
Corporate Tax Research:

A sample of works-in progress

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Making Sense of Reporting Differences

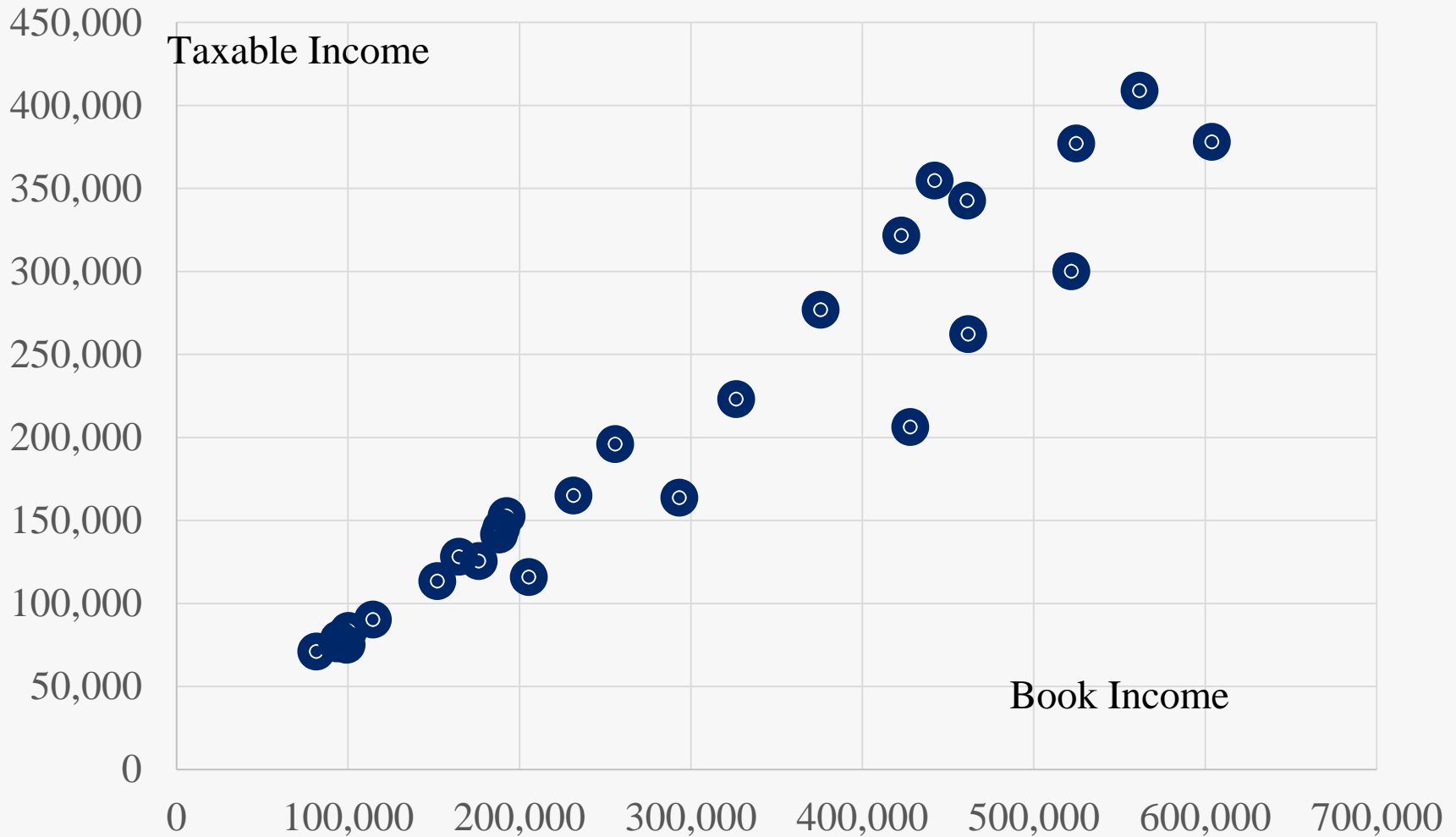
- Financial and tax reporting follow similar, but different rules. Each is designed to convey particular information to particular users.
- Financial reports provide information on taxes, filtered through financial reporting rules. The purpose of these disclosures is to provide information useful to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

