

# ADVANCES IN TAXATION

# ADVANCES IN TAXATION

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ADVANCES IN TAXATION VOLUME 29

# ADVANCES IN TAXATION

EDITED BY

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INVESTOR IN PEOPLE

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## ABOUT THE EDITOR

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 United Kingdom and was a contributor to the Mirrlees Review of the UK tax system conducted by the Institute for 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

## *Tax Research in Challenging Times*

Taxpayers, tax systems, and tax researchers have been seriously challenged by the COVID pandemic. Yet, in the difficult times posed by the pandemic, it has been heartening to continue to see steady submissions to *Advances in Taxation*. I remain grateful to the editorial board for their continued support and am also pleased to acknowledge the ten ad hoc expert reviewers listed below for their valuable and timely reviewing activity during 2020–2021.

William D. Brink (Miami University)  
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Sharon Smulders (South African Institute of Chartered Accountants)

In Volume 29, there are seven chapters. In the lead chapter, Hannah Smith responds to a call in prior literature for more research on determinants of cross-sectional variation in implicit taxes and addresses the question of whether market competition influences a firm's implicit tax burden. Implicit taxes are defined as the pretax rate of return disadvantage earned on an investment that is taxed preferentially. The study relaxes the assumption of perfect market competition in the Scholes and Wolfson (1992) framework and finds that firms in industries with lower competition bear lower implicit taxes and firms in industries with higher competition bear higher implicit taxes. These findings are consistent with monopoly and oligopoly behavior predictions where firms in less competitive industries have greater price setting power and can retain more of their tax savings while market forces in competitive industries force companies to pass along any savings to customers.

Next, Kimberly S. Krieg, in Chapter 2, extends prior literature on the extent to which firms repatriate indefinitely reinvested foreign earnings. Noting that little is known regarding the repatriation of indefinitely reinvested foreign earnings outside of the temporary tax incentive provided by the 2004 American Jobs Creation Act (AJCA), the study provides evidence on such repatriations by identifying a sample of 67 firms from 2009 to 2015 that reverse the indefinite reinvestment designation of foreign earnings and announce a repatriation of

foreign cash. In contrast to repatriations following the 2004 AJCA, the study does not find evidence that a single economic factor, such as share repurchases, motivates the repatriation. Although, in general, there is no evidence of a significant market response to the announcements, the results show a negative market reaction to announcements by low foreign ETR firms without tax offsets, suggesting that the tax may not be fully priced.

A set of three international contributions relate to tax compliance. In Chapter 3, Schoeman, Evans, and du Preez address the impact of a VAT rate change on the tax compliance behavior of small business entities. In order to address the impact of VAT rate changes on tax compliance behavior, an online field experiment was conducted and designed to identify the implications of rate changes of various directions and magnitude. The results indicate that small business entities are inclined to reduce the VAT liability when there is an increase in the VAT rate, and do so by overstating purchases rather than by underdeclaring sales. The study finds that the greater the magnitude of the VAT rate increase, the greater the level of noncompliance, yet in contrast, no significant relationships were identified between a decrease in the VAT rate and tax compliance.

In Chapter 4, Rashid et al. examine the effects of governance quality and religiosity on tax evasion in OECD countries. Using data gathered from 36 OECD countries covering the period of 2002–2015, the study reports a negative impact of governance quality and religiosity on tax evasion, implying the higher level of governance quality and religiosity, and the lower level of tax evasion across the countries. Among the governance qualities, the higher the government effectiveness, the rule of law, and regulatory quality, the lower the level of tax evasion as they have a negatively significant impact on tax evasion. On the contrary, the positive impact of the voice of accountability and political stability on tax evasion implies that by increasing these two factors, tax evasion also increases.

Next, a team of researchers from Vietnam, Nguyen et al., in Chapter 5, note there is some evidence suggesting that tax evasion in Vietnam has increased over time. Their study examines the effects of taxpayer emotion, trust, and perception on tax compliance in Vietnam. A simple, theoretical model in which emotion and trust affect tax compliance both directly and indirectly through perception as a mediating variable is constructed, with the results showing that taxpayers' perceptions positively and significantly influence tax compliance, whereas emotion and trust exert significant and positive effects on tax compliance both directly and indirectly (via perception). The authors conclude that voluntary tax compliance in Vietnam may be improved through better tax administration services, more fiscal policy accountability, and proactive tax socialization.

In Chapter 6, Dowis, Englebrecht, and Wiggins note that married couples in the United States receive tax benefits such as favorable tax rates, higher exclusions, higher phaseouts, and combined deductions. However, joint and several tax liability is a major issue facing these taxpayers. The term innocent spouse relief, within the Internal Revenue Code, is a direct result of one spouse failing to satisfy the joint liability for the married couple. Since both individuals are jointly and severally liable for the combined liability, the innocent spouse may be

responsible for the liability in whole or in part. The authors examine this highly litigated arena of innocent spouse relief, and drawing on IRS guidance, they outline the factors useful in determining whether innocent spouse relief should be granted. Additionally, their study creates a predictive model containing only three significant factors (economic hardship, knowledge/reason, significant benefit) capable of predicting with approximately 89% accuracy. These same three variables are significant using multiple regression.

Lastly, in Chapter 7, Killey and Walton in a pedagogical contribution note that when presented with technical topics, undergraduate accounting students can be overwhelmed by information transmitted in a pure lecture format. Further, a lecture format does not allow for much student interaction or enable learning of higher-level skills that could be useful if the underlying content is changed by future regulations. Killey and Walton suggest that position paper instructional tools could be a beneficial alternative. A position paper can bring out students' soft skills of communication and critical thinking by making them take a stand, which is key for tax professionals and accountants generally. Since class meeting time is limited and face-to-face interactions are not always possible, a written position paper provides an alternative that can benefit students' understanding of technical information.

John Hasseldine  
Editor, *Advances in Taxation*