UNC TAX CENTER
Building bridges between tax scholars, policymakers and practitioners who share an interest in evidence-based tax research.

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TAX SYMPOSIUM PROGRAM COMMITTEE

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Dear colleagues and friends,

This April, the UNC Tax Center once again welcomed guests from across the country and around the world to Chapel Hill for our 20th Annual UNC Tax Symposium. The event was a great success, with participants ranging from academic researchers in accounting, finance, law and economics to policymakers and practitioners with an interest in evidence-based tax research.

As in prior years, authors presented papers on a variety of timely topics including the effect of U.S. tax on foreign subsidiary repatriations, capital expenditures, tax evasion and CEO stock transactions. In addition, in a session moderated by Michelle Hanlon (MIT Sloan School of Management), panelists Michael Devereux (Oxford University Centre for Business Taxation), John McClelland (Tax Analysis at the Congressional Budget Office), Christopher Hanna (advisor to the Senate Committee on Finance) and Peter Merrill (PricewaterhouseCoopers) shared their insights on the state of U.S. tax reform. Finally, Terry Shevlin (University of California Irvine) delivered a keynote address that started with a history lesson in tax research and concluded by considering how future research can best build on this history.

This year, the Tax Center is commemorating this milestone event with our first ever proceedings issue. In it, you will find high-level summaries of all of the symposium presentations and discussions mentioned above, as well as other information about the UNC Tax Center and the 21st Annual UNC Tax Symposium, which will be held in Chapel Hill April 20-21, 2018. Thanks to Courtney Edwards, UNC Tax Center’s newly appointed associate director, for all her hard work making this issue a reality.

I also would like to thank everyone who helped make this year’s symposium so engaging, interesting and informative, including our authors, presenters, discussants, moderators and panelists. My gratitude extends to our participants as well, who provided incredibly thoughtful and challenging contributions throughout the conference. Thank you also to our outstanding Program Committee, which this year included Jeff Hoopes (Kenan-Flagler Business School, UNC), Jennifer Blouin (The Wharton School, University of Pennsylvania), and Scott Dyreng (Fuqua School of Business, Duke University). And finally, thank you to our sponsors, the KPMG Foundation and the James C. and Ethel M. Crone Faculty Fund in Tax Excellence, for the financial support that helps make the symposium possible year after year.

Best regards,
Ed Maydew
Director, UNC Tax Center
FRIDAY, APRIL 7TH

7:00 – 9:00AM BREAKFAST – DuBose House
8:30 – 9:00AM REGISTRATION – Loudermilk Hall, Room 107
9:00 – 10:20AM KINKY TAX POLICY AND ABNORMAL INVESTMENT BEHAVIOR
AUTHORS: Qiping Xu, University of Notre Dame • Eric Zwick, University of Chicago (presenting)
DISCUSSANT: Martin Jacob, WHU, Otto Beisheim School of Management
Moderator: Ed Maydew, University of North Carolina
10:20 – 10:40 AM BREAK
10:40 – 12:00 PM IS THE CASH LOCKED OUT? EVIDENCE FROM U.S. MULTINATIONAL TAX FILINGS
AUTHORS: Christine L. Dobridge, Federal Reserve Board of Governors (presenting)
• Paul S. Landefeld, Joint Committee on Taxation
DISCUSSANT: Brady Williams, University of Texas
MODERATOR: Jennifer Blouin, University of Pennsylvania
12:00 – 1:15 PM LUNCH – DUBOSE HOUSE
1:15 – 2:35 PM PANEL ON U.S. TAX REFORM
PANELISTS: Michael Devereux, Oxford University • Chris Hanna, Senate Committee on Finance • John McClelland, Department of the Treasury • Peter Merrill, PricewaterhouseCoopers
MODERATOR: Michelle Hanlon, MIT
2:35 – 2:55 PM BREAK
2:55 – 4:15 PM THE GIFT THAT KEEPS ON GIVING: STOCK RETURNS AROUND CEO STOCK GIFTS TO FAMILY MEMBERS
AUTHORS: Jennifer L. Brown, Arizona State University • G. Ryan Huston, Arizona State University (presenting) • Brian S. Wenzel, Arizona State University
DISCUSSANT: Shane Heitzman, University of Southern California
MODERATOR: Scott Dyreng, Duke University
4:15 – 4:35 PM BREAK
4:35 – 5:35 PM KEYNOTE ADDRESS: Terry Shevlin, University of California, Irvine
5:35 – 7:00 PM RECEPTION – DUBOSE HOUSE
7:00 – 8:30 PM DINNER – DUBOSE HOUSE

