

The State of Empirical Tax Research

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Based on *“Firms’ Real and Reporting Responses to Taxation: A Review”*
with **Rebecca Lester** (Stanford GSB) ·

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Outline

Motivation & Overview

Theory & Framework

Selected Insights from the Reviewed Literature

A Different & Complementary View

The Current Frontier of the Public Tax Debate

Conclusion & Outlook

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Taxes are a first-order policy tool

 raise revenue for government spending

 redistribute wealth

 **change the behavior of individuals and firms**

We focus on real effects studies in **accounting**

Hanlon & Heitzman, JAE 2010: “... we encourage accounting researchers to increasingly leverage our comparative advantages to *examine “real” corporate decisions, issues important in tax policy debates, and the incentive structures involved in corporate tax reporting.*”

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⇒ **Starting point for our review**, focusing on contributions in accounting since 2010

- **Taxes** → **after-tax return** → **real effects**

(vs. Disclosure → capital allocation → investment response, as in Roychowdhury, Shroff, and Verdi, JAE 2019)

- Tax incentives motivate **real and reporting** responses

Contributions by **accounting** research (→ Opportunities)

1. Real responses vary based on financial reporting incentives
2. Reporting responses instead of real spending
3. Real effects of mandatory (tax-related) disclosure
4. Measurement of exposure and responses to taxes in nuanced inst. settings

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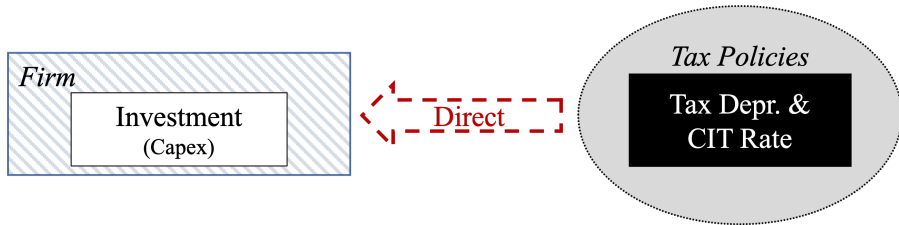
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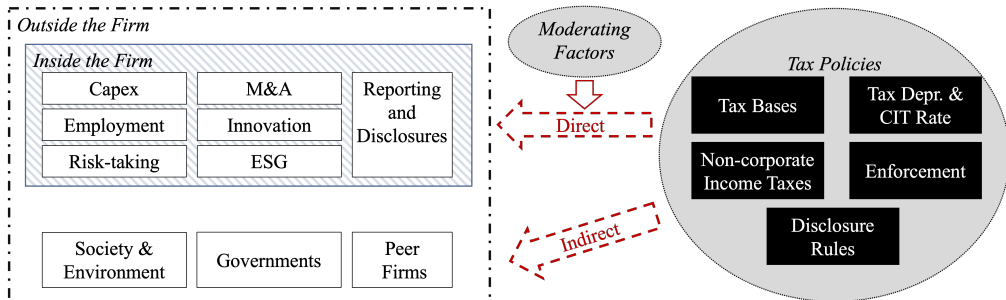
Canonical Theory (Hall & Jorgenson, AER 1967)



$$f'(I) = MPK = r \frac{(1 - \tau_c z)}{(1 - \tau_c)} = CoC \quad (1)$$

Literature Review Framework

- Stress HJ 1967 theory's assumptions and predictions
- Discuss HJ 1967's limitations, and how Scholes and Wolfson 1992 (and others) can help in more nuanced settings



Our Approach to Discussing the Literature

Separate sections for outcomes in the organizing framework.

- ▶ Introduce key theoretical mechanisms, relating back to baseline theory (Section 2)
- ▶ Overview, incl. insights from other disciplines, then focus on accounting research
- ▶ Discuss key questions and highlight advances in this area
 - **Synthesis:** suggestions on open questions, incl. channels, effect sizes, methods

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Investment and Taxation — A Complex Relationship

Overview: On average, lower tax rates increase tangible investment through CoC (e.g., Zwick and Mahon, AER 2017; Jacob, EAR 2022)

Contributions by Accounting Research (Section 3.1):

Investment and Taxation — A Complex Relationship

Overview: On average, lower tax rates increase tangible investment through CoC (e.g., Zwick and Mahon, AER 2017; Jacob, EAR 2022)

Contributions by Accounting Research (Section 3.1):

- **How much** tax savings used for investment
(Bethmann, Jacob, Müller, TAR 2018; Guenther, Njoroge, Williams, TAR 2019)
- **Reporting responses** can explain (lack of) short-term investment effects and $\frac{2}{3}$ overall
(Lester, JAR 2019; Coles, Patel, Seegert, Smith, JAR 2022)
- **Reporting incentives** → greater impact of tax policy on innovation outcomes
(Williams and Williams, TAR 2021; Hepfer, Judd, Rice, JAE 2024)

