

A Online Resource

A.1 Additional Tables

Table A.1: Testing for earlier signals in the tax footnote - Regression Results of $T1$

	$ \Delta ETR $	
	(1)	(2)
$\Delta TFN_{(t-4)}$	0.0049 (0.0112)	
$\Delta TFN_{(t-5)}$		0.0174 (0.0123)
$LLEN$	0.0282 *** (0.0035)	0.0291 *** (0.0037)
NOL	0.0374 *** (0.0076)	0.0465 *** (0.0077)
PPE	0.0145 * (0.0087)	0.0120 (0.0093)
INT	0.0563 *** (0.0174)	0.0518 *** (0.0177)
$LSIZE$	-0.0054 *** (0.0008)	-0.0049 *** (0.0009)
ROA	-0.0671 *** (0.0144)	-0.0706 *** (0.0145)
RD	0.0478 ** (0.0241)	0.0372 (0.0236)
Firm Fixed Effects	YES	YES
Year Fixed Effects	YES	YES
Num. obs.	7348	6558
R^2	0.0664	0.0755
Adj. R^2	0.0605	0.0691

Table A.1 repeats Equation 5 with k in $[4, 5]$ to test for earlier signals in $t - 4$ and $t - 5$. Statistical significance at the 1%, 5%, and 10% levels is indicated by ***, **, and *, respectively.

Table A.2: Testing for Earlier Signals in the Tax Footnote - Regression Results of $H1$

	$ \Delta ETR $	
	(1)	(2)
$\Delta TFN_{(t-4)} \times POS$	0.0242 *	
	(0.0132)	
$\Delta TFN_{(t-4)} \times NEG$	0.0065	
	(0.0132)	
$\Delta TFN_{(t-5)} \times POS$		0.0451
		(0.0250)
$\Delta TFN_{(t-5)} \times NEG$		0.0152
		(0.0134)
Industry Fixed Effects	YES	YES
Year Fixed Effects	YES	YES
Controls	YES	YES
Num. obs.	7348	6558
R^2	0.0669	0.0769
Adj. R^2	0.0609	0.0704

Table A.2 repeats Equation 6 with k in $[4, 5]$ to test for earlier signals in $t - 4$ and $t - 5$. Statistical significance at the 1%, 5%, and 10% levels is indicated by ***, **, and *, respectively.

Table A.3: Inclusion of All Lagged Values of ΔTFN in One Regression - Regression Results of $T1$

$ \Delta ETR $		(1)
ΔTFN_t	β_0	0.0235 ** (0.0119)
$\Delta TFN_{(t-1)}$	β_1	0.0339 *** (0.0108)
$\Delta TFN_{(t-2)}$	β_2	-0.0012 (0.0104)
$\Delta TFN_{(t-3)}$	β_3	0.0023 (0.0104)
$LLEN$		0.0282 *** (0.0037)
NOL		0.0433 ** (0.0169)
PPE		0.0061 (0.0083)
INT		0.0493 *** (0.0156)
$LSIZE$		-0.0054 *** (0.0008)
ROA		-0.0703 *** (0.0147)
RD		0.0552 ** (0.0222)
Firm Fixed Effects		YES
Year Fixed Effects		YES
Num. obs.		7465
R^2		0.0707
Adj. R^2		0.0644

Table A.3 repeats Equation 5 including $\Delta TFN_{i,(t-k)}$ with k in $[0, 3]$ all in one regression. Statistical significance at the 1%, 5%, and 10% levels is indicated by ***, **, and *, respectively. Coefficients β_0 to β_3 correspond to Equation 5.

