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COMMENTARY

Tax Research in Accounting: A Look Forward

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ABSTRACT: To commemorate the 100th anniversary of *The Accounting Review*, I was asked to provide my forecast of the future of tax research in accounting. In sum, my opinion is that the future is bright and full of opportunities for tax scholars. Governments are altering corporate income tax laws in fundamental ways and questions about how these changes affect investment, investment location, income shifting, corporate capital structure, and financial reporting will be very important aspects to study. New and newly used taxes, such as tariffs and endowment taxes, will allow for novel paths of inquiry and accountants should contribute. The use of AI by tax authorities and taxpayers could alter both tax enforcement and tax planning. The increasing access to administrative data, the use of field experiments and field studies, and employing survey methods to obtain data should expand the settings available to study and improve identification.

I. INTRODUCTION

It is an honor to participate in the 100th anniversary event for *The Accounting Review* (*TAR*). I have benefited a great deal from the American Accounting Association over my career. In addition, some of my most highly cited papers have been published in *The Accounting Review* and I appreciate the editors and referees of the journal taking a chance on my papers. I have been asked to write a brief history of the tax accounting literature and more importantly opine on some topics for future scholars to address.

In many respects, the future is very bright for tax research. Governments apparently have an insatiable appetite for spending, and thus are, and will continue to be, in need of vast amounts revenue. The U.S. national debt is approaching $40 trillion at a rapid pace and our annual interest costs are currently greater than what we spend on defense. The Congressional Budget Office predicts that Federal debt held by the public will increase from an already very high ~120 percent of gross domestic product (GDP) in 2024 to over a staggering 155 percent of GDP by 2055.[1] At some point, we will need to raise tax revenue to finance more of our spending and (hopefully) start to pay down some of our debt (and cut spending, most notably by reforming Social Security). Clearly taxes will be important as our central source of revenue. This also leads to the conclusion that research on taxation and the economic effects of taxation will be important. As I said, the future is bright for tax researchers, even though it is not generally fiscally bright for our descendants.

However, one could ask what type of taxes will be important in the future? This is important to consider on the 100th anniversary of *The Accounting Review* and in a paper and presentation about the future of tax research for accountants because generally, we think accountants have a comparative advantage in studying *corporate income* taxes.

My thinking reflected in this essay is certainly influenced by my coauthors, mentors, and students over the years (from whom I have also learned a lot). I appreciate comments on this paper from Shane Heitzman, Jeff Hoopes, Ed Maydew, Michelle Nessa, Terry Shevlin, and Nemit Shroff. This essay is based on, and is an extension of, my talk given as part of a plenary panel session celebrating the 100th anniversary of *The Accounting Review* at the 2025 American Accounting Association (AAA) Annual Meeting. I thank the AAA for inviting me to participate in the panel, and I am grateful for the other panelists—Eva Labro, Mark Nelson, and Richard Sloan—and our moderator, Mark DeFond, from whom I have learned a great deal during my career. I have no financial conflicts of interest.

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[1] https://www.cbo.gov/publication/61270#:~:text=other%20policy%20areas.-,The%20Federal%20Budget,act%20are%20scheduled%20to%20expire

For example, Shackelford and Shevlin (2001, 60) state "Accountants have a comparative advantage in addressing these questions of profit and cost allocation" and most would agree that accountants have a comparative advantage in measuring income. However, corporate statutory income tax rates have been declining over time (discussed in the section "Current Context of the Corporate Income Tax") and other types of taxes are rising in significance. For example, the U.S. is increasing its use of tariffs and the rest of the world has been diversifying revenue sources for years (e.g., value added taxes, digital services taxes). Thus, one may wonder whether accounting researchers in the tax area have a place. I argue that the corporate income tax will likely remain, new taxes will be added as supplements, and there is plenty of room for scholars in law, economics, finance, *and* accounting. Indeed, I believe accounting scholars can and should make significant contributions to the literature going forward with respect to a wider range of types of taxes.

In terms of the direction(s) research should go in the future, the true answer is that the field will decide that, not me. There are probably some young scholars working on studies right now that will start new research streams and chart our future research path. However, I will provide my opinion; these are just my thoughts, many of you reading this might likely have better ideas.

II. REVIEW OF THE HISTORY OF TAX RESEARCH IN ACCOUNTING

The history of tax research in accounting is covered in other reviews so I will be very brief in this paper.[2] Economics-based research on taxation certainly has a longer history in finance and economics than in accounting. Most of the tax research in accounting prior to the 1980s was either legal or policy papers, papers about teaching tax, and a few describing the differences between financial accounting and taxation (e.g., depreciation). There were also some studies in the 1970s about inventory costing (e.g., Ball 1972; Dupoch and Ronen 1973). Thus, although *The Accounting Review* has been around since 1926, many agree that what was a transformational time for, maybe even the birth of, economics-based tax research in accounting, was the 1980s with the work of Myron Scholes, Mark Wolfson, Peter Wilson, Terry Shevlin, and others. These authors developed what became known as the Scholes-Wolfson (SW) framework—a way of thinking about taxation using economics, finance, and accounting tools and expertise to rigorously examine topics such as, how taxes affect value (transactions and asset prices), the role of taxes in businesses, and how companies make tradeoffs when considering taxes. One common way to summarize the framework is that tax planning should consider "all taxes," "all costs," and "all parties." The underlying premise is that managers do not act solely to minimize taxes but to maximize after-tax value taking into account all the taxes involved (e.g., direct, indirect, explicit, and implicit), all the relevant costs (e.g., transactions costs, financial reporting costs), and all the pertinent parties (e.g., employer and employee, acquirer and target). The timing could not have been better with President Ronald Reagan's tax acts of the 1980s: The Economic Recovery Act of 1981 and the Tax Reform Act of 1986. The combination of researchers armed with a framework and two substantial tax reforms led to a significant increase in positive tax research in accounting.[3]

