The professor emeritus who left a heritage: Remembering William Huizingh

Faculty explores debate over global taxation

Accounting or allegiance: What really opens World Bank coffers?

Phillip Lamoreaux
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Faculty News | Research
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Dear alumni and friends,

Professional Advisory Board Professor of Accountancy Philip Reckers stepped down after a successful 15 years as the director of the School of Accountancy at ASU’s W. P. Carey School of Business. After being on the School of Accountancy faculty for more than 30 years, stepping into his role as the new director is a challenge I am eager to take on.

As you may know, the School of Accountancy is a large operation. We teach about 1,000 undergraduate accountancy majors, with roughly 300 undergrads completing their accountancy degree per year. In addition, we have master’s degrees in accountancy and taxation, and a doctoral program. Beyond our accountancy students, we teach service courses (e.g., introductory financial and managerial accounting) to thousands of undergrads and master’s students. Needless to say, we have 45 very busy faculty members.

To improve the quality of our programs, we have revamped our undergraduate information systems course to focus more on enterprise resource planning systems and are introducing a new data analytics course in our Master of Accountancy program. Several years ago, we added a new, required upper-division accounting course, Ethics for Professional Accountants, which has been hugely successful.

Because of our growth and retirements, many of our faculty members have been with us for only a few years. While biased, I believe we’ve made excellent hires. Over the past year, we’ve welcomed five new members (page 4) to the School of Accountancy faculty, as follows: Clinical Assistant Professor Tom Clausen, Clinical Associate Professor Greg Dawson, Assistant Professor Scott Emett, Assistant Professor Roger White, and Clinical Assistant Professor Mindy Wolfe. You may recognize Tom and Mindy, as both received master’s degrees from W. P. Carey.

As we shape our national reputation, in part, by our research activities, it is worth noting that our faculty members have made major contributions to accounting literature. The School of Accountancy is very proud of their successes in research (page 7), teaching, and service to the profession. Your support by assisting our students, hiring our graduates, and providing financial contributions is essential to the continued success of the School of Accountancy at the W. P. Carey School of Business. Please feel free to reach out to me, or any of our faculty and staff, at any time — we enjoy hearing from you and are happy to be of service.

Steven Kaplan
KPMG LLP Professor in Accountancy and Information Management

Support your school

With the support of our alumni community, the School of Accountancy provides life-changing opportunities for deserving and talented students. We hope that those of you who have supported us in the past do so again this year — through both your financial contributions and gifts of your time and effort.

Please join us by making your gift at asufoundation.org/accountancy.

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It was 1959. After serving in World War II as a decorated cryptologist for the U.S. Army Air Corps, and founding a successful furniture manufacturing business in Denver, Arizona State University hired him as an accounting professor. Professor Emeritus of Accountancy William Huizingh, who died on March 18, has been a source of inspiration ever since. He played a leading role in shaping ASU’s programs until his retirement in 1981. In his 27-year tenure, Huizingh was not only one of the first faculty members to join the business college at Arizona State University, he also:

- Served as associate dean of the College of Business Administration for 11 years
- Served as chair of the accounting department for six years
- Served as director of the Bureau of Business and Economic Research

Huizingh was a pioneer at the School of Accountancy and the College of Business at ASU, establishing the foundation for what has become both a nationally ranked accounting program, and one of the largest and highest-ranked business schools in the nation. He left a legacy that continues to make a difference at the W. P. Carey School of Business. The following three scholarship funds were either established by Huizingh or created in his honor: the Huizingh Outstanding Undergraduate Teaching Award, the Huizingh/Mumford Scholarship, and the William Huizingh Scholarship.

“He was devoted to his students, and the teaching awards named in his honor recognize his support of excellence in the classroom,” said School of Accountancy Lecturer Donald Frost. “Dr. Huizingh is owed a debt of gratitude for everything he did to ensure our profession was supplied with quality candidates who lived up to his high standards and expectations.”

PROMOTIONS

Principal Lecturer **John Dallmus** was promoted from senior lecturer, marking a well-deserved acknowledgment of his work. He received the Arizona CPA Foundation for Education and Innovation 2015 Excellence in Teaching Award, which recognizes an instructor from one of Arizona’s public universities for their contributions to academia. Dallmus has been a faculty member since 2000, and maintains an outside practice as a CPA offering tax, accounting, and business advisory services.