SATURDAY, APRIL 8TH

7:00 – 8:30 AM BREAKFAST – DUBOSE HOUSE
8:30 – 9:50 AM TAX INFORMATION EXCHANGE AND O\u2019SHORE ENTITIES: EVIDENCE FROM THE PANAMA PAPERS
AUTHORS: Jim Omartian, University of North Carolina
DISCUSSANT: Niels Johannesen, University of Copenhagen
MODERATOR: Jeff Hoopes, University of North Carolina
9:50 – 10:10 AM BREAK
10:10 – 11:30 AM PRE-IP0 TRUSTS, PRIVATE INFORMATION, AND CORPORATE SPILLOVER
AUTHORS: Michael Dambra University at Bu\u201alo • Matthew Gustafson, Pennsylvania State University • Phillip Quinn, University of Washington (presenting)
DISCUSSANT: Brad Hendricks, University of North Carolina
MODERATOR: Ed Maydew, University of North Carolina
ACADEMIC PAPER PRESENTATIONS

KINKY TAX POLICY AND ABNORMAL INVESTMENT BEHAVIOR

Eric Zwick, an assistant professor of finance at the University of Chicago Booth School of Business, opened the summit with *Kinky Tax Policy and Abnormal Investment Behavior*, a study conducted with Qiping Xu from the University of Notre Dame.

The paper, Zwick said, is an homage to a 1967 study by Robert E. Hall and Dale W. Jorgenson titled “Tax Policy and Investment Behavior,” in which the authors wrote:

“The effectiveness of tax policy in altering investment behavior is an article of faith among both policy makers and economists. Whatever the grounds for this belief, its influence on postwar tax policy in the United States has been enormous.”

Zwick asserted that this influence is as prevalent today as it was then.

His paper examines situations in which firms dramatically increase capital expenditures near the end of the fiscal year in order to reduce their tax payments. The objective was to establish the link between fourth-quarter investment spikes and tax minimization.

Tax positions can generally be better estimated close to the end of the fiscal year, he said. Backloading investments allows firms to maximize the tax benefit of depreciation from new investment.

The primary findings of the research are that large firms do seem to have a tendency to invest more at the end of the year. This behavior does seem to be driven by tax-planning motives, and it appears to be more common among firms that are financially constrained.

The next steps in this research, Zwick said, are to explore the implications and use a quantitative model to better understand the effects.

Martin Jacob, a professor of business taxation at the WHU-Otto Beisheim School of Management, then took the floor as discussant.
Jacob affirmed that the authors have done a great job in providing evidence that taxation is at least partly responsible for the pattern described, and that the paper adds to our understanding of patterns of investment and the importance of taxes in these patterns.

By way of critique, Jacob said that while he could see the benefits of waiting to invest, might it not be costly to do so?

A potential consequence would be that if demand increases, investments become more expensive. Another is that managers might use the tax argument to overinvest.

It appears, he said, that firms with investment spikes earn lower margins relative to those with sales spikes but not investment spikes.

Jacob asked if, in addition to the timing of investment, shouldn’t policymakers also care about the level of that investment?

Zwick said that the team was attempting to better understand the significance of timing versus level. This, he said, gets at the paper’s essential objective: to show that, even for large public companies, tax motives are playing a frequent role in capital-expenditure decisions.