A brief summary of what we, as a field (think we) have learned since Scholes-Wolfson is as follows. First, taxes matter. It may be tempting to chuckle at this one, but whether taxes affect decision making and value is a fundamental question and documenting it is not straightforward in every setting. This is partially due to poor measurement, endogeneity, and other identification challenges, and part of it is due to other factors being more important than taxes for firm decision making. Indeed (and second), one of the largest areas of tax research in accounting has been about what is known as the book-tax tradeoff—identifying when firms leave tax dollars on the table and quantifying the amount left on the table—because something else was more important, generally financial reporting outcomes (e.g., settings include LIFO-FIFO (Biddle 1980; Hunt 1985), the reporting of compensation expense (Matsunaga, Shevlin, and Shores 1992), and even reporting fraudulent earnings (Erickson, Hanlon, and Maydew 2004)). This quantification allowed researchers to estimate the lower bound of the value of the "something else" to the taxpayer. Third, taxes affect asset prices but the evidence suggests magnitudes generally in the lower range of what theory would predict.[4] Fourth, international tax planning affects "real" decisions such as investment and employment location. I believe research in this area had

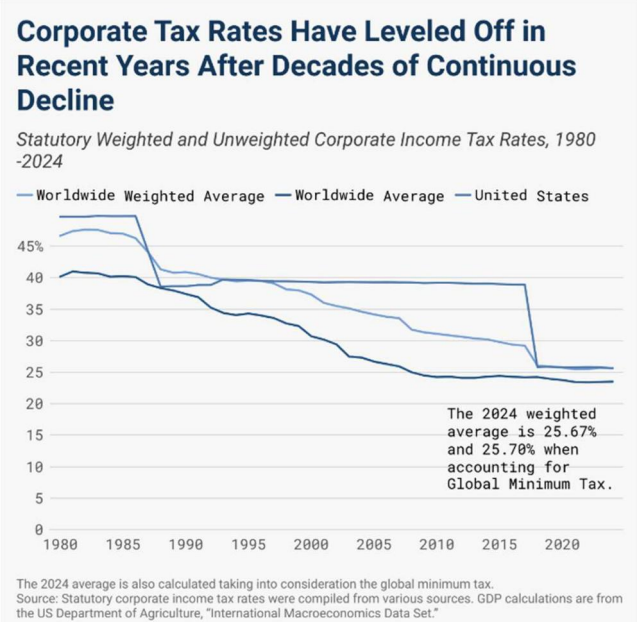
[2] See Shackelford and Shevlin (2001; main topics covered are tax and nontax tradeoffs, taxes and asset prices, and multijurisdictional), Hanlon and Heitzman (2010; topics covered are informational role of income tax expense reported for financial accounting, corporate tax avoidance, corporate decision-making, and taxes and asset pricing), Wilde and Wilson (2018; corporate tax planning), and most recently Lester and Olbert (2025; topics covered include investment levels/location in response to taxation and types of investments and responses to disclosure regulation). As an aside, of all the papers referenced in these four review papers (accounting, finance, economics, and law), slightly more than 14 percent are published in *The Accounting Review*.

[3] As a small example, prior to 1987, tax papers (papers with tax in the title) constitute 6.5 percent of all articles published in *TAR* (1926–1986). After 1986 (1987–May 2025) the proportion increases to 9 percent (papers with tax in the title or otherwise identifiable as a tax paper).

[4] In some settings prices can be interpreted as an indirect measure of a change in economic activity. As demand for something increases, prices increase. Berger (1993) is an early study examining the effect of the research and development (R&D) tax credit on stock prices of firms positively and negatively affected by the credit.

FIGURE 1

Corporate Statutory Tax Rates Over Time: Graph from the Tax Foundation Showing Worldwide and U.S. Rates



Source: Tax Foundation (2024). Reprinted with permission.
(The full-color version is available online.)

consequential effects on tax policy. Fifth, differences between financial accounting and tax reporting appear to contain information about tax aggressiveness (Mills 1998) and about financial reporting quality (Lev and Nissim 2004; Hanlon 2005). Sixth, there is cross sectional variation in tax avoidance/planning. Although we have found many factors that are significantly related to tax avoidance proxies, there is still a great deal of variation that is unexplained. Seventh, reputation (might) matter. Although tax directors almost always say they are worried about how their tax behavior affects their reputation, the evidence seems mixed about whether it actually does (Graham, Hanlon, Shevlin, and Shroff 2014; Gallemore, Maydew, and Thornock 2014).[5]

III. CURRENT CONTEXT OF THE CORPORATE INCOME TAX

The U.S. corporate income tax currently raises roughly 11 percent of the Federal Tax Revenue (2024) and has not exceeded 15 percent in decades.[6] Business entities often start in a different organizational form (e.g., LLC) now, and as a result, the proportion of C corporations relative to all other organizational forms in the U.S. is much lower than was historically the case (Erickson, Hanlon, Maydew, and Shevlin 2021). Corporate statutory tax rates have declined significantly over time as can be seen in Figure 1. Thus, some might say that corporate taxes are not that important anymore because the rates are at relatively low levels and a substantial share of business income is taxed at the individual level.