Inferring Tax Status

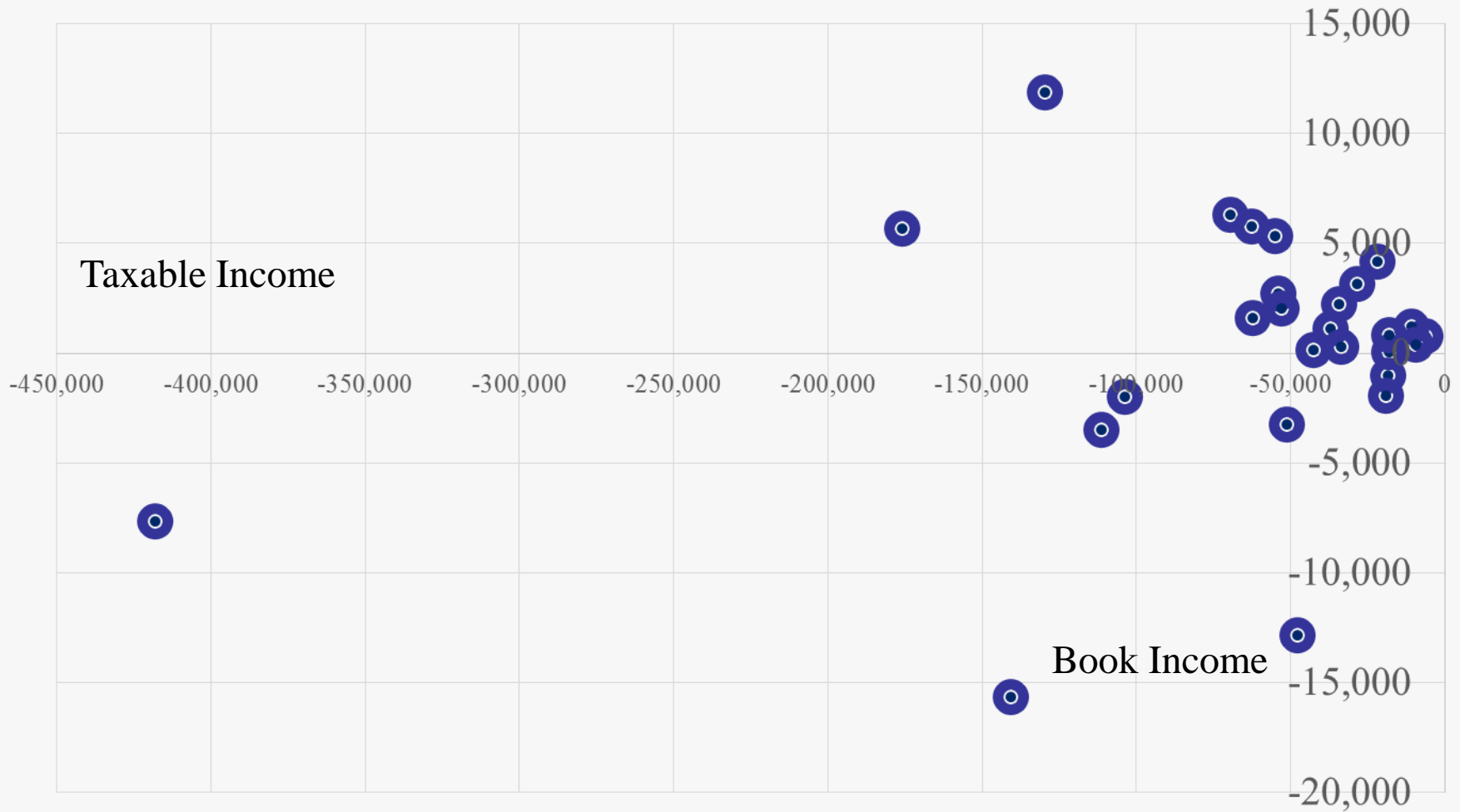
Table 5
Identifying Taxability from Financial Statements

	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

Aggregate Book v Taxable Income for Firms with Positive Book Income



Aggregate Book v Taxable Income for Firms with Negative Book Income



Inferring Tax Status

- A substantial literature uses financial statement-based Cash ETRs to measure a corporation's tax burden (Hanlon and Heitzman, 2010).

$$\frac{\text{Cash Taxes Paid}}{\text{Worldwide Book Income}}$$

- To what extent does information about *actual* taxes paid and *actual* taxable income change our view of aggregate, industry-level, and firm-level tax burdens?
 - March 2016 GAO Report

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

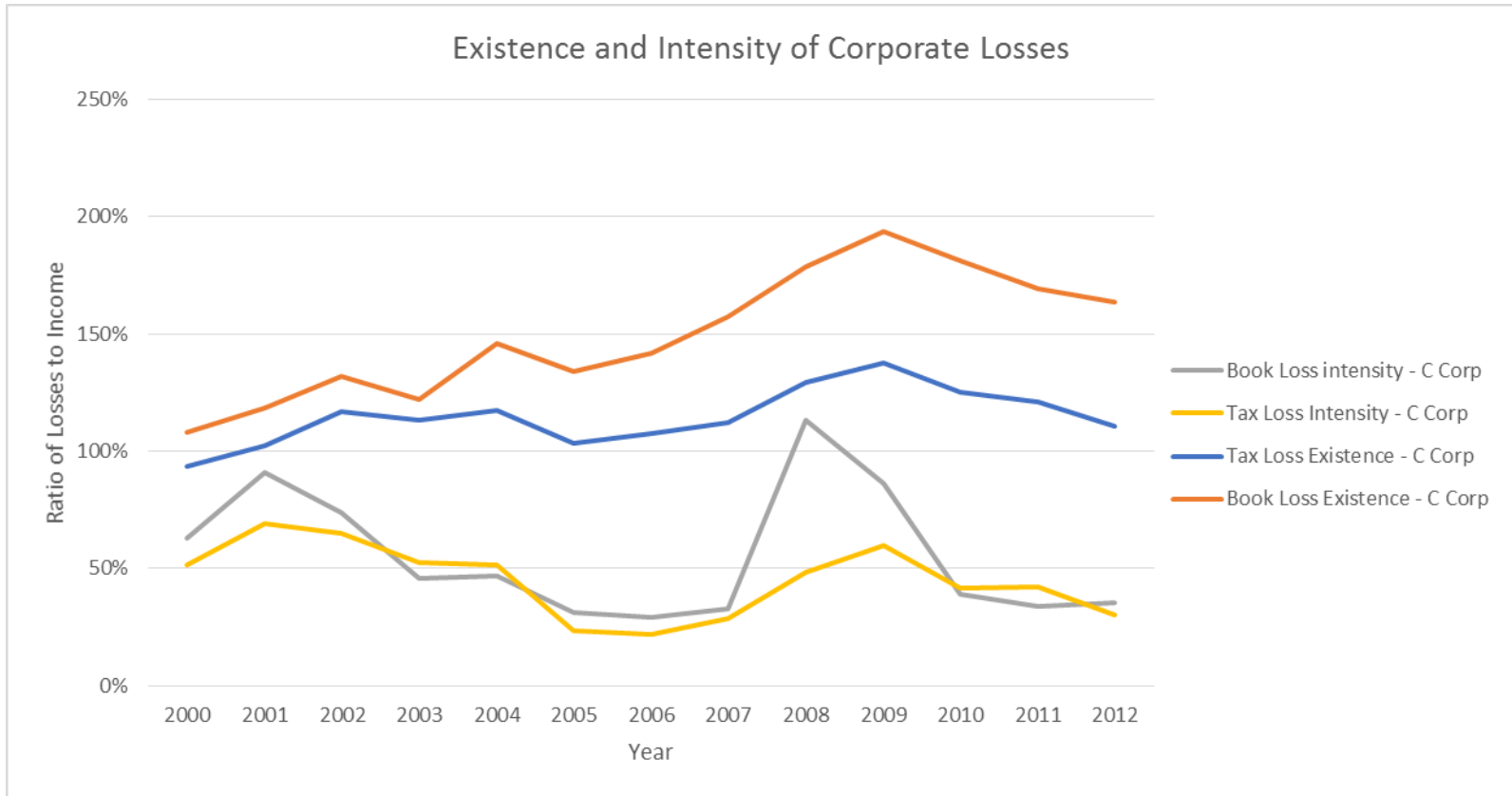
Estimate:

