

Irregularities in “The Silent Majority” and the Failure (or Absence) of Editorial, Review, and Ethical Procedures at the *Journal of Accounting Research*

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First Draft: October 30, 2020

Current Draft: November 6, 2022

Abstract

Lisowsky and Minnis (2020, hereafter LM) claim to use a panel of “consolidated U.S. parent level” tax returns to study the financial reporting choices of “private U.S. firms.” This note proves two things. First, tax returns are not filed at the consolidated parent level. As such, LM do not have the data they claim; upon request, they are unable to produce the data they claim to use in the paper. Consolidated parent-level data is vital to LM’s research question: for obvious reasons, the financial reports of subsidiaries lack meaning and do not represent the financial reporting of a “firm.” Without a doubt, LM should be retracted based on this simple, indisputable fact. Second, I prove that the LM authors were aware of these issues well before the publication of their work. As such, LM indisputably represents academic misconduct by the authors. Given that the LM authors rely heavily on proprietary data in their other work, and given that LM claim to use proprietary data that cannot exist, researchers and regulators should exercise caution in relying on these authors’ other work until claims made in those studies can be verified by both independent academics and knowledgeable practitioners. I also highlight that the authors’, *Journal of Accounting Research*’s (JAR’s), and publisher’s responses to these allegations are incorrect, often absurdly so and include attacking the messenger, which worsens the misconduct and falls clearly into categories 6 and 7 on Gelman’s Ladder of responses to sound criticism of academic work. I call for a full, independent investigation of LM, JAR, and Wiley.

Data Availability: Data used in this study are available from public sources identified in the text.

The *Journal of Accounting Research* (JAR) has attempted to cover up research misconduct by arguing incompetence, claiming neither they nor the LM authors understand basic accounting facts. This alone provides damning evidence against any claims that JAR is a legitimate academic journal. One purpose of this paper is to wholly rule out claims of incompetence. Please contact me should there be some claim that I have not ruled out. Also, this paper is lightly edited; please let me know of typos or other errors.

Given that research misconduct, not incompetence, is the only possibility for LM yet JAR tolerates this misconduct, JAR's claims to be a legitimate academic journal cannot be supported in any way. The Academy needs to end tolerance for fraud.

“And I hear them saying, ‘You’ll never change things, and no matter what you do it’s still the same thing.’ But it’s not the world that I am changing. I do this so this world will know that it will not change me.”

- Tony Arata/Wayne Tester/Garth Brooks, 1995

“... you've got to stand for something or you'll fall for anything. You've got to be your own man not a puppet on a string. Never compromise what's right, and uphold your family name. You've got to stand for something or you'll fall for anything.”

-Buddy Brock/Arron Tippin, 1990

I. INTRODUCTION

“The authors’ misstatement prevented the issue from being discovered in the review process”

- SFS Statement on Bird and Karolyi, 2019

“...you’re famous now and there’s no doubt, in all the places you hang out, they know your name and they know what you’re about”

- Doug Hopkins/Gin Blossoms, 1992

Throughout his career, James Hunton published research primarily relying on proprietary data that only he could access (Malone 2015). In 2012, it was discovered that one of Hunton’s articles claimed to use data from a large number of audit offices, but the number of offices in the study was too large to be possible (Retraction Watch 2012). This precipitated an investigation that determined Hunton had conducted research misconduct and which was intertwined with the retraction of most or all of Hunton’s published articles (Malone 2015).

In this article, I similarly identify recent research claiming to use data which does not exist. Specifically, Lisowsky and Minnis (2020, *JAR* hereafter “LM”) claim to use IRS Form M-3 data to access “consolidated parent tax returns.”¹ I discuss in this paper why these data cannot and do not exist. In brief, it is often illegal for GAAP consolidated parent firms to file consolidated tax returns. To be clear, it is possible that *some* data underlies the LM study. Whether or not data exists is irrelevant to the issues raised here; the data *claimed to be used* in LM do not exist. For LM to draw meaningful conclusions, it is vital their data consist of parent firms. Though I made this point clearly to the *Journal of Accounting Research* (JAR) in my initial report, JAR relied solely on the fact that, allegedly, some data exist. Importantly, JAR acknowledges that fact that the misreporting of the data is “relevant for the paper’s research question.”² Thus, there is no dispute: both JAR and I agree that LM misreport their data, and the

¹ In order to avoid inflating fraudulent work by fraudulent researchers, I have not included most of these authors works in the References section, but have otherwise made them easily identifiable.

² JAR’s letter is available on my Twitter page: @whistleblowur20. JAR complained about my tone in the original report (Hur 2020), which I posted for independent review by the academy. By contrast, independent readers

misreported data is inappropriate for the LM study. This warrants retraction. There is a minor dispute remaining because it is not clear to me that LM have any data. Again, as I point out, this is largely irrelevant to the fact that the LM intentionally lies about its data. Having actual data is especially important for LM because the paper “is largely descriptive” (LM, p. 553). A descriptive study of nonsense data is wholly worthless.

As acknowledged by JAR, parent-level firm data is necessary for LM (i.e., it is vital for the claimed data to actually exist) because the unit of observation in their study, as in most studies, is a “firm” – the parent entity in charge of the decisions of the parent and all of its controlled (generally, > 50% owned) subsidiaries, where subsidiaries include both partnerships and corporations.³ Yet, there is no indication that the IRS tracks parent firm information, and tax laws generally prevent the filing of consolidated tax returns for “firms.” Rather, the IRS’s purpose is to administer tax law and collect tax based on tax returns filed under the tax law. As such, LM study “tax return filers,” not parent firms.⁴ Absent a concerted effort to identify GAAP consolidated parent firms, there is no natural source of this data in tax returns. Rather, tax returns often capture *subsidiaries* rather than firms. I provide definitive evidence that LM do not – and do not even attempt to – distinguish subsidiary tax returns from parent tax returns. LM’s study of accounting choices requires parent-level data; if these data were not required, LM would not need to claim that they had this data. A study of subsidiary accounting choices (i.e., LM) is meaningless because a) the parent makes the subsidiary’s decisions, b) external users use the parent’s (or, in the case of some private firms, the parent’s owners’) financial information, and c)

(including Editors) thanked me for my service to the profession. Regardless, I made sure to tone this version up to address JAR’s concerns.

³ The definition of a “firm” is a fundamental question in economics (e.g., Coase 1937; Grossman and Hart 1986). I do not propose to resolve this question, but a) define a firm as a parent and all controlled subsidiaries and b) note that tax returns do not capture this definition of a firm, but instead capture tax returns filed under the tax laws.

⁴ LM (FN 3) highlight, quite comically, an “unfortunately titled paper” listing “private firms” in its title but excluding large private firms. LM is even more unfortunately titled; it is not clear that LM study private firms at all.

the parent can arbitrarily divide activities across subsidiaries (e.g., all debt at one subsidiary, all payroll at another, etc.). Often, subsidiaries are legal fictions – separate legal entities that may be required to file tax returns, but are not operationally or physically separate from the parent.

