Write-off of participations:
a way to minimize the fiscal expenses

Valeria Bucci
Dipartimento di scienze economiche e matematico-statistiche
Università del Salento
v.buccil@economia.unile.it

Abstract: *The main purpose of this paper is to analyze the interaction of financial reporting and tax factors, with the aim of implementing an econometric analysis of the effects of the 2004 Italian reform of the fiscal regime on the write-off of participations.*

Keywords: fiscal minimization, write-off, participation, accunting, deductibility.

1. Introduction

Empirical tax research in accounting examines the coordination of taxes and other factors in business decisions. The tension surrounding these papers is that taxes cannot be minimized without affecting other organizational goals.

This paper focus on the interaction of financial reporting and tax factors.

The strategy of tax minimization often results in lowering taxable income, against the financial reporting incentives to increase book income.

In a fiscal regime that admits the deductibility of write-off of participations, firms could take advantage from reporting sham write-off and benefiting from them deductibility.

The main purpose of this study is to analyze the impact of the 2003 reform of the Italian fiscal regime that eliminated the deductibility of write-off of participations.

In particular we expect that before 2003 it was convenient for firms to account sham write off of participations to benefit of its deductibility. Instead, starting from 2004 the value of write-off of participations is expected to decrease.

2. Econometric analysis

We implement an econometric analysis aimed at finding the variables which affect the value of write off of participations.

We develop a dynamic panel data model with truncated data, in which the dependent variable is the value of write-off of participations:

$$y_{it}^* = \gamma \cdot y_{it-1}^* + x_{it}^{'} \cdot \beta + \alpha_i + \varepsilon_{it} \tag{1}$$

with:

$$y_{it} = \begin{cases} y_{it}^* \rightarrow se \rightarrow y_{it}^* > 0 \\ 0 \rightarrow se \rightarrow y_{it}^* < 0 \end{cases}$$

The matrix of exogenous variables is made of:

1) Tax marginal rate;
2) Leverage ratio;
3) Z-score;
4) Profitability ratio;
5) PIL growth rate;
6) Stock market's growth rate.

The model is estimated using the general method of moments.

Bibliography

Arellano, M. and S.R. Bond (1991), Some tests of specification for panel data: Monte Carlo evidence and an application to employment equations, Review of Economic Studies, 58, 277-297.

Arellano, M. and O. Bover (1995), Another look at the instrumental-variable estimation of error-components models, Journal of Econometrics, 68, 29-52.

Bartov, E., 1993. The timing of asset sales and earnings manipulation. Accounting Review 68 (4), 840–855.

Blundell, R.W. and S.R. Bond (1998), Initial Conditions and Moment Restrictions in Dynamic Panel Data Models, Journal of Econometrics, 87, 115-143.

Graham, J. R. (1996a), 'Debt and the marginal tax rate'. *Journal of Financial Economics*, 41–74.

Graham, J. R. (1996b), 'Proxies for the marginal tax rate'. *Journal of Financial Economics*, 187–221.

Graham, J. R. (1999), 'Do personal taxes affect corporate financing decisions?'. *Journal of Public Economics*, 147–185.

Honorè, B. E. (1992). Trimmed LAD and least squares estimation of truncated and censored regression models with fixed effects. Econometrica, 60(3):533–565.

Honorè, B. E. (1993): "Orthogonality Conditions for Tobit Models with Fixed Effects and Lagged Dependent Variables," *Journal of Econometrics*, 59, 35–61".

Hsiao, Cheng, Analysis of Panel Data, Cambridge University Press, 2003.

Shackelford, D. and T. Shevlin (2001), 'Empirical tax research in accounting'. *Journal of Accounting and Economics*, 321–387.