Companies' Initial Estimates and Disclosures of the One-Time Transition Tax Imposed by the Tax Cuts and Jobs Act

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Abstract: We use the Tax Cuts and Jobs Act as a setting to offer new insights into companies' tax accruals and disclosures. Specifically, we examine the properties of companies' estimates of the transition tax on foreign earnings and related voluntary disclosures. We exploit the one-year measurement period during which companies could adjust their initial transition tax estimates. We find companies with political access record smaller measurement period adjustments and provide more extensive voluntary disclosures. Companies whose auditors had more capacity at year-end record smaller adjustments. However, we find no difference in adjustments or disclosure for companies that previously disclosed an estimated tax on foreign earnings compared to companies that claimed the calculation was impracticable. Finally, we find companies with incentives to manage external perceptions that they pay their "fair share" of tax are more likely to overstate their initial transition tax estimates.

Keywords: Accounting for Income Taxes; Tax Cuts and Jobs Act; Disclosure; Bias

I. INTRODUCTION

We exploit the unique aspects of the Tax Cuts and Jobs Act (TCJA or the Act), passed on December 22, 2017, to address two questions about companies' financial reporting of income taxes. First, what factors explain companies' ability to respond to shocks to their tax reporting environment? Second, do companies bias income tax accruals to manage perceptions of their income taxes during a politically sensitive time? Corporate taxes are an increasingly political and divisive topic of widespread public interest. Despite global calls for more transparency, shareholders and other public stakeholders must rely on publicly available financial disclosures to glean information about companies' taxes. Thus, it is important to understand the nature of companies' tax reporting and identify factors associated with cross-sectional differences.

U.S. GAAP required companies to accrue a one-time transition tax on previously untaxed foreign earnings in the period of the TCJA's enactment. The complexity of the transition tax calculation coupled with the late-in-the-year passage of the TCJA created a significant financial reporting challenge for many public companies. Large calendar year-end accelerated filers had less than 70 days from TCJA passage to estimate the transition tax prior to filing their 2017 10-K. In response to concerns about the tight deadline and potentially high information gathering and processing costs, the SEC issued Staff Accounting Bulletin (SAB) 118 to allow companies to accrue provisional estimates of TCJA effects in the quarter of enactment and record adjustments to initial estimates during a one-year measurement period. These features allow us to test companies' ability to respond to changes in their tax reporting environment by examining the magnitude of measurement period adjustments as well as the detail of companies' voluntary

disclosures about the computation of the transition tax.[1]

In addition to requiring companies to estimate a complex tax accrual, the Act put multinational corporations in the difficult position of navigating public opinion while reaping substantial tax benefits (Davidson and Shell 2017). The TCJA received only a tepid response from the public with 33 percent of Americans approving of the Act upon its passage (Newport 2018) and nearly 70 percent of Americans believing corporations pay too little tax after the Act (Brenan 2019). Opponents of the TCJA viewed the corporate provisions as a "wasteful giveaway" that did little to simplify the Code, close loopholes, or reduce opportunities for base erosion (Bernstein 2017). Thus, companies had incentives to manage external perceptions of their income tax around the TCJA. We use the sign of measurement period adjustments to examine cross-sectional differences in companies' likelihood of initially overstating their transition tax liability to appear as though they pay a greater amount of tax.

Our setting provides a unique opportunity to examine our research questions and offer new insights about companies' financial reporting. The passage of the TCJA was an exogenous shock to reporting because the legislation moved through Congress rapidly with only 50 days from its introduction to enactment. Companies had little time to understand the computation of the transition tax and gather relevant information. Companies' financial reporting under SAB 118 allows us to cleanly measure the extent of their adjustments to a complex estimate over a designated and consistent time period. The SEC similarly allows a one-year measurement window for companies accounting for mergers and acquisitions (Kubic 2019), but in contrast to the TCJA, these transactions result from endogenous company choices. Furthermore, because of

[1] Following Kubic (2019), we analyze measurement period adjustments rather than accuracy. Although SAB 118 provided a measurement period of one year, Treasury issued guidance that necessitated subsequent adjustments after the one-year period. Thus, we cannot measure accuracy because we do not know the final transition tax accrual.

the transitory nature of the transition tax, managers faced little incentive to manipulate estimates to manage reported earnings; most of these accruals were removed from non-GAAP earnings and called out separately in earnings announcements (Chen and Koester 2020).[2] This feature allows us to isolate the effects of other pressures on managers' tax accrual and disclosure decisions.

To address our research questions, we hand collect data from 259 U.S.-incorporated companies in the S&P 500 Index during 2017 that disclosed transition tax estimates. We limit our sample to the S&P 500 for tractability in data collection. Sample companies report an average transition tax of approximately $934 million, which aggregates to almost $242 billion. Our sample therefore accounts for over 70 percent of the Joint Committee of Taxation's estimate of tax revenues from the transition tax (JCT 2017) and captures those companies for which the transition tax is most relevant and material.

Our first research question examines the factors associated with companies' ability to respond to shocks to their tax reporting environment. We measure ability to respond in two ways. First, similar to Kubic (2019), we analyze companies' transition tax-related measurement period adjustments. Kubic (2019) finds that greater information gathering and processing costs are associated with larger measurement period adjustments related to business combinations. We therefore consider companies with *smaller* measurement period adjustments as better able to respond to reporting shocks. Second, we expect more voluntary disclosure of the details of the transition tax calculation for companies with lower information gathering and processing costs.

[2] Strategic financial reporting to facilitate earnings management is unlikely in this setting. To corroborate this assertion, we reviewed CEOs' accounting-based incentive targets using Incentive Lab and find very limited evidence that sample company CEOs are compensated on unadjusted GAAP EPS. Thus, transition tax estimates are unlikely to affect executive compensation or analysts' targets.

In addition to controlling for factors associated with companies' overall internal information quality (e.g., earnings announcement speed and internal control quality), we examine three factors that should influence companies' information gathering and processing costs when estimating the transition tax. First, we consider whether companies previously disclosed estimates of U.S. tax on foreign earnings, either in disclosures related to permanently reinvested earnings or as deferred tax liabilities. Because these computations relate to the transition tax, we expect companies that previously gathered and processed the information required for these disclosures will report smaller measurement period adjustments and provide more voluntary disclosure of the transition tax computation. Second, we consider companies' access to tax-specific political information by identifying companies that were part of the Alliance for Competitive Taxation (Alliance), an organization that lobbied for tax reform with a focus on international tax issues. Through lobbyists, these companies had access to political insiders who could have had greater knowledge of Congress' intent in drafting certain provisions of the TCJA as well as former Treasury employees who could have had insight into the Department's expected final position on unresolved issues. We therefore expect smaller measurement period adjustments and more voluntary disclosure for companies in the Alliance. Third, we consider audit partner availability, which we measure using the lead partner's number of December year-end, public-issuer clients. We expect audit partners serving fewer clients at the time the TCJA passed to be less resource-constrained and better able to review their clients' TCJA estimates and disclosures.

Contrary to expectations, we find no evidence that companies that previously disclosed tax on foreign earnings are better able to respond to the TCJA reporting shock than those that claimed it was impracticable to calculate the tax. This result suggests there is no difference in information gathering and processing costs between these two groups of companies in estimating the transition tax, despite prior claims of impracticability with respect to a conceptually similar

calculation. Consistent with expectations, we find that companies in the Alliance have smaller measurement period adjustments and more voluntary disclosures. We also find that companies whose audit partners have more capacity have smaller measurement period adjustments but no more voluntary disclosure. Additionally, we find no significant effect of internal control quality or earnings announcement speed on companies' ability to respond to the TCJA reporting shock.

To address our second research question, we test for cross-sectional differences in companies' likelihood of overstating the initial transition tax estimate. Although companies had incentives to fully accrue the transition tax in 2017 to avoid large subsequent expense recognition, reporting a larger tax estimate could also help companies appear to be paying their "fair share" after the TCJA. We identify subsamples of companies with incentives to manage external perceptions about the amount of income taxes they pay. First, we expect companies with a history of tax avoidance to bias their initial transition tax estimates upward. Second, we expect companies facing greater external attention to their taxes immediately prior to the Act to overstate the transition tax. We measure external attention using both media coverage and publications by the Institute on Taxation and Economic Policy, a non-partisan think tank. Third, we consider local political affiliation as a source of pressure. Taxes are an increasingly partisan issue, with almost twice as many Democrats as Republicans believing corporations do not pay their fair share of tax. Thus, we expect companies headquartered in Democratic areas are more likely to overstate the transition tax to appeal to local stakeholders and investors who may view corporate tax breaks negatively. We find positive and significant associations between prior tax avoidance and the likelihood of overstating the initial transition tax estimate, as well as between external attention and overstatement. Results related to local politics are consistent with expectations but weaker.

Our study offers four contributions to the literature. First, we provide evidence that companies can provide materially accurate estimates of tax law changes in a short time. Because tax policy uncertainty is at an all-time high (Givens 2020; PWC 2020) and more substantive changes to tax laws are expected in light of a newly Democratic-controlled Congress, it is important to understand how companies report the effects of these changes. Second, we extend the literature studying the association between external stakeholders and companies' tax reporting (Dyreng, Hoopes, and Wilde 2016; Bozanic, Hoopes, Thornock, and Williams 2017; Chen, Schuchard, and Stomberg 2019; Belnap 2020) by examining *quantitative* disclosures (i.e., accruals) in addition to qualitative disclosures. Whereas many prior studies investigate how pressure from the media or other public groups is associated with changes in the level of tax avoidance (Chen et al. 2019; Dhaliwal, Goodman, Hoffman, and Schwab 2019), we examine the association with reported accruals, holding tax avoidance constant.

Third, we extend the literature on the properties of companies' estimates (e.g., Hodder, Maydew, McAnally, and Weaver 2006; Bratten, Jennings, and Schwab 2016; Kubic 2019). By exploiting the passage of the TCJA, a unique setting where managers have limited incentives to manage earnings, we can better capture the effects of other factors on the estimation process. We also do not have to make assumptions about "correct" estimates as is common, for example, in studies of stock option fair value estimates. Lastly, we provide additional evidence of the magnitudes of companies' transition tax accruals and document the timing and magnitude of companies' quarterly measurement period adjustments in advance of the mandatory completion deadline imposed by SAB 118. Thus, we expand on the work of Nichols, Duxbury, and Scott (2018) and Nichols, Duxbury, and Scott (2019) by examining a more diverse and economically meaningful sample of companies.

