Tax Avoidance Revisited: An Exploratory Analysis of Contextual Influences on Tax Management for German Multinational Firms

1 RESEARCH FORMULATION

1. THREE MAIN FINDINGS

2. LITERATURE

- Period: 1980s/1990s
  - Scientific results/advancements
  - Studies inconsistently link effective tax rates to firm characteristics such as leverage, capital intensity, size, profitabity, etc.
  - Question in focus: Are tax systems neutral?

- Period: 2000s
  - Amendments of different measures of tax avoidance (not only ETRs, but BTDs, shelter cases)
  - Hypotheses tested for other countries (e.g., Australia, China, European countries)
  - Extension of list of determinants of tax avoidance (e.g., lobbying, foreign operations)
  - "Human side" of tax avoidance: effect of specific stakeholders, e.g., tax managers, consultants, executive with mixed findings

3. RESEARCH GAP

- 2 questions in focus of research projects
  - How can tax avoidance be measured?
  - What explains differences in tax avoidance behavior between firms?

- Steps on both questions combined
  - Inconsistencies in findings
  - Unresolved puzzles like "executive effects" (Dyrgeng et al. 2010)

4. RESEARCH OBJECTIVE

- Goal of this qualitative research project is to gain holistic insights into what shapes corporate tax management
- This includes identifying a link to how companies choose tax avoidance behavior
- Given the state of current research and our chosen study methodology, our research is innovative in two ways:
  1. Insights for German companies, which exhibit a lot of variation in traditional measures of tax avoidance
  2. Qualitative approach better suited to uncover compelling explanations for the motivation to avoid taxes and the special role of different stakeholders in the process

2 DATA AND METHODOLOGY

1. DATA AND METHODOLOGY

- 19 1-hour long interviews with tax experts in two main phases (Apr – Jul 2013 and Oct – Dec 2013)
- Theoretical sampling as purposeful, non-random (and often evolving) case selection, perceived most valuable to learn more for his theory development (Onwuegbuzie and Leech, 2007)
- Preparation of an unstructured interview guide, which was adapted after the first phase

2. FAMILY

- Consultants
  - Big Four
  - Top-tier Law Firm
  - Renowned German Consultancies
- Tax managers
  - DAX
  - Other German Listed Companies
- Authorities
  - Tax Audit Department

3. TOTAL

- 19

3 RESULTS

1. CONTEXTUAL INFLUENCING FACTORS

- External context
  - Regulation
  - Value

- Company context
  - Business model (size, footprint)
  - Financial position
  - Ownership

- Personal context
  - Values
  - Capabilities

2. TAX MANAGEMENT PROCESS

- Activities in the process
  - Creation
  - Governance

- Methods of tax learning
  - Real consequences and their interpretation

3. OUTCOMES OF TAX MANAGEMENT

- KPIs and their interpretation

4 SUMMARY AND OUTLOOK

- Three main findings: 1.) numerous influential factors are not yet represented in traditional quantitative approaches, 2.) Targets of tax departments are diverse and probably explain some variation in tax management aggressiveness; 3.) these insights essentially relativize the term tax avoidance to the attainment of individual aspiration levels against actual opportunities for tax planning within regulatory/business context
- Contribution: transparency about dynamics of corporate tax management and their determinants, as opposed to a "black box" approach
- Future research: Power and organizational determinants, more individualized KPIs of tax management

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