Finally, I note that the LM authors were aware that their data did not exist. I provide a detailed timeline regarding the multitude of times the LM authors were advised that their data was misreported. At least one of the LM authors was told in person during at least one conference (no later than 2016) that their data description did not match their underlying data and that their data, as described, did not exist. Similarly, at least one of the LM authors was e-mailed a description of several of these issues at least once no later than 2018.⁵ Further, Lisowsky has written papers about the facts pointed out here (e.g., Lisowsky 2009, *JATA*) and LM point out the fact that tax returns do not reflect consolidated parents (LM, p. 563). As in the Hunton case, this data issue has ramifications for the LM authors' other work, especially their work claiming to use proprietary data. I also point out the absurdity of most of the author's, JAR's, and Wiley's responses to the LM fraud.⁶

This paper proceeds as follows. In Section 2, I briefly summarize the issues in LM. Using publicly available data from the IRS Statistics of Income (SOI) Division, I show that LM's data capture all (or nearly all) tax returns, with no adjustment for GAAP versus tax consolidation issues (i.e., no attempt to identify a consolidated parent firm). I further show that 10% to 100% of the partnerships (Form 1065) in LM's study are actually subsidiaries of publicly traded firms rather than "private firms." In Section 3, I explain why the fact that *some* data may (or may not) underlie LM is irrelevant to the issues raised here. Again, despite spending a whole section on

⁵ While these facts allow me to completely rule out the alternative explanation – that the authors simply do not understand their data – such an explanation would also invalidate the LM study and these authors' other work.

⁶ For the remainder of the paper, references to JAR also include Wiley (which has fully backed JAR) and JAE (where Mark Lang, accepting editor of LM, is also an editor).

this, JAR ignores this point in defending LM. In Section 4, I provide a detailed discussion of the issues in LM (a casual reader may skip this section and rely on Section 2). Section 5 dispels several myths that may be used to argue that there are no issues with LM. Section 5 also details the absurdity of JAR's responses to misconduct. Section 6 discusses the impact of these revelations on other research by the LM (and other) authors. Section 6 also details a timeline of the fraud by including what and when the LM authors were told about their misreporting of data. Section 7 concludes.

II. ISSUES

“Fundamental errors: Authors have an obligation to correct mistakes once they discover a significant error or inaccuracy...”

- Springer, Author Guidelines (similar language for Elsevier, AFA, etc.)

“Journals should consider retraction when errors are so fundamental that they invalidate the findings.”

- Wiley, Ethics Guidelines (<https://authorservices.wiley.com/ethics-guidelines/index.html>)

I briefly discuss why IRS tax return data does not reflect consolidated parent-level (i.e., firm) information. GAAP *requires* consolidation when a parent firm owns more than 50% of another entity.⁷ In contrast, tax law *allows* consolidation only when one *C-corporation* owns 80% or more of both the vote and the value of another *C-corporation*. However, tax law does *not* allow consolidation by, or of, any entity organized as a partnership regardless of ownership level, whereas GAAP has no such rule. This is especially important because partnerships are an increasingly common form of business entity (Tax Foundation 2014; Smith, Yagan, Zidar, and Zwick 2019) that are often owned by corporations (Agarwal et al. 2018). Thus, tax returns include some tax filings where the GAAP and tax consolidation agree (i.e., the tax return

⁷ This becomes more complex when factoring in the GAAP variable interest entity (VIE) rules. Regardless, VIE rules do not apply for tax purposes and therefore consolidation still differs in most cases.

represents a firm), but also contains instances where dozens (or hundreds) of *separate* subsidiary tax returns exist for a single consolidated GAAP parent. By definition, given the U.S. tax laws, tax returns must (vastly) exceed the number of firms in the economy. Without adjustments to identify the parent, tax return data will include many separate subsidiary returns despite these subsidiaries being controlled by a parent (wherein the parent plus the subsidiaries equals the “firm,” and the tax returns of the subsidiary entities alone provide no insight into the firm). I provide additional detail on these issues and their importance in Section 4.

LM describe their data source as “the IRS ... provid[ing] ... all Schedules M-3 for entities filing Forms 1120, 1120S, and 1065 for fiscal years 2008-2010 at the consolidated U.S. parent level.” Schedule M-3 is filed for *tax return filers*, not firms, with more than \$10 million in assets.⁸ LM provide no detail on how the IRS identifies the consolidated parent firm or on why the IRS would have systems in place to determine the consolidated *GAAP* parent firm. Instead, the IRS likely focuses on the *tax* consolidated filing, which does not represent a firm.⁹ As discussed later, GAAP and tax consolidation rules differ substantially, and it seems unlikely that the IRS has a tool that identifies a consolidated *GAAP* parent, which is the unit of study – i.e., the “firm” – that LM intend and purport to study. In contrast, the financial reporting of a non-parent tax return filer (i.e., a subsidiary), which appear to be abundant in LM’s tax return data, is unlikely to be meaningful. Thus, these subsidiary observations are not meaningful units of observation in a financial reporting study and their inclusion invalidates LM’s conclusions.

LM identify 234,168 C- (Form 1120) and S- (Form 1120S) corporation returns from 2008

⁸ In fact, the Form 1120 (i.e., C-corporation) M-3 instructions state explicitly: “If the U.S. corporation filing a U.S. income tax return ... prepares its own financial statements but is controlled by another corporation ... the U.S. corporation ... must use for its Schedule M-3, Part I, its own financial statements and not the financial statements of the controlling corporation.” **This proves LM’s (alleged) data is, by definition, invalid for corporations.**

⁹ The Form 1120 (i.e., C-corporation) M-3 includes a checkbox on the M-3 indicating a “consolidated return.” Yet this checkbox identifies a consolidated *tax* return. A consolidated tax return may consist of multiple legal entities, but has no direct correlation with GAAP consolidation (and in fact has explicit differences versus GAAP).

to 2010 with over \$10 million in assets, excluding publicly traded firms. According to SOI data, a total of 284,469 Forms 1120, 1120S, 1120-F, 1120-L, 1120-PC, 1120-RIC, 1120-REIT, and 1120-A with over \$10 million in assets were filed over those 3 years.¹⁰ Unfortunately, before 2014, the IRS does not break out these return types separately by asset size. However, there are about 5,000 publicly traded firms each year – mostly corporations along with a very small number of REITS and publicly traded partnerships (e.g., Li and Weber 2009; Utke 2019) – or about 15,000 public firm returns over LM’s 3 years. Thus, there are about 270,000 (284,469 – about 15,000) non-publicly traded corporate filers with assets over \$10 million. Using the 2014 data (total corporate return filings in 2014 are roughly in line with 2008-2010), I identify about 4,500 REIT and RIC filers with assets over \$10 million, or 13,500 over LM’s 3 year sample period. Thus, the maximum number of tax returns filed, meeting LM’s criteria but *without any adjustment for book versus tax consolidation differences*, is about 256,500 (270,000 – 13,500). I am unable to identify the 1120-F, 1120-PC, 1120-L, and 1120-A filers in the SOI data, but these returns likely make up the bulk of the difference between LM’s approximately 234,000 returns and the remaining 256,500 returns per the SOI. This suggests that *LM make no adjustment to attempt to identify consolidated GAAP parents but instead use all tax returns, regardless of whether those tax returns are filed by parent firms or by subsidiaries.*