Table A.4: Inclusion of All Lagged Values of ΔTFN in one Regression - Regression Results of $H1$

$ \Delta ETR $		(1)
$\Delta TFN_t \times POS$	β_0	0.0402 ** (0.0183)
$\Delta TFN_t \times NEG$	β_4	0.0258 (0.0157)
$\Delta TFN_{(t-1)} \times POS$	β_1	0.0537 *** (0.0173)
$\Delta TFN_{(t-1)} \times NEG$	β_5	0.0292 * (0.0152)
$\Delta TFN_{(t-2)} \times POS$	β_2	0.0190 (0.0158)
$\Delta TFN_{(t-2)} \times NEG$	β_6	-0.0070 (0.0150)
$\Delta TFN_{(t-3)} \times POS$	β_3	-0.0033 (0.0160)
$\Delta TFN_{(t-3)} \times NEG$	β_7	0.0162 (0.0135)
Firm Fixed Effects		YES
Year Fixed Effects		YES
Num. obs.		7465
R ²		0.0738
Adj. R ²		0.0670

Table A.4 repeats Equation 6 including interaction terms with $\Delta TFN_{i,(t-k)}$ with k in $[0, 3]$ all in one regression. Statistical significance at the 1%, 5%, and 10% levels is indicated by ***, **, and *, respectively. Coefficients β_0 to β_7 correspond to Equation 6.

Table A.5: Inclusion of All Variables $\Delta TOPIC^{UP}$ in One Regression - Regression Results of $H2$

	$ \Delta ETR $			
	(1)	(2)	(3)	(4)
$\Delta TOPIC_t^{TA} \times POS$	0.0007 ** (0.0003)			
$\Delta TOPIC_t^{AU} \times POS$	0.0007 (0.0005)			
$\Delta TOPIC_t^{CS} \times POS$	0.0019 *** (0.0007)			
$\Delta TOPIC_t^{LL} \times POS$	-0.0005 ** (0.0003)			
$\Delta TOPIC_t^{TA} \times NEG$	0.0002 (0.0003)			
$\Delta TOPIC_t^{AU} \times NEG$	-0.0000 (0.0004)			
$\Delta TOPIC_t^{CS} \times NEG$	0.0003 (0.0004)			
$\Delta TOPIC_t^{LL} \times NEG$	-0.0001 (0.0002)			
$\Delta TOPIC_{(t-1)}^{TA} \times POS$		0.0012 *** (0.0004)		
$\Delta TOPIC_{(t-1)}^{AU} \times POS$		0.0005 (0.0005)		
$\Delta TOPIC_{(t-1)}^{CS} \times POS$		0.0010 (0.0009)		
$\Delta TOPIC_{(t-1)}^{LL} \times POS$		-0.0001 (0.0003)		
$\Delta TOPIC_{(t-1)}^{TA} \times NEG$		0.0002 (0.0003)		
$\Delta TOPIC_{(t-1)}^{AU} \times NEG$		0.0003 (0.0005)		
$\Delta TOPIC_{(t-1)}^{CS} \times NEG$		-0.0003 (0.0004)		
$\Delta TOPIC_{(t-1)}^{LL} \times NEG$		0.0005 *** (0.0002)		
$\Delta TOPIC_{(t-2)}^{TA} \times POS$			0.0001 (0.0004)	
$\Delta TOPIC_{(t-2)}^{AU} \times POS$			0.0013 ** (0.0006)	
$\Delta TOPIC_{(t-2)}^{CS} \times POS$			0.0014 ** (0.0007)	
$\Delta TOPIC_{(t-2)}^{LL} \times POS$			-0.0003 (0.0002)	
$\Delta TOPIC_{(t-2)}^{TA} \times NEG$			0.0004 (0.0003)	
$\Delta TOPIC_{(t-2)}^{AU} \times NEG$			-0.0006 (0.0004)	
$\Delta TOPIC_{(t-2)}^{CS} \times NEG$			0.0001 (0.0005)	
$\Delta TOPIC_{(t-2)}^{LL} \times NEG$			-0.0003 (0.0002)	
$\Delta TOPIC_{(t-3)}^{TA} \times POS$				0.0008 ** (0.0003)
$\Delta TOPIC_{(t-3)}^{AU} \times POS$				-0.0007 (0.0006)
$\Delta TOPIC_{(t-3)}^{CS} \times POS$				-0.0005 (0.0005)
$\Delta TOPIC_{(t-3)}^{LL} \times POS$				-0.0001 (0.0002)
$\Delta TOPIC_{(t-3)}^{TA} \times NEG$				-0.0001 (0.0003)
$\Delta TOPIC_{(t-3)}^{AU} \times NEG$				0.0005 (0.0005)
$\Delta TOPIC_{(t-3)}^{CS} \times NEG$				-0.0001 (0.0006)
$\Delta TOPIC_{(t-3)}^{LL} \times NEG$				0.0002 (0.0002)
Industry Fixed Effects	YES	YES	YES	YES
Year Fixed Effects	YES	YES	YES	YES
Controls	YES	YES	YES	YES
Num. obs.	14998	11810	9444	7511
R ²	0.0627	0.0693	0.0695	0.0688
Adj. R ²	0.0591	0.0649	0.0640	0.0620

