Conference paper for a European Accounting Conference

Document Details

Work package       WP5
Lead Beneficiary   University of Limerick
Deliverable ID     D5.3
Date               31 October 2018
Submission         30 October 2018
Dissemination Level PU – Public
Version            1.0

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Acknowledgements

The project has received funding from the European Union’s Horizon 2020 research and innovation programme under grant agreement No 727145.
COFFERS DELIVERABLE D5.3

Deliverable D5.3 is a conference presentation at the European Accounting Conference to be delivered by UL before month 24 of the project.

We are happy to report that we did make a presentation entitled “When do client factors influence tax aggression or tax innovation?” at the European Accounting Association Annual Conference in Milan on May 31st, 2018. The authors of the presentation are Ruth Lynch, Martin Laheen, Sheila Killian, Philip O’Regan and Matthew Sorola of UL.

In the following pages, we include:

- The notice of acceptance at the conference page 2
- An extract from the program page 4
- The accepted abstract of the presentation page 5
- The extended paper accepted page 6
- The presentation slides page 15

The role of the EU and H2020 in funding the COFFERS project was highlighted/acknowledged in the conference presentation (see slide 1).

Sheila Killian, UL

September 11, 2018
Notice of Acceptance

From: EAA 2018 <nicole.coopman@eiasm.be>
Date: 7 February 2018 at 07:05:35 GMT
Subject: EAA 2018 Milan - Notification of Acceptance

Dear SHEILA KILLIAN,

It is my pleasure to inform you that the EAA Scientific Committee has finished reviewing the papers submitted and that your paper entitled:

**WHEN DO CLIENT FACTORS INFLUENCE TAX AGGRESSION OR TAX INNOVATION?**

has been accepted for presentation in a RESEARCH FORUM (RF) at the 41st Annual Congress of the European Accounting Association from 30th May-1st June 2018 in Milan. **It is your responsibility to inform your co-authors.**

The acceptance of your paper is conditional on your registration as the presenting author by no later than 28th February 2018. To register, which can only be done online, please go to the section “Registration” on the conference website www.eaacongress.org. **Presenting authors are expected to be available for presentation on all three congress days.**

Please bear in mind that the congress early registration fee applies until 28th February 2018. When registering, you will be asked to indicate your wish to be a discussant and/or a session chair. Please do volunteer for these roles as they are very important for the quality of the annual congress.

**Reviewers’ comments**

As you know, since the EAA congress 2012, reviewers comments are released. You will find these comments at the end of this e-mail, if available.

**Updating of your paper**

You may update yourself your paper title and abstract as well as upload a new version of your paper until 28th February 2018 included. To do this, please click on the following link: http://www.eaacongress.org/login.

After that date, it will no longer be possible to change neither the title nor the abstract, but it will still be possible to post an updated version of your paper until 15th May 2018. For any other change, please contact Nicole Coopman (coopman@eiasm.be).

**Publication of your paper on the congress website**

Your paper will be included on the website as of two weeks prior to the conference and until two weeks after the conference. Only EAA 2018 delegates will have access to the papers. The Scientific Committee and the Organisers believe that this inclusion is an important step in research dissemination and is a common procedure in high level scientific congresses.

**Research Forum (RF) set-up**

- 1,5 hours: 5 papers; discussion included.
The only equipment available in the presentation room will be a PC with "Powerpoint" software, an LCD projector and sound equipment. For any other special requirements (equipment or software) please contact Silvia Malandrino via email at (silvia.malandrino@unibocconi.it) until 15th May 2018.

In order to use the PC, your presentation must be saved on a USB memory stick. May we kindly recommend you to email the presentation to your own mailbox, so that you can download it from internet in case the USB does not work.

Check the congress website (www.eaacongress.org) for the latest updates. The scientific programme will be available by 27th April 2018.

Should you have questions, please do not hesitate to contact Nicole via e-mail at coopman@eiasm.be.

With kindest regards,

Ralf Ewert
EAA Standing Scientific Committee Chair
This extract from the conference programme shows the paper scheduled for May 31, 2018. The full programme is available online at http://eaa2018.eaacongress.org/userfiles/EAA%20Programme%202018.pdf
Accepted Abstract

When do client factors influence tax aggression or tax innovation?

