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Advice and Complexity in Tax Planning Judgments

by

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ABSTRACT

Tax planning is a core service provided by tax practices of public accounting firms. Performing this service well is important to the firms, their clients and the tax professionals involved. This study experimentally examines the effects of supervisory advice on the judgment of tax professionals performing tax planning tasks of different complexity, in the presence of the tax contextual features of accountability and time pressure, and finds that such advice is not necessarily helpful to performance. The advice, task complexity and accountability literatures are used in framing arguments and developing hypotheses, which propose that the timing of advice and the complexity of the task interact, so that advice is not necessarily beneficial. The study also draws on the behavioral tax, audit and accounting literatures.

Discussions with senior tax practitioners indicate that supervisory advice is usually given to tax professionals before they commence tax planning tasks. The results of this study support the hypotheses and demonstrate that this practice of giving advice may not improve performance in a tax planning task and may even be detrimental. First, the results indicate that the giving of advice by a supervisor should be conditional on task complexity. Supervisory advice is beneficial for a higher-complexity task but detrimental to a lower-complexity task. Second, the timing of when any advice is provided is important. Although advice is beneficial for the higher-complexity task, the results indicate that when advice is given before the tax professional commences the task it interferes with the processing of information and insightful judgments. The giving of

advice after the tax professional has thought through the task and prepared a tentative solution results in better performance for this more complex task.

This study contributes to the tax, behavioral, accounting and advice literatures. The results should also be of interest to tax practice, as these results are representative of a broad range of tax professionals from public accounting firms across Canada.

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TABLE OF CONTENTS

APPENDICES:

LIST OF TABLES

LIST OF FIGURES

1. INTRODUCTION

Is a supervisor's advice to a subordinate prior to commencing a task a good idea? Such advice is routinely provided in the tax practices of public accounting firms, but this study finds that while it can be helpful, it can also degrade or limit a subordinate's performance. The results of this study indicate that the consequences of advice depend on the complexity of the task, and the timing of when any advice is provided. Although this study was conducted in a tax context, the results could also be relevant to other hierarchical professional contexts where supervisors provide advice to capable subordinates. These contexts may include other functions of public accounting firms, such as auditing, and other professional settings such as law or medicine. The results of this study indicate that the effectiveness of supervision can be undermined by supervisory practices. For example, the practice of giving supervisory advice to tax professionals before they attempt tax planning tasks has a detrimental effect on performance.

This study draws on the emerging behavioral tax literature (e.g. Carnes et al., 1996; Cloyd, 1997; Hatfield, 2001; Magro, 2005) as well as other tax studies (e.g. Klassen and Sansing, 2006). The advice and accountability literatures are used in framing the study's arguments (e.g. Gibbins and Newton, 1994; Sniezek and Buckley, 1995; Peecher, 1996; Lerner and Tetlock, 1999; Schrah et al., 2006). The study also relies on interpersonal studies in accounting and auditing (e.g. Peecher, 1996; Kennedy et al., 1997; Bedard et al., 1998; Gibbins and Trotman, 2002; Nelson and Tan, 2005). The study's framework and task materials were developed after extensive discussions with senior tax practitioners. The results of this study should therefore contribute to the behavioral tax, advice and accounting literatures, as well as to tax practice.

In this experimental study, 85 experienced tax professionals from the tax practices of public accounting firms across Canada developed estate tax plans in accordance with task materials designed in consultation with senior tax practitioners and pre-tested with tax professionals similar to the participants in this study. There were two tasks of differential complexity: a relatively simple estate tax planning task to fit the participants' capability, and a more complex one to challenge them. Supervisory advice was provided to the tax professional before the commencement of the task (pre-advice), or after the tax professional had developed a tentative solution (post-advice), or not at all (no advice).

There are two important conclusions drawn from the results of this study. First, the results demonstrate that supervisory advice can have positive or negative effects on performance, conditional on the level of task complexity. For the higher-complexity task, pre-advice resulted in improved performance over that when no advice was received, but for the lower-complexity task, such advice was unnecessary and had detrimental effects on performance. Second, this study also demonstrates that the timing of when advice is provided is important (Sniezek and Buckley, 1995; Schrah et al., 2006). Although pre-advice improved performance for the higher-complexity task, it interfered with the cognitive processing necessary for insightful judgments and the better performance potential for such a task. Giving advice after the tax professional had developed a proposed tax plan was more likely to lead to better performance in the higher-complexity task. Generally, advice at either time or for either task was found to result in some confusion or “over-determined” solutions with unnecessary content as the tax professional attempted to include elements of the advice into the tax plan.

Discussions with senior tax professionals indicate that the two main objectives of supervisory advice are to complete the tax planning task efficiently (time pressure is normally present) and to train the tax professional for future tasks. Advice from a supervisor is freighted with accountability, due to the hierarchical nature of public accounting firms that makes the accountability relationship explicit. Therefore, this study considers the influence of accountability and time pressure in framing arguments and results, though neither factor was manipulated experimentally.

This study makes several valuable contributions. First, it extends the advice literature into a practical setting with clear hierarchical roles and skilled, experienced participants. Second, it examines the perhaps surprising implication that advice is not always appropriate and could even be harmful to a subordinate’s performance. Third, it extends the behavioral tax literature into examining the judgment of experienced tax professionals designing tax planning solutions in a practical setting, with the impact of advice and task complexity, as well as the influence of accountability and time pressure. Fourth, the results are relevant to the day-to-day operation of tax practices in public accounting firms, where tax planning is a core service and generally requires a significant commitment by both a client and a firm. The participation of experienced tax professionals from national and regional firms across Canada supports the relevance of this study to tax practice across the country. Fifth, the results of this study could potentially be applicable to other hierarchically structured organizations where there is a practice of giving advice to relatively skilled subordinates, such as auditing and other areas of public accounting firms, law firms and medical practices. The results of this study suggest that such supervisory advice may not always be effective.

The remainder of this paper is organized as follows. Section 2 sets out the theory and the research hypotheses. Section 3 describes the research method. Section 4 presents the results while Section 5 contains a further discussion and analysis of the results. Section 6 presents a brief summary and conclusion, including some suggestions for further research.

2. BACKGROUND AND HYPOTHESIS DEVELOPMENT

This study examines effects of a supervisor's advice on tax professionals' performance of a professional judgment task. Performance is measured twice: at the initial performance of the task, and after an opportunity for reflection and the completion of the task.

Two important aspects of such advice are whether it is appropriate across levels of task complexity and, if it is appropriate, whether the advice should be provided prior to the commencement of the task (hereinafter "pre-advice") or after the tax professional has prepared a tentative tax plan (hereinafter "post-advice"). In this study, advice is offered "prior (pre)", "post", or, as a control, not at all. The task is either lower or higher in complexity. Crossing complexity with advice produces six experimental conditions and interactions between task complexity and advice are hypothesized. These interactions have not been examined in other research, nor have the questions been framed in the setting of tax planning by tax professionals with the advice coming from a supervisor.

The advice literature emphasizes that decisions are not made in isolation (Sniezek and Buckley, 1995; Sniezek and Van Swol, 2001; Yaniv, 2004; Schrah et al., 2006; Bonaccio and Dalal, 2006). This literature also suggests that role differentiation, the nature of the advice and the timing of when advice is given can strongly influence decision making (Sniezek and Buckley, 1995; Bonaccio and Dalal, 2006; Schrah et al., 2006). Extensive discussions with senior tax professionals at public accounting firms indicate that it is a common practice for a tax professional to receive advice from a supervisor *before* commencing a tax planning task.

The complexity of a task can be defined in terms of the number of problem components, the level of the integration of information that is required and its dynamic complexity (Wood, 1986; Tan & Kao, 1999). The tax professionals in this study perform tax planning tasks of differential task complexity. Supervisory advice arises because of the complexity of the tax planning task and the firm's objective to train the tax professional staff. Prior research has found that since task complexity places demands on the person performing the task it is a key moderator in the accountability-performance relation (Tan and Kao, 1999).

The accounting literature has stressed the importance of context in the study of professional judgment in public accounting firms (Gibbins, 1984; Gibbins and Jamal, 1993). Accountability is an important contextual feature of the public accounting firm, is a critical aspect of professional judgment and influences performance (Ashton, 1990; Gibbins and Newton, 1994; Cloyd, 1997; Kennedy et al., 1997; Nelson and Tan, 2005). Time pressure is another important contextual feature of the public accounting environment and tax professionals performing tax planning tasks requiring professional judgment face unavoidable time pressure (Glover, 1997; Spilker and Prawitt, 1997; Braun, 2000). Therefore, the influence of accountability and time pressure is considered in developing the hypotheses and designing the experiment.

2.1 The tax context

Before examining the experimental variables of advice and task complexity in more depth, three contextual features forming part of the experimental setting are described.

Accountability

In this study, accountability forms the background to hypotheses about performance in the presence of a supervisor's advice. Accountability is defined as the pressure to justify one's judgment to others (Tetlock, 1983; Lerner and Tetlock, 1999) and the need to support one's judgment and decisions is an important feature in public accounting firms (Gibbins and Newton, 1994; Peecher, 1996; Cloyd, 1997; Magro, 2005).

Prior research suggests that accountability can have positive effects (Ashton, 1990; Kennedy, 1993; Cloyd, 1997; Asare et al., 2000) or negative effects (Peecher, 1996; Kennedy et al., 1997; Hoffman and Patton, 1997; Lerner and Tetlock, 1999; Nelson and Tan, 2005) on performance. Accountability demands can have positive effects if they induce effort and lead to improved decisions or they can have negative effects if they lead to strategic attitude shifts. For example, accountability can have a negative effect if it leads to good justification for performance instead of good performance (Gibbins and Newton, 1994).

Accountability to an individual with known views has a different effect than accountability to an individual with unknown views (Tetlock, 1983; Gibbins and Newton, 1994; Lerner and Tetlock, 1999; Hatfield, 2000; DeZoort et al., 2006). The hierarchical nature of the public accounting environment suggests that a completed task would generally be reviewed by a known supervisor. For example, tax professionals generally receive advice from a supervisor before commencing a tax planning task and this supervisor often reviews the completed task. The advice received prior to commencing a tax planning task may allude to the supervisor's "preferences". When the tax professional knows the supervisor who will review the completed tax planning task, accountability can lead to attitude shifts, defensiveness or selective evidence search, leaning toward those preferences (Gibbins and Newton, 1994; Peecher, 1996).

The underlying training objective of the supervisor's advice to a tax professional results in the inclusion of a broad range of elements in the advice. Accountability likely results in a tax professional closely examining all the information included in the supervisor's advice and this could lead to confusion, as the tax professional could pay unnecessary attention to information alluded to in the advice that is irrelevant or is not applicable for the current task e.g. references to important statutes in the tax legislation (Tetlock and Boettger, 1989; Hoffman and Patton, 1997; Hoffman et al., 2003). Furthermore, as a tax planning task is complex and often has no dominant solution, accountability demands could lead a tax professional to rely on perceived preferences in the supervisor's advice. Kennedy et al. (1997) found that decisions that involved discussions with other knowledgeable professionals were regarded as more justifiable than those made in isolation.

Accountability may also lead a tax professional to strategically influence the reviewer's view through the documentation of certain evidence (Rich et al., 1997; Barrick et al., 2004) or the stylization of the working papers (Gibbins and Trotman, 2002; Tan and Trotman, 2003).

Time pressure

Time pressure is an important contextual feature of the public accounting environment, including the tax setting, and the effects of time pressure have been examined extensively. The extant literature indicates that working under time pressure could result in attention being given only to selected tasks (Spilker and Prawitt, 1997; Braun, 2000) and/or the filtering of information (Glover, 1997). Furthermore, the combined effect of accountability and time pressure could result in a dilution of the impact of relevant information with irrelevant information or an inappropriate filtering of information (Glover, 1997; Hoffman and Patton, 1997; Braun, 2000). This could be particularly important in the performance of a tax planning task, where the tax professional works under time pressure and typically has to process a large amount of both relevant and irrelevant information, included in the client fact information, the tax legislation and information from related tax services. Research has shown that one of the effects of time pressure and accountability is decreased effectiveness in judgment (Glover, 1997).

Tax professionals

As this study focused on the interactive effects of advice and task complexity on a tax professional's performance, the capability of the tax professionals should be appropriate for the setting, with sufficient education, training and tax experience. All participants in this study were from public accounting firms, with relevant tax training (completion of Part 1 of the In-Depth tax course offered by the Canadian Institute of

Chartered Accountants (CICA) or an equivalent course) and tax experience, including experience in tax planning.

2.2 Advice and Task Complexity in the tax setting

The two experimental variables of this research study can be described in the above context of capable tax professionals working in a tax setting of a public accounting firm.

Advice

In this setting, advice has two notable characteristics. First, it carries potentially helpful information about making a judgment. Second, it is an intervention by the supervisor in the subordinate's judgment process. In this study, both characteristics are subsumed by the term advice.

The advice literature examines the social aspect of decision making situations in hierarchically structured groups, where there is generally role differentiation, when role structures are formalized and decisions are not made only by one individual (Sniezek and Buckley, 1995; Schrah et al., 2006; Bonaccio and Dalal, 2006). The tax practices within public accounting firms are hierarchically structured, with clear hierarchical titles and role differentiation. Tax professionals would utilize, rather than discount, the advice received from a supervisor because of the credibility of the supervisor, accountability to that supervisor, and the belief that the supervisor is giving advice to assist in the performance of the task (Schrah et al., 2006).

Sniezek and Buckley (1995) examined the effects of advice on judgment and decision making and found that the nature of advice (i.e. prescriptive or descriptive) and the timing of when advice is provided had a strong influence on decision choice. Sniezek and Buckley (1995) identified a cued effect, resulting from the decision-maker's attention being drawn to elements included in the advice. The effect depended on the timing of the advice: they found such a cued effect if the advice was given *before* the decision maker made a choice, but no cued effect if the advice was given *after* the decision-maker had made an independent, though tentative, choice. Four related consequences of this cued effect are relevant to the tax setting investigated in this study.

First, giving advice *before* the tax professional has an opportunity to make an independent judgment provides a framework that could interfere with or constrain the tax professional's usual processing of information (Sniezek and Buckley, 1995; Cuccia and McGill, 2000; Hoffman et al., 2003). Hoffman et al. (2003) found that experienced auditors were constrained in the processing of information while performing an ill-structured task when audit evidence was provided to them in a pre-established sequence.

Second, the giving of advice, especially in the tax setting, often includes references to examples of similar types of cases in other client files. Drawing attention to a particular example *before* the tax professional commences the task could result in the professional concluding that the current task qualifies for the same treatment as the example or believing that the example is more relevant than it actually is to the current task (Clor-Proell and Nelson, 2007).

Third, the advice could lead the tax professional to overlook other important and relevant information that has not been directly cued through the advice (Sniezek and Buckley, 1995). Therefore, giving advice before the tax professional has thought about the task independently can reinforce the accountability-based tendency to over-use that advice. The cues in the advice would get more relative weight in the tax plan and this could result in insufficient attention to other relevant information (Tetlock and Boettger, 1989; Hoffman and Patton, 1997).

Fourth, the cued effect could lead the accountable tax professional to introspect, such as to analyze the reasons why the advice fits the tax planning task, or use time and effort to examine each of the elements included in the advice. Such introspection may lead to confusion about the appropriate tax plan, an over-elaborated solution thought to fit the advice more closely, or a change in the judgment criteria and/or the weighting of those criteria (Wilson et al., 1989; Wilson and Schooler, 1991). For a lower-complexity task, which the tax professional could likely perform well or even routinely, introspection may be detrimental to performance as it could lead to unnecessary thinking about the reasons for what should otherwise be a straightforward judgment. If this introspection includes changes in criteria, the result may be an inappropriate tax plan, or an overly complicated "over-determined" solution. On the other hand, for a higher-complexity task, introspection could be beneficial as thoughtful analysis of the issues and general thinking through the problem are more useful for a more complex task.

If the advice is received *after* the tax professional has made independent judgments and prepared a tentative tax plan there is no cued effect (following Sniezek and Buckley, 1995). Therefore, post-advice should not interfere with the tax professional's usual processing of information and should not constrain the tax professional's consideration of information relevant to the task. However, as the advice is from a supervisor, accountability demands could affect the tax professional's judgment when the tax plan is being finalized.

Task Complexity

Tax planning tasks are more ambiguous and complex than tax compliance tasks (Marchant et al., 1989; Magro, 1999), with this greater complexity varying with the demands of the tax planning task (Bonner et al., 1992). Wood (1986) suggests three characteristics that can be used to define task complexity and help to distinguish between different levels of task complexity, and these characteristics are used to distinguish the lower vs. higher-complexity tax planning tasks used in this study:

i) Component complexity: the number of problem components in the case and the number of cues that should be recognized in the client fact information, with a greater number of cues resulting in greater task complexity.

ii) Integrative complexity: a higher-complexity task often requires the tax professional to consider various sections in the tax legislation, with some of these sections being more complex than others. The tax professional also has to integrate the information and requirements from the various statutes and this adds to the complexity of the task.

iii) Dynamic complexity: a higher-complexity task has more uncertainty. This could occur because of unknown or uncertain future events in the client fact information or because of the complexity of the tax legislation.

A tax planning task of lower complexity has a limited number of problem components, a lesser number of cues in the client fact information that need to be recognized, requires little or no integration of the various statutes in the income tax legislation and there is less uncertainty in the taxpayer's client fact situation. Therefore, for a lower-complexity task, application of the basic corporate reorganization statutes in the income tax legislation should result in a suitable tax plan. Insightful judgments are not required.

A tax planning task of higher complexity is characterized by a greater number of problem components, a greater number of cues to be recognized in the client fact information, the application and integration of various statutes in the income tax legislation, uncertainty in the client fact information and/or uncertainty in the application of the income tax legislation. Application of the basic reorganization statutes in the income tax legislation may not be enough and insightful judgments are likely required.

Research has demonstrated that tax planning tasks have higher justifiability demands than tax compliance tasks because of the significance of tax planning decisions and the relationship to practice risk, as well as the irreversibility of such decisions because they often involve third parties (Magro, 1999; Klassen and Sansing, 2006). Higher-complexity tax planning tasks should have higher justifiability demands since the significance of the decisions and the practice risk should be relatively greater for such tasks (Kadous and Magro, 2001; Magro, 2005). Although higher justifiability demands should result in an increase in effort this does not necessarily improve performance (Tan and Kao, 1999). Furthermore, the tax professional could perceive that decisions based on advice received from a supervisor would be more justifiable (Kennedy et al., 1997) and this could have an adverse effect on effort and performance. The benefits of increased effort for a higher-complexity task could be offset by the effects of accountability and time pressure (Asare and McDaniel, 1996).

In this study the effects of supervisory advice are examined to determine if, and under what circumstances, such advice enhances or degrades performance of tax professionals performing tax planning tasks. The study investigates if advice is appropriate for tax planning tasks of both lower and higher task complexity and if the timing of any advice should be dependent on the complexity of the task.

2.3 Development of Hypotheses

In order to develop hypotheses about the effects of advice a comparative baseline, with no advice, has to be established for each of the two tasks i.e. the lower complexity task and the higher complexity task. The four hypotheses are developed in relation to the baselines established with no advice.