Table A.5 repeats Equation 8 including all underlying processes $UP \Delta TOPIC_{i,(t-k)}^{UP}$ with k in $[0, 3]$ all in one regression. Statistical significance at the 1%, 5%, and 10% levels is indicated by ***, **, and *, respectively.

Table A.6: Inclusion of the Baseline Effects POS and NEG - Regression Results of $H1$

		$ \Delta ETR $			
		(1)	(2)	(3)	(4)
POS		0.0935 *** (0.0027)	0.0826 *** (0.0032)	0.0765 *** (0.0034)	0.0790 *** (0.0049)
NEG		0.0845 *** (0.0026)	0.0794 *** (0.0030)	0.0749 *** (0.0032)	0.0762 *** (0.0056)
$\Delta TFN_t \times POS$	β_0	0.0311 *** (0.0118)			
$\Delta TFN_t \times NEG$	β_4	0.0252 ** (0.0102)			
$\Delta TFN_{(t-1)} \times POS$	β_1		0.0636 *** (0.0134)		
$\Delta TFN_{(t-1)} \times NEG$	β_5		0.0184 * (0.0097)		
$\Delta TFN_{(t-2)} \times POS$	β_2			0.0329 ** (0.0135)	
$\Delta TFN_{(t-2)} \times NEG$	β_6			0.0001 (0.0109)	
$\Delta TFN_{(t-3)} \times POS$	β_3				0.0209 *** (0.0065)
$\Delta TFN_{(t-3)} \times NEG$	β_7				0.0140 (0.0228)
Industry Fixed Effects		YES	YES	YES	YES
Year Fixed Effects		YES	YES	YES	YES
Controls		YES	YES	YES	YES
Num. obs.		14998	11810	9444	8247
R ²		0.0875	0.0878	0.0819	0.0798
Adj. R ²		0.0842	0.0838	0.0770	0.0742

Table A.6 replicates Table 6 as derived from Equation 6 but includes POS and NEG in addition to the interaction terms with POS and NEG . Statistical significance at the 1%, 5%, and 10% levels is indicated by ***, **, and *, respectively.

Table A.7: Avoidance of a Small Baseline Group: Include Unchanged ETRs in *POS* - Regression Results of *H1*

		$ \Delta ETR $			
		(1)	(2)	(3)	(4)
$\Delta TFN_t \times POS$	β_0	0.0385 *** (0.0099)			
$\Delta TFN_t \times NEG$	β_4	0.0156 * (0.0093)			
$\Delta TFN_{(t-1)} \times POS$	β_1		0.0546 *** (0.0108)		
$\Delta TFN_{(t-1)} \times NEG$	β_5		0.0171 * (0.0090)		
$\Delta TFN_{(t-2)} \times POS$	β_2			0.0290 ** (0.0113)	
$\Delta TFN_{(t-2)} \times NEG$	β_6			0.0011 (0.0099)	
$\Delta TFN_{(t-3)} \times POS$	β_3				0.0217 * (0.0122)
$\Delta TFN_{(t-3)} \times NEG$	β_7				0.0122 (0.0117)
Industry Fixed Effects	YES	YES	YES	YES	YES
Year Fixed Effects	YES	YES	YES	YES	YES
Controls	YES	YES	YES	YES	YES
Num. obs.	14998	11810	9444	8247	
R ²	0.0608	0.0673	0.0676	0.0668	
Adj. R ²	0.0576	0.0633	0.0627	0.0613	

Table A.7 repeats Equation 6 with an alternative specification of *POS* and *NEG*. Specifically, $POS_{i,t}$ ($NEG_{i,t}$) is set to one if $\Delta ETR_{i,t} \geq 0$ ($\Delta ETR_{i,t} < 0$), zero otherwise. Hence, unchanged ETRs are included in the group with $POS = 1$. Statistical significance at the 1%, 5%, and 10% levels is indicated by ***, **, and *, respectively. Coefficients β_0 to β_7 correspond to Equation 6.