II. BACKGROUND AND HYPOTHESIS DEVELOPMENT

Key TCJA Provisions and Financial Reporting of the TCJA

The TCJA included multiple provisions that immediately affected U.S. corporations' financial statements as early as the fourth quarter of 2017. First, the Act lowered the corporate tax rate from a maximum rate of 35 percent to a flat 21 percent. U.S. GAAP required companies to remeasure their deferred tax assets and liabilities (DTAs and DTLs) using the new rate in the period of enactment. Although remeasuring DTAs and DTLs could have had a material impact on reported earnings, the calculation was relatively straightforward and unlikely to yield substantial measurement period adjustments.[3]

Second, the TCJA imposed a one-time transition tax on certain foreign earnings. Prior to the TCJA, U.S. corporations incurred incremental U.S. tax on foreign earnings only when those earnings were taxable as Subpart F income or through repatriation. Because the U.S. corporate statutory tax rate was relatively high among OECD countries prior to the Act, companies had economic incentives to avoid U.S. taxation of foreign earnings by circumventing Subpart F inclusion and avoiding repatriations from foreign affiliates.

To reduce incentives for companies to hold cash offshore, the Act allows a 100 percent deduction for distributions from foreign affiliates made after the Act. However, Congress chose to tax previously untaxed foreign earnings as if they had been repatriated under the Act to prevent an undue tax windfall to U.S. corporations that deferred U.S. taxation on foreign earnings prior to the Act. This provision of the Act is commonly referred to as the one-time transition tax on the mandatory deemed repatriation of previously untaxed foreign earnings. To calculate the transition tax, U.S. corporations must include their share of affiliated foreign

[3] See Chen and Schoderbek (2000); Poterba, Rao, and Seidman (2011); Raedy, Seidman, and Shackelford (2011); and Seidman and Stomberg (2018) for additional detail.

corporations' deferred income and earnings and profit (E&P) deficits in taxable income. The portion of the inclusion attributable to the U.S. shareholders' foreign cash position is taxed at 15.5 percent and any remainder is taxed at eight percent. A foreign corporation's cash position is generally its cash, net accounts receivable, and the fair market value of other liquid assets measured on either the last day of the most recent tax year beginning before January 1, 2018, or on average over the most recent two tax years ending before November 2, 2017. The Act also allows U.S. taxpayers to offset the incremental U.S. tax with foreign tax credits. Thus, multinational entities that previously avoided U.S. tax on foreign earnings can access those earnings under the Act at a potentially reduced tax rate.

Because of the TCJA's complexity and late-in-the-year passage, the SEC issued SAB 118 to allow companies up to one year after the date of enactment to "finalize" their accounting for the Act. This provision is similar to that in ASC 805 that allows acquirers in business combinations to adjust provisional amounts made in the period of the combination up to one year after the combination. Under SAB 118, companies recognized the effects of the TCJA's provisions for which they can complete the accounting by the filing date. If accounting for the TCJA had not been completed by the filing date, companies either recognized provisional amounts to the extent they are "reasonably estimable" or continued to apply ASC 740 using the tax law in effect immediately prior to the Act for those effects of the Act that could not have been reasonably estimated. Upon completing their accounting for the Act, companies were required to disclose (i) the nature and amount of any measurement period adjustments, and (ii) the effect of those adjustments on the effective tax rate (ETR).

Companies must estimate the immediate impact of the TCJA in the 10-Q or 10-K filing that includes the date of enactment, December 22, 2017. Thus, calendar year-end companies had

only 69 days after the TCJA's enactment to disclose the transition tax estimate in their 10-K. SEC Director of the Division of Corporation Finance Bill Hinman acknowledged that companies "face[d] challenges in accounting for one of the most comprehensive changes to the U.S. federal tax code since 1986" (SEC 2017). A Wall Street Journal article even declared that "Corporate Accountants Can Cancel Christmas" due to the need in some cases for "companies [to] rifle through three decades of records" and "scramble to calculate the new law's effect on their balance sheets and income statements" (Shumsky 2017). Because much of the information companies needed to complete accounting for the transition tax was not available by the filing date, we do not expect companies could have finalized these amounts in 2017, on average. In other words, we expect to observe adjustments during the SAB 118 measurement window.

Hypothesis Development

Measurement period adjustments and extent of voluntary disclosure

Our first research question examines the factors associated with companies' ability to respond to tax reporting shocks, which we measure using variation in companies' measurement period adjustments and the extent of their voluntary transition tax disclosures. To our knowledge, only one other study examines measurement period adjustments of material estimates. Using the one-year measurement period in ASC 805, Kubic (2019) shows that information gathering and processing costs are positively associated with subsequent adjustments to the initial fair value estimates of assets and liabilities acquired in business combinations. We extend Kubic (2019) and examine features we expect to affect companies' information gathering and processing costs when estimating the transition tax and drafting related voluntary disclosures. Moreover, our setting offers an advantage in that the timing and passage of the TCJA was largely *exogenous* to companies; in contrast, business combinations are generally *endogenous* decisions.

In addition to considering factors associated with companies' overall internal information quality, we examine three factors directly related to the information gathering and processing costs of the transition tax.[4] First, we consider companies' prior disclosures of tax on foreign earnings. Companies' historical disclosures of U.S. taxes on unremitted foreign earnings can reveal how diligently they maintain and update tax records that are relevant to the calculation of the transition tax (e.g., E&P balances, foreign tax credits). If a company has mechanisms in place to calculate the tax on foreign earnings, then the costs of gathering and processing the information necessary to estimate the transition tax should be lower (Eiler and Kutcher 2014). We expect companies that disclose or accrue taxes on foreign earnings prior to the Act have lower information gathering and processing costs and thus, report smaller measurement period adjustments and provide more voluntary disclosures about the transition tax calculation.

Next, we consider companies' political access, which can decrease information gathering and processing costs (Kim and Zhang 2016). The Alliance for Competitive Taxation is a coalition of 37 companies with the goal of ensuring the U.S. tax system is "globally competitive and promotes U.S. economic growth" (ACT 2020). The Alliance spent more than $2 million in lobbying expenditures in 2017 and over $500,000 in 2018. The specific lobbyists included Rohit Kumar, former Deputy Chief of Staff to Republican Leader Mitch McConnell, and Andrew Lyon, former Department Assistant Secretary for Tax Analysis at the U.S. Treasury. Thus, companies in the Alliance had access to political insiders who could have had greater knowledge of Congress' intent in drafting the transition tax provision as well as former Treasury employees who could have had insight into the Department's expected final position on unresolved

[4] For example, Gallemore and Labro (2015) find higher internal information quality is associated with better tax planning outcomes. They measure internal information quality using earnings announcement speed, internal control quality, restatements, and management forecasts. We include controls for earnings announcement speed and internal control quality because these two components are most relevant to our setting.

transition tax issues. Additionally, research shows that political action allows companies opportunities to *shape* policy outcomes and secure tax benefits (Brown, Drake, and Wellman 2015; Meade and Li 2015; Barrick and Brown 2019). We expect companies involved in tax-related political action are more likely to have had access to information to better estimate their initial transition tax accrual and provide more voluntary disclosures related to the transition tax.

Lastly, we focus on the auditor's role in the reporting process. An extensive literature examines the effect of auditors on their clients' reporting outcomes (e.g., Reichelt and Wang 2010; Gleason and Mills 2011; McGuire, Omer, and Wang 2012; Koh, Rajgopal, and Srinivasan 2013; Defond and Zhang 2014; De Simone, Ege, and Stomberg 2015). Given the late-in-the-year passage of the Act, we focus on the audit partners' availability when their clients initially estimated the transition tax. Czerney, Jang, and Omer (2019) find that client deadline concentration has a negative impact on audit quality. Further, audit partners have limited resources and audit firms likely did not hire additional partners to absorb the incremental workload associated with auditing this unique, one-time accrual. Auditors' time constraints are particularly relevant in our setting as prior work finds that new tax accruals increase auditor effort (Erickson, Goldman, and Stekelberg 2016). Thus, we expect audit partners with fewer December year-end, public-issuer clients to be less resource-constrained and better able to monitor their clients' initial transition tax estimates. Accordingly, we expect smaller measurement period adjustments and more voluntary disclosures for companies with audit partners who have greater capacity at year-end.[5]

[5] Lead audit partner constraint is relevant in our setting because audit partners are responsible for signing off on transition tax estimates. Time constraints of tax partners involved in the audit are also relevant, but these data are not publicly available.

Managing perceptions of income taxes

Empirical evidence suggests managers view both political and reputational costs as important non-tax costs that can affect corporate tax avoidance decisions (e.g., Zimmerman 1983; Graham, Hanlon, Shevlin, and Shroff 2014; Austin and Wilson 2017). Thus, corporate managers are concerned about external perceptions of their taxes. Prior literature finds companies increase *qualitative* disclosure compliance (Belnap 2020) and reduce tax avoidance (Dyreng et al. 2016; Dhaliwal et al. 2019) when faced with pressure from outside parties. However, we know less about whether and how companies manage tax accruals – *quantitative* amounts – to influence external perceptions of their taxes.

Companies' accounting for the transition tax provides a unique setting to examine how external perceptions are associated with companies' tax accruals. The provisional estimate required by SAB 118 was one of the first public disclosures of companies' transition tax estimates. Moreover, companies traditionally disclosed limited information about their untaxed foreign earnings, making it difficult for interested parties to anticipate the transition tax amount with a high degree of accuracy (Ayers, Schwab, and Utke 2015). Thus, companies could manipulate the amount of the disclosed transition tax liability without external stakeholders easily unwinding any bias.

Companies may overstate the initial estimate to highlight the amount of additional taxes they will pay under the TCJA to appear as though they are paying their "fair share" and counter public perception that they received an unfair windfall from the Act. If this is the case, we should observe companies that are concerned with public perceptions of their taxes to be more likely to overstate their initial transition tax estimate, holding constant companies' overall preference to overstate the estimate and record income-increasing adjustments during the measurement period.

It is also possible that companies manage perceptions by understating their initial transition tax estimate. A large transition tax accrual would reveal that the firm was a sizeable participant in much maligned foreign tax deferral strategies. Although Baloria and Klassen (2018) show that corporations that lobby for reductions in the tax rate inflate tax accruals during election cycles to mitigate political costs, our study tests for bias in tax accruals subsequent to the passage of favorable tax legislation.

We identify three sets of companies facing greater pressure to appear as though they pay their fair share of taxes. First, we expect companies engaging in greater tax avoidance – those that the public may view as being most aggressive in avoiding their fair share of taxes – are more likely to overstate their initial transition tax liability. Second, we expect companies with prior external attention to their taxes from either the media or tax policy advocates are more likely to overstate their initial transition tax liability because they have already been identified as having received tax breaks. Finally, we expect companies headquartered in Democratic areas are more likely to overstate the transition tax to appeal to local stakeholders' views on corporate taxes. A recent poll finds that almost 80 percent of Democrats believe corporations do not pay enough taxes, whereas only 40 percent of Republicans hold this view (Pew 2019).

