

Empirical Tax Research

Summer Term 2018

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(Classes: 10.15 – 11.45, Room: JUR 372)
(Labs: 18.15 – 19.45, Room: (Wiwi Pool 1) (CIP-Pool))

<u>Classes:</u>	<u>Empirical Labs:</u>	<u>One-Day Seminar</u>
Class #1: 12.04.2018		20.07.2018
Class #2: 26.04.2018	Lab #1: 26.04.2018	
Class #3: 14.06.2018	Lab #2: 14.06.2018	
Class #4: 21.06.2018	Lab #3: 21.06.2018	
Class #5: 05.07.2018	Lab #4: 05.07.2018	
Class #6: 19.07.2018	Lab #5: 19.07.2018	

Topics Classes

Class #1: Organizational Matters

Class #2: Empirical Tax Research in Accounting: An Overview

Class #3: Tax Avoidance

Class #4: Base Erosion and Profit Shifting (BEPS)

Class #5: Value Relevance / Information Content of Tax Expense

Class #6: Taxes and Earnings Management

Topics Labs

Lab #1: Data and Estimation of Time Series Regression Models

Lab #2: Cross-Sectional and Panel Data Regression Models

Lab #3: Dynamic and Nonlinear Econometric Models

Lab #4: Value Relevance Regression Models

Lab #5: Taxes-Earnings Management Regression Models

I. Language

This course can be held in either German or English.

II. Registration

You must register officially at the examination office (PAM) to be able to participate in this course! The online registration period starts on 09.04.2018 and ends on 23.04.2018: <https://www.wiwi.uni-muenster.de/pruefungsamt/>

In addition we would like to ask you to sign-in for the course by sending an email to: adrian.kubata@wiwi.uni-muenster.de

This course can be selected within the curriculum of the Master and PhD program:

- Master Program
 - ACM 9, 12, 15, 18 / FCM 13 / CfM 10 / MCM 16
 - 6 ETCS
- Structured PhD Program
 - B, C credit

III. Course Concept

The course consists of three parts:

- 5 lectures
- 5 computer lab sessions
- a one-day seminar where students will have to present a research paper

Each lecture's content will be centered around one or more research paper (see section VII of this syllabus for details). The lecture's aim is to introduce students to the subject of 'Empirical Tax Research' and to teach them the basic theoretical foundations of this subject.

The computer labs will focus on applied econometrics. The goal here is twofold. First, to teach students the fundamentals of how to conduct an own small research project (12-14 pages). This is especially important for those students who aim to write an empirical master thesis. Second, to teach students the necessary fundamentals of econometrics and statistics to be able to better understand the empirical analysis in the assigned readings.

The one-day seminar will take place either on July 19th or 20th, 2018. During the seminar each student will have to present (about 30 min. PowerPoint presentation) a research paper from section VIII. Each presentation will be followed by a 15 min. joint discussion.

IV. Course Requirements and Grading

You will be graded based on three performances:

- Your oral participation during the class sessions, lab sessions, and the seminar (25%)

- Your paper presentation in the seminar (25%)
- A written exam in form of a 12-15 pages paper critique (Seminararbeit) (50%)

Oral participation during the class and seminar (25%):

- You are expected to take an active part in discussing and evaluating the readings assigned for each class and during the seminar. Although the class will mainly be held using traditional frontal teaching method, there will be some room for questions and discussion. We expect you to read the assigned papers prior before coming to class and to be prepared and able to ask questions and participate in the discussions.

Paper presentation in the seminar (25%):

- During the seminar the student participants will take over and the lecturers will have only a moderating function. Each student will have to present a research paper. Papers for presentations can be chosen from the selection provided in section VIII of this course syllabus. We will allocate 45 min for each paper in the seminar; 30 min for your presentation and 15 min for a joint discussion. We expect you to prepare a 30 min. PowerPoint presentation about your paper. The structure of your presentation should cover the following contents and aspects included in your paper:

- research question
- motivation, contribution
- theory, hypotheses
- empirical design
- data and descriptive statistics
- results
- conclusion

For more details, please also see the template for how to summarize a research paper (Learnweb upload)

Paper critique = written exam (50%):

Finally students are required to write a 12-14 pages paper critique about the same paper they already presented in the seminar. The first part of the paper critique should include a brief summary of the discussed paper (3-4 pages) including the same contents as your PowerPoint presentation (i.e., research question/ motivation, contribution/ theory, hypotheses/ empirical design/ data and descriptive statistics/ results/ conclusion. The second part of your paper critique should include a critical evaluation of the paper including the student's qualified opinion of the article. For more details see the template on writing a critique of a research article (Learnweb upload).

