SYNTHESIS
UNIVERSITY OF ILLINOIS TAX CONFERENCE

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My favorite Spring WSJ OpEd (May 30, 2013)...

Don't Blame Ireland for America's Tax Blunders

*Despite what you might have heard from Washington, Apple didn't find a 'tax haven' in the Emerald Isle.*

In a contentious U.S. Senate investigative committee hearing last week on the amount of taxes paid by Apple, Ireland was described by one senator as being a "tax haven." The description is entirely wrong.

The Organization for Economic Co-operation and Development doesn't regard Ireland as a tax haven. The OECD identifies four key indicators of a tax haven and none of them applies to Ireland. The first indicator is having no taxes or only nominal taxes; the second is a lack of transparency; the third is an unwillingness to exchange information with tax administrators of OECD countries; and the fourth is an absence of a substantial activity requirement. None of these criteria describes Ireland...

*By John Bruton (former Irish prime minister and first EU ambassador to the U.S.), president of IFSC Ireland, and Mr. Kevin Murphy, chairman of the Irish Funds Industry Association and partner at Arthur Cox.*
But…

isn’t this transaction is called the double *IRISH*?

Not a reference to Notre Dame.
Multinational Tax Reform

• Both the EU and the US are grappling with how to improve the system

• EU is focusing on base erosion and profit shifting (BEPS)
  – Thomsen, Ullman and Watrin (2013)
  – Siegloch (2013); Fuest, Peichl and Siegloch (2012)
Figure 1: Cross-sectional and time variation in collection rates

collection rates in 2008

number of tax changes per community, 1998-2008

Source: Statistical Offices of the Länder
Multinational Tax Reform

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• US is focusing on the worldwide v. territorial debate
  – Atwood, Huston and Wallace (2013)
  – Markle (2012)
Auditor-Provided Tax Services: Good, Bad or Ugly-Noisy

- Choudhary, Koester and Pawlewicz (2013)
  - Sounds like a governance issue...but nobody ever talks about this
    - Is there “tax risk” here? (see next section)
    - Measurement, measurement, measurement (see next section)
**TAX RISK: What is it?**

Neuman et al. (2013)

“Tax risk refers to the potential that a chosen action or activity... will lead to a tax outcome that is different than initially expected.”

But from whose perspective do we define an “outcome”?  
– Tax director (go to jail in Africa)  
– Audit firm (audit failure, breach of independence)  
– Board and shareholders (stock price reaction)
DIRECTORS know that most shareholders expect companies to strive to pay as little income tax as legally possible. Yet a growing chorus of politicians and governance observers are calling for directors and CEOs to plan their companies’ taxation to benefit not only their financial statements but also the firm’s brand and reputation.

“The zeitgeist appears to be emerging [that] companies ought to pay more than they legally [have to]. In the United States, we only tax certain types of earnings. But it’s become a political point as to whether that’s appropriate,” says Mitch Thompson, a partner at law firm Squire Sanders. Thompson is among those criticizing U.S. tax policy and calling for it to be changed...
While we are amongst friends, let’s talk about measurement

- I hear this a lot “If you regress one noisy proxy on another noisy proxy, can you really expect your results to have any meaningful interpretation?”

- If folks in this room can’t figure this out, then how can we expect anyone else to?
  - It sounds like we have some consensus on what captures tax avoidance
    - Is it just any measure that shows that firms are paying something different than the statutory rate? (If not, I think I missed the memo)
    - What about tax aggressiveness?

- Hanlon and Heitzman asked us to think/explain about why are using a particular measure and we are (finally) explaining ourselves
  - But I still think that we (as a tax community) need to reach some consensus about TAMU (notice that the A could be avoidance or aggressiveness!)
In Conclusion

• Today I (we?) learned
  – about a unique German quasi-experimental setting
  – a new acronym – TaxAQ. Cool.
  – that US Multinational firms should quit whining about being subjected to the worldwide system
  – how to pronounce “zeitgeist”
  – how to define tax risk. Wait. No we didn’t. But I think we are on the right path…
  – that a whole bunch of folks are working on topics that not only speak to the academy but also to the business community
Thank you