2.3.1 Lower complexity, no advice

The lower-complexity task has a limited number of problem components and a limited number of cues in the client fact information provided to the participants. The task involves a basic application of the corporate reorganization statutes applicable to estate tax planning and no complex integration of the statutes is required. Therefore, appropriate application of the statutes will result in an adequate tax plan and insightful judgments are not required. The participants, who have the relevant tax training and experience, should be capable of performing this lower-complexity task on their own (i.e. without advice).

2.3.2 Higher complexity, no advice

This task has a greater number of problem components and the tax professional is required to examine and apply several corporate reorganization statutes, with integration in the application of these statutes also being necessary. Since the client fact situation is more complex, simple application of the basic corporate reorganization statutes is not enough and insightful judgments are required.

The higher-complexity task is sufficiently challenging that without advice the tax professional should not be capable of performing this task adequately. Indications of inadequate performance could include an inability to develop a solution or technical inadequacy in the application of the income tax legislation.

2.3.3 Lower complexity, pre-advice

For the lower-complexity task, it was argued above that the tax professional participants could, without advice, correctly apply the legislation in developing a technically adequate estate tax plan. If the tax professional instead receives advice from a supervisor before commencing that task, accountability will cause the tax professional to attempt to follow the advice and this will degrade performance.

Since the supervisor's advice is a vehicle to meet the training objective, the supervisor may include references to the legislation or refer to specific examples in other client files. As the advice is received before the tax professional commences the task this could result in the tax professional examining the references to the legislation more closely than necessary to determine if they apply (Wilson and Schooler, 1991; Sniezek and Buckley, 1995). The reference to examples in other client files may cause the tax professionals to perceive that the current task is similar to the one in the example (Clor-Proell and Nelson, 2007). This could cause confusion as it interferes with the tax professionals' thinking through the problem and processing the information as they would have done adequately on their own.

Accountability demands may also result in an over-determined solution, as the tax professional tries to incorporate elements from the advice (e.g. the legislation or the client file example) into the current tax plan even if this is unnecessary or inappropriate. Alternatively, in the attempt to incorporate elements from the advice into the tax plan, the tax professional may suggest several optional solutions and yet not recommend the best solution. An over-determined solution is inadequate as it contains unnecessary complexity that wastes time and likely results in inefficiencies in both the preparation of the tax plan and the subsequent review.

Therefore, pre-advice may cause performance to degrade relative to the setting of no advice: performance may be less than adequate: the tax plans may be less technically adequate, or technically adequate but show more signs of confusion or over-determined solutions.

H1 (lower complexity, pre-advice):

Participants with prior advice from a supervisor perform the lower-complexity task less well than the participants who receive no advice from a supervisor.

2.3.4 Higher complexity, pre-advice

In the higher-complexity task, unaided performance is expected to be inadequate. For this task, guidance from the supervisor would be helpful. For example, the advice could guide the tax professional to applicable legislation, which is not readily apparent, or to examples in other client files that could provide useful guidance and suggest possible solutions to this complex estate tax planning task. The advice, which is predicted to degrade performance for the lower-complexity task, should be helpful for the higher-complexity task since the tax professional is not expected to be able to complete this task unaided. With this guidance from the supervisor, the tax professional is more likely to be able to develop a solution and, if a solution is developed, it is more likely to be technically adequate.

A higher-complexity tax planning task additionally implies that insightful judgment is required as there may be several possible solutions to consider, or integration with various statutes in the legislation may be necessary. Yet, accountability may result in the tax professional following the supervisor's advice and so interfere with insightful judgments. This could occur because the supervisor's advice constrains the usual processing of information by the tax professional (Hoffman et al., 2003). Furthermore, if the supervisor refers to similar situations in other client files, accountability may result in the tax professional following such examples more closely than necessary (Clor-Proell & Nelson, 2007) and this may also restrict the processing of other important information (e.g. relevant client fact information) by the tax professional.

In the lower-complexity task, there is little room for insightful judgment and technical adequacy is sufficient. However, in the higher-complexity task, there is room for insightful judgment and more than technically adequate performance. Any constraining of the tax professional's information processing will restrict insightful judgments in the higher-complexity task, limiting the insights necessary to achieve the better performance potential for such a task.

H2 (higher complexity, pre-advice):

Participants with prior advice from a supervisor perform the higher-complexity task better than participants who do not receive advice from a supervisor, but this improvement only reaches adequate performance and not the better than adequate performance that is potential in such a task.

2.3.5 Lower complexity, post-advice

In H1, it was proposed that prior advice is unnecessary and would be detrimental to performance of the lower-complexity task. However, when the advice comes after the tax professional has thought through the task and developed a solution, the degrading effect of accountability should be reduced as the tax professional has had the opportunity to process the information, make independent judgments and develop a tentative solution before being advised (Sniezek and Buckley, 1995). Therefore it is less likely that the advice will interfere with the individual's processing of information (Hoffman et al., 2003).

Post-advice should not degrade performance or cause confusion. However, accountability could result in the tax professional attempting to address issues that stem directly from the advice, even if these revisions are not necessary for the current task. This could result in unnecessary recommendations and an over-determined solution. Therefore, any revisions that the tax professional chooses to make will likely show these accountability effects.

H3 (lower complexity, post-advice):

Participants getting advice from a supervisor after they have prepared tax plans for the lower-complexity task will not revise the plans they prepared without advice to make them less technically adequate, but may add unnecessary elaborations.

2.3.6 Higher complexity, post-advice

In H2, it was proposed that pre-advice would lead to better performance than without advice but would interfere with the insightful judgments required for excellent performance in the more complex task. When the advice is provided after the participant has prepared an unaided tax plan, which will be technically inadequate for the higher-complexity task, it will be helpful in correcting technical errors. However, since the participant has had an opportunity to develop a solution with insightful judgments before receiving the advice, these independently developed insights (Sniezek and Buckley, 1995) will not be removed as the post-advice has not restricted independent and insightful thinking (Sniezek and Buckley, 1995; Hoffman et al., 2003). Therefore, the tax professional will have an opportunity to correct technical errors and yet retain the insights developed prior to receiving the advice. This should increase the likelihood of more than adequate performance for the higher-complexity task.

H4 (higher complexity, post-advice):

Participants getting advice from a supervisor after they have prepared tax plans without advice for the higher-complexity task will achieve better performance in their revised plans than participants who received no advice or pre-advice from a supervisor.

2.3.7 Hypothesis summary:

Unaided judgment baselines (no advice, control group):

Adequate performance of the lower-complexity task

Inadequate performance of the higher-complexity task

Pre-advice:

Degraded performance of the lower-complexity task (H1)

Improved but only adequate performance of the higher-complexity task (H2)

Post-advice:

Adequate performance of the lower-complexity task is not degraded by advice (H3)

Better performance of the higher-complexity task (H4)

Therefore the predictions are that the timing of when advice is given interacts with task complexity. The anecdotally observed practice of giving advice before tax professionals commence a task may not be appropriate, as the predictions are that such pre-advice degrades performance for a lower-complexity task, and constrains the insightful judgments necessary to achieve the better performance potential for a higher-complexity task.

3. RESEARCH METHOD

3.1 Research Design

This study is designed to examine the effect of supervisory advice on the judgment of tax professionals performing tax planning tasks of different complexity. The hypotheses were tested in an experiment using a 2 X 3 between-subjects design. Task complexity was manipulated at two levels (lower vs. higher task complexity) while advice was manipulated at three levels (no advice vs. pre-advice vs. post-advice). The no advice condition is the control group for each level of task complexity. Participants were randomly assigned to the six conditions in this between-subjects design. The research materials (Appendix 1) were developed for each of these six conditions. The experimental setting included some accountability, some time pressure and appropriate participants. Post-experiment questions checked the experimental manipulations and the contextual factors of the tax setting.

3.2 Research Task

A tax planning task was selected because such tasks have a range of complexity (Bonner et al., 1992), which is greater than more routine tasks e.g. tax compliance tasks (Magro, 1999). The research design required two tasks, one of lower and one of higher task complexity and the selection of an estate tax planning task made this possible. The relative complexity of the two tasks (lower and higher complexity) was reviewed with senior tax professionals during the development of the tasks. To confirm the differential complexity of the two tasks the tax professional participants were asked (in the demographic questions) to assess the complexity of the task.

It was important to ensure that the tasks were realistic and reasonable, with the complexity of the tasks developed relative to the expertise of the participants. Therefore, the tasks were developed, and then reviewed, in consultation with senior tax professionals, not employed at any of the firms that provided participants for the experiment. Furthermore, the tasks were calibrated by pre-testing them with tax professionals who are at a similar level of education, training and experience as the participants in the study.

The lower and higher complexity tasks both consisted of two stages. In the first stage, participants were asked to prepare an estate tax plan for a client. In the second stage, the participants were asked to complete the estate tax plan, being provided with an opportunity for reflection and to prepare a revised tax plan or to list revisions to the original tax plan, if any. The performance of the tax professionals was measured by an assessment of the estate tax plans at each of the two stages.

3.3 Independent Variables

The complexity of the two tasks was determined based on the component, integrative and dynamic complexities of the tasks (Wood, 1986, Tan and Kao, 1999). The lower-complexity task had fewer problem components, fewer cues in the client fact information, fewer applicable statutes and required less integration of applicable statutes and client fact information than was the case for the higher-complexity task. This meant that the lower-complexity task was at a fairly basic level (Appendix 2) while the higher-complexity task was designed to be challenging at the participants' expected level of expertise (Appendix 3).

The manipulation of advice was achieved through a written document that contained potentially helpful notes from pre- or post- meetings with the supervisor. Discussions with senior tax practitioners indicate that supervisory advice is provided to subordinate tax professionals in large part to meet the training objective. In order to meet this objective, supervisory advice generally includes references to relevant legislation and important non-tax considerations. The advice often also includes references to examples of tax plans, including similar tax plans completed for other clients or tax plans that have been developed internally by the firm and are being promoted to its clients. The advice document for this research study was developed to ensure that the advice provided was suitable for both the lower and higher complexity tasks. For example, the advice included references to legislation that applies to the lower-complexity task as well as references to legislation applicable to the higher-complexity task. Furthermore, the advice document also included references to non-tax considerations, for example a reference to the review of the will is relevant as both tasks applied to the preparation of estate tax plans.

While it is plausible that the supervisor's advice might differ for a simpler vs. more complex task, or if given before or after the tax professional has developed a tax plan, these notes were essentially the same for both levels of task complexity and for both pre- and post-advice conditions. This was done to avoid the confounding of advice with task complexity or with the timing of when the advice was provided. Therefore, the advice provided in the experiment had to be equally suitable for all conditions, which was verified during the development and pre-testing of the experimental materials. Because the advice contained material relevant to both higher and lower complexity, and material extraneous to both, it was not weighted toward either level of complexity.

1. Pre-advice: the meeting notes were in a document titled "Pre-planning meeting with your supervisor" (Appendix 4A for the lower-complexity task or Appendix 4B for the higher-complexity task), which the participant received before preparing an estate tax plan.

2. Post-advice: The meeting notes were in a document titled "Subsequent meeting with your supervisor" (Appendix 5A for the lower complexity task and Appendix 5B for the higher complexity task), which the participant received after preparing an estate tax plan. After they received the post-advice, the participants were provided with an opportunity to prepare a revised estate tax plan or to list revisions to the original estate tax plan, if any. (For consistency across conditions, participants in the pre-advice and no advice conditions were also given an opportunity to reflect and revise their tax plans.)

3. No advice: the document containing notes of a meeting with the supervisor was excluded from the experimental materials. Therefore, the participants did not receive any supervisor's advice, nor was there any mention of such advice.

3.4 Research Materials and Administration

The researcher recruited tax professionals from public accounting firms across Canada through contacts at national and regional firms. To make performance measures meaningful and reduce noise in the results, it was important that the participants should have a similar background, including relevant tax training and tax experience. The letter inviting participation, which was submitted to the contact person at each public accounting firm (Appendix 6), specified that the participants should have relevant tax training (e.g. completed Parts 1 and 2 of the In-Depth tax course offered by the Canadian Institute of Chartered Accountants) and have at least one year's tax planning experience, including estate tax planning experience. The contact person at each firm extended the invitation to participate (Appendix 7) to potential participants at the firm. The participation of tax professionals at each firm was voluntary and unpaid; however, as a gesture of appreciation, small gifts were provided to all potential participants, whether they completed the experiment or not.

As the participating firms were from across Canada, each firm designated an individual (who was never a participant) as the proctor to administer the study on behalf of the researcher and a letter to the proctor described the required procedures to conduct the study (Appendix 8). The proctor also obtained each participant's signed consent to participate in the study (Appendix 9). The researcher ensured that there was a random assignment of the research materials sent to the proctor at each firm[1].

To ensure similar circumstances, participants completed the study in a meeting room or a board room during a designated block of time and no resources (other than the experimental materials provided) were made available to the participants. The estimated time for completion was one hour. Participants were asked to write down the time when they commenced the task(s) in each of the folders below, to provide them with an awareness of time. The time reported on each folder also provided the researcher with useful information about the time taken by each participant to complete the task(s) in each of the folders.

The research instrument (Appendix 1) was provided to each participant in a "Task Envelope" that contained the following four folders (with appropriate labels):

1. Folder 1: Introduction to the research study. The participant was asked to assign a code name for his/her current supervisor. The participant addressed the cover memo, with the recommended estate tax plan, to the supervisor using this code name. The purpose of assigning a code name for the participant's real supervisor was to induce some accountability and yet retain the anonymity of the participant and supervisor.

[1] The random assignment of conditions was ensured through a random assignment of the Task Envelopes (for the six groups) to the participating firms. Furthermore, the letter to the proctors advised them that the Task Envelopes could be given out in a random order to the participants at the firm.

2. Folder 2: Preparation of the estate tax plan. The client fact information and client tax data for either the lower-complexity task (Appendix 2) or the higher-complexity task (Appendix 3) were included in this folder. All participants were asked to prepare an estate tax plan. For the pre-advice condition (Groups 3 and 4), the document titled "Pre-planning meeting with your supervisor" (Appendix 4A for Group 3 or Appendix 4B for Group 4) was included in Folder 2. The participant was also told that the tax plan would be reviewed by experienced tax professionals. This review of the tax plans was conducted on completion of the experiment, as outlined in the description of the dependent variables that follows.

3. Folder 3: Completion of the estate tax plan, with a revised estate tax plan or a list of revisions to the original tax plan, if any. All participants were provided with the opportunity for reflection and to prepare a revised tax plan or list changes to the original tax plan prepared (in Folder 2). For the post-advice condition (Groups 5 and 6), the document titled "Subsequent meeting with your supervisor" (Appendix 5A for Group 5 or Appendix 5B for Group 6) was included in Folder 3.

4. Folder 4: Completion of the post-experimental questionnaire, which included the manipulation checks and demographic questions.

The participants were asked to work through Folders 1 to 4 in that order and to complete all the tasks in one folder before proceeding to the next one. The participants were also asked to insert the completed Folders 1, 2 and 3 into a separate envelope and seal it before answering the questions in Folder 4.

On completion of the study at a firm, the sealed, completed Task Envelopes and any unused Task Envelopes were returned by the proctor to the researcher (generally by courier). Unused Task Envelopes were resubmitted to the next firm, to maintain rough equality of numbers in each experimental condition.

3.5 Dependent Variables

The dependent variables are measures of the tax professional's performance in the development of an estate tax plan, as assessed by the independent evaluators. In the hypotheses and their discussion, performance was defined in terms of i) the ability to develop a solution (i.e. an estate tax plan), ii) the overall adequacy of the estate tax plan, with the three distinct categories being Inadequate, Adequate and More than Adequate, iii) evidence of over-determined solutions and iv) evidence of confusion. The performance evaluations also included assessments of i) technical errors in the application of the legislation, if any, ii) recognition or omission of relevant cues in the client fact information and iii) tax insights, if any. The evaluators provided open-ended comments to support their evaluations and these open-ended comments provided evidence of any over-determined solutions and/or signs of confusion in the tax plans prepared.

To support the integrity of the performance measures, the criteria to be used in assessing participants' tax plans (performance) were developed at the same time as the experimental tasks were developed. The same senior tax professionals who assisted in the development of the tasks were consulted in developing the performance criteria, which were used to evaluate the lower and higher complexity experimental tasks (Appendix 10, lower-complexity and Appendix 11, higher-complexity).

Two evaluators, who had not had any role in developing the tasks and were from different offices than the above senior tax professionals, assessed all participants' preliminary and revised tax plans, blind as to participants' identification and as to the demographic question responses. The researcher outlined the evaluation procedures to the evaluators, providing them with the definitions of the terms Inadequate, Adequate and More than Adequate (Appendix 12), a summary of the evaluation (Appendix 13) and the evaluation form (Appendix 14). Although the performance measurement criteria (Appendices 10 and 11) were determined when the tasks were developed, the evaluators were not provided with those criteria so that they would conduct an independent assessment of the tax plans as senior tax professionals who have practical experience in the review of tax plans. During the evaluation process the two evaluators were not aware of each other's identity and did not confer with each other. Each evaluator received an honorarium for doing the evaluations.

Each evaluator completed the evaluation forms for each participant outlining their assessment of the tax plans prepared by each participant (Appendices 13 and 14). These evaluation forms were completed for each of the two stages, the preparation of the tax plan and the completion of the tax plan.

The researcher recorded the evaluators' assessments of the participants' performance, compared the evaluations for each participant and noted any differences between the two evaluators in their assessments of the estate tax plans prepared by the participants. The researcher reviewed the evaluations and the evaluators' comments that indicated participants' confusion, over-determined solutions and/or insightful judgments were also noted. After all the evaluations were completed, the researcher and the two evaluators met so that the evaluators could resolve differences in the evaluations. At the meeting, the researcher identified the evaluations that differed and the two evaluators discussed the issues and resolved the difference for each of these evaluations.

3.6 Manipulation Checks

The manipulation check questions were included in the post-experimental questionnaire (see Folder 4 in Appendix 1). Participants responded to the post-experiment questions in Folder 4, after the tasks in Folders 1, 2 and 3 had been completed and the three folders had been inserted into an envelope and sealed.

For the Task Complexity variable, participants were asked to rate the difficulty of the estate tax planning case.

For the Advice variable, participants were asked three questions: whether they received a transcript of comments from a meeting with a supervisor, if the document was received before or after the preparation of the preliminary estate tax plan and if the transcript was from a "Pre-Planning" or a "Subsequent" meeting with the supervisor.

Questions about professional qualifications, demographic data, time pressure, advice practices and other contextual factors were included in the post-experimental questionnaire.

RESULTS

4.1 Demographic information

A total of 85 tax professionals, employed by national and regional firms across Canada, participated in the experiment.[2] A specific response rate could not be obtained because the recruitment of participants was managed by the contact persons at each firm. However, a comparison of the number of "Task Envelopes" sent out and the number of unused envelopes suggests a response rate of 70.5%.[3] The participants had the relevant tax training (completed at least Part 1 of the CICA In-Depth tax course or equivalent)[4] and averaged 6.3 years of tax experience and 2.7 years of tax planning experience, including experience with corporate reorganizations (see Table 1).

The participants considered the task to be realistic (mean = 5.93 out of 7) and understandable (mean = 5.87 out of 7). On average, participants took approximately 52 minutes to prepare and complete the estate tax plans for the experiment.