The official announcement of grades by the examination office will be September 28, 2018. The Deadline for submitting your paper critique will be September 21, 2018. Please send your paper critique both as PDF and Word file by email to: adrian.kubata@wiwi.uni-muenster.de

Master students will receive a grade (6 credit points); doctoral students will be graded with passed/failed (6 credit points).

V. Course Objective

The objective of this course is to develop your ability to critically evaluate existing research and to conduct own empirical research (either a master or doctoral thesis) in the area of Empirical Tax Research. Important elements of this course include developing:

- an appreciation for the role of tax, accounting, and finance theory in applied work
- an understanding of research designs commonly used in empirical tax research in accounting and finance
- the necessary skills to assess, design, and conduct empirical research in accounting and finance

We expect each of you to take an active role in the class and lab sessions. This requires in-depth reading and critical analysis of the assigned papers prior to the class in which they are discussed.

The purpose of the class and lab discussions is not only to summarize the assigned papers. The focus should also be on addressing questions such as: Why was the topic chosen? What is the theoretical basis underlying the analysis? What are the properties of the research design? The idea is to understand why the study was conducted in the manner it was.

Quality participation in class and lab discussions can take several forms including: clarifying issues raised in the assigned readings to enhance the understanding of the class; asking questions; providing supportive comments or constructively challenging what other participants have said; integrating the material covered both within and across class sessions; and offering new ideas!

VI. Course Contents

The course 'Empirical Tax Research' provides an introduction to empirical research on the relation between corporate tax planning, financial statements, and capital markets. In doing so, we mainly focus on the following topics:

- theory of corporate tax avoidance / corporate tax planning
- Scholes-Wolfson framework of effective tax planning
- determinants of corporate tax avoidance
- consequences of tax avoidance
- empirical measures of corporate tax avoidance
- base erosion and profit shifting (BEPS) / tax motivated income shifting
- taxes and executive compensation
- tax avoidance and firm reputation
- book-tax conformity
- tax costs, non-tax costs, and book-tax trade offs
- earnings management through tax accounts
- taxes and financial constraints
- tax shelter participation
- capital market perception of tax information
- value relevance and information content of tax expense

VII. Assigned Class Readings

Class 1, 12.04.18 – Organizational Matters

There are no readings assigned for the first class. We will just explain the structure of the course and organizational matters in the first class.

Class 2, 26.04.18 – Empirical Tax Research in Accounting: An Overview

Hanlon, M., Heitzman, S., 2010. A review of tax research, *Journal of Accounting and Economics*, 50: 127-178.

Graham, J., Raedy, J., Shackelford, D., 2012. Research in accounting for income taxes. *Journal of Accounting and Economics*, Vol. 53, Issues 1–2, pp. 412-434.

Wilde, J. Wilson, R., 2018. Perspectives on Corporate Tax Planning: Observations from the Past Decade. *The Journal of American Taxation association* (forthcoming).

Class 3, 14.06.18 – Tax Avoidance

Gupta, S., Newberry, K. 1997. Determinants of the variability in corporate effective tax rates: Evidence from longitudinal data. *Journal of Accounting and Public Policy*, Vol.16, Issue 1, pp. 1-34.

Dyreg, S., Hanlon, M., Maydew, E., 2008. Long-run corporate tax avoidance. *The Accounting Review*, 83: 61-82.

Dyreg, S., Hanlon, M., Maydew, E., Thornock, J., 2014. Changes in corporate effective tax rates over the past twenty-five years. Working Paper.

Hanlon, M., Slemrod, J., 2009. What does tax aggressiveness signal? Evidence from stock market reactions to news about tax shelter involvement. *Journal of Public Economics*, 93, pp.126-141.

Dyreg, S., Hanlon, M., Maydew, E., 2010. The effects of managers on corporate tax avoidance. *The Accounting Review*, 85, pp. 1163-1189.

Class 4, 21.06.18 – Base Erosion and Profit Shifting (BEPS)

Dyreg, S. Markle, K. 2016. The Effect of Financial Constraints on Income Shifting by U.S. Multinationals. *The Accounting Review*, Vol. 91, No. 6, pp. 1601-1627.

Dharmapala, D., 2014. What do we know about Base Erosion and Profit Shifting? A Review of the Empirical Literature. *Fiscal Studies*, Vol. 35, No. 4, pp. 421-448.

Class 5, 05.07.18 – Value Relevance / Information Content of Tax Expense

Hanlon, M. LaPlante, Shevlin, T., 2005. Evidence for the Possible Information Loss of Conforming Book Income and Taxable Income. *The Journal of Law and Economics*, 48, pp. 407-442.

Hanlon, M., 2005. The Persistence and Pricing of Earnings, Accruals, and Cash Flows When Firms Have Large Book-Tax Differences. *The Accounting Review*, 80, pp. 137-166.