Abstract
In this paper, we explore the day-to-day decision making processes of tax professionals. More specifically, we seek to understand how client related factors may influence a tax professional to take an innovative or aggressive tax position. A considerable body of academic work has already explored how the client relationship may affect professionals in the context of auditor independence and judgement. Given the public and political debate on tax avoidance, and the recent release of the “Paradise” and “Panama” papers, it is timely to explore the significance of client factors in the judgement and decision-making of tax professionals.

We base our findings on an international survey of professionals working in tax practice, which drew more than a 685 responses from 54 countries, examining the significance accorded to three client factors. Unlike previous work which has used experimental or scenario methods to examine this issue, we directly address the self-perception of tax advisers of client factors. We use three overlapping variables for client influence, separately examining client expectations, the importance of the client to the firm, and the ability of the client to pay tax, thereby presenting a more nuanced than usual exploration of client influence.

We find that the age and stage of professionals, their geographic location and factors relating to the size and international focus of their employing firm amplify the degree to which client factors may lead them to make a more innovative or aggressive tax decision. We find no effect for the gender of tax experts, or their choice of accounting or law as a primary professional discipline. The degree to which their employing firm is understood as having a client-focused ethos also impacts on the importance of the client expectations on their decisions, although this does not translate necessarily to tax minimisation. Given the prevalence of commercialisation logics of professional service and law firms, our findings have implications to the future training of tax professionals, and for firms’ self-awareness of the influence of their tax employees.

Keywords: Tax Professional, Client Influence, Firm Commercialisation, Decision making, Firm ethos
Presentation slides used

Note: slide 1 included formal acknowledgement of funding using this image:

The presentation slides are appended in the following pages.
When do client factors influence tax aggression or tax innovation?

Abstract

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1. Introduction

Tax professionals are the key intermediary between client and their relevant Taxing Authority, as such client independence is of huge significance to the study of tax professional decision making. Current revelations on the extent of tax avoidance by high net worth individuals and large corporates have highlighted some potentially problematic relationships between tax professional and client. Some clients have the economic power to wield a disproportionate influence on tax advisors, and so an exploration of the circumstances in which that type of client influence might lead to more aggressive or innovative tax decisions is timely. It is important not only for the profession, but also because research has indicated that tax lost due to aggressive tax practices, and regressive taxation systems introduced to make up revenue needs, impact negatively on society and contribute to gender inequality (Fuentes-Nieva and Galasso 2014), lack of access to education, health factors and decreased life opportunities (Timmons 2005). This contributes to widening gaps in both income and opportunity deriving from ‘deficiencies in fiscal systems’ (COFFERS 2016).

We follow Bebbington and Larrinaga (2014) in adopting a problem-centred approach to this research. Instead of focusing on a single professional body, discipline or firm, we track the issue across a range of literatures and contexts. Theoretically, we apply Bourdieu’s (1977, 1985) concept of habitus to the organisational setting. We conducted an unstructured literature review over a period the three months in a range of disciplines which enabled us to extract an extensive list of variables relating to client influence on the decision-making process of tax experts. The purpose of the review was to broaden the emerging themes and place them into individual variable categories so as to inform our survey at a later date, and in turn inform our interview protocol. This approach underpins what becomes a large-scale international study, overcoming the need to develop equivalent but jurisdiction-specific scenarios which might not translate across cultural or legal boundaries.

By focusing on the self-reported importance of various factors, we produce information which is directly comparable across a range of different contexts. Drawing on the personal perceptions of tax advisors in fifty-nine countries, we examine the extent to which individual factors such as age, gender, stage of career and primary discipline, and firm-level

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1 This research is been undertaken as part of the COFFERs (Combatting Fiscal Fraud and Empowering Regulations) project. COFFERs is a European Union wide research initiative with the overall aim to investigate and address deficiencies in fiscal systems. The COFFERs project is funded under H2020 (EU Framework Programme for Research and Innovation).
factors such as firm size, internationalisation of client base, geographical location and firm ethos impact on the extent to which client factors are felt as an influence which might lead tax professionals to take a more innovative or aggressive tax position. We use three different client factors to explore client influence in terms of client expectations, the importance of the client to the firm, and the client’s ability to pay tax. This disaggregated approach allows us to explore the demographic and firm-level factors which exacerbate the tendency of client influence to impact tax aggression or conservatism in a global context.

