

# Chapter 14

## Utilizing 10-K Filings to Profile American Corporate Tax Conduct: A Methodological Proposal

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### ABSTRACT

*This chapter seeks to highlight and evaluate the use of 10-K filings as a methodology to effectively measure corporate tax behavior at publicly traded, American corporations. The chapter delivers examples of how to utilize sections of the 10-K filing (including textual analyses strategy and example of application to recent presidential policy) to evaluate tax behavior in the context of federal regulation. Utilization of both qualitative narrative and quantitative metrics found in the 10-K filing leads to more substantive and meaningful analyses of the corporate tax conduct that impacts the direction of the global economy.*

### 1. INTRODUCTION

Large, American publicly traded corporations (corporations that list and issue shares on a public exchange) are influential taxpayers that arguably dominate the course of global economic relations. Notably, the influence of these larger corporations extends beyond pure economic jurisdiction to exert political, social, and cultural influences that direct global trade relations, multi-national tax burdens and procedures, and shape national policies. In addition, internal corporate policies pertaining to employment conditions at these organizations influence the quality of life of billions of corporate employees.

From a methodological standpoint, an issue previously explored within business and accounting academic literature concerns how to evaluate, and potentially predict, taxation related decision-making from large, publicly traded entities. Key corporate decision-makers (such as the Chief Financial Officer and Chief Executive Officer) do not operate in a vacuum. Rather, in the American context, these corporate leaders make influential decisions under the observation of shareholder investors and regulatory bodies via data provided in public filings.

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More specifically, the United States Securities and Exchange Commission (SEC) requires an annual, public 10-K filing from registered publicly traded entities. This 10-K report is circulated to shareholders before the annual corporate meeting to evaluate executive management and elect the Board of Directors. 10-K financial disclosures provide data for the Internal Revenue Service (IRS) to use in their enforcement processes and to corroborate private information provided in corporations' tax filings (Chen et al., 2021).

The issue of how publicly traded corporations "behave" in a taxation context is generally measured via pure financial metrics. Substantial accounting and business academic literature suggests that corporate firms find 10-K disclosures particularly relevant to improve transparency and alleviate investor concerns through additional narrative disclosure. The presence of a more narrative type of disclosure within the 10-K provides rich content depicting the contextualized opinions of corporate management. Accounting and business studies provide considerable analyses pertaining to how these narrative disclosure patterns relate to taxation related corporate decision-making and conduct.

In essence, this chapter will deliver an explanation and examples of how 10-K filings can describe and contextualize tax behavior of large, publicly traded, American corporations. Arguably, 10-K filings should be used in analyses of corporate taxation decision-making practices to lead to more reliable and substantive conclusions about the tax behavior and trajectory of large corporations. This subject matter is particularly impactful considering the critical influence of these large corporations on the direction of the global economy.

## **2. THEORETICAL FOUNDATIONS**

### **a. Upper Echelons Theory**

10-K disclosures are particularly helpful for two reasons (i) corporate managers have discretion over certain contents and length of disclosures, which allows managerial incentives and priorities to come to light and (ii) majority of prior accounting literature on the relation between risk and corporate disclosure tends to focus on more discretionary disclosures to better show managerial priorities (Bourveau & Schoenfeld, 2017). The 10-K is a publicly available filing that provides a relatively comprehensive and narrative depiction of the current state of a public company's business, including risks and relevant financial metrics. The narrative portion of the 10-K provides management's explanation of the organization's reported financial results, which includes a certification of accuracy and completeness of the 10-K filing from the chief executive officer or chief financial officer (referred to as Sections 302 and 906 certifications). According to upper echelons theory, corporate managements' experiences substantially influence corporate strategic decision-making and behavior subject to certain external limitations, such as institutional and network related pressures (Frerich et al., 2015). Thus, the key driver of the importance of the 10-K filing is analysis of upper management's discretionary disclosures to predict tax avoidance behavior and measure the impacts of tax policies.

### **b. Resource Dependency Theory**

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