In the experiment, accountability and time pressure were not manipulated but were maintained and measured. As to accountability, participants responded to the following statements "My supervisor generally provides advice before I commence a tax

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[2] 89 response envelopes were received; however, 3 responses were blank. Evaluation data were not collected from one additional response, because the contact person indicated that the participant (a tax lawyer) was unlike the others (tax accountants).

[3] A total of 122 Task Envelopes were sent out; 86 responses were returned completed, which includes the response that was from the participant excluded as noted in the preceding footnote.

[4] All participants had income tax training and 82 of the eighty-five participants have completed Part 1 of the CICA In-Depth tax course (or equivalent).

planning task" (mean 4.29 out of 7) and "I generally follow any advice my supervisor provides" (mean = 5.02 out of 7). Participants had been told that their estate tax plans would be reviewed by an experienced tax professional. On average, participants felt moderately that this forthcoming review influenced the preparation of the estate tax plan (mean = 3.57 out of 7). Participants indicated they felt time pressure to complete the estate tax planning task (mean = 5.38 out of 7) and, in normal practice, they felt a similar degree of time pressure when completing a tax planning task within a time budget (mean = 4.80 out of 7). This provides further support that the experiment was realistic as to its accountability setting and the time pressure involved in completing the task.

4.2 Experimental Groups

The experiment included two manipulated variables in a fully-crossed between-subjects design: task complexity (2 levels) and advice (3 levels). Random assignment to treatment conditions resulted in the 85 participants being in each of six conditions (groups).

The following groups will be referred to in reporting various results:

	No Advice	Pre-Advice	Post-Advice
Lower-complexity task	Group 1	Group 3	Group 5
Higher-complexity task	Group 2	Group 4	Group 6

4.3 Manipulation Checks

Task complexity (lower or higher)

The task difficulty was manipulated by providing two different tasks, designed to be differentially challenging. As a check, participants were asked to rate the difficulty of the task (1 = very easy to 7 = very difficult). On average, the participants assessed the difficulty of the lower-complexity task at 4.33 and the higher-complexity task at 5.09. The difference between these assessments is significant, $t(81) = 2.77$, $p = 0.007$, indicating a successful manipulation of the task complexity variable.

The results provide a further manipulation check for the task complexity variable. For the lower-complexity task (with no advice received), 28 of 29 participants (96.6%) were able to develop a tax plan. On the other hand, for the higher-complexity task (with no advice received), only 13 of 29 participants (44.8%) were able to develop a tax plan.

Advice (no advice, pre-advice or post-advice)

Some participants received no advice, with advice not mentioned at all. Others (pre-advice) got a transcript of comments from a "Pre-planning meeting with your supervisor" prior to preparing an initial estate tax plan. A third group (post-advice) got the same transcript, described as a "Subsequent meeting with your supervisor", after preparing an initial estate tax plan but prior to the completion of the estate tax plan. Because the experimental materials were organized into a sequence of folders, these three advice conditions were physically differentiated. However, as a check, participants were asked the following questions (in the demographic questionnaire): i) Did you receive a document with a transcript of comments from a meeting with your supervisor? ii) Was this document received before or after developing your preliminary estate tax plan? iii) Was this transcript of comments from a pre-planning or a subsequent meeting with your supervisor? Of the 85 participants, 71 participants answered all three questions correctly, 8 participants answered two of the three questions correctly and essentially correctly recalled that the advice was received but incorrectly labeled the advice (e.g. labeled "subsequent" advice as "pre-planning" advice), 1 participant did not respond to any of the three questions and 5 participants had clear recall errors[5]. These results indicate that these questions succeeded overall.

4.4 Measurement of Performance

The dependent variable is an assessment of the performance of the participating tax professionals who have prepared estate tax plans for the lower and higher complexity tasks. The evaluations of the participants' performance in the preparation of the estate tax plans were conducted independently by two senior tax professionals (an Associate Tax Partner and a Senior Tax Manager) from two national firms, who have 36 and 10 years of tax experience respectively.

The evaluators assessed the tax plans using two measures: an assessment of whether a solution (a tax plan) was presented, and the adequacy of such a plan. For the first measure, the evaluators determined that some participants had provided a list of

[5] Of the 5 participants who had clear recall errors, 4 participants who received advice did not recall receiving it and 1 participant who did not receive advice recalled receiving it. These 5 participants with clear recall errors, plus the 1 participant who did not respond to the questions, were from 4 of the 6 treatment groups. Their tax plans and other data were included in the reporting of the results.

ideas but had not developed an estate tax plan. For the second measure, the evaluators assessed the adequacy of each tax plan as technically adequate, inadequate or more than adequate, based on the definitions provided to them (Appendix 12). The evaluators also noted any technical errors (negatives) in the plans or further tax insights (positives) and provided open-ended comments to support their assessment of the tax plans. These notes and comments allowed for a further assessment of performance, for example the researcher reviewed these comments to identify over-determined solutions and/or signs of confusion assessed by the evaluators.

The two evaluators conducted independent evaluations that were in agreement for all but eighteen evaluations. For these eighteen evaluations, consensus to resolve the differences was reached at a meeting with the two evaluators, in the presence of the researcher.

Table 2 reports summary results for the performance measures across experimental conditions. Statistical tests of the hypotheses will be reported after these summary results. However, the general effects of the experimental manipulations can be seen from the marginal percentages for the main dependent variable, adequate performance: 74.4% on the lower complexity task and 40.5% on the higher complexity task; for all participants (totals), the percentage of adequate performance increased from 44.4% with no advice, to 48.1% with pre-advice and 77.4% with post-advice.

The overall totals indicate that 76.5% of the 85 participants were able to develop a tax plan and 57.6% of the tax plans were adequate. For the lower complexity task, 95.3% were able to develop a tax plan and 74.4% of the plans were adequate, while for the higher complexity task, 57.1% were able to develop a tax plan and 40.5% of the plans were adequate.

Supervisory advice helped the tax professionals to develop a tax plan for the higher complexity task, as only 38.5% were able to develop a tax plan without advice but this increased to 61.5% with pre-advice and 68.8% with post-advice. However, the advice was not as helpful for the lower complexity task as 92.9% were able to develop a tax plan without advice (or with pre-advice); therefore post-advice resulted in only some improvement.

The best performance for both levels of task complexity occurred when post-advice was received and the highest percentage of adequate tax plans were developed: for the higher-complexity task, 62.5% with post-advice, as opposed to 7.7% with no advice and 46.2% with pre-advice and, for the lower complexity task, 93.3 % with post-advice, as opposed to 78.6% with no advice and 50% with pre-advice. On the other hand, post-advice also had a negative effect for the lower-complexity task as it resulted in a high percentage of over-determined solutions (60% with post-advice, as opposed to 7.1% with no advice and 50% with pre-advice).

There was limited scope for better than adequate performance for the lower-complexity task. However, for the higher-complexity task the post-advice group reported the highest percentage of more than adequate tax plans (43.8% with post advice, as opposed to 0% with no advice and 7.7% with pre-advice).

The greatest confusion occurred when pre-advice was received and it resulted in highest percentage of confusion for both levels of task complexity (42.9% for the lower-complexity task and 38.5% for the higher-complexity task).

The most over-determined solutions occurred when post-advice was received for the lower-complexity task (60%). However, pre-advice also resulted in a large number of over-determined solutions (50%) for this lower-complexity task.

4.5 Tests of Hypotheses

Statistical Analysis

The measure of performance is the adequacy of the tax plans, which is defined in terms of categories. As adequacy is a nominal variable, the use of the chi-square (χ^2) test for independence is the most appropriate statistical test for this analysis (Jacard and Becker, 2002; Howitt and Cramer, 2008; Aron et al., 2009). Tables 3 to 6 report the results of the χ^2 tests, which are all based on two-way (2 X 2) contingency tables, with one degree of freedom. The single degree of freedom indicates that although the data in each of the four cells are from different participants and so meet the independence requirement, the marginal frequencies used to calculate the expected frequencies in the four cells constrain those expected frequencies. The hypotheses are largely directional (improvement or degrading of performance), but as the χ^2 tests are non-directional, the results are reported for two-tailed tests, which are more conservative than one-tailed tests as well as appropriate for the χ^2 tests (Howell, 2007). A non-parametric sign test is also used in some cases (Table 1).

Some statisticians indicate that an important requirement of the chi-square test is that the expected frequencies in each cell be at least five. There is disagreement among statisticians as to whether this limitation is necessary for validity (Jaccard and Becker, 2002; Howell, 2007; Aron et al., 2009). However, as the issue of expected frequencies is controversial, an alternative was used to supplement the chi-square test results: the Fisher's exact test. Low expected frequencies do not invalidate the Fisher exact test. The Fisher's exact test is used to determine if there are non-random associations between two categorical variables. Statisticians consider the Fisher's exact test to be more accurate than the chi-square test when the expected frequencies are small (Jacard and Becker, 2002; Howell, 2007; Howitt and Cramer, 2008; Aron et al., 2009).

The chi-square test is a test of the statistical significance of the relationships between two nominal variables. However, the chi-square test does not indicate the strength of the relationship between the two variables. The phi-coefficient or Cramer's V are post-tests that indicate the degree of association between the two variables and thus provide an approximation of the effect size (Aron et al., 2009)[6].

The results for the hypotheses are reported on Tables 1 and 3 to 6. The results are reported for the sign test, chi-square test and Fisher's Exact test.

Capability of Participants and Calibration of Tasks

A total of 29 participants (no-advice and post-advice conditions, Group 1(14) and Group 5(15)) performed the lower-complexity task (at the preparation stage) with no

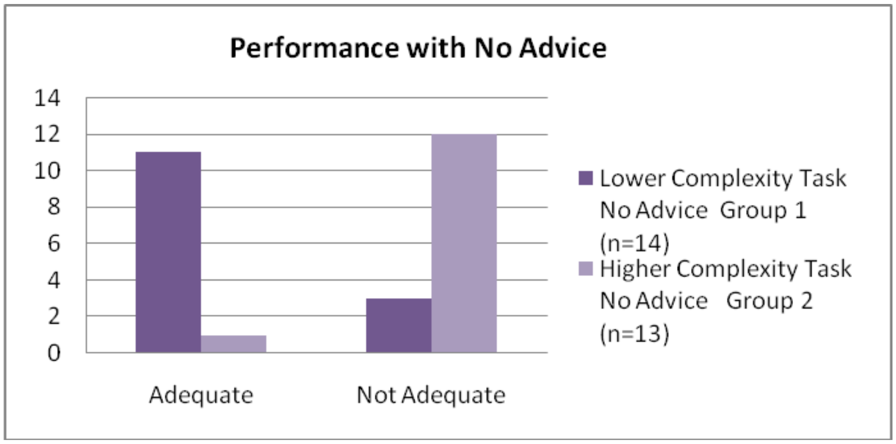
[6] The phi-coefficient was calculated and provided support for each of the chi-square tests. The phi-coefficient and Cramer's V were equal for all chi-square tests.

advice from a supervisor, of which 24 participants achieved at least adequate performance and 5 did not. Table 1 reports the result of a sign test ($p < .001$), which confirms the capability of the participants.

All participants were provided with the time for reflection and an opportunity to prepare a revised tax plan or to list revisions (in Folder 3). Of the 29 participants, 14 participants (no-advice condition, Group 1) never received any advice. Although these fourteen participants spent an average of 5.08 minutes on Folder 3, the evaluations indicate that this did not result in a change in performance. This lack of change without advice is a useful benchmark for the hypotheses predicting that advice causes a change in performance.

A total of 29 participants (again no-advice and post-advice conditions, now Group 2(13) and Group 6(16)) performed the higher-complexity task (at the preparation stage) with no advice from a supervisor, of which 26 participants achieved less than adequate performance and 3 participants achieved at least adequate performance. Table 1 reports the result of a sign test ($p < .001$), which indicates that this task was relatively more complex and therefore more challenging for the participants.

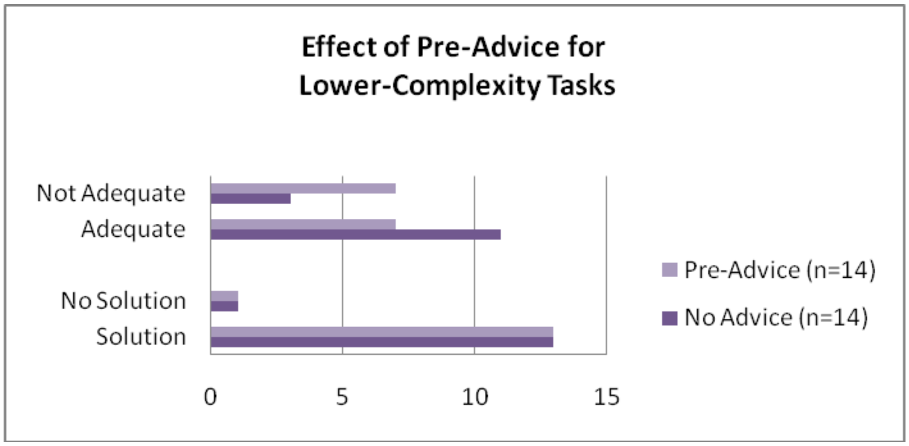
All 29 participants were given the time for reflection and the opportunity to prepare a revised tax plan or list changes. Of the 29 participants, 13 participants (no-advice condition, Group 2) never received any advice. Although these 13 participants spent an average of 7.67 minutes on Folder 3, this did not result in a change in performance. The results indicate that with no advice there was no change in performance although the participants did take the time for reflection and had an opportunity to prepare a revised tax plan or list any revisions to their initial tax plans in Folder 3.



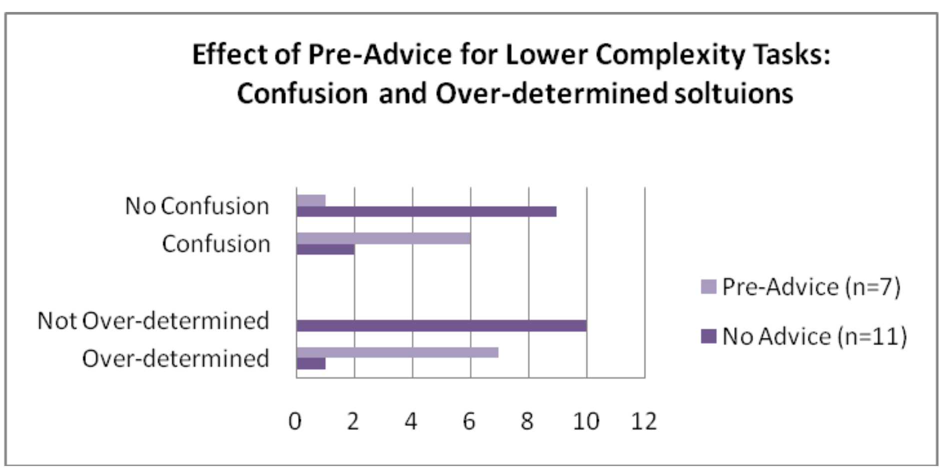
Effects of Pre-Advice (H1 and H2)

H1 predicts that Pre-Advice will have a detrimental effect on performance for a lower-complexity task, resulting in performance that is less adequate than that with no advice.

The effects of pre-advice are determined by comparing Group 1 (lower complexity, no advice) and Group 3 (lower complexity, pre-advice) to examine the relative effects of pre-advice on i) the tax professional's ability to determine a solution and prepare a tax plan, ii) the adequacy of the tax plan prepared, iii) evidence of an over-determined solution and iv) evidence of confusion in the tax plan developed. Table 3 reports the results of several tests used to test H1. The ability of the participants to develop a solution (i.e. a tax plan) is not affected by the supervisor's pre-advice since, for both groups, 13 participants developed a solution while 1 participant did not. The chart below supports H1 as it indicates that the frequency of adequate tax plans decreased with pre-advice, although the results of the chi-square test are not significant ($\chi^2 = 2.49$, $p = 0.115$).



Furthermore there is also evidence of other detrimental effects, as pre-advice resulted in significantly more over-determined solutions ($\chi^2 = 14.32$, $p < .001$) and there is significantly more confusion ($\chi^2 = 7.90$, $p = 0.005$) in the tax plans. The evidence of confusion appears to be a direct effect of pre-advice on the performance of a lower-complexity task as this confusion is not observed in the performance of the Group 5 participants who received post-advice (see the results of H3, reported in Table 5).



The evidence of confusion and unnecessary complexity indicates that pre-advice degrades performance of the lower-complexity task. The last part of Table 3 also compares the evidence of over-determined solutions and confusion among the adequate tax plans prepared by Groups 1 (no advice) and 3 (pre-advice). For the lower-complexity task, more tax plans have over-determined solutions and confusion when pre-advice is received (6 of 7) than when no advice is received (2 of 11).

H2 posits that Pre-Advice will have a positive effect on performance and participants who receive the advice will perform the higher-complexity task better than the participants who did not receive advice, but will not achieve the better performance potential for this task.

The effects of pre-advice are determined by comparing Group 2 (higher-complexity, no advice) and Group 4 (higher-complexity, pre-advice) to examine the effects of pre-advice on the same four phenomena as above for the lower-complexity task. Table 4 reports the results for the chi-square and Fisher's exact tests used to test H2. Although more tax professionals developed a solution than with no advice the difference is not statistically significant ($\chi^2 = 1.39$, $p = 0.239$). However, pre-advice resulted in a greater proportion of technically adequate plans (6 of 13) than did no advice (1 of 13): $\chi^2 = 4.89$, $p = 0.027$), although pre-advice did not produce very good performance as more than half of Group 4 (7 of 13) prepared inadequate tax plans.

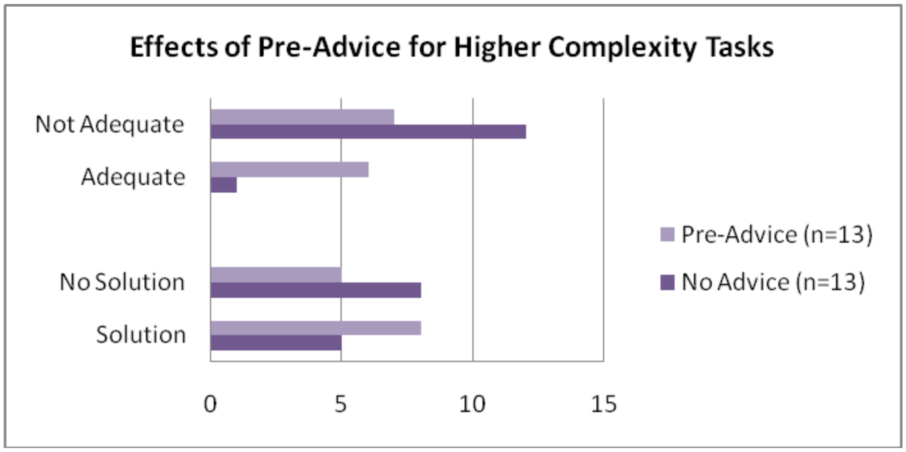


Table 4 indicates that there was more confusion with pre-advice (5 of 6 adequate tax plans in Group 4) than with no advice. However, only 1 of 13 tax plans was evaluated as adequate in Group 2 (no advice) so the comparison is not robust. Furthermore, the evidence of confusion pertains to a specific tax issue and there is evidence of this confusion across Groups 2, 4 and 6, which are the higher-complexity task conditions[7].