Some may believe that tax policy doesn’t matter for investment. This viewpoint, Zwick suggested, could affect the design of corporate tax reform. It’s important, he asserted, to have some very clear evidence on this issue.

**IS THE CASH LOCKED OUT? EVIDENCE FROM U.S. MULTINATIONAL TAX FILINGS**

Christine L. Dobridge, a member of the Board of Governors of the Federal Reserve System, presented a paper titled *Is the Cash Locked Out? Evidence from U.S. Multinational Tax Filings*, coauthored by Paul S. Landefeld, a member of the Congressional Joint Committee on Taxation.

Dobridge launched her presentation by quoting Rep. Kevin Brady, chairman of the House Ways & Means Committee, as saying that trillions of dollars of income are presently “stranded” abroad, and that the House Republicans’ comprehensive tax-reform plan encourages repatriation of earnings from foreign subsidiaries to their U.S. parent companies.

“Repatriation tax costs might be one part of the story,” Dobridge acknowledged.
“But we know it might not be the only reason that firms are holding cash abroad.”

“What other causes might be at play?” she asked. Are investment opportunities in the U.S. not as attractive as those in foreign countries? Is low transparency in tax-haven countries simply too appealing?

Dobridge laid out the primary questions asked in this research: Do repatriation tax costs drive firms to hold more cash overseas? And do repatriation tax costs increase overall corporate cash holdings?

She pointed out that while from 1998 to 2012 U.S. corporate tax rates remained flat, about half of all other countries cut rates between 2003 and 2012 (and about a third cut them two times or more). Lower foreign tax rates have therefore increased the tax cost of repatriating earnings, because when firms repatriate they essentially pay the difference between the foreign tax rate and the U.S. tax rate.

If lower tax rates in foreign countries decrease a firm’s willingness to repatriate foreign earnings, then after a tax cut the authors would expect to find more cash and investment in foreign countries and less in the U.S., as well as an increase in the probability of repatriating from foreign subsidiaries located in tax-cut countries.

The researchers used confidential data on the cash holdings, repatriations and investment of foreign subsidiaries and U.S. parent companies gathered from U.S. corporate tax filings to explore these issues.

Among their findings was evidence of “reallocation of cash holdings to tax cut countries and away from domestic cash holdings.” Specifically, the authors found that a 1 percentage point rate cut leads to a 1.9 percent increase in cash to assets held in the foreign subsidiaries of U.S. parent companies.

Further, evidence suggests that after a rate cut there is a detectible but somewhat modest effect on the probability of repatriation. The results indicate that a 1 percentage point rate cut results in a 0.1 percent decrease in the probability of repatriation from foreign subsidiaries located in a tax-cut country.

Lastly, the results indicate that firms’ investment in tangible assets is unchanged in countries with tax cuts and there is an increase in cash in the overall corporate structure.

Discussant Brady Williams, an assistant professor in the University of Texas McCombs
School of Business’ department of accounting, started off by presenting some staggering statistics about Apple and its $246 billion “cash hoard”:

- If Apple’s cash was its own public company, it would be the 13th largest company in the world.
- If Apple’s cash was lined up end to end in dollar bills, it would circle the globe 930 times.

“Why do firms hold cash?” Williams asked. He cited four primary reasons: tax motives, transaction motives (need it to do a deal in the future), agency theory (poor investment options) and precautionary motives.

Williams suggested several ways the researchers might improve their paper. Among these were integrating with, or controlling for, the other reasons for holding cash. This, Williams said, could strengthen the link between decreasing tax rates and increasing cash holdings.

He suggested focusing on the most unique finding of the research: that parent companies with subsidiaries in tax-cut countries decrease their cash holdings in the U.S.

Williams further suggested that the researchers be clearer about how cash is being measured. Apple’s $246 billion, he said, includes cash, cash equivalents and long-term marketable securities – but securities aren’t listed on the “cash” line of the company’s Form 5471.