Turning to partnerships, which allow me to more clearly prove the LM do not use consolidated parent returns, LM claim to obtain consolidated parent-level tax returns of partnerships, which file Form 1065. Importantly, as discussed further in Section 4, it is *illegal* for partnerships to file consolidated tax returns. According to the IRS SOI data, during LM’s 2008 to 2010 sample period, there were 389,560 partnership returns filed with over \$10 million in assets

¹⁰ SOI data available at: <https://www.irs.gov/statistics/soi-tax-stats-corporation-tax-statistics>

(i.e., eligible for LM’s study).¹¹ LM claim to begin their study with 395,908 non-publicly traded partnerships. While SOI data are estimates – so the excess of LM’s returns over SOI’s returns does not necessarily indicate that LM’s data is fabricated – this indicates that, at the least, LM make no adjustment to remove partnerships that are subsidiaries of parent firms, including subsidiaries of public parents.

Agarwal, Chen, and Mills (2018) find that the average public corporation with partnership subsidiaries owns a greater-than-50% interest in 17 partnership subsidiaries. These entities are likely consolidated for GAAP purposes but must file separate tax returns.¹² Agarwal et al. (2018) identify 88,582 partnerships owned by publicly traded firms over their 8 year sample (which overlaps with LM), or about 11,073 per year. Assuming equal distribution of observations across years, LM includes up to 33,219 (calculated as 11,073 x 3) partnerships, or 10% (100%) of LM’s full (firm-level test) sample, owned and controlled by public firms.¹³ Overall, a subsidiary could be consolidated for GAAP purposes, but still file its own tax return, and this issue pervades the data used in LM. Further, JAR acknowledges that LM incorrectly include subsidiary data, which results in all of the issues I raise in this paper. In sum, the difference between the data that LM have/use and the data they claim to have/use represents a significant misstatement (not an error, because the distinction was known to the LM authors), which renders LM’s inferences meaningless, as broadly acknowledged by JAR.

In sum, JAR agrees that “on a factual level – the description of the data in sample in LM’s article [is] unclear and ... misleading... [W]e consider [these issues] relevant for the

¹¹ SOI data available at: <https://www.irs.gov/statistics/soi-tax-stats-partnership-data-by-size-of-total-assets>

¹² The use of subsidiaries or other related but unconsolidated entities (known as “brother-sister” entities) is much more common in private firms than public firms due to, e.g., estate planning considerations (e.g., Checkpoint 2018). Consider a family limited partnership (FLP) set up to obtain estate tax benefits (e.g., Cove 2019). By law, none of the family’s business entities can be consolidated by the FLP, even if 100% owned and controlled by the FLP.

¹³ Agarwal et al. (2018) do not appear to impose a size threshold on the partnerships they identify, although their sample starts with large public firms. Thus, I assume that the partnership subsidiaries are relatively large as well.

paper’s research questions.” This clearly indicates the “errors” – or, in more accurate terms, lies – in LM fundamentally invalidate LM.

III. SEMANTICS

“It depends upon what the meaning of the word ‘is’ is”

- President Clinton, August 17, 1998

*“**Falsification** is manipulating or omitting research materials, data or processes or altering equipment used in the research in such a way that the results of the research do not accurately reflect the research record. **It also includes incorrectly describing data collection procedures and analysis as well as failing to fully disclose data limitations.***

Fabrication is inventing data and reporting results based on the fabricated data.”

- AAA Publications Ethics Policy, 2014 (emphasis added)

It is important to highlight that I am not arguing that data underlying the LM study do not exist. As noted earlier, *some* data may exist, and I take no position on whether or not data exists. However, the existence of underlying data, if any, is irrelevant to the issues I raise because the data, *as described*, cannot exist (see Sections 2 and 4). In this section, I explain why it is irrelevant whether *other* underlying data exist given that the data *as described* cannot exist. (Bolded because JAR apparently did not read or understand this in my initial submission). Below I provide 3 examples – pick your favorite – to demonstrate why LM’s findings are invalid based on their invalid data (data invalidity proven above and below).

Example 1: Assume that the US Department of Agriculture (USDA) implements a policy to provide additional farm subsidies in a way to allow perfect identification (e.g., random assignment to counties within states). Assume I conduct a study examining the increase in the number of cows in the treated county versus the neighboring untreated counties. That is all well and good, but perhaps not very exciting (aside from documenting the economic significance of the effect). But instead of submitting the paper to the *American Journal of Agricultural*

Economics, assume I modify my story so that rather than farm subsidies, I claim my treatment relates to concealed carry laws and my outcome is crime, not cows. I now write a study that “documents” that when counties allow concealed carry, crime goes up. Assume I now submit this to *American Economic Review*, where it published thanks (in part) to the perfect identification strategy. Data underlying this study exists. But the data, *as described*, do not exist. Thus, the study is not valid. LM is identical to this example.

Now, perhaps for several reasons, you may be thinking that I am quite foolish – obviously a referee could look into the law and see that there were no randomly implemented concealed carry laws, and that the study is claiming that a farm law is a gun law. Yet, correspondingly for LM, it would be simple for a referee to look into tax law to see that GAAP and tax consolidation differ, that it is *illegal* for partnerships to file consolidated parent-level tax returns, that the number of partnership tax returns existing for 2008-2010 (per the IRS) is lower than those claimed to be used by LM, and so on, as outlined in Section 2. The fact of the matter is, as foolish as my example may seem, it starkly illustrates the issues with LM and highlights major imperfections in the peer review process. LM’s invalidity did not inhibit its publication.

Example 2: Assume I want to document effects of a state-level policy, say Medicare expansion. This fits nicely into the LM example because, as with subsidiaries nested within parent firms, I can think of localities nested within states. Assume that Medicare policy is set at the state level and is deterministic. The states allocate Medicare arbitrarily within the state, so that each locality need not reflect the state (identical to parents and subsidiaries). I illustrate this by assuming that large states get more coverage than small states; say New York (population ~20 million) has 90% coverage and Rhode Island (population ~1 million) gets 50% coverage due to the funding formula. Assume these are the only states that exist. I could correctly run a

regression (Medicare Coverage % = Population in millions) on this data and, with only two data points, determine the exact data generating process (DGP). This regression demonstrates that that the government funds Medicare to cover 47.9% of the population and for each million additional people, covers 2.1% more of the population. See Figure 1.