There are also arguments that the corporate income tax is not an efficient tax and it creates competition across countries (and states) to attract business investment and jobs. Indeed, many blame our slow-to-adjust pre-Tax Cuts and Jobs Act (TCJA) corporate tax system, in part, for loss of manufacturing, loss of jobs, and loss of intellectual property (IP) (e.g., Hanlon 2016; Hanlon 2021a). Finally, in an intangibles-based and user-based economy, the traditional

[5] Graham et al. (2014) is based on survey data that includes both private and public firms. More tax research on private entities would likely be useful given the expansion of private entities in the economy and empirical financial accounting research focusing on private companies (see a recent review by Bernard and Sutherland 2025; for a few tax papers see Cloyd, Pratt, and Stock 1996; Hoopes and Maydew 2024).
[6] https://bipartisanpolicy.org/explainer/what-kinds-of-revenue-does-the-government-collect/

ways of assessing the corporate income tax have faced numerous challenges. For example, the alleged use of various forms of corporate cross-border income shifting has made it difficult for tax authorities to assess taxing rights (see the recent tax cases involving Coca-Cola, Facebook, and Apple). There is a raging debate about the magnitude of income-shifting tax avoidance in the academic literature (e.g., Clausing 2020; Blouin and Robinson 2024). The magnitude of income shifting is almost certainly not as large of a problem as some argue (e.g., Clausing 2020; Tørsløv, Wier, and Zucman 2023); however, the magnitude is certainly not zero—some companies have shifted income out of the U.S. to avoid taxes.

Some also argue that the corporate income tax may lose relevance because other taxes are rising in prominence around the world. Some examples include destination-based taxes (at a high level this means that taxation occurs where the customer is located, e.g., digital services taxes), value added taxes (usually destination-based, tax on the value added at each stage of production), and of course, tariffs (taxes on imports that vary by country and product). These types of taxes can operate alongside a corporate income tax or as a substitute for a corporate income tax.[7]

I posit that despite its shortcomings and despite the rise of other taxes, the corporate income tax is likely to remain. I believe this to be true based on several factors, most importantly is that it is politically popular to tax corporate income (even though the tax is ultimately borne by an individual—capital owners, labor, or customers) and politically unacceptable not to tax corporate income (e.g., headlines that Google pays less tax than a factory worker do not bode well for reelection, in either political party). The individual income tax raises nearly half of the tax revenue of the U.S. government and a significant part of that tax revenue is from businesses organized in a non-C corporation form (LLCs, LLPs, S corporations, and partnerships). As a result, the perception of parity is also important—corporate income should be taxed if individual income is taxed (despite the incidence argument) and corporate business income should be taxed if flow-through business income is taxed. Thus, I think the corporate income tax will remain and there will continue to be many exciting questions about the economic incentives and outcomes of the corporate income tax, and there will be new tax regimes to study as well.

IV. POTENTIAL FUTURE AVENUES FOR RESEARCH

In this section I outline some future research directions/ideas. Some are old topics but there are new settings to examine that might be useful. For the new settings, I need to explain the tax rules before I get to the research-focused discussion; please bear with me (or skip over the details). Before I delve into settings, I note that, in general, more information on cross-sectional variation in most tax settings would be useful. Are some firms more responsive to taxes than others, and if so, why? The field has studied cross-sectional determinants in some settings, but more insights (new, important determinants) could add to our understanding.

Location of Income and Investment

The location of income and investment was the driving factor behind the TCJA and is one of the factors behind the proposed and enacted tariffs in the Trump administration. Indeed, this issue is long-standing; President Kennedy's "Special Message to the Congress on Taxation" in 1961 makes a point to mention how our tax policies at times incentivize corporate investment abroad rather than in the U.S.[8] It is likely the economic and tax forces that are related to investment location will be important topics of study well into the future.[9] Where companies invest affects labor location, income location and tax revenues, innovation, and other economic activity. Research often examines the relation between tax and capital expenditures, research and development, merger and acquisitions, etc. (e.g., Hanlon, Lester, Verdi 2015; Edwards, Kravet, and Wilson 2016; and for a review, Lester and Olbert 2025).

Global Minimum Taxes and the Foreign Derived Intangible Income (FDII) (Foreign-Derived Deduction Eligible Income (FDDEI))

There is a debate in the literature about the extent to which firms shift income out of the U.S. It is difficult, however, to even define what income shifting means. Does it mean a company reporting income in a place other than where

[7] Economists have studied other taxes such as the value added tax extensively, especially European scholars. There have been some studies in accounting but not as much. Tariffs have been studied most often by the "trade scholars" and less so by tax scholars and even less so by accounting tax scholars. I discuss some studies below and some possible directions forward.

[8] https://www.presidency.ucsb.edu/documents/special-message-the-congress-taxation

[9] Note that the accounting for income tax rules were also updated in ASU 2023-09. These rules require more disclosure about location of tax liabilities. How detailed firms choose to be in terms of disclosure or whether they change location of investment will be interesting to examine. A higher-level question is whether these changes were made for the benefit of investors or is the FASB trying to change tax behavior, something I used to claim FASB did not do.

it would be reported absent taxes? That is a reasonable definition but that is impossible to measure because we do not have that counterfactual. The literature often defines income shifting as having more income reported in a jurisdiction relative to what we would predict based on a model of the relation between reported income and the factors of production (Hines and Rice 1994, or some variation of this). However, the nature of economic activity and what creates value has changed significantly since the 1980s. For example, the prevalence of intangible assets has increased. Implicitly, models such as Hines and Rice (1994) assume that intangibles are not a factor of production but an item that is moved in response to tax incentives. In contrast, the models also implicitly assume that tangible assets are located in a jurisdiction for nontax reasons (or we accept reported income as unshifted as long as there are tangible assets located in that jurisdiction). The international tax rules do not operate by formulary apportionment (not yet) and thus labeling income that does not track with the location of assets and employment is not a good measure of income shifting in today's economy.[10] Improvements in the methods to infer income shifting could be a huge contribution. Governments and global organizations are spending massive resources trying to counter income shifting and companies are spending resources complying with the new rules governments and other organizations are making, but frankly we do not have consensus on how big of a problem income shifting is for global tax revenues.[11]

