

**CPA-Canada Accounting and Governance Research Centre
RESEARCH SEMINAR SERIES**

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Stephannie Larocque is Assistant Professor of Accountancy and the EY Faculty Fellow at the Mendoza College of Business. Professor Larocque is an Ottawa native and a graduate of the University of Western Ontario (B.A. Hon.) and the University of Toronto (Ph.D.) as well as a CFA charterholder. A former equity research analyst, Professor Larocque's research now encompasses empirical capital markets including firm valuation, cost of equity capital estimation, and earnings forecasts. Her research has been published in *The Accounting Review*, *Review of Accounting Studies*, and *Journal of Accounting and Public Policy*.

Topic: «Forecasting Taxes: New Evidence from Analysts»***Abstract:***

We provide new evidence about how analysts incorporate and improve upon management forecasts, and how accounting standards limit the usefulness of certain management forecasts for predicting future earnings. Quarterly ETR reporting under the integral method provides mandatory point-estimate forecasts by management, but firms must record certain “discrete” tax items fully in the quarter they occur, polluting these forecasts. Using 321,225 analyst forecasts and managements’ interim ETR estimates for 62,132 firm-quarters from 2003 through 2014, we find the following: 1) discrete items and complexity impair the accuracy of management’s ETR estimates; 2) analysts are less likely to mimic management’s ETR estimate when there are discrete items and they face more complexity; 3) the accuracy of forecasts for analysts who don’t mimic management’s ETR estimate is higher when there are no discrete items and complexity is lower, but the accuracy of these forecasts *relative to management* is positively associated with complexity; 4) analysts achieve more accurate EPS forecasts when their ETR forecasts are relatively more accurate than management’s, and 5) analysts’ ETR and EPS forecasts are less disperse when management’s estimate excludes discrete items. Together these results indicate that analysts exert effort to try to understand complex tax settings, in contrast with prior researchers’ conclusions that analysts ignored or were confused by tax matters. Further, we suggest that standard-setters re-examine the discrete item exception to the integral method to provide more disclosure, based on our evidence that discrete item reporting impairs the predictive information in quarterly ETRs.

TIME: Friday, April 8, 2016 from 10:00 – 11:30 am,
PLACE: Desmarais, room 4165

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