Discussion of
“Do Tax Deductions for Goodwill Impairments Affect Financial Reporting?”
Blechinger & Utke
One Man’s Take on Loopholes . . .

1. Explain Newton’s First Law of Motion in your own words.

Luxembourg’s goodwill impairment tax deductions
Agenda

- Summary
- Strengths
- Comments
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.
Strengths

- Interesting and relevant issue
- Contribution to policy debate
- Specificity of analysis
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 . . .
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.
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).
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)
GOOD LUCK!