III. SAMPLE AND RESEARCH DESIGN

Sample

Table 1 presents our sample selection. Our sample includes U.S.-incorporated companies in the S&P 500 Index at any time during 2017 that disclosed sufficient information about their initial and completed transition tax liability to compute our variables of interest. This results in a

sample of 259 companies.[6] We read the tax footnotes of each sample company in their relevant SEC filings during the one-year measurement window, starting with the period end that includes the TCJA enactment date of December 22, 2017. We hand collect transition tax amounts from footnote disclosures including the text and ETR reconciliation tables. In most instances, we could reconcile amounts disclosed from these two sources. If amounts did not match, we used the source that provides the most granular detail.

Research Design

Measurement period adjustments and extent of voluntary disclosure

To test our predictions around measurement period adjustments, we estimate the following OLS regression:

$$\begin{aligned} Adjustments = {} & \alpha + \beta_1 * Disclosed\ Tax\ on\ Foreign\ Earnings + \beta_2 * Alliance + \beta_3 * Auditor \\ & Capacity + \beta_4 * Log(Tax\ Fees) + \beta_5 * Size + \beta_6 * ICQ + \beta_7 * Tax\ Comment\ Letter + \\ & \beta_8 * EA\ Lag + \beta_9 * Log(Business\ Segments) + \beta_{10} * File\ 10\text{-}Q + \varepsilon \end{aligned} \quad (1)$$

We measure *Adjustments* as the absolute value of the one-time transition tax (OTTT) measurement period adjustment scaled by the absolute value of the OTTT measurement period adjustment plus the absolute value of the initial OTTT estimate.[7] Smaller values of *Adjustments* indicate a greater ability to respond to reporting shocks.

$$Adjustments = \frac{\text{Abs(Measurement Period Adjustment)}}{\text{Abs(Measurement Period Adjustment)} + \text{Abs(Initial OTTT Estimate)}}$$

[6] We also eliminate companies that retrospectively adopted the new revenue recognition standard (ASC 606) during the one-year measurement window because we cannot obtain initial and completed transition tax amounts for these companies.

[7] We construct this ratio using absolute values to address the differential impact of over- and under-accruals. For example, suppose company A and company B both estimate the transition tax to be $100. During the measurement period, company A records an additional $20 expense whereas company B records a $20 benefit. Without using absolute values, company A's adjustments will be 16.7 percent [$20 / ($100 + $20)] and company B's adjustments will be 25 percent [$20 / ($100 - $20)] even though both companies' estimates deviated $20 from the finalized amount. Using absolute values, both companies have adjustments equal to 16.7 percent.

We construct *Adjustments* using gross amounts (i.e., not net of foreign tax credits), which allows us to provide comparable information for companies that previously asserted their foreign earnings to be permanently reinvested and those that did not.

We also estimate equation (1) using *Disclosure Score* as the dependent variable to examine the extent of companies' OTTT voluntary disclosure. *Disclosure Score* is a composite score based on how many components of the transition tax calculation companies voluntarily disclosed in their tax footnotes.[8] These components are: (1) stating that the tax base for calculating transition tax is the company's post-1986 cumulative earnings and profits (E&P), (2) disclosing the amount of the company's post-1986 cumulative E&P, (3) the two tax rates used in the calculation (15.5 and eight percent), and (4) the eight-year period over which OTTT liability is remitted when a taxpayer files a timely election under Internal Revenue Code section 965(h). Consistent with prior studies (Robinson and Schmidt 2013), we assign a value of one to each component the company disclosed such that the measure ranges from zero to four.

Our first variable of interest is *Disclosed Tax on Foreign Earnings*, an indicator variable equal to one if a company disclosed in 2016 either: (1) estimated repatriation tax on permanently reinvested earnings, (2) a DTL for repatriation tax on foreign earnings that are not permanently reinvested, or (3) a reversal during the SAB 118 measurement period of a previously recorded DTL for repatriation tax on foreign earnings, and zero otherwise. *Alliance* is an indicator variable equal to one if a company is a member of the Alliance for Competitive Taxation, and zero otherwise. Lastly, *Auditor Capacity* is the natural log of one plus the number of publicly traded clients with a December year-end that each lead audit partner serves during 2017, multiplied by

[8] For calendar year-end companies, we collected tax footnotes from 2017 10-K filings. However, fiscal year-end companies filed 10-Qs for the quarter including the TCJA enactment date. To hold disclosure requirement constant, we used the first 10-K filing after the TCJA enactment date to construct *Disclosure Score* for fiscal year-end companies.

negative one such that the measure is increasing in auditor capacity.[9] We predict each of these factors to be associated with a greater ability to respond to reporting shocks and thus expect a negative (positive) association between each of our variables of interest and *Adjustments* (*Disclosure Score*).

We include the amount of auditor-provided tax services (APTS) (*Log (Tax Fees)*), company size (*Size*), internal control quality (*ICQ*), tax reporting quality (*Tax Comment Letter*), and the amount of time between the passage of the Act and the earnings announcement for the quarter that includes the TCJA enactment date (*EA Lag*) to capture characteristics of the company's reporting and information environments. We measure complexity with the natural log of one plus the number of business segments (*Log(Business Segments)*) from the Compustat Segments database rather than geographic segments because only a fraction of sample companies disclose segment information by geography (Ogneva, Subramanyam, and Raghunandan 2007). Because our sample contains both calendar year-end and fiscal year-end companies, we include *File 10-Q*, an indicator variable equal to one if the company discloses its initial OTTT estimate in a quarterly 10-Q filing instead of a 10-K annual statement. We also repeat all analyses using a subsample of calendar year-end companies to obtain a more *ceteris paribus* setting and drop *File 10-Q* in those specifications. When *Disclosure Score* is the dependent variable, we also include *No Adjustment*, an indicator variable equal to one when a company reports no measurement period adjustments related to OTTT, and zero otherwise.

Biasing estimates to manage perceptions

Our second research question examines whether companies bias tax accruals to manage external perceptions of their income taxes. We estimate the following linear probability model:

[9] Results are unchanged if we also include November year-end clients in measuring *Auditor Capacity*.

$$Overstate = \alpha + \beta_1 * Perceptions + \beta_2 * Size + \beta_3 * Market\text{-}to\text{-}Book + \beta_4 * R\&D \ \& \ Advertising + \beta_5 * Leverage + \beta_6 * Sales\ Growth + \beta_7 * Operating\ Cash\ Flows + \beta_8 * ROA + \beta_9 * Analyst\ Following + \beta_{10} * Institutional\ Ownership + \beta_{11} * Tax\ Comment\ Letter + \varepsilon \quad (2)$$

The dependent variable is *Overstate*, an indicator variable equal to one for companies reporting negative OTTT measurement period adjustments, which indicates that the initial OTTT estimate is higher than the amount reported at the end of the SAB 118 measurement period. We expect companies with greater incentives to look like they pay their "fair share" of taxes to overstate the initial transition tax estimates.

We measure *Perceptions* in three ways. First, we measure high tax avoidance using *TA_ETR*, a continuous measure of the company's five-year GAAP ETR ending in 2016. We multiply the variable by negative one such that it is increasing in tax avoidance. We create a corresponding indicator variable, *High TA_ETR*, equal to one for all observations where *TA_ETR* is above the sample median. We also use a continuous measure (*TA_GAAP*) of the difference between the average five-year GAAP ETR for the company's industry-size peer group and the company's five-year GAAP ETR (Balakrishnan, Blouin, and Guay 2019) and an indicator variable (*High TA_GAAP*) equal to one for companies with above-median values of *TA_GAAP*. Consistent with Dhaliwal et al. (2019), we choose measures based on tax expense instead of cash taxes paid because they are more salient to the public.

Our second proxy for *Perceptions* is attention from the media or tax policy advocates. We use Factiva to identify media articles about companies' tax avoidance and set *Media Attention* equal to one if a company has tax avoidance articles during our search window, and zero otherwise.[10] We identify attention from tax policy advocates using the report, "Offshore

[10] We build on Chen et al. (2019) and employ the following search string in Factiva: tax avoid* or tax dodg* or (avoid* near5 (tax or taxes)) or (dodg* near5 (tax or taxes)) or inversion or "tax abuse" or "tax haven" or "tax evasion" or "tax shelter" or "tax fraud" or (offshore near10 (tax or taxes)) or (pay* (zero or no) near5 (tax or taxes)) or (reduc* near5 (tax or taxes)) or (reduc* near5 (tax bill)) or (cash near10 (offshore or overseas)) or (oversea*

Shell Games," published by the Institute on Taxation and Economic Policy (ITEP 2017), a non-partisan organization that makes policy recommendations to create equitable tax systems. The report examined the use of tax havens by Fortune 500 companies to avoid U.S. tax and made recommendations for tax reform. We identify 20 companies in our sample that are named in Table 3 of the report as paying a low rate of U.S. tax on earnings held in tax haven subsidiaries (*ITEP Haven*).

Finally, we capture the political affiliation of each company's headquarter ZIP code location. We measure local political affiliation using (1) a continuous measure of the percentage of political contributions made to Democratic candidates relative to total political contributions made to both Republican and Democratic candidates over the three-year period leading up to the TCJA (i.e., 2015 to 2017) (*Percent Democrat*), and (2) an indicator variable equal to one if *Percent Democrat* is greater than 50 percent. We collect data on political contributions from the Federal Election Commission website.[11]

To rule out financial reporting conservatism as an alternative explanation, we control for determinants of accounting conservatism following prior studies, including *Size*, *Market-to-Book*, *R&D & Advertising*, *Leverage*, *Sales Growth*, *Operating Cash Flows*, *ROA*, *Analyst Following*, and *Institutional Ownership* (Ahmed and Duellman 2007; Krishnan and Visvanathan

near10 (tax or taxes)) or "tax reform" or "TCJA" or "Tax Cuts and Jobs Act" or "transition tax" or repatriation or "toll charge" or "tax cut". We limit our search to articles published in the top four national media outlets in the U.S. by circulation: *The Wall Street Journal*, *The New York Times*, *The Washington Post*, and *USA Today* between November 9, 2016 (the day after President Trump's election) and one week before each company's earnings announcement date for the fiscal quarter including the TCJA's enactment. This window should capture a period of heightened likelihood of corporate tax reform and ends before companies make public disclosures about the impact of TCJA to avoid endogeneity concerns. We manually review all articles to ensure relevance and eliminate articles about the Border Adjustment Tax.

[11] See https://www.fec.gov/data/browse-data/?tab=bulk-data. In untabulated analysis, we also consider the association between the extent of unionization in companies' industries and *Overstate* and find no significant results. We thank Barry Hirsch and David Macpherson for making industry unionization data available on their website (Hirsch and Macpherson 2003).

