UGA study finds firms' tax rates are tied to CEOs' politics

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(Phys.org) -- Companies run by CEOs who vote Republican tend to pay more in taxes than companies run by CEOs who vote Democratic, according to new research co-authored by a professor in the University of Georgia Terry College of Business.

The difference in paid taxes-statistics show that Republican-led companies pay about 2 percent more in effective tax rates-can be traced to psychological differences in the makeup of the CEOs, said Scott Graffin, a Terry College management professor who co-authored the study with three researchers from the University of Arizona business school.

"A person's political affiliation is a good proxy of a couple of psychological conditions: One is their tolerance for ambiguity, the other is whether they're risk-seeking or risk-averse," Graffin said. "People who lean Republican tend to be less tolerant of ambiguity and more risk-averse, while people who lean Democratic tend to be more risk-seeking and more comfortable with ambiguity."

These personal factors trickle through an organization, affecting how decisions at many levels are made, Graffin said. Because Republican CEOs are more risk-averse, accountants under them tend to promote risk-averse strategies.

"Tax laws try to be clear, but there are always areas where they aren't," Graffin said. "So there's this idea that even if a CEO isn't a tax expert, they may push their accountants in certain tax-avoidance postures that line up with their tolerance for risk."

The study, which will be presented at the annual American Accounting Association meeting in August, examined personal political donations from more than 10,000 high-level managers over approximately 30 years.

The findings may seem counterintuitive, Graffin said, because Republicans tend to be anti-tax and Democrats tend to be in favor of more corporate taxes. But while Republican-leaning CEOs may be anti-tax, they're also risk-averse, meaning they're less likely to try certain tax-evasion strategies.

In fact, the longer a CEO stays at the head of a company, the more the company begins to reflect the CEO's personal political leanings through its tax strategies, Graffin said.

The findings hold when a new CEO with a different political affiliation takes over.

"We studied CEO turnover and found that when a firm has a Republican CEO step down and hires a Democrat, the tax position actually changes to become less risk-averse, and vice-versa," Graffin said.

Other co-authors on the research include University of Arizona researchers Dane Christensen, a doctoral candidate in accounting; Dan Dhaliwal, professor of accounting; and Steven Boivie, assistant professor of management and organizations.

Provided by University of Georgia