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

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

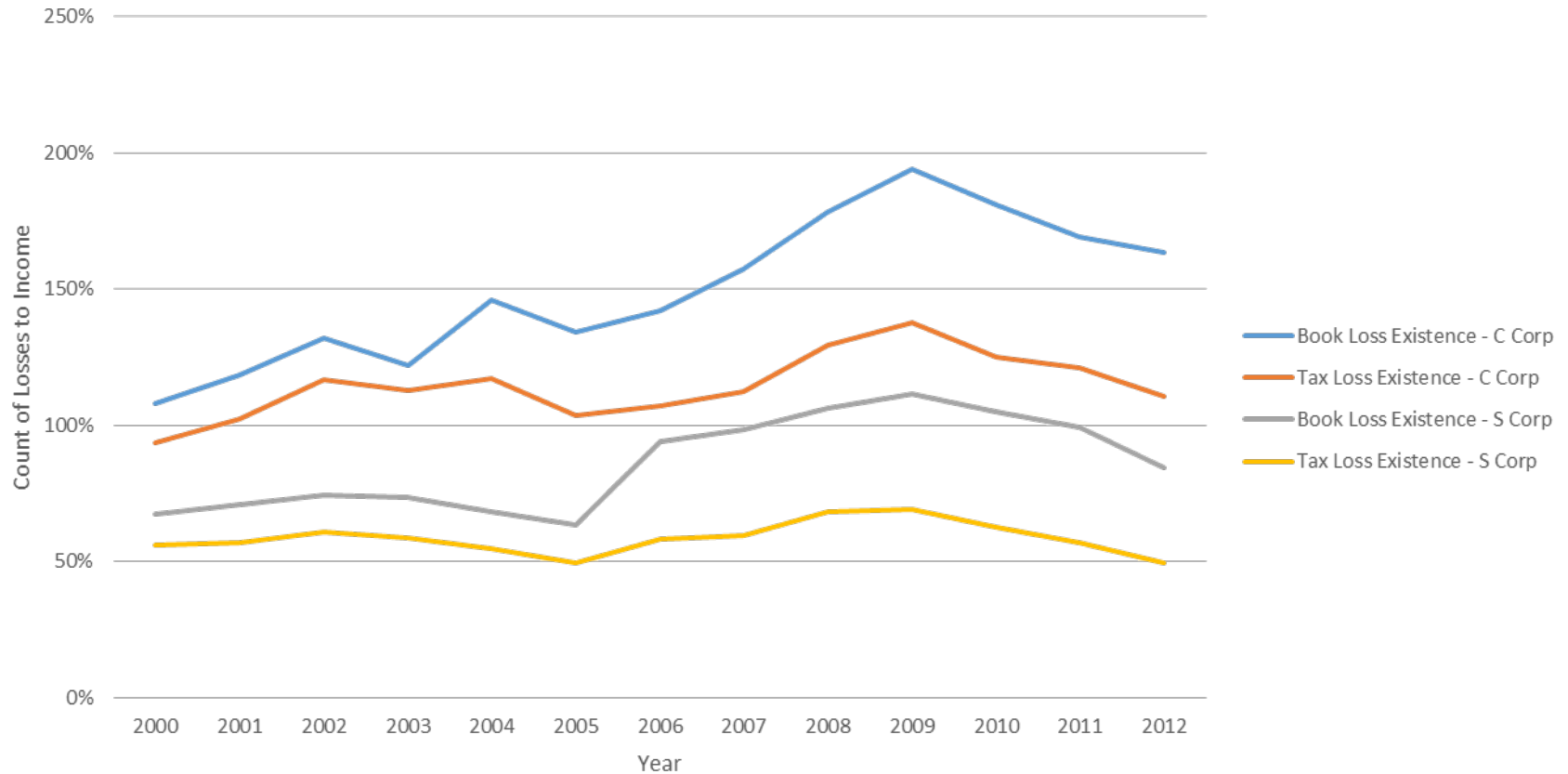
- The value relevant information correlated with book tax expense is not a substitute for actual taxable income – there is some mutually exclusive info in each.
- Even though this number is not publicly disclosed, investors obtain its information content from other sources.