Thomas, J., Zhang, F., 2014. Valuation of tax expense. *Review of Accounting Studies*, Vol. 19, Issue 4, pp. 1436-1467.

Class 6, 19.07.18 – Taxes and Earnings Management

Dhaliwal, D., Gleason, C., Mills, L., 2004. Last-Chance Earnings Management: Using the Tax Expense to Meet Analysts' Forecasts. *Contemporary Accounting Research*, Vol. 21, No. 2, pp. 431-459.

Frank, M., Lynch, M., Rego, S., 2009. Tax reporting aggressiveness and its relation to aggressive financial reporting. *The Accounting review* 84: 467-496.

Erickson, M., Hanlon, M. Maydew, E., 2004. How much will firms pay for earnings that do not exist? Evidence of taxes paid on allegedly fraudulent earnings. *The Accounting Review*, 79, pp. 387-408.

Guenther, D., Krull, L., Williams, B, 2014. Are 'Tax Aggressive' Firms Just Inflating Earnings? Working Paper available from SSRN.

VIII. Paper Suggestions for the Seminar and for Paper Critiques

Students can choose one of the below listed papers for their presentation during the seminar and for their paper critique!

1. Phillips, J., Pincus, M., Rego, S., 2003. Earnings Management: New Evidence Based on Deferred Tax Expense. *The Accounting Review*, 78, pp. 491-521.
2. Edwards, A., Schwab, C., Shevlin, T., 2016. Financial constraints and cash tax savings. *The Accounting Review*, 91, pp. 859-881.
3. Gallemore, J., Maydew, E., Thornock, J., 2014. The reputational costs of tax avoidance. *Contemporary Accounting Research*, 31, pp. 1103-1133.
4. Desai, M., and D. Dharmapala, 2006. Corporate tax avoidance and high-powered incentives, *Journal of Financial Economics* 79, pp. 145-179.
5. Desai, M., A. Dyck, and L. Zingales. 2007. Theft and taxes. *Journal of Financial Economics* 84, pp. 591-623.
6. Bozanic, Z., J. Hoopes, J. Thornock, and B. Williams. 2017. IRS Attention. *Journal of Accounting Research* 55, pp. 79–114.
7. Foley, C. F., J. C. Hartzell, S. Titman, and G. Twite. 2007. Why do firms hold so much cash? A tax-based explanation. *Journal of Financial Economics* 86, pp. 579-607.

8. Blouin, J. and L. Krull. 2009. Bringing it home: A study of the incentives surrounding the repatriation of foreign earnings under the American Jobs Creation Act of 2004. *Journal of Accounting Research* (September), pp. 1027-1059.
9. Klassen, K and S. Laplante. 2012. Are U.S. Multinational Corporations Becoming More Aggressive Income Shifters? *Journal of Accounting Research*, 50, pp. 1245-1285.
10. Wilson, R., 2009. An examination of corporate tax shelter participants. *The Accounting Review* 83: 969-999.
11. Armstrong, C., Blouin, J., Larcker, D., 2012. The incentives for tax planning. *Journal of Accounting and Economics*, 53: 391-411.
12. Chen, S., Chen, X., Cheng, Q., Shevlin, T., 2010: Are family firms more tax aggressive than non-family firms? *Journal of Financial Economics*, 95: 41-61.
13. Dyreng, S., Lindsey, B., 2009. Using financial accounting data to examine the effect of foreign operations located in tax havens and other countries on U.S. multinational firms' tax rates. *Journal of Accounting Research*, 1283-1316.
14. Dyreng, S., Lewellen, C., Lindsey, B., 2017. An examination of the tax outcomes of loss firms. Working paper.
15. Bauman, M., Shaw, K., 2005. Disclosure of Managers' Forecasts in Interim Financial Statements: A Study of Effective Tax Rate Changes. *The Journal of the American Taxation Association*, Vol. 27, No. 2, pp. 57-82.
16. Comprix, J., Mills, L., Schmidt, A., 2012. *The Journal of the American Taxation Association*, Vol. 34, No. 1, pp. 31-53.
17. Schmidt, A., 2006. The Persistence, Forecasting, and Valuation Implications of the Tax Changes Component of Earnings. *The Accounting Review*, Vol. 81, No. 3, pp. 589-616.

If you are not happy with the selection provided above, you can choose any tax related paper from the following journals for your presentation and your paper critique:

The Accounting Review (TAR), Journal of Accounting and Economics (JAE), Contemporary Accounting Research (CAR), Journal of Accounting Research (JAR), Review of Accounting Studies (RAST), The Journal of the American Taxation Association (JATA), European Accounting review (EAR). Please send your paper suggestion to: adrian.kubata@wiwi.uni-muenster.de