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This month's focus: **Tax Aggressiveness**

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This paper reviews research into tax avoidance, surveying four main areas of the literature: (1) ownership structure and corporate tax avoidance, (2) association among debt ratio and debt policy, and corporate tax avoidance, (3) corporate tax avoidance monitoring mechanism, and (4) relationship between corporate social responsibility and tax avoidance. The paper summarizes research areas and questions examined to date and what we have learned from the work completed thus far. In addition, the study gives opinion as to the implementation about tax administration important issues.

Effective Tax Rate Management in BEPS Era	<i>Eiji Akashi</i>	16
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Multinational companies have a difficult time in managing lower effective tax rates due to the implementation of action plans under the base erosion and profit shifting (BEPS) project. They need to examine tax planning and strategies, and to decide positions vis-à-vis tax rules and the authorities.

Relationship between Tax Aggressiveness and Firm Value: A Review	<i>Shin'ya Okuda</i>	25
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In this paper, I present a review of tax research, especially the relationship between tax aggressiveness and firm value. Some research in the US gives evidence that (1) while tax aggressiveness may persist it may not increase profitability, (2) the stock market misprices tax aggressiveness, and (3) good governance may reduce risk of tax aggressiveness. In Japan, some studies show that taxable income information has value relevance. However, compared to the US, the volume of research is very limited and many issues have yet to be addressed, such as what type of tax aggressiveness affects firm value or risk.

Relationship between Corporate Tax Avoidance and Cost of Capital	<i>Yuji Ohsu / Hiroyuki Ishikawa</i>	35
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We examine the relationship between corporate tax avoidance and cost of capital. We find (1) a negative relationship between effective tax rate level and the contemporaneous cost of capital, and (2) avoiding annual taxes increases the future cost of capital.

Prospects

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Problems of Basel III Compliant Capital Securities in Japan	<i>Makoto Tsurusawa</i>	52
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After the financial crisis, the Basel Committee on Banking Supervision overhauled regulatory capital standards pertaining to banks. In response, European and Japanese banks increased the issuance of new financial instruments that absorb losses when the capital of issuing banks falls below a certain level.

This paper describes the main features of these instruments and formulates and prices them based on an option model. Moreover, the study identifies two problems. First, instruments with write-down features would absorb some losses ahead of equities, thereby reversing the usual order of priority between creditors and shareholders. Second, the prices reflect investor views that loss absorption is unlikely. This suggests that investors have a significant degree of confidence in an implicit government guarantee.

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