Corporate Losses

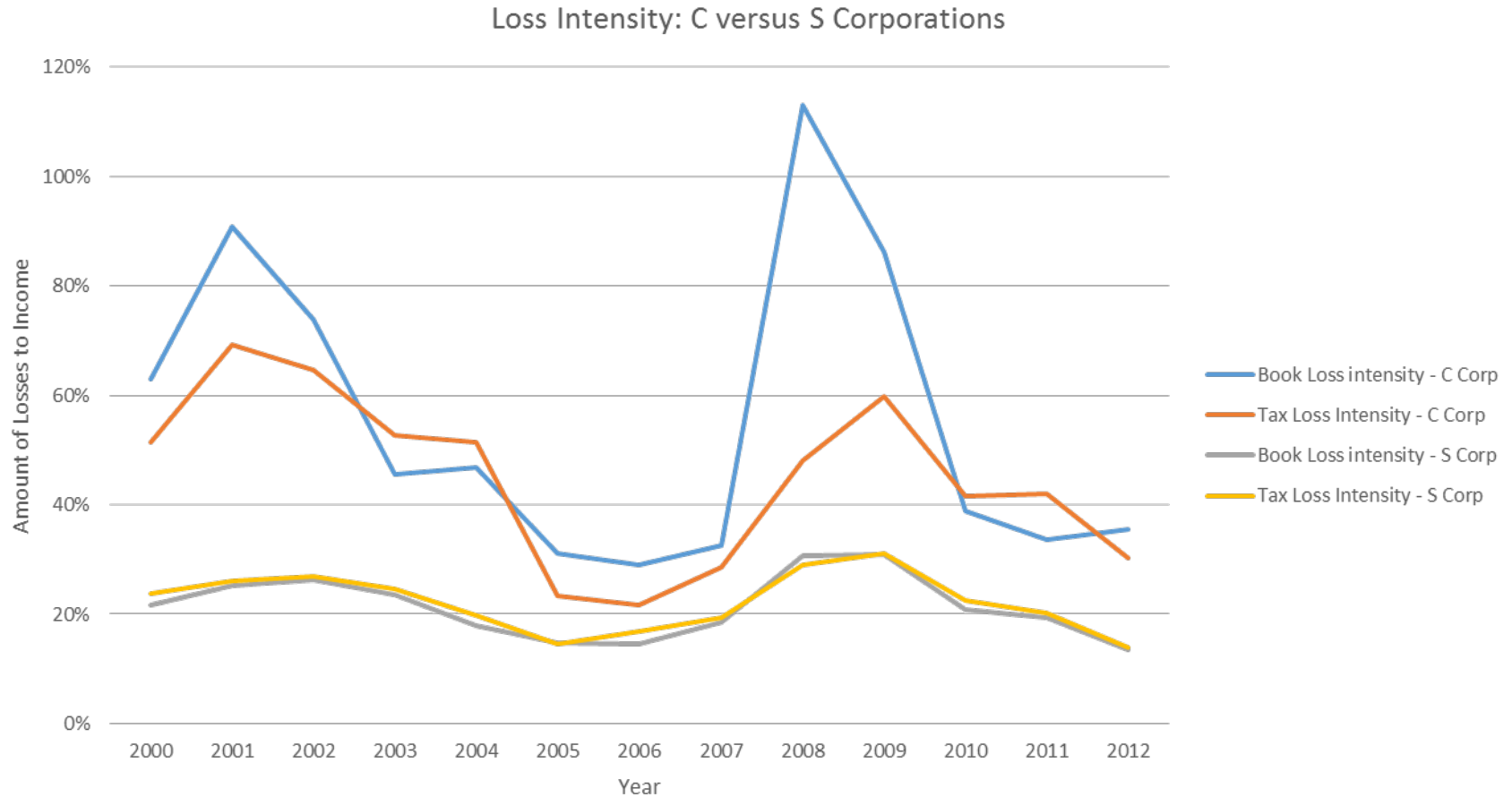


Corporate Losses

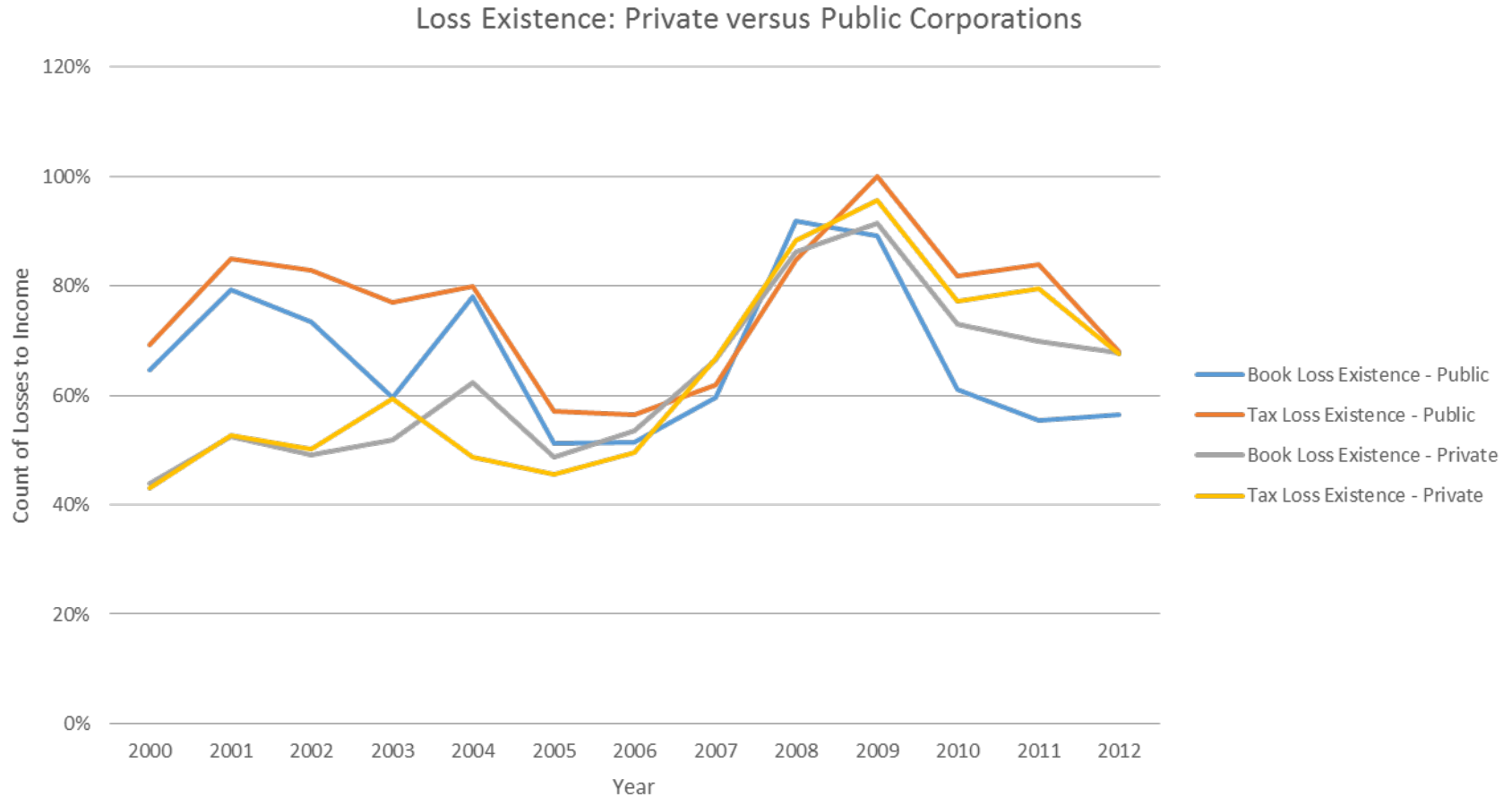
Loss Existence: C versus S Corporations



Corporate Losses

