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Mitigating Advocacy Bias: The Effect Of The Reviewer Role On Tax Professional Judgment

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MITIGATING ADVOCACY BIAS: THE EFFECT OF THE REVIEWER ROLE ON TAX PROFESSIONAL JUDGMENT

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DEDICATION

To my amazing husband, Mike, for tirelessly encouraging and supporting me in all of my academic endeavors. Thank you for happily moving across the country for me—at least twice. To my daughter, Madelyn, for teaching me that surprises are the best part of life. I cannot imagine life, or finishing this degree, without you. To my parents, for their support. To Kelli, who started as a fourth-year student willing to help a first year and has become one of my most cherished friends, for cheering me on. Finally, to Britton Gildersleeve, Mark Glaser, Don Herrmann, Bud Lacy, Maryanne Mowen, Jeff Quirin, Andy Urich, and Melissa Walker, for inspiring me to be curious. I can only hope to inspire others as you have inspired me.

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ABSTRACT

Prior literature finds tax professionals exhibit advocacy bias, a threat to tax professionals' objectivity, which can expose accounting firms and their clients to penalties for overly aggressive tax reporting decisions. Mitigating this bias has been the topic of several prior studies; however, research thus far has focused on how reviewers identify bias within tax research memorandums (e.g., stylized writing or other obvious cues). In an experiment administered to seventy-five tax professionals, this study isolates the effect of the reviewer role and compares professionals' evidence evaluation and conclusions by role (i.e., reviewer or preparer). I find professionals who occupy the reviewer role are significantly less likely to exhibit advocacy bias than those who are in a preparer role, which suggests the reviewer role changes how professionals approach evidence evaluation. In addition, I examine the influence of accountability on tax professionals' judgments. I find initial evidence that accountability influences the likelihood of professionals' exhibiting advocacy bias.

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CHAPTER 1

INTRODUCTION

Tax professionals are required to exhibit both objectivity in their analyses and advocacy for their clients (Internal Revenue Service 2014; AICPA 2010). Importantly, absent objectivity, tax professionals' advocacy attitudes can cause them to inappropriately assign greater weight to evidence supportive of their clients' preferred positions (Bobek, Hageman, and Hatfield 2010; Kahle and White 2004). This departure from objectivity is referred to as advocacy bias, which occurs when "tax accountants' advocacy attitudes produce confirmation bias when evaluating [evidence or] case law" (Roberts 1998, 90). When present, advocacy bias affects multiple judgments of tax professionals, including evidence search (Kadous, Magro, and Spilker 2008; Cloyd and Spilker 1999), evidence evaluation (Kahle and White 2004; Johnson 1993), and bias detection (Cuccia, Magro, and Whisenhunt 2017; Barrick, Cloyd, and Spilker 2004). Advocacy bias can increase the likelihood of unexpected taxes, interest, and IRS penalties for both the taxpayer and the tax professional signing the return (Hatfield 2000), which is especially alarming because most clients expect tax professionals to focus on accuracy rather than aggressiveness (Fleischman and Stephenson 2012; Collins, Milliron, and Toy 1992).

Some argue advocacy bias is mitigated by the review process (Cuccia et al. 2017; Hatfield 2001), which could happen if (1) reviewers exhibit individual characteristics (e.g., experience, expertise) that decrease their susceptibility to bias or (2) elements of the reviewer role (e.g., accountability or role expectations) facilitate more objective judgment and decision making for those occupying the reviewer role. Tax reviewers may not be aware of either their own or preparers' advocacy bias because it is an unintentional (and perhaps subconscious) bias that is stronger for those in higher ranks and with more experience (Spilker, Stewart, Wilde, and Wood 2016; Bobek, Hageman, and Hatfield 2014; Bobek et al. 2010). Thus, reviewers may be just as susceptible to advocacy bias as preparers despite increased experience. It is possible, however, that elements of the reviewer role (e.g., accountability or role expectations) prompt professionals to focus more on objectivity. Thus, the present study focuses on the effects of the reviewer role on advocacy bias because individual characteristics are unlikely to mitigate bias and may exacerbate bias.

Role theory (Biddle 1979) suggests elements of the reviewer *role* could mitigate advocacy bias because individuals change how they make decisions based on the role they occupy. According to Biddle (1979, 56), roles are a collection of "behaviors that are characteristic of persons in a context." My study examines how roles, and the expectations associated with those roles, influence tax professional behavior. Barrick et al. (2004) identify three expectations of tax professionals: accuracy, advocacy, and feedback. Both preparers and reviewers are expected to achieve accuracy and advocacy, but only those in the reviewer role are expected to provide feedback. I propose the additional expectation of providing feedback may lead reviewers to approach evidence evaluation differently than preparers. Specifically, this study predicts reviewers approach engagements with a heightened focus on objectivity because they feel accountable for meeting the expectations associated with reviewing (i.e., evaluation of preparer effort and conclusion, assessment of evidence search and evaluation process, etc.). Prior literature finds increased accountability leads to greater cognitive effort and reduced susceptibility to cognitive biases (Tetlock 1999), thus I predict professionals occupying the reviewer role are more likely to evaluate evidence objectively (e.g., with less bias) because of the accountability associated with providing feedback to preparers.

Research has not yet examined whether the influence of advocacy bias changes when tax professionals occupy the reviewer role (compared to when they occupy the preparer role). Prior research suggests reviewers are unlikely to detect advocacy bias without obvious cues (Cuccia, Magro, and Whisenhunt 2017; Barrick, Cloyd, and Spilker 2004; Hatfield 2000); however, past studies have focused on how reviewers inappropriately evaluate *biased* preparer conclusions. Tax professionals, especially those at the senior level, are often assigned to work as preparers on some engagements and as reviewers on others, which suggests tax professionals can shift from one role to another. The present study examines whether advocacy attitudes influence reviewer evaluation of both the preparer's conclusion and the associated evidence supporting the conclusions. In addition, preparers in this study evaluate the same evidence and provide the same judgments as reviewers, which allows me to compare the effects of advocacy attitudes on the same evidence evaluation in both roles.

An online experiment was administered to 75 experienced tax professionals recruited through a Qualtrics Panel. The study's hypotheses are tested with a between-participant experiment with three conditions. Participants act as either a reviewer or preparer. In addition, the study manipulates whether participants assigned as reviewers review a memo that (1) includes a preparer conclusion in favor of the client-preferred treatment or (2) does not include a preparer conclusion. This additional manipulation allows the study to fully isolate the effect of role by comparing reviewer judgments both with and without the influence of a preparer conclusion.

Professionals determine the tax treatment (hobby or business) of a net loss incurred in a bicycle racing activity, which the client prefers to treat as a business. In all conditions, professionals are provided with partner instructions (indicating the partner has no preferred outcome), client facts, a draft file memo documenting the preparer's research, and relevant tax authority. Professionals indicate whether the client facts indicate business or hobby treatment based on the "hobby loss" rules of I.R.C. §183 and Reg. Sec. 1.183-2. In addition, professionals in the reviewer (preparer) conditions are asked the likelihood they would sign off on a conclusion (conclude) that the activity be considered a business. Finally, they respond to items measuring client advocacy and accountability.

Using ANOVA and regression analysis, I examine the effect of client advocacy, role, and accountability on tax professionals' evidence evaluation processes and conclusions. Bias occurs when advocacy attitudes influence evidence search and/or evaluation (e.g., if strong client advocacy attitudes lead a professional to inappropriately assess evidence as supportive of the client's preference). Results indicate that tax professionals who occupy the reviewer role are less likely to exhibit advocacy bias than those in a preparer role. Further, I find no evidence that reviewers' evidence evaluation processes are influenced by the preparer conclusion they view. However, I do find evidence that accountability to the client influences preparers' judgments. Specifically, increasing accountability to the client decreases the likelihood of preparers exhibiting advocacy bias, which provides initial evidence that firms may be able to mitigate *preparer* advocacy bias by increasing felt accountability.

This study contributes to the literature in both theoretical and practical ways. First, by examining the effect of the reviewer role on tax professional judgments, this study adds to a growing literature (e.g., Cuccia et al. 2017; Barrick et al. 2004) studying whether the review process mitigates advocacy bias. Whereas prior literature has separately examined the effects of advocacy bias on both reviewer and preparer tasks, this study isolates role by comparing how professionals in the role of reviewer evaluate the same set of evidence as those in the role of preparer. Results provide initial evidence that occupying the reviewer role mitigates advocacy bias.[1] This study's design examines the effect of an existing firm mechanism (i.e., the review process) on the presence of advocacy bias. The findings provide insight into the importance of the review process in ensuring objective evidence evaluation as part of client recommendations.

Second, this study provides initial evidence of the effects of accountability on the likelihood of tax preparers exhibiting advocacy bias. Specifically, preparers who feel accountable to the client are less likely to exhibit advocacy bias, which provides insight to firms regarding the importance of conveying the expectation that preparers are accountable for their recommendations. Third, this study examines the effects of accountability to multiple sources, including documenting different effects of accountability to the client and firm. Interestingly, I find that accountability to the client decreases the likelihood a preparer will exhibit advocacy bias but, surprisingly,

[1] This study supports findings in prior audit studies which suggest occupying the reviewer role may improve objectivity in professional judgments (Reimers and Fennema 1999; Ricchute 1999; Libby and Trotman 1993).

accountability to the firm does not. Thus, I provide insights for future research about the effect of accountability, especially when there are multiple accountability sources. For example, auditors may also feel accountable to both the firm and the client (Gibbins and Newton 1994). Future research could build on this study's findings to disentangle the effects of accountability to multiple sources on auditor and tax professional judgment.

Fourth, I find tax professionals are likely to assume the partner prefers to agree with the client preference even when the partner explicitly specifies no preference. As a result, professionals may feel pressure to find support for an outcome they inappropriately assume the partner prefers, especially when in the preparer role. Thus, firms can avoid unintentionally aggressive recommendations by explicitly and credibly communicating information about preferences (or lack thereof). Finally, this study empirically tests the effect of approval bias in professional judgment. Approval bias occurs when professionals' bias leads them to endorse other professionals' potentially biased judgments (Bazerman et al. 2002). Prior literature finds advocacy bias persists across rank in the firm and experience levels; thus, the tax context provides one of the most likely areas for approval bias to manifest. However, this study finds no evidence that endorsing a preparer's conclusion (e.g., signing off on a conclusion to support the client's preferred position) influences the likelihood of reviewer advocacy bias.

The remainder of this paper is organized as follows. Section 2 reviews the literature on advocacy bias, role theory, and accountability, providing theoretical development of the hypotheses. Sections 3 and 4 describe methods and results. Section 5 concludes.

CHAPTER 2

THEORY AND HYPOTHESIS DEVELOPMENT

2.1 Advocacy Bias

A tax professional has both the "right and the responsibility to be an advocate for the taxpayer" (AICPA 2010); however, s/he also have a responsibility to "objectively evaluate all relevant facts and tax authorities when preparing advice" (Kadous and Magro 2001, 453). Favoring a client's preference supports a tax professional's goal of being an advocate but doing so without sufficient support of relevant authority may lead to inappropriate recommendations. When advocacy attitudes "inhibit their abilities to accurately assess authoritative support" (Cloyd and Spilker 1999, 1), tax professionals may unintentionally interpret facts and/or evidence in a manner that inappropriately supports the clients' preferences. Prior tax literature has termed this "advocacy bias."[2]

Advocacy bias can lead to the recommendation of aggressive tax positions;[3] however, aggressiveness is not a direct indicator of advocacy bias. Rather, advocacy bias occurs when professionals' advocacy attitudes influence the judgments they make during evidence search and/or evidence evaluation (see Figure 2.1). Because advocacy bias is

[2] Advocacy bias is similar to confirmation bias because it leads to biased evaluation; however, advocacy bias refers to bias towards the client's preference rather than the professional's initial opinion or judgment. Tax professionals exhibiting advocacy bias attempt to confirm client preferences rather than objectively determine the appropriate tax treatment. See Bobek et al. (2010) for a synthesis of client advocacy research.