Now, instead of doing a correct model at the state-level (i.e., the parent level for LM), assume we jumble together states and localities (exactly like LM) without distinguishing between the two. I use counties as localities for simplicity, but you could jumble in cities, towns, school districts, etc. Rhode Island has 5 counties and New York has 62. I used the approximate population for Providence (650k) and New York City (9 million) and assumed that the remaining population was equally distributed across the counties. Notably, states/parents arbitrarily determine their number of counties/subsidiaries. I randomly generated Medicare coverage within the counties (recall the state/parent arbitrarily assigns this), between 40% and 60% for RI (setting RI itself and Providence at 50%) and between 85% and 95% for New York (setting NY and New York City at 90%). The first obvious issue is double counting. My model has a population of 42 million (NYS = 20, NYC + other counties = 20; RI = 1, Providence + other counties = 1) versus the actual population of 21 million. This is identical to LM's double (or more) counting issue. Figure 2 presents the regression results. I find that the federal government funds 85% coverage as a baseline with no effect for larger populations. This is wrong because, under the DGP, each million of additional state population gets 2.1% more population coverage. Like LM, these jumbled results are meaningless.

Example 3: This example address's JAR's claim of incompetence – i.e., “we learned over the course of the investigation [basic accounting facts taught to upper-level undergraduate and lower-level graduate students]...” Assume the *Journal of Aardvark Research* (JAR)

publishes a new study on aardvarks by authors, L and M (LM). LM document astounding new facts about aardvarks. For example, LM descriptively document that aardvarks are made of metal, not flesh as had previously been believed. However, it becomes obvious that LM did not study aardvarks, a fact which LM are aware of. Instead, they studied airplanes. JAR's "expert" reviewer and editor were unable to figure out LM did not study aardvarks. Subsequent to publication, JAR is told that LM do not study aardvarks. In fact, it is obvious to nearly everyone except JAR and their "expert" reviewer and editor that LM study *airplanes*. Thus, the "new facts" documented by LM are meaningless. When JAR is told about this, they respond by saying that they didn't know what aardvarks – the subject of their journal – are, and couldn't tell that aardvarks were not airplanes. This nonsense would not be tolerated in legitimate academic circles. How could JAR claim it is a journal about "A" when it simultaneously claims it lacks basic understanding of "A." This is the case with LM – this example is meant to be absurd, but is also sadly true – to show the absurdity of JAR and LM.

IV. DETAILED DISCUSSION

"... the [fraudster] fabricated [a sample] that did not exist – a particularly egregious act that could have resulted in [practitioners] (unknowingly) basing decisions ... on fraudulent data... Other casualties include... faith in the peer-review process; and, importantly, the public's trust..."

- Laine, 2016

4.1 Consolidation

As discussed earlier, GAAP requires consolidation in far more cases than tax. Ignoring complexities, GAAP sets the *mandatory* consolidation threshold at greater-than-50% ownership, while tax sets the *elective* consolidation threshold at 80% ownership and also prohibits consolidation for certain entity types regardless of the ownership percentage (IRC § 1501, 1504).

Thus, by definition, tax returns will only equal GAAP consolidated parent firms in limited instances. In fact, by definition under the tax law, tax return filings greatly exceed GAAP consolidated parent firms. As such, tax returns do not represent firms. Rather, they represent tax return filers, many of which are subsidiaries of parent firms. These differences arise out of the different purposes of GAAP and tax reporting. GAAP attempts to fairly present the financial position of a firm, while tax law focuses on raising revenue from tax return filers.

If attempting to study private firms using tax return data, it is important to understand that tax return data can include the following: a) the consolidated private parent firm itself (i.e., the actual private firm that should be studied), b) any book-consolidated but tax-unconsolidated subsidiaries of the private parent firm (which should be ignored because they are both controlled and book-consolidated by the private parent)¹⁴, and c) all the book-consolidated but tax-unconsolidated subsidiaries of *public* firms (which should be ignored because they are controlled by a separate public firm; as noted earlier, LM capture a non-trivial number of these subsidiaries). Because there can exist only one parent firm, but unlimited subsidiaries, tax returns include a substantial number of subsidiaries and relatively few parent firms. That is, unadjusted tax return data is accurate for studying private firms *if and only if* the firm is C-corporation with no significant affiliation with/ownership of, or by, other entities (except for other 80%+ owned C-corporations where a consolidated tax return filing *election* is made).¹⁵ As such, using tax return data to represent private firms is misleading due to tax returns being filed for tax-

¹⁴ This could also include “brother-sister” entities that are not consolidated even for GAAP purposes but are controlled by one or a few individuals and function as a whole rather than independently (see, e.g., Nitti 2018).

¹⁵ LM note that public firms can also be owned and cross-owned by other entities (e.g., Antón and Polk 2014), making their tax return data equivalent to commonly studied Compustat data. LM’s comparison is unfair/misleading because, with publicly traded firms, researchers can see, consider, and address these links. Further, the institutional owner-to-firm link is much weaker than the parent-to-subsidary link, and subsidiary reporting is meaningless.

unconsolidated subsidiaries that are actually controlled by a parent firm.¹⁶ In sum, a subsidiary could be consolidated into a parent firm for GAAP purposes, but still file its own tax return, and this significantly affects LM's results and interpretations. Note that JAR agrees that LM are misleading in presenting their data.

4.2 Infinite Counting

In addition to pure mismeasurement (Section 4.3) or the fact that the choices of subsidiary firms are generally made by parent firms (Section 4.4 and 4.5), GAAP versus tax consolidation differences lead to another important problem: double (or more) counting of balance sheet items. For both GAAP and tax reporting, the parent firm generally reports the total, consolidated balance sheet items including 100% of the assets and liabilities of each GAAP-consolidated subsidiary. However, each subsidiary will *also* report its own balance sheet items in its tax filing as well.¹⁷ Further, when there are minority owners, those owners will *also* report their less-than-50% share of the subsidiary. In a tiered structure (i.e., A owns B owns C), the duplication is intensified: C's assets are counted once, then C's assets are counted again and included in B's assets, then B's assets (which already include C's assets) are counted again and included in A's assets, then the minority owners' share of B and C's assets are counted again in the minority owners' assets.¹⁸ Ownership chains can extend beyond three tiers, increasing this

¹⁶ In contrast to private firms' tax return data, GAAP versus tax consolidation problems are minimal for studies examining tax return data of publicly traded firms (e.g., Towery 2017; Agarwal et al. 2018) for a number of reasons (see also Hanlon 2003 and Mills and Plesko 2003). First, for publicly traded firms, an employer identification number (EIN) is available to match a specific parent firm, and its financial disclosures, to a specific tax return filing. This ensures that the tax return information obtained is for the appropriate parent entity. Any and all book-consolidated but tax-unconsolidated entities, which file separate tax returns, are ignored because they are not the ultimate parent and do not match to the parent firm's EIN. Second, even when information on the tax forms is misreported or entered incorrectly by the IRS or through the IRS's electronic systems (Mills et al. 2002; Slemrod 2016), the public financial information is available to account for these issues. These solutions are not available when examining tax return data of non-publicly traded entities.