In light of the well-documented magnitude of cash currently held by the U.S. parent companies’ foreign subsidiaries, Williams concluded by acknowledging the paper’s relevance and timeliness.

The views and opinions expressed here are the authors’ own. They are not necessarily those of the Board of Governors of the Federal Reserve System, its members, or its staff.

This research embodies work undertaken for the staff of the Joint Committee on Taxation, but as members of both parties and both houses of Congress comprise the Joint Committee on Taxation, this work should not be construed to represent the position of any member of the Committee. This work is integral to the Joint Committee on Taxation staff’s work and its ability to model and estimate the effects of changes in the tax treatment of U.S. multinational corporations.

THE GIFT THAT KEEPS ON GIVING: STOCK RETURNS AROUND CEO STOCK GIFTS TO FAMILY MEMBER

In his paper titled The Gift that Keeps on Giving: Stock Returns around CEO Stock Gifts to Family Member, Ryan Huston examines the disposition of stock by CEOs as gifts to family members.
Huston is an assistant professor at Arizona State University’s W.P. Carey School of Accountancy, and his paper was coauthored by his ASU colleagues Jennifer Brown and Brian Wenzel.

The premise is that CEOs quite logically prefer to sell stock when the price is high, but – for estate and gift tax-planning purposes – choose to make gifts of stock to family when the price is low. Insiders are in a unique position to act on private information, and the researchers say that prior studies offer evidence that they do, in fact, strategically time their transactions.

Huston and his colleagues point out that rules and policies in place to limit improper insider trading generally don’t apply to bona fide gifts, and argue that gift dispositions are interesting to study because CEOs’ “incentives and opportunities to time gift dispositions are distinct.”

Their purpose was to explore what this means in the market.

Their evidence indicates that raw returns leading up to CEOs’ gift dispositions are significantly lower than the returns leading up to their sale dispositions, and returns following those gifts are somewhat higher than returns following sales.

Positive returns were found in the one- and two-year periods following the disclosure of gifts. This suggests to the authors a long-term trading strategy.

They also find that firms are more likely to meet or beat earnings targets immediately around sales transactions, and less likely to meet analyst forecasts in the quarter of gift transactions, suggesting that CEOs strategically time gifts using information the market hasn’t yet absorbed.

When the reporting lag is longer, Huston stressed, executives tend to reap more benefits.

“Our suggestion,” he said, “is that if the reporting lag were shorter – if it were the same as for sales – we would certainly take away some of this information advantage that these executives have.”

“Overall, we see that there are benefits that executives are able to reap for their own purposes,” Huston said. “They are able to take away significant returns following gift transactions.”
And, he added, “we see very little response from the overall market to these transactions.”

The general takeaway then is that “the market is missing the signals associated with these transactions.”

Shane Heitzman, an associate professor of accounting at the University of Southern California’s Marshall School of Business, served as discussant of the paper.

Heitzman called this a “story about short-run exploitation of private information.”

“It’s not something that regulators seem to care about,” he observed. “From their perspective, it’s more a shift from the left to the right pocket. It’s not a transaction in the market; you’re not exploiting private information to hurt an investor.”

“And if you look at the insider-trading policies for companies,” he continued, “they will also wrap in gifts as one of those things that you don’t have to tell general counsel about.”

The wealth transfer seems to be between the estate and the government, Heitzman said, “which makes it a pretty cool intersection between securities regulation and tax policy.”

According to Heitzman, the power of the study can be dramatically enhanced by focusing on estate-planning structures that benefit the most from short-run price swings, namely, the Grantor Retained Annuity Trust (GRAT). These are frequently used by public-company executives to transfer wealth to descendants and are very sensitive to private information about stock prices, but fall outside of securities regulation constraints.

There’s lots to be studied here, he acknowledged. “Keep working on it.”

