

The Role of Client Advocacy in the Development of Tax Professionals' Advice

Donna D. Bobek

University of Central Florida

Amy M. Hageman

University of Central Florida

Richard C. Hatfield

University of Alabama

Purpose of the Study

- Is advocacy an exogenous characteristic held by the tax professional?
- Also, how does advocacy affect steps in the judgment and decision making process?

Importance

- ❑ Tax professionals must serve as ***client advocates*** while attempting to objectively evaluate facts and authorities (AICPA, 2000).
- ❑ Prior research has shown evidence of bias.
- ❑ Advocacy has been an important construct in behavioral tax research for the past 20 years, but it is often not directly measured or thoroughly examined.

Early Advocacy Research

- Earlier studies equated “advocacy” with a preference for the tax-minimizing position (e.g., LaRue and Reckers, 1989).
- Many other studies have used “advocacy” to explain tax professionals’ behavior without directly measuring advocacy attitudes (e.g., Carnes et al. 1996).

Direct Construct Measurement

- Advocacy has been defined as the degree of ***taxpayer loyalty*** exhibited by the tax professional (Mason and Levy 2001).
 - Developed a 9-item scale measuring this construct.
 - Captures tax professional ***attitudes*** regarding advocacy.
- At least 8 studies measure advocacy attitudes and initially use as an explanatory variable.
 - Overall, some evidence that advocacy may influence both the ***processing*** of information and the actual ***recommendations***.

Attitude Theory

- Attitude theory suggests that attitudes toward a behavior are a function of beliefs about the outcome of engaging in that particular behavior, and thus are at least partially context-specific (Ajzen and Fishbein 1990).

- Thus, characteristics about ***clients themselves*** may affect attitudes about being an advocate:
 - Client Risk
 - Client Importance

Hypothesis Development

Endogeneity of Advocacy

Hypothesis 1: Tax professionals will exhibit greater (weaker) client advocacy for low (high) risk clients.

Hypothesis 2: Tax professionals will exhibit greater (weaker) client advocacy for more (less) important clients.

Hypothesis Development

Advocacy and Judgments

- ***Hypothesis 3a***: Client-specific advocacy will influence tax professionals' recommendations, even when controlling for client characteristics.
- ***Hypothesis 3b***: Client specific advocacy will influence aspects of the tax professionals' judgment process, including:
 - Allowance of favorable tax treatment
 - Likelihood judgments
 - Weighting of the relevance of evidence

Methodology: Between-Subjects Experiment

- Measured *general advocacy* (Mason and Levy 2001) prior to client facts
- Vignette over hypothetical client's "hobby loss" scenario
 - Client risk – manipulated and perceptions
 - Client importance – manipulated and perceptions
- Measured tax advice
 - Client recommendations
 - Aspects of judgment process (allowance, likelihood judgments, weighting of evidence)
- Measured *client-specific advocacy*

Sample Group: 101 Tax Professionals

<u>Years of Tax Experience</u>	
Mean	8.28 years
(S.D.)	(8.06)
<u>Firm Type</u>	
International	32%
National	11%
Regional	17%
Local	40%
<u>Position in Firm</u>	
Partner/Owner	11%
Senior Manager	12%
Manager	17%
Senior	24%
Staff	36%
<u>Gender</u>	
Female	67%
Male	33%
<u>Professional Status</u>	
CPA	62%

Hypotheses 1 and 2: Endogeneity of Advocacy

Analysis of Client-Specific Advocacy		
	<u>F-Statistic</u>	<u>Significance Level</u>
Client Risk	4.064	.047
Client Importance	0.426	.515
Client Risk * Importance Interaction	1.013	.317
General Advocacy	238.917	<.001
<u>Model Statistics:</u>		
F-statistic = 61.703		
Significance Level = <.001		
Adjusted R ² = .730		

Hypothesis 3: Advocacy and Process Variables

Regression Analysis with GENERAL Advocacy		
	<u>Likelihood</u>	<u>Factor Weighting</u>
Client Risk Perceptions	-.081 (.192)	.146 (.107)
Client Importance Perceptions	.189 (.159)	.177** (.088)
General Advocacy	.022 (.031)	-.013 (.018)
<u>Adjusted R-Squared</u>	.000	.019
F-Statistic	1.005	1.591

Hypothesis 3: Advocacy and Process Variables

Regression Analysis with CLIENT-SPECIFIC Advocacy		
	<u>Likelihood</u>	<u>Factor Weighting</u>
Client Risk Perceptions	-.008 (.192)	.112 (.106)
Client Importance Perceptions	.165 (.155)	.175** (.086)
Client Specific Advocacy	.067** (.030)	-.036** (.016)
<u>Adjusted R-Squared</u>	.048	.063
F-Statistic	2.523*	3.003**

