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Book-Tax Relationships, Tax Avoidance, and IPO

企業上市 (IPO) 對財稅差異與避稅行為的影響:中國之實證

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Current Literature

- Accounting research on IPO focuses on earnings management pre-IPO.
- Not much attention on tax reporting issues during the IPO process.

Research Objective

✓ How the change in ownership from pre- to post- IPO affects the nature, magnitude, and timing of corporate tax avoidance.

Concepts

✓ The Book-Tax Tradeoff Theory, Book-Tax Difference and Tax Audits.
✓ Accrual-based (DAcc) versus Real Activities Earnings Management (RAM).
✓ Book-Tax Difference (BTD) versus Book-Tax Conforming (BTC) Tax Avoidance.

Empirical Results

Pre-IPO (Private Ownership)	Post-IPO (Public Ownership)	Compliance Trend
✓ More aggressive financial reporting via DAcc will be accompanied by more aggressive BTD tax avoidance.	✓ More aggressive financial reporting via DAcc will constrain BTD tax avoidance.	✓ BTD tax avoidance <u>declines</u>, from the pre- to post- IPO period.
✓ More aggressive financial reporting via RAM will constrain BTC tax avoidance.	✓ More RAM Reversals will be accompanied by more BTC tax avoidance.	✓ BTC tax avoidance <u>increases</u> from the pre- to post- IPO period.

Book Reporting Manipulations:
DAcc – Lengthen the useful life of fixed assets; Reduce provision for bad debt.
RAM – Reduce R&D and Training expenses. Provide easy credit terms to boost sales.

Tax Reporting Manipulations:
BTD – Accelerated Depreciation for tax, Straight-Line Depreciation for Book; Claiming entertainment and bad debt expenses exceeding legal limits for tax reporting.
BTC – Understate sales, Overstate cost of sales for tax reporting.