**TAX INFORMATION EXCHANGE AND OFFSHORE ENTITIES: EVIDENCE FROM THE PANAMA PAPERS**

Jim Omartian, a Ph.D. student in UNC’s Kenan-Flagler Business School, presented a paper titled *Tax Information Exchange and Offshore Entities: Evidence from the Panama Papers*, in which he used data leaked by a whistleblower detailing more than 200,000 offshore entities created by the Panamanian law firm Mossack Fonseca.

Omartian’s objective with this research is to observe investors interacting with the offshore financial industry.
The premise is this: Cash-strapped governments have expressed considerable concern about revenue lost to offshore tax evasion. A 2008 Senate staff report estimated an annual loss to the U.S. Treasury Department of $100 billion.

While regulatory reforms have been put in place to target offshore evasion, very little is yet known regarding the dynamics of these secretive activities.

“What prevents an evader from getting caught by the government also precludes the researcher from seeing what they’re doing,” Omartian noted.

“Tax havens and tax evasion have attracted a lot of attention from policymakers, resulting in massive amounts of financial account information being exchanged across borders.” The problem, he said, is that there isn’t a great deal of empirical evidence that these information exchange programs are an effective deterrent to tax evasion.

Thus the value of the leaked documents, known as the Panama Papers. He asked: Do investors use offshore entities less when those entities are more transparent to the investors’ home governments?

The Panama Papers provided access to information about investors who have used a law firm called Mossack Fonseca to incorporate a legal entity in an offshore jurisdiction. These tax havens impose no taxes and shareholders aren’t required to disclose their own identities, and thus don’t have to report the asset or any income from it to their home-country authorities.

Omartian found that just prior to the roll-out of the EU Savings Directive in 2005, investors in affected countries roughly doubled the number of offshore incorporations. He studied the initial implementation of the EUSD, a strengthening of the EUSD, the Foreign Account Tax Compliance Act and then shocks to the Swiss banking system, and saw a decline in the use of the affected offshore jurisdiction by investors in the signatory country.

And he determined that FATCA resulted in a 20 to 45 percent reduction in the number of incorporations from U.S. investors.

“It seems that these account-information exchange programs have an effect on investors,” Omartian said. But they must be well designed. “These guys are savvy. There’s a lot of money at play for them, so they’re willing to pay up at least a little bit to get around disclosure.”
Niels Johannesen, an associate professor in the University of Copenhagen’s department of economics, served as discussant. He said that Omartian’s paper was important in that it provides insight into the “missing link” in the literature on tax evasion: offshore entities.

He congratulated Omartian on his creative use of a “fascinating data source.”

Johannesen underscored that we’re talking about a great deal of money here. He said that the best estimate of wealth in offshore accounts is $6 trillion, and that it’s highly concentrated among the super-rich. Offshore entities play a pivotal role in hiding assets not just for tax evasion but for money laundering, he said.

This research, Johannesen said, offers rare evidence of the direct role played by financial intermediaries. Enforcement policies must look through offshore corporations, he said. Such policies do work, he affirmed.

Johannesen added that he doesn’t completely agree with Omartian’s observation that “exchanging corporate account information diminishes the effectiveness of offshore entities resulting in fewer incorporations and increased closures.”

“I would stress more the automatic nature of the exchange,” Johannesen said.

He also noted that perhaps sometimes the motive for these activities isn’t tax evasion but a politically motivated expropriation risk. This, he suggested, warrants further investigation.

**PRE-IPO TRUSTS, PRIVATE INFORMATION, AND CORPORATE SPILLOVER**

The topic of Phillip Quinn’s paper, *Pre-IPO Trusts, Private Information, and Corporate Spillover*, is CEOs’ strategic use of trusts. Quinn is an assistant professor of accounting in the University of Washington’s Foster School of Business, and the paper was coauthored by Michael Dambra of the University at Buffalo and Pennsylvania State University’s Matthew Gustafson.