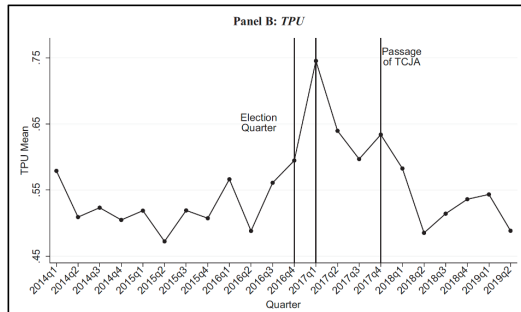
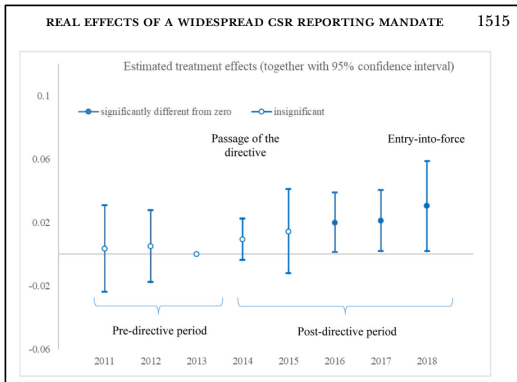
Investment and Taxation — Open Qs and Suggestions

- **Measurement:** comparability, economic magnitudes?
- **Targeted** investment response?
 - ⇒ Bethmann, Jacob, Müller (TAR 2018) on productive vs. unproductive firms
 - ⇒ Exploit narrative disclosures (Hanlon, Hoopes, and Slemrod, TPE 2019) and consider spillovers
- **Dynamics and expectations**
 - ⇒ Gallemore, Hollander, Jacob, Zheng (JAR 2024)

Investment and Taxation — Open Qs and Suggestions

(b) Fiechter, Hitz, Lehmann (JAR 2022)

(a) Gallemler et al. (JAR 2024)



Tax Avoidance and Real Decisions

Overview: Cross-border income shifting happens (but how big?)
and foreign investment responds to tax differentials
(e.g., Feld and Heckemeyer, JES 2011; Wilde and Wilson, JATA 2018; Dyreng and Hanlon, 2021)

Contributions by Accounting Research (Section 3.4):

Tax Avoidance and Real Decisions

Overview: Cross-border income shifting happens (but how big?)
and foreign investment responds to tax differentials

(e.g., Feld and Heckemeyer, JES 2011; Wilde and Wilson, JATA 2018; Dyreng and Hanlon, 2021)

Contributions by Accounting Research (Section 3.4):

- **First** the **real** move → allows more income shifting
(Drake, Goldman, Murphy TAR 2022; De Simone and Olbert, TAR 2022)
- **First** the income **shifting** → tax savings affect investment
(Suárez Serrato, 2019; Fox, Jacob, Wilde, Wilson, TAR 2022; De Simone, Klassen, Seidman, JAE 2022)

Tax Avoidance and Real Decisions — The Chicken-Egg Problem

When and how does tax planning come into play?

INVESTMENT



**INCOME
SHIFTING**

Tax Avoidance and Real Decisions — Open Qs and Suggestions

- **Timing and interplay** of resource allocation and tax avoidance
- **Empirical challenge:** endogeneity
(Dyreng, Hills, Lewellen, Lindsey, 2023)



Tax Avoidance and Real Decisions — Open Qs and Suggestions



- **Timing and interplay** of resource allocation and tax avoidance
 - **Empirical challenge:** endogeneity
(Dyreng, Hills, Lewellen, Lindsey, 2023)
- ⇒ **Exploit shocks** that clearly alter one (first) to study knock-on effects on the other
- ⇒ First step: **Study different outcomes** in reduced form
(Olbert and Severin, JAR 2023; Gschossmann and Pfrang, 2024)
- Different firm characteristics/settings ⇒ **Different Chicken-Egg answers**

Responses to Environmental Taxes

Overview:

- Macro and micro: carbon prices ↓ emissions (modestly)
- Technological change (some)
- Early/inconclusive evidence on avoidance (i.e., carbon leakage)

Contributions by Accounting Research (Section 4.3):

Responses to Environmental Taxes

Overview:

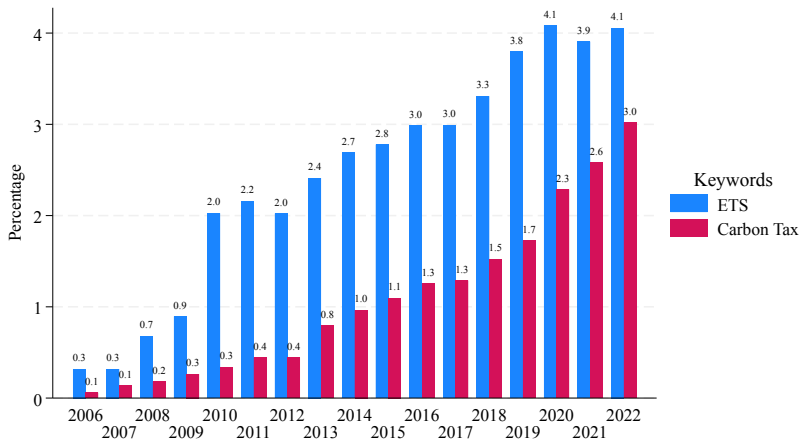
- Macro and micro: carbon prices ↓ emissions (modestly)
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Contributions by Accounting Research (Section 4.3):

- **Not much** so far, unfortunately!
- **Emission taxes** ↓ **capex** due to firms' tax incidence
(Jacob and Zerwer, TAR 2024)

Responses to Environmental Taxes — Open Qs and Suggestions

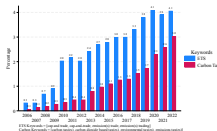
A huge opportunity for accounting research:



ETS Keywords = [cap and trade, cap-and-trade, emission(s) trade, emission(s) trading]

Carbon Keywords = [carbon tax(es), carbon dioxide based tax(es), environmental tax(es), emissions tax(es)]

Responses to Environmental Taxes — Open Qs and Suggestions



- Leverage **disclosures** to understand:
 - exposure to various green taxes,
 - incentives,
 - **business model/technological** changes.
 - reconcile Jacob and Zerwer (TAR 2024) and Brown et al. (RFS 2022)
- **Interactive effect** of taxes and emission disclosures?
- **Green tax avoidance** as a new phenomenon (and field for research?)

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A complementary perspective: Jennifer Blouin's discussion

“Overall, there is very little to disagree with in this paper . . . a nice survey of an extremely large literature.”

— **Jennifer Blouin** (Wharton), JAE **80** (2025) 101836

A constructive complement, organized in four parts:

- 💡 What really counts as a “real” effect of taxation
- 🏗️ An alternative framework — a modified Scholes–Wolfson view
- 🔧 Where accountants have a competitive advantage
- ☰ A wish list — a call to action for the field

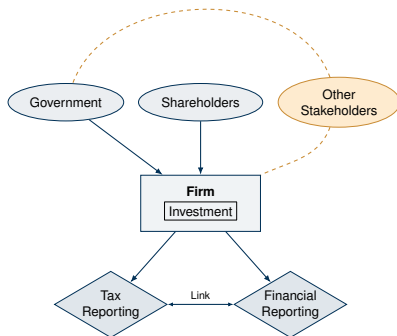
What counts as a “real” effect? Blouin pushes further

- 🌐 Start from: *“What would the world look like in the absence of all taxes?”*
⇒ almost **every** tax effect is, in the end, a **real response**.
- ✂ The interesting cases: when firms **do not** respond as theory predicts — **what are the frictions?** (the red-shirt / blue-shirt puzzle)
- ⚡ **IRA green-energy credits:** realized cost $> 3\times$ the JCT's $\sim \$370\text{bn}$ projection
⇒ *why* is the real question.
- 🐔 Maydew's chicken, reframed: not why it crossed to the low-tax side — **why** some chickens stay on the high-tax side.

An alternative organizing framework

- ⚖️ LO build on Hall & Jorgenson (1967) — powerful, but Blouin finds it **lacks the richness** to organize today's literature.
- 🏗️ She prefers Scholes–Wolfson (1992): **all parties, all taxes, all costs** — a **contractual** view, with the government as a **silent partner**.
- ⚠️ This puts **frictions** center stage: incomplete contracts, agency, and policy uncertainty.
- 🔄 “Full circle”: SW **builds on**, not replaces, HJ — the two are **complementary**.

Blouin's Modified Scholes–Wolfson Framework (Fig. 1)



Solid = direct link · Dashed = indirect · blue = existing SW · gold = Blouin's addition (the public as voters). Source: Blouin (2025), Fig. 1 — redrawn.

Where accountants have a competitive advantage

- ✂ **Non-tax consequences** of tax incentives — frictions *inside* the firm. (e.g., book–tax conformity $\Rightarrow$ firms bias book income down, shift information into footnotes.)
- ⚖ **Measuring the tax base** — book vs. taxable income. The OECD Global Blueprint & U.S. CAMT tax **book earnings** $\Rightarrow$ costly unintended consequences.
- 🗄 **Knowing what the data mean** — jurisdictional reporting differences. Economists misread financial data $\Rightarrow$ projected revenues may not materialize.