Newly appointed Associate Professor **Shawn Huang**, who joined the W. P. Carey School of Business in 2013, has focused his research on the role of transparency and disclosures, executive compensation, accounting standards, and international accounting. Huang’s most recent research concentrates on examining analyst coverage and the likelihood of meeting or beating analysts’ earnings forecasts.

Clinical Associate Professor **Steven Orpurt** continues to maintain the smart and pragmatic blog, “Business Basics,” hosted through the Donald W. Reynolds National Center for Business Journalism. Over the past five years, Orpurt met three times with the International Accounting Standards Board in London to recommend possible improvements to the statement of cash flows. That effort grew out of his research entitled, “Do Direct Cash Flow Disclosures Help Predict Future Operating Cash Flows and Earnings?” The study concluded with evidence that market participants utilize direct method disclosures for their stated purpose: to better forecast future operating performance.
Five new faculty members joined the School of Accountancy, widening the scope of our research and contributing years of academic and professional experience.

Clinical Assistant Professor Thomas Clausen comes to W. P. Carey after serving as an assistant professor at the University of Central Oklahoma. Previously, Clausen was a faculty member at Zayed University in the United Arab Emirates. He received his bachelor’s degree in accounting from Iowa State University, master’s in accounting from W. P. Carey, and PhD in accounting from the University of Connecticut. His research focuses on the implementation, use, and effectiveness of accounting information and control systems. His latest research published in Strategic Finance addresses the fairness and effectiveness of performance evaluations.

Clinical Associate Professor Gregory Dawson joins the School of Accountancy, coming to us from the Department of Information Systems at the W. P. Carey School where he was an assistant professor. Dawson is a former partner in the government consulting practice at PricewaterhouseCoopers. He earned his bachelor’s degree in accounting from James Madison University and his PhD in management information systems from the University of Georgia. His research is public sector-centric and looks at the relationship between appointed/elected governmental officials and their professional services providers.

Scott Emett earned his bachelor’s and master’s degrees in accounting at Brigham Young University. He will join the W. P. Carey School of Business as an assistant professor upon completion of his doctoral program at Cornell University in fall 2017. His research focuses on judgment and decision-making in external and internal financial reporting. His dissertation examines how current period performances shape the persuasiveness of future-oriented disclosures. Emett previously taught courses in financial accounting and managerial accounting at Cornell University and Brigham Young University.

Assistant Professor Roger White joins the W. P. Carey School of Business having recently completed his doctorate at Emory University’s Goizueta Business School. His research interests are centered on fraud, incentives, regulation, and communication in markets. White has presented his research at conferences and symposiums throughout the country, and is actively involved in scholarly associations including the American Accounting Association, American Economic Association, and Financial Management Association. In 2015, White was awarded the Glen McLaughlin Prize for Research in Accounting Ethics for his research examining the profitability of stock trades executed by employees of the Securities and Exchange Commission.

Clinical Assistant Professor Mindy Wolfe comes to Arizona State University from the University of Waterloo where she was an assistant professor of financial accounting. Wolfe received her bachelor’s degree in accounting and PhD from the University of Utah, as well as an MBA and master’s degree in information management from the W. P. Carey School of Business. Her research interests include determinants and the consequences of managerial financial-reporting strategies, financial reporting for intangible assets, capital markets, and firm information environments.

IN PURSUIT OF THE PhD

Our congratulations go to doctoral students who completed their studies in 2016: Matthew Hayes, who joined the University of Michigan-Dearborn, and Michael Mowchan, who joined American University in Washington, D.C. We welcome our new PhD students:

Jeh-Hyun “Jay” Cho joins us after serving as a research analyst for the Korea Institute of Public Finance. Before that, he earned a master’s degree in business administration from Seoul National University and his bachelor’s degree in accounting from the University of Illinois at Urbana-Champaign.

Junjun Liu comes to the W. P. Carey School of Business having most recently served as a research associate at Columbia University. Previously, she earned her bachelor’s degree in economics from Jilin University in China and her master’s degree in accounting from Lehigh University in Pennsylvania.

Christina Mueller most recently spent three years as a senior tax associate for KPMG, where she prepared quarterly and annual tax provisions for global companies. She received her bachelor’s degree in accounting and her master’s degree in accountancy with an emphasis on taxation from the University of South Florida.
S purred by the need for more revenue and increasingly aggressive tax avoidance tactics of United States multinational corporations, the U.S. is debating how to reform tax laws that have incentivized companies to park more than $2 trillion in their foreign subsidiaries and indefinitely delay the day they pay U.S. taxes on the income.