The researchers attest that wealth and liquidity created during the IPO process force executives to make some of the most important financial decisions of their life. One such decision is whether to place their equity into a trust prior to an IPO. The authors report that 23 percent of CEOs place equity in tax-advantaged trusts prior to an IPO.

The IPO setting offers unique insight into the use of trusts, Quinn said, because
private share valuations receive a discount of approximately 30 percent of the offer price, and shares tend to gain a significant one-day price appreciation.

The questions posed in this research are: Do CEOs have private information regarding future performance at the time of the IPO? And are CEOs’ personal tax decisions predictive of future corporate tax strategy?

The researchers gathered data on IPOs from 1997 to 2013, including financial statements, federal and estate tax information and information hand-collected from IPO prospectuses. They also hand-collected data on CEO characteristics and trust names and ownership.

They found that IPOs with CEOs using trusts outperform other IPO issuers by 10 to 17 percent in the first year. The disparity, they note, is most pronounced in “informationally deficient” firms.

According to the researchers, this is the first evidence that CEOs actively use trusts when incentives to avoid taxes are the highest, calling this a “first-order effect of taxes on CEO behavior.” The research offers insight into how CEOs can utilize tax planning to avoid capital gains taxes from highly appreciated shares.

They also document a positive relation between trust ownership and corporate tax avoidance, suggesting that CEOs’ personal tax preferences spill over into corporate tax policy. As such, they say, trust establishment is a personal finance decision that reveals information about subsequent firm performance and policies.

“We provide some of the first evidence on who sets up these pre-IPO trusts, and just who uses trusts in general,” Quinn said. “There’s not a lot of information out there, given the limited data availability.”

Brad Hendricks, an assistant professor of accounting in UNC’s Kenan-Flagler Business School, served as discussant for the paper. Acknowledging the tax savings that these trusts provide, he ventured the question, “Why are only 23 percent of CEOs establishing a trust, considering that managers can shield a considerable amount of personal wealth from future estate taxes by forming a [Grantor Retained Annuity Trust]?”

Hendricks noted that 23 percent seemed particularly low when considering that “features of the GRAT – pre-offering liquidity discount and post-offering asset swap – allow for significant tax savings even if the firm’s stock declines in value.”
He then posed some additional questions related to whether private information about the firm’s long-run performance led the manager to form the trust or whether this decision was driven by management’s expectations about the firm’s initial returns at IPO, which are significantly more predictable than long-run performance.

Hendricks noted that there have been discussions about getting rid of zeroed-out GRATs or to make the minimum term at least 10 years.

“I don’t know where these discussions will go in the future,” he said, “it’s a little bit surprising to me that these are allowed to exist.”

“Why are only 23 percent of CEOs establishing a trust, considering that managers can shield a considerable amount of personal wealth from future estate taxes by forming a [Grantor Retained Annuity Trust]?“
PANEL ON U.S. TAX REFORM

A Friday morning panel discussion was convened, called the Panel on U.S. Tax Reform, moderated by Michelle Hanlon, a professor of accounting in the MIT Sloan School of Management.

Participants were Michael Devereux, director of the Oxford University Centre for Business Taxation; John McClelland, assistant director for Tax Analysis at the Congressional Budget Office and previously with the U.S. Department of Treasury; Christopher Hanna, a senior tax policy advisor to the Senate Committee on Finance; and Peter Merrill, a principal at PricewaterhouseCoopers.

“Do we need tax reform?” Devereux asked, as a launch to the discussion, and responded, “Let’s assume we do.”

He then laid out a detailed comparison of a destination-based cash flow tax, as proposed in the House of Representative Republicans’ “Blueprint” for reform, and a source-based cash flow tax.

Underscoring the difficulties of tax reform, Devereux pointed out that there hasn’t been fundamental change in the U.S. in quite a long time.

“The basic system has stayed the same,” he said, “and it’s actually getting more and more difficult – because we have more and more laws and international arrangements – to make the existing system work.”

Clearly, Devereux affirmed, devising a new system is a difficult task.