2008; Lara, Osma, and Penalva 2009; Ahmed and Duellman 2013). We continue to include *Tax Comment Letter* as a control because prior SEC scrutiny may make companies more conservative in their tax estimates (Kubick, Lynch, Mayberry, and Omer 2016). We define all variables in Appendix A and winsorize all continuous variables at one and 99 percent.[12]

IV. RESULTS

Measurement Period Adjustments and Extent of Voluntary Disclosure

Descriptive statistics

Table 2, Panel A presents summary statistics of variables in equation (1). The average sample company reported $933.7 million in transition tax. The distribution is skewed, however, with a median transition tax accrual of only $156.5 million by the end of the SAB 118 measurement period. Ignoring the direction of the adjustment, the absolute magnitude of these adjustments is $48.1 million at the mean and $9.7 million at the median. Approximately 20 percent of companies made no measurement period adjustments, 37 percent recorded negative measurement period adjustments, and the remaining 43 percent recorded positive measurement period adjustments. In comparison, Kubic (2019) finds more than 50 percent of acquirers do not make measurement period adjustments in accounting for business combinations. Thus, the calculation of the transition tax is more fluid. Voluntary disclosure of the components of the transition tax calculation is modest with an average *Disclosure Score* of less than one.

Focusing on the variables that reflect the information gathering and processing costs related to the initial OTTT estimates, approximately 49 percent of companies disclosed estimates in 2016 of the incremental U.S. tax that would be due upon repatriation of foreign earnings. Ten

[12] In untabulated robustness tests, we winsorize continuous variables at five and 95 percent to mitigate skewness of our dependent variables and find qualitatively similar results across all regression models. Our inferences are also unchanged if we include industry fixed effects based on one-digit SIC in all regression models.

percent are members of the Alliance for Competitive Taxation. Each audit partner has 1.2 publicly traded clients with a December year-end in 2017 on average and a maximum of six (untabulated). Thus, there is variation in audit partner availability.

Less than five percent of sample companies reported an internal control weakness and 39 percent received a tax-related comment letter from the SEC in the last five years. The average company announced earnings 48 days after the TCJA enactment date, which highlights how little time many companies had to gather and process information to estimate the OTTT. In untabulated analysis, we find evidence of only a negligible increase in earnings announcement lags in 2017; sample companies took less than one additional day to announce earnings in 2017, on average, relative to 2016. Thus, sample companies did not substantially delay earnings news in light of the TCJA. Only 25 percent of the sample companies disclosed their initial transition tax estimate in a 10-Q filing; the majority disclosed these amounts in a 10-K. On average, sample companies paid their auditors almost $1.5 million in tax fees during 2017, which is nearly 11 percent of total fees paid to auditors (untabulated).

Table 2, Panel B presents Pearson correlations. We do not find companies' previous disclosures of deferred U.S. tax on unremitted foreign earnings are correlated with the magnitude of measurement period adjustments. There is also no significant univariate relation between being a member of the Alliance and *Adjustments*. However, we do find *Auditor Capacity* is negatively correlated with *Adjustments* as expected. Also consistent with expectations, we report a positive correlation between *Adjustments* and companies' operational complexity (*Log(Business Segments)*) and weaker tax reporting environments (*Tax Comment Letter*).

Figure 1 illustrates various features of companies' voluntary transition tax disclosures. The most commonly disclosed components reference post-1986 E&P as the tax base (36 percent

of companies) and the eight-year payment window (35 percent of companies). In contrast, only 10 percent of companies explicitly disclosed the two tax rates used to compute the transition tax liability and only 12 percent of companies specifically provided the dollar amount of their post-1986 E&P. Approximately 35 percent of companies made no voluntary disclosures about the computation of the transition tax and more than 40 percent disclosed only one component (untabulated). Only one company disclosed all four components (untabulated). Overall, companies did not voluntarily disclose sufficient information for financial statement users to verify the reasonableness of their disclosed estimates.

Figure 2 shows the percentage of companies that accrued their first measurement period adjustment in each calendar quarter following the enactment of the TCJA. About 30 percent of sample companies made a measurement period adjustment in the quarter immediately following the disclosure of their initial estimate. Adjustments were also common in the third and fourth quarters following the TJCA enactment. These patterns coincide with the release of major Treasury Regulations in October and November of 2018 (four quarters after enactment). Almost 40 percent of calendar year-end companies waited until the very end of the measurement period, which corresponded with their 10-K filing, to make their first measurement period adjustment. In contrast, more than 50 percent of fiscal year-end companies made their first measurement period adjustment in the first quarter following enactment; less than 10 percent waited until the end of the measurement period.

Regression analysis

Table 3 presents results of estimating equation (1) with *Adjustments* as the dependent variable. We present four specifications. The first two columns present the full sample both including and excluding companies with no measurement period adjustments. The last two

columns repeat the analysis using only calendar year-end. Results are mixed with respect to our predictions. Inconsistent with our predictions, we do not find a significant difference in measurement period adjustments for companies that previously disclosed U.S. tax on unremitted foreign earnings relative to those that did not because it was impracticable.

Results are consistent with predictions for *Alliance* and *Auditor Capacity*. We find that both variables are associated with a lower magnitude of measurement period adjustments. For example, coefficient estimates suggest companies that were part of the Alliance for Competitive Taxation reported measurement period adjustments that were 3.7 percentage points smaller all else equal, which is roughly 30 percent of the unconditional mean of *Adjustments*. Similarly, a one standard deviation increase in *Auditor Capacity* corresponds to an approximately three percentage point reduction in *Adjustments*, equivalent to 24 percent of the unconditional mean. These results reveal a significantly and economically important association between these external resources to the company and the size of measurement period adjustments. With respect to control variables, we find companies that previously received tax-related comment letters had larger *Adjustments,* as did more complex companies.

We find only weak evidence of smaller measurement period adjustments for larger companies or those with better internal control quality (*ICQ*). Despite the financial reporting challenges due to the late-in-the-year passage of the TCJA, we do not find evidence that earnings announcement speed is associated with *Adjustments*. We also do not find evidence that APTS are associated with measurement period adjustments. This latter result is robust to measuring APTS either as the natural log of tax fees or the ratio of tax to audit fees.

In Table 4, we estimate equation (1) using *Disclosure Score* as the dependent variable. As in Table 3, we find no evidence that companies previously disclosing tax on foreign earnings

provided more voluntary disclosures. However, we do find a positive association between *Alliance* and *Disclosure Score*, consistent with companies with informational advantages through their membership with the Alliance providing more voluntary disclosures. We find only weak evidence of an *Auditor Capacity* effect, and it is concentrated among calendar year-end companies.

Biasing Estimates to Manage Perceptions

Descriptive statistics

Table 5, Panel A presents descriptive statistics for variables in equation (2). On average and at the median, sample companies report *TA_ETR* of -29 percent, which suggests the average company engages in tax avoidance. *TA_GAAP*, which is increasing in tax avoidance, is positive at both the mean and median, also suggesting sample companies engage in tax avoidance relative to industry peers. About seven percent of sample companies received media attention leading up to the enactment of TCJA, and eight percent are identified in the ITEP report as paying U.S. tax at low rates through operations in offshore tax havens. Lastly, we find that Democratic candidates receive 55 percent of political contributions in sample companies' headquarter locations on average. Further, 63 percent of companies are headquartered in ZIP codes where Democratic candidates receive the majority of political contributions.

In Panel B, we split the sample into three groups: companies with no measurement period adjustments, companies with positive measurement period adjustments (i.e., *Understate* equals one), and companies with negative measurement period adjustments (i.e., *Overstate* equals one). Companies that initially overstated their transition tax estimates engage in significantly more tax avoidance than those reporting no measurement period adjustments and those initially understating the OTTT amount. This univariate result is consistent with our prediction that

companies engaged in greater tax avoidance are more likely to overstate their OTTT estimates. We also observe that a larger percentage of the companies reporting negative measurement period adjustments (*Overstate*) receive media coverage leading up to the passage of TCJA and are named in the ITEP report as compared to companies reporting positive adjustments (*Understate*). Again, these descriptive statistics are consistent with our prediction that greater attention from the media and other groups incentivizes companies to overstate their initial OTTT estimates to appear to pay their "fair share" of tax. However, we do not find significant differences in political affiliation based on the sign of the measurement period adjustments.

Panel C reports Pearson correlations for variables in equation (2). Tax avoidance variables, *Media Attention*, and *ITEP Haven* are positively correlated with the likelihood of overstating initial transition tax estimates. However, we do not observe a significant univariate relation between local political affiliation and *Overstate*.

Regression analysis

We first focus on companies' past tax avoidance activities and the likelihood of overstating their initial transition tax estimate. Table 6, Panel A reports results using the full sample. In Panel B, we repeat the analyses using the calendar year-end subsample. In all columns, we exclude companies that did not report any measurement period adjustments so that we compare companies that initially overstated their transition tax estimates with those that initially understated. Consistent with our prediction that companies previously engaging in greater tax avoidance are more likely to overstate the initial OTTT amount, we estimate a positive relation between tax avoidance and *Overstate*. The effect of tax avoidance is also economically meaningful. For example, companies reporting *TA_ETR* above the sample median have a 16.8 percent higher likelihood of overstating the initial transition tax estimate. This

represents a 45.4 percent increase compared to the unconditional likelihood of reporting an overstatement (37 percent). We find similar results in Panel B when we focus on the subsample of calendar year-end companies.

Next, we focus on attention from the media and tax policy advocates. We report results in Table 7. We estimate significant and positive coefficients on both *Media Attention* and *ITEP Haven*, consistent with our prediction that companies subject to greater attention about tax avoidance are more likely to overstate initial transition tax estimates. Specifically, being publicly identified as dodging U.S. taxes through offshore tax havens appears to have a stronger effect. Companies named in the ITEP report have a 45.2 percent higher likelihood of overstating their initial transition tax estimate. Note these results do not suggest these companies mechanically had a higher transition tax liability. Rather, the results document an association between a public report of tax avoidance using havens and *bias* in the disclosed estimates of the transition tax.

Lastly, we examine how political affiliation is associated with bias in companies' transition tax estimates and report results in Table 8. Only in column (1) do we estimate a marginally significant association between political affiliation and the likelihood of companies overstating the initial OTTT estimates. Thus, there is limited evidence suggesting that companies in locations with greater affiliation to the Democratic Party are more likely to overstate their transition tax amount.

V. CONCLUSION

We utilize the Tax Cuts and Jobs Act – a comprehensive corporate tax reform – as a setting to examine the properties of companies' provisional estimates of the one-time transition tax on foreign earnings. We examine the magnitude of companies' measurement period adjustments, the extent of their voluntary disclosures related to the transition tax calculation, and

bias in their initial transition tax accruals. To do so, we hand collect the initial transition tax estimates along with adjustments accrued during the one-year measurement period allowed under SAB 118 for a sample of 259 S&P 500 companies.