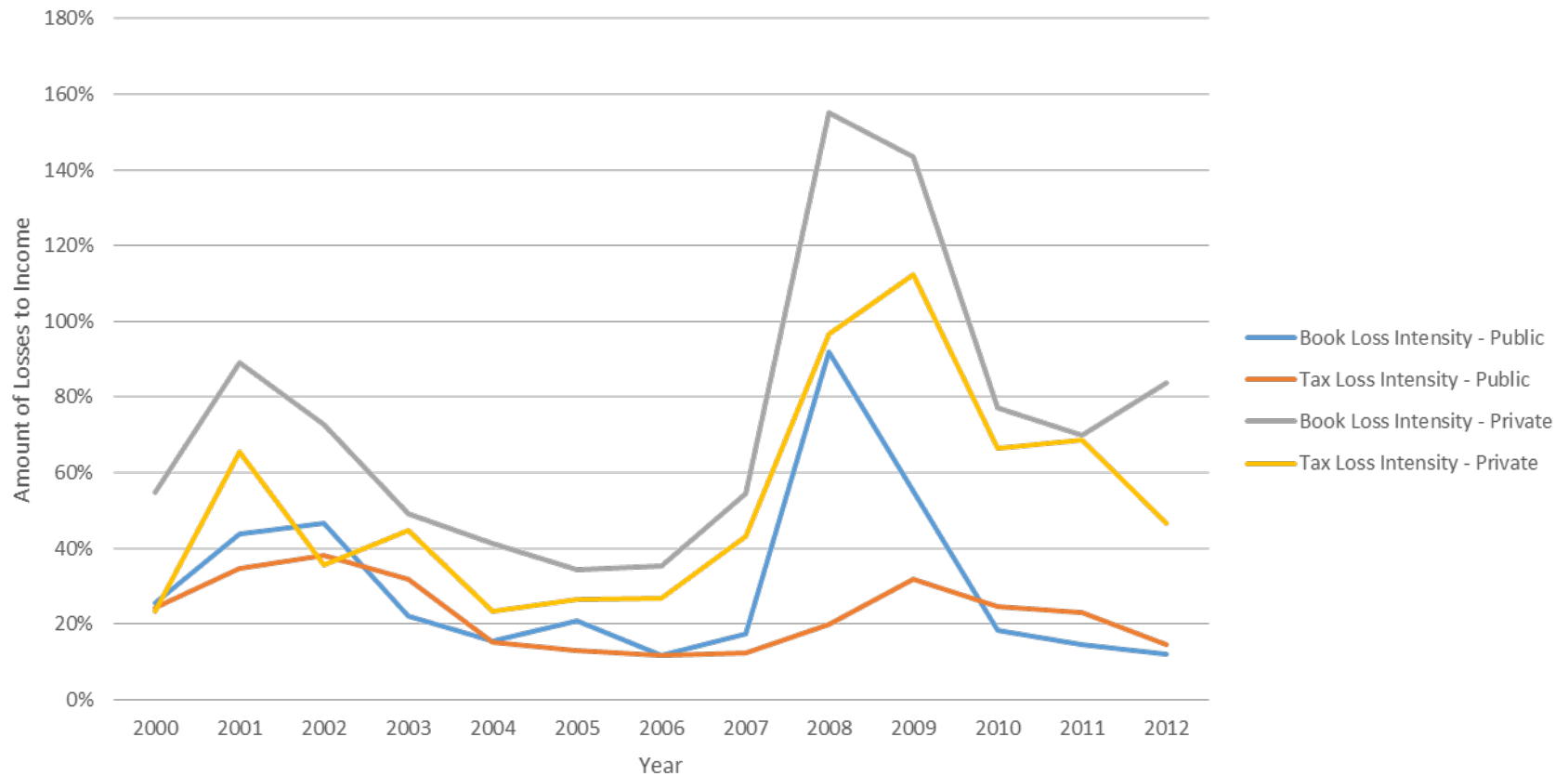


Corporate Losses



Corporate Losses

Loss Intensity: Private versus Public Corporations



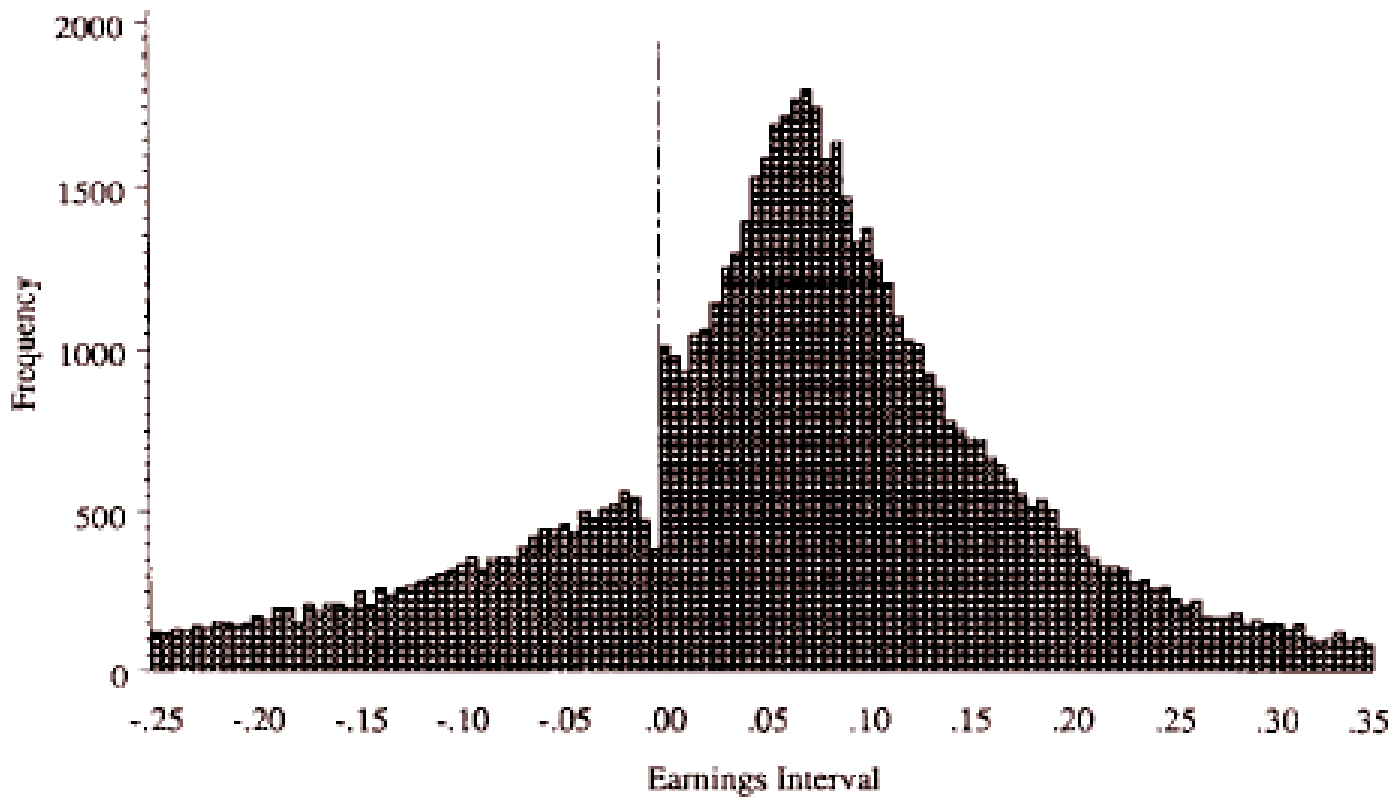
Earnings Discontinuities