McClelland explained that his work at Treasury involved, to some extent, pointing out potential issues with the proposed reform, and said that he came away thinking that the obstacles to designing and implementing a destination-based cash flow tax are not as severe as he expected, but aren’t insignificant.

McClelland said he believes the debate in Washington reflects people’s struggles with coming up with the answers under a challenging deadline.
The shift would occasion a great deal of shakeup, but, he said, “We should expect that firms have to change their business structures anytime you have something you’re going to call fundamental tax reform.”

Hanna then discussed the “big picture” of tax reform, contrasting individual and corporate taxation. He said that, “To the extent that there’s a push for tax reform in the U.S., it seems to be coming exclusively from the business side,” which is a contrast to the pressures throughout debate deliberations in the 1980s.

“What’s driving the push for corporate tax reform?” Hanna asked. There are, he said, two main arguments.

“First is the statutory corporate tax rate – the idea that the U.S. has the highest statutory corporate tax rate in the developed world,” he attested. “Corporate America wants us to bring that statutory rate down” – down to at least 25 percent.

But bringing it down one percentage point is going to cost about $100 billion over 10 years, he said. Getting there won’t be easy.

One proposal is to integrate corporate and shareholder tax rates to create a single level of tax for corporate earnings – the thought being that shareholders are less mobile than corporations.

The second argument for reform is the belief that our international tax system is out of date, inconsistent with what the rest of the world is doing, and that it needs to be modernized.

Merrill described how before the election, people were aware there was this destination-based cash flow tax blueprint out there, but the prevailing reaction was “ho-hum.”

Then Donald Trump won the presidency and the Republicans controlled both the House and the Senate, and, Merrill said, now it was a different matter.

Importers generally hate the blueprint, he said, while exporters generally love it, because both disbelieve that the dollar will appreciate to offset the border tax adjustments. However, some exporters worry that the border tax adjustments will lead to trade retaliation.

There are also those who feel anxious about it being introduced overnight, Merrill said. They would prefer to see it phased in.
There’s a great deal of confusion around the proposal, he said, regarding, for example, “what’s an import, and what’s an export?” Cellular companies want to know how it will affect cross-border payments when their customers roam. Package-delivery companies want to know how it will affect their shipments.

On one point everyone seemed to agree: Lots of questions remain to be answered.

Panelists were (from left to right) Peter Merrill, a principal at PricewaterhouseCoopers; Christopher Hanna, a senior tax policy advisor to the Senate Committee on Finance; Michelle Hanlon (moderator) a professor of accounting at the MIT Sloan School of Management; Michael Devereux, director of the Oxford University Center for Business Taxation; and John McClelland, assistant director for Tax Analysis at the Congressional Budget Office and previously with the U.S. Department of Treasury.
TERRY SHEVLIN’S KEYNOTE ADDRESS

On Friday afternoon, Terry Shevlin delivered the symposium keynote address.

Shevlin, a professor of accounting and Paul Merage Chair in Business Growth at the University of California Irvine, is well known to most of those who were in attendance. He was introduced as one of the most prolific and cited authors in the field, and “a heck of a good guy to have a beer with.”

He first offered a history lesson in tax research, the modern iteration of which, he said, began in the late 1980s at Stanford University with the development of the Scholes and Wolfson framework and continued with the tax symposium at the University of Michigan. This symposium began there in 1990, then transitioned to UNC, where it’s been championed by Doug Shackelford and Ed Maydew.

Shevlin discussed several seminal papers, including that of Scholes and Wolfson – which addressed the relation between changes in tax rules and investment decisions – and Collins and Shackleford’s paper titled “Discussion of Foreign Tax Credit Limitations and Preferred Stock Issuances.”

Looking at more recent work, he cited as a “must-read” Michelle Hanlon and Shane Heitzman’s “A review of tax research.”

Shevlin then turned to some audience participation, asking everyone to pull out their phones and providing them with a number to text.