Due to the complexity of the new tax provisions and the limited time companies had to provide estimates, we expect companies with lower information gathering and processing costs to report smaller measurement period adjustments. Consistent with expectations, we find companies with access to political insiders had smaller measurement period adjustments and more voluntary disclosures. In addition, we also find companies whose auditors had greater capacity during the period of estimating the initial transition tax impact have smaller measurement period adjustments, but no more voluntary disclosure. In contrast, we find no evidence that companies previously disclosing an estimated tax on unremitted foreign earnings had smaller measurement period adjustments or provided more voluntary disclosures relative to those that claimed it was "not practicable" to provide the estimated tax. Finally, we examine bias and find that companies with incentives to appear as though they were paying their "fair share" of tax were more likely to overstate their initial transition tax estimates. This finding is consistent with companies biasing tax accruals to manage external perceptions.

Our study exploits a plausibly exogenous shock to companies' financial reporting environment to identify factors that allow companies to quickly respond and report material information to stakeholders. Specifically, we extend the literature on the properties of companies' measurement period adjustments (Kubic 2019) by examining factors related to the information gathering and processing costs that are specific to the TCJA setting. Just as the TCJA was speedily written and passed, we may expect more tax reforms in the coming years. Despite companies claiming that the late-in-the-year passage of the Act imposed challenges in

estimating the financial statement impact of these complex tax provisions, we find companies' measurement period adjustments were generally small, and there is no evidence suggesting earnings announcement speed is significantly associated with companies' ability to provide initial transition tax estimates. Our study offers insights into companies' ability to respond to these changes. We also complement prior studies that explore the relation between public perceptions and companies' tax disclosures. We leverage this unique setting where managers are unlikely to have had incentives to manage earnings to meet earnings or compensation targets to investigate the association between external perceptions about companies' income taxes and tax accruals. Lastly, we provide additional evidence of the economic consequences of the TCJA, which should be important to stakeholders and policymakers in evaluating the outcomes of the TCJA.

Appendix A – Variable Definitions

This appendix details variable definitions. We collect transition tax amounts from sample companies' SEC filings during the SAB 118 measurement window and obtain financial data from Compustat (data item names in parentheses). We note other data sources as necessary.

OTTT-Related Variables	
Finalized OTTT Liability	The gross "finalized" transition tax liability disclosed at the end of the one-year measurement period.
Signed Unscaled Adjustments	The net amount of measurement period adjustments to a company's initial transitional tax estimate.
Unsigned Unscaled Adjustments	The absolute value of the net amount of measurement period adjustments to a company's initial transition tax estimate.
No Adjustment	Indicator variable equal to one when a company reports no measurement period adjustment related to the transition tax, and zero otherwise.
Understate	Indicator variable equal to one for companies reporting a positive measurement period adjustment to the initial transition tax estimate, and zero otherwise.
Dependent Variables	
Adjustments	*Unsigned Unscaled Adjustments* divided by the sum of *Unsigned Unscaled Adjustments* plus the absolute value of a company's initial transition tax estimate.
Disclosure Score	A composite score based on the number of components of the transition tax calculation companies voluntarily disclosed in their financial statement footnotes. These components are: (1) stating that the tax base for calculating transition tax is the company's post-1986 cumulative earnings and profits (E&P), (2) disclosing the amount of the company's post-1986 cumulative E&P, (3) the two tax rates applied to cash or cash equivalents (15.5 percent) and other types of earnings (eight percent) when determining transition tax liability, and (4) the eight-year period over which transition tax liability is remitted when a taxpayer files a timely election under Internal Revenue Code section 965(h). We assign a value of one to each component that the company disclosed, and zero otherwise, resulting in a measure that ranges from zero to four.
Overstate	Indicator variable equal to one for companies reporting a negative measurement period adjustment to the initial transition tax estimate, and zero otherwise.
Variables of Interest	
Disclosed Tax on Foreign Earnings	Indicator variable equal to one if a company disclosed in 2016 either: (1) estimated repatriation tax on permanently reinvested earnings, (2) a DTL for repatriation tax on foreign earnings that are not permanently reinvested, or (3) a reversal during the SAB 118 measurement period of a previously recorded DTL for repatriation tax on foreign earnings, and zero otherwise.
Alliance	Indicator variable equal to one if a company is a member of the Alliance for Competitive Taxation, and zero otherwise. Available at https://actontaxreform.com/.

Appendix A – Variable Definitions (continued)

Auditor Capacity	Natural log of one plus the number of publicly traded clients with a December year-end that each lead audit partner serves during 2017, multiplied by negative one.
TA_ETR	Five-year GAAP effective tax rate ending in 2016, multiplied by negative one so that it is increasing in tax avoidance. Five-year GAAP ETR is calculated as total tax expense (TXT) over the period t-4 to t divided by total pretax income (PI) over the same period. We reset five-year GAAP ETR to zero for values below zero, and we reset it to one for values above one.
High TA_ETR	Indicator variable equal to one if a company's *TA_ETR* is above the sample median, and zero otherwise.
TA_GAAP	The mean five-year GAAP ETR for the company's industry-size peer group less the company's five-year GAAP ETR. Five-year GAAP ETR is calculated as the sum of current tax expense (TXT) over the period t-4 to t divided by the sum of pretax income (PI) over the same period. This measure is increasing in tax avoidance (Balakrishnan et al. 2019).
High TA_GAAP	Indicator variable equal to one if a company's *TA_GAAP* is above the sample median, and zero otherwise.
Media Attention	Indicator variable equal to one if a company is the subject of at least one article about tax avoidance during the period from November 9, 2016 to one week before each companies' earnings announcement date for the fiscal quarter including the TCJA's enactment, and zero otherwise. Articles are limited to *The Wall Street Journal*, *The New York Times*, *The Washington Post*, and *USA Today* (Fang and Peress 2009; Chen et al. 2019). We identify relevant articles on Factiva using a text string search, following Chen et al. (2019)
ITEP Haven	Indicator variable equal to one if a company is included in Table 3 of the 2017 annual report "Offshore Shell Games" published by the Institute on Taxation and Economic Policy (ITEP 2017), and zero otherwise. Report is available at https://itep.org/.
Percent Democrat	The percentage of political contributions made to Democratic candidates relative to total political contributions made to both Republican and Democratic candidates over the three-year period from 2015 to 2017. We measure this variable at the ZIP code level based on the location of the companies' headquarters. We collect political contribution data from the Federal Election Committee website at https://www.fec.gov/data/browse-data/?tab=bulk-data.
Majority Democrat	An indicator equal to one if *Percent Democrat* is above 50 percent, and zero otherwise.
Control Variables	
Log(Tax Fees)	Natural log of one plus total tax fees paid to a company's auditor in 2017. Tax fees are from Audit Analytics.
Size	Natural log of market capitalization [Ln(CSHO*PRCC_F)].
ICQ	Indicator variable equal to one if auditor did not report internal control weakness in prior five years, and zero otherwise. Internal control weaknesses are from Audit Analytics.

Appendix A – Variable Definitions (continued)

Tax Comment Letter	Indicator variable equal to one if the company received a tax-related SEC comment letter in the past five years, and zero otherwise. Comment letter data are from Audit Analytics.
EA Lag	Number of days between earnings announcement date and TCJA enactment date (December 22, 2017).
Log(Business Segments)	Natural log of one plus the number of business segments from Compustat Historical Segment database.
File 10-Q	Indicator variable equal to one if a company discloses the initial transition tax estimate in a quarterly 10-Q, and zero otherwise.
Market-to-Book	Ratio equal to the market value of equity (PRCC_F*CSHO) divided by the book value of equity (CEQ).
R&D & Advertising	Research and development expense (XRD) plus advertising expense (XAD) divided by sales (SALE). We reset each missing value to zero.
Leverage	Total long-term debt (DLTT) divided by total assets (AT).
Sales Growth	Percentage of increase in annual sales (SALE).
Operating Cash Flow	Cash flow from operating activities (OANCF) divided by total assets (AT).
ROA	Pretax income (PI) less extraordinary items (XI) divided by total assets (AT).
Analyst Following	Natural log of one plus the average number of analysts providing one-year ahead EPS forecast throughout the year. We reset missing values to zero.
Institutional ownership	Percentage of shares held by institutional investors (from Thomson Reuters 13F Database). We reset missing values to zero.

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Figure 1
Components of *Disclosure Score*

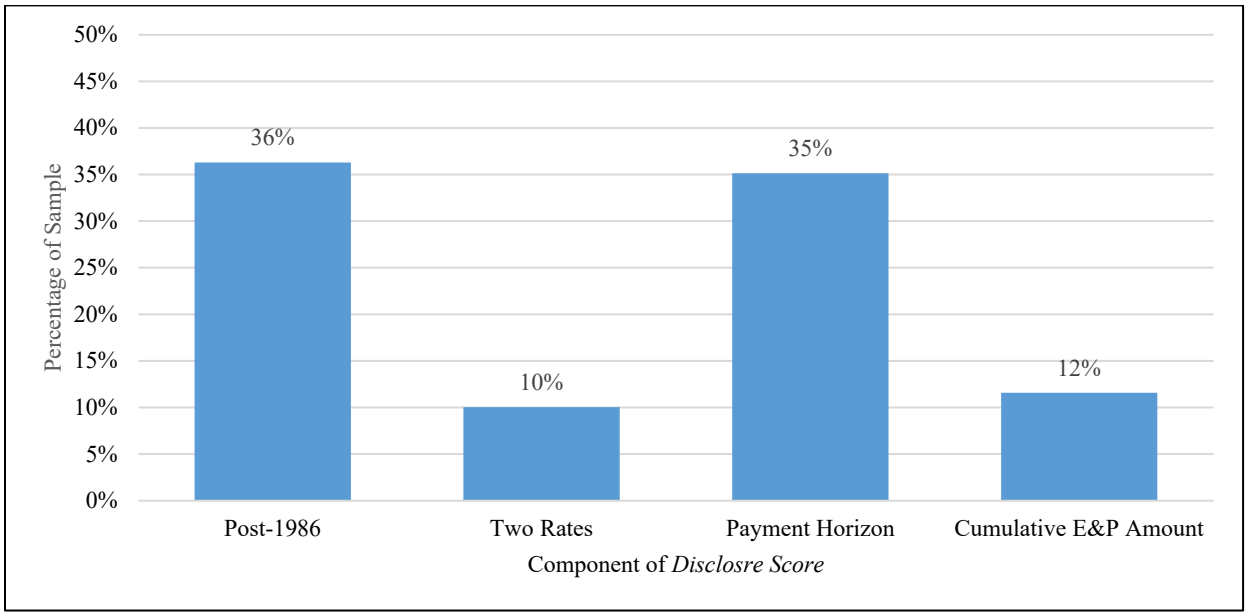

Figure 1 graphs the frequency of individual components of the *Disclosure Score* for companies in our sample. *Disclosure Score* is a composite score based on how many components of the transition tax calculation companies voluntarily disclosed in their financial statement tax footnotes. These components are: (1) stating that the tax base for calculating the transition tax is the company's post-1986 cumulative earnings and profits (E&P), (2) disclosing the amount of the company's post-1986 cumulative E&P, (3) the two tax rates applied to cash or cash equivalents (15.5 percent) and other types of earnings (eight percent) when determining the transition tax liability, and (4) the eight-year period over which the transition tax liability is remitted when a taxpayer files a timely election under Internal Revenue Code section 965(h). We assign a value of one to each component the company discloses, and zero otherwise.