Table A.8: Avoidance of a Small Baseline Group: Drop firm-years with $\Delta ETR = 0$ - Regression Results of $H1$

		$ \Delta ETR $			
		(1)	(2)	(3)	(4)
$\Delta TFN_t \times POS$	β_0	0.0312 *** (0.0118)			
$\Delta TFN_t \times NEG$	β_4	0.0252 ** (0.0102)			
$\Delta TFN_{(t-1)} \times POS$	β_1		0.0636 *** (0.0134)		
$\Delta TFN_{(t-1)} \times NEG$	β_5		0.0185 * (0.0097)		
$\Delta TFN_{(t-2)} \times POS$	β_2			0.0380 *** (0.0116)	
$\Delta TFN_{(t-2)} \times NEG$	β_6			-0.0035 (0.0099)	
$\Delta TFN_{(t-3)} \times POS$	β_3				0.0287 ** (0.0124)
$\Delta TFN_{(t-3)} \times NEG$	β_7				0.0077 (0.0117)
Industry Fixed Effects	YES	YES	YES	YES	YES
Year Fixed Effects	YES	YES	YES	YES	YES
Controls	YES	YES	YES	YES	YES
Num. obs.	14635	11587	9297	8134	
R ²	0.0760	0.0795	0.0742	0.0730	
Adj. R ²	0.0727	0.0754	0.0693	0.0675	

Table A.8 repeats Equation 6 after dropping firm-years with $\Delta ETR_{i,t} = 0$. Statistical significance at the 1%, 5%, and 10% levels is indicated by ***, **, and *, respectively. Coefficients β_0 to β_7 correspond to Equation 6.

Table A.9: Tobit- Regression Results of $H1$

		$ \Delta ETR $			
		(1)	(2)	(3)	(4)
$\Delta TFN_t \times POS$	β_0	0.0894 *** (0.0098)			
$\Delta TFN_t \times NEG$	β_4	0.0396 *** (0.0094)			
$\Delta TFN_{(t-1)} \times POS$	β_1		0.0983 *** (0.0104)		
$\Delta TFN_{(t-1)} \times NEG$	β_5		0.0367 *** (0.0101)		
$\Delta TFN_{(t-2)} \times POS$	β_2			0.0565 *** (0.0111)	
$\Delta TFN_{(t-2)} \times NEG$	β_6			0.0147 (0.0108)	
$\Delta TFN_{(t-3)} \times POS$	β_3				0.0440 *** (0.0117)
$\Delta TFN_{(t-3)} \times NEG$	β_7				0.0235 ** (0.0114)
Industry Fixed Effects	YES	YES	YES	YES	YES
Year Fixed Effects	YES	YES	YES	YES	YES
Controls	YES	YES	YES	YES	YES
Log Likelihood	13863.6109	11705.4540	9753.9847	8563.1588	
DF	29943	23568	18837	16444	
Num. obs.	14998	11810	9444	8247	

Table A.9 repeats Equation 6 using the Tobit Model. Statistical significance at the 1%, 5%, and 10% levels is indicated by ***, **, and *, respectively. Coefficients β_0 to β_7 correspond to Equation 6.

Table A.10: Exclusion of Loss Firms - Regression Results of $H1$

		$ \Delta ETR $			
		(1)	(2)	(3)	(4)
$\Delta TFN_t \times POS$	β_0	0.0159 (0.0099)			
$\Delta TFN_t \times NEG$	β_4	0.0182 ** (0.0088)			
$\Delta TFN_{(t-1)} \times POS$	β_1		0.0298 *** (0.0102)		
$\Delta TFN_{(t-1)} \times NEG$	β_5		0.0334 *** (0.0095)		
$\Delta TFN_{(t-2)} \times POS$	β_2			0.0130 (0.0120)	
$\Delta TFN_{(t-2)} \times NEG$	β_6			0.0091 (0.0093)	
$\Delta TFN_{(t-3)} \times POS$	β_3				-0.0049 (0.0112)
$\Delta TFN_{(t-3)} \times NEG$	β_7				0.0048 (0.0096)
Industry Fixed Effects	YES	YES	YES	YES	YES
Year Fixed Effects	YES	YES	YES	YES	YES
Controls	YES	YES	YES	YES	YES
Num. obs.	6695	5535	4590	4103	
R^2	0.1013	0.1090	0.1068	0.1143	
Adj. R^2	0.0944	0.1008	0.0971	0.1038	