[3] The present study uses the term "aggressive tax positions" to describe positions that could be overturned if challenged in Tax Court. Recommending an aggressive position is not necessarily illegal, but when such a recommendation is the result of biased evidence evaluation, the tax professional and the client are likely taking on more risk than they intend.

generally an unconscious bias, it is more difficult to detect and control than aggressiveness. Prior studies establish that tax professionals acting as preparers exhibit advocacy bias throughout the research process, including searching for evidence (Kadous et al. 2008; Cloyd and Spilker 1999) and evaluating evidence (Kahle and White 2004; Johnson 1993). For example, prior research has shown tax professionals assign greater weight to court cases that support the client's preferred treatment (Johnson 1993) and focus primarily on evidence most consistent with the client's preferences (Kadous et al. 2008; Hatfield 2001; Cloyd and Spilker 1999).

Research also shows reviewers may exhibit advocacy bias when determining whether to rely on preparer research memorandums (Hatfield 2001) and when detecting bias in others' judgments (Cuccia et al. 2017; Barrick et al. 2004). Cuccia et al. (2017) find reviewers are likely to detect preparer bias only when the memo is linguistically stylized to emphasize the evidence supporting the client-preferred outcome. Barrick et al. (2004) examine whether reviewers are subject to advocacy bias when the client preferred position does not have a "realistic possibility" of being upheld in court. The authors find reviewers are more likely to rely on biased memos that incorrectly support an unsupportable client preference than on biased memos that correctly support an alternative. That is, when both memos are biased, reviewers are more likely to rely on and incorporate the memo that achieves the client preference. However, the authors also find some evidence that reviewers can detect preparer bias. Specifically, they find supervisors (e.g., reviewers) request more rework and are less persuaded when staff submit clearly biased memos supporting a client preference that cannot be objectively supported than when they support unbiased memos supporting the same unsupportable client preference. That is, when both memos recommend an unsupportable position, reviewers are more likely to rely on the unbiased memo.[4] Thus, supervisors (reviewers) appear likely to detect advocacy bias when that bias leads to *obviously* inappropriate recommendations (Barrick et al. 2004) or highly stylized presentation (Cuccia et al. 2017). However, advocacy bias is generally considered to be unintentional (Bobek et al. 2010), which suggest it is likely judgments affected by advocacy bias are not always accompanied by stylized writing, obviously unsupported recommendations, or other obvious cues.

The abovementioned prior studies have established reviewer advocacy bias by assessing whether reviewers sign off on (i.e., agree with) preparer recommendations to support aggressive client preferences. Although advocacy bias can contribute to evidence evaluation that supports aggressiveness, aggressiveness is not a direct indicator of advocacy bias. As a result, an increase in aggressiveness is not a precise test of whether advocacy bias influences judgment. Research has not yet identified whether reviewer judgments are driven by (1) reviewers' own advocacy biases, (2) over-reliance on preparers' biased recommendations, or (3) reviewers' appetites for aggressiveness. This study follows Bobek et al. (2010) and examines bias more directly by focusing on whether advocacy attitudes influence evidence evaluation rather than focusing on the aggressiveness of a conclusion.

[4] Barrick, et al. (2004) examine a scenario where client preference is clearly unsupportable because it does not have a "realistic possibility" of being upheld if challenged in court. Thus, tax professionals are unable to support the client's preference (advocacy expectation) because doing so would not be supported by relevant authority (accuracy expectation). Following Bobek, et al. (2010), my study incorporates sufficient ambiguity that biased professionals could determine meeting both expectations is possible.

2.2 Mitigating Advocacy Bias with the Review Process

Previous research has identified multiple antecedents and consequences of advocacy bias; however, only a few studies have examined whether there are processes in place to mitigate advocacy bias effectively. Some argue the review process can mitigate advocacy bias (Cuccia et al. 2017). This argument is reasonable because the review process serves as a quality control mechanism. Circular 230, which governs behavior of tax professionals practicing before the IRS, requires a tax professional to use "reasonable care in engaging, supervising, training, and evaluating" a subordinate (IRS 2014, 19). Barrick et al. (2004) indicate all tax professionals have two expectations in a research engagement: (1) accuracy, which requires that they evaluate the evidence and determine the appropriate conclusion, and (2) advocacy, which requires that they "marshal evidence" to support their client's preferences. Reviewers have a third expectation of "providing corrective feedback necessary for novice professionals to learn from their experiences" (Barrick et al. 2004, 2).[5] Given the differences between the two roles, the review process could mitigate advocacy bias if (1) professionals acting as reviewers possess individual characteristics (e.g., experience or expertise) that facilitate identification of alternative explanations, omissions, or inconsistencies; or (2) elements of the reviewer role (e.g., increased accountability) prompt professionals to approach a task differently than when they are not in that role.

One way the review process could mitigate advocacy bias is if tax reviewers possess individual characteristics that facilitate more objective judgments and decrease

[5] The reviewer role has a similar focus in an audit environment. Yip-Ow and Tan (2000) describe an audit reviewer's identification of alternative explanations, omissions, or inconsistences in the preparer's work as one of the primary purposes of the review process.

susceptibility to advocacy bias when compared to preparers. Professionals serving as first reviewers generally possess increased expertise and exposure to more complex tax issues than preparers (AICPA 2016); thus, one might expect reviewers to be more objective than preparers. However, prior research shows client advocacy attitudes are stronger for professionals with more experience or higher rank (Spilker, Stewart, Wilde, and Wood 2016; Bobek et al. 2010). Although reviewers may have more experience and/or expertise than preparers, they may also have increased propensity to exhibit advocacy bias given their stronger advocacy attitudes. This study does not expect reviewers' individual characteristics (e.g., experience and/or expertise) to mitigate advocacy bias. Motivated by role theory (Biddle 1979) and research in accountability (Lerner and Tetlock 1999; Gibbins and Newton 1994; Tetlock 1985), I examine another way in which the review process may mitigate advocacy bias: the effect of occupying the reviewer role.

2.3 Role Theory and Accountability

I am unaware of research directly comparing similar judgments of tax professionals occupying the reviewer and preparer roles; however, the reviewer role has been studied in an audit context. Specifically, audit reviewers are more focused on inconsistent information, produce more plausible alternative hypotheses, and are more sensitive to source objectivity than audit preparers (Ricchute 1999; Reimers and Fennema 1999; Ismail and Trotman 1995; Libby and Trotman 1993). These studies present two potential explanations for differences in behavior across roles. First, Reimers and Fennema (1999) and Libby and Trotman (1993) argue that the preparer (i.e., the "initial decision maker") is focused more on producing an initial judgment, which prompts a focus on systematic decision making and on defending his/her conclusion(s). In contrast, the authors describe the reviewers as entering the process *after* the initial decision has already been made, which prompts a focus on counterarguments and alternative explanations because "information that is novel or unexpected receives relatively more attention" (Libby and Trotman 1993, 563) from those who are reviewing an existing decision. Thus, prior studies suggest the reviewer can be more objective because s/he is less focused on developing a conclusion and more focused on reviewing the accuracy and appropriateness of an existing conclusion. Second, prior literature also suggests the high-quality decision-making behaviors of audit reviewers could be associated with an expectation of accountability, which is defined as the need to justify decisions and/or actions to another (Lerner and Tetlock 1999; Tetlock 1985). This study argues the reviewer role produces different evidence evaluation processes than does the preparer role, whether by shifting from systematic to more holistic decision making or by increasing accountability.[6]

According to role theory, individuals occupy multiple roles and each role is accompanied by role expectations, which are learned over time through socialization (Ammeter, Douglas, Ferris, and Goka 2004; Frink and Klimoski 1998; Biddle 1979). Roles are not necessarily jobs; roles represent a collection of "behaviors that are characteristic of persons in a context" (Biddle 1979, 56). Tax professionals occupy multiple roles (e.g., preparer, reviewer, signer, etc.), often simultaneously, with multiple role senders (e.g., partner, client, IRS, etc.) who have differing expectations. For

[6] Tax professionals may respond to occupying the reviewer role differently than auditors. Prior findings in audit are informative of professional behavior, but tax professionals work in a different environment. Auditors are expected to operate with professional skepticism, which could enhance objectivity. In contrast, tax professionals are required to be advocates, which could reduce objectivity if tax professionals exhibit advocacy bias. By examining tax professional behavior, this study examines the effect of role in an environment without an expectation of professional skepticism.

example, both preparers and reviewers are expected to strive for accuracy and advocacy, whereas only reviewers are expected to provide feedback to subordinates (Barrick et al. 2004). Further, although the review process is assumed to provide learning opportunities for a preparer (Gibbins and Trotman 2002), those at the reviewer level are expected to have the expertise necessary to facilitate that learning. Because providing feedback requires reviewers to focus on the quality of both the workpapers and the conclusions, I expect reviewers to be more focused on reaching objective conclusions than professionals who are not expected to provide feedback. Formally stated below, this study predicts reviewers are less likely to exhibit advocacy bias because of the expectations associated with being a reviewer.

> H1: Tax professionals occupying the reviewer role are less likely to exhibit advocacy bias than those occupying the preparer role.

2.4 Accountability and Advocacy Bias

In addition to examining the effect of occupying the reviewer role on the likelihood of exhibiting advocacy bias, this study also examines (1) the effect of role on accountability and (2) the effect of accountability on tax professionals' likelihood of exhibiting advocacy bias. Role theory suggests "role occupants" feel accountable for the perceived role expectations sent by "role senders" (authoritative persons) (Biddle 1979). These role expectations are developed both formally and informally and are largely based on norms in a workplace environment or process (Frink and Klimoski 1998). Tax professionals are expected to act as client advocates and to complete their work with due diligence and objectivity. These expectations come from the firm, the client, and the IRS (e.g., the "role senders"), so all tax professionals have the same role senders regardless of the role they occupy. However, role senders may assign different expectations to professionals based on role. As discussed by Barrick, et al. (2004), tax preparers are expected to achieve accuracy and advocacy and tax reviewers are expected to achieve accuracy, advocacy, *and feedback.* Ammeter, et al. (2004) explain that if professionals perceived differences in expectations, this could lead to differences in felt accountability. It is unclear whether reviewers are expected to exhibit stronger advocacy or increased accuracy compared to preparers; however, only reviewers are required to provide feedback. Hence, this paper expects professionals to perceive an additional expectation to provide feedback, which role theory predicts will lead to increased accountability to the firm (Ammeter et al. 2004; Hall, Blass, Ferris, and Massengale 2004; Biddle 1979). Formally stated below, I predict tax professionals have higher accountability to the firm when occupying the reviewer role than when occupying the preparer role.

> H2: Occupying the reviewer role increases a tax professional's perceived accountability to the firm.

The effect of the reviewer role on accountability to the client is less clear. Whereas firms have different expectations for professionals occupying the reviewer and preparer roles, it is unclear whether clients' expectations differ across roles. Further, even if clients do have different expectations, it is difficult to predict whether professionals perceive these differences. Nevertheless, it is possible that professionals feel different levels of accountability to their clients as they move into different roles. For example, professionals may feel more responsible for client retention as they gain experience. When combined with the stronger client advocacy associated with higher ranks, an increase in responsibility for client retention suggests reviewers may feel increased accountability to the client. In contrast, they may also feel more pressure to protect the firm from litigation, which may shift their focus away from client preferences and toward the firm's expectations. It is also possible that reviewers have the experience necessary to more effectively manage the tradeoff between achieving client preferences and minimizing firm exposure. Thus, I pose the following research question to further explore the relationship between role and accountability to the client.

