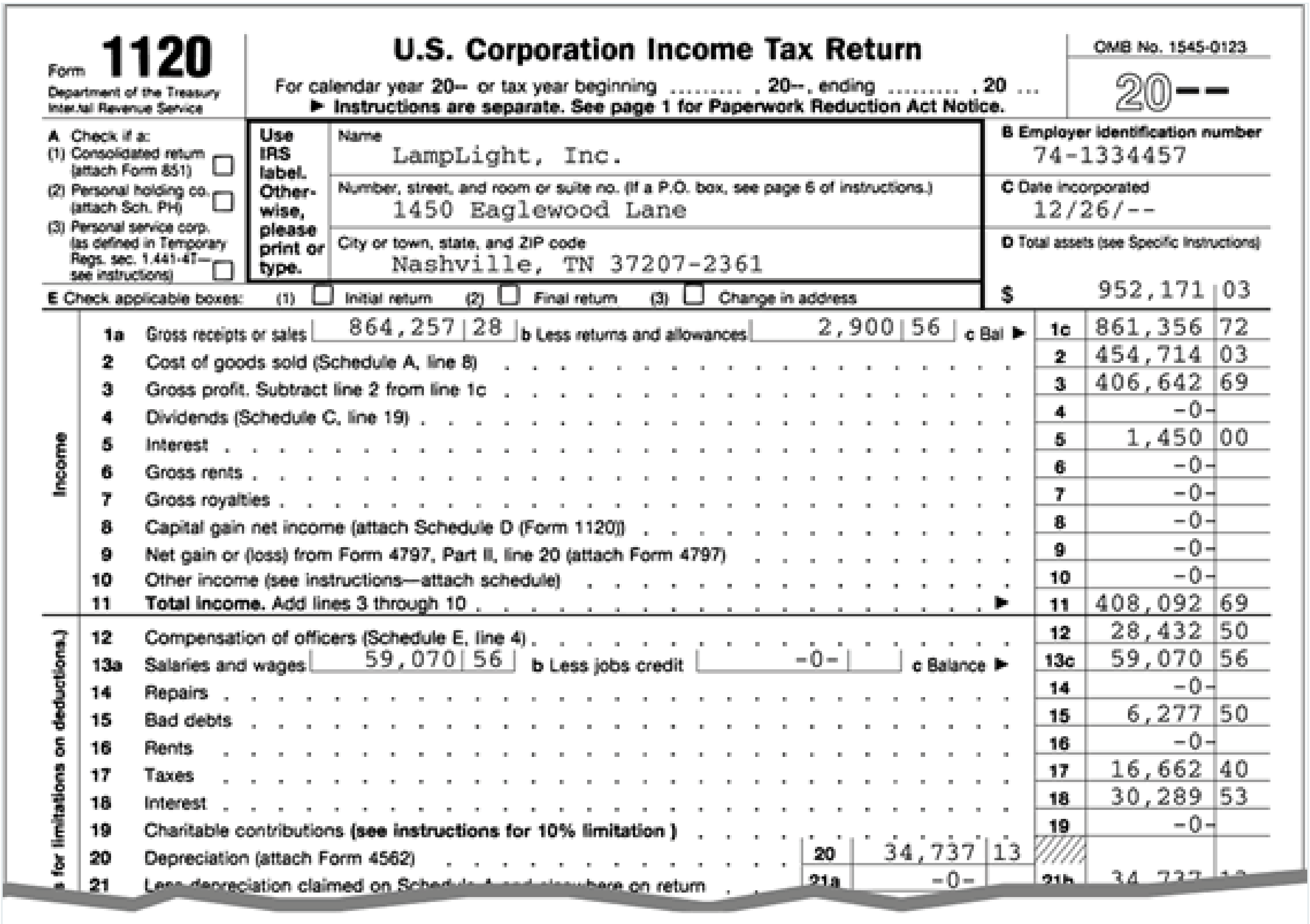
that, despite the existence of a 35% statutory levy, federal tax rates differ considerably from one firm to another, as corporations navigate in myriad ways the ...

Dec. 18, 2017



Form **1120**
Department of the Treasury
Internal Revenue Service

U.S. Corporation Income Tax Return
For calendar year 20-- or tax year beginning .... , 20--, ending .... , 20 ...
► Instructions are separate. See page 1 for Paperwork Reduction Act Notice.

OMB No. 1545-0123
20--

A Check if a:
(1) Consolidated return (attach Form 851) ☐
(2) Personal holding co. (attach Sch. PH) ☐
(3) Personal service corp. (as defined in Temporary Regs. sec. 1.441-4T—see instructions) ☐

Use IRS label. Otherwise, please print or type.
Name: LampLight, Inc.
Number, street, and room or suite no. (If a P.O. box, see page 6 of instructions.): 1450 Eaglewood Lane
City or town, state, and ZIP code: Nashville, TN 37207-2361

B Employer identification number: 74-1334457
C Date incorporated: 12/26/--
D Total assets (see Specific Instructions): $ 952,171 03

E Check applicable boxes: (1) ☐ Initial return (2) ☐ Final return (3) ☐ Change in address