Table A.9 repeats Equation 6 excluding loss firms (firms that experienced negative income before taxes at least once in our observation period). Statistical significance at the 1%, 5%, and 10% levels is indicated by ***, **, and *, respectively. Coefficients β_0 to β_7 correspond to Equation 6.

Table A.11: Exclusion of TCJA-period- Regression Results of $H1$

		$ \Delta ETR $			
		(1)	(2)	(3)	(4)
$\Delta TFN_t \times POS$	β_0	0.0856 *** (0.0110)			
$\Delta TFN_t \times NEG$	β_4	0.0237 ** (0.0099)			
$\Delta TFN_{(t-1)} \times POS$	β_1		0.0963 *** (0.0121)		
$\Delta TFN_{(t-1)} \times NEG$	β_5		0.0197 ** (0.0094)		
$\Delta TFN_{(t-2)} \times POS$	β_2			0.0532 *** (0.0120)	
$\Delta TFN_{(t-2)} \times NEG$	β_6			0.0017 (0.0096)	
$\Delta TFN_{(t-3)} \times POS$	β_3				0.0436 *** (0.0128)
$\Delta TFN_{(t-3)} \times NEG$	β_7				0.0109 (0.0117)
Industry Fixed Effects	YES	YES	YES	YES	YES
Year Fixed Effects	YES	YES	YES	YES	YES
Controls	YES	YES	YES	YES	YES
Num. obs.	13185	10290	8161	7074	
R ²	0.0620	0.0675	0.0620	0.0598	
Adj. R ²	0.0585	0.0631	0.0566	0.0536	

Table A.11 repeats Equation 6 excluding 2017 and 2018 (TCJA period). Statistical significance at the 1%, 5%, and 10% levels is indicated by ***, **, and *, respectively. Coefficients β_0 to β_7 correspond to Equation 6.

Table A.12: Exclusion of Years prior 2009- Regression Results of $H1$

		$ \Delta ETR $			
		(1)	(2)	(3)	(4)
$\Delta TFN_t \times POS$	β_0	0.1034 *** (0.0160)			
$\Delta TFN_t \times NEG$	β_4	0.0686 *** (0.0143)			
$\Delta TFN_{(t-1)} \times POS$	β_1		0.1202 *** (0.0183)		
$\Delta TFN_{(t-1)} \times NEG$	β_5		0.0636 *** (0.0139)		
$\Delta TFN_{(t-2)} \times POS$	β_2			0.0341 ** (0.0173)	
$\Delta TFN_{(t-2)} \times NEG$	β_6			0.0206 (0.0160)	
$\Delta TFN_{(t-3)} \times POS$	β_3				-0.0024 (0.0212)
$\Delta TFN_{(t-3)} \times NEG$	β_7				0.0337 (0.0234)
Industry Fixed Effects	YES	YES	YES	YES	YES
Year Fixed Effects	YES	YES	YES	YES	YES
Controls	YES	YES	YES	YES	YES
Num. obs.	10531	7832	5911	4865	
R ²	0.0611	0.0718	0.0681	0.0825	
Adj. R ²	0.0573	0.0669	0.0618	0.0747	

Table A.12 repeats Equation 6 excluding the years prior 2009. Statistical significance at the 1%, 5%, and 10% levels is indicated by ***, **, and *, respectively. Coefficients β_0 to β_7 correspond to Equation 6.

