



### The Effect of Asymmetric Taxation and Limited Liability on Risky Investment



From April 30 to May 1, 2010, the annual meeting of the Ausschuss Unternehmensrechnung im Verein für Socialpolitik (currently chaired by CAR's Ralf Ewert) took place at the University of Gießen. On this conference, CAR's Rainer Niemann presented a paper jointly written with CAR's Ralf Ewert with the title "Limited Liability, Asymmetric Taxation, and Risk Taking - Why Partial Tax Neutralities are Harmful". This paper analyzes the simultaneous effects on risky investment induced by asymmetric taxation and limited liability. The reference case for measuring these effects is given by the absence of any tax- or non-tax asymmetries, i.e. full loss-offset and full liability. It is shown that tighter loss-offset restrictions decrease and limited liability increases risk taking. The investor's final decision on his exposure to risk depends on the actual combination of loss-offset and liability parameters. For each level of limited liability there exists a specific loss-offset limitation, which induces the same exposure to risk as in the symmetric reference case. This effect is called tax neutrality with respect to risk taking. Ewert and Niemann show that this type of tax neutrality is inconsistent with tax neutrality with respect to a firm's legal structure. For full liability, full loss-offset is necessary for tax neutrality with respect to risk taking. By contrast, loss-offset restrictions are necessary under limited liability. These results indicate that partial tax neutralities cannot be simply deduced from the general tax neutrality requirement. Rather, different partial tax neutralities may be opposing tax policy goals. The paper will be published in a forthcoming special issue of "Schmalenbach's Zeitschrift für betriebswirtschaftliche Forschung" (ZfbF).

**To know more:**

Ewert, R., and R. Niemann (2010). Limited Liability, Asymmetric Taxation, and Risk Taking - Why Partial Tax Neutralities Are Harmful. Schmalenbach's Zeitschrift für betriebswirtschaftliche Forschung, Forthcoming.

### International Accounting Research Symposium



The VI International Accounting Research Symposium was held at the Leeds Business School, Leeds University, in July 2010. It was organized by the Leeds Business School and the Universidad Autonoma, Madrid. The aim of this Symposium is to provide first-hand knowledge in special accounting themes and give participants the opportunity to discuss their own work. Professor Wagenhofer had been invited by the organizers to give an afternoon session on Earnings management and conservatism in accounting research. His main theme was what empirical researchers can learn from analytical research in these current themes of earnings attributes and characteristics. Other presenters included, among others, Professors Wayne Landsman (UNC), Jere Francis (University of Missouri), Steve Young (Lancaster University), and Stephen Brown (NYU Stern).

### Seminar on Transfer Pricing at the Institute of Accounting and Taxation

On July 15, 2010, a seminar on transfer pricing was held at the Institute of Accounting and Taxation. The workshop was held by Arcotia Hatsidimitris and Joel Cooper from the International Tax Academy of the International Bureau of Fiscal Documentation (IBFD), Amsterdam, Netherlands. The subject of their presentation was "Practical Application of Transfer Pricing Methods". Because the IBFD is a leading international provider of cross-border tax expertise, the seminar promised further insights into the topic by the two invited Transfer Pricing experts. In addition to the researchers of the Institute of Accounting and Taxation, a delegation of practitioners from international tax advisory firms took part. Thus, a lively exchange between the scientific and practical approach was taken on the problem of transfer pricing. Hatsidimitris and Cooper discussed the various methods of



OECD transfer pricing guidelines. First of all, an overview of the different methods was given. Further, the IBFD experts presented practical applications of the OECD guidelines and explained the use of databases in this context. During the seminar and the coffee breaks an intensive exchange between the participants from academia und tax advisory took place. In order to explain the findings not only theoretically, the OECD guidelines were supplemented by descriptive case studies. In particular, the implementation problems in the determination of transfer prices were intensively discussed. Participants' personal experiences also enriched the discussion.

### EDEN Doctoral Seminar on Analytical Accounting Research



In June 2010, Professor Wagenhofer, together with Professors John Christensen (University of Southern Denmark) and Peter Christensen (Aarhus University), taught an EDEN Doctoral Seminar on Analytical Accounting Research in Vienna, Austria. The objective of the Seminar was to teach young researchers and PhD students the structures of analytical models typically used in accounting research. Over the last years, such models have been used to analyze a wide variety of problems within financial and managerial accounting. The models provide convenient structures to analyze decision-making and stewardship uses of accounting information, incentive systems, budgeting, and interorganizational relationships, as well as interactions between accounting information and markets. Various types of models, including agency models, signaling and market equilibrium models, were discussed. Fifteen students from across Europe, including Croatia, Finland, Italy, The Netherlands, Slovenia, Spain, and Austria joined in for an intense week of work.

### EIASM Workshop on Accounting and Economics

This year's EIASM Workshop on Accounting and Economics took place at the Vienna University

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of Economics and Business from June 10 to 11. The workshop offered the opportunity to gain an extensive insight into the current research in the fields of financial and managerial accounting, auditing, and corporate governance.

The presentations were followed by formal discussions provided by other participants. The audience joined in very actively and expressed their views on the topics of matter. CAR's Ralf Ewert, Roland Königsgruber and Marina Ebner participated as discussants. The workshop was chaired by John Christensen (University of Southern Denmark), Christian Riegler (Vienna University of Economics and Business) and Alfred Wagenhofer (CAR).



### Traders' Strategies as a Metric of Market Reaction to Accounting Information



In a paper published in the latest issue of the International Journal of Accounting, CAR's Pietro Perotti proposes to examine traders' strategies, measured in terms of order aggressiveness (i.e. the preference for a more immediate execution of the order), as a metric of market reaction to accounting information. Traders' strategies reflect a larger information set than traditional metrics, which are based on stock prices and trading volume. Perotti presents an empirical application of this metric using data from the Italian Stock Exchange and documents that order aggressiveness increases with the absolute value of unexpected earnings.

#### To know more:

Perotti, P. (2010). Order Aggressiveness as a Metric to Assess the Usefulness of Accounting Information. International Journal of Accounting, Volume 45, Issue 3.

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Pictures: Archive

Date of Publication: September 2010