> RQ: Does occupying the reviewer role influence a tax professionals' perceived accountability to the client?

Prior research finds accountability influences many accounting decisions including: effort duration in tax research (Cloyd 1997), extent and breadth of audit testing (Asare, Trompeter, and Wright 2000), level of consensus among audit team members (Johnson and Kaplan 1991), conservativeness of audit fraud risk assessments (Hoffman and Patton 1997), and amount of justification provided by auditors (Koonce, Anderson, and Marchant 1995). Prior research generally manipulates accountability by requiring justification of decisions or by informing participants their work will be reviewed by superiors. In contrast, the present study examines whether occupying the reviewer role is a naturally occurring prime which increases accountability. If occupying the reviewer role affects decision makers similarly to being expected to justify ones' decisions, then the review process could mitigate bias by increasing the accountability felt by those performing the reviews.

However, an increase in accountability may not always improve the likelihood of the review process to mitigate advocacy bias and can lead to suboptimal decision making in some cases (Siegel-Jacobs and Yates 1994). Specifically, accountability influences judgment differently depending on (1) whether the accountability source's (i.e., the entity/person to which the individual feels accountable) preferences are known; (2) whether there are multiple sources of accountability; and (3) the type of accountability (i.e. outcome or process). If the accountability source's preference is known, individuals may engage in attitude shifting or defensive bolstering (Hatfield 2000; Gibbins and Newton 1994; Tetlock 1985).[7] In a tax context, examples of attitude shifting include (1) ensuring research findings agree with the partner's expected outcome and (2) following the partner's preferred research approach. Thus, attitude shifting leads tax professionals to work towards the accountability source's expectation. In contrast, when the accountability source's preferences are *not* known, accountability can lead to increased cognitive effort, which may increase objectivity. For example, if a tax partner does not express an opinion, there is no explicit target to shift towards. Accountability is most likely to decrease bias when the source's preferences are not known because development of an objective, balanced argument to support a position (rather than engaging in attitude shifting or defensive bolstering) is more likely to occur when source preferences are unknown.

In addition, the direction of attitude shifting and/or defensive bolstering are difficult to predict in a tax setting because public accounting professionals face multiple sources of accountability (e.g., partner and client) who may have conflicting preferences (Gibbins and Newton 1994). For example, tax professionals may feel accountable both to their clients because of an advocacy relationship and to their firms because of career and reputational concerns. Because the client's preference is usually for tax minimization, strong feelings of accountability to the client could lead a professional to align his or her evidence evaluation process with tax minimization (e.g., a more aggressive position).

[7] Attitude shifting occurs when decision makers match their decisions to those of the audience to which they feel accountable (the "accountability source"). Defensive bolstering occurs when decision makers increase justification of their conclusion because it conflicts with the source's preferences.

Prior research shows tax professionals' evidence evaluation is often biased to agree with client preferences (Bobek et al.2010; Kahle and White 2004; Johnson 1993), so strong feelings of accountability to the client could further exacerbate advocacy bias. A similar outcome could occur if the professional assumes the firm wants to meet the client's preferences. However, it is more likely that the professional would assume the firm prefers objective and defensible evaluations because firms are focused on long-term outcomes such as client retention and avoiding penalties. Such a focus would prompt a more thorough and unbiased process rather than attitude shifting or defensive bolstering. Because advocacy bias limits objectivity, focusing on building an objective and thorough analysis could mitigate advocacy bias by increasing the cognitive effort dedicated to the task (Gibbins and Newton 1994).

The type of accountability (i.e., process or outcome) also influences whether accountability improves decision making (Siegel-Jacobs and Yates 1996).[8] Prior research shows outcome accountability may lead to dysfunctional behavior while process accountability improves decision quality (Siegel-Jacobs and Yates 1996). Because tax professionals may perceive outcome expectations from both the client and the firm, increased accountability could hinder objectivity and potentially increase bias. Advocacy bias can be described as using a biased evidence evaluation (e.g., process) to support a client's preferred tax position (e.g., outcome). I expect (1) accountability to the firm to reduce a tax professional's advocacy bias by focusing him/her on the quality of the evidence evaluation process and (2) accountability to the client to increase a tax

[8] Process accountability relates to the steps taken to arrive at a final conclusion. An example in a tax context is whether the professional follows the appropriate workflow. Outcome accountability relates to the final conclusion, for example the professional's recommendation to the client.

professional's advocacy bias by focusing him/her on the client's preferred outcome.[9] Formally stated below, this paper expects perceived accountability to the firm and the client to influence the likelihood tax professionals will exhibit advocacy bias.

> H3a: Accountability to the firm decreases the likelihood tax professionals will exhibit advocacy bias.

> H3b: Accountability to the client increases the likelihood tax professionals will exhibit advocacy bias.

In summary, I study whether the reviewer role mitigates advocacy bias by examining whether (1) professionals occupying the reviewer role are less likely to exhibit advocacy bias, (2) the reviewer role increases accountability, and (3) accountability mitigates the effect of advocacy attitudes on evidence evaluation (see Figure 2.2). I expect the reviewer role to mitigate advocacy bias because of the expectations associated with the reviewer role. In addition, I examine whether occupying the reviewer role increases accountability to both the firm and the client, which could also influence the likelihood of exhibiting advocacy bias.

[9] Outcome accountability to the firm is held constant by informing participants the partner has no a priori preference related to outcome. This is a reasonable assumption because, although firm leadership is interested in client retention, they are likely more interested in providing quality service to their client. In addition, outcome accountability to the client is held constant by informing participants of the client's preference.

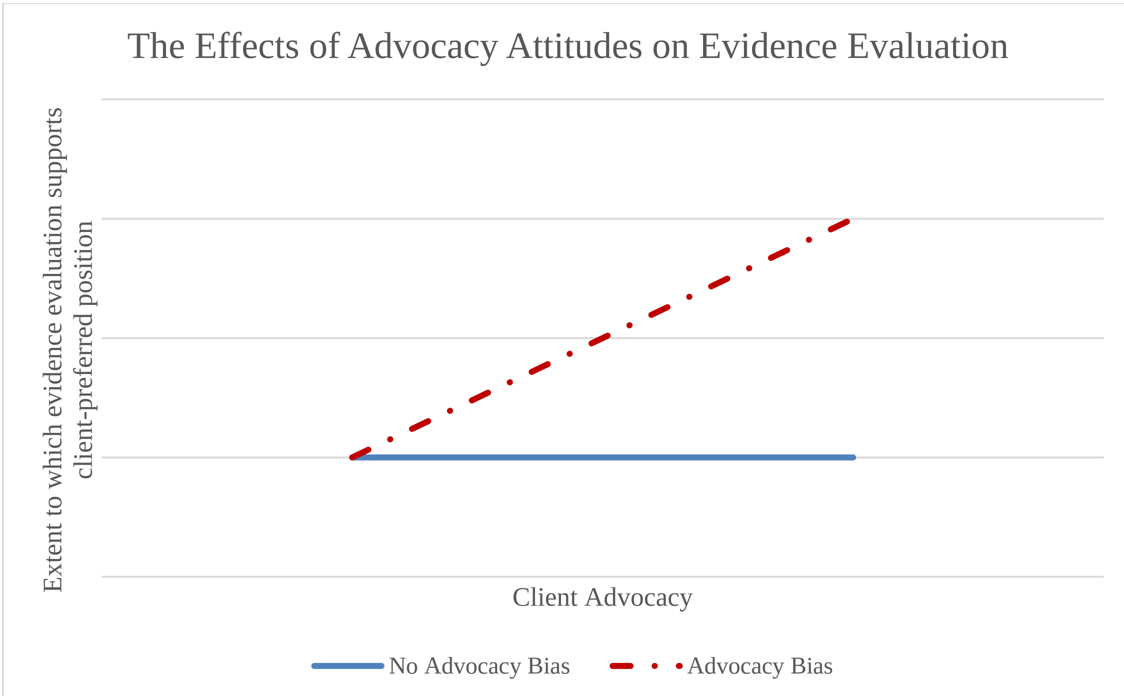

Figure 2.1. This figure illustrates the necessary relationship between advocacy attitudes and evidence evaluation to indicate advocacy bias. Aggressiveness, or the likelihood of reaching a potentially-unsupported conclusion, is not indicative of bias. Rather, advocacy bias is indicated when advocacy attitudes influence the evaluation of evidence. Thus, without advocacy bias, evidence evaluation will not differ based on advocacy attitudes; however, with advocacy bias, evidence evaluation could be influenced by advocacy attitudes.

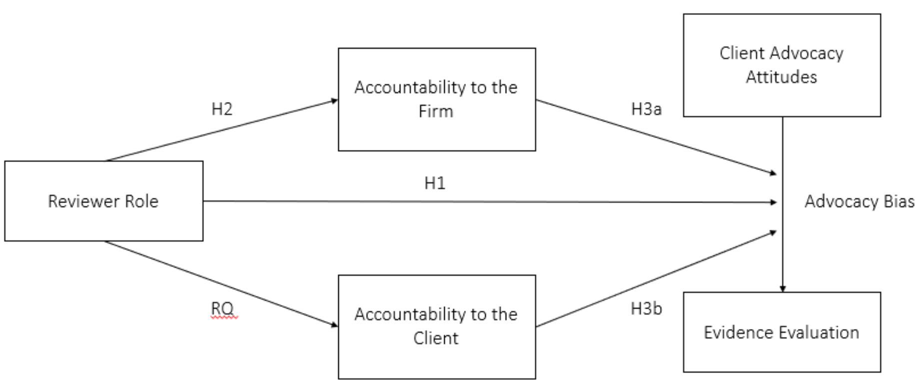

Figure 2.2. This figure comprehensively depicts the predictions of the hypotheses.

CHAPTER 3

EXPERIMENTAL METHODS

3.1 Participants

Seventy-five experienced tax professionals currently working in public accounting were recruited through a Qualtrics panel. The effect of reviewer role is isolated by randomly assigning participants of similar rank and experience to each role, so only participants who have current or recent (e.g., within two years) experience in both the preparer and reviewer roles were allowed to continue through the screening process. In addition, participants must work (1) in a public accounting firm, (2) in tax, and (3) in an office with at least 20 CPAs or CPA-eligible employees. Demographic information about the participants is displayed in Table 1. Participants report an average age of 35 years, and 105 months (8.7 years) of experience. Forty-six (61 percent) participants are female. Participants also reported education and experience common to professionals working as tax professionals. Specifically, 16 percent work at Big 4 firms, seven percent at international firms, 16 percent at national firms, 27 percent at regional firms, and 35 percent at local firms. Also, 68 percent of participants report they have researched hobby loss issues (the issue in the experimental case) in the past. In addition, 71 participants report either a bachelor’s or master’s degree in business, 55 are CPAs, six are either CIAs or CMAs, and two are EAs. Demographic characteristics are not significantly different across conditions (all $p > 0.23$) and do not significantly influence results (all $p > 0.30$).[10] Thus, I conclude random assignment was achieved.

