1 Introduction

Replication of Tax Reporting Behavior Under Audit Certainty by Benjamin C. Ayers, Jeri K. Seidman, Erin M. Towery Contemporary Accounting Research, 2019

Essentially, the research question is, do firms change their reporting behavior when they know for certain that they will be audited by the IRS? This question is interesting because it explores a little more in depth the role of the IRS and how companies respond to audits. It also provides a unique environment to test if audits make firms more or less risk averse.

The Ayers, Seidman, and Towery paper only looks at reported financial data. In the future I would like to expand this scope a little more and see if firms communicate differently when they are being audited vs when there is only a possibility that they might be audited. I'd like to explore the language of their 10-K filings, conference call transcripts, or other press releases to see if their tone is more limited or camouflaged in a way. (Like they're trying to "lay low" so the IRS doesn't come after them.)

2 Literature Review

Replication of Tax Reporting Behavior Under Audit Certainty by Benjamin C. Ayers, Jeri K. Seidman, Erin M. Towery Contemporary Accounting Research, 2019 And others from their paper

3 Data

Utilization of Compustat Fundamental Annual merged with Compustat Segments

- Firm years from 2000 - 2011
- Merging the two databases together
- Creating categorical variables for the CIC program's "point system"

4 Methods

This is the first model I replicate from their paper. Obviously a long way to go.

$$\begin{aligned}\text{CICFirm} =& \alpha + \beta_1 \cdot \text{AssetPoints} + \beta_2 \cdot \text{GrossReceiptsPoints} + \gamma_1 \cdot \text{GeoSegPoints} \\ &+ \gamma_2 \times \text{BusSegPoints} + \gamma_3 \cdot \text{ForeignSalesPoints} \\ &+ \gamma_4 \cdot \text{ForeignTaxPoints} + \varepsilon\end{aligned} \tag{1}$$

Where:

CICFirm : Indicator variable, where CICFirm equals 1 if the firm is assigned to the CIC program and 0 otherwise

α : Intercept

β_1, β_2 : Coefficients for AssetPoints and GrossReceiptsPoints respectively

$\gamma_1, \gamma_2, \gamma_3, \gamma_4$: Coefficients for GeoSegPoints, BusSegPoints, ForeignSalesPoints, and ForeignTaxPoints respectively

ε : Error term

The logistic regression is fitted using the binomial family with a logit link function, and the data used for modeling is from the dataset `firmyears`.

5 Findings

My results show that nothing is significant. But this is still very early on and I need to fine tune my models. I know I have a lot of differences with the original paper that I still need to iron out. See Table 1 below.

6 Conclusion

I conclude that there's more work to do

Table 1: Logistic Regression Results

	Dependent variable:
	CICFirm
AssetPoints	41.092
	(449.795)
GrossReceiptsPoints	41.211
	(472.529)
GeoSegPoints	41.203
	(462.298)
BusSegPoints	41.104
	(452.480)
ForeignSalesPoints	39.925
	(753.931)
ForeignTaxPoints	41.177
	(758.447)
Constant	−471.954
	(4, 792.371)
Observations	47,873
Log Likelihood	-0.00001
Akaike Inf. Crit.	14.000
Note:	*p<0.1; **p<0.05; ***p<0.01