Effects of Post-Advice (H3 and H4)

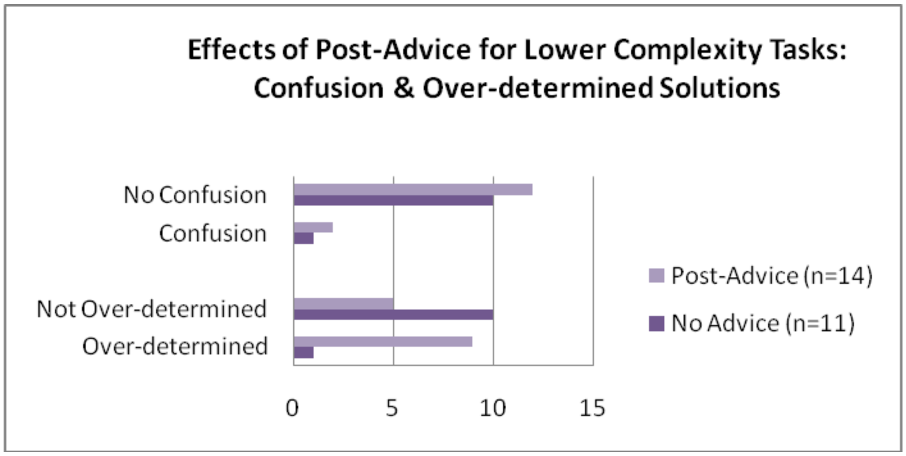
Discussions with senior tax professionals suggest that a tax professional who prepares a tax plan would generally take the time to review the plan before submitting it for a supervisor's review. Therefore, a supervisor has the opportunity to provide advice after the tax professional has prepared an initial tax plan but before its completion and submission for the supervisor's review. In this study this advice is referred to as Post-Advice.

[7] The evidence of confusion found for this higher complexity task all relate to tax issues pertaining to the status of the underlying corporate shares. Confusion arose if the participants did not determine that these shares are not qualified small business corporation (QSBC) shares and therefore do not qualify for the capital gains exemption.

H3 predicts that tax professionals who get Post-Advice from a supervisor after they have prepared a tax plan for the lower-complexity task will not revise the plan to make it less than adequate.

On average, the Group 5 participants took 9.21 minutes at the completion stage, which indicates that participants had sufficient time and the opportunity to make changes or to list revisions to the initial tax plans. Table 5 reports the results of the tests conducted to test H3. A comparison of the initial tax plans prepared by Group 5 (13 adequate and 2 inadequate) and the completed tax plans after receiving post-advice (14 adequate and 1 inadequate) indicates that there was no change in the adequacy of the tax plans prepared by tax professionals after receiving the post-advice. Furthermore, a comparison of the completed tax plans for Group 1 (lower-complexity, no advice) and Group 5 (lower-complexity, post-advice) also indicates that there is no difference in the adequacy of the tax plans under conditions of no advice (11 adequate and 3 inadequate) or post-advice (14 adequate and 1 inadequate).

The results of chi-square tests that compared the frequency of confusion and over-determined solutions in the tax plans prepared by Groups 1 and 5 indicate that post-advice did not cause confusion ($\chi^2 = 0.16$, $p = 0.692$) but did result in over-determined solutions ($\chi^2 = 7.82$, $p = 0.005$). These results support H3 and demonstrate that post-advice does not degrade the adequacy of the tax plans prepared for the lower-complexity task.



H4 predicts that tax professionals getting Post-Advice for a higher-complexity task will achieve better performance than the tax professionals who do not receive advice or those who receive Pre-Advice.

Of the 16 participants in Group 6, at the preparation stage and with no advice received, only half of them (8 of 16) were able to develop a solution and these 8 participants developed a partial solution only. However, after receiving post-advice, more of the participants (11 of 16) developed a solution. These results suggest that post-advice assisted the tax professionals in developing a solution (i.e. a tax plan). The chart below also shows the differential effects of No Advice, Pre-Advice and Post-Advice for the higher-complexity task:

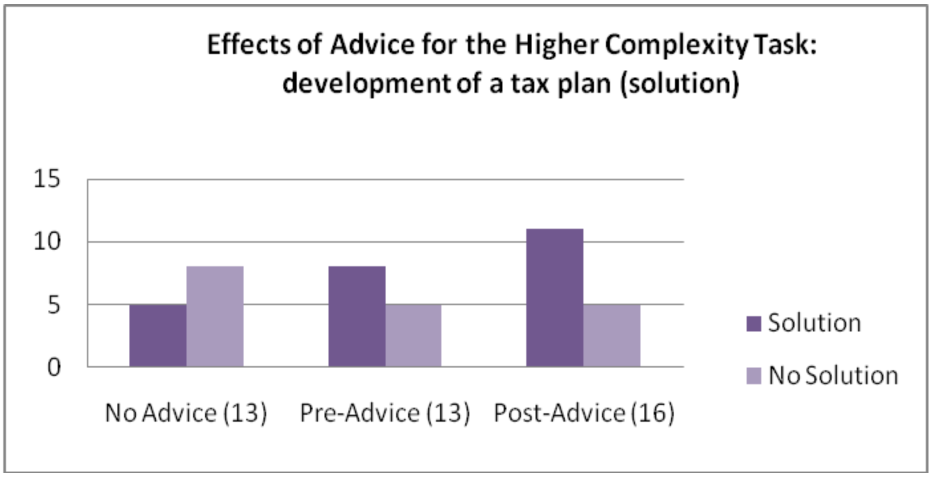
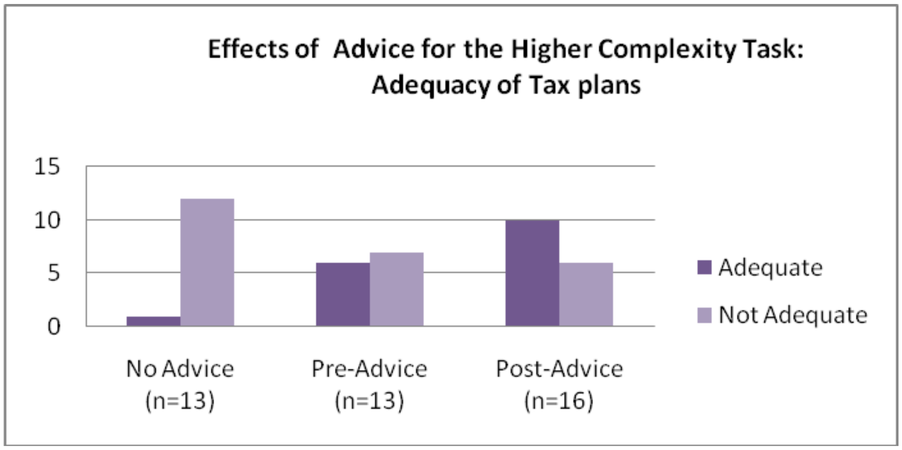
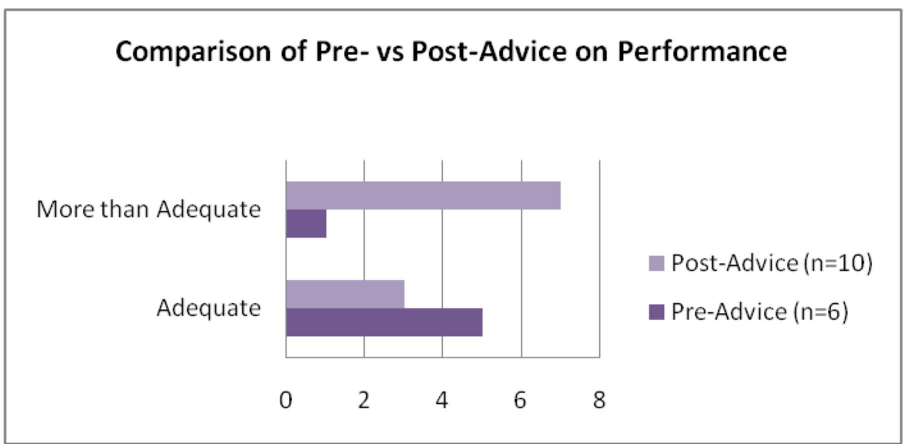


Table 6 reports the results of several other tests that support H4. The results of the chi-square tests indicate that receiving post-advice (Group 6) rather than no advice (Group 2) improved the performance of the tax professionals, as there was a significant increase in the frequency of adequate tax plans ($\chi^2 = 9.15$, $p = 0.002$). The results for Groups 2, 4 and 6 indicate that advice from a supervisor, both pre-advice (Group 4) and post-advice (Group 6) had a positive effect on the performance of the participants, as there was improvement in the frequency of adequate tax plans for those participants who received either pre-advice (Group 4) or post-advice (Group 6) over those who did not receive advice (Group 2). However, although pre-advice resulted in an improvement in performance ($\chi^2 = 4.89$, $p = 0.027$) there was more improvement with post-advice ($\chi^2 = 9.15$, $p = 0.002$). The chart below shows how the pre- and post-advice resulted in improvements in the adequacy of the tax plans prepared, while also indicating that post-advice was more beneficial than pre-advice:



A further examination of the adequate tax plans indicates that pre-advice resulted in only one participant achieving more than adequate performance (1 of 6 participants) while with post-advice significantly more participants (7 of 10 participants) achieved more than adequate performance ($\chi^2 = 4.27$, $p = 0.039$), as indicated in the chart below.



These tests provide support for H4, demonstrating that participants getting advice from a supervisor after they have prepared a tax plan for a higher-complexity task will achieve better than adequate performance and that post-advice is more beneficial than pre-advice for this higher-complexity task.

The table below summarizes the results of the tests conducted and indicates support for the hypotheses H1 to H4:

SUMMARY OF RESULTS & SUPPORT FOR HYPOTHESES

Hypothesis	Prediction	Results Support Hypothesis
	Performance with No Advice (control groups):	
	Adequate performance of the lower-complexity task	
	Inadequate performance of the higher-complexity task	
	Performance with Pre-Advice	
H1	Degraded (inadequate performance) of the lower-complexity task	Yes
H2	Only adequate performance of the higher-complexity task	Yes
	Performance with Post-Advice	
H3	Adequate performance of the lower-complexity task	Yes
H4	Better than adequate performance of the higher-complexity task	Yes

4. DISCUSSION AND FURTHER ANALYSIS

The giving of advice by a supervisor to a subordinate tax professional is a common practice as it is considered necessary to meet the training and efficiency objectives of the tax practices in public accounting firms. Discussions with senior tax professionals and the participants' responses to the demographic questions both indicate that tax professionals generally receive advice from their supervisors before commencing a tax planning task. The purpose of this research study was to examine if a supervisor's advice is appropriate across levels of task complexity and, if it is appropriate, whether the advice should be provided prior to the commencement of the tax planning task (pre-advice) or after the tax professional has prepared a tentative tax plan (post-advice).

The results of the experiment conducted provide substantial evidence that pre-advice has a negative effect on performance for a lower-complexity task, with evidence of confusion and over-determined solutions. A tax plan for a lower-complexity task can be accomplished through the use of the basic corporate reorganization statutes, which a tax professional should be knowledgeable about through relevant education, training and tax experience. However, when pre-advice is received from a supervisor, accountability may result in unnecessary introspection, confusion and over-determined solutions as the tax professionals examine elements included in the advice and try to incorporate these elements into the tax plan.

On the other hand, the results indicate that pre-advice has a positive effect on performance for the higher-complexity task. Due to the complexity of the task, without advice a tax professional may not be able to develop an adequate solution to the problem faced by the client. The results of the experiment support the notion that for a task that is complex the supervisor's advice provides needed guidance and it is more likely that the tax professional will develop an adequate tax plan. However, the results also indicate that the advice constrains the thinking process of the tax professional and restricts insightful judgments. Therefore, although the pre-advice increases the likelihood of adequate performance it does not result in the higher performance that is potential for this task.

A tax plan generally requires a tax professional to reflect on the most suitable tax plan that could be developed. Discussions with tax professionals indicate that it is a common practice for a tax professional to prepare an initial tax plan and later take the time to review and reflect on the tax issues and applicable statutes considered in the tentative tax plan that has been prepared and make changes if considered necessary. Therefore, there is an opportunity for a supervisor to provide advice to the subordinate tax professional after the preparation of the initial (tentative) tax plan but before the completion of the tax plan (i.e. post-advice). The results indicate that, without any advice, a tax professional is capable of developing an adequate tax plan for the lower-complexity task. The results of H3 indicate that post-advice does not change the adequacy of the tax plans prepared for this lower-complexity task. When a supervisor's advice is received after the tax professional has thought through the problem and developed a tentative tax plan it does not cause the confusion that was evident when pre-advice was received (H1). However, the results indicate evidence of over-determined solutions and this likely relates to accountability demands as the advice is received from a supervisor.

The results suggest that post-advice has several positive effects for a higher-complexity task. Post-advice has a more significant and positive effect on the adequacy of the tax plans prepared than pre-advice and this suggests that post-advice is more beneficial for this more complex tax planning task. Furthermore, the results indicate that it is more likely that a tax professional will prepare a better tax plan (i.e. a more than adequate tax plan) with post-advice than with pre-advice. Unlike pre-advice, post-advice does not constrain the thinking of the tax professional, who has had an opportunity to think about the tax issues and the applicable statutes prior to receiving the advice. In developing a tax plan for a more complex task the tax professional is required to refer to various statutes, integrate the information from various statutes and consider the client information provided in order to prepare an adequate plan and make insightful judgments. Therefore, without advice the tax professional may not address all the tax issues or consider the integration and application of various statutes. Post-advice could provide this guidance without constraining the cognitive processes of the tax professional. On the other hand, pre-advice likely restricts the tax professional's usual processing of information and may limit the tax professional to only examining the issues addressed in the advice thereby restricting the insightful judgments necessary to achieve more than adequate performance for this higher-complexity task.

The results indicate that advice is not necessary for the lower-complexity task as the tax professional achieves adequate performance without any advice (see Figure 1). For the lower-complexity task there is little need for insightful judgments and the tax professional is capable of adequate performance for this task without receiving any guidance from a supervisor. Pre-advice degrades performance for the lower-complexity task and, although post-advice does not degrade performance for the lower-complexity task (Figure 1), there are some negative effects as there is evidence of over-determined solutions. Therefore, no advice results in the best performance for the lower-complexity task.

On the other hand, the results demonstrate that without advice a tax professional is not able to achieve adequate performance for a higher-complexity task (Figure 1). However, the timing of when the advice is provided is important for the higher-complexity task. The results indicate that although pre-advice results in improved performance when compared to no advice, it is post-advice that stimulates the insightful judgments that result in the higher performance potential for this higher-complexity task (Figure 1).

5. SUMMARY AND CONCLUSIONS

Tax planning decisions generally represent a significant commitment by the client and the firm (Magro, 1999; Klassen and Sansing, 2006). Incorrect or inappropriate decisions are costly to the firm, often with significant negative consequences to the firm's practice risk and reputation (Kadous and Magro, 2001; Kadous et al., 2008). This research study examined the effects of supervisory advice on the judgment of tax professionals performing tax planning tasks of differential task complexity. The results support the hypotheses and two important conclusions can be drawn. First, the giving of advice by a supervisor should be conditional on task complexity since advice is beneficial and improves performance for the higher-complexity task but has negative effects and is detrimental for the lower-complexity task. Second, the timing of any advice from a supervisor is very important. For the higher-complexity task, while pre-advice improves performance it is post-advice that results in the higher performance potential for this more complex task.

Recent accounting papers have called for more research on the effects of interpersonal interactions on the judgment and decision making of professionals in public accounting firms (Gibbins and Trotman, 2002; Nelson and Tan, 2005). The results from this study contribute to the emerging literature on interpersonal interactions and provide several interesting opportunities for future research.

Prior research has shown that accountability can have either positive or negative effects on performance in public accounting firms. This study demonstrates the underlying influence of accountability when a supervisor gives advice to a subordinate.

There has been limited research on the effects of accountability in the tax setting (Cloyd, 1997; Hatfield, 2000). In this research study, accountability was not manipulated. Future research studies could manipulate accountability to determine the interactive effects of different levels of accountability (Peecher, 1996; Agoglia et al., 2003; Dezoort et al., 2006) and supervisory advice on the judgment of tax professionals. In the tax setting, there are multiple external sources of accountability beyond the accountability demands that exist within the firm, for example accountability to the client and to the tax authorities. Another avenue for future research would be to examine the effects of these multiple levels of accountability on the judgment of tax professionals. For example, client advocacy has been found to result in a confirmation bias toward client preferences (Cloyd and Spilker, 1999; Hatfield, 2000; Hatfield, 2001; Kadous et al., 2008). This research could be extended to investigate if a supervisor's advice is biased toward client preferences.

In this study, the interactive effects of supervisory advice and task complexity were determined under the influence of some time pressure. Future research could examine if these effects persist if there is no time pressure or greater time pressure. More detailed study of the advice itself could be conducted. Three possible approaches are to disaggregate the advice to determine whether components of the advice (e.g. a reference to examples in other client files) drive any effects, to allow the advice to vary by timing or task complexity and to separate the effects of information and supervisory intervention involved in the advice.

The tax literature has explored the effects of knowledge on judgment performance (Bonner et al., 1992; O'Donnell et al., 2005). This literature could be extended to provide a better understanding of how the tax professional's or supervisor's expertise affects judgment. For example, it would be fruitful to examine the interactive effects of advice, expertise and accountability on the judgment of tax professionals performing tax planning tasks. This type of research would contribute to a better understanding of tax expertise and add to the emerging literature on expertise in professional judgment (Correll et al., 2007).

This study has investigated the effect of supervisory advice in the tax context of public accounting firms and therefore caution should be exercised in generalizing the results to other contexts. However, this study could encourage further research on the effects of supervisory advice in other public accounting contexts (e.g. auditing) and other professional contexts (e.g. medicine and law), where hierarchical reporting structures exist and there is a practice of giving advice to capable professional subordinates. The results of this study demonstrate that it is important to examine the effectiveness of such supervisory practices.

TABLE 1: Demographic Data and Calibration of tasks

Education, Training & Experience	**Lower Complexity**	**Higher Complexity**
	(43 participants)	**(42 participants)**
Education		
CA, CGA, CMA	33	34
No designation indicated (Note 1)	10	6
Questions not answered (Note 2)	0	2
Total	43	42
Training		
In-Depth Part 1 or equivalent	42	39
In-Depth Part 1 not completed	1	1
Questions not answered (Note 2)	0	2
Total	43	42
Experience (years):		
Tax experience	6.01	6.59
Tax Planning experience	3.07	2.45
Calibration of Tasks		
Participants who receive No Advice (Note 3)		
Adequate tax plans	24	3
Inadequate tax plans	5	26
Total	29	29
	Sign test (p < .001)	Sign test (p <.001)

Note 1: These participants did not answer this question. However, their responses to the other demographic questions confirm that all 16 have completed Part 1 of the CICA In-Depth course, or equivalent. Furthermore, 13 of the participants have completed Parts 2 or 3 of the In-Depth course or equivalent.