2. Previous work

Prior work on client influence on professional judgement is mainly centred on auditing. Some of this work does not directly translate to tax decisions. For example, Menon and Williams (1991) found that the “revolving door” practice of clients employing a former partner of their present audit firm presents a threat to auditor independence’ (p. 1095). Adding to the already problematic nature of affiliation is research by (Lennox 2005), which found that ‘companies receive clean audit significantly more often when executives are affiliated with their companies audit firms’ (p. 228). However, many of the concerns on audit independence are also relevant to the tax adviser-client relationship. Factors such as gender, professional discipline, and the geographic location of the firm are less well addressed in the literature. Most of this work has been done in the audit domain. While some studies focus on the role of client for tax professionals (Cloyd and Spilker 1999; Cruz et al. 2000) there appears to be a significant gap relating to client influence on tax professional decision making, that our study endeavours to address by undertaking a large scale international survey of both accounting and law professionals, and their self-perception of client pressure.

3. Methodology

Our key focus is on the degree to which individual tax professionals, in the course of their day-to-day work, may feel that various client-related factors could influence them to make a more innovative or aggressive tax decision. Accordingly, we based our work on the self-reported perception of tax professionals working in practice. We sought responses internationally, partly to address the concern raised by (Spence et al. 2017) on the ethnocentrism of prior work in this area, and partly because of the global nature of tax advice,
avoidance and planning. Based on themes emerging from a broad review of the literature, we asked practitioners to rate three client factors in terms of how each would influence them to act innovatively or aggressively. This method and approach differ from previous research, giving voice directly to tax practitioners, and producing results that are comparable across a range of cultural and jurisdictional contexts.

The key question asked of tax professionals was to rate the extent to which three client factors would influence them in taking an innovative/aggressive tax position. These factors are client expectations, importance of client to firm and client ability to pay tax. Our online survey was addressed to tax experts, and produced 1351 responses worldwide. We isolated those who are working in professional practice, bringing our respondent total to 685 individual tax professionals/advisers from 54 countries (maybe bring in earlier)

4. Findings

The survey data is used to investigate factors which may impact on the degree of client influence on professional judgement and to inform subsequent interview methodology. The data is well-balanced by age, gender, firm characteristics and geography. At the time of writing, analysis is in progress and we aim to convey more detail at the conference presentation. So far it is apparent that the results for age are proving significant across all three client influencing factors. On breaking these down across the various age brackets, we find a declining sense of the importance of each of the client factors among older professionals, which begins to rise again among professionals in their sixties and seventies. However, these latter categories form a very small subsection of our data. The key finding here is that younger professionals report themselves as more likely to take an innovative or aggressive tax position when the client is important to the firm, or based on client expectations or client ability to pay tax. Professionals in their fifties are less likely to feel this as an influence.
Initial ANOVA tests show a significant effect across professional discipline for two of the three client factors: a strongly significant effect on client ability to pay tax, and a less strong but still significant effect on client expectations. No difference in effect is found for the importance of the client to the firm.

The results for career stage are emerging as significant across all three client influencing factors. Client factors are significantly most important at early career stage, and the importance reduced the longer an individual has been qualified and is least important for those not pursuing professional qualifications at all. This is consistent with the work of (Anderson-Gough et al. 2000) on the socialization of trainee accountants in professional service firms.

We prepared some exploratory regressions where the dependent variable is the likelihood that the client factor will lead to a more aggressive or innovative tax decision looking at the client expectations, the importance of client to firm and the client’s ability to pay tax. This is analysed using the independent variables of the tax professional’s perception of the ethos of the firm in which they are working. We have found that the degree to which client expectations may lead to a more aggressive or innovative tax decision may be slightly magnified by a firm ethos that is mentoring, client focused, controlling, ambitious and profit focused.

5. Discussion and Conclusion

In this paper we aim to determine in what circumstances client factors most influence the decision making and professional judgments of tax experts working in professional practice.
While most of the work on client influence has been conducted in the areas of audit and law, client impact on tax is very relevant given global concern about tax avoidance and evasion, and the effect of aggressive tax practices on the ability of governments to address inequalities in society. Our focus is on the degree to which individual tax professionals feel pressure from client factors to act in a way that is innovative or aggressive. As such, we focus on the perceptions of individuals, self-reported through a survey instrument. One limitation is that we are not directly linking these perceptions to decisions. However, this method does allow us to directly detect circumstances where such client pressure is most keenly felt. This is a subtle difference, but addresses a gap left by previous studies. Our methodological contribution lies in the scale of our survey responses, and the geographic diversity obtained. Most work in the area, as noted by Spence et al. (2017) is developed in the global north. Our work is also novel in directly detecting pressure factors rather than using an experimental method to proxy decision-making in the field. We also contribute in extending work from other fields into the tax domain. The work shows patterns which could usefully be followed up in the next stage of our research which will be to conduct semi structured interviews with tax professionals. This will enable us to extent our initial research by teasing out nuances, clarifying language used and motivations and exploring a board range of client influences with a large cohort of tax experts working in different tax environments.


