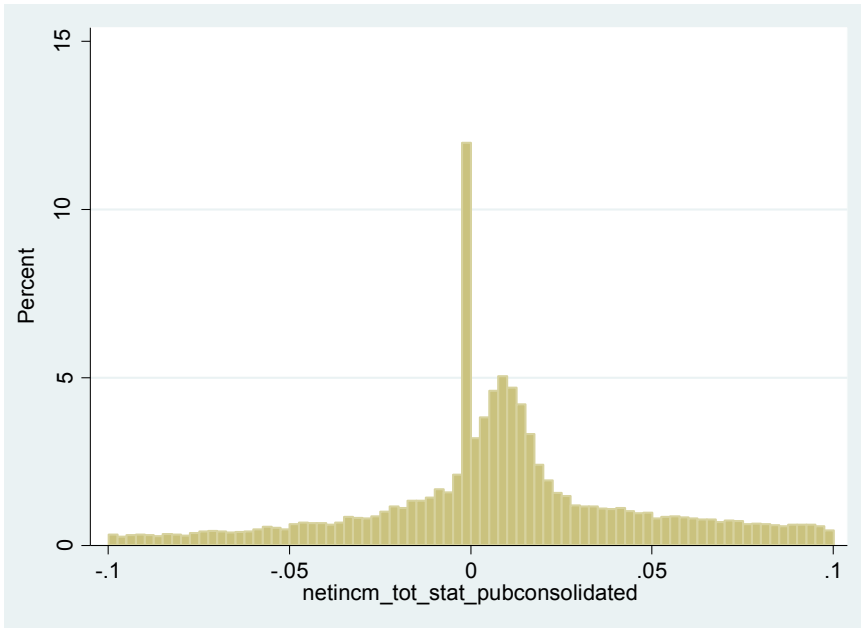
Earnings Discontinuities – Consolidated Returns



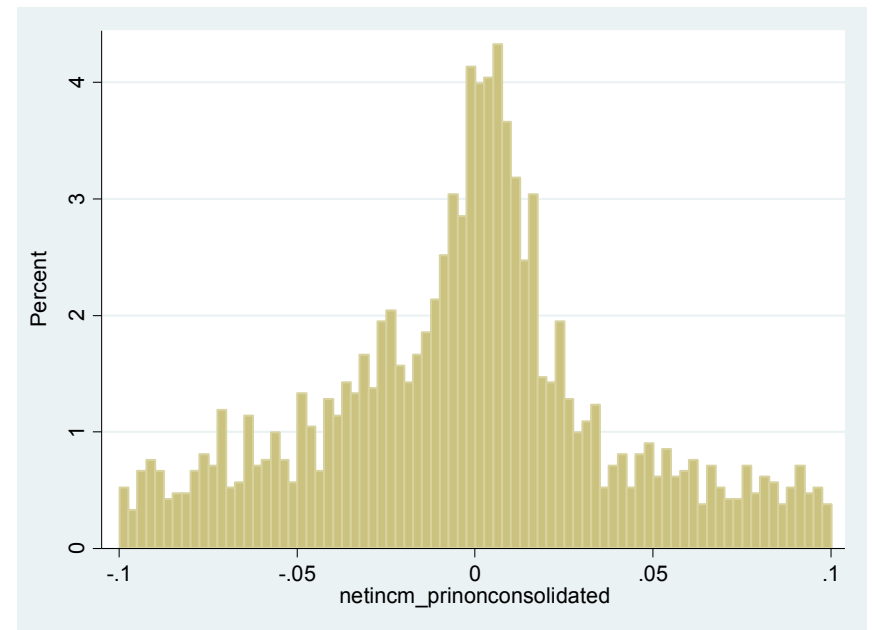
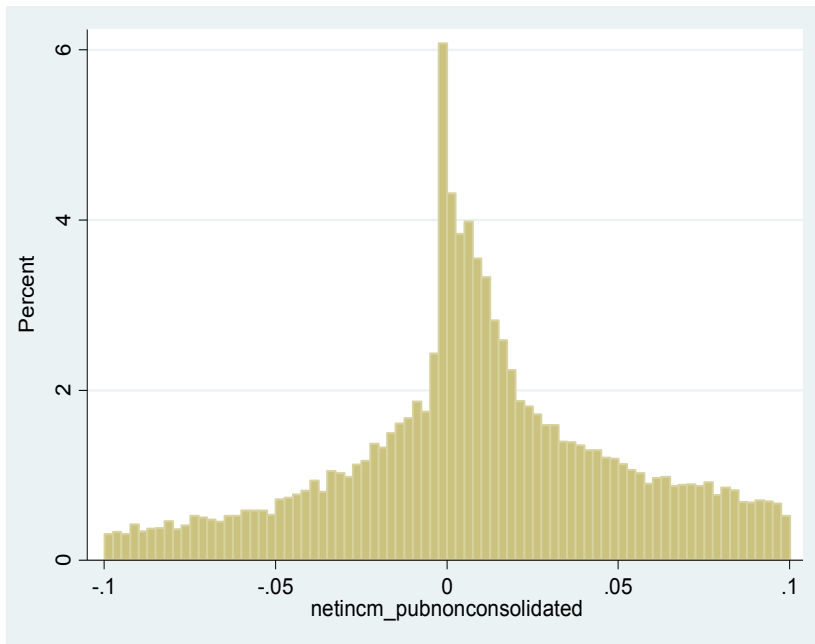
Earnings Discontinuities – Consolidated Returns