Note 2: 2 participants did not complete the demographic questions.

Note 3: Lower complexity: 14 (Group 1) and 15 (Group 5) = 29 participants.
Higher complexity: 13 (Group 2) and 16 (Group 6) = 29 participants.
Groups 1 and 2 did not receive any advice. In addition, Groups 5 and 6 did not receive advice at the preparation stage as they received Post-Advice.

TABLE 2: Summary Results by Experimental Condition

	No Advice	Pre-Advice	Post-Advice	Total
Lower-Complexity Task	**Group 1**	**Group 3**	**Group 5**	
Number of participants	14	14	15	43
Percents (Note 1):				
Tax plan developed	92.9	92.9	100.0	95.3
Technically adequate plan (*Adequate*)	78.6	50.0	93.3	74.4
More than *Adequate* plan	14.3	0.0	13.3	9.3
Adequate but over-determined	7.1	50.0	60.0	39.5
Adequate but confusion	14.3	42.9	13.3	23.3
Higher-Complexity Task	**Group 2**	**Group 4**	**Group 6**	
Number of participants	13	13	16	42
Percents (Note 1):				
Tax plan developed	38.5	61.5	68.8	57.1
Technically adequate plan (*Adequate*)	7.7	46.2	62.5	40.5
More than *Adequate* tax plan	0.0	7.7	43.8	19.0
Adequate but over-determined	7.7	0.0	0.0	2.4
Adequate but confusion	0.0	38.5	12.5	16.7
Totals				
Number of participants	27	27	31	85
Percents (Note 1):				
Tax plan developed	66.8	77.8	83.9	76.5
Technically adequate plan (*Adequate*)	44.4	48.1	77.4	57.6
More than *Adequate* tax plan	0.0	3.7	22.6	9.4
Adequate but over-determined	7.4	25.9	29.0	21.2
Adequate but confusion	7.4	40.7	12.9	20.0

Note 1: Percents are calculated based on the number of participants in each group (or totals).

TABLE 3: Effects of Pre-Advice for Lower-Complexity Tasks

	No Advice Group 1 (Prepare)	Pre-Advice Group 3 (Prepare)	χ^2 Test	Fisher's Exact Test
1. Tax plan (solution) developed	13	13		
No plan developed	1	1		
Total	14	14		
2. Technically adequate tax plan (*Adequate*)	11	7	2.49	
No plan or technically inadequate plan	3	7	p = 0.115	p = 0.236
Total	14	14	n.s	n.s
3. *Adequate* plan is over-determined	1	7	14.32	
Adequate plan is not over-determined	10	0	p <.001	p <.001
Total	11	7		
4. *Adequate* plan shows confusion	2	6	7.90	
Adequate plan shows no confusion	9	1	p = 0.005	p = 0.013
Total	11	7		
5. *Adequate* plan that is:				
Both over-determined and confused	1	6		
Over-determined but not confused	0	1		
Confused but not over-determined	1	0		
Neither over-determined nor confused	9	0		
Total	11	7		

TABLE 4: Effects of Pre-Advice for Higher-Complexity Tasks

	No Advice Group 2 Prepare	Pre-Advice Group 4 Prepare	Chi-Tests	Fisher's Exact Test
1. Tax plan (solution) developed	5	8	1.39	
No plan developed	8	5	p = 0.239	p = 0.434
Total	13	13	n.s	n.s
2. Tax plan is adequate (*Adequate*)	1	6	4.89	
No plan or technically inadequate plan	12	7	p = 0.027	p = 0.073
Total	13	13		
3. *Adequate* plan is over-determined	1	0		
Adequate plan is not over-determined	0	6		
Total (Note 1)	1	6		
4. *Adequate* plan shows confusion (Note 2)	0	5		
Adequate plan shows no confusion	1	1		
Total (Note 1)	1	6		
5. *Adequate* plan that is:				
Both over-determined and confused	0	0		
Over-determined but not confused	1	0		
Confused but not over-determined	0	5		
Neither over-determined nor confused	0	1		
Total	1	6		

Note 1: chi tests are not feasible as expected frequencies in some cells are less than 1.
Note 2: evidence of confusion pertains a single tax issue (re: determining if the shares are Qualified Small Business Corporation shares).
For Group 2, as only 1 of the 13 tax plans prepared is adequate, it is difficult to compare Groups 2 and 4 for over-determined solutions or confusion.

TABLE 5: Effects of Post-Advice for Lower-Complexity Tasks

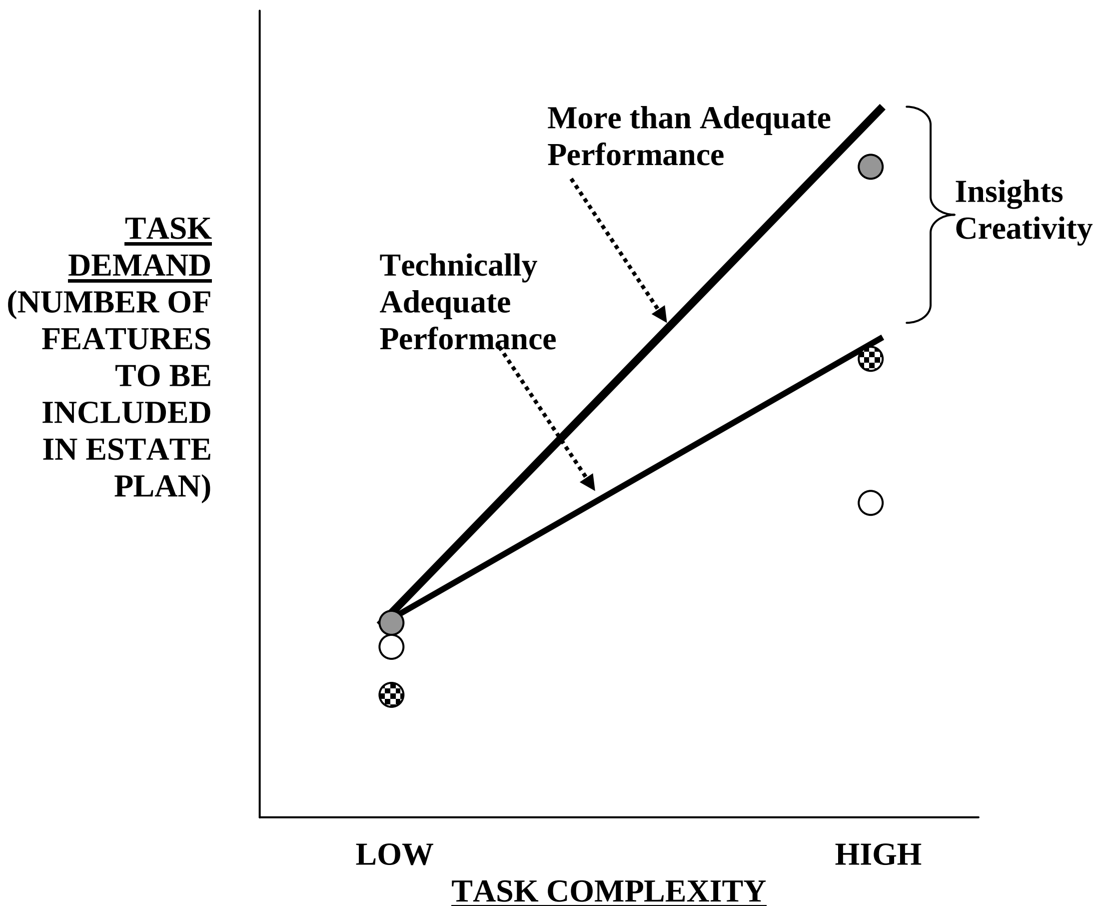
	No Advice Group 1 Complete	No Advice Group 5 Prepare	Post-Advice Group 5 Complete	Chi Tests	Fisher's Exact Test
1. Tax plan (solution) developed	13		15		
No plan developed	1		0		
Total	14		15		
2. Tax plan is adequate (*Adequate*)		13	14		
No plan or technically inadequate plan		2	1		
Total		15	15		
3. Tax plan is adequate (*Adequate*)	11		14		
No plan or technically inadequate plan	3		1		
Total	14		15		
4. *Adequate* plan is over-determined	1		9	7.82	
Adequate plan is not over-determined	10		5	p = 0.005	p = 0.012
Total	11		14		
5. *Adequate* plan shows confusion	1		2	0.16	
Adequate plan shows no confusion	10		12	p = 0.692	p = 1.000
Total	11		14	n.s.	n.s.
6. *Adequate* plan but:					
Both over-determined and confused	1	0	1		
Over-determined but not confused	0	2	8		
Confused but not over-determined	0	1	1		
Neither over-determined nor confused	10	10	4		
Total	11	13	14		

Table6:
Effects of Post-Advice for Higher-Complexity Tasks

	No Advice Group 2 Complete	Pre-Advice Group 4 Complete	Post-Advice Group 6 Complete	Chi-Tests	Fisher's Exact Test
1. Tax plan (solution) developed	5		11	2.66	
No plan developed	8		5	p = 0.103	p = 0.144
Total	13		16	n.s.	n.s.
2. Tax plan is technically adequate (*Adequate*)	1		10	9.15	
No plan or technically inadequate plan	12		6	p = 0.002	p = 0.006
Total	13		16		
3. Tax plan is technically adequate (*Adequate*)	1	6		4.89	
No plan or technically inadequate plan	12	7		p = 0.027	p = 0.073
Total	13	13			
4. Tax plan is more than *Adequate*		1	7	4.27	
Tax Plan is not more than *Adequate*		5	3	p = 0.039	p = 0.119
Total		6	10		
5. *Adequate* plan is over-determined		0	0		
Adequate plan is not over-determined		6	10		
Total (Note 1)		6	10		
6. *Adequate* plan shows confusion		5	2		
Adequate plan shows no confusion		1	8		
Total (Note 2)		6	10		
7. *Adequate* plan that is:					
Both over-determined and confused	0	0	0		
Over-determined but not confused	1	0	0		
Confused but not over-determined	0	5	2		
Neither over-determined nor confused	0	1	8		
Total	1	6	10		

Note 1: chi-tests are not feasible as the expected frequencies in some cells are less than 1.
Note2: evidence of confusion pertains to a single tax issue (re: determining if the shares are qualified small business corporation shares).

FIGURE 1: Summary of Task Demands and Performance Expectations



○ Unaided performance (no advice)

Performance with pre-advice

Performance with post-advice

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APPENDIX 1
RESEARCH MATERIALS
(Task Envelope with Folders 1, 2, 3 and 4)

FOLDER 1
THANK YOU FOR PARTICIPATING IN "PREPARING ESTATE TAX PLANS"

The purpose of the study is to examine how tax professionals make important judgments and resolve tax issues in developing estate tax plans for various clients. Your professional experience, including your experience in preparing estate tax plans, makes your participation very valuable. The study materials have been thoroughly tested with tax professionals to ensure that your participation will be valuable and that the study will make a strong contribution to tax research and practice.

For this study, you will be provided with a case and asked to prepare an estate tax plan. After completing the tax plan, you will be asked to complete some follow-up questions. All responses will be on paper. The study should take approximately 55 minutes.

Your participation in this study is completely voluntary and you may withdraw at any time without any consequences. We sincerely hope that you will answer all questions, but you are free to decline to answer any or all questions. We would like to assure you that your responses will be anonymous. Please do not record your name or that of your firm in your responses or anywhere on the materials you submit. Please also ensure that you seal the envelope (with your responses) before submitting it to the proctor for this study.

A summary of the results will be made available to all participants and firms, without identifying you or your firm. The analysis of the data and all results will be in aggregate form only. Other researchers may request the data but they will not be permitted to publish individual responses, nor will they know the identity of participants or their firms.

If you would like further information about this study, please contact us at any time after the study. If you have concerns about your participation in this study, please contact the School of Business Research Ethics Board (researchethicsboard@exchange.bus.ualberta.ca, 780.492.8443).

Sincerely,

Michael Gibbins, PhD, FCA
School of Business
University of Alberta
michael.gibbins@ualberta.ca

Odette Pinto, MBA, CGA
School of Business
University of Alberta
opinto@ualberta.ca
780.431.1763

SUMMARY OF INSTRUCTIONS

TIME and TASKS

We know that you are busy and your time is important to you and your firm. **Please work efficiently and effectively to complete the tasks, in the order of Folders 2, 3 and 4:**

i) On the cover of each folder, please record the time when you open the folder.

ii) Please complete all the tasks in a folder before opening the next folder.

iii) **Please do NOT make any changes in a folder after you open the next folder.**

YOUR "SUPERVISOR"

This study asks you to prepare an estate tax plan suitable for review by your supervisor. We know that the title of a supervisor may vary across participants, so please write a title or other descriptor that will identify the "supervisor" to you, but not to us. Please do not give the person's name but just write enough to identify that person to you, but not to us.

This estate tax plan is prepared for: ________________________________
Title/Descriptor for your Supervisor

Please proceed to Folder 2

FOLDER 2

Folder 2 included:

1. Client Fact Information for either of the following tasks:
   i) Low Complexity Task: Estate Tax Plan for Mr. Andrew Anderson (Appendix 3)
   ii) High Complexity Task: Estate Tax Plan for the Estate of Mr. Karl Downing (Appendix 4)

2. Pre-Advice (Appendix 5), if applicable.

3. The following instructions to prepare an estate tax plan for the client:

<u>MAIN TASK: PREPARE AN ESTATE TAX PLAN FOR ………..:</u>

i) MR. ANDREW ANDERSON
or
ii) ESTATE OF MR. KARL DOWNING

1. In the space below (including the next page, if needed) please draft a memo, with an estate tax plan suitable for review by your supervisor.

2. Your recommendation of an estate tax plan should include the following:
   i) Diagram(s) outlining the estate tax plan.
   ii) A list of all other important tax planning considerations.

3. The estate tax plan will be evaluated by tax professionals who have significant experience and expertise in tax planning.

To: …………………….. (enter the title/descriptor you gave for your supervisor in Folder 1)

RE: i) Estate tax plan for Andrew Anderson
or
ii) Estate tax plan for the Estate of Karl Downing

FOLDER 3

Folder 3 included:

1. Post-Advice (Appendix 6), if applicable.

2. The following instructions to complete the estate tax plan for the client:

MAIN TASK: COMPLETION OF **THE ESTATE TAX PLAN (THE POST-MORTEM ESTATE TAX PLAN)**

Thank you for preparing the **estate tax plan for Andrew Anderson** (**post-mortem estate tax plan for the Estate of Karl Downing**) which you completed in Folder 2.

Prior to the submission of your plan for review, we invite you to check your tax plan. You have an opportunity to make changes or prepare a revised plan, but only if you consider it necessary.

REVISIONS, IF ANY:

1) Please do not make any changes to your **Estate Tax Plan (Post-mortem Estate Tax Plan)** in Folder 2.

2) Instead, note any changes or prepare a revised plan in the space below (including the next page if needed).

ON COMPLETION OF THE REVISIONS, IF ANY:

1) Please insert Folders 1, 2 AND 3, including your notes, in the White Envelope provided.
   Note: it is important to insert the materials in all 3 Folders into the envelope but please do not be concerned about the order in which these materials are inserted.
2) Seal this (white) envelope.
3) Then, proceed to Folder 4.

FOLDER 4

ESTATE TAX PLANNING CASE QUESTIONS

Please indicate your response to the following questions below by marking an "X" on the scale, as illustrated in the example below:

Example
How interesting is a tax professional's job? If your answer is 6.5 on the scale of 7 you would mark an "X" as indicated below:

|-------|-------|-------|-------|-------|---**X**---|-------|
1 2 3 4 5 6 7
Very Boring Very
Interesting

1. How realistic was this estate tax planning case?

|-------|-------|-------|-------|-------|-------|-------|
1 2 3 4 5 6 7

Very Very
Unrealistic Realistic

2. How understandable was this estate tax planning case?

|-------|-------|-------|-------|-------|-------|-------|
1 2 3 4 5 6 7

Not Very Very
Understandable
Understandable

3. How realistic was the time allowed to prepare the estate tax plan?

|-------|-------|-------|-------|-------|-------|-------|
1 2 3 4 5 6 7

Very Very
Unrealistic Realistic

Please provide an explanation for your response to Question 3 above:

___

___

___

4. Indicate the degree of time pressure you felt completing the estate tax plan:

|-------|-------|-------|-------|-------|-------|-------|
1 2 3 4 5 6 7

Low Time Pressure — High Time Pressure

Please provide an explanation for your response to Question 4 above:
____

5. Your estate tax plan will be reviewed by an experienced tax professional. Did this forthcoming review influence your preparation of the estate tax plan?

|-------|-------|-------|-------|-------|-------|-------|
1 2 3 4 5 6 7

No Influence — High Influence

Please provide an explanation for your response to Question 5 above:
____

6. How would you rate the difficulty of the estate tax plan you have just completed?

|-------|-------|-------|-------|-------|-------|-------|
1 2 3 4 5 6 7

Very Easy — Very Difficult

Please provide an explanation for your response to Question 6 above:
____

7. Did you use a calculator while preparing the estate tax plan? Explain briefly:
____

Please respond to the following questions:

8. For the case you just completed, did you receive a document with a transcript of comments from a meeting with your supervisor? (Circle answer)

YES NO

9. If YES, was this document received BEFORE or AFTER the first main task i.e. developing your preliminary estate tax plan? (Circle answer)

BEFORE AFTER

10. If YES was this transcript of comments from a PRE-PLANNING or a SUBSEQUENT meeting with your supervisor? (Circle answer)

PRE-PLANNING MEETING SUBSEQUENT MEETING

11. List the Income Tax Act statutes that were applicable in the estate tax plan you prepared:

____
____
____
____
____
____
____

12. Were there ambiguous and/or uncertain issues in the given client facts of the case? If so, in the space below, please list the ambiguous and/or uncertain issues that you had to consider in preparing the estate tax plan:

____
____
____
____
____
____
____

QUESTIONS ABOUT YOU AND YOUR PROFESSIONAL EXPERIENCE

Please respond to the following questions:

1. Indicate your educational qualifications:
   _______ Professional designation (CA, CGA, CMA)
   _______ Other designation: _____________ (please specify)

2. How many years of income tax experience do you have? _____ years

3. How many months of experience do you have in tax planning and corporate reorganization tasks? _____ months

4. Which tax training courses have you completed?
   _______ CICA: In-Depth Tax Course
   Parts: 1 2 3 (circle the Parts completed)

   _______ Other tax training courses, noted below:
   __________________________ (please specify)
   ____
   ____

5. What is your current position or job title (e.g. senior, analyst, manager, etc.)?
   ____

6. How long have you worked in your current position? _____ (# of months)

7. Which one of the following best describes your firm type?
   _______ Big 4 firm
   _______ Other national or international firm
   _______ Local or regional firm
   _______ Other _____________________________ (please specify)

8. Which one of the following best describes the size of your office?
   _______ Small (less than 20 professionals in your office)
   _______ Medium-size (25 or more professionals in your office)
   _______ Large (50 or more professionals in your office)

9. Your Gender: Male ____ Female: ____

10. Please enter your age:
    ____under 25 ____ 26 to 35 ____ 36 to 45 ____46 to 55 ____over 55

11. What is the title of the individual in your firm that you most frequently discuss tax planning issues with?
    ________________________ (e.g. tax manager, tax partner)

Please indicate your response to the following questions **about your job**, by marking an "X" on the scale:

12. How often do you discuss tax planning issues with your supervisor?

|-------|-------|-------|-------|-------|-------|-------|
1 2 3 4 5 6 7

Never For Every File

13. How often do you prepare estate tax plans?

|-------|-------|-------|-------|-------|-------|-------|
1 2 3 4 5 6 7

Never Regularly

14. Indicate the degree of time pressure you feel when completing a tax planning task within a time budget:

|-------|-------|-------|-------|-------|-------|-------|
1 2 3 4 5 6 7
No Time High
Time
Pressure
Pressure

15. a. My supervisor generally provides advice before I commence a tax planning task.

|-------|-------|-------|-------|-------|-------|-------|
1 2 3 4 5 6 7

Never Always

b. I generally follow any advice my supervisor provides.

|-------|-------|-------|-------|-------|-------|-------|
1 2 3 4 5 6 7

Never Always

Thank you for completing this study. In the space below, kindly provide us with any further questions, comments or suggestions you may have regarding this study or the information contained within the estate tax planning case. If you would like further details about this study, please email us at opinto@ualberta.ca.

