


POSTGRADUATE SEMINAR SERIES

Topic Defence Seminar

Topic Title : **Does Auditor Litigation Risk Constrain Corporate Tax Avoidance? Evidence from a Quasi-Natural Experiment**

Presenter : **Mr. Felix OWUSU**
PhD Student of Accountancy

Abstract : I examine how state-level liability regimes within the United States affect corporate tax avoidance. I exploit the staggered adoption of common law principles that increased auditor third party legal liability to test whether litigation risk reduces audit clients' tax avoidance. My results suggest that an exogenous increase in auditor litigation risk leads to a reduction in corporate tax avoidance among treatment companies. I sharpened the inference by separately conducting a test involving New Jersey and California that reduced auditor litigation risk during the sample period and find a positive relationship. The cross-sectional variations among the treatment companies depict that the effect of auditor litigation risk is more pronounced in firms that are less financially constrained, firms in high-risk industries, and when the clients' auditor is a big 4. However, the effect of litigation risk is moderated when clients purchase tax services from their external auditors, consistent with McGuire et al. (2012), who find a positive relationship between clients' purchase of tax service and tax avoidance when the auditor is a tax expert. Motivated by the call to investigate the net benefit of litigation and the existence of variation in the literature regarding auditors' role in corporate tax avoidance, the study contributes to tax avoidance and auditor litigation literature. It addresses the identification problem between auditors' incentives and tax avoidance. Additionally, it establishes the effect of auditor litigation risk on corporate tax behavior. The paper identifies why auditors have incentives to discipline their clients' tax avoidance. My study implies that when auditors have the right incentives, they conduct high-quality audits that reduce corporate tax avoidance. Lastly, it informs policymakers about the net benefit of auditor litigation risk.

Date : **13 May 2021, Thursday**
Time : **11:00 am – 12:30 pm**
Venue : **Zoom Meeting**  **Meeting ID: 989 3129 8730 Passcode: 44621019**
link: <https://lingnan.zoom.us/j/98931298730?pwd=VkrRld2NFTzNIYzlyK0o4WERKeDIMdz09>
Language : **English**



*** All are Welcome ***