Figure 2
Distribution of the First Quarter with Transition Tax Adjustment

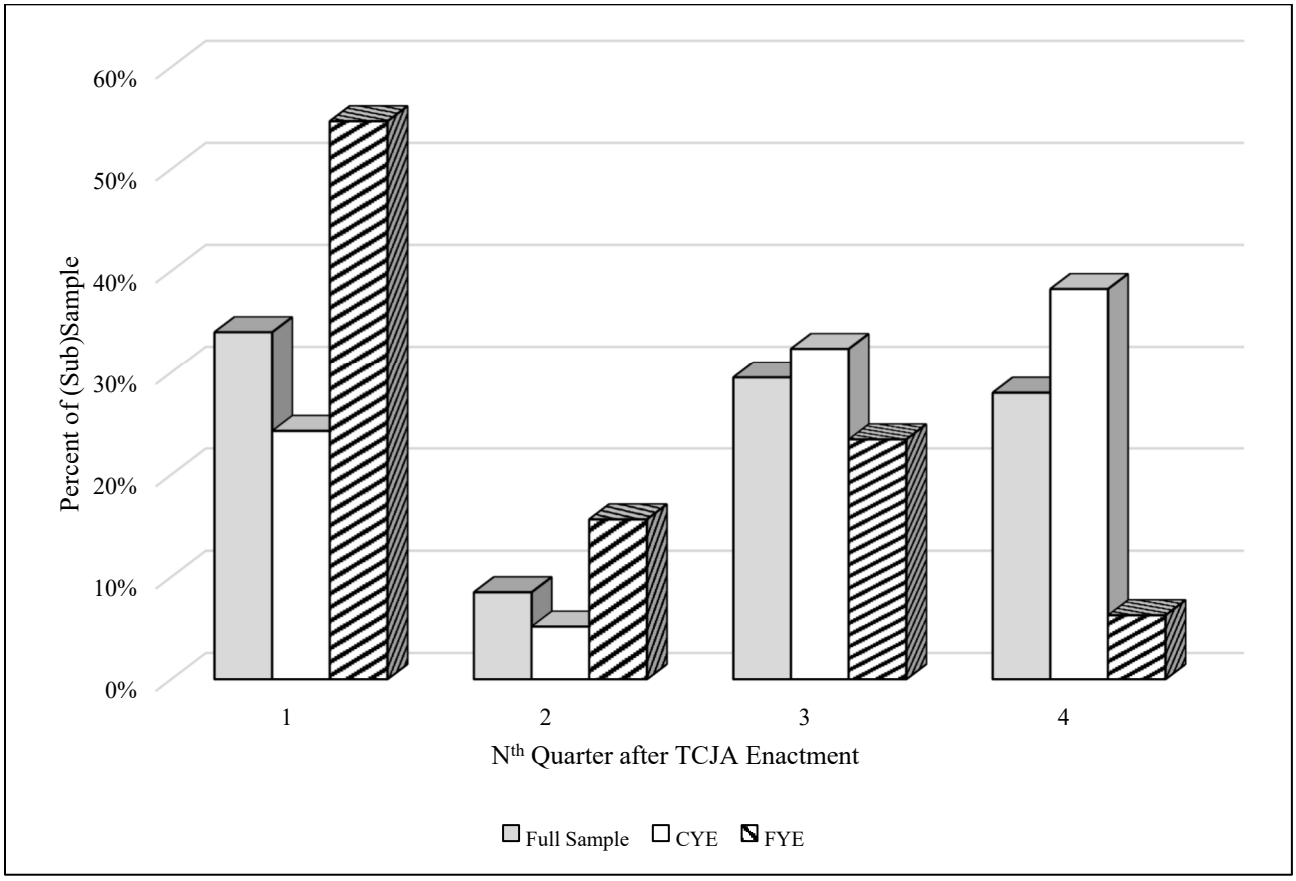

Figure 2 shows the first quarter (after the quarter of TCJA enactment) in which companies disclosed an adjustment to their initial transition tax estimate. This graph excludes 51 companies with no measurement period adjustments as well as 10 companies that did not disclose all of their quarterly adjustments. We present the distribution for the full sample as well as separately for calendar year-end and fiscal year-end companies.

Table 1
Sample Selection

	Full Sample	Calendar YE Sample
Companies in the S&P 500 Index at any point during 2017	534	407
Less:		
Foreign companies	(50)	(36)
Real estate investment trusts (REITs)	(32)	(32)
Regulated utilities	(32)	(32)
Missing 2017 or 2018 SEC filings	(18)	(11)
Adoption of revenue recognition standard (ASC 606)	(2)	0
Companies with zero OTTT liability	(110)	(89)
Missing 2017 or 2018 OTTT amount	(31)	(26)
Main Sample	**259**	**181**
Less:		
Companies with no measurement period adjustments	(51)	(37)
Sample of companies with non-zero OTTT adjustments	**208**	**144**

Table 1 details sample selection procedures. We start with all companies in the S&P 500 index during 2017. We exclude companies that are not incorporated in the U.S., REITs, regulated utilities, companies missing 2017 or 2018 SEC filings, and companies that retrospectively adopted the new revenue recognition standard under ASC 606. We also exclude companies that either do not separately disclose the impact related to the transition tax or that disclose no transition tax impact. See Appendix A for detailed variable definitions.

Table 2
Descriptive Statistics for Determinants of Transition Tax Adjustments

Panel A: Summary Statistics for Full Sample

Variable	N	Mean	Std Dev	P25	P50	P75
Finalized OTTT Liability	259	933.70	3016.06	42.01	156.50	599.60
Signed Unscaled Adjustments	259	-1.40	125.89	-9.00	0.00	11.30
Unsigned Unscaled Adjustments	259	48.05	116.33	1.30	9.70	36.00
Adjustments	259	0.12	0.20	0.01	0.06	0.15
No Adjustment	259	0.20	0.40	0.00	0.00	0.00
Overstate	259	0.37	0.48	0.00	0.00	1.00
Understate	259	0.43	0.50	0.00	0.00	1.00
Disclosure Score	259	0.93	0.85	0.00	1.00	1.00
Disclosed Tax on Foreign Earnings	259	0.49	0.50	0.00	0.00	1.00
Alliance	259	0.10	0.30	0.00	0.00	0.00
Auditor Capacity	259	-0.71	0.41	-1.10	-0.69	-0.69
Log(Tax Fees)	259	0.69	0.61	0.17	0.53	1.08
Size	259	10.03	1.04	9.22	9.81	10.71
ICQ	259	0.95	0.21	1.00	1.00	1.00
Tax Comment Letter	259	0.39	0.49	0.00	0.00	1.00
EA Lag	259	47.74	14.93	39.00	46.00	55.00
Log(Business Segments)	259	1.45	0.47	1.10	1.61	1.79
File 10-Q	259	0.25	0.43	0.00	0.00	1.00

Table 2, Panel A presents descriptive statistics of variables used to estimate equation (1), which examines both the magnitude of companies' transition tax adjustments (*Adjustments*) as well as the extent of their voluntary transition tax disclosures (*Disclosure Score*). We winsorize all continuous variables at the 1st and 99th percentiles except for *Finalized OTTT Liability*, *Signed Unscaled Adjustments*, and *Unsigned Unscaled Adjustments*. We define all variables in Appendix A. *Finalized OTTT Liability*, *Signed Unscaled Adjustments*, and *Unsigned Unscaled Adjustments* are in millions of USD.

Table 2 (continued)

Panel B: Correlations for Full Sample

		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
(1)	*Adjustments*	1												
(2)	*Disclosure Score*	-0.03	1											
(3)	*No Adjustment*	**-0.31**	**-0.11**	1										
(4)	*Disclosed Tax on Foreign Earnings*	0.02	0.02	**-0.16**	1									
(5)	*Alliance*	-0.09	**0.20**	-0.06	-0.04	1								
(6)	*Auditor Capacity*	**-0.15**	0.04	0.04	0.05	0.06	1							
(7)	*Log(Tax Fees)*	0.03	-0.01	**-0.12**	0.03	**0.19**	0.04	1						
(8)	*Size*	**-0.13**	0.10	0.02	**0.11**	**0.41**	**0.22**	**0.27**	1					
(9)	*ICQ*	0.05	**-0.11**	0.06	-0.04	0.07	-0.02	-0.03	0.00	1				
(10)	*Tax Comment Letter*	**0.13**	0.02	-0.09	-0.02	0.04	**-0.12**	0.06	0.04	-0.05	1			
(11)	*EA Lag*	0.04	-0.09	-0.04	-0.03	-0.08	**0.21**	-0.08	**-0.13**	0.07	-0.08	1		
(12)	*Log(Business Segments)*	**0.13**	-0.04	0.01	**-0.14**	**0.16**	-0.06	**0.20**	0.05	0.02	-0.05	0.04	1	
(13)	*File 10-Q*	-0.02	**0.12**	-0.09	0.09	-0.01	**0.53**	0.00	0.02	-0.04	-0.07	**0.18**	-0.08	1

Table 2, Panel B presents correlations between variables used to estimate equation (1), which examines both the magnitude of companies' transition tax adjustments (*Adjustments*) as well as the extent of their voluntary transition tax disclosures (*Disclosure Score*). Statistically significant correlations ($p < 0.10$) are in bold. We winsorize all continuous variables at the 1st and 99th percentiles. We define all variables in Appendix A.

