

Episode 22 – On Zero Tax Firms

This document provides resources for educators looking for ways to incorporate current events into their curriculum. Each podcast episode is approximately 20 minutes long and available on all major podcast outlets for free. This document provides opportunities for either short-answer/essay-style questions or discussion questions to delve further into topics. Email taxnerds@gmail.com for an answer key.

In this episode, we discuss how firms that report profit to their shareholders under U.S. GAAP can pay little or no federal income tax.

Concepts covered

- Book-tax differences
- Accounting for income taxes; tax information in financial statements

Multiple choice and True/False questions

1. What is of the following is not a part of the basic tax formula?
    a. Tax base
    b. Tax incidence
    c. Tax rate

2. Which of the following is a way a company can reduce its tax liability, all else equal? Select all that apply.
    a. Increase its gross income
    b. Reduce its tax deductions
    c. Reduce its tax rate
    d. Increase its tax credits

3. True or False: According to the podcast, illegal tax evasion is common among large U.S. public companies.
    a. True
    b. False

4. Which of the following is/are true? Select all that apply.
    a. Companies compute book and taxable income under U.S. GAAP
    b. Companies compute book income under U.S. GAAP and taxable income following the Internal Revenue Code (IRC)
    c. Public companies are required to disclose significant items with different book and tax treatments.

5. According to data discussed on the podcast, what is the **largest** category of tax benefits disclosed by large public companies?
    a. Foreign activities such as reporting income to lower-tax jurisdictions
    b. Income tax credits
    c. Accelerated depreciation
    d. Tax-exempt investment income like interest from municipal bonds

6. According to data discussed on the podcast, what is the **most common** category of tax benefits disclosed by large public companies?
    a. Foreign activities such as reporting income to lower-tax jurisdictions
    b. Income tax credits
    c. Accelerated depreciation
    d. Tax-exempt investment income like interest from municipal bonds

7. Which of the following is a component of the GAAP effective tax rate (ETR)?
    a. After-tax income
    b. Sales
    c. Tax payments, net of refunds
    d. Tax expense

8. Which of the following is a component of the cash effective tax rate (ETR)?
    a. After-tax income
    b. Sales
    c. Tax payments, net of refunds
    d. Tax expense

9. What is the name of the financial statement disclosure where companies explain why their effective tax rate differs from the statutory tax rate?
    a. The deferred tax assets breakdown
    b. The rollforward of uncertain tax positions
    c. The rate reconciliation
    d. The income tax expense component breakdown

10. True or False: Tesla's tax benefits from stock option exercises in 2021 exceeded its pretax book income?
    a. True
    b. False

11. True or False: Public companies in the U.S. are required to disclose cash tax payments by jurisdiction in their financial statements.
    a. True
    b. False

Short answer/essay or in-class discussion questions

1. In your opinion, should politicians publicly criticize corporate taxpayers for taking advantage of existing tax breaks? Why or why not?

2. In your opinion, should there be more public disclosure around corporate taxes? What type of additional disclosure do you think might be useful to investors and other stakeholders?

Data analysis/visualization

Use our case or *A Case Study of Effective Tax Rates Using Data Analytics* (2021) by Christine Cheng, Pradeep Sapkota, and Amy Yurko in *Issues in Accounting Education* 36(1): 65-89 to give your students the opportunity to use data from Compustat to analyze effective tax rates.