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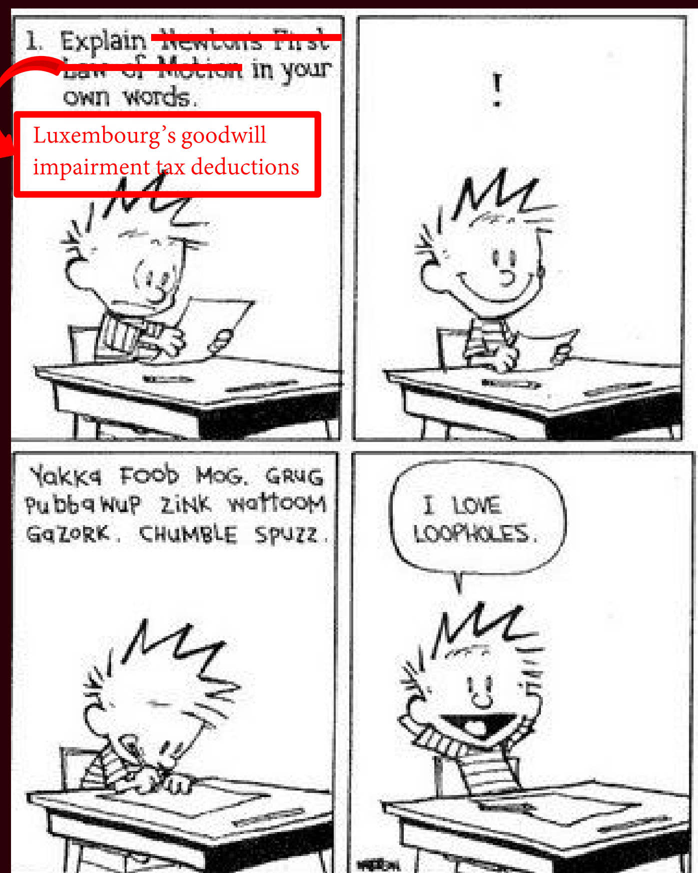
MILES A ROMNEY

Discussion of

"Do Tax Deductions for Goodwill Impairments Affect Financial Reporting?"

Blechinger & Utke

One Man's Take on Loopholes . . .



Agenda

- Summary
- Strengths
- Comments

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Summary

- RQ: Do special tax deductions for goodwill impairments influence financial reporting decisions?
  - Answer: Tax-deductible goodwill impairments induce more timely, rather than larger, impairments.

  - Finding: Multinational corporations (MNCs) with Luxembourg subs are more likely to
    - impair goodwill
    - impair larger amounts of goodwill
  - Caveat: Goodwill impairments ($) don't differ between MNCs with and without Luxembourg subs.

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Strengths

- Interesting and relevant issue
- Contribution to policy debate
- Specificity of analysis

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Comments

- Economic Significance
- Framing
- Alternative Analysis

Economic Significance

- How much are the tax savings and financial reporting costs?
  - Tax Savings
    - $6.1M * 29.22% = $1.78M
  - Financial Reporting Costs
    - $6.1M / 453M shares = $0.013/sh
- BUT . . .

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Framing

- Conditional on a GW impairment, there is no difference in impairment amounts between MNCs with and without Luxembourg subs.

- Why no difference?
  - Taxes don't matter.
  - Incentive and opportunity.

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Framing

- Rework H1 and H2 into H1a and H1b to establish baseline results.
  - Robustness tests validate this baseline.

- Then test whether MNCs with greater ***financial reporting pressures*** are more or less likely to record goodwill impairments given your tax haven setting (new H2).

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Alternative Analysis

- Financial Reporting Pressures (Carter, Lynch and Tuna 2007):
  - Small Earnings Increases
  - Just Meet or Beat Forecasts
  - Leverage
  - Equity Issue
  - Debt Issue

- Proportional Hazard Model (Cox 1972)

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GOOD LUCK!

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