¹⁷ The subsidiary as a separate entity is essentially ignored for GAAP purposes, but not for tax purposes.

¹⁸ Mathematically the tax return data will include the assets as follows: C Alone + (C Alone + B Alone) + (C Alone + B Alone + A Alone) + amount on C & B assets on the minority owner's books. Rearranging terms, where MI equals minority owners' share, "real" assets = C + B + A, but tax returns capture: (3C + MI*C) + (2B + MI*B) + A.

problem. As such, any estimate of economic significance of private firms measured by tax return data will be massively overstated, and otherwise distorted, by these duplicated amounts. Note that JAR agrees with this issue, yet does nothing to correct the research record.

4.3 Data Validity

One well known limitation to using tax return data when studying public firms is data validity (e.g., Mills, Newberry, and Trautman 2002; Slemrod 2016). For example, Mills et al. (2002) report that total assets, according to tax return data, are overstated by \$1.9 *trillion* compared to book balance sheets for their sample of publicly traded firms (e.g., a double counting problem). Further, tax returns are not intended to accurately report balance sheet items but instead focus on reporting income and expense items. It is well known that tax return items that do not affect taxable income are often misreported by taxpayers (e.g., Mills et al. 2002; Slemrod 2016). The misreporting, “infinite counting,” and consolidation issues likely result in massive misstatements of balance sheets in tax return data (e.g., Mills et al. 2002), making it difficult to calculate firm-specific measures that are easily obtainable for public firms (e.g., firm size, ratios, etc.). Overall, book versus tax consolidation issues are particularly problematic when studying balance sheet positions reported in tax returns. Researchers must carefully understand the implications of the consolidation issues before drawing conclusions.

4.4 Holding Companies

LM eliminate holding companies from their dataset (p. 559). Yet this is puzzling because holding companies *are often the parent firm*. To use a simple example based on public firms, LM’s study would include each separate Loews Corp. subsidiary but exclude Loews Corp. itself (the same would be true for Leucadia National Corp. [now Jefferies Financial Group], IAC, etc.). Yet, the fact that Loews owns these subsidiaries has massive implications for the financing and

financial strength of each subsidiary. Holding companies are even more important for private firms because holding companies are often created for estate planning purposes (e.g., a Family Limited Partnership [FLP] controlling all of a family's businesses). Thus, this research design choice is likely to exacerbate the primary problems in LM by decreasing (increasing) the relative number of important parent (meaningless subsidiary) firms in LM's data.¹⁹

4.5 Do Subsidiary Financial Statements Matter?

Entities under common control (e.g., the control of a parent) are unlikely to behave similarly to stand-alone firms. Parent firms may divide assets or liabilities up in ways that do not make sense from a stand-alone perspective for legal liability reasons and because creditors and other financial statement users are often indifferent to the parent firm's underlying structure. Relatedly, affiliated entities can support each other, distorting the meaning of each separately reported financial position (e.g., Beaver et al. 2019). Thus, firm-specific measures are distorted when these relationships cannot be fully identified, as is the case with LM's tax return data. Hence, using tax return data to gain insight into the relation between firm fundamentals and firm financial reporting choices, without consideration of subsidiaries, is deeply flawed.

Relatedly, LM's inability to identify the parent firm and subsidiaries leads to a lack of independence in the data, another point with which JAR explicitly agrees but ignores. That is, a very large firm may control several subsidiaries. In reality, these entities will behave as a single economic unit (i.e., firm), despite appearing as several separate tax returns. Standard errors are likely incorrect due to this lack of independence in the data. More broadly, the choices and activities of the entire firm, rather than the separate entities in tax return data, should be examined. Data for each individual subsidiary is unlikely to be meaningful (e.g., allocated

¹⁹ This choice does slightly mitigate the infinite counting problem by removing the parent (A in the earlier example).

arbitrarily by the parent) when entities are consolidated for accounting purposes, or otherwise under common control but not consolidated (e.g., “brother-sister” entities owned by an individual; individuals cannot file consolidated returns), leading to incorrect inferences. Instead, the entire firm should be considered as a single unit.²⁰

Regarding LM’s specific investigation into financial reporting choices, it is important to point out that, by definition, financial accounting is done at the consolidated parent company level under GAAP, with the accounting reports of subsidiaries being largely irrelevant and uninformative (e.g., subsidiary accounting reports are often ignored and not provided to outside parties). This raises an issue related to the audits of these financial reports. In general, financial statement audits focus on the parent-level, consolidated firm including consolidated subsidiaries, with little concern for tax distinctions or legal structure that are important in tax return filings. Subsidiaries may produce their own GAAP financial statements for use in consolidation but, in general, these statements are not separately audited (Bird 2002).²¹ However, the activities of the subsidiaries are generally encompassed by the audit of the consolidated entity.²² When these subsidiaries refer to their individual financial statements on their tax returns, they will likely indicate that they (1) use GAAP and (2) did not obtain an audit, despite being included in the parent’s audited consolidated financial statement.²³ This suggests that the perceived audit rate

²⁰ Common control of unconsolidated subsidiaries is exceedingly frequent in tax data. See e.g., Cheng and Morrow (2019) for related discussion.

²¹ Note that a subsidiary audit might occur if the subsidiary is being sold or carved-out. Carve-out audits require an audit of the current year and two prior years and typically entail high fees (e.g., Bird 2002).

²² That is, a consolidated (but legally separate) subsidiary’s activities will be sampled, along with the parent, as part of the auditors’ procedures in a consolidated audit. Large subsidiaries often have on-site audit teams coordinating with the team auditing the consolidated parent. Because the activities of the subsidiary are audited, I consider the subsidiary audited even though separate financial statements are not audited. Viewed differently, when a consolidated parent financial statement exists, subsidiary *financial statements* generally have little meaning, but the subsidiary’s *actual activities* are audited as part of the parent’s audit.

²³ LM’s online appendix spends a significant amount of space arguing that firms’ report their audit status accurately. But accurate reporting is the problem – the subsidiary is unlikely to be audited itself, but is audited as part of the parent’s audit. This leads to a massive understatement of the audit rate in LM.

when using tax return data including subsidiaries is lower than the actual audit rate. Thus, in addition to issues with the reported financial numbers in tax return data, especially balance sheet items, using tax return filings to infer financial reporting choices is also problematic.

V. COUNTERARGUMENTS (AKA, MYTHS) AND ABSURDITIES

5.1 Myth 1: The IRS validates research performed with their data

This myth lacks basis. The IRS is a data provider. Making this claim is equivalent to saying that WRDS, Compustat, IBES, CRSP, Audit Analytics, Thomson, etc. validate the research done using their datasets. Of course, such a claim is absurd. The IRS *does* perform a review to ensure that no confidential taxpayer data is disclosed. But this does nothing to validate the research. The IRS explicitly disclaims responsibility for research using its data (see LM).

