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A year ago a paper in the **American Accounting Association** journal ***The Accounting Review*** featured a surprising finding on the perennially contentious issue of corporate taxation: CEOs, it revealed, are at increased risk of losing their jobs not only if their companies pay much more than their peers in taxes but also if they pay much less. The authors credited legislative, regulatory, and judicial initiatives with raising public sensitivity to companies' tax-aggressiveness, and surmised that the sharply reduced corporate-tax rates of the newly enacted Tax Cuts and Jobs Act would likely inhibit aggressive tax planning further.

Now a study in the current issue of the journal may very well reinforce that inhibition. The research finds that the complicated ploys that often characterize aggressive tax-planning sow uncertainty and even confusion not just about companies' taxes but about the basics of their operations and finances, with resultant negative outcomes.

The authors, Jennifer Blouin and Wayne Guay of the Wharton School of the University of Pennsylvania and Karthik Balakrishnan of the London Business School, find, in their words, that "tax-aggressive firms have lower corporate transparency" than less aggressive peers. And poor transparency, they write, "has been shown to impose an array of costs on firms, such as lowering liquidity and trading volume, raising both the debt and equity costs of capital, exacerbating governance problems, and reducing investment efficiency."

What is the evidence that tax-aggressiveness diminishes transparency? "Specifically," the professors write, "we find that firms with unusually low tax liabilities within their industry/size grouping have larger analysts' forecast errors,

for a firm whose tax avoidance is at the group's median.

Comments Prof. Blouin, "Aggressive tax avoidance often involves a considerable increase in companies' financial and organizational complexity, which can make it exceedingly difficult for outsiders to assess the firms' overall finances. Thus the importance for top management of those companies to go an extra mile in providing as much clarity as possible about their structures and operations."

And, indeed tax-aggressive managers often do take steps in that direction, according to the paper, despite the possibility that "transparently disclos[ing] the organizational details related to certain tax strategies …would provide a roadmap for an audit by the tax authorities. " This risk notwithstanding, the researchers find that, compared to less aggressive peers, "tax-aggressive firms, on average, provide more detailed management discussion and analysis [in their annual reports] as well as hold conference calls that are lengthier." In sum, it appears that "managers recognize the transparency issues that surround aggressive tax strategies and on average provide supplemental disclosure that may alleviate some of the difficulties faced by investors that analyze these firms."

As to how effective these extra efforts are, the evidence is mixed. Tax-aggressive companies whose conference calls are above average in length generally see significantly more accuracy in analyst forecasting than do similarly aggressive firms whose conference calls are shorter than average. In contrast, longer-than-average expositions by tax-aggressive firms in the "management discussion and analysis" sections of annual reports submitted to the SEC do not seem to enhance analyst forecasting any more than shorter ones do.

Comments Prof. Blouin, "Message for tax-aggressive managers: Don't constrict your conference calls."

Given the opacity it occasions, is aggressive tax-planning undertaken by corporate

planning.

The study's findings are based on 40,193 firm-years of data from U.S.-based public companies over a 14-year period. Tax aggressiveness was measured on the basis of the amount of taxes a company owed or paid compared to the average for firms of similar size in the same industry. Firms carried out operations in a mean of about three locations classed as tax havens, although more than half operated in none.

At several points in their paper, the authors take note of earlier accounting research which suggests that, given the infrequency of regulatory audits and penalties, the incidence of aggressive tax planning, with the potential it offers for hefty savings, is surprisingly low. "Our findings," the professors write in conclusion, "may help explain why some firms appear to engage in more conservative tax planning than would otherwise be optimal from a tax-savings perspective."

The study, entitled "Tax Aggressiveness and Corporate Transparency," is in the January issue of ***The Accounting Review,*** a peer-reviewed journal published six times yearly by the American Accounting Association, a worldwide organization devoted to excellence in accounting education, research, and practice. Other journals published by the AAA and its specialty sections include *Auditing: A Journal of Practice and Theory, Accounting Horizons, Issues in Accounting Education, Behavioral Research in Accounting, Journal of Management Accounting Research, Journal of Information Systems, Journal of Financial Reporting, The Journal of the American Taxation Association*, and *Journal of Forensic Accounting Research*.

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