3.2 Design and Manipulations

The hypotheses are tested with a 3 x 1 between-participant experiment. Participants determine whether Jim and Jennifer Roe can deduct expenses related to Jennifer's competitive bicycling activity as a for-profit business (rather than as a hobby), which would allow the Roes to deduct a loss in the current year.[11] Participants are provided with a draft file memorandum and links to excerpts from IRC §183 and IRS Regulation 1.183-2 for their reference. I manipulate role by randomly assigning participants to act as a preparer completing a memorandum or as a reviewer evaluating a memorandum. Random assignment controls for differences in experience or rank, which have both been shown to influence advocacy attitudes (Spilker et al. 2016; Bobek et al. 2010).[12]

In addition to being influenced by the role they occupy, reviewers who view a preparer's conclusion in support of the client's preference may perceive the recommendation as additional information supporting the client's preference. Such additional information may lead to approval bias, which occurs when endorsing another's

[10] All *p*-values are two-tailed unless noted otherwise.
[11] I.R.C. §183 requires taxpayers who engage in activities that might be viewed as hobbies to satisfy a "facts and circumstances" test based on nine identified factors (explained in IRS Regulation 1.183-2) to determine whether the activity is engaged in for profit (business treatment) or is a hobby. The factors are not explicitly weighted or ranked and there are few obvious trends in how the courts have applied the factors. If an activity does not meet the requirements of Reg. 1.183-2, the activity is considered a hobby and the expenses are only deductible as itemized deductions (subject to a floor) and the amount deducted is limited to the amount of income associated with the activity (i.e., no loss can be deducted); taxpayers prefer to treat activities as businesses to allow for the deduction of losses. The rules that apply beginning in 2018 make hobby treatment appear even less favorable because the deductibility of *any* expenses (rather than just expenses exceeding income) associated with hobbies is unclear.
[12] Regression analysis indicates participants in this study exhibited similar trends, such that professionals' client advocacy attitudes increased with higher rank ($b = 0.187$, $p = 0.108$) and increased experience ($b = 0.176$, $p = 0.13$).

judgment magnifies cognitive biases (Bazerman et al. 2002). To control for the potential of approval bias, the experiment includes two reviewer conditions manipulating whether the memo includes a preparer conclusion of business treatment or an explicitly omitted preparer conclusion.[13]

3.3 Task and Procedure

The scenario is modified from Bobek et al. (2010), which was designed to be ambiguous regarding whether the bicycling activity should be viewed as a hobby or business. The scenario includes several factors that indicate business treatment (businesslike records and likelihood of future profits) and only one that clearly indicates hobby treatment (the taxpayer derives significant pleasure from the activity). The magnitude of the losses in the present study is larger than that in Bobek et al. (2010), which increases the likelihood the decision appears nontrivial to the Roes' overall tax liability. In addition, the Roes are presented as important clients with no clear indications of high risk because advocacy bias is most likely to occur when client importance is high and risk is low (Bobek et al. 2010; Kadous et al. 2008). Because the present study also examines accountability, participants view instructions from the engagement partner that emphasize the importance of the client and clearly state (1) the partner does not have a specific outcome in mind and (2) the client prefers business treatment. Specifically, the

[13] In practice, a reviewer is unlikely to review a memorandum with no preparer conclusion; however, I include the condition for experimental control. Approval bias suggests a preparer conclusion could exacerbate reviewer advocacy bias if the reviewer perceives the preparer conclusion as additional evidence in support of the client's preference (i.e., the reviewer may be susceptible to approval bias). Thus, this study isolates the possible effect of approval bias on reviewer judgment by replacing the preparer's recommendation (i.e., "*The Roes' activity should be treated as a business*") with a note indicating: "*For this case study the preparer's conclusion has been purposely omitted.*" Untabulated results indicate the preparer conclusion did not influence (1) reviewers' likelihood of exhibiting advocacy bias ($p = 0.474$) or (2) reviewers' likelihood of assessing factors as supportive of business ($p = 0.277$). Thus, analysis and hypotheses testing include both reviewer conditions as one collapsed "reviewer" condition because there is no evidence of approval bias.

instrument states "*Jennifer has become increasingly involved in bicycle racing and would like to treat her bicycle racing as a business. I have not yet considered the appropriateness of this decision and need to advise her soon.*" This holds constant the level of outcome accountability felt by participants.

Reviewers are informed they will be reviewing the memo completed by Sam, a second-year staff at their firm. Preparers are informed the memo is almost complete and their task is to develop a conclusion regarding the proper tax treatment of the bicycling activity. The memo is near complete because the study is focused primarily on evidence evaluation rather than on evidence search. Prior research finds advocacy bias affects both the search for and evaluation of evidence (Bobek et al. 2010; Kadous et al. 2008; Cloyd and Spilker 1999). Reviewers usually rely on preparers' evidence search, but professionals in both roles evaluate evidence. Thus, participants are presented with evidence that has already been collected rather than conducting the entire search process, which maintains similar presentation and cognitive load in all conditions while also controlling for the effect of preparer stylization on reviewer judgment (Cuccia et al. 2017; Tan and Trotman 2003).

3.4 Dependent Variable: Evidence Evaluation

The study's primary analysis examines the relationship between advocacy attitudes and evidence evaluation. After indicating their conclusion (preparer condition) or sign-off (reviewer conditions) decisions, participants are asked to indicate whether each of the nine factors included in Regulation 1.183-2 (see table 3.2) indicate business or hobby treatment on 6-point scales (where 1 = definitely hobby and 6 = definitely business). Because Reg. 1.183-2 requires that each determination be based on the facts and circumstances of each case, not all nine factors are relevant to every case. Thus, participants have the option to indicate that any of the nine factors are not applicable.

The primary dependent variable, FACTORS, is calculated by averaging each participant's responses regarding whether each factor indicates business/hobby. The resulting variable forms a scale ranging from 1 (all factors definitely support hobby) to 6 (all factors definitely support business).[14] Advocacy bias is indicated if advocacy attitudes are related to evidence evaluation. Thus, if participants' responses to the client advocacy scale predicts FACTORS (i.e., evidence evaluation), this is evidence of advocacy bias. As alternative dependent variables, the study also includes measures of how aggressive the participants' judgments are. Specifically, I measure participants' likelihood of recommending business (LIKELY) and assessment of the likelihood the Tax Court would uphold business treatment (TAXCOURT).

3.5 Accountability

Because tax professionals likely feel accountable to multiple sources, I develop a scale measuring accountability to the client, firm, and IRS.[15] The scale includes 12 items modified from the scales of Frink and Ferris (1998) and Frink and Klimoski (1998), and selected items from Donnelly (2017). Specifically, participants respond to items about perceived accountability, perceived reputation effects, potential future consequences, and pressure to agree with the client, the firm, and the IRS (See Table 3.3, Panel A for a list of items). Factor analysis results indicate the items load onto three distinct factors. One

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[14] I use an average, rather than a sum or factor scores, because factors that are considered "not applicable" are excluded from the calculation of FACTORS for each participant. By averaging responses, the omission of factors for only some participants does not impede comparability.

[15] The study's formal hypotheses focus on accountability to the client and to the firm, but tax professionals may also feel accountable to the IRS. As shown in Table 3, Panel C, accountability to the IRS did not vary by role. However, participants did feel similarly accountable to the IRS as they did to the client and the firm. Accountability to the IRS did not influence their evidence evaluation or conclusions.

item, “I felt pressure to make a decision consistent with what the IRS would allow,” cross-loaded with items related to both the Firm and the IRS. Another item, “I felt pressure to make a decision consistent with the Roes’ preferences,” cross-loaded with items related to all three accountability sources (e.g., firm, client, and IRS). Thus, I form three scales with the remaining items. Accountability to the firm (ACCT_F) includes four items with a Cronbach’s alpha of 0.775. Accountability to the client (ACCT_C) includes three items with a Cronbach’s alpha of 0.739. Finally, accountability to the IRS (ACCT_I) includes three items with a Cronbach’s alpha of 0.752. Mean responses to each of the three scales are presented in Table 3.3, Panel B and construct correlations are displayed in Table 3.3, Panel C. Construct correlations (e.g., correlations among the types of accountability) were all below 0.48, which indicates discriminant validity because construct correlation is < 0.85 (Klein 2005, 73). All participants, regardless of role, report feelings of accountability that are not different from the midpoint of the scale (all $p > 0.2$), indicating participants felt similar levels of moderate accountability to all three sources.

3.6 Additional Measures

Participants respond to a client advocacy (CA) scale (Bobek et al. 2010; Mason and Levy 2000), which includes nine items measuring a professional’s attitude towards his or her attitudes toward the client (See Appendix 1). Next, reviewers (preparers) rate the hypothetical preparer’s (reviewer’s) competence and client advocacy. Preparers received very little information about the reviewer, but I include these items to (1) control for any differences in participants' assumptions about the reviewer's competence and/or advocacy and (2) maintain similar time commitment across conditions.[16]

Next, participants answer three manipulation and attention check items about (1) the client's preferred outcome, (2) the role they held during the study (reviewer or preparer), and (3) which outcome the preparer recommended (reviewers only). Finally, participants respond to items about the perceived risk preferences of (1) the Roes (the client) and (2) Oliver and Associates (the firm). Post-experimental questions include demographic variables and measures of participants' perceptions of the task. Specifically, participants indicate which outcome they thought the partner expected, how hard they worked to complete the task, and how motivated they were to do well. Finally, participants respond to a scale measuring professional skepticism to control for differences in participants' natural levels of skeptical behavior. Bobek, Hageman, and Radtke (2014) find the five-item questioning mind subscale has the highest correlation with the full 30-item professional skepticism scale of Hurtt (2010). For brevity, I follow Bobek et al. (2014) and use the subscale as a measure of professional skepticism.[17]

[16] Preparers' evidence evaluation (FACTORS) was not significantly influenced by their perceptions of the reviewers' advocacy attitudes ($p = 0.672$). Further, time spent on the task did not vary by condition ($p = 0.736$) or role ($p = 0.663$).

[17] Professional skepticism was not significantly different by ROLE ($p = 0.445$) and did not influence evaluation of evidence (FACTORS) ($p = 0.742$). However, professional skepticism did significantly influence likelihood of recommending business treatment ($p = 0.054$), such that increased professional skepticism led to increased likelihood of business treatment. However, this effect is moderated by role ($p = 0.089$), such that reviewers with increased professional skepticism were not more likely to indicate business treatment. In addition, professional skepticism is also significantly related to accountability to the client ($p = 0.002$), firm ($p = 0.029$), and IRS ($p = 0.002$), such that increased professional skepticism is related to increased accountability to all three sources. This suggests that the questioning mind construct measured by the professional skepticism subscale may influence both (1) aggressiveness and (2) accountability. Interestingly, this study does not find evidence that professional skepticism influences the effect of advocacy on evidence evaluation ($p = 0.209$). Future research should further examine the effect of professional skepticism on both aggressiveness and accountability among tax professionals.

Table 3.1: Demographic Characteristics

Average Age	35
Average Months of Work Experience	104.91
Gender	
Male.	37.33%
Do not wish to respond.	1.33%
Education	
Bachelor's in Business (including Accounting or Finance)	78.67%
Bachelor's in another area	8.00%
Master's in Accounting, Taxation, or Business	41.33%
Master's in Another Area	9.3%
Juris Doctorate	2.67%
Certifications	
CPA	73.33%
CMA OR CIA	10.67%
EA	4.00%
None	18.67%
How would you classify your firm?	
Big 4	16.00%
International (Other than the Big 4)	6.67%
National	16.00%
Regional	26.67%
Local	34.67%
Current Title	
Partner/Director.	10.67%
Manager/Senior Manager.	44.00%
Senior.	26.67%
Staff.	18.60%
How familiar are you with Section 183 hobby loss rules?	
Mean (where 1 = Very Unfamiliar and 7 = Very Familiar)	4.12 (Range 1-6, Standard Deviation 1.139)
Have you ever researched a hobby loss issue for a client?	
Yes, many times.	24.00%
Yes, once or twice.	44.00%
No.	32.00%
Experience Reviewing Others	
Less than 1 year.	18.67%
1 - 2 years.	24.00%
3 years or more.	50.67%
No experience.	6.67%
Currently act as preparer on some engagements	
Yes.	86.67%
No.	13.33%

Table 3.2: Reg. 1.183-2 Factors to be considered

The table below includes a brief description of each factor, including excerpts from Reg. 1.183-2, and the suggested application of each factor to the Roe's Case.

