



Journal of the CPA Practitioner

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our
[Members Benefits](http://go.nccpap.org) on
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President's Letter



Dear Colleagues:

As we go into August, and with Congress taking its annual summer break, we need to take a look back at what has happened to our profession in the first half of the year.

One piece of legislation has become law – H.R.3151 – Taxpayer First Act – was signed into law on July 1. This law includes the following provisions: (1) the establishment of an independent Office of Appeals to resolve tax controversies without litigation, (2) prohibit the rehiring of IRS employees terminated for misconduct, and (3) increase the penalty for failing to file a tax return. It also calls for the IRS to work with the public and private sectors to protect taxpayers from identity theft refund fraud, something that is already being done within the Security Summit. My immediate predecessor as President of NCCPAP, Steve Mankowski, is active in these meetings, and you can be assured that NCCPAP positions will be heard on this.

Back in May, we had some 23 meetings in Washington, including at the IRS and the White House, and the general consensus was that our meetings were well received in all but one office. In addition to this, we were asked by one Congressional office to give any comments we might have with regard to the new FASB credit loss standards, known as CECL. In this also, our comments were well-received and we now have several new footholds in Washington for the future. With a few other bills pending that can have an impact on our profession, it is important that we maintain our presence there. The first of these bills is H.R.1994 – The SECURE (Setting Every Community Up for Retirement Enhancement) Act of 2019. This bill has already passed through the House of Representatives, and is now being considered by the Senate. Key provisions in this bill are (1) the elimination of the maximum age for IRA contributions; (2) raising the age of RMDs to 72; and (3) requiring the Inherited IRAs be completely liquidated in no more than 10 years. 2 of these provisions we have brought to the attention of Washington in the past, and we are glad to see that they have finally listened to us. The 3rd provision, however, can become a serious tax situation for many if it remains in the bill.

(continued on page 4)

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Letter from the Editor

Dear Readers:

I spent a lovely hot July day within the confines of the air-conditioned Javits Center at the yearly NYC Accounting & Finance Show. I was helping out at the NCCPAP exhibit.

I was in awe! So many of the CPE sessions had NCCPAP members as presenters. (I can't even name them all here.) It shows how strong we are within the accounting profession. We are the leadership of the profession!

As people came by our booth, we started to talk with them. Some had never heard of us but many had!! Some connected us to the annual Long Island Tax Professionals Symposium. This is an event that has wide recognition within the profession. They had also heard of our efforts to represent the profession in Washington DC. They know we are movers and shakers.

Compared to some other accounting organizations we are small. But we are loud and powerful!!!

Frimette

The Leon D. Alpern Award

2018 Recipient: Donald Ingram, CPA



The Leon D. Alpern Award is awarded by the Long Island Tax Professional Symposium and presented annually at the symposium to the certified public accountant who most emulates the extremely high ethical, professional and community service standards by which Leon D. Alpern, CPA, lived his life and instilled in his employees, his colleagues and in all of his charity volunteer work. Mr. Alpern was a driving force in the accounting profession for many decades and always resolved issues with the best interest of his clients, the profession, and the community in mind. His high ethical standards are the bar every CPA is still expected to reach; and through the standards that Mr. Alpern maintained and lived by, he helped elevate the standards of a profession which all CPAs are proud to be a part.

Each year the select committee determines which CPA continues the high standards set and promoted by Mr. Alpern. The committee makes its decision based upon a review of an individual's entire professional career. For 2018, the Committee proudly awarded the Leon D. Alpern Award to Donald Ingram, CPA. Don was unanimously selected based upon his decades of service to the accounting profession.

Don is Past President of the Nassau/Suffolk Chapter, currently chair of the NCCPAP's Technology Committee, and a Director on the National Board.