How different countries tax multinational corporations’ income has long been a topic of interest in the tax world. Now it's attracting attention from the media, from revenue-seeking lawmakers, and from voters who suspect multinational corporations that legally take advantage of federal and foreign tax laws aren’t paying their fair share.

Tax and accounting faculty members at the W. P. Carey School of Business follow the issue of global taxation closely and provide insight into what many agree is a problem that needs to be solved.

The issue of how to tax U.S. multinationals worldwide income is becoming more significant in part because of the increasing use of intellectual property. “Income is getting much easier to move, because so much more income is generated by intangibles, whether it be patents for prescription drugs, software, or trade names,” said Donald Goldman, professor of practice in the School of Accountancy.

Accentuating the issue is the competition among nations to attract businesses and replace tax revenue lost during the global recession. “Every country is in a race to try and attract more R&D jobs and more investment, and each country wants to tax their fair share of the pie,” Associate Professor Jennifer Brown said. This has resulted in a steady stream of countries reducing their corporate income tax rates. While the U.S. rate used to be in the middle of the pack, it is now the highest in the world.

The high U.S. statutory rate serves as an incentive for multinationals to shift income to low-tax foreign jurisdictions. To minimize operations subject to the U.S. tax net, some corporations have even carried out inversions. Inversions are often executed via mergers, but the key result is that a foreign parent now heads the former U.S. multinational.

Many nations use what is called a territorial system, taxing corporations on just the income generated within the nation’s borders. These include the United Kingdom and Japan, which switched to territorial systems in 2009. The United States for decades has used what is called a worldwide system, taxing U.S. corporations on their income regardless of where it is generated. Couple that with a U.S. tax rate nearly triple that of nations like Ireland, and U.S.-based multinational corporations face a much higher tax burden than their foreign competitors.

U.S. tax law does offer multinationals some relief. If they keep their foreign income overseas in foreign subsidiaries, they pay taxes to the nation where the income was generated, and they do not include the income on their U.S. tax returns. Corporations that bring back, or repatriate, the money to the United States pay U.S. taxes only on the difference between the foreign tax paid and the tax at U.S. rates. This creates a tremendous incentive for U.S. multinationals to shift income to foreign subsidiaries, and also creates a barrier to repatriation of that income due to the additional tax cost. The tax rate differential also creates an incentive for foreign-based multinationals to allocate as little profit as possible to their U.S. operations.

A U.S. multinational corporation's decision to repatriate foreign earnings is also affected by generally accepted accounting principles (GAAP). GAAP normally requires firms to record a deferred tax expense for the future U.S. tax owed on income earned in foreign subsidiaries. However, if a firm chooses not to repatriate the foreign income and designates it as “permanently reinvested,” no deferred tax expense need be recorded.

“The idea is that if I take the earnings and I build new factories and hire new people, the earnings are really indefinitely reinvested, and because of that, I don't have to report this financial statement expense,” Assistant Professor David Kenchington said. “When used properly, the rules as they are benefit firms and help them be more competitive and report their operations more accurately.” However, because designating income as “permanently reinvested” lowers tax expense, thus increasing net income, companies have the incentive to use this designation to meet earnings benchmarks rather than report their operations more accurately.

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Corporate America is split on how to best tax global profits, faculty members say. Generally, high-tech and pharmaceutical firms that can shift intellectual property to other nations prefer the current system, but retailers and manufacturers with mainly domestic operations would like reform, primarily by reducing the corporate tax rate.

Faculty members also say that Republicans and Democrats agree the problem needs to be solved, but disagree on how to do it. One idea is to reduce the U.S. corporate tax rate, bringing it more in line with European rates and reducing the incentive to shift income overseas. Another would be for the United States to change to a territorial system and require companies to further disclose where they generated income. Hybrid plans are also proposed, such as a territorial system with a large exemption for income received from foreign subsidiaries.

On the international front, the 35-nation Organisation for Economic Co-operation and Development (OECD) has adopted a package of reforms to address base erosion and profit shifting (BEPS). The reforms establish an international framework for taxing profits and monitoring compliance. Many countries have already enacted several provisions to deter BEPS. Any changes in U.S. tax law could affect state law, too. “As BEPS moves forward,” Lecturer Donald Frost said, “one could see a reaction at the state level, possibly to try and piggyback onto some of those potential changes.” We have already seen some states enact anti-tax haven legislation in an attempt to address some of the same issues as BEPS.

Accounting and tax professionals continue to monitor proposed changes and other developments to ensure that their client corporations are able to maximize shareholder wealth.