5.2 Myth 2: Firms do not have subsidiaries

This myth is absurd at a level barely warranting discussion (yet discussion indicates several accounting academics hold this view, raising serious concerns). However, many financial personnel at firms, even at higher levels, do not understand the legal structure of their firm. Frankly, they do not need to. To understand the legal structure of a firm, one would generally need to speak to the tax and/or legal staff. Of course, one could identify some (likely smaller) firms that do not have subsidiaries. Yet, given the publicly disclosed structures of firms (see especially work by Scott Dyreng, Brad Lindsey, and colleagues in this area), it is not reasonable to believe that subsidiaries do not exist. Agarwal et al. (2018) also confirm that subsidiaries exist.

Further, many private firms are now owned by private equity funds, which control the firms (e.g., Mason and Utke 2019). Private equity-owned entities file multitudes of tax returns. Because the private equity firm controls the firm (and all of its tax filing entities), examining tax

returns without identifying the ultimate owner (i.e., parent) is meaningless. Misinformed individuals (primarily accounting academics), or individuals intentionally trying to misinform or mislead others for their own benefit (often academic accounting reviewers and authors like LM), sometimes claim that private equity funds do not control the private firms they own. Again, while this may be true in some limited cases, it is broadly untrue. In fact, the reason private equity exists is to control and adjust firms' operations to maximize value (see Jensen 1989). Anyone having even a brief discussion with a senior level manager at a private-equity-owned private firm will be familiar with the (often expletive-laden) rants against the private equity fund's exercise of control over the firm. Thus, private equity-owned tax return filers would also need to be separately accounted for to a) attempt to identify the "firm" and b) draw proper conclusions in a study of private firms. I return to this point later regarding LM's absurdities.

5.3 Myth 3: The IRS has a system in place to identify parent firms

The IRS is primarily concerned with tax administration. Identifying GAAP parent firms, while potentially insightful, is not a necessary to properly administer the tax law. Based on the standard tax forms, the IRS has no easy way to identify parent firms. As in the Hunton case, the LM authors must be able to point to the IRS system from which the IRS identified consolidated parent firms for LM's use. If the LM authors cannot, the data cannot exist. In this paper, I prove that LM do not have the data which they claim to, as JAR agrees. Thus, LM is meaningless.

5.4 Myth 4: The M-3 includes a "checkbox" to identify consolidated parent firms

Another patently false claim is that the M-3 identifies consolidated parents. In fact, the Form 1120 (C-corporation) M-3 identifies *consolidated tax returns*.²⁴ A consolidated tax return simply means that more than one legal entity is filing in a single return (e.g., a 100% owned

²⁴ From the 1120 Form M-3 instructions: "A U.S. consolidated *tax* group must file a consolidated Schedule M-3" (emphasis added). The M-3, not surprisingly, focuses almost entirely on tax, not GAAP, consolidation.

corporate subsidiary of a C-corporation). As discussed earlier, consolidation for GAAP and tax fundamentally differ. This checkbox has no meaning for identifying parent firms.

5.5 Myth 5: All subsidiaries are corporations

Parent firms, whether a corporation or partnership, can have subsidiaries of a different organizational form. This is obvious from Scott Dyreng's work and publicly available datasets, as well as 10-Ks of numerous public firms. This is also obvious from Agarwal et al. (2018). Even when subsidiaries are corporations, GAAP and tax consolidation rules differ.

5.6 Absurdities: Overall

Walker (2022) – identifying fraud JAR has approved in another paper – points to Gelman's (2019) Ladder of responses to legitimate criticism of academic work. Following Walker, I reproduce the ladder below. Proper (improper) responses are higher (lower) on the ladder.

1. Look into the issue and, if you find there really was an error, fix it publicly and thank the person who told you about it.
2. Look into the issue and, if you find there really was an error, quietly fix it without acknowledging you've ever made a mistake.
3. Look into the issue and, if you find there really was an error, don't ever acknowledge or fix it, but be careful to avoid this error in your future work.
4. Avoid looking into the question, ignore the possible error, act as if it had never happened, and keep making the same mistake over and over.
5. If forced to acknowledge the potential error, actively minimize its importance, perhaps throwing in an "everybody does it" defense.
6. Attempt to patch the error by misrepresenting what you've written, introducing additional errors in an attempt to protect your original claim.
7. Attack the messenger: attempt to smear the people who pointed out the error in your work, lie about them, and enlist your friends in the attack. (Gelman 2019)

Numerous aspects of LM's original article, and JAR's response, fall into categories 6 and 7. I detail these further below.

5.7 Absurdity 1: Lisowsky scrubbed the data and adjusted for private equity owned firms

As highlighted below, the LM authors were repeatedly told that their data were misreported well before the paper was published, or even submitted to JAR. Specifically, in late 2016, LM presented LM (November 2016). LM were told repeatedly that their data were misreported. One of the reasons for misreporting which came up (along with several other items many of which are also detailed here) were that one reason that LM do not include consolidated data is private equity ownership. In response to this fact, LM added footnote 14 to LM (December 2016), ultimately becoming footnote 12 in LM. In this footnote, LM claim that they randomly sampled firms to ensure that they were not private equity owned and reviewed the full list of their firms to identify shell companies (i.e., which might be in private equity structures). Exactly what this review entailed, and if it was meaningful, is highly questionable. First, LM claim (according to JAR) that they do not understand the basic tax return filing rules. If so, how do they understand how private equity funds file tax returns. Second and relatedly, how would the author identify shell companies or companies owned by private equity funds. Consider the following examples: based on the names of these firms, which was owned by private equity? McDonald's Inc. and Dell Inc. Clear as day, right? LM's claims in FN 14 (subsequently 12) are absurd and worthless, and directly contradict other claims.

5.8 Absurdity 2: Uniqueness of IRS data

LM claim to use IRS data because it provides insight that is otherwise unavailable, because they gain access to private firm data. However, I prove that their data is invalid for their study. LM also prove this, by “validating” their invalid data with 2 alternative data sources (see their Online Appendix), Sageworks and RMA. They acknowledge that these data sources are biased. Validating invalid data with biased data is worthless. The point of using (valid) IRS data is to gain insight into otherwise unobservable data. LM's claims are contradictory and absurd.

5.9 Absurdity 3: LM validate their data with mysterious experts and sources

In JAR's response to the LM fraud, they claim that "...[JAR obtained] separate assessments by two external experts who have worked extensively with IRS data and personnel... [The fraud] does not invalidate the article's conclusions, which has been shown by extensive analyses by the authors over the course of the investigation..." How does the fraud not invalidate the study? First, what experts were consulted with? I was not consulted. It is important to point out that Lisowsky would meet the definition of an "expert who [has] worked extensively with IRS data..." yet he allegedly has no understanding of how tax returns or IRS data work. There is no way to assess the validity of these outside experts. In fact, if they conclude that LM is not worthless, they also clearly do not understand data. Second, let us see the extensive analyses the authors do to validate their study. It is unclear how descriptive statistics on invalid data can be corrected to perform these analyses. We deserve to see the alleged analyses, and the steps LM took to "fix" their data.