As part of the TCJA the U.S. changed from its worldwide tax (with deferral) system to something closer to a territorial system (in which only U.S. earnings are taxed); we no longer assess a tax on the repatriation of foreign earnings. In conjunction with those changes, however, the U.S. adopted base-erosion provisions including a type of global minimum tax, called the Global Intangible Low-Taxed Income tax (GILTI). At a high-level this tax was devised in an attempt to retain U.S. taxing rights on the income of U.S. multinational enterprises earned around the world if that income is lightly taxed in the foreign jurisdiction. There was a deduction in the computation of the income subject to the GILTI in the amount of 10 percent times what is called Qualified Business Asset Investment (QBAI).[12]

The intent of the GILTI is to collect more revenue but also mitigate incentives to shift income and mitigate incentives to move investment (including IP) offshore for tax reasons. Some questioned whether (and critics claimed that) the QBAI deduction incentivized foreign investment, contrary to the intent of the GILTI. A similar but technically different set of rules just coming into effect in many other countries are the so-called Pillar 2 rules. This is also a type of global minimum tax and is part of the proposed international tax regime from the Organisation for Economic Co-operation and Development (OECD). The apparent intent of these rules seems to be to mitigate international tax competition between nations (i.e., prevent tax havens) and mitigate income shifting. At its core, the key of Pillar 2 is that it is trying to force all jurisdictions to impose a tax rate of at least 15 percent. Thus, the minimum tax is computed country-by-country. Pillar 2 also includes a reduction (Substance-Based Income Exclusion (SBIE)) in the income subject to the tax if there is tangible investment (and employment) located in the low-tax country. I have put most of the details in the footnotes and refer readers to other sources.[13]

Some questions with respect to the GILTI and Pillar 2 include (1) did firms change their "income shifting" behavior, (2) did firms alter investment location, and (3) did firms alter labor location? In addition, it will be important to examine whether countries take any new actions outside of the income tax regime. For example, an astute reader may wonder whether, in response to Pillar 2, the haven nations could offer other incentives (subsidies) or even redistribute

[10] The international tax rules are possibly moving toward a sales-based apportionment—both Pillar 1 and digital services taxes essentially tax based on revenue in the jurisdiction. This is beyond the scope of this paper and those taxes are uncertain to remain or be implemented.

[11] As with every part of this paper I do not have room to list every paper but two with interesting consideration of financial reporting and tax are De Simone (2016) and Dyreng and Markle (2016). See also a great study by Klassen and Laplante (2012) in terms of changes in income shifting over time.

[12] The GILTI effective rate was 10.5 percent in the TCJA. The high-level idea of this tax is that if companies locate "high-return" income outside of the U. S. and that income is "lightly taxed," then the U.S. will assess and collect an additional tax from the U.S. parent company. It was a fairly complicated regime with pretty severe limits on the foreign tax credits (only 80 percent allowed and no carryovers of unused credits) for income that was determined to be GILTI. These rules were extended but changed in the One Big Beautiful Bill (OBBB) in 2025. The GILTI was renamed to Net Controlled Foreign Corporation (CFC) Tested Income (NCTI; not nearly as creative) and the effective rate was set at 12.6 percent (60 percent of the U.S. statutory rate). The OBBB also eliminated the QBAI deduction and increased the Foreign Tax Credit (FTC) allowed to be equal to 90 percent of the total foreign taxes paid on the NCTI. Thus, if one assumes full creditability, no incremental U.S. tax will result as long as the foreign tax rate is at least 14 percent.

[13] To understand Pillar 2, you may want to dust off your textbook from your game theory economics class. Multinational groups of a certain size (currently those with at least annual consolidated revenue of €750 million) are subject to a minimum effective tax rate (ETR) of 15 percent in each jurisdiction where they operate. The incremental tax they pay is called a "top-up tax." If subject to the tax, the next question is which jurisdiction collects the tax? If the haven nation enacts one of the Pillar 2 components (a Qualified Domestic Minimum Top-up Tax (QDMTT)) then the haven nation can collect the tax. If not, then the ultimate parent company of the entity in the tax haven can collect the tax if the jurisdiction in which the parent company is located enacts what is called an Income Inclusion Rule (IIR). If neither the haven nor the ultimate parent company country enacts these taxes, then another country can collect the tax via a Undertaxed Profits Rule (UTPR). Again, the goal is to get haven nations to enact the tax themselves—the haven nation should conclude that they might as well collect it because if they do not, a different country will. Note that the QDMTT, the IIR, and the UTPR are computed the same way basically, the names for the most part just indicate which jurisdiction is collecting the top-up tax required by Pillar 2. The current negotiated position as part of the enactment of the OBBB is that the U.S. system will run "side-by-side" with Pillar 2. We will not adopt Pillar 2 and the G-7 has agreed that our companies will not be subject to the UTPRs. We will retain tax sovereignty.

the top-up tax as financial incentives to locate in the haven and, thus, still be a haven. That is a great question that should be investigated once these taxes are in place.

As one might expect these questions are hard to answer for the normal reasons—the TCJA included many other provisions (e.g., bonus depreciation, a substantial change in the corporate statutory tax rate, etc.), the rules were generally applicable to taxpayers around the same time, and there were other confounding events. For example, the OECD had four required and other recommended actions for U.S. companies that were effective in the same general time period. There have been studies on the effects of the TCJA on investment location decisions.[14] However, I think the question of what happened to foreign investment and why after the TCJA is still wide open. With regard to Pillar 2 there will also be challenges but maybe some opportunities because multiple countries are adopting at different points in time and the companies in those countries have activities that vary. The newly enacted OBBB will offer research opportunities as well. For example, now that the rules for GILTI have changed (e.g., the QBAI deduction is gone) more analysis of the effects of the QBAI (a very important question) might be possible.

