

“Major Unresolved Questions in Tax Research”

Sonja Rego
Indiana University

PRESENTATION FOR ATA / KPMG DOCTORAL CONSORTIUM

FEBRUARY 25TH, 2016

Major Unresolved “Questions”

- Tax policy issues
- Managers and taxes
- Experimental tax research

Tax Policy Issues

- **Taxation of foreign source income (FSI)**

- High U.S. stat tax rate + deferral of U.S. taxation of FSI = Incentive to earn π 's outside U.S.
- What are the consequences of the current U.S. tax system?
 - Economic distortions, complex transactions (e.g., corporate inversions)
 - e.g., Edwards, Kravet, and Wilson (2015)
 - e.g., Khan, Nallareddy, and Rouen (2015)
- What are possible alternative systems?
- Can we quantify costs and benefits of different systems?
- Base Erosion Profit Shifting (BEPS)
 - How will BEPS affect tax revenues? Location of R&D and real operations? The global economy?

Tax Policy Issues

- **Broader business tax issues**

- Impact of business tax rules on U.S. companies and overall economy.
 - R&D tax credit, DPAD, bonus depreciation, healthcare-related tax issues, etc.
- LLCs are growing in importance.
 - Will LLCs dominate C Corps in 20 years? 50 years?
 - Should C Corps be taxed as flow-throughs? (Should dividends be taxed?)
- Small businesses at a disadvantage relative to larger businesses, especially MNCs.
 - Dyreng, Hanlon, Maydew, and Thornock (2015) provide evidence on MNCs vs. domestic-only companies.
 - We don't know a lot about tax planning at small businesses.
 - Badertscher, Katz, Rego, and Wilson (2016)

Tax Policy Issues

- **Taxation of certain types of income**

(Warning: the following questions are not for the faint of heart!)

- Growing income inequality in the U.S., which has many causes.
 - To what extent do certain tax rules contribute to growing income inequality?
- Taxation of capital gains and qualifying dividends.
- Taxation of income earned by managers and investors in private equity and hedge funds.
 - Victor Fleischer's research in this area is innovative and unique.
- How *should* capital be taxed?
 - Can we estimate costs and benefits of different methods of taxing capital?

Taxes and Managers

- We have increased our understanding of how **compensation choices** influence tax planning.
- **But** (holding compensation constant) **why do some managers still choose to avoid less tax than other managers?**
 - Aka, the “under-sheltering puzzle”
 - James Chyz’ dissertation examines flip-side of this question.
- To what extent is the under-sheltering puzzle driven by managerial concerns over **“reputational costs” related to tax decisions?**
 - Current evidence on reputational costs is mixed:
 - Hanlon and Slemrod (2009); Gallemler, Maydew, and Thornock (2014); Chyz and Gaertner (2015)
 - Chow, Klassen, and Liu (Forthcoming, CAR) finds smaller acquisition premiums for target firms that participate in tax shelters (a different type of reputational cost...)

Experimental Tax Research

- Certain tax research questions are better-suited for experiments.
- Very little experimental tax research in recent years, so perhaps a risky proposition?
- Which tax research questions *could* be addressed through an experiment?
- ***Why don't analysts and investors fully understand the valuation implications of financial statement-based tax information?***
 - Do they not *analyze* this tax information?
 - Do they not *understand* this tax information?
 - Are tax disclosures *insufficient*? Too *complex*?
 - To what extent does *disclosure quality* or *format* affect financial statement users' ability to process tax information?

These are just some ideas to get you thinking.

Take a look at the program for the ATA Mid-Year Meeting.

You will find that some accountants have started to tackle these research issues, but we have a lot more to learn, and a lot more to offer to tax policy makers, regulators, and other economic stakeholders.

THANK YOU!