Factor and Excerpt from Reg. 1.183-2	Facts of Roes' Case
Manner in which the taxpayer carries on the activity. The fact that the taxpayer carries on the activity in a businesslike manner and maintains complete and accurate books and records may indicate that the activity is engaged in for profit.	Ambiguous: Jennifer keeps track of her earnings and expenses with businesslike records. She has a thorough business plan and plans to continue improving her skills so she can improve her profitability.
The expertise of the taxpayer or his advisors. Preparation for the activity by extensive study of its accepted business, economic, and scientific practices, or consultation with those who are expert therein, may indicate that the taxpayer has a profit motive where the taxpayer carries on the activity in accordance with such practices.	Ambiguous: Jennifer is ranked in two events, which suggests expertise.
The time and effort expended by the taxpayer in carrying on the activity. The fact that the taxpayer devotes much of his personal time and effort to carrying on an activity, particularly if the activity does not have substantial personal or recreational aspects, may indicate an intention to derive a profit.	Ambiguous; Slightly Suggests Hobby: There is no set amount of time required to satisfy this factor; however, Jennifer devotes a significant amount of time to the activity. She trains daily, which could be viewed as regular exercise but may be viewed as business activity. In addition, she adjusts her work schedule at the hospital during racing season to allow for further dedication to the sport.
Expectation that assets used in activity may appreciate in value. The term *profit* encompasses appreciation in the value of assets, such as land, used in the activity.	Not relevant at all: This factor is not applicable to the current activity as Jennifer's only asset is the bicycle and trailer, which will both depreciate in value.
The success of the taxpayer in carrying on other similar or dissimilar activities. The fact that the taxpayer has engaged in similar activities in the past and converted them from unprofitable to profitable enterprises may indicate that he is engaged in the present activity for profit, even though the activity is presently unprofitable.	Suggests Business: Jim and Jennifer are both successful in their careers. A review of past returns shows that the Roes' have started businesses before; however, none of those businesses remain in operation.

Table 3.2.: Reg. 1.183-2 Factors to be considered (cont.)

The taxpayer's history of income or losses with respect to the activity. A series of losses during the initial or start-up stage of an activity may not necessarily be an indication that the activity is not engaged in for profit.	Suggests Hobby: Jennifer has consistently incurred losses.
The amount of occasional profits, if any, which are earned. The amount of profits in relation to the amount of losses incurred, and in relation to the amount of the taxpayer's investment and the value of the assets used in the activity, may provide useful criteria in determining the taxpayer's intent.	Suggests Hobby: Jennifer's racing has generated sponsorships and some winnings. She expects her winnings to become more frequent, which could produce profits in the future.
The financial status of the taxpayer. The fact that the taxpayer does not have substantial income or capital from sources other than the activity may indicate that an activity is engaged in for profit.	Not relevant at all: Jim and Jennifer are already high-income taxpayers; they are not dependent on her racing activity as a source of income.
Elements of personal pleasure or recreation. The presence of personal motives in carrying on of an activity may indicate that the activity is not engaged in for profit, especially where there are recreational or personal elements involved.	Suggests Hobby: Although she maintains businesslike records and expects to eventually make a profit, Jennifer derives significant recreation and physical pleasure from her bicycling.

Table 3.3: Accountability

Panel A: Factor Analysis of Accountability Items

	Component		
	Firm	**IRS**	**Client**
1. I felt pressure to make a decision consistent with what the partner expected.	**0.866**	-0.257	0.037
2. I could face consequences if my conclusion did not agree with what the partner expected.	**0.849**	0.019	-0.073
3. I felt accountable to Oliver and Associates for the decision I just made regarding the Roes' activity.	**0.695**	-0.116	0.169
4. The decision I just made could influence Oliver and Associates' perceptions of my performance.	**0.666**	0.204	-0.017
5. I felt pressure to make a decision consistent with what the IRS would allow.	**0.447**	**0.419**	-0.044
6. The decision I just made could influence the IRS's perceptions of my performance.	-0.204	**0.957**	0.055
7. I felt accountable to the IRS for the decision I just made regarding the Roes' activity.	-0.106	**0.854**	0.012
8. I could face consequences if my conclusion did not agree with what the IRS would allow.	0.381	**0.582**	-0.236
9. I felt accountable to the Roes for the decision I just made regarding their activity.	-0.094	-0.071	**0.899**
10. The decision I just made could influence the Roes' perceptions of my performance.	0.166	-0.128	**0.824**
11. I could face consequences if my conclusion did not agree with the Roes' preferences.	-0.037	0.394	**0.590**
12. I felt pressure to make a decision consistent with the Roes' preferences.	0.314	0.266	0.392

This panel includes the pattern matrix resulting from Principal Component Analyses with Promax rotation. Items 5 and 12 did not load onto a single factor and are omitted from the resulting scales. Items 1-4 are averaged to create “Accountability to the Firm,” (Cronbach’s Alpha = 0.775); items 6-8 are averaged to create “Accountability to the IRS” (Cronbach’s Alpha =0.752); and items 9-11 are averaged to create “Accountability to the Client” (Cronbach’s Alpha = 0.739).

Table 3.3: Accountability (cont.)

Panel B: Mean Accountability Responses by Condition (n=75)

Accountability Scale Item	Preparer	Reviewer	Total
Accountability to the Client (ACCT_C)	4.20	4.09	4.12
Accountability to the Firm (ACCT_F)	3.89	3.97	3.95
Accountability to the IRS (ACCT_I)	4.02	3.96	3.98

This panel includes mean responses to each subscale related to each accountable source, as described in Panel A.

Panel C: Pearson Correlations of each Accountability Type (*p*-values) (n=75)

	ACCT_I	ACCT_C
ACCT_F	0.475 (0.000)	0.387 (0.001)
ACCT_I		0.245 (0.034)

This panel includes Pearson Correlations of the three types of accountability measures. Construct correlation between constructs (e.g., the types of accountability) were all below 0.48 (Table 3, Panel C), which indicates discriminant validity because construct correlation is <0.85 (Klein 2005, 73).

CHAPTER 4

RESULTS

4.1 Manipulation Checks

This study manipulates role by assigning participants to act as either a preparer or reviewer on a tax research task. To confirm this manipulation, participants are asked which role they were assigned in the study. All seventy-five participants correctly responded to the manipulation check with the appropriate role. The study also manipulates the presence of a preparer conclusion, which is confirmed by asking participants in the reviewer conditions which preparer conclusion was included in the memo. Participants assigned to the reviewer_business condition are expected to respond “treatment as a for-profit business.” 84 percent (21/25) of participants assigned to reviewer_business correctly responded. In contrast, participants assigned to the reviewer_omitted condition are expected to respond “the memo did not include a conclusion.” Surprisingly, 12 (one) of these participants incorrectly responded that the preparer concluded business (hobby) treatment. Thus, only 48 percent of participants correctly responded. Overall, 66 percent passed the manipulation check. This suggests participants may have inferred a conclusion based on the information provided despite its purposeful omission. Results are not affected by whether the 17 participants who incorrectly responded to the preparer conclusion manipulation check are included in analysis. Thus, analyses reported include all 75 participants.

4.2 Analysis of Hypothesis 1

Hypothesis 1 predicts professionals occupying the reviewer role are less likely to exhibit advocacy bias. To test H1, I first establish that participants exhibit advocacy bias in their decisions which is indicated by a relationship between client advocacy (CA) and evidence evaluation (FACTORS). Descriptive statistics of participants' CA, FACTORS, LIKELY, and TAXCOURT are included in Table 4.1, Panel A. None of the above-mentioned variables are significantly different by role; however, results do indicate advocacy bias. As shown in Table 4.1, Panel B, CA significantly influences FACTORS ($p = 0.03$).[18] In addition, the effect of CA on FACTORS is moderated by ROLE ($p = 0.052$). Additional untabulated analysis indicates the effect of CA on FACTORS is only significant in the preparer condition, such that reviewers' evidence evaluation is not influenced by advocacy attitudes ($p = 0.823$). As illustrated in Figure 4.1, this finding supports H1, providing initial evidence that occupying the reviewer role mitigates advocacy bias.

4.3 Analysis of Hypothesis 2

Hypothesis two predicts occupying the reviewer role increases professionals' accountability to the firm. I test H2 with a one-way ANOVA calculated on ACCT_F by ROLE. As shown in Table 4.2, Panel A, results do not indicate ACCT_F is significantly influenced by ROLE ($p = 0.764$).[19] Thus, I conclude role did not influence perceived accountability to the firm.

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[18] Due to low variance, results are not significant when using a continuous measure of CA. Thus, I perform a median split to classify participants into two groups where "1" indicates high advocacy attitudes (mean CA = 5.3025, std dev. = 0.42713) and "0" indicates low advocacy attitudes (mean CA = 4.0427, std dev. = 0.56519). All reported analyses use this dichotomous variable.

[19] This is surprising, given the increased expectation of providing feedback identified by Barrick, et al. (2004); however, this result may be partly driven by the preparers' unexpected perception of needing to provide "feedback to others on the engagement team regarding their work." Additional analysis indicates

4.4 Analysis of Research Question

The research question investigates whether occupying the reviewer role influences professionals' accountability to the client. To test the RQ, I use a one-way ANOVA calculated on ACCT_C by ROLE. Results indicate ROLE does not influence ACCT_C ($p = 0.634$, Table 4.2, Panel A). Thus, I do not find evidence that occupying the reviewer role affects professionals' accountability to the client.

4.5 Analysis of H3a: Accountability to the Firm

H3a predicts ACCT_F reduces the likelihood of advocacy bias (the relationship between CA and FACTORS). To test H3a, I regress ACCT_F and CA on FACTORS to examine whether ACCT_F decreases the likelihood CA influences evidence evaluation. Specifically, I examine whether the interaction of ACCT_F and CA is a significant predictor of FACTORS in equation 1 below.

$$\text{FACTORS} = \beta_1\ \text{ACCT\_F} + \beta_2\ \text{CA} + \beta_3\ \text{ACCT\_F} * \text{CA}. \qquad (1)$$

Regression results support a relationship between accountability and advocacy bias if β_3 is significant. As shown in Table 4.2, Panel B, the interaction between ACCT_F and CA is not significant ($p = 0.254$), which indicates ACCT_F does not influence the likelihood of advocacy bias. Thus, H3a is not supported and I find no evidence that accountability to the firm, as measured in this study, influences the likelihood of advocacy bias.

4.6 Analysis of H3b: Accountability to the Client

H3b predicts ACCT_C increases the likelihood of advocacy bias. To test H3b, I regress ACCT_C and CA on FACTORS in equation 2 below to examine whether

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participants' perceptions of the importance of a feedback expectation did not differ by role ($p = 0.505$, untabulated).

accountability to the client increases the likelihood that advocacy attitudes influence evidence evaluation.

$$\text{FACTORS} = \beta_1 \text{ ACCT\_C} + \beta_2 \text{ CA} + \beta_3 \text{ ACCT\_C*CA}. \tag{2}$$

Regression results support a relationship between accountability and advocacy bias if β_3 is significant. As shown in Table 4.2, Panel C, ACCT_C significantly influences the effect of CA on FACTORS (b = -0.399, p = 0.064); thus, ACCT_C appears to mitigate bias in the evaluation of evidence. Although an interesting finding, this does not support H3b because H3b predicted ACCT_C would *increase* advocacy bias and findings indicate a *decrease* in advocacy bias. Regardless, this finding suggests accountability to the client leads professionals to be more objective and provides an unexpected initial insight into the effect of accountability on tax professional advocacy bias.