Finally, there is another entirely different challenge/opportunity in this setting–the effect of uncertainty. I think uncertainty may have been especially important in the response to another new rule known as the FDII. The FDII was basically a mirror to the GILTI when it was enacted in 2017. The main goal of the FDII was to incentivize firms to keep high-return income (and hopefully related economic activities) in the U.S. Thus, the FDII provided for a lower tax rate (relative to the U.S. statutory rate) on high return income reported in the U.S. related to exports. There was also a QBAI deduction from the FDII income (10 percent X tangible assets in the U.S. used to generate the FDII income).

The OBBB renames the FDII to FDDEI, eliminates the QBAI deduction, and changes the tax rate.[15] The Biden administration continually threatened to eliminate the FDII but the OBBB adjusted and retained it. Thus, one could ask whether more investment will move back to (or start in) the U.S. now that there is some more certainty with FDII (now FDDEI) and the rules have been simplified?[16] If one could separately identify the effect of more certainty from the QBAI elimination, it would be an important study.[17]

Tariffs

Tariffs are the tax du jour. The Trump administration favors the use of tariffs and the threat of tariffs (and the Biden administration did not remove tariffs and added some of their own). A tariff is a tax on imports and it can vary by product and by country. Tariffs are often used to protect domestic industries from foreign competition (increase investment in the U.S.) but can also be used to raise revenue. The tax is remitted by the importer and is sometimes passed onto consumers in the form of higher prices (or borne by capital or labor). In the U.S. tariffs are assessed and collected by the Customs and Border Protection (CBP) agency, not the IRS. Economists, especially trade economists, and lawyers have studied tariffs extensively.

There are many avenues of inquiry with respect to tariffs. For example, do companies move investment (particularly manufacturing) back to the U.S. after tariffs are increased? Do companies alter their supply chain and/or location of subsidiaries outside of the U.S. to mitigate tariffs? Who bears the cost of the tariff?[18] To date (to my knowledge), accounting studies about tariffs mostly examine joint income tax and tariff tax planning through transfer prices. For example, Kohlhase and Wielhouwer (2023) examine the roles of firm headquarter office and business units in lowering income and tariff taxes via internal transfer prices in international trades. The internal transfer price used for income tax purposes is the same price used for tariff purposes. The authors obtain internal data for a large German

[14] A prominent study about the investment outcomes after the TCJA is by Chodorow-Reich, Smith, Zidar, and Zwick (2024). This paper involved a herculean effort in terms of data and analysis. The authors use administrative data (along with Compustat) and estimate the effects of the TCJA provisions on firms' cost of capital (domestic and foreign), domestic marginal tax rate, and whether changes in these measures affected investment. Their primary focus is on depreciable, tangible assets. They find evidence that investment is sensitive to the tax parameters. They estimate a long-run equilibrium model and conclude that there is a long-run effect of domestic capital expenditures of 7 percent and on foreign capital expenditures of 13 percent. The authors initially attributed the increases in foreign capital expenditures to the GILTI provisions, notably the QBAI deduction. It is a very ambitious paper with many analyses and robustness tests. Just focusing on the foreign investment conclusions, it is important to note that the identification of companies subject to the GILTI is an indicator variable of whether or not they paid GILTI tax. Further, the dependent variable in some tests is the amount of foreign tangible assets from Form 5471. Before we accept the result that the QBAI and the GILTI led to higher foreign investment, one should question the quality of the informational tax Form 5471, especially prior to the TCJA. The data in the form were not used to calculate a tax liability before the TCJA but after the TCJA the data are used to compute the QBAI deduction. As accountants we should quickly surmise that it makes sense that the reporting quality would improve and taxpayers would make sure all the assets were represented after the number is relied upon. A second concern is that the OECD required country-by-country reporting in this same time period which could have also altered how firms reported foreign activities. Anecdotally, we heard that companies tax planned to avoid the GILTI and report income as Subpart F (foreign earned income that is taxed at 21 percent in the U.S.) which seems inconsistent with the idea that companies would re-locate tangible assets to take advantage of the GILTI.

[15] The OBBB sets the rate at 14 percent (which makes it equivalent to the foreign tax rate needed to avoid the NCTI).

[16] See also Grant (2025).

[17] In the spirit of Nicholas Bloom's work (e.g., Bloom 2009; Baker, Bloom, and Davis 2016) but maybe more focused on specific tax laws.

[18] There are studies on some of these topics. One example for the interested reader is Flaaen, Hortaçsu, and Tintelnot (2020). The study uses Trump administration tariffs and examines price effects and the incidence of tariffs for a product and its complement.

multinational corporation and investigate the roles of the headquarter and business units. They have both internal and external prices for goods exported to anywhere in the world so can compare pricing for internal purposes to prices for external purposes and test the association of the difference with tax incentives. They find that business units contribute more to tax planning than the home office even though the business unit does not have explicit incentives to tax plan in their compensation contracts. They also report evidence consistent with strategic trade allocations. The authors use a field study to obtain very detailed trade and price data and examine the question of internal roles and decisions with respect to tax planning.[19] More studies such as this with detailed trade data that takes income tax and tariffs into account will be useful in the future (if) as tariffs become more important.[20] These types of studies provide much deeper insights into how companies operate internally with respect to various types of taxes (i.e., internal information systems and decision-making).

Another potentially interesting aspect of tariffs is the effect on inventory accounting. For example, Costco, Inc. reported a $130 million LIFO charge in the third quarter which had a negative impact on gross margins.[21] Essentially, prices rise with tariffs and those most recent, higher prices are included in Cost of Goods Sold for financial accounting, reducing reported accounting income. This saves taxes but yields lower accounting income because of the LIFO conformity rule. Whether companies will alter inventory decisions or inventory methods as a result of tariffs might be interesting to study if tariffs continue to be implemented.