____
____
____
____
____
____
____

THANK YOU VERY MUCH FOR COMPLETING THIS STUDY!

i) Please put Folder 4 and the White Envelope (previously sealed) into the larger Task Envelope.

ii) Seal the Task Envelope.

iii) Give this sealed Task Envelope to the Proctor for the study.

APPENDIX 2
LOWER COMPLEXITY TASK

CLIENT FACT INFORMATION

- Client Facts
- Excerpts from the Client's Files

Client Facts

RE: Estate plan for Andrew Anderson

Our firm has been engaged by Andrew Anderson to develop an estate tax plan. In your recommendation of an estate tax plan you should include all tax planning considerations.

Andrew is the sole shareholder of Brandon Enterprises Ltd., a CCPC, which services the oil industry. The company has grown substantially since Andrew incorporated the company 21 years ago, and continues to have active and profitable business operations. Net income, after bonuses, has been over $350,000 in each of the past 5 years. Andrew estimates the current value of his shares to be approximately $7 million, and he also feels that the company's value will increase substantially over the next 5 to 10 years. Furthermore, the company is very stable financially and there are no creditor concerns.

Andrew feels that he and his wife have enough capital to maintain their desired lifestyle. Therefore, he would like to bring in his two children (John and Jane) as shareholders, with any future growth in the value of the company to accrue to them rather than to him. Andrew also feels that since both he and his wife have substantial investments (marketable securities; RRSPs) he will not need to draw on capital from the company for about 10 to 15 years.

Andrew wants to phase out of the business slowly, with plans to retire in approximately 10 years. He indicates that he wants to maintain control over the company until retirement, with control thereafter to John and Jane. Andrew is also very concerned about the well-being of his wife and wants to ensure that, in the event of his death, she is adequately provided for during her lifetime.

Andrew's children are both involved in the business, John is Vice President and responsible for business operations while Jane is Controller and responsible for all financial operations. Andrew is very pleased that both of his children have been successful in both their business and personal life. Both children are happily married and no problems are anticipated. Andrew treats both his children equally.

Andrew wants to minimize both personal and corporate taxes, and he is also very keen to minimize any legal, accounting and administrative costs associated with the tax planning. Furthermore, the company has developed a good reputation, with a well established name in Alberta. Andrew insists that the estate planning should not result in a change in the corporation's name.

Andrew and Violet are doing some renovations to their home. Andrew advises that his liquid assets are currently tied up in investments and they are in need of some cash. Therefore, he has asked if can receive approximately $70,000 to $75,000 through tax planning.

Besides the Brandon shares, Andrew owns the following assets:

- Personal residence (joint): cost (October 1, 1986) = $195,000; FMV = $800,000
- Marketable securities: ACB = $485,000; FMV = $675,000
- RRSPs (Andrew): FMV = $ 850,000; Beneficiaries = Violet, John and Jane (1/3 each)
- Life insurance (whole life): Benefit = $300,000; Beneficiary = Violet
-
-

Permanent File:

- Andrew Anderson:
  Date of birth: March 13, 1948
  Marital status: Married
  Spouse: Violet (Date of birth: April 12, 1949)
  Children: John (April 16, 1970) and Jane (October 1, 1971)
  Resident status: Canadian residents
- John Anderson:
  Date of birth: April 16, 1970
  Marital status: Married
  Spouse: Martha Anderson (Date of birth: April 1, 1971)
  Children: Sarah (December 9, 1997) and Sheldon (December 25, 1999)
  Resident status: Canadian residents
- Jane Anderson:
  Date of birth: October 1, 1971
  Marital status: Married
  Spouse: Gary Lowe (Date of birth: May 13, 1970)
  Children: Stephen (December 23, 1999) and Derek (October 5, 2001)
  Resident status: Canadian residents
- Brandon Enterprises Ltd:
  Incorporation date: July 2, 1987
  Share capital:-
  Authorized: unlimited number of common shares
  Issued: 1,000 common shares
  Andrew Anderson = 1, 000 common shares
  ACB = PUC = $10, 000
  Other notes:-
  Andrew is the sole shareholder and owns all the 1,000 shares in the company.
  There have been no reorganizations of capital since July 2, 1987.

Legal File:
Lawyer: Ron White
Ron is responsible for the legal affairs for Andrew and the Anderson family, as well as for Brandon Enterprises Ltd.

Information extracted from Andrew's will:

- Executor: Violet Anderson
- The will provides the executor with the power to undertake any estate planning.
- Andrew's entire estate is left to Violet. If his wife does not survive him by 30 days, his estate is to be divided equally between his two children.

Corporate Working Paper file – Brandon Enterprises Ltd.:
Balance Sheet (condensed) from the most current financial statements:

BRANDON ENTERPRISES LTD
Balance Sheet
As At December 31, 2007

ASSETS		
Current Assets:		
Cash		$195,000
Accounts Receivable		770,000
Inventory		490,000
Short term investments (term deposits, GICs)		130,000
		1,585,000
Fixed Assets (net of amortization):		
Land (FMV = $2,250,000)	$1,080,000	
Building (FMV = $1,750,000)	1,150,000	
Other Depreciable Property (FMV = $850,000)	995,000	3,225,000
TOTAL ASSETS		$4,810,000
LIABILITES & SHAREHOLDER'S EQUITY		
Current Liabilities:		
Accounts Payable	$421,000	
Other Current Liabilities	39,000	
Shareholder's Loan	30,000	$490,000
Share Capital (issued): 1,000, shares		10,000
Retained Earnings		4,310,000
TOTAL LIABILITIES & SHAREHOLDER'S EQUITY		$4,810,000

Corporate Tax file - Brandon Enterprises Ltd.:
Excerpts from the T2 return for the year ended December 31, 2007:
i) Losses carry-forward: $0
ii) Capital Dividend account (CDA): $ 7,000
iii) Refundable Dividend Tax On Hand (RDTOH): $8,000
iv) General Rate Income Pool (GRIP): $82,000

Personal Tax file - Andrew Anderson:
Excerpts from Andrew's T1 return for the year ended December 31, 2007:
- Taxable income = $448,800 (Andrew has been in the highest tax bracket for many years)
- Capital Gains deduction available (net, taxable): $125,000 (effective March 18, 2007)
- Losses carry-forward: $0
- Investment expenses (cumulative, after 1987) = $191,150
- Investment income (cumulative, after 1987) = $81,250

Personal Tax file - Violet Anderson:
Excerpts from Violet's T1 return for the year ended December 31, 2007:
- Taxable income = $95,400
- Capital Gains deduction available (taxable): $375,000
- Losses carry-forward: $0
- Investment expenses (cumulative, after 1987) = $18,400
- Investment income (cumulative, after 1987) = $39,250

Personal Tax file - John Anderson:
Excerpts from John's T1 return for the year ended December 31, 2007:
- Taxable income = $145,330
- Capital Gains deduction available (taxable): $375,000
- Losses carry-forward: $0
- Investment expenses (cumulative, after 1987) = $3,400
- Investment income (cumulative, after 1987) = $11,990

Personal Tax file - Jane Anderson:
Excerpts from Jane's T1 return for the year ended December 31, 2007:
- Taxable income = $148,050
- Capital Gains deduction available (taxable): $375,000
- Losses carry-forward: $0
- Investment expenses (cumulative, after 1987) = $4,722
- Investment income (cumulative, after 1987) = $14,225

APPENDIX 3
HIGHER COMPLEXITY TASK

CLIENT FACT INFORMATION

- Client Facts
- Excerpts from the Client's Files

Client Facts
RE: Post-mortem Estate Plan for Karl Downing

Our firm has been engaged by the Estate of Karl Downing to prepare a post-mortem estate tax plan. In your recommendation of an estate tax plan you should include all tax planning considerations.

Karl Downing died very suddenly on January 8, 2008. Karl was 63 years old and a widower; his wife died in 2002. At the time of his death, Karl was the sole shareholder of Downing Enterprises Ltd. (“Enterprise”), a CCPC. The company had very profitable operations in prior years. However, for the past 5 years most of its revenue has been derived from various investments, with annual pre-tax profits of over $200,000. The estimated value of the company at the time of Karl’s death was $10 million.

Karl’s two sons are David and Daryl. David worked for his father’s company until a few years ago. Daryl also worked for the company in prior years, but moved to Florida after getting married about 9 years ago.

David and Daryl want to minimize both personal and corporate taxes, but are uncertain as to what to do. They have asked if Enterprise should continue operating as a corporation or, alternatively, if the company should wind up operations. They would also like to minimize the administrative costs associated with the post-mortem estate tax plan.

David is happily married to Sharon. On the other hand, Daryl and Jody were separated in 2006 but got back together in 2007. Although they are back together there continue to be marriage problems and Daryl has expressed concerns.

Daryl is concerned about the tax implications as a non-resident. He has also asked about the tax consequences of returning to live in Canada and becoming a Canadian resident. Daryl’s current U.S. taxable income is approximately $72,000, primarily from employment income since he has limited investments other than his principal residence.

In addition to the Enterprise shares, Karl owned the following assets at the time of his death:

- Personal residence: cost (December 9, 1981) = $270,000; FMV = $900,000
- Vacation property: Condominium (Reno, Nevada): cost (Nov 1, 1990) = Cdn$100,000; FMV (at death) = Cdn$280,000
- Marketable securities: ACB = $245,000; FMV (at death) = $450,000
- RRSPs: FMV = $ 800,000; Beneficiaries = David and Daryl Downing (50% each)
- Life insurance (whole life): Benefit = $500,000; Beneficiary: Estate of Karl Downing

<u>Permanent File</u>:

- Karl Downing:
  Date of birth: December 1, 1944
  Marital status: Widower (Spouse died on June 1, 2002)
  Children: David (April 25, 1968); Daryl (May 18, 1969)
  Resident status: Canadian resident
- David Downing:
  Date of birth: April 25, 1968
  Marital status: Married
  Spouse: Sharon Downing (Date of birth: May 4, 1969)
  Children: Steven (August 8, 1997) and Derek (July 14, 1999)
  Resident status: Canadian residents (family)
- Daryl Downing:
  Date of birth: May 18, 1969
  Marital status: Married
  Spouse: Jody Downing (Date of birth: March 12, 1971)
  Children: Chris (June 27, 1999) and Colin (June 10, 2001)
  Resident status: US residents (family); Non-residents for Canadian tax purposes
  Citizenship: Daryl = Canada; Jody = USA
- Downing Enterprises Ltd.:
  Incorporation date (Alberta): April 10, 1977
  Share capital:-
  Authorized: Unlimited number of common shares
  Issued: 1,000 common shares
  Shareholder: Karl Downing = 1,000 shares (ACB = PUC = $1,000)
  Note: there have been no reorganizations of capital since April 10, 1977.

<u>Legal File:</u>
Lawyer: Jake Black
Jake is responsible for the legal affairs of Karl Downing and Downing Enterprises Ltd.

Information extracted from Karl Downing's will:

- Co-executors: David Downing and Daryl Downing
- The residue of the estate and assets thereof are to be divided equally between the two adult children.
- The will provides the executors with the appropriate power to undertake any estate tax planning.

Corporate Working Paper file - Downing Enterprises Ltd.
Balance Sheet (condensed) from the company's most current financial statements:

DOWNING ENTERPRISES LTD
Balance Sheet
As At December 31, 2007

ASSETS		
Current Assets:		
Cash		$255,000
Other Receivables		15,000
Marketable Securities (FMV = $6,950,000)		6,290,000
Short term investments		560,000
		7,120,000
Fixed Assets (net of amortization):		
Land (FMV = $1,600,000)	$700,000	
Building (FMV = $535,000)	550,000	
Other Depreciable Property (FMV = $85,000)	150,000	1,400,000
TOTAL ASSETS		$8,520,000
LIABILITES & SHAREHOLDER'S EQUITY		
Current Liabilities:		
Accounts Payable	$11,000	
Other Current Liabilities	19,000	
Shareholder's Loan	79,000	$109,000
Share Capital		1,000
Retained Earnings		8,410,000
TOTAL LIABILITIES & SHAREHOLDER'S EQUITY		$8,520,000

Corporate Tax File - Downing Enterprises Ltd.:
Excerpts from the T2 return for the year ended December 31, 2007:

i) Losses carry-forward = $0
ii) Capital Dividend account (CDA): $ 455,000
iii) Refundable Dividend Tax On Hand (RDTOH): $ 385,000
iv) General Rate Income Pool (GRIP): $0

Personal tax file - Karl Downing:
Excerpts from Karl's T1 return for the year ended December 31, 2007:

i) Taxable income = $185,466
ii) Capital Gains deduction available (taxable): $125,000 (effective March 18, 2007)
iii) Losses carry-forward = $0
iv) Investment expenses (cumulative, after 1987) = $194,250
v) Investment income (cumulative, after 1987) = $124,150

Personal tax file - David Downing:
Excerpts from David's T1 return for the year ended December 31, 2007:

i) Taxable income = $85,400
ii) Capital Gains deduction available (taxable): $375,000
iii) Losses carry-forward = $0
iv) Investment expenses (cumulative, after 1987) = $5,300
v) Investment income (cumulative, after 1987) = $13,560

Personal tax file - Daryl Downing:
Daryl has been a resident of the United States since 1998. Although his tax returns are done by a US accountant, he advises that for the year ended December 31, 2007:

i) Taxable income = $72,000 (Cdn)

APPENDIX 4A: PRE-ADVICE FOR THE LOWER COMPLEXITY TASK

Pre-Planning Meeting with your Supervisor

The person described earlier as your supervisor has assigned the Andrew Anderson file to you. At the pre-planning meeting your supervisor discusses the Anderson file with you. A transcript of your supervisor's comments from that meeting is below.

"Andrew Anderson has approached our firm to prepare an estate tax plan. Andrew is the sole shareholder of Brandon Enterprises, a CCPC."

"In estate planning, there always seem to be many issues to address so, before you submit this file for review, we want you to think about alternatives and be creative in your recommendation of the optimal estate tax plan and other tax considerations for Andrew Anderson. Always keep in mind that the overall objectives are to minimize income tax on death, achieve income splitting and set up a plan that meets the client's goals."

"Often a shareholder asks us to develop an estate plan because the family business has done well, the value of his shares has grown substantially and now he wants to bring the kids in as shareholders, with certain goals and conditions in mind. But, we also do post-mortem estate planning, which occurs after the death of a shareholder, and which may require different strategies. Estate planning for family businesses like Brandon Enterprises is further complicated because there are also non-tax issues to consider. There never seems to be a cookie-cutter solution! "

"As you know, Sections 86, 51 or 85 can be used in estate tax planning. Section 86 is based on a share exchange while Section 51 is based on a share conversion. Section 86 states that it applies "in the course of a reorganization of capital" and this is sometimes a concern. Another alternative is to use Section 85 for a rollover of the shares. Although Section 85 may be particularly useful in estate tax planning, the rules and anti-avoidance provisions can make it complex. You will have to determine which Section is most appropriate, or you may have to integrate and use more than one Section, or sometimes you may have to use alternative strategies."

"Another strategy in estate tax planning is the new "pipeline strategy", discussed at a recent partners' meeting and which has been used in several of our client files. This pipeline strategy is interesting and can be very useful, since it can be used to avoid "double tax". For example, in the case of our clients Jane Doan and Doan Ltd. it was used in post-mortem estate planning. A NEWCO was incorporated with the Estate of Jane Doan as the sole shareholder. The Estate transferred its shares of Doan Ltd. to NEWCO in exchange for a promissory note. Take a look at how this pipeline strategy can be accomplished (the excerpt from the Doan Estate files, given to you by your supervisor, is provided below). We are keen that all of our tax staff learn about this pipeline strategy and consider use of this strategy when working on estate tax planning files."

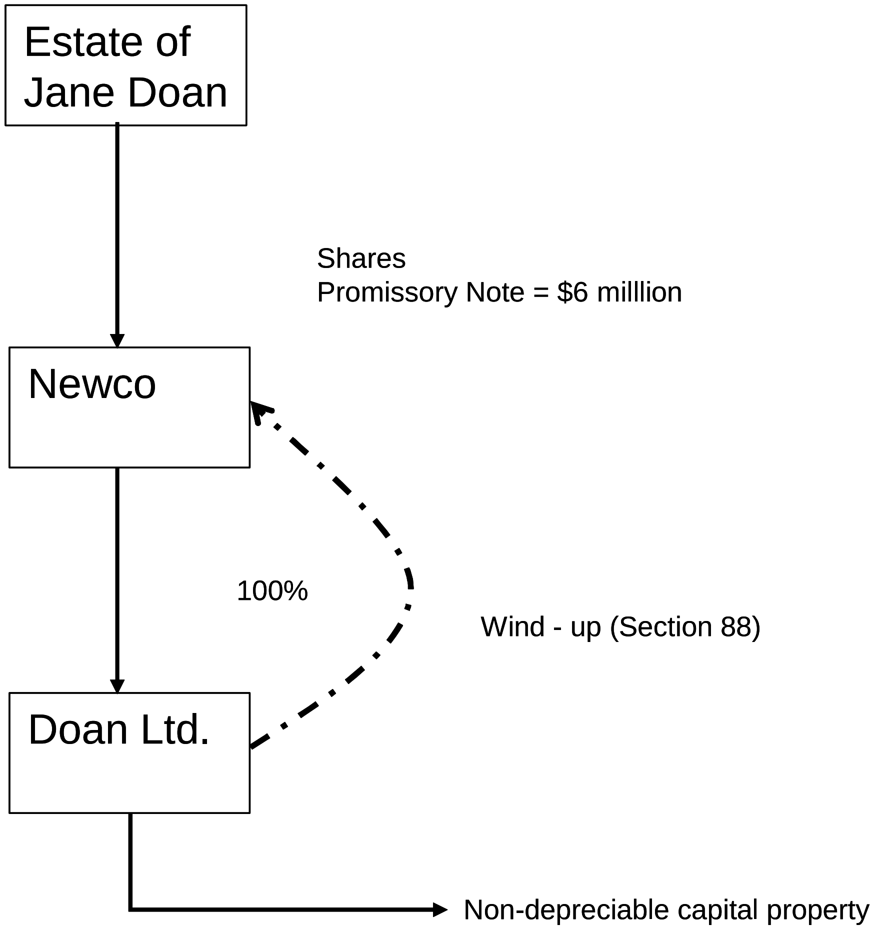
"Furthermore, this pipeline strategy can be adapted for use in various client situations. For example, in the Doan file, the pipeline strategy was combined with a wind-up under Section 88 to get the 88(1)(d) bump in the assets. This can be really useful!"