Table 3
Determinants of Measurement Period Adjustments

		Full Sample		Calendar YE Sample	
		With *No Adjustment* Obs.	Without *No Adjustment* Obs.	With *No Adjustment* Obs.	Without *No Adjustment* Obs.
Variable	**Pred.**	**(1)**	**(2)**	**(3)**	**(4)**
Disclosed Tax on Foreign Earnings	-	0.0221	0.0034	0.0225	0.0023
		(0.87)	(0.11)	(0.67)	(0.06)
Alliance	-	-0.0372*	-0.0638**	-0.0715***	-0.1138***
		(-1.43)	(-2.05)	(-2.37)	(-2.80)
Auditor Capacity	-	-0.0728**	-0.0728**	-0.1127**	-0.1097*
		(-1.92)	(-1.67)	(-1.73)	(-1.51)
Log(Tax Fees)	-	0.0099	-0.0046	-0.0000	-0.0226
		(0.44)	(-0.18)	(0.00)	(-0.63)
Size	-	-0.0201**	-0.0162	-0.0117	-0.0052
		(-1.80)	(-1.25)	(-0.76)	(-0.28)
ICQ	-	-0.2843	-0.2560	-0.2819*	-0.2524
		(-1.25)	(-1.17)	(-1.30)	(-1.16)
Tax Comment Letter	+	0.0591**	0.0548**	0.0576*	0.0528*
		(2.09)	(1.72)	(1.59)	(1.30)
EA Lag	-	0.0008	0.0010	0.0012	0.0005
		(1.07)	(1.24)	(0.75)	(0.25)
Log(Business Segments)	+	0.0578**	0.0726**	0.0700**	0.0874**
		(1.96)	(2.08)	(1.82)	(1.93)
File 10-Q	+	0.0331	0.0212		
		(1.07)	(0.58)		
Intercept	?	0.3913	0.3445	0.2408	0.2185
		(1.52)	(1.34)	(0.83)	(0.70)
No. Observations		259	208	181	144
Adj. R-squared		0.061	0.054	0.054	0.041

Table 3 presents regression results from estimating equation (1) to examine the magnitude of companies' transition tax adjustments (*Adjustments*). Columns (1) and (2) include all companies, whereas columns (3) and (4) include only calendar year-end companies. In columns (2) and (4) we exclude companies with no measurement period adjustments (i.e., *No Adjustment* = 1). We present coefficient estimates with t-statistics in parentheses below. ***, **, * denote significance at the 0.01, 0.05, and 0.10 level, respectively (one-tailed if a directional prediction, and two-tailed otherwise). We winsorize all continuous variables at the 1st and 99th percentiles. We define all variables in Appendix A.

Table 4
Determinants of Voluntary Disclosure

		Full Sample		Calendar YE Sample	
		With *No Adjustment* Obs.	Without *No Adjustment* Obs.	With *No Adjustment* Obs.	Without *No Adjustment* Obs.
Variable	**Pred.**	**(1)**	**(2)**	**(3)**	**(4)**
Disclosed Tax on Foreign Earnings	+	-0.0225	0.0088	-0.0789	-0.0261
		(-0.22)	(0.08)	(-0.66)	(-0.19)
Alliance	+	0.5546***	0.5425**	0.7653***	0.6503**
		(2.33)	(2.15)	(2.94)	(2.27)
Auditor Capacity	+	-0.0704	-0.0501	0.2587	0.3588*
		(-0.51)	(-0.33)	(1.14)	(1.43)
Log(Tax Fees)	+	-0.0831	-0.1113	-0.2122	-0.2305
		(-0.90)	(-1.09)	(-2.06)	(-1.98)
Size	+	0.0245	0.0434	0.0321	0.0599
		(0.44)	(0.69)	(0.49)	(0.78)
ICQ	+	-0.1900	-0.2290	-0.2820	-0.2977
		(-1.46)	(-1.59)	(-1.89)	(-1.82)
Tax Comment Letter	-	0.0038	0.0674	-0.0627	-0.0226
		(0.03)	(0.55)	(-0.50)	(-0.16)
EA Lag	+	-0.0055	-0.0057	-0.0023	-0.0005
		(-1.49)	(-1.24)	(-0.41)	(-0.08)
Log(Business Segments)	-	-0.0920	-0.1026	-0.1244	-0.1345
		(-0.74)	(-0.69)	(-0.85)	(-0.78)
File 10-Q	-	0.2888	0.2686		
		(1.92)	(1.63)		
No Adjustment	?	-0.2015		-0.2492*	
		(-1.57)		(-1.65)	
Intercept	?	1.1996*	1.0728	1.5708*	1.3130
		(1.69)	(1.30)	(1.89)	(1.34)
No. Observations		259	208	181	144
Adj. R-squared		0.039	0.026	0.067	0.05

Table 4 presents regression results from estimating equation (1) to examine the extent of companies' voluntary disclosures about the computation of the transition tax (*Disclosure Score*). Columns (1) and (2) include all companies, whereas columns (3) and (4) include only calendar year-end companies. In columns (2) and (4) we exclude companies with no measurement period adjustments (i.e., *No Adjustment* = 1). We present coefficient estimates with t-statistics in parentheses below. ***, **, * denote significance at the 0.01, 0.05, and 0.10 level, respectively (one-tailed if a directional prediction, and two-tailed otherwise). We winsorize all continuous variables at the 1st and 99th percentiles. We define all variables in Appendix A.

Table 5
Descriptive Statistics for Likelihood of Overstatement

Panel A: Summary Statistics for Full Sample

Variable	N	Mean	Std Dev	P25	P50	P75
Overstate	259	0.37	0.48	0.00	0.00	1.00
TA_ETR	259	-0.29	0.16	-0.34	-0.29	-0.21
High TA_ETR	259	0.50	0.50	0.00	0.00	1.00
TA_GAAP	259	0.01	0.15	-0.03	0.02	0.09
High TA_GAAP	259	0.50	0.50	0.00	0.00	1.00
Media Attention	259	0.07	0.25	0.00	0.00	0.00
ITEP Haven	259	0.08	0.27	0.00	0.00	0.00
Percent Democrat	257	0.55	0.27	0.30	0.63	0.78
Majority Democrat	259	0.63	0.48	0.00	1.00	1.00
Size	259	10.03	1.04	9.22	9.81	10.71
Market-to-Book	259	4.21	20.67	2.28	3.83	6.42
R&D & Advertising	259	0.06	0.08	0.00	0.03	0.09
Leverage	259	0.27	0.17	0.15	0.26	0.35
Sales Growth	259	0.08	0.12	0.03	0.07	0.12
Operating Cash Flow	259	0.11	0.06	0.07	0.10	0.14
ROA	259	0.10	0.08	0.04	0.09	0.14
Analyst Following	259	2.89	0.57	2.72	2.95	3.20
Institutional Ownership	259	0.77	0.19	0.70	0.81	0.88
Tax Comment Letter	259	0.39	0.49	0.00	0.00	1.00

Table 5, Panel A presents descriptive statistics of variables used to estimate equation (2), which examines the likelihood that companies bias their initial transition tax estimates upward (*Overstate*). We winsorize all continuous variables at the 1st and 99th percentiles. We define all variables in Appendix A.

Table 5 (continued)

Panel B: Summary Statistics by Sign of Adjustment

	No Adjustment (N = 51)		*Understate (N = 112)*		*Overstate (N = 96)*		**Tests of Mean Differences**		
Variable	**Mean**	**P50**	**Mean**	**P50**	**Mean**	**P50**	***No Adj.* vs. *Understate***	***No Adj.* vs. *Overstate***	***Understate* vs. *Overstate***
Overstate	0.00	0.00	0.00	0.00	1.00	1.00	0.00	-1.00	-1.00
TA_ETR	-0.34	-0.32	-0.30	-0.29	-0.25	-0.26	-0.03	-0.08 ***	-0.05 **
High TA_ETR	0.29	0.00	0.47	0.00	0.64	1.00	-0.18 **	-0.34 ***	-0.16 **
TA_GAAP	-0.03	-0.02	0.01	0.02	0.05	0.04	-0.04 *	-0.08 ***	-0.03 *
High TA_GAAP	0.31	0.00	0.49	0.00	0.60	1.00	-0.18 **	-0.29 ***	-0.11
Media Attention	0.06	0.00	0.04	0.00	0.10	0.00	0.02	-0.05	-0.07 *
ITEP Haven	0.08	0.00	0.03	0.00	0.14	0.00	0.05	-0.06	-0.11 ***
Percent Democrat	0.60	0.69	0.52	0.61	0.57	0.63	0.08 *	0.03	-0.05
Majority Democrat	0.66	1.00	0.61	1.00	0.65	1.00	0.05	0.01	-0.05
Size	10.08	9.82	10.02	9.73	10.02	9.82	0.06	0.06	0.00
Market-to-Book	8.29	3.62	2.66	3.64	3.85	3.86	5.63	4.45	-1.18
R&D & Advertising	0.05	0.02	0.06	0.04	0.07	0.04	-0.01	-0.02	-0.01
Leverage	0.26	0.27	0.29	0.30	0.24	0.21	-0.03	0.02	0.05 **
Sales Growth	0.08	0.07	0.07	0.06	0.10	0.07	0.01	-0.02	-0.03
Operating Cash Flow	0.11	0.10	0.11	0.10	0.11	0.11	0.00	0.00	0.00
ROA	0.11	0.09	0.10	0.09	0.09	0.08	0.00	0.01	0.01
Analyst Following	2.98	3.09	2.87	2.95	2.85	2.93	0.11	0.13	0.02
Institutional Ownership	0.78	0.81	0.77	0.81	0.76	0.80	0.02	0.03	0.01
Tax Comment Letter	0.29	0.00	0.45	0.00	0.36	0.00	-0.15 *	-0.07	0.08

Table 5, Panel B provides descriptive statistics for variables used to estimate equation (2), which examines the likelihood that companies bias their initial transition tax estimates upward (*Overstate*). We separate the sample into three groups: (1) those with no measurement period adjustments (i.e., *No Adjustment* = 1), (2) those that understated the initial transition tax estimate and therefore reported positive measurement period adjustments (i.e., *Understate* = 1), and (3) those that overstated the initial transition tax estimate and therefore reported negative measurement period adjustments (i.e., *Overstate* = 1). We winsorize all continuous variables at the 1st and 99th percentiles. We define all variables in Appendix A. *, **, and *** denote significant differences between groups using two-tailed tests of significance.

Table 5 (continued)

Panel C: Correlations for Full Sample

		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
(1)	*Overstate*	1								
(2)	*TA_ETR*	**0.18**	1							
(3)	*High TA_ETR*	**0.21**	**0.59**	1						
(4)	*TA_GAAP*	**0.16**	**0.89**	**0.50**	1					
(5)	*High TA_GAAP*	**0.16**	**0.51**	**0.61**	**0.63**	1				
(6)	*Media Attention*	**0.12**	0.10	**0.11**	0.03	0.05	1			
(7)	*ITEP Haven*	**0.17**	0.09	**0.12**	0.03	0.03	0.10	1		
(8)	*Percent Democrat*	0.04	0.07	0.03	0.08	0.06	0.04	0.08	1	
(9)	*Majority Democrat*	0.03	0.08	**0.11**	0.07	0.08	0.07	0.03	**0.88**	1

Table 5, Panel C presents correlations between variables used to estimate equation (2), which examines the likelihood that companies bias their initial transition tax estimates upward (*Overstate*). Statistically significant correlations ($p < 0.10$) are in bold. We winsorize all continuous variables at the 1st and 99th percentiles. We define all variables in Appendix A.