5.10 Absurdity 4: Unaware of these issues

As I prove below, the authors were well aware of most or all of the issues I raise here (i.e., that they don't have consolidated parent level tax return data). They simply lied about it. For JAR to also be entirely unaware of basic accounting facts is absurd.

5.11 Absurdity 5: Attack the messenger

As I pointed out earlier, Gelman's category 7 involves attacking the messenger. JAR's response to my wholly indisputable note was to complain about my tone and invite LM to plagiarize my study and publish it in JAR. This is beyond absurd and not only below an academic journal, but below the level of functional human beings. Independent readers thanked me for my service to the profession. If JAR was not wholly incompetent and fraudulent, I would

not have to waste my time writing these notes. However, I am willing to serve the profession despite the low-lives that control parts of it. I expect an immediate apology from JAR, the University of Chicago, and each JAR editorial board member individually.

VI. IMPLICATIONS FOR OTHER WORK

“Given all the evidence of poisonous fruit, it’s hard to believe the tree itself isn’t poisonous.”

- Anonymous third-party reader of this paper, 2020

6.1 Timeline of fraud and implications for other work by the LM authors

The LM authors were aware of the data issues discussed in this article prior to LM’s publication. I detail these facts below.

First, Lisowsky has written extensively about many of the facts I document in my note, including discussions of GAAP versus tax consolidation differences (e.g., Lisowsky, Boynton, and Mills 2004; Lisowsky and Trautman 2007; Boynton, Lisowsky, and Trautman 2008; Lisowsky 2009, JATA; Demeré, Donohoe, and Lisowsky 2019). LM also discusses these differences (p. 563).

Further, several of the issues presented in this article were discussed directly with one of the LM authors during at least one conference in 2016 or earlier. LM was first posted to SSRN in 2013/2014. While Lisowsky was still at Illinois, he presented the paper somewhere and an attendee told him that the data was misreported.

In the fall of 2016, Minnis presented the paper and was repeatedly told that the data was misreported. **In response to these discussions pointing out that LM were misreporting data, LM added footnote 14 (now 12) as discussed earlier** While the footnote itself is worthless and does nothing to address the issues, this confirms the fact that the authors were made aware that

their data were misrepresented and they did not have consolidated parent level data. Not surprisingly, rather than correct their data, LM simply continued to lie.

Finally, in late 2017 or early 2018, a senior faculty member e-mailed LM a copy of Gaver et al. (2017). This paper included an appendix which details out several issues similar to those presented here. The fact that LM received this paper can be confirmed in many ways, several of which I will not detail here to protect the sender of the information. However, one that I will point out is that LM cite Gaver et al.'s statistic of a 53% GAAP use rate (though they incorrectly imply this is an audit rate). This statistic does not seem to appear in the later work that LM cite in their paper (Gaver et al. 2019). Thus, we can conclude with 100% certainty that LM were sent Gaver et al. (2017) which details the fact that LM misreport their data.

Finally, one of the LM authors was a member of the FASB's Private Company Council (PCC) during discussions of consolidation issues that arise in private firms (e.g., Checkpoint 2018). Thus, claims that LM did not know that they misrepresent their data are wholly invalid, much like LM's data.

As such, this raises concerns regarding other studies by the LM authors. Of note, Lisowsky (2010, *TAR*) and Lisowsky, Robinson, and Schmidt (2013, *JAR*) use "reportable transaction" disclosures, which consist of "listed" and "non-listed" transactions, to identify tax shelters. While listed transactions represent tax shelters, non-listed transactions are neither necessary nor sufficient to indicate the existence of a tax shelter. For example, routine foreign exchange transactions and related hedges are non-listed reportable transactions, as are routine agreements where an advisor to a transaction requests confidentiality around a transaction. Most reportable transactions are non-listed, even in the early 2000s (Lisowsky 2010). Lisowsky et al. (2013, p. 593) argue that the IRS does not encourage disclosure of routine transactions and cites

IRS publications as supporting this claim. However, it is in the IRS’s interest to make this claim (e.g., this argument is like stating that China fairly administers its laws regarding its [arbitrarily imprisoned] minority Muslim population, without providing an opposing or realistic perspective; obviously, this is absurd and would not be acceptable in other fields). In fact, practitioners – that is, those actually submitting the filings to the IRS – have a completely opposite perspective. Analyses of a recent court case, *CIC Services LLC*, discuss the over-reporting of legal/routine transactions (e.g., KPMG 2020).²⁵ As such, Lisowsky et al. (2013) using “reportable transaction” disclosures (a reporting choice, not a tax construct) to study accounting uncertain tax position disclosures (a reporting choice) is unlikely to produce meaningful insights. That is, after fully understanding the data, it becomes clear that Lisowsky et al. (2013) correlate more reporting with more reporting, rather than providing insight into how taxes are reported. Similarly, these reporting choices are not likely to provide meaningful insights about actual “tax sheltering” activity (Lisowsky 2010). Again, after understanding the data, it becomes clear that Lisowsky (2010) captures items that require reporting – *absent tax sheltering* – such as routine foreign currency transactions.

Separately, Bogachek, Bonnacchi, and Zarowin (2021) point out issues with the data used in Minnis’s prior studies. I leave it to those and other authors to detail concerns specific to Minnis’s work beyond the issues and concerns I raise.

In any study of private firms, it is also important to consider that private firm finances are closely tied to the owners’ finances, or the finances of other entities owned by the owners. The extent of these connections are evident in the thousands – or perhaps tens or hundreds of

²⁵ Again, whether or not underlying data exist in these earlier Lisowsky studies is irrelevant. The fundamental misreporting of any data that may exist, and of the limitations of those data, are the issue. As with the LM data, I make no comment on the (non)existence of data in that work.

thousands – of court cases regarding the proper tax treatment of contributions and guarantees by a tax return filer’s owner(s) or their brother-sister entities (e.g., Nitti 2018). These relations are often implicit rather than explicit, or if explicit, the form and substance of the transaction differ (both of these reasons lead to the massive number of court cases). As an obvious example of this, recent reports indicate that Donald Trump served as a guarantor on numerous loans to his business entities. The relevance of the entity’s financial reports is minimal, or at least questionable, once understanding these aspects of private entities.

To be clear, all data has limitations. However, these limitations must be fairly presented so that reviewers, academics, practitioners, and policy makers understand the insights that can and cannot be drawn from the data (See List [2020] for an excellent discussion, as well as the AAA ethics policy). For the LM authors, across several publications, data limitations are not discussed, argued against, and/or not properly addressed, therefore rendering the conclusions of these studies misleading at best. The evident pattern of misrepresenting proprietary data makes LM’s false claims regarding its data even more disconcerting.

