ADVANCES IN TAXATION

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ADVANCES IN TAXATION VOLUME 24

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INTRODUCTION

THE ROLE OF TAX RESEARCHERS

As signaled in the last two volumes, one of my goals is for *Advances in Taxation* to have a greater international exposure and this is starting to lead to a more diverse set of articles being published (see Stamatopoulos, Hadjidema, and Eleftheriou, this volume). More international submissions have been received in the editorial office over the last year and these submissions have been subject to the same rigorous review as submissions from North American authors.

Tax researchers have an important role to play in conducting and publishing rigorous quality research in the uncertain times facing the world's tax systems. There are many research questions to be addressed and AIT invites submissions on a broad range of tax topics. I wish to thank the editorial board for their continued support. They have been called upon to promote AIT and to engage in the reviewing process. And, importantly, I am also pleased to thank the 18 ad-hoc expert reviewers listed below for their valuable and timely reviewing activity during 2016–2017.

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In this volume, there are seven papers. In the lead paper, Raquel Meyer Alexander, Andrew Gross, G. Ryan Huston, and Vernon J. Richardson examine the impact of FASB Financial Interpretation No. 48 adoption through the lens of debt covenants. While the balance sheet impact of FIN 48 on covenant violations was a concern of the accounting and legal community prior to adoption (and also the IRS), the FASB and the academic community have not considered this. They find that for tax aggressive firms, covenant slack – closeness to debt covenant violation – explains the size and frequency of FIN 48 adjustments, predicts the subsequent change in cost of debt, and is associated with abnormal market returns. The latter finding adds context to prior research which has generally showed a negative market response to FIN 48 adoption.

The second paper in this volume reconciles conflicting results in two prior studies on the relation between aggressive financial reporting and tax reporting. Sarah C. Lyon identifies four key differences in the research designs across the two studies, including measures of aggressive book reporting, measures of aggressive tax reporting, sample time periods, and empirical models. She then systematically examines whether each of these differences is responsible for the conflicting results by altering the key difference while holding other factors as constant as possible. She finds the relation between aggressive book and tax reporting is driven by the measure of aggressive book reporting, as the relation is positive for some subsets of firms and negative for others. Firms accused of financial statement fraud have a negative relation while nonfraud firms exhibit a positive relation. The study provides a better understanding of the relation between aggressive book and tax reporting by identifying research design choices that are responsible for prior results and shows that measures of both discretionary accruals and financial statement fraud are necessary to gain a more complete picture of the relation between aggressive book and tax reporting.

In the third paper, Huang, Sun, and Zhang note that relative few studies have examined how a firm's external environment affects its tax avoidance activities. They posit and document that higher environmental uncertainty leads to more tax avoidance activities, reflected as lower effective tax rates. They conjecture that managers with greater ability better mitigate the relationship between environmental uncertainty and tax avoidance, as more-able managers are less opportunistic and may engage in fewer tax-avoidance behaviors.

Moreover, they find that the relationship between environmental uncertainty and tax avoidance activities is stronger in small, highly leveraged, and innovative firms.

The next study by MacPhail, Emekter, and Jirasakuldech examines bonus depreciation, originally enacted by the United States Congress and signed into law in 2002 largely in response to the economic malaise following the September 11, 2001 terrorist attacks. The authors investigate whether bonus depreciation, a capital asset expensing allowance under the U.S. federal income tax code, impacted the level of business investment in property, plant, and equipment in the time periods that followed 9-11 in comparison to other earlier time periods. They find that the bonus depreciation policy had a positive effect on capital expenditures only in the period in which this policy was legislatively anticipated, specifically the period spanning the last quarter of 2001 and the first quarter of 2002, but otherwise, there was no significant increase in capital expenditures during the period that this special depreciation provision policy was initially in place (2002–2005). With Congress continuing to temporarily re-enact bonus depreciation on an annual basis, they find no strong evidence that capital investment is positively impacted, rather their results show that factors that positively affect the level of companies' capital expenditures include capital intensity, cost of capital, amount of cash holdings, changes in sales and loans.

The next three papers in this volume use a behavioral research methodology. Jurney, Rupert, and Wartick rely on Generational theory research that suggests the arrival of the Millennial generation into adulthood will have significant effects on society because of their differing values and attitudes. The authors examine whether this generation has differing perceptions of tax fairness as well as their attitudes towards tax compliance, as compared to other generations, by administering an instrument to a sample of 303 taxpayers, distributed approximately equally across three generational groups: Baby Boomers, Generation X, and Millennials. They find significant differences in the viewpoints toward vertical equity and progressive taxation among the three generations. Specifically, the Millennial generation was less likely to recommend progressive taxation than the other two generations. In addition, there were significant differences between the groups on exchange equity question, with the Baby Boomers significantly different from the other two generations. Their results suggest that the Millennials have attitudes that are more accepting of noncompliance than both the Generation X participants and the Baby Boomer participants, although there was no significant difference between the Baby Boomer participants and Generation X participants on their attitudes towards tax compliance.

Next, Stephenson, Fleischman, and Peterson explore the expectation gap between tax clients' motivations to hire tax preparers versus tax preparers' perceptions of those client motivations. They build on prior work examining preparers primarily from local firms rather than focusing solely on large international firms. They use the recently developed Taxpayer Motivation Scale (*TMS*) to measure four client motivations to hire a preparer: (1) saving money,

(2) saving time, (3) legal compliance, and (4) protection from the IRS and measure expectation gaps for these four motivations using matched tax preparer-tax client dyads. Their results suggest client gender plays a noteworthy role in predicting many of the gaps. In addition, complexity of tax returns, children in the home and client perceptions of tax-preparer advocacy help explain gaps. Finally, female preparers appear to be relatively more sensitive to client needs.

In the last paper of the volume, Stamatopoulos, Hadjidema, and Eleftheriou provide important evidence on the level and determinants of corporate income tax compliance costs and their determinants by analyzing survey and financial statements data from Greek firms. They find that corporate tax compliance costs are of considerable size and vary with several firm-specific characteristics, including the firm's size, its age, the sector in which it operates, its location, and its legal form. This paper contributes to a relatively small literature measuring the impact of tax compliance costs, and is noteworthy for examining a country that has been significantly affected by the economic and financial crisis.

In future volumes, I wish to signal that apart from continuing its tradition of publishing original research-based manuscripts, *Advances in Taxation* will consider publishing papers on methodological issues (as several of the papers in this volume attest) and quality and topics papers on aspects of tax education, the tax profession, and also well-crafted replications/reconciliations (e.g., Sarah C. Lyon's study in this volume), co-authored by doctoral students and faculty.

John Hasseldine
Editor