“It is obvious that changes are coming,” Assistant Professor Ryan Huston said. “While politics and election results will impact these changes, tax planners are very good at what they do and will certainly be able to adapt.”
ACCOUNTING OR ALLEGIANCE:
WHAT REALLY OPENS WORLD BANK COFFERS?

Ask the 3,000 impoverished Ethiopian women who received special credit lines so they could start their own businesses: World Bank loans change lives. And, they should. After all, this institution’s motto is “working for a world free of poverty.” Still, as Phillip Lamoreaux points out, “World Bank has lofty stated ambitions but, at the end of the day, it loans money and it wants that money paid back.”

Lamoreaux, an assistant professor of accounting at the W. P. Carey School of Business, decided to see if getting the money back appeared to be a driving force in World Bank lending behavior. In a paper published in The Accounting Review, he reported that accounting and audit quality didn’t seem to matter, particularly when the nations looking for a loan were well-known and creditworthy. But, even more important was the correlation between loans and a nation’s geopolitical alignment with the interests of the United States.

PEAS AND PROSPERITY
Just what is the World Bank? Started after World War II, it was created to help nations rebuild, Lamoreaux says. Today, the organization funds a variety of projects in middle-income and creditworthy low-income nations. Recent initiatives include backing an agricultural project that disperses seeds and seedlings to restore food security in Africa, building new health care facilities in Cambodia, bringing clean water sources to parched rural villages in India, and raising literacy levels in Papua New Guinea, where nearly 40 percent of the population can’t read.

“The key difference between World Bank and a commercial bank is that the commercial bank’s purpose is essentially to make money … to generate profit for shareholders,” Lamoreaux explains. “That’s a secondary objective for World Bank.”

Still, World Bank does have shareholders of a sort. “Its member countries put money into the World Bank, and the U.S. is the largest investor,” Lamoreaux continues. In fact, the U.S. holds some 15 percent of shares. The next highest level of financial backing came from the United Kingdom, which has a 4-percent share.

ACCOUNTING MATTERS
Because World Bank lends money primarily to alleviate human suffering, lending rates are predicated on the length of the borrowing term rather than on default risk, which is the construct firmly behind a commercial bank’s interest rates to borrowers. Still, accounting matters, because when accounting quality is low, World Bank officials will likely need to monitor projects more closely than they would when they can rely on high-quality, audited financial statements. That adds cost to the loan.

This is why Lamoreaux and his fellow researchers — Paul Michas, University of Arizona, and Wendy Schultz, University of Manitoba — hypothesized that accounting quality would raise the likelihood of a nation’s aid workers getting World Bank financial support. The researchers also thought audit infrastructure would have impact because each financed project must have an independent auditor watching cash flows.

In addition, the research team examined a nation’s reputation for corruption. If it was high, they figured bank staff would be more attentive to accounting standards and audit quality.

Finally, the researchers looked at whether loans were made to countries geopolitically aligned with the U.S. That’s because the U.S. is, by far, the largest of World Bank’s 189 member countries, and other researchers had already found that the bank’s lending appeared to be motivated by both economic and political forces.

Specifically, other researchers looked at World Bank lending in reference to four models of motivation. The “needs model” maintains that money goes to the countries with the greatest need for aid. The “just desserts model” says it goes to those nations that deserve it. The “benevolence model” holds that World Bank officials simply follow their charter, handing out funds to fulfill their goal of ending world poverty. Finally, the “politico-economic model” posits that bank officials will use political interest as a guide. In the study focused on these lending models, researchers found that geopolitical interest “had the highest explanatory power,” Lamoreaux says. “It fit the lending data best.”

As it turns out, complementary results showed up when Lamoreaux examined World Bank activity, too. Recall that his research sought to find out if accounting practices and audit quality would make a difference to World Bank officials. It did. “From what we observed in the data, the quality of information they thought they’d get back influences what they’re willing to lend.”

But, he adds, “accounting and auditing only matter in countries with relatively high corruption levels.” What’s more, if there’s a nation with geopolitical interests that are aligned with those of the U.S., that, too, will raise a borrower country’s chances of getting a loan and toss the importance of accounting or audit quality aside.

Lamoreaux says his findings confirm those of other researchers. “Geopolitical influences impact what World Bank does,” he concludes. When political influences are strong, “accounting and audit quality really don’t seem to matter.”