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

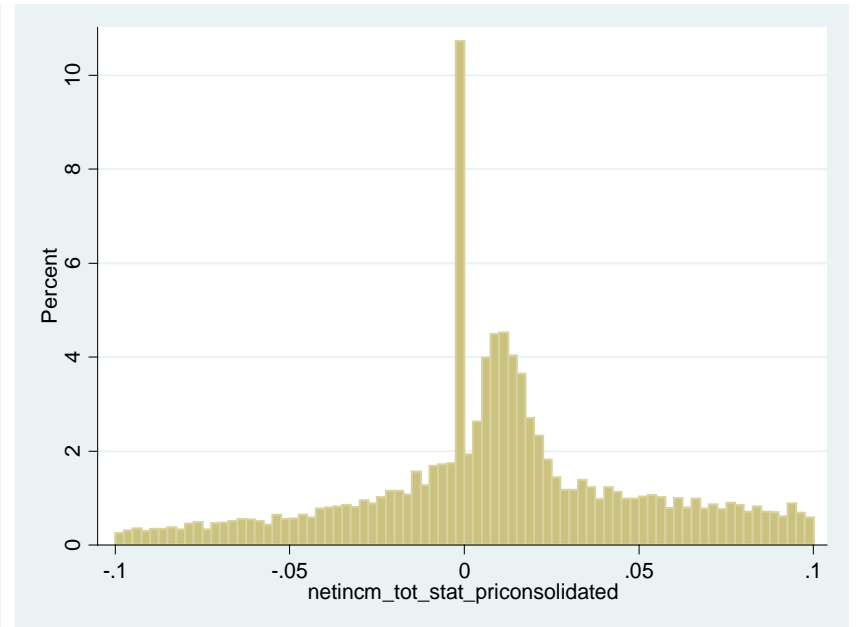
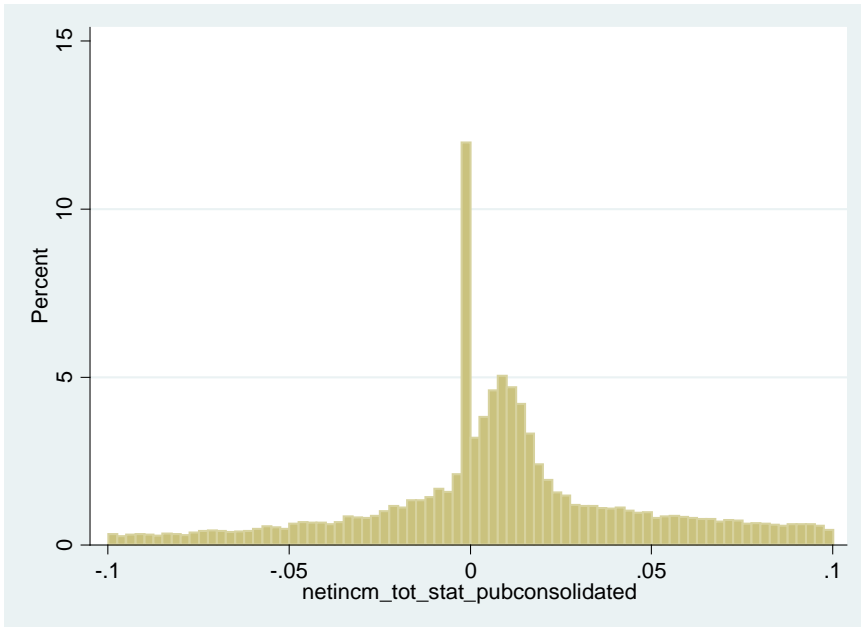
Loss Avoidance

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