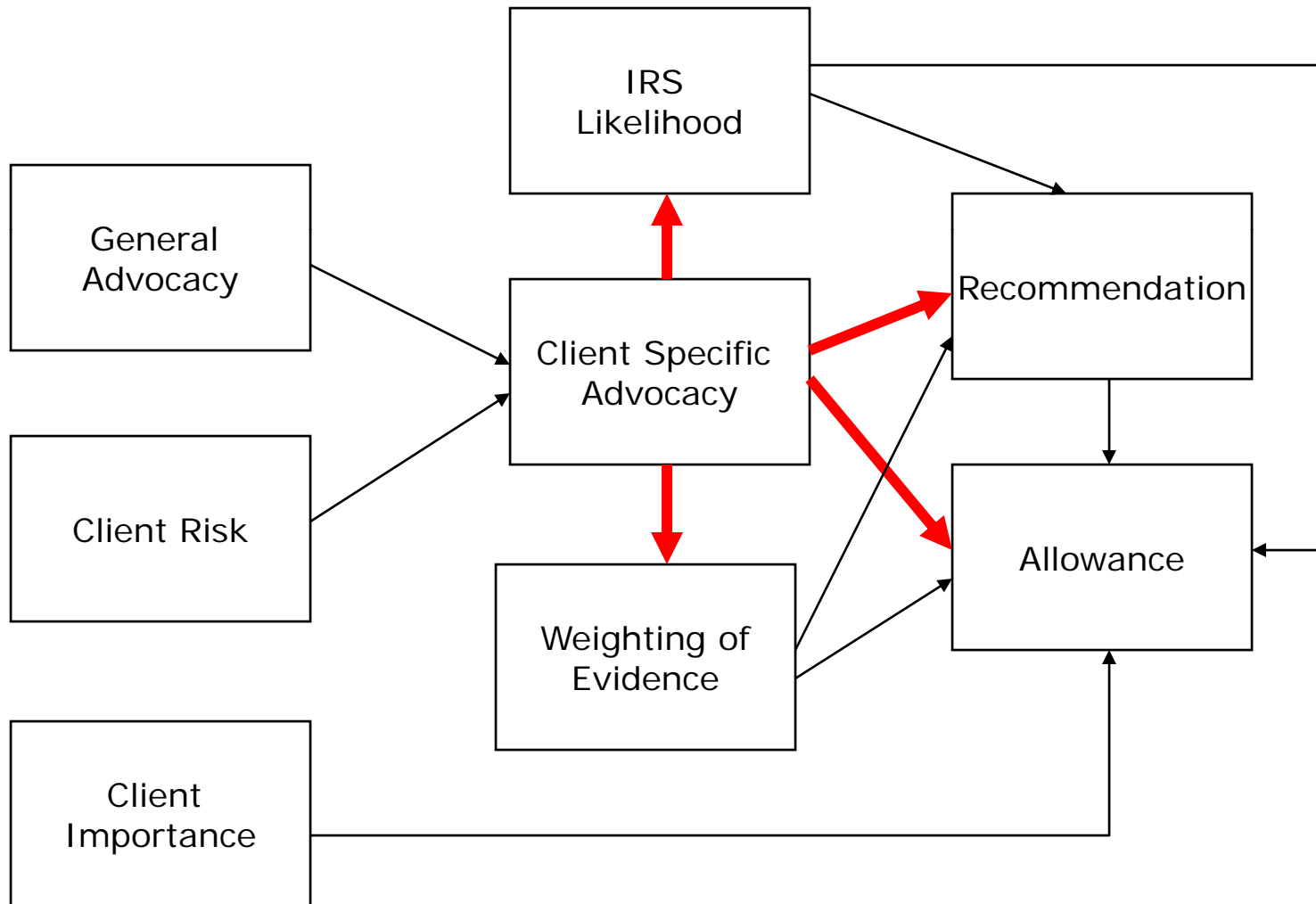
Hypothesis 3: Advocacy and Advice

Regression Analysis with GENERAL Advocacy		
	<u>Recommendation</u>	<u>Allowance</u>
Likelihood	.524*** (.047)	.555*** (.044)
Factor Weighting	-.220*** (.084)	-.230*** (.078)
Client Risk Perceptions	-.016 (.084)	-.084 (.077)
Client Importance Perceptions	.004 (.071)	.132** (.066)
General Advocacy	.030** (.014)	.032** (.013)
<u>Adjusted R-Squared</u>	.642	.721
F-Statistic	34.056***	48.439***