For more than four years, Lecturer Donald Frost has been the liaison between the W. P. Carey School of Accountancy, community partners, and the IRS for the Volunteer Income Tax Assistance (VITA) program. VITA is a national program sponsored by the IRS and co-sponsored at the local level by a variety of businesses and nonprofit organizations. The primary goal of the program is to provide free income tax return preparation to those who have the most need but cannot afford the services of a paid preparer.

In addition to supporting our community, the VITA program gives ASU students the opportunity to volunteer as tax preparers.

“VITA participation provides students with integral experience in the field of accounting and taxation,” Frost said. “Students not only develop their technical skills, but also enhance ‘soft skills,’ such as communication, empathy, patience, compassion, and problem-solving by working with diverse client populations.”

Originally, W. P. Carey’s association with VITA focused on recruiting student volunteers for positions in the nearby Tempe VITA site operated by several of ASU’s partner organizations. Today, our participation includes a VITA preparation site located on ASU’s West campus. For the 2015 tax filing season, the Tempe and West campus sites processed nearly 1,800 income tax returns for elderly, disabled, and low-to moderate-income taxpayers of the East and West Valley, generating approximately $1.47 million in income tax refunds. ASU students comprised more than 55 percent of the total number of volunteers/volunteer hours at these two sites. The total in-kind value of the services of these ASU student volunteers was approximately $62,300, bringing the total economic impact of the VITA program attributable to ASU’s involvement to more than $1.53 million for the 2015 tax filing season.

W. P. CAREY FELLOWSHIP PROGRAM LAUNCHES

Beginning in spring 2017, W. P. Carey’s School of Accountancy will award graduate fellowships to highly qualified students who apply to the W. P. Carey School of Business Master of Accountancy (MACC) and Master of Taxation (MTax) programs. For non-Arizona residents, the fellowships reduce out-of-state tuition to in-state rates. Plus, both residents and nonresidents receive a 50 percent waiver of in-state tuition.

Students who receive the graduate fellowships will work 10 hours per week (earning approximately $7,500) assisting faculty with accounting research, course development, special projects, and other challenging work they couldn’t experience otherwise. In addition, they will earn academic course credit and graduate with “ASU Fellowship” designated on their transcripts. In total, the fellowships are worth $34,000 to out-of-state students and $14,000 to in-state students.

“Each year, exceptional students help build our MACC/MTax programs. They add diversity, insightful perspectives, leadership, energy, and comradery to our accountancy community. The fellowship program is designed to attract more of these exceptional graduate students,” said Phil Drake, faculty director of the MACC and MTax programs.

“The accountancy fellowship will likely help extend our national visibility,” said Steve Kaplan, director and KPMG LLP Professor in Accountancy and Information Management. “Our students accept career opportunities all over the world, and we anticipate that many of them will relocate nationally as well, further extending the reputation of our school.”

While many of our MACC and MTax students grew up in Arizona, attended Arizona State University, and accept career opportunities in our desirable Phoenix metropolitan area, our graduate programs are worldwide. Last year, MACC and MTax students accepted career opportunities in 15 cities across the nation, and four internationally, including: Boston; Chicago; Dubai; Fuzhou, China; Houston; Las Vegas; Los Angeles; New York City; Oklahoma City; Portland, Oregon; Riyadh, Saudi Arabia; San Francisco; San Jose; Santa Clara; Seattle; Shanghai; Tampa; District of Columbia; and, of course, Phoenix and its surrounding cities.

Sara Mahn (MTax ’01), managing director at Deloitte in New York City, joined the global firm’s Phoenix office in 1998 after earning her post-baccalaureate degree in accounting from the W. P. Carey School of Business, with the understanding that she would complete four tax courses. Mahn went a step further, attending the School of Accountancy’s MTax program with full tuition support from the firm.

“While I was helping clients with compliance and consulting, I found mergers and acquisitions (M&A) transactions the most interesting,” Mahn said.

Her interest in M&A transactions grew while attending Deloitte’s two-year Management Development Program at their Washington national tax office in the subchapter C group — one of many career development opportunities offered by the firm. Upon completion of the program, Deloitte extended Mahn a position with its mergers and acquisitions group in New York City.

“Don’t be afraid to follow your interests,” said Mahn. “There are a lot of opportunities to develop your skills and qualifications. My advice would be to get your foot in the door, hone your skills, and pursue the varied opportunities available.”

Discover your opportunities with the accountancy program at the W. P. Carey School of Business online at wpcarey.asu.edu/macc, or email our graduate programs team at wpcareymasters@asu.edu.