"Oh, don't forget to check Andrew's will carefully. People overlook that it is the will that determines how distributions from the estate are made! As you know, distributions from an estate are generally considered an inheritance for tax purposes but, any distributions to non-resident beneficiaries are considered taxable Canadian property."

"There are always those "problem" sections in the Income Tax Act that can cause grief if you are not careful with recommendations that include corporate reorganizations. For example, always watch for Section 84.1 – as you know, it can grind down the PUC of shares issued in reorganizations in certain circumstances. And, for corporate reorganizations and estate tax planning, the attribution and anti-gifting rules are a concern and should always be checked. Of course, never forget to check if subsection 55(2) and the safe income rules apply."

"There are several stop-loss rules to consider. Did you have to address the stop loss rules on any of the estate planning files you have worked on? These stop-loss rules can cause major problems! Just last week I reviewed a file in which 40(3.6) prevented the carry back of significant capital losses under 164(6) because it denied the capital loss arising on the disposition of shares since immediately after the disposition the estate was affiliated with the company. What a mess! But, we were able to use subsection 40(3.61); it provides an exception to the 40(3.6) stop-loss rules for the first taxation year of a testamentary estate. So, make sure you check if these stop-loss rules apply to the Anderson file."

Excerpt from the Estate of Jane Doan file:



1. Jane was the sole shareholder of Doan Ltd. at the time of her death. The FMV of Doan Ltd was $6 million.
2. Incorporation of NEWCO, with the Estate of Jane Doan as the sole shareholder.
3. The Estate transfers its shares of Doan Ltd to NEWCO in exchange for a $6million promissory note, the FMV of Doan Ltd at the time of Jane's death.
4. Wind-up of Doan Ltd into NEWCO (Section 88); 88(1)(d) allows for a bump in the ACB of non-depreciable capital property.
5. The promissory note is paid up to the estate and beneficiaries as funds are required.

APPENDIX 4B: PRE-ADVICE FOR THE HIGHER COMPLEXITY TASK

Pre-Planning Meeting with your Supervisor

The person described earlier as your supervisor has assigned the Estate of Karl Downing file to you. At the pre-planning meeting your supervisor discusses the Downing file with you. A transcript of your supervisor's comments from that meeting is below.

David Downing has approached our firm to prepare a post-mortem estate tax plan for his father, Karl, who died suddenly on January 8th (2008). At the time of his death, Karl Downing was the sole shareholder of Downing Enterprises, a CCPC."

"In estate planning, there always seem to be many issues to address so, before you submit this file for review, we want you to think about alternatives and be creative in your recommendation of the optimal estate tax plan and other tax considerations for the Karl Downing Estate. Always keep in mind that the overall objectives are to minimize income tax on death, achieve income splitting and set up a plan that meets the client's goals."

"Often a shareholder asks us to develop an estate plan because the family business has done well, the value of his shares has grown substantially and now he wants to bring the kids in as shareholders, with certain goals and conditions in mind. But, we also do post-mortem estate planning, which occurs after the death of a shareholder, and which may require different strategies. Estate planning for family businesses like Downing Enterprises is further complicated because there are also non-tax issues to consider. There never seems to be a cookie-cutter solution! "

"As you know, Sections 86, 51 or 85 can be used in estate tax planning. Section 86 is based on a share exchange while Section 51 is based on a share conversion. Section 86 states that it applies "in the course of a reorganization of capital" and this is sometimes a concern. Another alternative is to use Section 85 for a rollover of the shares. Although Section 85 may be particularly useful in estate tax planning, the rules and anti-avoidance provisions can make it complex. You will have to determine which Section is most appropriate, or you may have to integrate and use more than one Section, or sometimes you may have to use alternative strategies."

"Another strategy in estate tax planning is the new "pipeline strategy", discussed at a recent partners' meeting and which has been used in several of our client files. This pipeline strategy is interesting and can be very useful, since it can be used to avoid "double tax". For example, in the case of our clients Jane Doan and Doan Ltd. it was used in post-mortem estate planning. A NEWCO was incorporated with the Estate of Jane Doan as the sole shareholder. The Estate transferred its shares of Doan Ltd. to NEWCO in exchange for a promissory note. Take a look at how this pipeline strategy can be accomplished (the excerpt from the Doan Estate files, given to you by your supervisor, is provided below). We are keen that all of our tax staff learn about this pipeline strategy and consider use of this strategy when working on estate tax planning files."

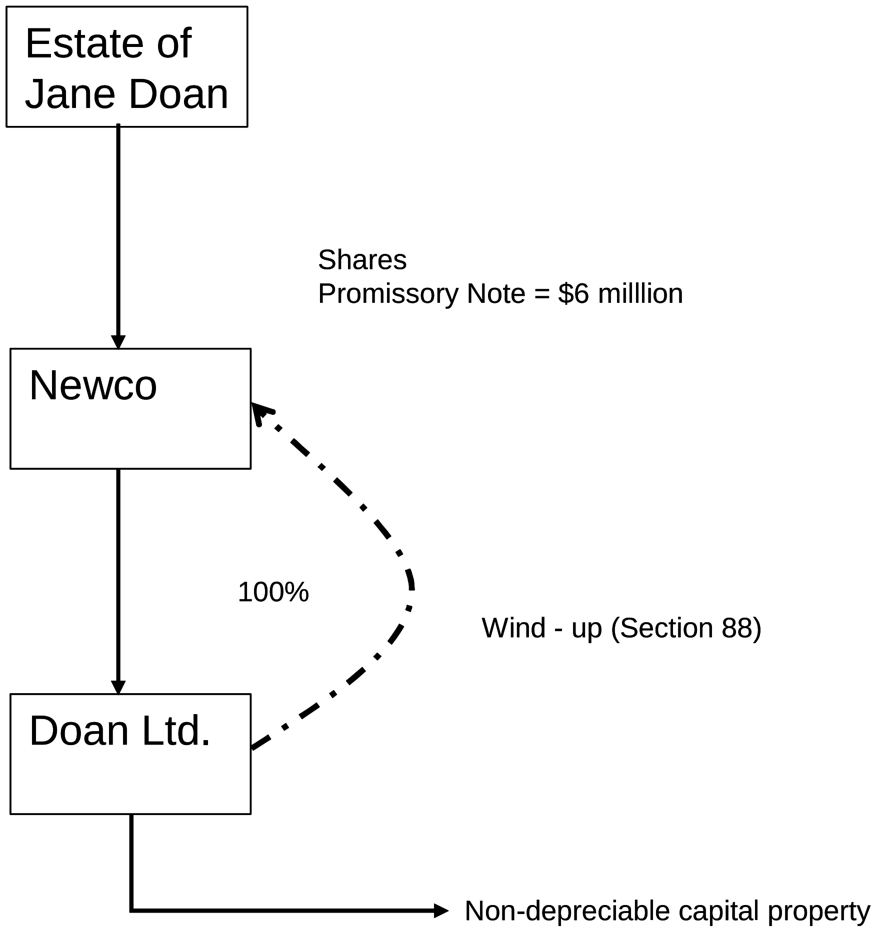
“Furthermore, this pipeline strategy can be adapted for use in various client situations. For example, in the Doan file, the pipeline strategy was combined with a wind-up under Section 88 to get the 88(1)(d) bump in the assets. This can be really useful!”

“Oh, don’t forget to check Karl’s will carefully. People overlook that it is the will that determines how distributions from the estate are made! As you know, distributions from an estate are generally considered an inheritance for tax purposes but, any distributions to non-resident beneficiaries are considered taxable Canadian property.”

“There are always those “problem” sections in the Income Tax Act that can cause grief if you are not careful with recommendations that include corporate reorganizations. For example, always watch for Section 84.1 – as you know, it can grind down the PUC of shares issued in reorganizations in certain circumstances. And, for corporate reorganizations and estate tax planning, the attribution and anti-gifting rules are a concern and should always be checked. Of course, never forget to check if subsection 55(2) and the safe income rules apply.”

“There are several stop-loss rules to consider. Did you have to address the stop loss rules on any of the estate planning files you have worked on? These stop-loss rules can cause major problems! Just last week I reviewed a file in which 40(3.6) prevented the carry back of significant capital losses under 164(6) because it denied the capital loss arising on the disposition of shares since immediately after the disposition the estate was affiliated with the company. What a mess! But, we were able to use subsection 40(3.61); it provides an exception to the 40(3.6) stop-loss rules for the first taxation year of a testamentary estate. So, make sure you check if these stop-loss rules apply to the Downing file.”

Excerpt from the Estate of Jane Doan file:



1. Jane was the sole shareholder of Doan Ltd. at the time of her death. The FMV of Doan Ltd was $6 million.
2. Incorporation of NEWCO, with the Estate of Jane Doan as the sole shareholder.
3. The Estate transfers its shares of Doan Ltd to NEWCO in exchange for a $6million promissory note, the FMV of Doan Ltd at the time of Jane's death.
4. Wind-up of Doan Ltd into NEWCO (Section 88); 88(1)(d) allows for a bump in the ACB of non-depreciable capital property.
5. The promissory note is paid up to the estate and beneficiaries as funds are required.

APPENDIX 5A: POST-ADVICE FOR THE LOWER COMPLEXITY TASK

Subsequent Meeting with your Supervisor

The person described earlier as your supervisor was unable to meet with you when the Andrew Anderson file was assigned to you, but subsequently meets with you to discuss the Anderson file. A transcript of your supervisor's comments from that meeting is below.

"Andrew Anderson has approached our firm to prepare an estate tax plan. Andrew is the sole shareholder of Brandon Enterprises, a CCPC."

"In estate planning, there always seem to be many issues to address so, before you submit this file for review, we want you to think about alternatives and be creative in your recommendation of the optimal estate tax plan and other tax considerations for Andrew Anderson. Always keep in mind that the overall objectives are to minimize income tax on death, achieve income splitting and set up a plan that meets the client's goals."

"Often a shareholder asks us to develop an estate plan because the family business has done well, the value of his shares has grown substantially and now he wants to bring the kids in as shareholders, with certain goals and conditions in mind. But, we also do post-mortem estate planning, which occurs after the death of a shareholder, and which may require different strategies. Estate planning for family businesses like Brandon Enterprises is further complicated because there are also non-tax issues to consider. There never seems to be a cookie-cutter solution! "

"As you know, Sections 86, 51 or 85 can be used in estate tax planning. Section 86 is based on a share exchange while Section 51 is based on a share conversion. Section 86 states that it applies "in the course of a reorganization of capital" and this is sometimes a concern. Another alternative is to use Section 85 for a rollover of the shares. Although Section 85 may be particularly useful in estate tax planning, the rules and anti-avoidance provisions can make it complex. You will have to determine which Section is most appropriate, or you may have to integrate and use more than one Section, or sometimes you may have to use alternative strategies."

"Another strategy in estate tax planning is the new "pipeline strategy", discussed at a recent partners' meeting and which has been used in several of our client files. This pipeline strategy is interesting and can be very useful, since it can be used to avoid "double tax". For example, in the case of our clients Jane Doan and Doan Ltd. it was used in post-mortem estate planning. A NEWCO was incorporated with the Estate of Jane Doan as the sole shareholder. The Estate transferred its shares of Doan Ltd. to NEWCO in exchange for a promissory note. Take a look at how this pipeline strategy can be accomplished (the excerpt from the Doan Estate files, given to you by your supervisor, is provided below). We are keen that all of our tax staff learn about this pipeline strategy and consider use of this strategy when working on estate tax planning files."

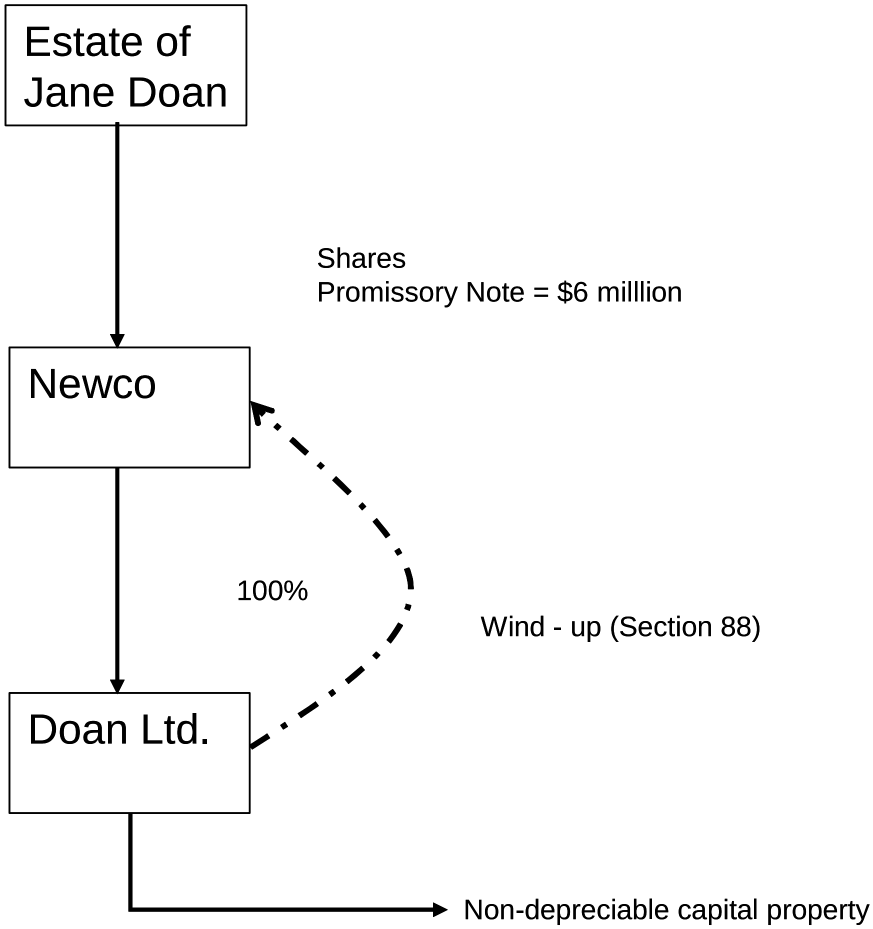
“Furthermore, this pipeline strategy can be adapted for use in various client situations. For example, in the Doan file, the pipeline strategy was combined with a wind-up under Section 88 to get the 88(1)(d) bump in the assets. This can be really useful!”

“Oh, don’t forget to check Andrew’s will carefully. People overlook that it is the will that determines how distributions from the estate are made! As you know, distributions from an estate are generally considered an inheritance for tax purposes but, any distributions to non-resident beneficiaries are considered taxable Canadian property.”

“There are always those “problem” sections in the Income Tax Act that can cause grief if you are not careful with recommendations that include corporate reorganizations. For example, always watch for Section 84.1 – as you know, it can grind down the PUC of shares issued in reorganizations in certain circumstances. And, for corporate reorganizations and estate tax planning, the attribution and anti-gifting rules are a concern and should always be checked. Of course, never forget to check if subsection 55(2) and the safe income rules apply.”

“There are several stop-loss rules to consider. Did you have to address the stop loss rules on any of the estate planning files you have worked on? These stop-loss rules can cause major problems! Just last week I reviewed a file in which 40(3.6) prevented the carry back of significant capital losses under 164(6) because it denied the capital loss arising on the disposition of shares since immediately after the disposition the estate was affiliated with the company. What a mess! But, we were able to use subsection 40(3.61); it provides an exception to the 40(3.6) stop-loss rules for the first taxation year of a testamentary estate. So, make sure you check if these stop-loss rules apply to the Anderson file.”

Excerpt from the Estate of Jane Doan file



1. Jane was the sole shareholder of Doan Ltd. at the time of her death. The FMV of Doan Ltd was $6 million.
2. Incorporation of NEWCO, with the Estate of Jane Doan as the sole shareholder.
3. The Estate transfers its shares of Doan Ltd to NEWCO in exchange for a $6million promissory note, the FMV of Doan Ltd at the time of Jane's death.
4. Wind-up of Doan Ltd into NEWCO (Section 88); 88(1)(d) allows for a bump in the ACB of non-depreciable capital property.
5. The promissory note is paid up to the estate and beneficiaries as funds are required.

APPENDIX 5B: POST-ADVICE FOR THE HIGHER COMPLEXITY TASK

Subsequent Meeting with your Supervisor

The person described earlier as your supervisor was unable to meet with you when the Estate of Karl Downing file was assigned to you, but subsequently meets with you to discuss the Downing file. A transcript of your supervisor's comments from that meeting is below.

"David Downing has approached our firm to prepare a post-mortem estate tax plan for his father, Karl, who died suddenly on January 8th (2008). At the time of his death, Karl Downing was the sole shareholder of Downing Enterprises, a CCPC."

"In estate planning, there always seem to be many issues to address so, before you submit this file for review, we want you to think about alternatives and be creative in your recommendation of the optimal estate tax plan and other tax considerations for the Karl Downing Estate. Always keep in mind that the overall objectives are to minimize income tax on death, achieve income splitting and set up a plan that meets the client's goals."

"Often a shareholder asks us to develop an estate plan because the family business has done well, the value of his shares has grown substantially and now he wants to bring the kids in as shareholders, with certain goals and conditions in mind. But, we also do post-mortem estate planning, which occurs after the death of a shareholder, and which may require different strategies. Estate planning for family businesses like Downing Enterprises is further complicated because there are also non-tax issues to consider. There never seems to be a cookie-cutter solution! "

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"Furthermore, this pipeline strategy can be adapted for use in various client situations. For example, in the Doan file, the pipeline strategy was combined with a wind-up under Section 88 to get the 88(1)(d) bump in the assets. This can be really useful!"