Outline of this presentation

Context

Approach and method

Early survey points

Interview planning
Tax experts matter

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Tax experts matter

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Tax experts matter

Mediators of Practice
Influencers of policy
‘Closed roof’ of expertise
Public Interest & Identity

Overall approach

Problem-centred, following Bebbington, mainly in critical accounting paradigm

1. Field Study of tax experts – initial survey
2. To be followed by
   1. Interviews/discussions
   2. Textual analysis
Where the client comes in

- Audit
- Tax
- Professional Firm
- Age / Career Stage
- Commercialisation

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Stage 1: international survey

- Demographics
  - Influences on work
  - Firm ethos
  - Triggers for innovation/aggression
  - Valued personal qualities

- Open comments

n = 1,102

Law – accounting
Firm demographics
Age and stage

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The client in the survey

To what extent would the following factors influence in you taking an innovative or aggressive tax position?
- Client expectations
- Importance of client to firm
- Client ability to pay tax

Interacting with questions of
- Awareness of the client needs
- How client-focused is the firm
- ... and non-client factors

Emerging points of interest

Age
Ethos
Discipline
Ethics
Geography
Reputation

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Disciplines

For professional advisors

- Law Professionals more influenced by client than Accounting Professionals

- In most countries, but not in Japan

Law 30%

70% Accounting

N=563
Reputation is ambiguous

Do client expectations lead to more aggression/innovation

Personal reputation is influential  
Firm is reputation conscious

Influenced by politics
Influenced by public interest

Influenced by personal ethics
Firm ethos is ethical

Exploratory regressions

- Dependent variable is the likelihood that the client factor will lead to a more aggressive or innovative tax decision
  - Client expectations
  - Importance of client to firm
  - Client ability to pay tax
- Independent variables are perceptions of firm ethos
### Exploratory regressions

The degree to which client expectations may lead to a more aggressive or innovative tax decision is slightly magnified by a firm ethos that is:
- Mentoring
- Client focused
- Controlling
- Ambitious
- Profit focused

<table>
<thead>
<tr>
<th>Firm Ethos</th>
<th>Expectations</th>
<th>Importance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk averse</td>
<td>0.05</td>
<td>0.06</td>
</tr>
<tr>
<td>Technically strong</td>
<td>-0.03</td>
<td>-0.09 *</td>
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<tr>
<td>Ethical</td>
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<tr>
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<td>-0.07</td>
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<td>Mentoring</td>
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<tr>
<td>Cost conscious</td>
<td>0.04</td>
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<td>0.04</td>
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### Exploratory regressions

Gender and innovation
- Technical strength as a tempering factor
- Ambition and profit focus no longer significant
Exploratory regressions

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Reputation as tempering factor
Cost conscious becomes significant

Comments

I believe that my clients can do better with their money than the tax authorities, and have no hesitation in trying to maximise the amounts they retain from their hard earned profits or income.
• Despite of what it is commonly understood, Italian tax advisors job is more focused on protecting clients from illegal approaches of tax authorities rather than proposing borderline solutions to pay less taxes.

• I pride myself on my ethics and will not compromise. However, I am aggressive in creating the best legal situation possible for my clients.

• No one likes to pay taxes therefore I work diligently to find every way possible to reduce my client's tax burden.
I always strive to ensure a tax return is as correct as possible before I finalize it. It would embarrass me if there were errors in the tax return or if a decision I made about the treatment of an item was incorrect. Quality of the end product is extremely important to me as this is the best way to serve my clients.

The more innovative the solution the higher the fees that can be charged to clients.

Influences on work in taxation is changing since more clients believe they can do their own tax returns with cheap tax software.
• Regarding aggressive tax planning these days clients are far more sensitive to the negative PR issues that can potentially arise following the BEPS exercise and the attention which entities like Google, Apple, Starbucks etc have had to deal with. As such they are less likely to choose a very aggressive tax strategy as it may well cost them more in time and energy in the long run.

• Comprehensive data analysis

• Interviews for
  – Disambiguation
  – Nuance
  – Clarity on language and motivation
  – Exploring range of client influences
  – Intersectionality