4.7 The Interaction of Accountability and Role

Although not formally predicted, I expect accountability and role to jointly influence the effects of advocacy attitudes on evidence evaluation (See Figure 2.1). H1 examines the effect of ROLE on the likelihood of advocacy bias; H2 examines the effect of ROLE on accountability; and H3a and H3b examine the effect of accountability to the firm and accountability to the client, respectively, on the likelihood of advocacy bias. As supplemental analysis, I also examine the effects of ROLE and ACCT_F/ACCT_C on likelihood of advocacy bias in a more comprehensive test of the model. Specifically, I regress ACCT_F (ACCT_C), ROLE, and CA on FACTORS as shown in equations 3 (4), below.

$$\begin{aligned}\text{FACTORS} = {} & \beta_1 \text{ ACCT\_F} + \beta_2 \text{ CA} + \beta_3 \text{ Role} + \beta_4 \text{ ACCT\_F*CA} \\ & + \beta_5 \text{ ACCT\_F*Role} + \beta_6 \text{ CA*Role} + \beta_7 \text{ ACCT\_F*CA*Role}.\end{aligned} \tag{3}$$

$$\text{FACTORS} = \beta_1\,\text{ACCT\_C} + \beta_2\,\text{CA} + \beta_3\,\text{Role} + \beta_4\,\text{ACCT\_C*CA} + \beta_5\,\text{ACCT\_C*Role} + \beta_6\,\text{CA*Role} + \beta_7\,\text{ACCT\_C*CA*Role}. \tag{4}$$

As shown in Table 4.2, Panel D, I do not find evidence that ACCT_F influences the likelihood of advocacy bias ($p = 0.505$). Given the findings in H1 that the reviewer role reduces the likelihood of advocacy bias, I also test for a moderating effect of role. I do not find that ROLE influences the relationship between ACCT_F and FACTORS. However, as shown in Table 4.2, Panel E, accountability to the client presents some interesting findings. Specifically, I find a significant interaction between CA and ACCT_C ($p = 0.024$), which supports the findings in H3b that ACCT_C reduces the likelihood that CA influences FACTORS. Thus, accountability to the client moderates the effect of advocacy attitudes on evidence evaluation.

4.6 Supplemental Analysis: Aggressiveness

I also examine whether participants' advocacy attitudes (CA), potential advocacy bias (CA * FACTORS), and role (ROLE) influence the aggressiveness of final recommendations (LIKELY) (see equation 5 below).

$$\text{LIKELY} = \beta_1\,\text{FACTORS} + \beta_2\,\text{CA} + \beta_3\,\text{Role} + \beta_4\,\text{FACTORS*CA} + \beta_5\,\text{FACTORS*Role} + \beta_6\,\text{CA*Role} + \beta_7\,\text{FACTORS*CA*Role}. \tag{5}$$

As discussed earlier, advocacy bias occurs during the evidence evaluation process. However, it can also influence the aggressiveness of professionals' judgments. As shown in Table 4.4, Panel A, I find LIKELY is significantly influenced by (1) ROLE ($p = 0.042$), (2) CA ($p < 0.001$), and (3) the interaction of CA and ROLE ($p < 0.001$). I do not find a significant three-way interaction between CA, ROLE, and FACTORS ($p = 0.553$). Thus, results indicate higher client advocacy attitudes (1) increase the likelihood a professional's conclusion/sign-off decision (LIKELY) will support business treatment and (2) decreases the effect of ROLE on conclusion/sign-off decision (LIKELY). Further regression analysis, split by role and displayed in Table 4.3, Panel B, finds LIKELY is influenced primarily by CA among preparers ($p < 0.001$) and by FACTORS among reviewers ($p = 0.001$). Thus, professionals acting as reviewers are more focused on the evidence evaluation and those acting as preparers are more focused on their own advocacy attitudes. This provides further evidence that occupying the reviewer role changes how professionals approach a task, which can lead to increased objectivity (i.e., less bias).

4.8 Supplemental Analysis: Partner Preference

The study explicitly states the partner has "*not yet considered the appropriateness of this decision,*" to avoid participants' attitude shifting toward an accountability source's known outcome preference. Such attitude shifting could lead participants to unintentionally align their evaluation to agree with the partner's preference. However, as shown in Table 4.4, when asked what they thought the partner expected, only 17 (23 percent) participants reported that the partner did not have a preference. Of the other 58 participants, 46 (12) assumed the partner expected a business (hobby) recommendation. These assumptions did not vary across conditions ($p = 0.878$) and did not influence FACTORS ($p = 0.238$).

However, the perceived partner expectation does influence LIKELY ($p = 0.017$). Specifically, participants who assume the partner preferred business treatment are more likely to recommend business treatment than those who assume the partner preferred hobby and those who assume the partner does not have a preference. Interestingly, the effect of perceived partner preference on LIKELY is moderated by ROLE ($p = 0.018$)

such that perceived partner preference has a significant effect on LIKELY only for preparers.

In addition, when comparing participants who correctly answered that the partner did not have a preference to those who indicate the partner did have a preference, those who perceived a preference are more likely to both recommend business treatment (p = 0.031) and to evaluate factors as supportive of business treatment (p = 0.095). Given the influence of assuming a partner preference, I also examine the effect of assuming business (compared to assuming hobby). Results are shown in Table 7, Panel D. I find participants who assume the partner preferred business treatment are significantly more likely to recommend business treatment than those who assume the partner preferred hobby treatment (p = 0.053) but are not more likely to evaluate the factors as supportive of business treatment (p = 0.740). This suggests the perceived partner preference for business treatment influence how participants integrated their evidence evaluation into their conclusions. Specifically, participants who assume the partner had a preference for business exhibit bias in the development of their conclusions.

4.9 Supplemental Analysis: Factors Included in Conclusions

As an additional test of whether the reviewer role affects how professionals evaluate evidence, I also examine (1) which factors are predictive of LIKELY and (2) whether different factors were more influential by role. To examine this, I conduct a stepwise regression, as shown below in equation 6, on three groups: (1) the entire sample (n=75), (2) only reviewers (n=50), and (3) only preparers (n=25).

$$\text{LIKELY} = \beta_1 \text{ FACTOR1} \ldots + \ldots \beta_9 \text{ FACTOR9} \qquad (6)$$

Results of the three regressions are presented in Table 4.5. For the entire sample, I find professionals' likelihood of recommending (preparers) or signing off (reviewers) on business treatment is significantly influenced by "elements of personal pleasure" (p = 0.001), "success in prior ventures" (p = 0.006), and "occasional profits" (p = 0.017). This suggests professionals' conclusions are formed based on their evaluation of these three factors.

However, regression results indicate reviewers focus on different factors than preparers when developing conclusions. Specifically, reviewers focused only on "occasional profits" (p < 0.001) whereas preparers focused on "personal pleasure" (p =0.006), "success in prior ventures" (p = 0.001), and "conducts activity in a businesslike manner" (p = 0.021). This finding provides insight into how role influences not only the evaluation of evidence, but also the incorporation of that evidence into conclusions. Specifically, results suggest preparers are more likely to focus on subjective items, such as the "elements of personal pleasure," "success in prior ventures," and the "businesslike manner" used for operating the business. In contrast, reviewers focused on evidence that can be evaluated objectively: "occasional profits." Thus, reviewers appear to engage in a more objective evidence evaluation process *despite* reporting similar advocacy attitudes.

Table 4.1: Analysis of Advocacy Bias

Panel A: Descriptive Statistics by Condition—Mean [Standard Deviation] (n=75)

Role	CLIENT ADVOCACY	FACTORS	LIKELY	TAXCOURT
Preparer (n=25)	4.622	3.626	3.840	4.160
	[1.060]	[1.077]	[1.375]	[1.599]
Reviewer (n=50)	4.660	3.814	3.920	4.260
	[0.658]	[0.771]	[1.085]	[1.426]
Total	4.647	3.752	3.893	4.230
	[0.807]	[0.883]	[1.181]	[1.476]

This panel includes the mean responses [standard deviations] related to CLIENT ADVOCACY (mean response to nine items on the Client Advocacy scale of Bobek et al. (2010)), FACTORS (mean response of nine factors from Reg. Sec. 1.183-2), LIKELY (the likelihood of concluding or signing off on a conclusion of business), and TAXCOURT (the likelihood the Tax Court would uphold a conclusion of business treatment) by ROLE and in total.

Panel B: Effect of Client Advocacy and Role on Evaluation of Factors (n=75)

Source	df	Mean Square	F-statistic	*p-value*
Role	1	0.300	0.408	0.525
Client Advocacy	1	3.596	4.891	0.030
Role * Client Advocacy	1	2.872	3.906	0.052

This panel includes the ANOVA results calculating the effect of ROLE and CLIENT ADVOCACY on evaluation of FACTORS. ROLE is coded such that “1” signifies reviewer and “0” signifies preparer. CLIENT ADVOCACY is the average of the nine-item scale of Bobek et al. (2013), dichotomized by a median split such that “1” indicates high CLIENT ADVOCACY and “0” indicates low CLIENT ADVOCACY.

Table 4.2: Analysis of Accountability

Panel A: Effect of Role on Accountability to the Client, Firm, and IRS (H2 and RQ, n=75)

Source	df	Mean Square	F-statistic	p-value
Accountability to the Client (ACCT_C)	1	0.190	0.229	0.634
Accountability to the Firm (ACCT_F)	1	0.060	0.091	0.764
Accountability to the IRS (ACCT_I)	1	0.107	0.102	0.750

This panel includes the results from three independent univariate tests of the effect of the reviewer role on accountability to (1) the client, (2) the firm, and (3) the IRS. Results indicate the reviewer role is not significantly related to any of the three accountability measures (all p>0.5).

Panel B: Effect of ACCT_F on the relationship between CLIENT ADVOCACY and FACTORS (H3a, n=75)

	B	Std. Error	t-statistic	*p*-value
CLIENT ADVOCACY	0.364	0.200	1.821	0.073
ACCT_F	-0.077	0.158	-0.491	0.625
CLIENT ADVOCACY * ACCT_F	-0.239	0.208	-1.149	0.254

This panel includes regression results testing the effect of CLIENT ADVOCACY and ACCT_F on FACTORS. CLIENT ADVOCACY is calculated as described in Table 4.1, Panel B. ACCT_F is calculated as described in Table 3, Panel A. FACTORS is the mean of each participants' response related to whether each of the nine factors in Reg. Sec. 1.183-2 indicated hobby or business treatment such that "1" indicates definitely hobby and "6" indicates definitely business.

Panel C: Effect of ACCT_C on the relationship between CLIENT ADVOCACY and FACTORS (H3b, n=75)

	B	Std. Error	t-statistic	*p*-value
CLIENT ADVOCACY	0.389	0.201	1.935	0.057
ACCT_C	0.038	0.138	0.275	0.784
CLIENT ADVOCACY * ACCT_C	-0.399	0.212	-1.885	0.064

This panel includes regression results testing the effect of CLIENT ADVOCACY and ACCT_C on FACTORS. CLIENT ADVOCACY is calculated as described in Table 4.1, Panel B. ACCT_C is calculated as described in Table 3, Panel A. FACTORS is calculated as described above in Panel A.

Table 4.2: Analysis of Accountability (cont.)