They were then asked a series of questions, beginning with: “How many here have a paper examining the determinants of tax avoidance?”

Two-thirds of the audience responded affirmatively.

The next question was: “Among those that answered yes to having a tax avoidance-determinants paper, how many papers do you have?”

The majority have but one.
Next: “What determinant did you examine?”

Quite a variety of responses were offered. Among those that Shevlin suggested were executive compensation, private equity funds, distance to IRS offices and CEO characteristics.

His objective in asking these questions, Shevlin said, was to underscore that tax avoidance is a saturated field – probably not a good idea for a thesis topic – but still very much a relevant one.

He urged his audience to also examine the consequences of tax avoidance – for example, the effects on shareholders, on the cost of equity and on credit ratings and the cost of debt.

And what about measurements of tax avoidance? What, exactly, is it? What is the construct of interest? How does it differ from “tax aggressiveness”?

He then asked everyone to return to their phones. It was time for a futures poll:

“What do you think are the hot areas for future research?”

A wide variety of responses here as well, among them: real effects, policy, non-income taxes and tax compliance.

Shevlin’s suggested this: Book-tax tradeoffs will continue to be important in how firms respond to tax incentives.

Some additional food for thought:

Identification is a big issue across all fields, but Shevlin said he strongly encourages referees and editors not to get hung up on “you must have a setting to establish causality.” You can still learn much from cross-sectional panel data sets, he said.

(Although if you can get a pre/post design with clever designs – as in two papers presented at this year’s symposium: “Kinky Tax Policy” and “Is the Cash Locked Out?” – he strongly encourages you to do so.)

Another subject for consideration: “How do firms make tax-planning decisions? Who is involved, and when are they involved?”
Or this: “GE sold its tax department to PricewaterhouseCoopers. What are the implications?”

And: “How can we contribute to the corporate tax-reform debate? As financial accountants, we’re familiar with income-based taxes. But on VAT, destination-based cash flow tax and more, we’ll need to study up.”

“How will GAAP accounting rules evolve, and how will this affect firms’ responses to any new tax system?”

“And what happened to the territorial vs. worldwide tax-reform debate?”

Shevlin offered his audience much to mull over. He then closed with a provocative question:

“Who believes it is OK to publish studies using hacked and then leaked data?”

The response: 42 percent replied “yes,” and the same number said that “it depends.”

Shevlin then suggested that everyone reconvene for further discussion over refreshment.

A reception at the Dubose House followed.
UNC Kenan-Flagler established the UNC Tax Center in 2001 to build bridges between tax scholars, policymakers and practitioners who share an interest in evidence-based tax research. Although interested in similar issues, the three groups typically have limited contact with each other. The UNC Tax Center has increased its interactions through such events as its annual tax symposium in Chapel Hill as well as joint conferences with the Brookings Institution, American Tax Policy Institute, National Bureau of Economics Research and National Tax Association. With its roots in the accounting area of a business school, the UNC Tax Center is designed to bring together accountants, economists, and attorneys, from academia, industry, and the government, who share a common interest in tax research.

Educating the next generation of tax professors is another goal of the UNC Tax Center. Accounting doctoral programs are producing too few graduates with research interests in taxation. The primary reason for the shortage is that only a handful of universities provide a PhD-level tax seminar for their students. Without exposure to tax research, doctoral students write dissertations in other areas of accounting (predominantly financial accounting) and enter the job market without preparation or interest in taxation. This is true even for those who had tax experience in public accounting or private industry before entering their doctoral program. To address the lack of PhD-level education in tax research, the UNC Tax Center holds an annual tax doctoral seminar each year for approximately 10-15 students from leading PhD programs.

The center is open to new ventures that involve important business issues in which taxes play a critical role. Private donations and corporate sponsors provide the center’s revenues. For inquiries about the UNC Tax Center, please contact Professor Ed Maydew at Edward_Maydew@unc.edu.
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