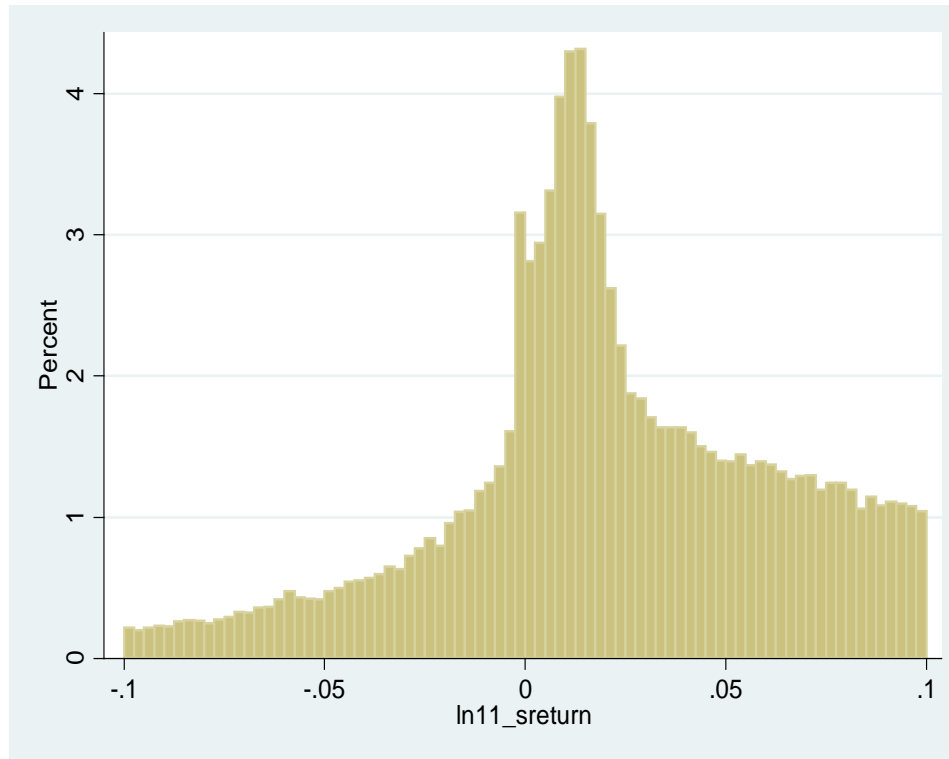
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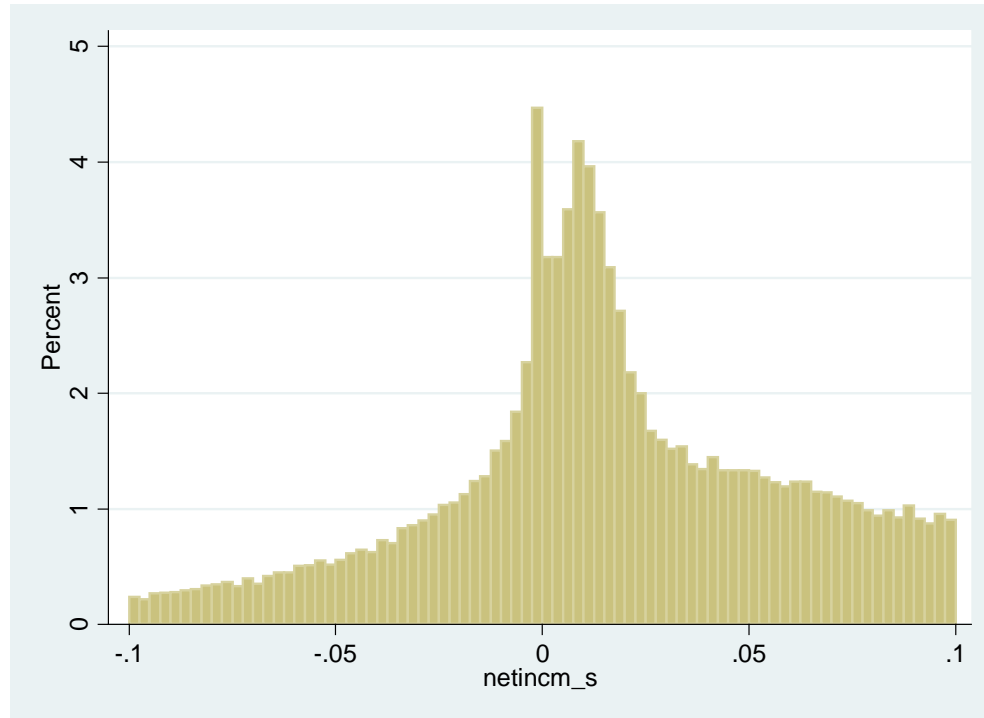
Earnings Discontinuities – Consolidated Returns