Table 6
Likelihood of Overstatements: Tax Avoidance

Panel A: Calendar and Fiscal YE Sample (without No Adjustment obs.)

Variable	Pred.	(1)	(2)	(3)	(4)
TA_ETR	+	0.4900***			
		(2.71)			
High TA_ETR	+		0.1679**		
			(2.21)		
TA_GAAP	+			0.3646**	
				(1.79)	
High TA_GAAP	+				0.0813
					(1.07)
Size	+	0.0101	-0.0030	0.0182	0.0170
		(0.28)	(-0.08)	(0.50)	(0.47)
Market-to-Book	+	0.0006	0.0001	0.0005	0.0005
		(0.33)	(0.08)	(0.32)	(0.28)
R&D & Advertising	-	0.0265	-0.0572	0.1728	0.2144
		(0.06)	(-0.11)	(0.36)	(0.44)
Leverage	+	-0.3747	-0.3757	-0.3807	-0.4017
		(-1.87)	(-1.90)	(-1.90)	(-2.02)
Sales Growth	-	0.2707	0.3167	0.2743	0.2789
		(0.97)	(1.19)	(0.98)	(1.00)
Operating Cash Flows	+	1.3382*	1.1972	1.1481	1.0446
		(1.32)	(1.20)	(1.13)	(1.03)
ROA	+	-1.2796	-1.0164	-1.1513	-0.9070
		(-1.56)	(-1.25)	(-1.40)	(-1.10)
Analyst Following	-	-0.0274	-0.0347	-0.0327	-0.0384
		(-0.41)	(-0.52)	(-0.49)	(-0.58)
Institutional Ownership	-	-0.0177	-0.0516	0.0025	-0.0021
		(-0.09)	(-0.27)	(0.01)	(-0.01)
Tax Comment Letter	+	-0.1044	-0.1071	-0.1021	-0.0946
		(-1.47)	(-1.51)	(-1.42)	(-1.31)
Intercept	?	0.6824	0.6278	0.4529	0.4377
		(1.56)	(1.44)	(1.05)	(1.01)
No. Observations		208	208	208	208
Adj. R-squared		0.025	0.025	0.013	0.008

Table 6, Panel A presents regression results from estimating the likelihood of a company overstating its initial transition tax estimates using equation (2) for both calendar and fiscal year-end companies. The independent variables of interest are measures of tax avoidance. In all columns, we exclude observations with no measurement period adjustments (i.e., *No Adjustment* = 1). We present coefficient estimates with t-statistics in parentheses below. ***, **, * denote significance at the 0.01, 0.05, and 0.10 level, respectively (one-tailed if a directional prediction, and two-tailed otherwise). All continuous variables are winsorized at the 1st and 99th percentiles. See Appendix A for detailed variable definitions.

Table 6 (continued)
Likelihood of Overstatements: Tax Avoidance

Panel B: Calendar YE Sample (without No Adjustment obs.)

Variable	Pred.	(1)	(2)	(3)	(4)
TA_ETR	+	0.5887***			
		(2.62)			
High TA_ETR	+		0.2259***		
			(2.51)		
TA_GAAP	+			0.3534*	
				(1.34)	
High TA_GAAP	+				0.1409*
					(1.54)
Size	+	0.0179	-0.0030	0.0234	0.0271
		(0.41)	(-0.07)	(0.54)	(0.63)
Market-to-Book	+	0.0000	-0.0009	-0.0001	-0.0002
		(0.01)	(-0.47)	(-0.05)	(-0.10)
R&D & Advertising	-	0.1292	0.0358	0.3613	0.3081
		(0.20)	(0.05)	(0.55)	(0.47)
Leverage	+	-0.3102	-0.3204	-0.3447	-0.3537
		(-1.15)	(-1.23)	(-1.28)	(-1.35)
Sales Growth	-	0.1616	0.1874	0.0842	-0.0090
		(0.37)	(0.46)	(0.19)	(-0.02)
Operating Cash Flows	+	1.7104*	1.2749	1.3435	1.2452
		(1.31)	(1.02)	(1.02)	(0.97)
ROA	+	-1.4865	-1.1117	-1.2642	-0.9685
		(-1.61)	(-1.25)	(-1.36)	(-1.07)
Analyst Following	-	-0.0550	-0.0619	-0.0622	-0.0615
		(-0.76)	(-0.86)	(-0.87)	(-0.88)
Institutional Ownership	-	0.1869	0.1406	0.1893	0.1622
		(0.93)	(0.67)	(0.94)	(0.82)
Tax Comment Letter	+	-0.1270	-0.1124	-0.1138	-0.1072
		(-1.50)	(-1.36)	(-1.31)	(-1.27)
Intercept	?	0.5125	0.4946	0.3154	0.2218
		(1.02)	(0.98)	(0.62)	(0.44)
No. Observations		144	144	144	144
Adj. R-squared		0.008	0.017	-0.016	-0.008

Table 6, Panel B presents regression results from estimating the likelihood of a company overstating its initial transition tax estimates using equation (2) for the subsample of calendar year-end companies. The independent variables of interest are measures of tax avoidance. In all columns, we exclude observations with no measurement period adjustments (i.e., *No Adjustment* = 1). We present coefficient estimates with t-statistics in parentheses below. ***, **, * denote significance at the 0.01, 0.05, and 0.10 level, respectively (one-tailed if a directional prediction, and two-tailed otherwise). All continuous variables are winsorized at the 1st and 99th percentiles. See Appendix A for detailed variable definitions.

Table 7
Likelihood of Overstatements: External Attention

		Calendar and Fiscal YE Sample		Calendar YE Sample	
Variable	**Pred.**	**(1)**	**(2)**	**(3)**	**(4)**
Media Attention	+	0.2959**		0.2887*	
		(1.95)		(1.59)	
ITEP Haven	+		0.4520***		0.5304***
			(4.13)		(4.20)
Size	+	-0.0072	-0.0101	0.0021	-0.0049
		(-0.19)	(-0.26)	(0.05)	(-0.11)
Market-to-Book	+	0.0006	0.0005	-0.0002	-0.0003
		(0.38)	(0.31)	(-0.10)	(-0.17)
R&D & Advertising	-	0.2224	0.1403	0.3833	0.4356
		(0.47)	(0.30)	(0.59)	(0.71)
Leverage	+	-0.4244	-0.4721	-0.3901	-0.4036
		(-2.11)	(-2.40)	(-1.44)	(-1.54)
Sales Growth	-	0.3278	0.3404	0.0241	0.1124
		(1.16)	(1.29)	(0.06)	(0.29)
Operating Cash Flows	+	0.8825	1.1590	0.9989	1.4053
		(0.85)	(1.12)	(0.76)	(1.11)
ROA	+	-0.7385	-0.8693	-0.8894	-1.1248
		(-0.87)	(-1.04)	(-0.94)	(-1.25)
Analyst Following	-	-0.0583	-0.0766	-0.0823	-0.0948*
		(-0.87)	(-1.14)	(-1.15)	(-1.30)
Institutional Ownership	-	0.1084	0.0349	0.2652	0.1195
		(0.60)	(0.17)	(1.33)	(0.57)
Tax Comment Letter	+	-0.1024	-0.1133	-0.1095	-0.1149
		(-1.43)	(-1.61)	(-1.27)	(-1.35)
Intercept	?	0.6869	0.8132*	0.5341	0.7182
		(1.60)	(1.77)	(1.10)	(1.41)
No. Observations		208	208	144	144
Adj. R-squared		0.02	0.056	-0.009	0.035

Table 7 presents regression results from estimating the likelihood of a company overstating its initial transition estimates using equation (2). The independent variables of interest are measures of external attention. In all columns, we exclude observations with no measurement period adjustments (i.e., *No Adjustment* = 1). We present coefficient estimates with t-statistics in parentheses below. ***, **, * denote significance at the 0.01, 0.05, and 0.10 level, respectively (one-tailed if a directional prediction, and two-tailed otherwise). All continuous variables are winsorized at the 1st and 99th percentiles. See Appendix A for detailed variable definitions.

Table 8
Likelihood of Overstatements: Political Affiliation

		Calendar and Fiscal YE Sample		Calendar YE Sample	
Variable	**Pred.**	**(1)**	**(2)**	**(3)**	**(4)**
Percent Democrat	+	0.1855*		0.1775	
		(1.42)		(1.16)	
Majority Democrat	+		0.0516		0.0524
			(0.71)		(0.60)
Size	+	0.0173	0.0140	0.0161	0.0117
		(0.48)	(0.39)	(0.38)	(0.27)
Market-to-Book	+	0.0008	0.0006	0.0001	-0.0001
		(0.52)	(0.39)	(0.08)	(-0.04)
R&D & Advertising	-	0.2531	0.3264	0.4909	0.5690
		(0.53)	(0.69)	(0.77)	(0.90)
Leverage	+	-0.3722	-0.3879	-0.3518	-0.3520
		(-1.86)	(-1.92)	(-1.30)	(-1.30)
Sales Growth	-	0.3556	0.3396	0.1304	0.1317
		(1.28)	(1.23)	(0.31)	(0.31)
Operating Cash Flows	+	1.1554	1.1083	1.3193	1.2230
		(1.12)	(1.08)	(1.01)	(0.94)
ROA	+	-1.0757	-1.0146	-1.1653	-1.0921
		(-1.32)	(-1.24)	(-1.27)	(-1.20)
Analyst Following	-	-0.0574	-0.0504	-0.0837	-0.0780
		(-0.92)	(-0.78)	(-1.25)	(-1.11)
Institutional Ownership	-	0.0543	0.0401	0.1869	0.1781
		(0.31)	(0.22)	(0.95)	(0.89)
Tax Comment Letter	+	-0.1090	-0.1048	-0.1141	-0.1092
		(-1.50)	(-1.43)	(-1.31)	(-1.25)
Intercept	?	0.3796	0.4707	0.3478	0.4406
		(0.88)	(1.10)	(0.69)	(0.88)
No. Observations		207	207	143	143
Adj. R-squared		0.013	0.005	-0.015	-0.022

Table 8 presents regression results from estimating the likelihood of a company overstating its initial transition tax estimates using equation (2). The independent variables of interest are measures of political affiliation. In all columns, we exclude observations with no measurement period adjustments (i.e., *No Adjustment* = 1). We present coefficient estimates with t-statistics in parentheses below. ***, **, * denote significance at the 0.01, 0.05, and 0.10 level, respectively (one-tailed if a directional prediction, and two-tailed otherwise). All continuous variables are winsorized at the 1st and 99th percentiles. See Appendix A for detailed variable definitions.