Table A.13: Cash ETR- Regression Results of $H1$

		$ \Delta ETR $			
		(1)	(2)	(3)	(4)
$\Delta TFN_t \times POS$	β_0	0.0671 *** (0.0132)			
$\Delta TFN_t \times NEG$	β_4	0.0155 (0.0126)			
$\Delta TFN_{(t-1)} \times POS$	β_1		0.0781 *** (0.0148)		
$\Delta TFN_{(t-1)} \times NEG$	β_5		0.0278 ** (0.0138)		
$\Delta TFN_{(t-2)} \times POS$	β_2			0.0692 *** (0.0162)	
$\Delta TFN_{(t-2)} \times NEG$	β_6			0.0036 (0.0150)	
$\Delta TFN_{(t-3)} \times POS$	β_3				0.0623 *** (0.0185)
$\Delta TFN_{(t-3)} \times NEG$	β_7				-0.0028 (0.0154)
Industry Fixed Effects	YES	YES	YES	YES	YES
Year Fixed Effects	YES	YES	YES	YES	YES
Controls	YES	YES	YES	YES	YES
Num. obs.	15647	12260	9720	8426	
R ²	0.0255	0.0348	0.0430	0.0446	
Adj. R ²	0.0224	0.0309	0.0382	0.0391	

Table A.13 repeats Equation 6 using the absolute value of Cash ETR as the dependent variable. Statistical significance at the 1%, 5%, and 10% levels is indicated by ***, **, and *, respectively. Coefficients β_0 to β_7 correspond to Equation 6.

Table A.14: Ratio of ΔTFN over $\Delta 10K$ - Regression Results of $H1$

		$ \Delta ETR $			
		(1)	(2)	(3)	(4)
$R\Delta TFN_t \times POS$	β_0	-0.0000 (0.0000)			
$R\Delta TFN_t \times NEG$	β_4	0.0000 (0.0000)			
$R\Delta TFN_{(t-1)} \times POS$	β_1		0.0000 (0.0000)		
$R\Delta TFN_{(t-1)} \times NEG$	β_5		0.0001 *** (0.0000)		
$R\Delta TFN_{(t-2)} \times POS$	β_2			-0.0000 (0.0000)	
$R\Delta TFN_{(t-2)} \times NEG$	β_6			-0.0000 (0.0000)	
$R\Delta TFN_{(t-3)} \times POS$	β_3				-0.0000 (0.0000)
$R\Delta TFN_{(t-3)} \times NEG$	β_7				0.0000 (0.0000)
Industry Fixed Effects	YES	YES	YES	YES	YES
Year Fixed Effects	YES	YES	YES	YES	YES
Controls	YES	YES	YES	YES	YES
Num. obs.	6694	5534	4589	4102	
R^2	0.1012	0.1090	0.1068	0.1145	
Adj. R^2	0.0943	0.1009	0.0972	0.1041	

Table A.14 repeats Equation 6 when replacing ΔTFN with the ratio $R\Delta TFN$ computed as ΔTFN over $\Delta 10K$. Statistical significance at the 1%, 5%, and 10% levels is indicated by ***, **, and *, respectively. Coefficients β_0 to β_7 correspond to Equation 6.

Table A.15: Modifications of 10-Ks Outside the Tax Footnote - Regression Results of $H1$

		$ \Delta ETR $			
		(1)	(2)	(3)	(4)
$\Delta 10K_t \times POS$	β_0	0.1489 *			
		(0.0789)			
$\Delta 10K_t \times NEG$	β_4	0.1983 ***			
		(0.0728)			
$\Delta 10K_{(t-1)} \times POS$	β_1		0.1070 *		
			(0.0642)		
$\Delta 10K_{(t-1)} \times NEG$	β_5		0.0243		
			(0.0290)		
$\Delta 10K_{(t-2)} \times POS$	β_2			-0.0221	
				(0.0227)	
$\Delta 10K_{(t-2)} \times NEG$	β_6			-0.0061	
				(0.0221)	
$\Delta 10K_{(t-3)} \times POS$	β_3				0.0111
					(0.0299)
$\Delta 10K_{(t-3)} \times NEG$	β_7				-0.0130
					(0.0151)
Industry Fixed Effects	YES	YES	YES	YES	YES
Year Fixed Effects	YES	YES	YES	YES	YES
Controls	YES	YES	YES	YES	YES
Num. obs.	6694	6247	5326	4853	
R^2	0.1023	0.1033	0.1036	0.1088	
Adj. R^2	0.0954	0.0961	0.0953	0.0999	

Table A.15 repeats Equation 6 when replacing ΔTFN with $\Delta 10K$ ($\Delta 10K$ is computed by excluding the tax footnote). Statistical significance at the 1%, 5%, and 10% levels is indicated by ***, **, and *, respectively. Coefficients β_0 to β_7 correspond to Equation 6.