Income	1a	Gross receipts or sales 864,257 28 b Less returns and allowances 2,900 56 c Bal ►	1c 861,356 72
	2	Cost of goods sold (Schedule A, line 8)	2 454,714 03
	3	Gross profit. Subtract line 2 from line 1c	3 406,642 69
	4	Dividends (Schedule C, line 19)	4 -0-
	5	Interest	5 1,450 00
	6	Gross rents	6 -0-
	7	Gross royalties	7 -0-
	8	Capital gain net income (attach Schedule D (Form 1120))	8 -0-
	9	Net gain or (loss) from Form 4797, Part II, line 20 (attach Form 4797)	9 -0-
	10	Other income (see instructions—attach schedule)	10 -0-
	11	**Total income.** Add lines 3 through 10 ►	11 408,092 69
...s for limitations on deductions.)	12	Compensation of officers (Schedule E, line 4)	12 28,432 50
	13a	Salaries and wages 59,070 56 b Less jobs credit -0- c Balance ►	13c 59,070 56
	14	Repairs	14 -0-
	15	Bad debts	15 6,277 50
	16	Rents	16 -0-
	17	Taxes	17 16,662 40
	18	Interest	18 30,289 53
	19	Charitable contributions **(see instructions for 10% limitation)**	19 -0-
	20	Depreciation (attach Form 4562) 20 34,737 13	
	21	Less depreciation claimed on Schedule A and elsewhere on return 21a -0-	21b 34,737 13

What to make of the fact that proposals for federal tax reform, highly touted though they are, have attracted as little as 25% approval in recent polls? Perhaps it is because their most salient feature is a sharp cut in the U.S. corporate tax rate, even as a large swath of the public believes too many companies do not pay their fair share of taxes.

Past research has offered mixed evidence on whether they do or do not: it has found

of affairs is fairly recent, dating from about the passage of the Sarbanes-Oxley law (SOX).

Enacted in 2002 in response to jolting financial scandals at Enron, WorldCom and other major companies, SOX instituted a considerable tightening of federal corporate regulation. In the words of the study, by James A. Chyz of the University of Tennessee and Fabio B. Gaertner of the University of Wisconsin–Madison, the "post-SOX period coincided with increased IRS scrutiny of aggressive tax positions and legislation that led to increased regulatory scrutiny over the tax function. Consistent with increased pressures to be less tax-aggressive, we find that being in the lowest quintile of benchmarked tax rates [became] influential in predicting CEO turnover… This is consistent with boards responding to…increase[d] political and reputational costs surrounding tax avoidance."

With SOX and various regulatory and judicial initiatives having raised public sensitivity to companies' tax-aggressiveness, the professors surmise that the sharply reduced statutory rate currently proposed in Washington would likely inhibit it still further. They reason that, if tax-aggressiveness wreaks damage on companies' standings when the statutory rate is 35%, as their study suggests, it would likely cause even more reputational and political damage at 21%, since aggressive tax maneuverings would be perceived as less justifiable.

The study's findings are based on an analysis of the relationship between year-by-year tax rates of about 5,100 public companies during a 14-year period and the incidence of forced turnover of those firms' CEOs. For every year the researchers 1) calculated each firm's three-year tax rate (the aggregate tax for that year and the two previous years divided by aggregate three-year income) and 2) computed a benchmarked measure of that rate (how it compared with the rates of firms of about the same size in the same industry). Finally, they investigated whether there was a significant relationship between those benchmarked measures and concomitant

sample had 1,459 forced CEO turnovers.

Controlling for a whole slew of factors that can affect such forced turnovers, the researchers unsurprisingly find CEOs to be at increased risk when their company tax rates are high. "Because taxes represent a wealth transfer from shareholders to government authorities, CEOs are more likely to be terminated when their firms pay high taxes," the professors write, noting also that "boards not only focus on effective tax rates but also regularly compare these rates to those of their peers." Indeed, the study finds that firms in the highest tax quintile (highest taxed relative to peers) have forced turnover rates about 20% higher than the average for the three middle quintiles. The general pattern prevails during pre-SOX and post-SOX years alike.

Where the study breaks important new ground is in showing increased likelihood of CEO turnover when company tax rates are low. Thus, firms in the lowest tax quintile are, on average, about 15% more likely to have forced CEO turnovers than companies in the middle three quintiles. Yet, if the analysis is restricted to the years before SOX, there is no significant difference in forced turnovers; in contrast, the authors write, "the effect is positive and significant in the post-SOX period consistent with the predicted effect of regulatory changes and an increased scrutiny on the corporate tax function."

To test the robustness of their findings, Chyz and Gaertner carry out analyses of the relationship between company taxes and unforced CEO turnovers (such as through death, illness, and planned retirement). They find no statistical relationship between the two, reinforcing the conclusion that both high and low company taxes do, indeed, evoke board disapproval.

Finally, they investigate changes in tax avoidance as new CEOs take the reins in firms that had relatively high or low tax rates just prior to the predecessor's forced departure. They find that replacement CEOs move rates closer to those of their peers.

The study, entitled “Can Paying ‘Too Much’ or ‘Too Little’ Tax Contribute to Forced