Summer Quarterly National Conference Houston, TX

We are looking forward to our Summer Quarterly Conference to be held **August 7, 8, and 9, 2019**, at the Embassy Suites Energy Corridor, Houston, TX, . Here is the [schedule](#). Also, check out the schedule for TACPA's meetings on August 6 and 7 at the hotel. [TACPAcpeHouston.pdf](#)

President's Letter

(continued)

Another bill that we brought to the attention of the Congressional offices we visited was S.1192 – The Taxpayer Protection and Preparer Proficiency Act of 2019. This is a stand-alone bill (no riders or additional provisions), and would give the Treasury Department/IRS the authority to regulate tax return preparers. The provisions of the bill are what former IRS Commissioner Shulman tried to do about 10 years ago, prior to the ruling in the case of **Loving v. IRS**. In addition, when I joined Steve Mankowski in Washington back in June to attend the monthly NPL meeting, it came out the day prior to the meeting that this same bill was introduced in the House of Representatives as H.R.3330. We have been able to meet with the offices of Reps. Ted Yoho (R-FL) and James Panetta (D-CA), the original co-sponsors of the bill and give our support of it.

The last piece of legislation I want to mention is H.R. 2513 – Corporate Transparency Act of 2019. This legislation, if passed, would require business entities to report to FinCEN information of “beneficial owners” of the business entity. This would put additional requirements on us in the servicing of our clients.

There are two individuals I want to commend for all their work for NCCPAP.

First is Sandy Zinman, our Tax Policy committee Chair, for the hard work that he and the rest of the Committee did to (1) put together both the Congressional & IRA Agendas, and (2) setting up all of the meetings that we had while we were in Washington.

Second is Frank Sands, of our Texas chapter. He was able to secure several meetings in Washington with members of the Texas delegation, especially some first-term members of the House. Not only did we meet with their office staff, but in a couple of the appointments, the NCCPAP people assigned to those meetings were taken to the Congressional Hearing Room where the Representative was, and who actually came out of the Committee meeting to meet with them.

With regard to the future of our Congressional and IRS Agendas, that future starts **NOW**. Many of us are still in a very grueling and demanding filing season, enhanced with the overhaul of the tax code for the first time since 1986. We have all seen what effect the new tax laws have had on our clients, and our practices. If there is an issue that you would like to see addressed next year, **TELL THE TAX POLICY COMMITTEE**. You may be asked to take some time to write out how you think it should be dealt with. There are people on the Committee who can help you with that and make it more presentable.

Remember, together under the NCCPAP banner, we can be a force for change. We are a known commodity in Washington, and with your help, we can be greater.

See you soon.

Thank you.

Neil H. Fishman, CPA

You Are Invited to NCCPAP's 40th Anniversary Celebration

Wednesday, October 23, 2019,

at the Fox Hollow Inn

7725 Jericho Turnpike, Woodbury, NY 11797

6:30 PM Cocktail Hour – Briar Fox Room 7:30 to 10:30 PM – Winter Garden Room

Deluxe plated dinner menu with open bar throughout the evening.

Dance to a live band

Black Tie Optional [Read More](#)

STRATEGIC PLANNING COMMITTEE UPDATE

The NCCPAP Strategic Planning Committee held its first quarterly meeting of 2019 on January 7th. The committee has laid out a broad set of goals for the organization with a focus on increasing membership and making membership appealing to the younger demographic.

A goal that was set for the Membership Committee this year is to work with the Technology Committee to improve the membership database reports that are produced by our technology platform. This will include updates to our database so that we can monitor trends in our membership makeup.

The Membership Committee was also tasked to seek out new alliances with other CPA organizations. This task will hopefully produce similar relationships to the alliance we have formed with TACPA.

The Education Committee and Chapter Representatives Committee were instructed to examine ways to capture the wonderful seminars all of our chapters produce in electronic video format. This will allow us to produce webinars and short promotional video we can share on various web and social media platforms. TACPA has started this in their chapter and has generously offered to share what they have learned so far with other chapters wishing to start this process.

The Issues Committee was instructed to investigate the growing trend in our organization that has decreasing numbers of our members conducting attestation work. We seek to find what changes in the standards have caused this trend and what standards changes we should advocate for to make our members more comfortable in engaging in attestation work.

