

# **Internal Information Quality and State Tax Planning\***

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**presented by Boris Naydenov**

# Discussion's Agenda

1. Intro
2. Summary of the paper
3. Shortcomings and ideas for improvement
4. Ideas for new research

An aerial photograph of Vila Nova de Gaia, Portugal. The image shows a dense urban area with numerous buildings featuring red-tiled roofs. In the foreground, a wide, paved promenade runs along a river, with many people walking and some greenery. Several boats are visible in the water. The text "Why all Port wine cellars are in Vila Nova de Gaia?" is overlaid in white, bold, sans-serif font across the middle of the image.

Why all Port wine cellars are in  
Vila Nova de Gaia ?

The weather is nicer and  
merchants had to pay tax to  
the Bishop who was on the  
other side of the river



# How is "quality of information" measured?



Earnings announcement speed after year-end



Lack of restatements



Management forecast accuracy



Lack of internal control weakness





Washington

New Hampshire

Vermont

Massachusetts

Maine

Oregon

Montana

North Dakota

Minnesota

Wisconsin

Michigan

New York

Idaho

South Dakota

Wyoming

Nebraska

Iowa

Pennsylvania

Rhode Island

Connecticut

New Jersey

Delaware

Maryland

District of Columbia

West Virginia

Nevada

Utah

Colorado

Kansas

Missouri

Illinois

Indiana

Kentucky

Virginia

North Carolina

South Carolina

Puerto Rico

U.S. Virgin Islands

Guam

Northern Mariana Islands

American Samoa

California

Arizona

New Mexico

Oklahoma

Arkansas

Tennessee

Alabama

Georgia

Mississippi

Louisiana

Texas

Florida

Alaska

Hawaii





# Key findings and results

- Internal information quality is positively associated with state tax planning. The authors find that firms with higher internal information quality engage in more state tax planning than firms with lower internal information quality.
- The positive association between internal information quality and state tax planning is stronger for domestic firms than for multinational firms with income-shifting opportunities.



# Key findings and results

- Tax-related internal control weaknesses (ICWs) mediate the relationship between internal information quality and state tax planning. Firms with higher internal information quality are less likely to have tax-related ICWs, which in turn leads to more state tax planning.
- State tax law restrictiveness moderates the relationship between internal information quality and state tax planning. The positive association between internal information quality and state tax planning is stronger in states with more restrictive tax laws.





# Shortcomings and ideas for improvement

- The research approach used in the paper is rigorous and appropriate for testing the authors' hypotheses. They first use a simple linear regression, multiple linear regression, structural equation modeling, and finally a difference-in-differences approach
- Collect more detailed data: As the authors of the paper acknowledge, the study can only observe summary measures of state tax planning and cannot identify specific state tax planning strategies that internal information quality helps facilitate.
- Address endogeneity concerns: The authors of the paper acknowledge that endogeneity concerns may affect their results. Future research could use different methods to address these concerns, such as instrumental variable regression or natural experiments.

# Ideas for new research



- Examine the effects of internal information quality on tax planning in different countries
- Investigate the effects of internal information quality on other areas of corporate finance
- Explore the effects of tax planning on firm performance
- To improve the measurement of internal information quality, future research could consider using other proxies or developing new measures.

Thank  
you!