Book-Tax Conformity—The Case of Book-Based Minimum Taxes

Despite repeated warnings and advice against it, the U.S. enacted an alternative minimum tax based on financial accounting income.[22] This tax is called the Corporate Alternative Minimum Tax (CAMT) and was enacted as part of the Inflation Reduction Act in 2022. At a high level, the CAMT includes a tentative minimum tax of 15 percent of financial accounting (book) income. If the tentative minimum tax is greater than the company's regular tax, then the minimum tax is paid.[23] At some level, this sounds simple and appealing. However, as most accountants will realize after giving it not-too-much thought, this is a bad idea. The very premise of the tax is faulty. Financial accounting and taxable income computations are different for good reasons (see Hanna, Hanlon, Richter, and Schler 2022).

The CAMT is much more complicated than it first appears. The government is basically giving incentives on one hand but on the other is taking them away through the minimum tax. The government gives taxpayers tax benefits in the tax code in order to incentivize certain behaviors, attract business, and allow the U.S. to better compete with companies from foreign jurisdictions. For example, we allow bonus depreciation to incentivize investment, we provide immediate expensing of research and development spending (except for the years 2022–2024) to provide research incentives (and retain those jobs in the U.S.), and we allow for tax-free mergers and acquisitions where there is continuity of business interest to allow businesses to combine without loss of value due to taxes. If no adjustments were made to the CAMT for these items, much of the incentive effects of the tax system would be lost. Indeed, soon after the CAMT was proposed Congress changed the rules to allow tax depreciation, not book (generally). Further, after the CAMT passed Treasury issued notices to allow the use of tax rules for tax-free mergers (and other transactions). It seems clear that the complexities and book-tax differences were not well understood (or were ignored). It almost makes one wonder whether the Treasury also does not like the CAMT and is implementing it in a way that makes it less severe.[24] In sum, the CAMT is lazy tax policy—if there are problems with the tax code Congress should just fix the tax code. The use of financial accounting as the alternative income measure is complicated and leads to potential contamination of financial accounting income and possible loss of information to the capital markets (Hanlon 2021b and references therein).

I could continue but that is enough complaining. From the more positive point of view, the CAMT is a potentially good thing for tax scholars! Indeed, for tax researchers in accounting this is an area in which we certainly have a

[19] The use of more field experiments and field studies could be a fruitful way to obtain detailed data on firm responses to taxes especially about taxes and supply chains or taxes and transfer pricing. Economists have used field studies extensively as have managerial accounting scholars. Field study methodology has also been used with tax authorities. Belnap (2023) and Belnap, Welsch, and Williams (2023) are great examples of field studies by accounting scholars.

[20] The consideration of tax planning taking into account both types of taxes is an excellent example of the "all taxes" theme from the Scholes-Wolfson framework. See also Blouin, Robinson, and Seidman (2018) for a paper on transfer prices and customs duties. See also Gallemore and Labro (2015) for a study linking internal information quality and taxes.

[21] https://investor.costco.com/events-and-presentations/default.aspx

[22] See Hanlon (2021b), Hanlon's Congressional Testimony (Hanlon 2021a), and an open letter to Congress signed by over 260 accounting and tax academics.

[23] The CAMT currently applies to "applicable corporations" with average annual adjusted financial statement income in excess of $1 billion over any three prior taxable years. The details are beyond the scope of this paper.

[24] I note that how the CAMT is ultimately implemented will be important for the interpretation of any test. If the CAMT is not very severe/binding, then there may be no effect on investment, earnings management, or other outcomes. This would not mean that taxing book income has no effect, but rather that the CAMT did not actually tax book income.

comparative advantage in terms of understanding both tax and financial accounting. The exciting part is that there are many aspects to study going forward.

The most obvious question is whether firms manage financial accounting earnings downward to avoid the CAMT.[25] This type of research endeavor is analogous to the studies written the last time a similar minimum tax was enacted in the U.S.—the Book Unreported Profits Tax (BURP). The BURP (gotta give credit to the Hill staffers!) was similar and was in effect from 1987 to 1989. There were at least five studies that examined the effect on financial accounting earnings (Gramlich 1991; Dhaliwal and Wang 1992; Boynton, Dobbins, and Plesko 1992; Manzon 1992; and Wang 1994). In general, these studies all found evidence consistent with firms managing earnings downward when it appeared they would be subject to the BURP. The result, however, is not without controversy. For example, Choi, Gramlich, and Thomas (2001) examine all five papers and suggest that the results are biased due to choice of scaling variables, researcher identification and selection of the firms likely to be subject to the BURP and those not likely to be subject to the BURP, measurement errors in discretionary accruals, and other reasons. The authors conclude that the extent to which firms managed earnings downward is still an open question. Dharmapala (2020) uses the BURP setting and the prior papers on the BURP adjustment to estimate the responsiveness of financial accounting income to taxation and provide some estimates of the economic magnitudes of the effects. Dharmapala (2020) concludes that there is a high degree of responsiveness of financial accounting income to taxation of financial accounting income. Indeed, he finds that financial accounting income is more responsive to tax than taxable income. Richmond (2024) also studies the 1980s BURP experiment. Although early versions of this paper found very large effects, the published version finds essentially no effect (elasticity of 0.03) and Richmond claims that is because he accounts for mean reversion in earnings. He concludes saying that he finds no evidence that firms avoid the tax, and no evidence of significant real production or investment responses. The CAMT offers a new setting to test all these questions. There will be additional features with the CAMT that can be investigated as well. For example, firms often report pro forma (non-GAAP) earnings in this current era (and did not back in the 1980s). Thus, is it possible that firms could manage GAAP earnings down and adjust more in terms of non-GAAP earnings?