We instructed all of our members to support our Tax Committee in these coming months. Our members must constantly feed the Tax Committee new issues as tax season moves along, so that we have a timely and complete agenda to present when we go to Washington DC every May.

by Mark A. Stewart Jr., CPA, Executive VP, NCCPAP
mstewart@feldsteinandstewart.com

WESTCHESTER ROCKLAND CHAPTER UPDATE

On the evening of March 5th the chapter had our annual Tax Season Roundtable at Buon Amici Restaurant. As always, our dinner was delicious and our roundtable lively. Our discussion focused on how our tax software have, or have not, handled tax reform accurately and efficiently.

On May 16th, Peter Larkin from the Wilson Elser law firm hosted a seminar for us. Peter has always been a great supporter of NCCPAP. In addition to providing required Ethics CPE as usual, the seminar had the required Sexual Harassment training as now required annually by New York State. The session covered the training required for employees also. Both topics received high marks from our participants.

Our upcoming meetings:

- Wednesday, August 14, 8 AM to 10 AM--Fundamental Employment Laws Every Small/Mid-Size Employer Should Know, 2 CPE TAX, M&T Bank, Tarrytown, NY
- Thursday, October 3, 9 AM to 1 PM--Financial Accounting Standards Update, 4 CPE A&A, M&T Bank, Tarrytown, NY

Three-part tax series (or taken individually):

- Tuesday, November 26, 9 AM to 5 PM--Business Tax Update, Westchester, Hastings-on-Hudson
- Thursday, December 5, 8:30 AM to 4:30 PM--Individual Tax Reform, Westchester, Hastings-on-Hudson
- Wednesday, December 11, 9 AM to 5 PM--Tri-State Tax Reform, Westchester, Hastings-on-Hudson

by Mark A. Stewart Jr., CPA, President, Westchester/Rockland Chapter
mstewart@feldsteinandstewart.com

Membership Matters

I had the pleasure of attending the winter conference which was held at The Embassy Suites in Estero, Florida. A big thank you to Lana Kupferschmid who was instrumental in setting up the meeting at this nice facility. I enjoy these meetings for the comradery, friends, and what I learn. The sharing of professional experience is invaluable. This meeting did not disappoint.

There was a lot of discussion about the website and the use of the data base. Work is being done to provide more data on our membership such as members gained and lost, average membership age, changes in member ship makeup and location. This information will be valuable in promoting the organization.

Strategic alliances, such as the one we have with the Texas Association of CPA'S will be pursued with other organizations. Recommendations are encouraged.

We all knew that this past tax season would be tough for all of us. We were especially on the lookout for tax issues and ideas to pass on to the tax committee for use during our annual trip to Washington DC.

Complexity and compliance with professional standards is forcing more small practitioners from audit and attest work. The effects on small business are obvious. We need to track this data as it has obvious multiple uses. Little gap and peer review simplification was discussed. All are encouraged to bring forward ideas in these areas which can be part of a presentation to the appropriate authorities for effective change.

Improved communications between Chapters was discussed. Monthly meetings of organizational committees were encouraged.

All the attendees agreed with the need for an organization website "makeover". Practitioners helping practitioners will be emphasized. Everyone is encouraged to share ideas including a new logo design to help with the transition.

We talked about chapters and members submitting articles for publication on a weekly basis. They don't have to be long or technical. The idea is to let members know what is happening in your practice and with our members both from a professional and personal standpoint.

The talks centered around emerging issues was lively. The need for understanding the special requirements of cannabis accounting was apparent as more and more states moved to legalize its use. Cybersecurity has new importance when considering the recent AICPA position on "hosting" and its possible impact on independence.

We learned that issuing OCOBA financial statements where substantially all disclosures are omitted does not mean you do not have to add disclosures either in the body of the financials or in your report.

New accounting standards dealing with revenue from contracts, leases, not-for-profit financial presentation, and cash flow statements. There is also a new exposure draft dealing with forensic services.

There are flaws in the 199A limitation calculations associated with filing status which can affect what filing status is chosen.