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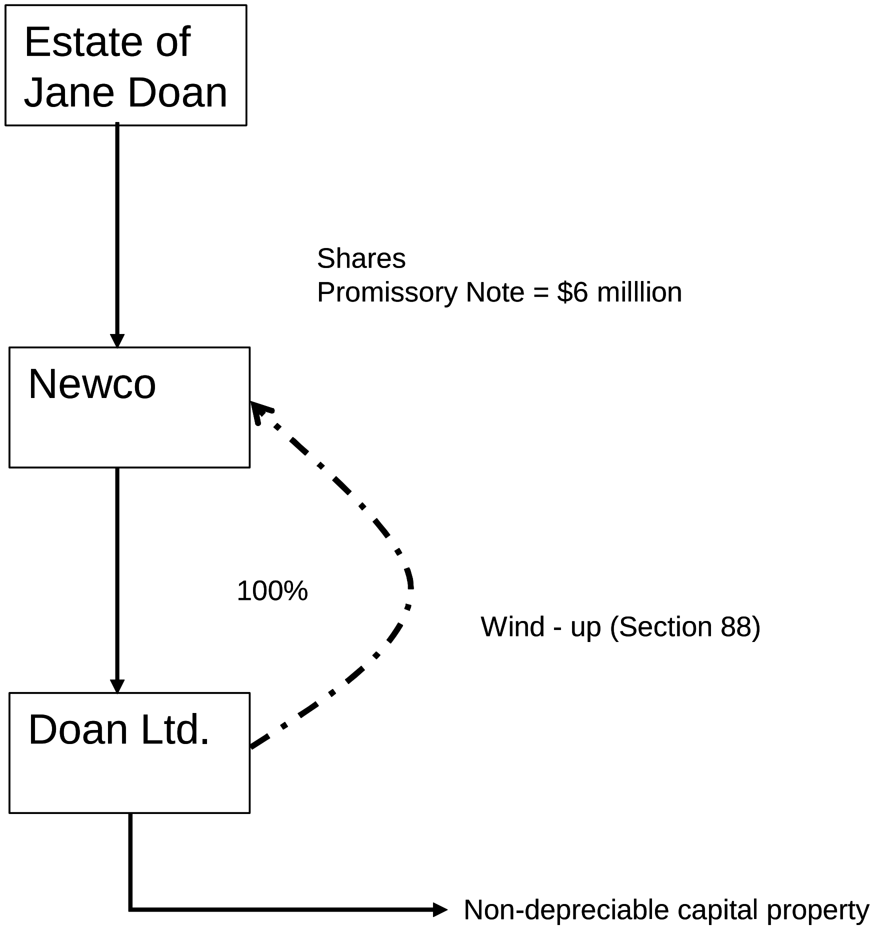
"There are always those "problem" sections in the Income Tax Act that can cause grief if you are not careful with recommendations that include corporate reorganizations. For example, always watch for Section 84.1 – as you know, it can grind down the PUC of shares issued in reorganizations in certain circumstances. And, for corporate reorganizations and estate tax planning, the attribution and anti-gifting rules are a concern and should always be checked. Of course, never forget to check if subsection 55(2) and the safe income rules apply."

"There are several stop-loss rules to consider. Did you have to address the stop loss rules on any of the estate planning files you have worked on? These stop-loss rules can cause major problems! Just last week I reviewed a file in which 40(3.6) prevented the carry back of significant capital losses under 164(6) because it denied the capital loss arising on the disposition of shares since immediately after the disposition the estate was affiliated with the company. What a mess! But, we were able to use subsection 40(3.61); it provides an exception to the 40(3.6) stop-loss rules for the first taxation year of a testamentary estate. So, make sure you check if these stop-loss rules apply to the Downing file."

Excerpt from the Estate of Jane Doan file



1. Jane was the sole shareholder of Doan Ltd. at the time of her death. The FMV of Doan Ltd was $6 million.
2. Incorporation of NEWCO, with the Estate of Jane Doan as the sole shareholder.
3. The Estate transfers its shares of Doan Ltd to NEWCO in exchange for a $6million promissory note, the FMV of Doan Ltd at the time of Jane's death.
4. Wind-up of Doan Ltd into NEWCO (Section 88); 88(1)(d) allows for a bump in the ACB of non-depreciable capital property.
5. The promissory note is paid up to the estate and beneficiaries as funds are required.

APPENDIX 6: LETTER TO CONTACT PERSON

A University of Alberta Research Project:
Preparing Tax Plans

Dear (Contact Person's Name):

We are conducting a research project aimed at examining the process by which tax professionals make important tax planning judgments. We request your assistance in encouraging your colleagues to participate in this study, which has been designed and thoroughly tested to contribute to tax research and practice.

There has been almost no research on tax planning. For valid results, we seek participants who have relevant tax training (e.g. completed Parts 1 and 2 of the CICA In-Depth tax course) and at least one year's tax planning experience, including estate tax planning experience.

We realize how busy your tax colleagues are, so the research materials have been designed and tested to make efficient use of participants' time. The study takes approximately 55 minutes to complete. Participation involves reading a short tax planning case for a hypothetical client, preparing a tax plan, and then answering brief follow-up questions. We will ensure that the identity of the participants is entirely anonymous: a proctor will administer the study and we will not be present; although participants will sign a consent form, they will not record their names, or that of their firms, anywhere on the responses they submit; the responses we analyze will be anonymous and the data analysis will be in the aggregate form only.

Participants will apply their expertise to developing a realistic and relevant tax plan. We hope this will be an interesting experience. In addition, as a gesture of our appreciation, we will provide a gift from the School of Business to be distributed to potential participants. A summary of the results will be provided to you later, to be made available to all these potential participants.

We will greatly appreciate your support. If you are able to assist us, we will provide an introductory letter and the thank-you gift to all potential participants. If you have any concerns, please contact the School of Business Research Ethics Board at researchethicsboard@bus.ualberta.ca or 780-492-8443.

We thank you in advance for your support. We believe that the results of this study will be very interesting to both tax researchers and tax professionals.

Yours sincerely,

Michael Gibbins, PhD, FCA
Winspear Distinguished Professor
University of Alberta
michael.gibbins@ualberta.ca

Odette Pinto, MBA, CGA
PhD Candidate in Accounting
University of Alberta
opinto@ualberta.ca
780-431-1763

APPENDIX 7: INTRODUCTORY RECRUITMENT LETTER

A University of Alberta Research Project:
Preparing Tax Plans

Dear Tax Professional:
We invite you to participate in a study of how tax professionals make important tax planning judgments. Your professional experience makes you an ideal participant and you will provide very valuable input. Although tax planning is a common task and is central to a tax professional's work, researchers have not examined how tax planning judgments are made. We would greatly appreciate your participation.

We realize how busy you are. To ensure that the time you spend on this study is used effectively, we have thoroughly tested the research materials and focused them so that you can complete the study, at your office, in 55 minutes. Your participation will involve reading a short tax planning case for a hypothetical client and then preparing a tax plan. We hope this is an interesting task. You may bring a small calculator to the study but not a laptop or other electronic devices.

A proctor will administer the study and neither of the researchers will be present. There will be no record of your name or that of your firm on your responses to the case or on any materials you submit. Therefore, the responses we receive and analyze will be anonymous, and the data analysis will be in aggregate form only. You may decline to answer any questions you do not wish to answer.

As a gesture of our appreciation for your participation we are providing a gift from the School of Business, as an advance thank-you. We will also provide a summary of the results to the contact person at your firm, which will be made available to all potential participants.

We hope you will assist us by participating in the study to be conducted at your office, as arranged by the contact person at your firm. If you have any concerns, please contact the School of Business Research Ethics Board at researchethicsboard@bus.ualberta.ca or 780-492-8443.

Thank you in advance for your assistance with this project.
Yours sincerely,

Michael Gibbins, PhD, FCA
Winspear Distinguished Professor
University of Alberta
michael.gibbins@ualberta.ca

Odette Pinto, MBA, CGA
PhD Candidate in Accounting
University of Alberta
opinto@ualberta.ca
780-431-1763

<u>**APPENDIX 8: LETTER TO PROCTOR**</u>

A University of Alberta Research Project:
Preparing Tax Plans

To the proctors for this project:

Thank you very much for your help in administering this study!

The box of materials provided to you contains consent forms and envelopes. Participants will read and sign the consent forms and return them to you before proceeding with the tasks in the envelopes. Participation is anonymous, so you must not record the names of the participants or their firm(s). Average completion time is about 55 minutes, but some participants may finish earlier or later than that.

In order to administer the study please follow these instructions:

1. Please stay in the room until all participants have completed the study.
2. Consent forms: distribute 2 copies of the consent form to each participant and read out the following instructions to the participants:
    a. "Read the Consent form carefully. Your signature acknowledges your willingness to participate in this study."
    b. "Return one signed copy to me, which I will sign."
    c. "The other copy of the Consent form is for you. Please retain this copy for your records."
3. Please insert the Consent forms in the return envelope provided and seal it.
4. Read out the following instructions to the participants before distributing the task envelopes (you may show the participants one of the "task" envelopes to indicate what you mean):
    a. "All the materials you need are in the task envelope I will give you. You may use a calculator but please do not use any other materials or electronic devices."
    b. "Your responses may be in pen or pencil."
    c. "Do not write your name or that of your firm on your responses or anywhere on the materials."
    d. "There are 4 folders and one smaller white envelope in each task envelope. You must start with Folder #1 and follow the instructions in each folder precisely. If you need to make notes as you work through the tasks, please use the back of any page in a folder."
    e. "You have 55 minutes to complete the study."
    f. "On completion, you should insert all materials into the task envelope. Please seal the task envelope before returning it to me."
    g. "If you are unsure about any issue, please write your query on the relevant page of the materials, as I cannot answer any questions."
    h. "As a courtesy to all participants, kindly turn off cell phones."
5. Distribute one task envelope to each participant. It doesn't matter who gets which envelope.

6. As each participant returns the sealed task envelope to you, put it in the box without marking it in any way.
7. If a participant chooses not to complete the study, ask them to put their materials in the task envelope, seal it and give it to you to put with the others. If a participant requests that the materials not be included in the study, mark this sealed envelope "To destroy".
8. If a participant needs more than 55 minutes, please stay in the room until they are done. If you have to leave, ask the participant to give the sealed task envelope to you directly when they are finished.
9. Complete the Proctor Submission Form, indicating the number of Sealed, Unused and "To destroy" task envelopes being returned.
10. Return the Proctor Submission form and all the envelopes to us in the box you received, which has a pre-addressed label (and a prepaid courier label, if necessary). Do not write the name of the firm, or any other information, on the box.

Thank you again for your help with this research study!

Yours sincerely,

Michael Gibbins, PhD, FCA
Winspear Distinguished Professor
University of Alberta
michael.gibbins@ualberta.ca

Odette Pinto, MBA, CGA
PhD Candidate in Accounting
University of Alberta
opinto@ualberta.ca
780-721-8490 (cell)

APPENDIX 9: CONSENT FORM

Research Information and Participant's Consent Form for:
"Preparing Estate Tax Plans"

Purpose You are invited to participate in a research study "Preparing Estate Tax Plans" conducted by Dr. Michael Gibbins and Ms. Odette Pinto (PhD Candidate) of the School of Business, University of Alberta. This study will examine how tax professionals make important tax planning judgments.

Your participation Your participation involves reading a case for a hypothetical client, then preparing an estate tax plan and answering brief follow-up questions. This study will take approximately 55 minutes.

Your rights Your decision to participate in this study is entirely voluntary and you may decide at any time to withdraw from the study. You may decline to answer any or all questions. The responses made by participants will remain entirely anonymous, and your name or that of your firm will not appear in the responses or anywhere on the materials you submit. A proctor will administer the study to ensure that your identity remains anonymous to us. The researchers and those assisting with the analysis of the data will have access to the responses but there will be no identification of the participants or their firms and the analysis will be in the aggregate form. The results of the study may be presented at scholarly conferences, published in professional journals, or presented in class lectures but the results will be presented in the aggregate form only. Ms. Odette Pinto will securely store the data for a minimum of five years.
If you would like further information about this study, please contact us at any time after the study. If you have concerns about your participation in this study, please contact the School of Business Research Ethics Board (researchethicsboard@exchange.bus.ualberta.ca, 780.492.8443).

Benefits and risks This study will contribute to an understanding of how tax professionals make tax planning judgments. There are no foreseeable risks to this study.

Signatures Please sign below to indicate that you have read and understood the nature and purpose of the study. Your signature acknowledges your willingness to participate in this study. To ensure the anonymity of your research data, the signed consent form will be collected separately from the data so that the form and the data are not connected with each other.

______________________	______________________	______________________
Participant's Signature	Participant's Name	Date
______________________	______________________	______________________
Proctor's Signature	Proctor's Name	Date

APPENDIX 10: PERFORMANCE CRITERIA FOR THE LOWER COMPLEXITY TASK

PARTICIPANT # ________ GROUP # ________

	Prep	Complete
Correct Corporate Reorganization Section		
S86 share conversion		
S86 share conversion with S85 before S86		
Other acceptable corporate reorganizations (indicate and/or describe below):		
Errors in Solution		
S85 used for "freeze" but corporation name change issue not addressed		
S85 recommended in order to use "full" Capital Gains Deduction		
Other errors in the solution (provide reasons below):		
Over-determined Solution		
Over-determined solution - several alternate solutions		
Over-determined solution - solution is unnecessarily complex		
Technical Errors		
Error in applying the legislation - S51 & non-share considerations		
Error in applying the legislation - S85 + CGE + ignore CNIL		
Anti-avoidance provisions apply but are ignored in tax plan:		
Other technical errors (describe and/or provide reasons below):		
Cues Ignored		
Control to be maintained by Andrew for 10 years		
CNIL account & therefore limited use of the Capital Gains Deduction		
Client request for "cash" - suggestions about how to provide "cash"		
Note the # of Cues ignored in the calculation of "Cash" = ……		
RRSP beneficiaries: issues &. tax consequences		
Will: wife is secured (confirmed by/in the will) or suggestions		
Will: voting shares should be to the children @ Andrew's death		
Life insurance - beneficiary issue (change to corporation?)		
Other cues ignored (& describe or explain why the cue is important):		
Insights		
Creditor proofing Brandon Enterprises (long-term objective)		
Unanimous Shareholders' Agreement (after re-organization)		
Valuation of company & price-adjustment clause		
Redemption plan (for preferred shares)		
Life insurance - adequacy of $$ amount		
Other Insights identified:		

APPENDIX 11: PERFORMANCE CRITERIA FOR THE HIGHER COMPLEXITY TASK

PARTICIPANT # ________ GROUP # ________

	Prep	**Complete**
Criteria Required for "Best" Solution		
Pipeline strategy to avoid double-tax		
88(1)(d) bump utilized, with wind-up of company		
Utilization of the RDTOH account		
164(6) carry-back utilized		
CDA: capital dividends should be paid		
Separate CDA election (to avoid stop-loss rules)		
Order of transactions=Step 1: 164(6); Step 2: Pipeline strategy with S 88(1)(d)bump		
Errors in Solution		
No Solution developed (unable to develop a tax plan)		
Unsuccessful attempt to use S51		
Unsuccessful attempt to use S86		
Unsuccessful attempt to use S85		
Corporate reorganization selected is not feasible/incorrect		
Other errors in the solution (provide reasons below):		
Technical Errors		
Error in applying the legislation (explain below):		
Anti-avoidance provisions apply but are ignored in tax plan (explain below):		
Other technical errors (provide reasons below):		
Cues Ignored		
Wind-up of company issues to be considered		
Non-resident considerations (Daryl) e.g. issues for distributions from Estate		
Marriage problems (Daryl) - identify concerns (note: if a soln., then insight below)		
US Condo (Reno, Nevada) - estate tax issues should be recognized		
Other cues ignored (& describe or explain why cue is important):		
Terminal T1 Issues Ignored		
RRSP redemption at death and taxed on the terminal return		
Deemed disposition of all assets at Fair Market Value (FMV)		
Deemed disposition of the shares of Downing Enterprises Ltd at FMV		
Insights		
S 88(1)(d) bump utilized (for the non-depreciable property)		
RDTOH account		
S 164(6) carry-back utilized		
Order of transactions i.e. S 164(6) utilized **before** the Pipeline		
Step 1: separate CDA election & stop-loss rules; Step 2: recover balance of RDTOH		
Daryl marriage problems - post-nuptial agreement or other suggested solutions		
US Condo - any recommendations to reduce the US estate tax; timing of disposition		
Other Insights identified:		

APPENDIX 12: DEFINITIONS OF EVALUATION TERMS

Technically Adequate:

- An estate tax plan (i.e. solution to the case) has been developed
- The corporate reorganization suggested in the tax plan is feasible
- No technical errors in the application of the legislation
- Consideration of anti-avoidance provisions, if applicable
- Consideration of the stop-loss rules, if applicable
- Consideration of the information in the Client Facts that is pertinent to the development of the estate tax plan
- The client's preferences, as stated in the client facts, are considered or addressed in the estate tax plan developed

Excellent (more than Technically Adequate):

- Tax insights and creativity in the application of the legislation
- Tax insights in the integration of appropriate sections of the ITA legislation
- Tax insights in suggestions of how to address potential and/or future events, if any
- Tax insights in suggestions of how to address uncertain issues and events, if any

Technically Inadequate (less than Technically Adequate):

- An estate tax plan has not been developed
- The corporate reorganization suggested in the tax plan is not feasible/incorrect
- Anti-avoidance provisions of the ITA legislation apply to the estate tax plan developed but are not considered
- Stop loss rules in the ITA legislation apply to the estate tax plan developed but are not considered
- Information in the Client Facts pertinent to developing the estate tax plan are not considered
- Client preferences stated in the Client Facts are not considered

APPENDIX 13: EVALUATION CRITERIA

THE ESTATE PLAN ITSELF

		Inadequate	Adequate	Better/Excellent
	ESSENTIALS			
1	Tax plan			
2	Technical errors			
3	Anti-avoidance, if applicable			
4	Stop-loss, if applicable			
	TRADEOFFS/JUDGMENT			
5	Feasible reorganization			
6	Use of client facts			
7	Client preferences			
8	Insights			
9	Integration			
10	Future considerations			
11	Uncertain issues			

OTHER TAX PLANNING CONSIDERATIONS

Other tax planning considerations that do not directly affect the Estate Tax Plan. Generally irrelevant to the above evaluation of the tax plan, but note if a connection is made.

APPENDIX 14: EVALUATION FORM

EVALUATION & ASSESSMENT OF TAX PLANS **EVALUATOR 1 (OR 2)**

PARTICIPANT #: _____________

PART I: MAIN TASK: PREPARATION OF THE TAX PLAN

1. Is a Tax Plan (i.e. a solution to the case) developed? (circle your response)

   YES NO

   Comments, if any:

2. Is there more than one "solution" suggested in the Tax Plan developed?

   YES NO

   Comments, if any:

3. How would you rate the Tax Plan developed? (√ for your response)
   i) Excellent
   ii) Technically Adequate
   iii) Technically Inadequate

   State your reasons for the above rating of the tax plan:

4. Note Technical Errors and/or other negative items in the tax plan, if any:

5. Note Insights demonstrated and/or positive items included in the tax plan, if any:

6. Other comments:

PARTICIPANT #: _________

PART II: MAIN TASK: COMPLETION OF THE TAX PLAN

1. Is a "revised" Tax Plan (i.e. a solution to the case) developed? (circle response)

   YES NO

   OR, are revisions/changes to the original tax plan suggested?

   YES NO

   Comments, if any:

2. Is there more than one "solution" suggested in the revisions or revised Tax Plan?

   YES NO

   Comments, if any:

3. How would you rate the "revised" Tax Plan developed? (√ for your response)
   a. Excellent
   b. Technically Adequate
   c. Technically Inadequate

   State your reasons for the above rating of the tax plan:

4. Overall, how would you rate the revisions to the tax plan? (√ for your response)
   a. Positive change (i.e. improvements)
   b. Negative change

5. Note the positive changes and improvements to the initial tax plan, if any:
   i) Technical errors corrected in the revised tax plan

   ii) New (additional) Insights or positive changes in the revised tax plan

   iii) Recognition of additional tax planning considerations

6. Note the negative changes to the initial tax plan, if any, below:
   i) Are “new” technical errors included in the revised tax plan?

   ii) Have previous Insights been eliminated in the revised tax plan?

7. Are there new/additional tax planning considerations listed?

YES NO