Table A.16: Control for Modifications of 10-K- Regression Results of $H1$

		ΔETR			
		(1)	(2)	(3)	(4)
$\Delta TFN_t \times POS$	β_0	0.0617 *** (0.0115)			
$\Delta TFN_t \times NEG$	β_4	0.0272 *** (0.0099)			
$\Delta TFN_{(t-1)} \times POS$	β_1		0.0776 *** (0.0126)		
$\Delta TFN_{(t-1)} \times NEG$	β_5		0.0229 ** (0.0103)		
$\Delta TFN_{(t-2)} \times POS$	β_2			0.0403 *** (0.0127)	
$\Delta TFN_{(t-2)} \times NEG$	β_6			0.0003 (0.0103)	
$\Delta TFN_{(t-3)} \times POS$	β_3				0.0171 (0.0131)
$\Delta TFN_{(t-3)} \times NEG$	β_7				0.0156 (0.0124)
$\Delta 10K_t \times POS$		0.2732 *** (0.0811)			
$\Delta 10K_t \times NEG$		0.0612 (0.0588)			
$\Delta 10K_{(t-1)} \times POS$			0.2136 *** (0.0737)		
$\Delta 10K_{(t-1)} \times NEG$			0.1404 (0.1026)		
$\Delta 10K_{(t-2)} \times POS$				0.2197 ** (0.1051)	
$\Delta 10K_{(t-2)} \times NEG$				0.1822 * (0.0946)	
$\Delta 10K_{(t-3)} \times POS$					0.4263 *** (0.1182)
$\Delta 10K_{(t-3)} \times NEG$					0.1392 (0.0874)
Industry Fixed Effects	YES	YES	YES	YES	YES
Year Fixed Effects	YES	YES	YES	YES	YES
Controls	YES	YES	YES	YES	YES
Num. obs.	14997	11809	9443	8245	
R ²	0.0651	0.0722	0.0702	0.0711	
Adj. R ²	0.0618	0.0680	0.0651	0.0654	

Table A.16 repeats Equation 6 when including $\Delta 10K$ and the corresponding lagged values as control variables. Statistical significance at the 1%, 5%, and 10% levels is indicated by ***, **, and *, respectively. Coefficients β_0 to β_7 correspond to Equation 6.

Table A.17: Asymmetric Timeliness Conditional on Underlying Processes Focusing only on Single Words (not Technical Terms) - Regression Results of *H2*

PANEL B: Tax Audits

		$ \Delta ETR $			
		(1)	(2)	(3)	(4)
$\Delta TOPIC_t \times POS$	β_0	0.0019 ** (0.0008)			
$\Delta TOPIC_t \times NEG$	β_4	-0.0001 (0.0007)			
$\Delta TOPIC_{(t-1)} \times POS$	β_1		0.0028 *** (0.0008)		
$\Delta TOPIC_{(t-1)} \times NEG$	β_5		-0.0003 (0.0007)		
$\Delta TOPIC_{(t-2)} \times POS$	β_2			0.0025 *** (0.0009)	
$\Delta TOPIC_{(t-2)} \times NEG$	β_6			-0.0008 (0.0007)	
$\Delta TOPIC_{(t-3)} \times POS$	β_3				0.0003 (0.0009)
$\Delta TOPIC_{(t-3)} \times NEG$	β_7				0.0002 (0.0008)
Industry Fixed Effects	YES	YES	YES	YES	YES
Year Fixed Effects	YES	YES	YES	YES	YES
Controls	YES	YES	YES	YES	YES
Num. obs.	14998	11810	9444	8247	
R ²	0.0602	0.0662	0.0680	0.0664	
Adj. R ²	0.0570	0.0622	0.0632	0.0609	