Another question is whether firms just report higher regular taxable income to avoid the CAMT. This might be even harder to test but it is interesting. Why would a firm do this one might ask? Especially when payment of the CAMT results in a CAMT credit carryover (for tax purposes, which is a deferred tax asset for book purposes) that could offset regular income tax in future years when the company is not in a CAMT position? The reasons are both practical and technical. If a firm is in perpetual CAMT, such that they do not think they will ever be able to use the CAMT credit carryover, then it is optimal to pay more regular tax and avoid the CAMT (without changing the total tax due).[26] Thus even looking at descriptive data about whether and which companies pay this tax might be deceiving. It really depends on what one means by "pay the tax." Are we interested in how many firms literally report CAMT tax on their tax return? Or is the question really about companies that increased their total tax liability (regular and CAMT) in the current period as a result of the CAMT. If companies tax plan to pay more regular tax to avoid the CAMT, the government still increased revenue (in earlier years) but the additional tax would not be labeled CAMT. This type of tax planning by companies poses both an identification challenge but also an important question to examine in terms of how companies respond to the CAMT.

The Pillar 2 global minimum tax, discussed above, also uses financial accounting in many of its computations and is subject to many of the same critiques as the CAMT. Hanlon and Nessa (2023) raise some important questions about Pillar 2. For example, as with the CAMT, one wonders whether companies will manage book earnings down (or down in some jurisdictions and up in others) to avoid the tax? Pillar 2 is less direct of a tax on book income—it is country-by-country, it has its own deferred tax system, and there are adjustments to get to the book income tax base (and those adjustments are not the same as in the CAMT). However, because book income is the base, it is possible companies will alter their financial reporting to mitigate the tax.

Hanlon and Nessa (2023) also bring up some other issues that are potentially relevant to both the CAMT and Pillar 2. Will financial accounting auditors become some type of *de facto* tax auditor? If the tax computation is now based in part on book income, are accounting auditors required to audit with this in mind? Related, are tax authorities considered financial statement users? If so, the level of materiality will likely change because some of the Pillar 2 rules have thresholds at relatively low levels for a large multinational. Thus, the relationship between auditor and client

[25] Even more basic than this question is which firms are subject to the tax and how do they disclose their tax liability (see Blouin and Born 2024; Hoopes 2025).

[26] The more technical issue is that this would often happen when firms have significant general business credits (and the tax code includes unfavorable credit ordering rules). Using accounting methods and elections planning (i.e., timing planning) there are various permissible ways to increase taxable income in a given year without changing the lifetime taxable income of the taxpayer. Essentially, the taxpayer would be pulling future regular taxable income and future regular tax liability forward to absorb the CAMT credit now instead of waiting until the future to try to utilize it.

could change as could the relationship between the auditor and the government. How will the market perceive earnings now that accounting earnings are the base of these alternative minimum taxes? Will stakeholders find them more reliable because potentially the tax authority will also examine them? Alternatively, will stakeholders find them less reliable because of the incentives taxpayers have to reduce accounting income used as part of the tax base? These are interesting questions, and I look forward to future research that studies these topics.

The Effect of Artificial Intelligence (AI) and Data Availability

I would be remiss to not mention the potential effects of AI. The effects from AI for tax researchers will be similar to other fields in many ways—automated data extraction and enhanced data analyses, the use of AI to conduct literature reviews, better predictive modeling, etc. But what effect might AI have on the economic parties we study and on the questions we ask?

The economic "game" or relationship between taxpayer and tax authority could change significantly. For example, tax authorities will have access to more data and have the ability to process and analyze the data more completely. It is possible that tax authorities will use AI to better predict and catch tax avoidance and evasion. AI may help with better fraud detection modeling by identifying data patterns and anomalies allowing the tax authority to target audits more effectively. Essentially, this means AI could be used to lessen the knowledge gap that currently often exists between the (corporate) taxpayer and tax authority (assuming that gap is not similar in the use of AI, which it might be). On a simpler note, AI may aid in tax return processing, information gathering, matching, and taxpayer assistance. In Singapore, a virtual assistant answers tax questions in multiple languages and has reportedly cut call-center inquiries in half. In France, AI is used to analyze incoming emails and propose draft responses for civil servants (International Monetary Fund (IMF) 2025).

Some concerns regarding the use of AI by the tax authority include data privacy challenges, potential algorithmic bias, and the risk of AI "hallucinations" (generating inaccurate information). Thus, human oversight will remain necessary. It is possible, however, that between AI and the potential increasing use of tariffs, tax authorities could potentially be downsized significantly without a loss of revenue (recall tariffs are not collected by the IRS).

AI could also help taxpayers remain compliant by better monitoring of the regulations and tax law changes in global tax law and regulatory databases. Taxpayers should also be better able to conduct scenario analyses of various policy outcomes with the use of AI. However, it is also possible that AI might be used by taxpayers to conduct algorithmic tax planning and they might be able to monitor tax audit risk better and thus more easily "fly under the radar" of the tax authority.

If AI helps the tax authority to monitor and predict tax avoidance and helps taxpayers make fewer errors, the system will be more efficient, and more net tax will likely be collected; especially if one considers the increase in information sharing between tax authorities over time. The overall effect of AI on tax avoidance is an interesting question. I look forward to future research examining the effect of AI on tax compliance, avoidance, and enforcement. Somewhat related, if the tax authorities are willing to share their increased data and better models with researchers, many advances in our field are possible. In general, there has been an increase in tax data and data availability (AI-related or otherwise) from tax authorities and third parties.[27] If this continues, it could help researchers improve identification and address new questions.

Reputation and Shaming

Instead of increasing tax audits and enforcement, can we shame businesses into tax compliance? Are firms and/or managers concerned about reputational effects of being labeled tax aggressive or in a tax shelter? Do investors, creditors, and other stakeholders view tax aggressiveness positively or negatively? These are fascinating questions (at least to me) that have gained prominence in the public economics and accounting literatures. There is a recent review (of sorts) of this literature (Hanlon, Hoopes, and Shackelford 2025), so I will not venture far discussing the topic in this paper, except to offer a few observations. The question is difficult to test because there is a selection problem—if managers fear harm to their reputation they will not engage in the transactions that would be most harmful. Thus, as researchers we potentially cannot observe what the manager fears most because they do not do it. Some governments have tried tax shaming, mostly of individuals, by listing tax delinquents (Slovenia, Canada, some U.S. states). India even tried to use drummers to publicly embarrass people who did not pay their taxes (Perez-Truglia and Troiano 2018).