Finally, there was discussion about getting new members. All are challenged to come up with one idea to share. Chapters were encouraged to reach out to local colleges for new members at a discounted rate. At least this would establish our presence on campus to students.

I would encourage everyone to seriously consider attending one of our national quarterly meetings. I feel the return is well worth the time and cost.

by Frank E Sands CPA, Chapter Representatives Committee Chair
and President, Texas Association of CPAs, frank@sgcompanycpas.com

TCJA Limitation on Qualified Transportation Fringe Benefits

Fringe benefits are an extremely desirable component of employee pay packages. To effectively compete with large companies that offer outsize benefits, small and mid-size businesses look for less expensive benefits that will attract qualified employees. Until the changes enacted by the Tax Cut and Jobs Act of 2017 (“TCJA”), qualified transportation fringe benefits were an ideal benefit as they are relatively inexpensive to administer and they provided payroll tax savings for employers while enabling employees to save on federal income taxes. However, the TCJA made these benefits more costly for employers and employers should be made aware of the changes so that they can properly treat the benefits and determine whether to reduce or eliminate them.

Pursuant to §132(f) of the Internal Revenue Code, employees can exclude from their gross income up to \$265 (\$260 for 2018) of qualified transportation fringe benefits provided by their employers. The exclusion applies to monthly payments or reimbursement for (i) the combined cost of transit passes and commuting expenses for transportation by commuter highway vehicles (vehicles that hold a minimum of six passengers plus the driver and are used 80% for commuter use between the employee’s residence and work place) and (ii) qualified parking on or near business premises or a commuter lot. Until 2018, these expenses were excluded by the employee and deductible by the employer. However, §274(a)(4) of the TCJA disallows any deduction for qualified transportation fringe benefits that employers provide to their employees from 2018 through 2025. (During this period, these benefits are also treated as an increase in unrelated business taxable income by tax-exempt employers.)

On December 10, 2018, the IRS released Notice 2018-99 to provide interim guidance for taxpayers in determining the amount of nondeductible parking expenses for qualified transportation fringe benefits (and for tax-exempt organizations to determine the corresponding increase in the amount of unrelated business taxable income). The IRS stated that the notice can be relied upon until further guidance is provided and that the IRS intends to do by issuing proposed regulations. Notice 2018-99 explains that the method of determining the nondeductible amount of qualified parking fringe benefits relates to the *expense*, and not the value, of providing them and depends upon whether the taxpayer pays a third party to provide parking for its employees or whether the taxpayer owns or leases a parking facility where the employees park.

If the employer pays a third party to provide its employees parking at the third party’s parking lot or garage, the disallowance generally is calculated as the taxpayer’s total annual cost of employee parking paid to the third party. However, any excess amount over the monthly limitation (\$265 per employee for 2019) that the employer pays to a third party for an employee’s parking must be treated by the employer as compensation and wages to the employee.

If an employer owns or leases all or a portion of one or more parking facilities where its employees park, the disallowance may be calculated using any reasonable method. Notice 2018-99 provides a safe harbor and reiterates the IRC provision that using the value of employee parking to determine expenses allocable to employee parking in a parking facility owned or leased by the taxpayer is not a reasonable method. The notice specifies that parking expenses do not include depreciation, but do include repairs, maintenance, utility costs, insurance, property taxes, interest, removal of snow, ice, leaf and trash, cleaning, landscape costs, parking lot attendant expenses, security, rent or lease payment or a portion of rent or lease payments. Notice 2018-99 also makes clear that a method that does not allocate expenses to “reserved employee spots” cannot be a reasonable method. To alleviate this limitation, the Notice together with a related IR-2018-247 provides a special rule allowing “employers to retroactively reduce the amount of their nondeductible parking expenses” if they make changes to their parking arrangements or reduce the number of reserved parking spots by March 31, 2019.