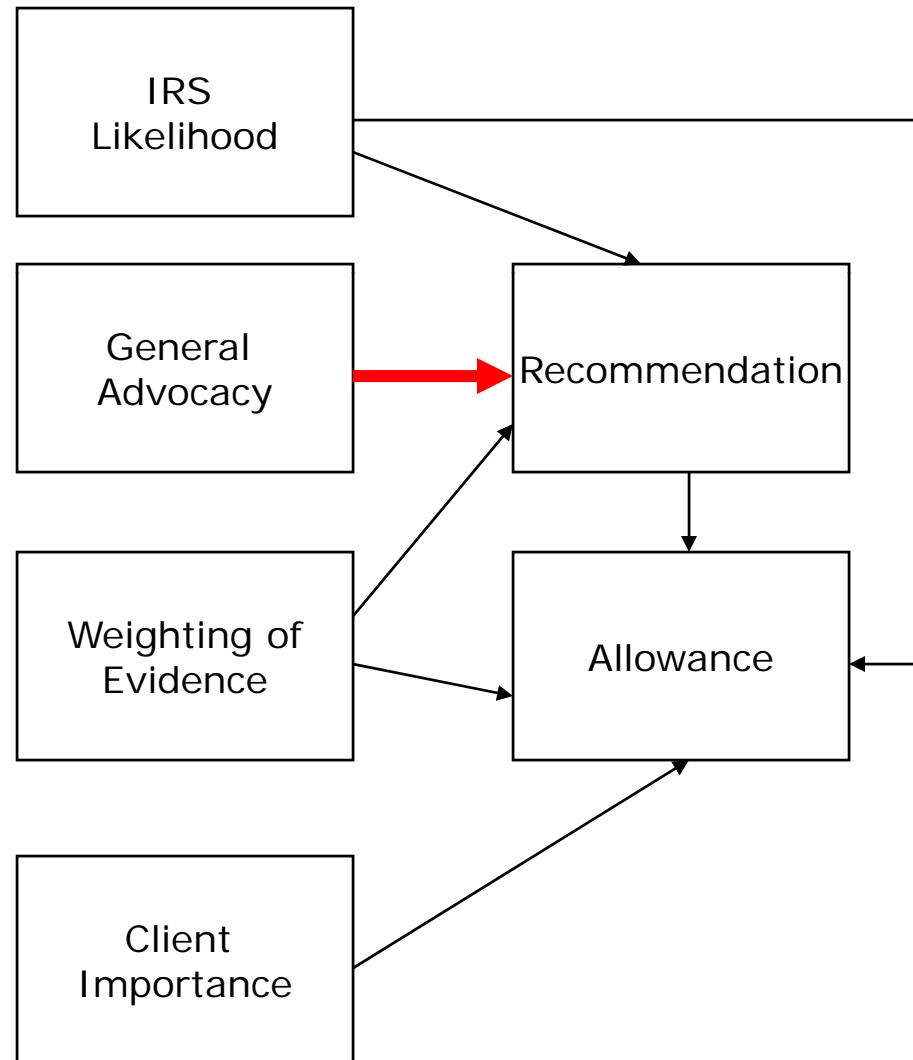
Hypothesis 3: Advocacy and Advice

Regression Analysis with CLIENT-SPECIFIC Advocacy		
	<u>Recommendation</u>	<u>Allowance</u>
Likelihood	.500*** (.048)	.529*** (.044)
Factor Weighting	-.229*** (.087)	-.241*** (.080)
Client Risk Perceptions	-.026 (.084)	-.048 (.078)
Client Importance Perceptions	.015 (.070)	.151** (.065)
Client-Specific Advocacy	.027** (.013)	.030** (.012)
<u>Adjusted R-Squared</u>	.644	.724
<u>F-Statistic</u>	33.526***	48.421***

Additional Analysis: Path Analysis



Additional Analysis: Path Analysis



Additional Analysis: Demographics

	<u>Likelihood</u>	<u>Factor Weighting</u>
Gender	-.168 (.598)	-.371 (.329)
Client Risk Perceptions	-.009 (.193)	.109 (.106)
Client Importance Perceptions	.163 (.156)	.171** (.086)
Client Specific Advocacy	.066** (.030)	-.040** (.017)
<u>Adjusted R-Squared</u>	.038	.066
F-Statistic	1.892	2.577**

Additional Analysis: Demographics

	<u>Recommendation</u>	<u>Allowance</u>
Gender	-.825*** (.247)	-.469* (.238)
Likelihood	.492*** (.045)	.524*** (.044)
Factor Weighting	-.265*** (.082)	-.262*** (.079)
Client Risk Perceptions	-.023 (.079)	-.050 (.076)
Client Importance Perceptions	.013 (.070)	.149** (.064)
Client-Specific Advocacy	.017 (.013)	.025** (.013)
<u>Adjusted R-Squared</u>	.682	.734
F-Statistic	33.137***	42.286***

Summary of Results

- Is advocacy an exogenous characteristic held by the tax professional?
 - When controlling for levels of general advocacy, tax professionals exhibit lower levels of client-specific advocacy for riskier clients, suggesting endogeneity.
- Also, how does advocacy affect steps in the judgment and decision making process?
 - Client-specific advocacy influences JDM *process variables*.
 - *Advocacy attitudes* explain the recommendation and allowance of favorable tax treatment over and above process variables.

Contributions

- ❑ Extends research on advocacy attitudes by examining its influence on a number of steps in the judgment and decision making process.
- ❑ Provides additional evidence about the objectivity of the tax professional's JDM processes.
 - Tax professionals may be unintentionally influenced by client attributes when making judgments.
 - Suggests the importance of considering gender effects.
- ❑ Provides evidence that advocacy is an important variable in behavioral tax research and is not a purely exogenous trait.