6.2 Implications for work by other authors

Unfortunately, the publication of LM has led to confusion by other researchers using LM’s dataset. For example, numerous studies incorrectly refer to the LM dataset as capturing “firms” and appear to use LM’s data (or similar) in their studies. Some of these issues are less dramatic in other studies than in LM. That said, the issues should be made clear by authors. The existence of LM emboldens other researchers to misrepresent data. Notably, papers do exist that correctly use data. For example, using European data, Pierk (2016) properly notes the difference between consolidated and unconsolidated filings.

VII. CONCLUSION

“Criticism may not be agreeable, but it is necessary... it calls attention to an unhealthy state of things.”

- Winston Churchill, 1939

This article explains that the data that LM claim to exist in their study – consolidated parent-level tax return data for private U.S. firms – cannot exist under the laws of the U.S. It may be technically feasible for the IRS to create this data, but it is not a natural output of the tax reporting function and to my knowledge has not yet been created. I definitively show that LM do not create this data themselves. Because LM’s data do not exist, the results of their study are not meaningful. I also show that LM knowingly misreported their data. This also raises questions about other work by the LM authors – especially that using proprietary data – which should not be relied upon until it can be verified by independent academics and knowledgeable practitioners. Further, other researchers should not use the LM dataset unless they want to examine *tax return filers* rather than firms. Finally, all authors should think carefully about their data and its limitations before proceeding with a study.²⁶

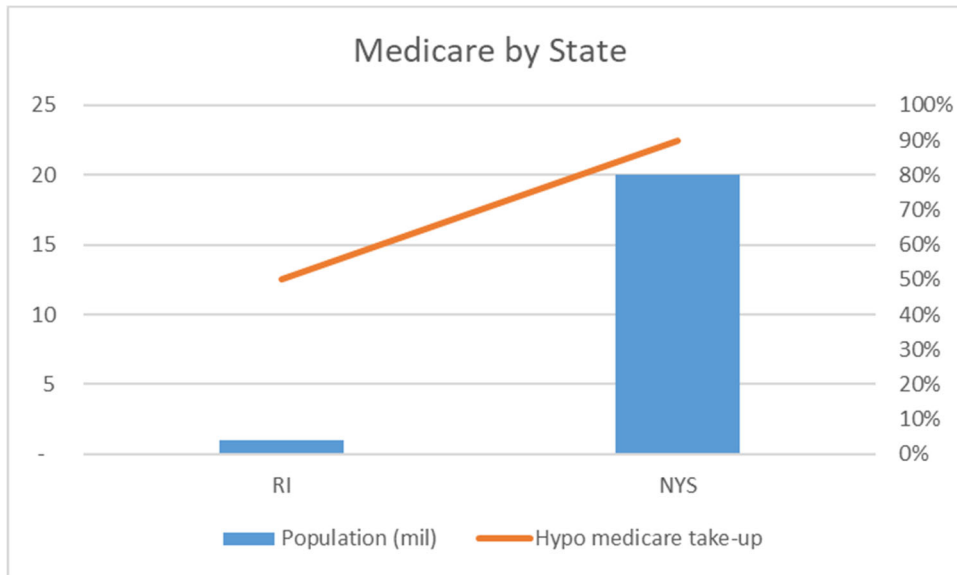
²⁶ Issues with authors misreporting or misunderstanding data are becoming increasingly common. See Bailey 2015, 2019; Zeff 2016; Wei and Young 2017; Young 2017, 2018; Byard, Darrough, and Suh 2019; SFS 2019; Donelson, Kettell, McInnis, and Toynbee 2020; Blouin and Robinson 2020. These, and the LM, issues differ substantially from, and are much more serious than, econometric disagreements as seen in, e.g., recent audit quality work (e.g., Lawrence et al. 2011; DeFond et al. 2017; Cready 2020) or earlier work on shareholder level taxes (e.g., Harris and Kemsley 1999; Collins and Kemsley 2000; Dhaliwal, Erickson, Frank, and Banyu 2003; Hanlon, Myers, and Shevlin 2003) and the backing-out problem (Lim and Lustgarten 2002; Elgers, Pfeiffer, Porter 2003).

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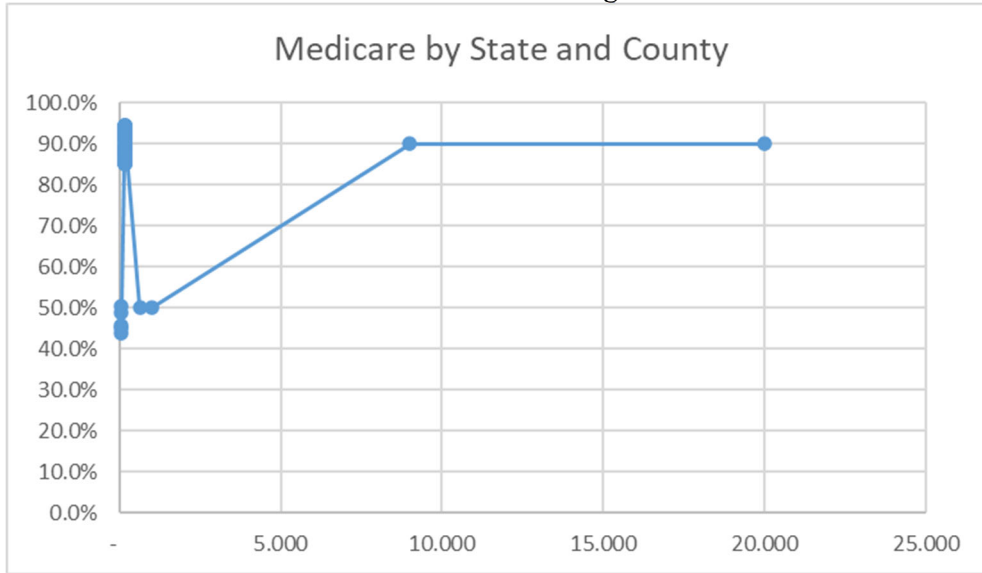
FIGURE 1



	<i>Coefficients</i>
Intercept	0.4789474
X Variable	0.0210526

This model regresses state-level Medicare data on state-level population, assuming that state population determines Medicare coverage. Because this is a deterministic model (2 points on a line) there are no standard errors – this model is exact.

Figure 2



Coverage is on the Y axis and population on the X axis. NYC population is 9 million and Providence population is 0.65 milion.

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>
Intercept	0.8577388	0.01597853	53.68071
X Variable	0.0020052	0.006117367	0.3277937

This model regresses state and county level Medicare data on state and county population. Because Medicare coverage is determined at the state level, this regression is meaningless, identical to LM's misuse of jumbled parent and subsidiary data rather than correct parent data.