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TCJA Limitation on Qualified Transportation Fringe Benefits

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The disallowance of the employer's deduction for qualified transportation fringe benefits reduces an employer's benefit of providing these benefits. Nevertheless, most employers will likely continue to provide their employees with transportation fringe benefits as the added cost of the disallowance is relatively small compared to the amount of value these benefits offer employees. Furthermore, some metropolitan areas (including New York City, Washington D.C., and the San Francisco Bay area) require that employers provide transportation benefits. Even though most employers will choose to continue to offer these benefits, it is important for accountants to inform their clients of the changes enacted by the TCJA.

by Devorah Baruch

This article was submitted by Devorah Baruch, deputy chair and tenured associate professor of accounting at Touro College and adjunct associate professor at CUNY. Ms. Baruch is a CPA and lawyer with a JD degree from New York University School of Law and a BS from Queens College.



Updates on Our 40th Anniversary Award Winners

NCCPAP's Texas Chapter, known as TACPA, is pleased to announce its 40th Anniversary Silver and Bronze Award winners. Steve M. Spencer, CPA of Palestine, Texas, is being recognized as the Silver winner, awarded to the Chapter member who has demonstrated a longstanding commitment to NCCPAP and the CPA community. Steven E. Miller, CPA of Dallas, Texas, is being recognized as the Bronze Winner, awarded to the Chapter member considered to be influential as a leader in the CPA community.

The Florida Chapter is pleased to announce its 40th Anniversary Silver Winner, Neil H. Fishman, CPA, CFE, FCPA, CAMS of Boynton Beach, Florida. The award recognizes a Chapter member who has demonstrated a longstanding commitment to NCCPAP and the CPA community.

The Westchester Rockland Chapter is pleased to announce its 40th Anniversary Silver and Bronze Award winners. William G. Bostick, CPA of Mount Kisco, New York, is being recognized as the Silver winner, awarded to the Chapter member who has demonstrated a longstanding commitment to NCCPAP and the CPA community. Martha Berghahn, CPA of Sparta, New Jersey is being recognized as the Bronze Winner, awarded to the Chapter member considered to be a rising influencer. Past President Alan Feldstein, CPA is also being recognized for his long-standing service to the Chapter and national NCCPAP.

We will keep you up to date as more Chapter award winners are announced.

Getting Green by Going Green: Does Environmental Over-Friendliness Signal Increased Fraud Risk?

"We believe that incorporating environmental and social considerations into the way we manage risk, govern our projects, and develop products and services will help us maintain our competitive advantage." - Enron CEO Kenneth Lay in 2001 shortly before the company imploded due to systematic accounting fraud.

"Green is green as in the color of money." - Judy Hu, General Electric's Director of Branding describing their "Ecomagination" initiative.

Introduction

Financial statement auditors must be cognizant of fraud risk factors and assess the risk of material misstatements due to fraud (AICPA, 2018; PCAOB, 2017). As part of this assessment, auditors consider the client's internal controls; primarily, whether management "demonstrates a commitment to integrity and ethical values" (COSO, 2016). However, evidence of ethical values and corporate altruism in one dimension can, on a theoretical level, actually be interpreted in two ways:

On the one hand, ethical values in one area *can* be indicative of management's overall integrity since a firm's decisions reflect a set of organizationally shared beliefs regarding appropriate business practice and values, known as corporate culture theory (e.g., Hoi, Wu, & Zhang, 2013).

On the other hand, ethical values in one area may *not* be indicative of management's overall integrity since firms often engage in corporate hypocrisy (Wagner, Lutz, & Weitz, 2009) and have commitments to certain ethical values but not to others (Sikka, 2010). Moreover, ethical values, particularly "over-friendliness," in one regard can be a *red flag* indicator and symptomatic of fraud or manipulation in other areas if the firm is utilizing altruistic initiatives as a "smoke-screen" to obfuscate or divert attention away from their unethical activities and mitigate damages to the company's reputation, known as risk-management theory (e.g., Col & Patel, 2016). For example, Grougiou, Dedoulis, & Leventis (2016) find that "sinful" companies strategically utilize CSR disclosures to draw attention away from their controversial activities.

