ADVANCES IN TAXATION

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ADVANCES IN TAXATION

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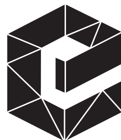

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Since 2011, Dr. John Hasseldine has been a Professor of Accounting and Taxation in the Peter T. Paul College of Business and Economics at the University of New Hampshire. Previously he was a Chair and Head of the Accounting and Finance Department at the University of Nottingham Business School. John, a Kiwi, qualified as a chartered accountant in New Zealand and is a Fellow of the Association of Chartered Certified Accountants (FCCA) based in London.

John has served on three government committees in the UK and was a contributor to the Mirrlees Review of the UK tax system conducted by the Institute of Fiscal Studies. He has been an external expert at the International Monetary Fund, a visiting professor at the University of New South Wales, Sydney, and a keynote speaker at several international tax conferences. He travels widely, speaking at national and global conferences, including one on VAT organized by the OECD, World Bank, and IMF, and a conference on dealing with the national tax gap held at the US Library of Congress in Washington DC. He is a co-author of *Comparative Taxation: Why Tax Systems Differ* (Fiscal Publications, 2017), and an International Fellow at the University of Exeter Tax Administration Research Centre.

John received his PhD in Accounting in 1997 from the Kelley School of Business at Indiana University-Bloomington, and his Master of Commerce in Accounting and Bachelor of Commerce from the University of Canterbury, Christchurch, New Zealand.

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INTRODUCTION

In Volume 28, there are seven chapters. In the lead chapter, Cass Hausserman, Susan Jurney, and Tim Rupert experimentally investigate how the level of government (either federal or state) and whether funding that is being allocated to enforcement or service efforts in a revenue agency affect trust in the revenue agency. They find that the two independent variables interact, such that trust in the state agency is not affected by whether the proposed funding would be allocated to service or enforcement efforts. But, at the federal level (the Internal Revenue Service), trust in the agency is significantly higher when the proposed funding is to hire additional service employees as opposed to hiring additional enforcement employees. Additionally, they find that the level of government moderates the mediating effect of trust in the agency on the relation between the use of funds and support for the funding.

Next, Hageman and Hausserman examine taxpayers' knowledge of tax incentives for charitable giving, and also the consequences of this knowledge on charitable giving decisions. Their first study establishes a baseline understanding of how making a charitable contribution affects taxpayers. In a second study, they experimentally manipulate the knowledge of taxpayers by providing an educational intervention; while measuring if, and how much, is donated in a hypothetical scenario. The first study indicates fewer than half of participants understand the basic principles of how charitable donations affect tax liability. Their second study reveals that a short educational video was extremely effective at improving taxpayers' understanding and helping them accurately estimate the tax benefit associated with charitable giving. Although they show that participants who received this educational intervention and accurately estimated the tax benefits in turn decreased their charitable giving suggesting taxpayers may be overestimating the benefit they receive from charitable giving, resulting in giving more than intended.

In the third chapter, Roberts and Roberts examine how public attitudes and judgments about tax fairness reflect distributive justice rules about proportionality/contributions, needs, and equality; fairness issues that influence voluntary tax compliance. The authors show that, viewed in combination, two distributive justice rules explain the tax fairness judgments of 89 percent of their sample and indicate surprising general agreement about what constitutes a fair share of income taxes that should be paid by US citizens from the 5th percentile to the 95th percentile of the income distribution. Roberts and Roberts conclude the joint application of the Needs rule of distributive justice theory and the

Contributions rule of equity theory indicates how seemingly competing, partisan distributive justice concerns can inform our understanding of social attitudes about tax fairness across income classes.

The next two chapters are related contributions. In the fourth chapter, Furner, Morrow, and Ricketts analyze how the designation of foreign earnings as "permanently reinvested" outside the US (PRE) is related to subsequent firm growth and market returns. They note that prior research suggests that firms that hold excess cash in foreign markets to avoid the US corporate income tax experience lower growth, since such "trapped" cash is inefficiently invested. However, foreign earnings can be inefficiently invested in forms other than cash. The authors hypothesize and find that as the ratio of PRE to total assets increases, firms' growth rates decline. Their results suggest that trapped earnings, and not just trapped cash, are associated with lower growth. Because PRE has also been associated with earnings management in the literature, they also analyze the association between the use of PRE to meet or beat earnings targets and subsequent growth, observing a significant and persistent negative association.

Next, Furner, Walker, and Durrant examine whether the equity incentives of management are associated with an increased use of PRE. The authors predict and find strong evidence that the changes in PRE are positively associated with the portion of top managers' compensation that is tied to stock performance. In addition, they find this relationship to be strongest for firms that met or beat forecasts, but only with the use of PRE to inflate income, suggesting that equity compensation incentives managers to opportunistically use PRE, especially to meet analyst forecasts.

Billings, Musazi, Volz, and Jones study the effectiveness of states' research and development (R&D, used to represent creditable research expenses) tax credits. Prior studies consider the influence of state R&D tax credits by applying the statutory income tax and R&D credit tax rates. The authors reexamine the effect of a state's entire tax burden instead of the statutory tax rates in moderating the effectiveness of a state's R&D tax credit incentives. After controlling for several nontax factors in a regression analysis during the 2010–2013 period in 50 states, they find that statewide private-sector R&D spending is a positive function of the R&D tax credit and this effect increases with the overall level of the state tax burden. They attribute this finding to the fact that high tax burdens increase the present value of the R&D tax credits

Lastly, Lee and Nikitkov note that the rapid rise of electronic commerce has exacerbated consumer evasion as cross-border selling over the Internet has enabled foreign businesses to sell and avoid collection and remittance of tax on their sales. The authors search for the solution to this problem through the analysis of three tax collection models: Vendor, Financial institution, and Internet Service Provider (ISP). In addition, they examine administrative tools that enable more effective collection as well as inducements for taxpayers or collection agents to carry out their responsibility. Lee and Nikitkov conclude that

the ISP collection model is not feasible at this time. On the other hand, they find that the vendor model, when supplemented with appropriate administrative tools and inducements, as well as the financial institution model, both represent viable options for policymakers to consider.

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