Blouin's wish list for tax research

-  Stay **interdisciplinary** — econ, finance, law (e.g., the NTA).
-  Resolve **conflicting results** — e.g., the tax & risk-taking puzzle.
-  Learn about **small & private firms** — ~50% of U.S. employment.
-  Build a **unifying framework** of taxes, investment & financial reporting (Shackelford et al. 2011).
-  Value tax work in **economics field journals** — without losing our **accounting identity**.

Bottom line — a constructive complement

“Overall, LO have done an excellent job. This review will be on many doctoral seminar reading lists.”

-  **Crosspollination:** economists learn **measurement** from accountants; accountants learn **econometrics** from economists.
-  Two lenses, one goal: **Hall–Jorgenson** as the tractable baseline, **Scholes–Wolfson** frictions for the richness — **complementary, not competing**.

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Where tax policy is being fought *right now* (2025–26)

Wealth taxes

California 5% billionaire tax;
Zucman's 2% global minimum

Taxing AI & automation

"Robot tax"; OpenAI's 2026 economic blueprint

Income → consumption

Tariffs to "replace" income tax; VAT & DSTs

Global minimum tax

OECD "side-by-side"; US carve-out (Jan 2026)

Inheritance & succession

Germany's Karlsruhe ruling; SPD reform

Digital services taxes

EU DSTs 1.5–7.5%; Pillar One stalled

Each is, at heart, a question about firms' **real and reporting responses** — the next three slides zoom in.

Wealth taxes & the mobile rich — effectively a shareholder tax

California 2026 Billionaire Tax Act

One-time **5%** levy on net worth $\geq$ \$1bn; California residents as of **Jan 1, 2026** (retroactive); aimed at the Nov 2026 ballot.

CNBC, Jan 2026 · Tax Foundation

A global 2% minimum on billionaires

Zucman's G20 blueprint; ~\$250bn/yr; the French National Assembly **voted in Feb 2025**.

Tax Justice Network · Zucman, G20 report

Why it matters for *real effects* research:

 A wealth/shareholder tax raises the **cost of capital** — a tax on equity returns, not just a redistribution tool.

 **Migration & real relocation:** Thiel, Larry Page reportedly shifting presence out of California pre-2026.

 **Measurement:** valuing private wealth, plus **reporting responses** to (retroactive) residency thresholds.

Taxing value in the age of AI

The problem: levying **corporate income tax** on US-/China-based AI firms (OpenAI, Anthropic) serving EU users is hard $\Rightarrow$ the base shifts to **where value is consumed**.

📊 Income $\rightarrow$ consumption base

Digital services taxes (EU, **1.5–7.5%**); VAT reform (ViDA); Pillar One (*tax where users are*) stalled after the US withdrawal.

Tax Foundation · Euronews, Jan 2026

🤖 Taxing AI & automation

A “robot tax” to recoup lost payroll taxes — revived in OpenAI’s 2026 blueprint, echoing Gates and Senate Democrats.

TechCrunch, Apr 2026 · Brookings

⚠️ Even Trump’s “tariffs to **substantially replace** income tax” (2026 SOTU) is the same income $\rightarrow$ consumption shift — though the revenue math doesn’t add up ([CNBC](#)).

Research lens: incidence & **real effects** of a destination/consumption base; where AI investment locates; measurement.

Inheritance & business-succession taxation (Germany)

 **Karlsruhe to rule in 2026** — is the privileged treatment of **business assets** (vs. financial wealth) still constitutional? (CMS · The Local, Jan 2026)

 **SPD reform proposal:** abolish the business-asset relief; **EUR 5m** allowance; 20-year tax deferral. (ifo Institute)

 **Real effects** on **family firms / Mittelstand:** investment, employment, succession, and HQ relocation.

 Bears on firms' **cost of capital and continuity** — and invites **reporting & valuation responses**.

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Much to explore in tax (accounting) research on real effects

An exciting and still emerging field!

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... **we hope to provide a valuable resource to:**

- 📄 Help researchers to produce high-quality work for our journals.
- 🔍 Have our work more acknowledged by other disciplines.
- 👍 Impact policy-making for the better.

Thank you!

Read the full review in *Journal of Accounting and Economics*:
doi.org/10.1016/j.jacceco.2025.101837

Feel free to reach out at marcel.olbert@uni-mannheim.de

Backup — Tax Avoidance and Real Decisions

Maydew (JAE, 2001):