The second possibility is the focus of this paper and is of particular relevance to financial statement auditors when assessing fraud risk. Specifically, we present the results and implications of a study we conducted exploring the relationship between one form of earnings manipulation, corporate tax avoidance (CTA), and environmental friendliness. We find evidence that tax-avoiding firms increase their environmental initiatives to reduce the risk of reputational damage. The findings are consistent with recent studies highlighting the strategic employment of altruistic initiatives as a mechanism of obscuring unethical activities. The implication of our results is that environmental over-friendliness can be seen as a potential red flag of earnings management that should not go unnoticed by financial statement auditors.

Green New Deal

The recent "Green New Deal" (GND) resolution has garnered renewed interest and debate regarding the role and responsibilities of corporations and the general intersection of business and the environment. The proposed bill follows a trend, exponentially growing over a number of decades, of public corporations voluntarily committing to various socially responsible and environmentally friendly initiatives (H. Wang, Tong, Takeuchi, & George, 2016). While some firms altruistically expend resources to meet the ethical expectations of society (Y. Kim, Park, & Wier, 2012) in an effort to act as good "corporate citizens" (Avi-Yonah, 2014), others ascribe to the more opportunistic approach made popular by Friedman (2009) and only engage in socially responsible activities when doing so maximizes firm value (Moser & Martin, 2012) and, therefore, ensure that their actions become public knowledge via self-reporting, the media, or rating analysts (Godfrey, Merrill, & Hansen, 2009). Yet other firms engage in "green-washing" and utilize environmentally friendly investments as a mechanism of obfuscating earnings manipulation (Benabou & Tirole, 2010; Chatterji, Levine, & Toffel, 2009).

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Getting Green by Going Green: Does Environmental Over-Friendliness Signal Increased Fraud Risk?

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Anecdotally, Enron invested heavily in publicizing its dedication to the environment and received the EPA's Climate Protection Award for its "exemplary efforts and achievements in protecting the global climate" in 1998 - while contemporaneously engaging in institutionalized and systematic accounting fraud. More recently, General Electric launched its multimillion-dollar "Ecomagination" advertising campaign in 2005 in an effort to position itself as a "green" company after decades of being the scourge of environmental groups (Fisher, 2005). However, the firm allegedly engaged in accounting violations leading to materially false and misleading results in its financial statements in the years just prior to the "Ecomagination" launch (SEC, 2009).

We examine whether environmentally friendly and "green" firms engage in earnings management in the form of tax avoidance and increased income sheltering since implicit in climate-focused bills like the GND proposal is funding via increased tax revenue, including suggestions of a 70 percent individual marginal tax rate (Wall Street Journal, 2019). This suggests a presumed natural linkage between taxes payments and climate and environmental protection. Existing research on the relationship between a firm's overall CSR activities (which encompasses activities and initiatives relating to diversity, employees, community, product quality and safety, and environmental friendliness) and tax payments provide mixed results. Some studies find evidence of a positive correlation between CSR and tax rates, indicating a consistent and non-hypocritical corporate approach (e.g., Hoi et al., 2013; Lanis & Richardson, 2015; Muller & Kolk, 2015). However, others find that firms with high CSR ratings engage in more tax avoidance (e.g., Col & Patel, 2016; Davis, Guenther, Krull, & Williams, 2016), suggesting corporate hypocrisy. We, therefore, isolate the environmental friendliness dimension of CSR and examine its relationship with CTA.

Why Might Tax Avoiding Firms Invest In "Green" Initiatives?

Neoclassical economic theory prescribes that firms should engage in CTA activities to minimize their tax burdens through any available legal means thereby providing additional value for their shareholders (Friedman, 2007). Traditional theory further suggests that firms expect CTA to act as a value-maximizing vehicle resulting in a frictionless cost reduction and increased shareholders' wealth (Hanlon & Heitzman, 2010; J. B. Kim, Li, & Zhang, 2011). However, studies analyzing the relationship between CTA and firm value have demonstrated the trade-offs and adverse consequences of CTA revelations including the increased likelihood of significantly negative stock returns (Hanlon & Slemrod, 2009; J. B. Kim et al., 2011) and a lower willingness of consumers to patronize the firm (Hardeck & Hertl, 2014).

