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The Effects of Increased Book-Tax Difference Tax Return Disclosures on Firm Valuation and Behavior

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ABSTRACT

We use event study techniques to gauge market participants' *ex ante* perceptions regarding the benefits and burdens of the Schedule M-3, and structural break analysis to investigate whether managers make *ex ante* or *ex post* changes in book-tax differences as a result of this mandatory change in federal tax return disclosures. We find evidence suggesting investors believe *ex ante* the substantial increase in book-tax difference disclosures will increase future tax burdens and/or tax-compliance costs. Investors also appear to believe the M-3 may be more costly for firms having the types of book-tax differences that attract additional IRS scrutiny (e.g., discretionary permanent differences) and when such firms are weakly monitored. Further, we find evidence of a substantial reduction in our proxy for discretionary permanent book-tax differences prior and subsequent to the implementation of the M-3 and other regulatory events, suggesting both *ex ante* and *ex post* real effects on firm behavior.

JEL Classifications: G14; H25; H26; M48.

Data Availability: Data used in this study are available from public sources identified in the paper.

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The Effects of Increased Book-Tax Difference Tax Return Disclosures on Firm Valuation and Behavior. Journal of American Taxation Association, Volume 33, No. 2, pp. 35-65. 48 Pages Posted: 29 Jan 2010 Last revised: 4 Nov 2011. We find evidence suggesting investors believe ex ante the substantial increase in book-tax difference disclosures will increase future tax burdens and/or tax compliance costs. Investors also appear to believe the M-3 may be more costly for firms having the types of book-tax differences that attract additional IRS scrutiny (e.g., discretionary permanent differences) and when such firms are weakly monitored. Keywords: corporate tax, tax avoidance, book-tax differences, event study, policy regime. JEL Classification: G14, H25, H26, M48. Another type of tax is a labor tax. This increases the price of labor to firms (because they have to pay the wage AND the tax) which will decrease employment and wages. Tags # supply and demand # tax. Share This This article describes the difference between total, marginal, and average utility and gives an example of how to find each of them give Archive. Archive September (1) August (20) July (4) June (6) October (1) September (2) August (4) June (4) February (1) December (1) July (7) June (5) February (1) September (2) August (3) June (3) May (18) April (18) March (24) February (22) January (12) December (8) November (9) October (18) September (26) August (13) July (17) June (29) May (13) September (1) August (4). How do taxes affect equilibrium prices and the gains from trade? Consider first a fixed, per-unit tax such as a 20-cent tax on gasoline. The tax could either be imposed on the buyer or the supplier. Such differences will be ignored in this book. Second, if the tax is percentage tax, it won't matter to the outcome; but the calculations are more complicated because a 10% tax on the seller at a seller's price of $1.80 is different from a 10% tax on a buyer's price of $2.00. In both cases, the effect of the tax on the supply-demand equilibrium is to shift the quantity toward a point where the before-tax demand minus the before-tax supply is the amount of the tax. This is illustrated in Figure 5.3 "Effect of a tax on equilibrium". The quantity traded before a tax was imposed was qB*. Identify book-tax differences that increase taxable income and Line 1-5 reporting requirements. Identify book-tax differences that reduce taxable income. Explain how to reconcile retained earnings on Schedule M-2. Ms. Hennig has published numerous tax articles in many major tax journals, is an author or co-author of numerous tax texts, including Practical Guide to Schedule M-3 Compliance (Second Edition) and Contemporary Tax Practice: Research, Planning and Strategies (Second Edition), both published by CCH. She has written and taught numerous continuing professional education courses. She was a faculty intern with local and national CPA firms, and conducted research for the IRS Statistics of Income Division and the District Office of Research and Analysis. The Effects of Increased Book-Tax Difference Tax Return Disclosures on Firm Valuation and Behavior. Article. Dec 2010. We use Compustat and tax return data to describe trends from 1991-1998 in differences between book and tax measures of income and balance sheet amounts. Our primary findings confirm that book-tax income differences are growing throughout the 1990s. Extending prior work, we partition the sample to describe the differences by industry, global character and profitability. Secondly, we compare Compustat financial statement assets and liabilities to the book balance sheet reported on the tax return and find that the tax return amounts exceed the financial statement amounts in the aggregate.