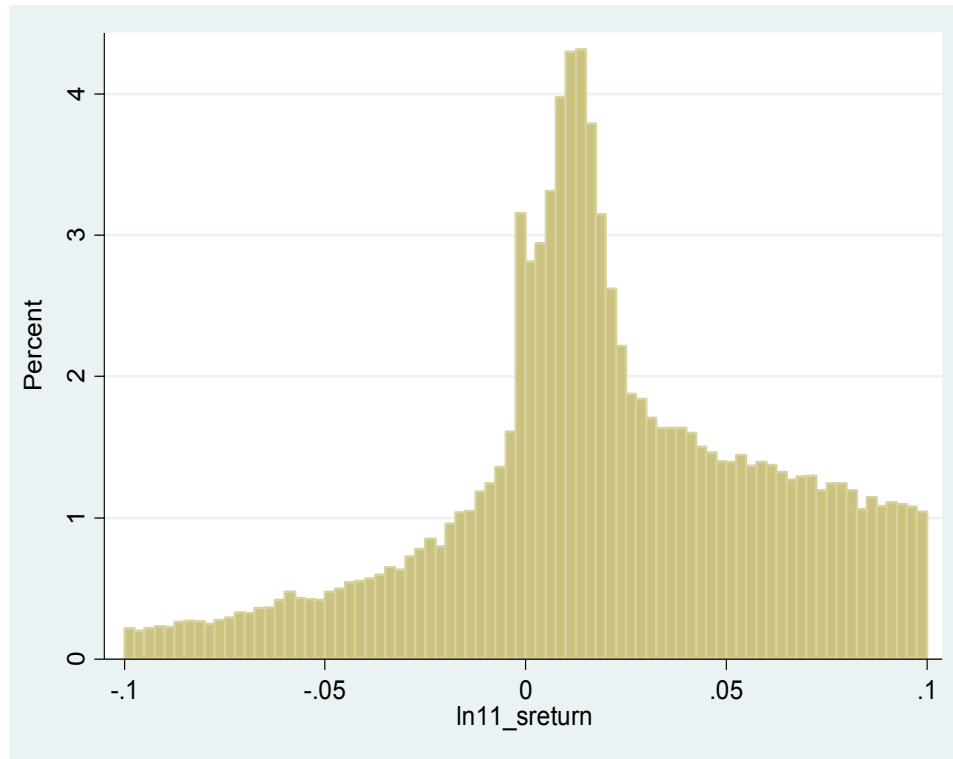
Earnings Discontinuities – Consolidated Returns



Earnings Discontinuities – Non-Consolidated Returns



Earnings Discontinuities - S corps



Earnings Discontinuities - S corps