Specifically, reputational damage is a major factor corporate tax managers consider when weighing the benefits of cash tax savings against potential costs (Austin & Wilson, 2017) and public backlash can exert significant influence on tax-avoiding firms (Dyreng, Hoopes, & Wilde, 2016). In fact, 69 percent of corporate tax managers rated reputation as the principal factor when contemplating whether to adopt a potential tax planning strategy (Graham, Hanlon, Shevlin, & Shroff, 2014).

Investing in environmentally friendly initiatives can act as a protective mechanism to veil the firm's CTA activities and ameliorate the reputational costs resulting from CTA since it adds moral capital and provides insurance-like protection from negative publicity (Godfrey et al., 2009). Particularly, the more that climate protection and "green" initiatives have been imbued into the global consciousness and conversation, and as sustainability reporting has become more scrutinized by the media, public, and investors (D'Aquila, 2018), the greater the veiling effect it has on activities with high reputational risk such as CTA. Thus, we hypothesize that firms employing tax avoidance strategies specifically invest in environmental friendliness.

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Getting Green by Going Green: Does Environmental Over-Friendliness Signal Increased Fraud Risk?

(continued)

Methodology and Results

To test the association between CTA and environmental friendliness, we combine financial statement information available from Compustat's database with the environmental strength and concern indicators of MSCI's Environmental, Social, and Governance Ratings. The MSCI dataset is the *de facto* measure of CSR activities used in scholarly works (Hoi et al., 2013; Y. Kim et al., 2012; Waddock, 2003). Our sample includes 9,387 firm-year observations comprised of all U.S. public firms found in both datasets between the years 2003 and 2015, excluding regulated utilities and firms in the financial industry (SIC codes 4900-4999 and 6000-6999, respectively) due to their unique accounting requirements (Dyreng, Hanlon, Maydew, & Thornock, 2017; Hoi et al., 2013). We calculate GAAP effective tax rates (ETR) as income tax expense divided by pretax income less special items (McGuire, Omer, & Wang, 2012). (We employ a GAAP ETR measure instead of Cash ETR since media, regulators, and watchdog groups often focus on a firm's GAAP ETR as a simple heuristic when evaluating whether a firm is paying its "fair share.") Further, we create an MSCI environment index measure by summing the number of "strengths" and subtracting the number of "concerns" in a given year.

Our data show that, over this time period, the average GAAP ETR is 30 percent which is below the 35 percent statutory corporate tax rate of that period but is in line with prior research (Austin & Wilson, 2017). The average environmental score is positive (0.13) indicating that firms are environmentally friendly overall. We perform a correlation analysis which confirms a significant negative relation between GAAP ETR and the environment index indicating that firms engaged in tax avoidance specifically invest in environmental initiatives, supporting our hypothesis. We conduct further testing to eliminate the possible effects of unique characteristics in the sampled firms (including size, leverage, intangible assets, pretax profitability, growth, selling, general, and administrative expenses, net operating loss carry-forward, property, plant, and equipment, and cash) and find consistent and statistically significant results. Specifically, the data shows that as firms pay less taxes due to tax avoidance their environmental friendliness ranking significantly increases.

Discussion and Conclusion

Our study provides further evidence of firms "washing away their sins" (Kang, Germann, & Grewal, 2016) by utilizing excessive friendliness to obfuscate their aggressive strategies. Specifically, investing in the environment is a particularly effective method of choice due to the multiple benefits of both creating a veiling effect and inherently enhancing overall firm value. Accordingly, excessive environmental friendliness can be seen as a red flag indicator and symptomatic of fraud in other areas.

This paper should be of interest to financial statement auditors when assessing fraud risk. Management's "commitment to integrity and ethical values" must be taken with a grain of salt. As with many areas in life, an excessive amount of anything can be troublesome. In conclusion, we demonstrate that firms appearing to be over-friendly are sometimes the very ones you have to watch out for.

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