Panel D: Effect of ACCT_F and ROLE on the relationship between CLIENT ADVOCACY and FACTORS (n=75)

	B	Std. Error	t-statistic	*p*-value
CLIENT ADVOCACY	1.077	0.349	3.082	0.003
ROLE	0.563	0.282	1.997	0.050
ACCT_F	-0.187	0.279	-0.670	0.505
CLIENT ADVOCACY * ROLE	-1.020	0.423	-2.412	0.019
CLIENT ADVOCACY * ACCT_F	-0.662	0.432	-1.532	0.130
ROLE * ACCT_F	0.125	0.271	0.464	0.644
CLIENT ADVOCACY * ROLE * ACCT_F	0.484	0.491	0.986	0.328

This panel includes regression results testing the effect of CLIENT ADVOCACY, ROLE, and ACCT_F on FACTORS. CLIENT ADVOCACY is calculated as described in Table 4.1, Panel B. ROLE is a categorical variable such at "0" indicates preparer and "1" indicates reviewer. ACCT_F is calculated as described in Table 3, Panel A. FACTORS is calculated as described in Table 4.2, Panel B.

Panel E: Effect of ACCT_C and ROLE on the relationship between CLIENT ADVOCACY and FACTORS (n=75)

	B	Std. Error	t-statistic	*p*-value
CLIENT ADVOCACY	0.970	0.333	2.910	0.005
ROLE	0.588	0.278	2.114	0.038
ACCT_C	-0.068	0.224	-0.304	0.762
CLIENT ADVOCACY * ROLE	-0.927	0.410	-2.260	0.027
CLIENT ADVOCACY * ACCT_C	-0.920	0.398	-2.312	0.024
ROLE * ACCT_C	0.208	0.253	0.823	0.413
CLIENT ADVOCACY * ROLE * ACCT_C	0.604	0.466	1.297	0.199

This panel includes regression results testing the effect of CLIENT ADVOCACY, ROLE, and ACCT_C on FACTORS. CLIENT ADVOCACY is calculated as described above in Table 4.1, panel B. ROLE is a categorical variable such that "0" indicates preparer and "1" indicates reviewer. ACCT_C is calculated as described in Table 3, Panel A. FACTORS is calculated as described above in Table 4.2, Panel B.

Table 4.3: Supplemental Analysis of Aggressiveness

Panel A: Effect of CA, FACTORS, and ROLE on Conclusion Aggressiveness (LIKELY) (n=75)

Source	df	Beta	t-statistic	*p-value*
CLIENT ADVOCACY	1	1.817	4.349	<0.001
FACTORS	1	0.579	1.597	0.115
ROLE	1	0.736	2.070	0.042
CLIENT ADVOCACY * FACTORS	1	-0.616	-1.642	0.105
CLIENT ADVOCACY *ROLE	1	-1.996	-4.069	<0.001
FACTORS * ROLE	1	0.374	0.941	0.350
CLIENT ADVOCACY * FACTORS * ROLE	1	0.302	0.626	0.533

This panel includes regression results testing the effect of CLIENT ADVOCACY, FACTORS, and ROLE on LIKELY. CLIENT ADVOCACY is calculated as described in Table 4.1, Panel B. FACTORS are calculated as described in Table 4.2, Panel B. ROLE is described in Table 4.2, Panel B.

Panel B: Effect of CA and FACTORS on Conclusion Aggressiveness (LIKELY) by ROLE

	Preparers (n=25)				Reviewers (n=50)			
Source	df	Beta	t-statistic	*p-value*	df	Beta	t-statistic	*p-value*
CLIENT ADVOCACY	1	1.817	4.430	<0.001	1	-0.179	-0.689	0.494
FACTORS	1	0.579	1.627	0.119	1	1.002	3.741	0.001
CLIENT ADVOCACY * FACTORS	1	-0.616	-1.673	0.109	1	-0.314	-1.030	0.308

This panel includes regression results testing the effects of CLIENT ADVOCACY and FACTORS on LIKELY by ROLE. CLIENT ADVOCACY is calculated as described in Table 4.1, Panel B. FACTORS are calculated as described in Table 4.2, Panel A. LIEKLY is the participants' likelihood of either concluding or signing off on a conclusion that the activity should be treated as a business.

Table 4.4 Supplemental Analysis of Partner Preference

Panel A: Frequencies (n=75)

		Which of the following outcomes do you think the engagement partner expected?			Total
		Treatment as a for-profit business.	Treatment as a hobby.	The partner didn't have an expectation.	
ROLE	Preparer	15	6	4	25
	Reviewer	31	6	13	50
Total		46	12	17	75

Participants responded to the question "Which of the following outcomes do you think the engagement partner expected?" with three possible responses. All participants were expected to indicate that the partner didn't have an expectation; however, as shown above, many participants imputed a partner preference.

Panel B. ANOVA

Source	df	Mean Square	F-statistic	*p-value*
PERCEIVED PARTNER PREFERENCE	1	0.300	0.408	0.525
ROLE	1	3.596	4.891	0.030
PERCEIVED PARTNER PREFERENCE * ROLE	1	2.872	3.906	0.052

This panel includes the ANOVA results calculating the effect of the reviewer role and perceived partner preference on LIKELY. ROLE is coded such that "1" signifies reviewer and "0" signifies preparer. Perceived partner preference is also an indicator variable, such that "1" is treatment as a for-profit business, "2" is treatment as a hobby, and "3" is the partner didn't have an expectation.

Panel C. ANOVA examining the effect of perceiving a partner preference

Source	df	Mean Square	F	Sig.
LIKELY	1	6.419	4.845	.031
FACTORS	1	2.172	2.860	.095

This panel includes the ANOVA results calculating the effect of perceiving a partner preference (either hobby or business) on (1) the likelihood of recommending or signing off on business treatment and (2) the evaluation of factors.

Table 4.4 Supplemental Analysis of Partner Preference (cont.)

Panel D. ANOVA examining the effect of perceiving a partner preference for business (n=58)

Source	df	Mean Square	F	Sig.
LIKELY	1	4.606	3.894	0.053
FACTORS	1	0.080	0.112	0.740

This panel includes the ANOVA results calculating the effect of perceiving a partner preference of business (compared to hobby) on (1) the likelihood of recommending or signing off on business treatment and (2) the evaluation of factors.

Table 4.5 Supplemental Analysis of the Influence of FACTORS on LIKELY (n=75)

Panel A: Stepwise Regression of Individual FACTORS on LIKELY (n=75)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	F_PERSONAL	0.493	0.135	0.509	3.646	0.001
2	F_PERSONAL	0.649	0.150	0.670	4.333	<0.001
	F_SUCCESS	-0.356	0.171	-0.322	-2.080	0.044
3	F_PERSONAL	0.533	0.148	0.551	3.614	0.001
	F_SUCCESS	-0.500	0.170	-0.452	-2.940	0.006
	F_OCCPROFITS	0.351	0.140	0.382	2.511	0.017

This panel includes stepwise regression results regressing the nine individual factors used to calculate FACTORS on LIKELY. Stepwise criteria included $p <= 0.05$ for entry and $p >= 0.10$ for removal.

Panel B: Stepwise Regression of Individual FACTORS on LIKELY for Reviewers (n=25)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	F_OCCPROFITS	0.538	0.121	0.666	4.463	<0.001

This panel includes stepwise regression results regressing the nine individual factors used to calculate FACTORS on LIKELY using only the reviewer condition. Stepwise criteria included $p <= 0.05$ for entry and $p >= 0.10$ for removal.

Panel C: Stepwise Regression of Individual FACTORS on LIKELY for Preparers (n=50)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	F_PERSONAL	0.727	0.310	0.577	2.345	0.039
2	F_PERSONAL	1.225	0.279	0.973	4.390	0.001
	F_SUCCESS	-0.731	0.231	-0.699	-3.157	0.010
3	F_PERSONAL	0.885	0.248	0.702	3.571	0.006
	F_SUCCESS	-0.844	0.183	-0.808	-4.606	0.001
	F_BUSINESSLIKE	0.460	0.165	0.522	2.789	0.021

This panel includes stepwise regression results regressing the nine individual factors used to calculate FACTORS on LIKELY for those in the preparer condition. Stepwise criteria included $p <= 0.05$ for entry and $p >= 0.10$ for removal.

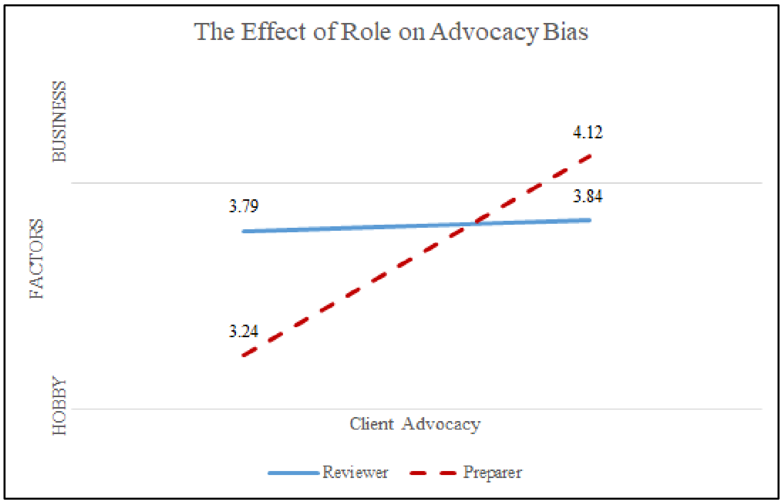

Figure 4.1. This figure shows the effects of client advocacy (CA) and role (ROLE) on evidence evaluation (FACTORS). For this figure, CA is a categorical variable based on the dichotomized responses to the client advocacy scale where "1" indicates high CA (above the median) and "0" indicates low CA (below the median). FACTORS is the mean evaluation of nine individual factors from Reg. 1.183-2. The interaction between role and client advocacy is significant (p = 0.026, one-tailed).

CHAPTER 5

CONCLUSION

This study examines whether the review process mitigates advocacy bias by isolating the effect of the reviewer role on tax professional judgments. Specifically, I randomly assign professionals to the preparer and reviewer roles, which controls for individual differences in experience and rank. Prior literature in audit suggests reviewers (compared to preparers) demonstrate a heightened focus on objectivity (Reimers and Fennema 1999). I find tax professionals occupying the reviewer role exhibit similar behavior. Specifically, they are less likely to exhibit advocacy bias than those in the preparer role, focus on different types of evidence than preparers, and are less influenced by a perceived partner preference. The reviewer role does not appear to prompt an increase in perceived accountability; however, this study provides initial evidence that increased accountability influences how preparers evaluate evidence. In addition, supplemental analysis examines how advocacy attitudes, role, and evidence evaluation influence professionals' conclusions. Results indicate preparers' conclusions are significantly influenced by advocacy attitudes whereas reviewers' conclusions are significantly influenced by evidence evaluation. This suggests occupying the reviewer role prompts professionals not only to objectively evaluate evidence, as found in H1, but also to objectively determine a conclusion. Thus, this study provides evidence on many differences in decision making among professionals in the reviewer role when compared to those in the preparer role, including a reduced influence of advocacy bias on judgment.

The study is subject to several limitations. First, the conclusions are based on hypothetical judgments using limited information to minimize the time commitment required of tax professionals who were willing to participate. Future research could examine whether the effect of the reviewer role holds in other contexts. Second, the scenario used in this study was related to an ambiguous issue within an individual tax compliance context. The findings may not translate directly to tax professional judgments in more complex business tax compliance issues. Finally, the accountability measure included in this study was based on selected measures identified in prior accountability research. Given the limited variation in these measures, future studies could further develop measures of accountability to multiple sources in both tax and audit contexts.