[27] The Chodorow-Reich et al. (2024) paper is a good example. Slemrod (2023) discusses the proliferation of administrative data.

The press also often shames corporations by calling them out as "not paying their fair share" or reporting a low effective tax rate (e.g., Drucker 2010). These press reports have almost certainly affected tax policy.[28] Some may disagree, but I think more evidence on the question of whether firms and firm managers perceive and/or bear a reputational cost from being described as a tax avoider would be interesting. I admit it is a risky undertaking in some sense, however, because there already exists a stream of literature on the topic and the evidence is "mixed" so a new study would need to significantly contribute on method or setting.

Endowment Tax

The OBBB increases the university endowment tax and creates a progressive scale. The tax is an excise tax on investment income of private colleges and universities (Section 4968). There are three brackets (1.4 percent, 4 percent, and 8 percent) that apply based on the level of the adjusted endowment-to-student ratio. The definition of both the numerator and denominator will be important. There are also criteria that would exempt a university from the tax, such as having less than 3.000 tuition-paying students.[29] It will be interesting to examine how universities adjust to avoid the tax, how donors alter giving in response to the tax, how the government responds to these tactics, and what choices universities make going forward. There is a ready control group in the large state schools that are pseudo-private such as the University of Michigan. At first glance one might recall the papers published on tax-exempt entities, hospitals in particular, and how they managed expense allocation to lessen the burden of the unrelated business income tax (UBTI) (Yetman 2001).[30] The set of universities subject to the tax is relatively small and the amount of revenue will not be large for the U.S. government. However, I hope someone tackles the questions above and I look forward to learning the answers.

Debt and Taxes (and State Income Tax Tests)[31]

The relation between corporate capital structure and taxes is a long-studied topic in finance and accounting (predating Scholes-Wolfson in finance). Great strides have been made but still the answer is at times elusive. Indeed, even following the TCJA that included a large reduction to the corporate statutory tax rate and limitations on interest deductions, the evidence is not clear if these provisions affected capital structure. Indeed, Hanlon and Heitzman (2022) state that "Overall, tax incentives still do not seem to have a consistent, first-order effect on corporate capital structure. This presents a puzzle as governments increasingly limit interest deductibility, citing its contribution to overleverage and distress." In addition, in some settings the results are very large in magnitude whereas in other settings the effect is zero leading one to conclude that there are conditions under which taxes affect capital structure and conditions under which it does not.

Examining the question across jurisdictions has led to interesting results. A novel paper is Faulkender and Smith (2016). They compute the average statutory corporate tax rate across countries and then examine and find that external (third-party) debt capacity is increasing in the average country rate. When looking at directional effects, Faccio and Xu (2015) report evidence consistent with leverage responding more to country tax rate cuts than to country tax rate increases. Heider and Ljungqvist (2015) are among the first to exploit variation across state tax rates to examine the question. They use a panel of 121 state corporate tax rate changes over a 13-year period. The study reports evidence consistent with leverage responding to the effective date of state tax rate changes–specifically, firms borrow more when state tax rates increase. It is not clear why there is a difference in the asymmetry in the results of these studies—Faccio and Xu (2015) find results in cases of tax rate cuts and Heider and Ljungqvist (2015) find results for increases.

A more general question arises when looking at Heider and Ljungqvist (2015). State tax rate changes are small on average. Indeed, in their paper the average statutory state corporate tax increase is 93 basis points and the average decrease is 55 basis points. The authors report that their results suggest a 40 basis point increase in leverage for every percentage-point tax increase. Since their paper was published many studies employ the use of the state tax rate changes and the examination of a response (debt and other outcomes) to taxation. The results are seemingly always as predicted and quite strong. Maybe this is correct and that the gains in identification through the variation in rates and timing allow us to identify the effect more precisely and the relation between debt and taxes is, in fact, large. But it is also a puzzle because the average tax rate change across states is very small and, in addition, it is an assumption (meaning not precisely identified) that the interest deduction is taken in the state of the company's headquarters. It would be useful

[28] The limitation on the use of net operating loss carryovers, for example.
[29] This rule is widely believed to be in place to exempt Hillsdale College in Michigan from the tax.
[30] However, the endowment tax is different because the deductions for expenses are more limited in the computation of the endowment tax.
[31] This section heavily borrows from work with Shane Heitzman in our 2022 review paper. Anyone interested in this topic should see much of John Graham's work, most recently (Graham 2022).

for future research to explain why the state-tax-level tests yield such consistent and large effects when the rate changes are small and only affect a portion of income.

V. CONCLUSIONS

The future is bright for tax scholars in accounting. There are many opportunities to expand our understanding of tax systems, the role taxes play in organizations, and the effect of taxes on decision-making. The increasing prominence and use of AI will change the "game" between the tax authority and taxpayer. This along with the increasing availability of data should help researchers improve identification and address new questions. In addition to the above topics and paths, I note that the examination of household finance is a growing area in finance and I think tax accounting scholars could contribute in that area as well.

It was a humbling task and quite an honor to be asked to write this paper, especially alongside the other panelists. I look forward to future research studies on these and other questions as we celebrate the 100th anniversary of *The Accounting Review*.

DECLARATION OF GENERATIVE AI AND AI-ASSISTED TECHNOLOGIES IN THE WRITING PROCESS

During the preparation of this work, the author used ChatGPT in order to generate a topic outline for the section titled "The Effect of Artificial Intelligence (AI) and Data Availability." After using this tool/service, the author reviewed and edited the content as needed and takes full responsibility for the content of the publication.

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