Earnings Discontinuities - S corps



Earnings Discontinuities - S corps

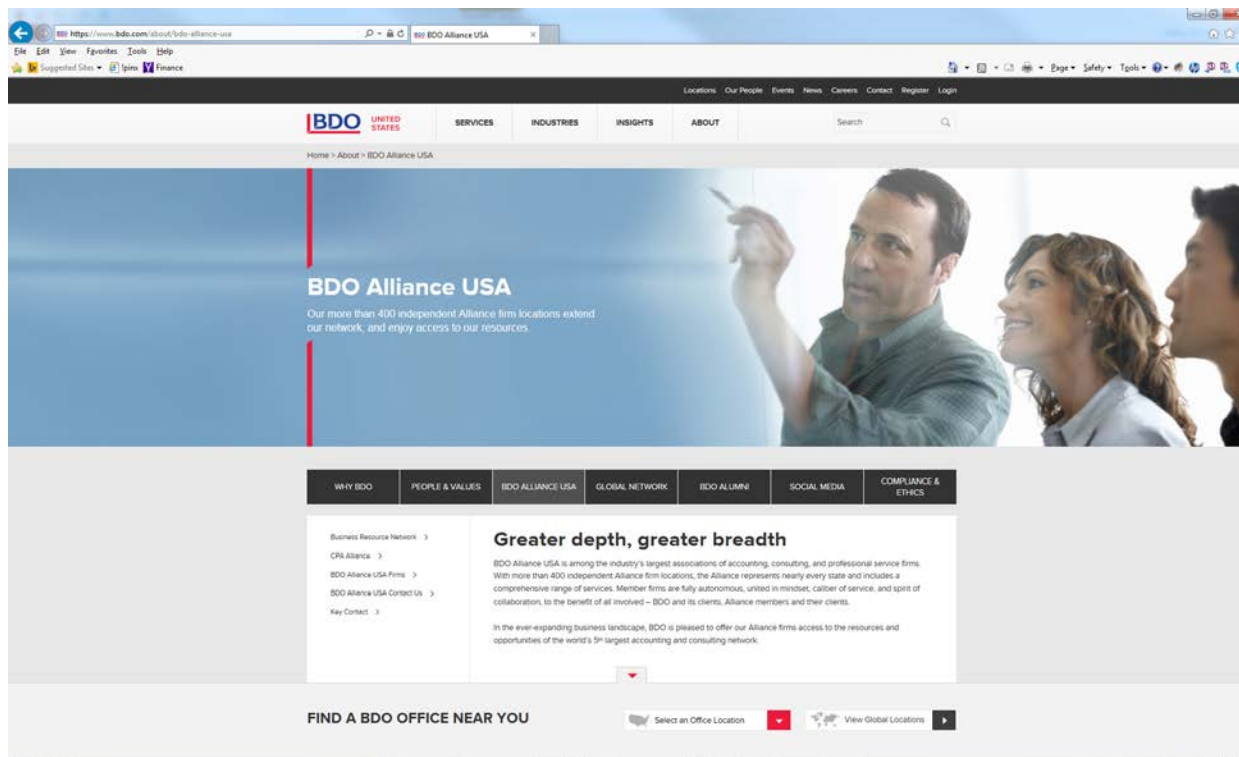


Preparer Network Associations and Taxes

- Financial statements are prepared by a corporation's management and audited by public accountants.
 - Extensive literature on auditors and financial reporting.
- Tax returns may be prepared internally by a corporation and reviewed by a public accounting firm or entirely prepared by the public accounting firm.
 - Preparer type impacts tax reporting (Klassen, Lisowsky and Mescall, 2015).

Preparer Network Associations and Taxes

- Non-Big 4 accounting firms often join alliances or network associations:



Preparer Network Associations and Taxes

- We know these associations are important in financial reporting audits (Bills, Cunningham, and Myers, 2015).
- What is the impact of tax preparer network associations on the tax reporting of their clients?
 - Are reporting outcomes consistent across preparers and preparer networks?

Preparer Network Associations and Taxes

- Link database of network memberships to preparer fields from electronic returns using XRDB.
- Utilize tax return-based tax status to study the broad sample of corporations and preparer types.

...and more to come!

Thank you.