This study contributes to the literature in several ways. First, by isolating the effect of the reviewer role on tax professional judgments, the findings add to a growing literature (e.g., Cuccia et al. 2017; Barrick et al. 2004) studying whether the review process mitigates advocacy bias. Specifically, this study establishes the reviewer role as a moderator of the effect of advocacy attitudes on evidence evaluation. Although prior studies have separately examined advocacy bias in both preparer and reviewer judgments, those studies have primarily focused on (1) whether reviewers detect bias through specific documentation cues or writing styles or (2) whether professionals agreed with the client-preferred, tax minimizing position. Rather than focusing on whether reviewers recognize bias in subordinate recommendations or agree with aggressive conclusions, this study directly compares the evidence evaluation processes of professionals who have been assigned to be reviewers or preparers. I find reviewers are less likely to exhibit advocacy bias in their own evidence evaluation, which suggests future research could examine why reviewers have struggled to detect bias in subordinate work (Cuccia, et al. 2017; Barrick et al. 2004; Hatfield et al. 2000).

Second, this study finds professionals may assume that engagement partners prefer to support client preferences. Specifically, the experimental materials explicitly instructed participants that the partner had not considered the issue and did not have an opinion; however, the majority of the participants reported that they thought the partner preferred supporting the client preference. Further, this perceived preference significantly influenced likelihood of supporting the client's preference of business treatment. Thus, professionals may engage in attitude shifting to meet their inappropriately inferred partner preference even when the partner attempts to prevent such a response. Hence, firms may need to consider more strongly emphasizing the importance of independent judgment.

Third, this study highlights several ways in which professionals occupying the reviewer role process information and make decisions differently than those in a preparer role. In addition to the reduced influence of advocacy bias, I also find reviewers are less influenced by the partner's preference for supporting the client. Although I intended to hold the perceived partner's preference constant, the participants' assumption that the preference was to support the client's preference provided an opportunity to examine the effect of such an assumption. Findings suggest reviewers may be less susceptible to attitude shifting, which may in turn reduce the likelihood of predecisional distortion (Wilkes 2002). In addition, I find reviewers and preparers focus on different pieces of evidence when making their conclusions. Specifically, reviewers focus on objective evidence (e.g., whether the client's activity has produced profits) and preparers focus on evidence that is more subjective (e.g., for example, the elements of personal pleasure experienced as part of the activity). This finding provides additional evidence that reviewers are more objective, and less biased, than preparers.

Fourth, the accountability measure used in this study examines the effects of accountability to the firm and accountability to the client. Specifically, accountability to the client appears to influence the likelihood of advocacy bias but accountability to the firm does not. By studying accountability in a tax context, the present study examines the effect of accountability to multiple sources on professional judgment in an environment where professionals are likely to feel strong accountability to the client, for whom they are required to advocate, and to their employer. This potentially contributes to the audit literature because prior literature has established (1) that accountability influences multiple auditor judgments and (2) auditors face multiple accountability sources. Thus, future studies could further investigate the competing effects of accountability to multiple sources on auditor judgments in both auditor-client and auditor-auditor interactions. Finally, this study provides initial evidence that firms may be able to decrease the likelihood of advocacy bias at the preparer level by focusing on accountability to the client. Although unexpected *a priori*, this finding provides an interesting insight into the relationship between preparers and their clients that can be further explored in future research.

This study expected the effect of role on tax professional judgment to be explained by differences in accountability. Although results do not support that expectation, results do provide robust evidence that the judgment and decision making processes of reviewers are quite different than those of preparers. The study’s findings could be explained by an increase in skepticism prompted by occupying the reviewer role. I measure a subset of the trait of professional skepticism and find no differences; however, it is possible state skepticism, or a more general construct of dubiousness, may explain differences in judgment and decision making processes across roles. Specifically, reviewers are entering the decision making process after an initial decision has already been made. Thus, rather than integrating all of the evidence to reach a conclusion, reviewers are able to focus on inconsistencies and alternative explanations. In addition, evidence that seemed irrelevant to a preparer may appear more salient to a reviewer if it does not agree with the preparer's conclusion. Future research could examine whether occupying the reviewer role prompts an increase in state skepticism.

Alternatively, the differences identified in this study could also be explained by the attitude change literature (Chaiken 1980), which suggests individuals who are more highly involved in a decision (e.g., a preparer forming a conclusion) are more focused on specific arguments and a conclusion whereas those who are less involved (e.g., a reviewer evaluating an existing conclusion) are more attentive to cues outside the specific argument and conclusion (e.g., inconsistent information or surprising evidence). Similarly, it is also possible preparers feel further separated, or more insulated, from the final decision maker. Thus, they may feel more permission to be incorrect or to rely on the review process to detect issues in judgment (Westermann, Bedard, and Earley 2015). Another possible explanation is impression management. Preparers may feel more pressure to motivate a conclusion in alignment with the client's preference with the knowledge that a reviewer will curb unreasonable aggressiveness. Future evidence can examine these and other social psychology theories to further explain the effects of occupying the reviewer role.

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APPENDIX A

MEASUREMENT SCALES

Client- Advocacy Scale (CA) (where 1 = strongly disagree and 7 = strongly agree) (adapted from Bobek, Hageman, Hatfield 2010)
(Mean 4.647, SD 0.807)

1. Where no judicial authority exists with respect to an issue, I feel that the Roes are entitled to take the most favorable tax treatment.

2. I feel I should apply ambiguous tax law to the Roes' benefit.

3. Generally speaking, my loyalties are first to the tax system, then to the Roes.

4. I believe it is important that I encourage the Roes to pay the least amount of taxes possible.

5. In an instance where no judicial authority exists with respect to an issue and where the Code and Regulations are ambiguous, I feel that the Roes are entitled to take the most favorable tax treatment.

6. When examining a tax return, I tend to point out to the Roes reasonable positions they could have taken which would have contributed to minimizing their tax liability.

7. I always interpret unclear/ambiguous laws in favor of the Roes.

8. It is important to use trends in the law by trying to establish a pattern of more favorable treatment for the Roes and then extending this pattern to the Roes' position.

9. The Roes have the right to structure transactions in ways that yield the best tax result, even if the law is unclear in an area.

Professional Skepticism – Questioning Mind Subscale (where 1 = strongly disagree and 6 = strongly agree) (Hurtt 2010)
(Mean 4.592, SD 0.826)

1. I enjoy trying to determine if what I read or hear is true.

2. I usually notice inconsistencies in explanations.

3. My friends tell me that I often question things I see or hear.

4. I frequently question things that I see or hear.

5. I often reject statements unless I have proof that they are true.

Felt Accountability Scale (where 1 = strongly disagree and 7 = strongly agree) (Modified from Frink and Farris 1998, Frink and Klimoski 1998, and Donnelly 2017)

Please indicate the extent to which you agree with the following statements.

(Accountability to the Client: Mean 4.129, SD 0.905)

1. I felt accountable to the Roes for the decision I just made regarding their activity.

2. I felt pressure to make a decision consistent with the Roes' preferences. *

3. I could face consequences if my conclusion did not agree with the Roes' preferences.

4. The decision I just made could influence the Roes' perceptions of my performance.

(Accountability to the IRS: Mean 3.947, SD 1.015)

5. I felt accountable to the IRS for the decision I just made regarding the Roes' activity.

6. I felt pressure to make a decision consistent with what the IRS would allow. *

7. I could face consequences if my conclusion did not agree with what the IRS would allow.

8. The decision I just made could influence the IRS's perceptions of my performance.

(Accountability to the Firm: Mean 3.980, SD 0.808)

9. I feel accountable to Oliver and Associates for the decision I just made regarding the Roes' activity.

10. I felt pressure to make a decision consistent with the partner's expectation.

11. I could face consequences if my conclusion did not agree with the partner's expectation.

12. The decision I just made could influence Oliver and Associates' perceptions of my performance.

*Two items did not load onto a single factor and are omitted from scale means.

APPENDIX B

RESEARCH MEMORANDUM PROVIDED TO PARTICIPANTS

To: File

RE: Roe Bicycle Activity (2015-2017)

Date: July 1, 2017

FACTS

Jennifer has become increasingly active in off-road bicycle racing. Since the beginning of 2015, she has participated in approximately 60 races. The National Off-Road Bicycle Association has recently ranked Jennifer in the top 100 for both the dual slalom and the downhill races. The most recent rankings are 89th in the dual slalom and 95th in the downhill. These rankings have led to a few sponsorships that have provided Jennifer with clothing, and, occasionally, entry fees. Although Jennifer has won a few of the races she has entered, her annual expenses related to racing (e.g., bicycle repairs, transportation, lodging, and entry fees) exceed her racing income.

Jim and Jennifer tell you that she trains daily. During racing season, she only works 30 hours per week (rather than her standard 40) so she can make the most of the racing events. Jennifer has kept businesslike records of all of her earnings and expenses for the last three years (including 2017) and she has a thorough business plan. For 2015 and 2016, her winnings were $990 and $2,180, respectively. Her expenses for those years were $15,200 and $21,700, respectively. With the 2017 season half-way over, she estimates that her earnings will be around $4,000 while her expenses will be around $20,000. Cash prizes run as high as $8,000 - $9,000 and she hopes that her earnings will eventually surpass her expenses.

Jennifer would like to treat her bicycle racing activity as a business (making the loss resulting from the activity in 2017 deductible on their tax return) rather than continuing to treat the activity as a hobby (limiting their ability to deduct expenses associated with this activity).

ISSUE

1. Is bicycle racing a for-profit activity for Jim and Jennifer's 2017 tax return?

[Reviewer]

<u>PREPARER CONCLUSION</u>

[Reviewer_business] The Roes' activity should be treated as a business.
[Reviewer_omitted] *Note: For this case study the preparer's conclusion has been purposely omitted.*

ANALYSIS

Treasury Regulation §1.183-2 provides guidance regarding when an activity is considered to be carried on for profit (deductions allowed under sections 162/212), including nine factors for consideration. Activities are not required to satisfy all nine factors; however, the courts apply these factors when determining whether an activity is engaged in for profit. Each of the nine factors is applied to Jennifer's bicycle racing activity below.

<u>The activity is operated in a businesslike manner.</u>
Jennifer keeps track of her earnings and expenses with businesslike records. She has a thorough business plan and plans to continue improving her skills so she can improve her profitability.

<u>Taxpayers have the required expertise and/or have consulted appropriate advisors.</u>
Jennifer is ranked in two events, which suggests expertise.

<u>Taxpayers devote time and effort to the activity that is appropriate to a serious venture.</u>
There is no set amount of time required to satisfy this factor; however, Jennifer devotes a significant amount of time to the activity. She trains daily, which could be viewed as regular exercise but may be viewed as business activity. In addition, she adjusts her work schedule at the hospital during racing season to allow for further dedication to the sport.

<u>Taxpayers with reasonable expectations of asset appreciation can use that expected appreciation as future profit.</u>
This factor is not applicable to the current activity as Jennifer's only asset is the bicycle and trailer, which will both depreciate in value.

<u>Taxpayers have demonstrated success in previous business ventures.</u>
Jim and Jennifer are both successful in their careers. A review of past returns shows that the Roes' have started businesses before; however, none of those businesses remain in operation.

The taxpayer has a history of income or losses with respect to with the activity.
Jennifer's racing has produced losses over the past three years.

The activity has generated occasional profits and may become profitable.
Jennifer's racing has generated sponsorships and some winnings. She expects her winnings to become more frequent, which could produce profits in the future.

The taxpayer does not have sufficient income from other sources to offset losses.
Jim and Jennifer are already high-income taxpayers; they are not dependent on her racing activity as a source of income.

The taxpayer derives elements of recreation or physical pleasure.
Although she maintains businesslike records and expects to eventually make a profit, Jennifer derives significant recreation and physical pleasure from her bicycling.