U.S. corporations go to great lengths to avoid paying taxes, and some of those avoidance schemes—like moving profits to offshore tax havens—regularly make headlines. However, there are many more subtle techniques to reduce a corporation’s tax bill, and those methods are often practiced by tax accountants with firm- or industry-specific skills. Employing these tax experts can have beneficial effects and provide competitive advantages for firms.

While there has been considerable research about the determinants and consequences of corporate tax planning at a broad level, there has been little work on the impact of human capital within tax departments. That’s the task that John Barrios and John Gallemore, assistant professors at UChicago’s Booth School of Business, set for themselves in their recent paper, “Tax-Related Human Capital: Evidence from Employee Movements.”
Barrios and Gallemore reveal that tax-related human capital is often specific in nature, with corporations seeking employees with experience gained from firms that look similar to theirs; for example, large firms are more likely to hire from large firms, and small from small. The firms’ expertise can also matter: a firm with a general practice (say, a medium-sized firm with domestic operations) will have a larger talent pool from which to choose, while those firms with specialized client concentrations (whether those firms are large or small) will have a harder time finding required talent.

May the best tax department win

Taxes are a significant expense for corporations, so it pays to have the best tax accountants available to reduce that cost. This puts a premium on specialized expertise that certain preparers gain within a particular industry or company. To that point, the authors define tax-related human capital as the sum of an individual’s training and work experience in corporate tax departments. Their study is motivated by three related questions: What triggers firms to invest in tax-related human capital? Where do firms source such capital? What is the return for firms for such an investment?

This work builds on the long-held distinction between general human capital, which benefits productivity at the current firm as well as others, and firm- or industry-specific capital, which only raises productivity at the current firm or industry. This is an important distinction, especially for large corporations, as it determines whether businesses can outsource these skills or whether they need to retain the costs of such specialized skills within house. Of note in the industry, General Electric (GE) outsourced its tax needs in 2017, surprising many who assumed GE was benefiting from its own specialized tax department, and leading to speculation that other large corporations may follow suit.

Barrios and Gallemore developed a unique dataset of tax department employees at large, publicly traded US corporations that posted their resumes on a major professional networking website. Previously, researchers have relied on surveys with limited sample sizes and little specific information about individuals to inform their work, but the authors’ data allowed them to explore the role of tax department personnel for an extensive sample of firms and individuals. Importantly, these anonymized data allowed the authors to examine employment histories and to note movement among companies, providing insight into the tax-related human capital responsible for creating and implementing a firm’s tax strategies.
Tracking movement of tax-related employees sheds light on the costs and benefits of staffing an in-house tax department, and—by exploring the backgrounds of hired workers—it allowed the authors to better understand the types of skills that certain corporations and industries were seeking. This allowed them to consider whether, and to what degree, employee movement accounts for tax-planning knowledge to spread across firms.

This research explores firms where taxes paid per dollar of income have risen. This increase in their effective tax rate (ETR) means that these firms are likely in need of tax planning expertise, and the authors find that such firms are more likely to hire from other S&P 1500 firms and not from public accounting. The most attractive candidates are those that come from an S&P firm with a low cash effective tax rate (ETR). Put another way: the authors find that if tax performance is poor at a particular firm, whether through planning or risk management, for example, it will tend to look for new hires from other firms who are performing better.

However, firms do not just search for talent at any S&P 1500 firm; rather, they target those firms that are about the same size, operate within the same industry, have the same multinational strategies, and operate within close geographic proximity. This reinforces the suggestion that some tax skills are firm- or industry-specific and that the appropriation of those skills benefits a given firm.

This evidence, plus other results detailed in the paper, point to the importance of tax-related human capital in how many taxes a firm pays (or whether it has a low ETR). The results are clear: when a firm hires a tax department employee from a low ETR firm, it experiences an increase in tax avoidance (i.e., a decline in its cash ETR) in subsequent years. Put another way: this is how tax avoidance knowledge spreads across firms. This effect is magnified if the person hired from another firm is at senior level and/or has significant experience, especially in a similar field.

**Conclusion**

Politicians, policymakers, the media, and others are paying increasing attention to tax-avoidance techniques by corporations, and they often make blanket statements about the techniques these businesses employ to lower their ETR. However, not all corporate tax departments are created equal. Much research has been conducted on disparities among corporations, and how they manage their tax planning functions, but this new work sheds light on how and why tax-related talent shifts from firm to firm, and the importance of tax-related human capital that is specific in nature. By exploring these questions, and by exploiting a robust dataset, the authors describe how a firm’s level of tax avoidance increases when hiring employees from low ETR firms. This finding also describes how tax-related human capital serves as a mechanism to spread tax-planning knowledge across firms.

Figure 2 · Percent of the Sample with S&P to S&P Movement

<table>
<thead>
<tr>
<th>Total Individuals/Movements</th>
<th>Percentage of S&amp;P to S&amp;P EEs</th>
<th>Percentage of S&amp;P to S&amp;P Movement</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.5%</td>
<td>0.397</td>
<td>0.466</td>
</tr>
</tbody>
</table>

Notes: This figure plots the percent of individuals and their movement between jobs at S&P firms in our sample. The sample consists of tax department employees who worked at least once in a tax department at an S&P 1500 firm irrespective of whether the authors have information on the firm’s characteristics or the timing of the turnover. Column 1 graphs the percentage of the individuals in the authors’ sample who transitioned between two tax departments in an S&P 1500 firm at least once during our sample period. In column 2, the authors graph the percentage of total job movements that occur between S&P firms.

While there has been considerable research about the determinants and consequences of corporate tax planning at a broad level, there has been little work on the impact of human capital within tax departments.
For firms themselves, these questions are also important, as large corporations consider whether to outsource their tax-planning functions to public accounting firms. To the degree that this outsourcing occurs, it is possible that public firms will gain specific knowledge about certain industries or practices. If so, corporations may be drawn to their services and abandon their own tax departments and this specific knowledge will disseminate more broadly.

The authors also offer evidence for the role of specialized human capital in shaping firm decisions and performance. Past research has focused on overall human capital and firm performance; however, by focusing on a specific type of human capital, Barrios and Gallemore provide new insight into the particular effects of such expertise. Finally, by exploiting employee movement between firms, the authors establish a novel methodological approach that can benefit future research.

**CLOSING TAKEAWAY**

Much research has been conducted on disparities among corporations, and how they manage their tax planning functions, but this new work sheds light on how and why tax-related talent shifts from firm to firm, and the importance of tax-related human capital that is specific in nature.

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**Tax-Related Human Capital: Evidence from Employee Movements**

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