PANEL C: Capital Structure

		$ \Delta ETR $			
		(1)	(2)	(3)	(4)
$\Delta TOPIC_t \times POS$	β_0	0.0026 *** (0.0006)			
$\Delta TOPIC_t \times NEG$	β_4	0.0003 (0.0004)			
$\Delta TOPIC_{(t-1)} \times POS$	β_1		0.0020 ** (0.0009)		
$\Delta TOPIC_{(t-1)} \times NEG$	β_5		0.0001 (0.0004)		
$\Delta TOPIC_{(t-2)} \times POS$	β_2			0.0018 *** (0.0006)	
$\Delta TOPIC_{(t-2)} \times NEG$	β_6			0.0000 (0.0004)	
$\Delta TOPIC_{(t-3)} \times POS$	β_3				0.0001 (0.0005)
$\Delta TOPIC_{(t-3)} \times NEG$	β_7				0.0000 (0.0005)
Industry Fixed Effects	YES	YES	YES	YES	YES
Year Fixed Effects	YES	YES	YES	YES	YES
Controls	YES	YES	YES	YES	YES
Num. obs.	14998	11810	9444	8247	
R ²	0.0617	0.0667	0.0681	0.0664	
Adj. R ²	0.0585	0.0627	0.0632	0.0609	

PANEL D: Legislation&Litigation

		ΔETR			
		(1)	(2)	(3)	(4)
$\Delta TOPIC_t \times POS$	β_0	0.0009 *			
		(0.0005)			
$\Delta TOPIC_t \times NEG$	β_4	0.0004			
		(0.0004)			
$\Delta TOPIC_{(t-1)} \times POS$	β_1		0.0014 ***		
			(0.0005)		
$\Delta TOPIC_{(t-1)} \times NEG$	β_5		0.0009 **		
			(0.0004)		
$\Delta TOPIC_{(t-2)} \times POS$	β_2			0.0007	
				(0.0005)	
$\Delta TOPIC_{(t-2)} \times NEG$	β_6			-0.0005	
				(0.0005)	
$\Delta TOPIC_{(t-3)} \times POS$	β_3				0.0000
					(0.0007)
$\Delta TOPIC_{(t-3)} \times NEG$	β_7				0.0005
					(0.0006)
Industry Fixed Effects	YES	YES	YES	YES	YES
Year Fixed Effects	YES	YES	YES	YES	YES
Controls	YES	YES	YES	YES	YES
Num. obs.	14998	11810	9444	8247	
R ²	0.0600	0.0656	0.0671	0.0665	
Adj. R ²	0.0568	0.0617	0.0622	0.0610	

Table A.17 repeats Equation 8 after dropping all (multiple word) technical terms from the word lists for tax audits, capital structure changes and legislation&litigation when calculating $\Delta TOPIC_{i,t}^{UP}$. Statistical significance at the 1%, 5%, and 10% levels is indicated by ***, **, and *, respectively. Coefficients β_0 to β_7 correspond to Equation 8.

A.2 Tax Footnote Examples

A.2.1 General

Below, we show three examples of tax footnotes and corresponding ΔTFN . Note that our measure of ΔTFN includes all qualitative and quantitative information in the tax footnote. However, changes in the numbers are not measured as a modification, e.g., a change in the number of total deferred tax assets does not lead to an increase in ΔTFN . However, if additional explanations or numbers/tables are added, ΔTFN will increase.

A.2.2 Low Modification Score

In the following, we show the tax footnotes of the firm with CIK 9326 with closing dates 2014-12-31 and 2015-12-31. ΔTFN in 2015 (i.e., the modification between 2014 and 2015) is near zero.

Figure A.1: Tax Footnote: CIK 9326, Closing Date: 2014-12-31

NOTE 8 - INCOME TAXES

Income tax expense consists of the following:

	2014	2013	2012
Current:			
Federal	\$ 25,937	\$ 18,366	\$ 17,748
Foreign	2,141	1,418	1,080
State	2,412	1,475	1,104
Deferred:			
Federal	(5,772)	(75)	(332)
Foreign	85	74	148
State	(577)	(314)	91
Total income tax provision	\$ 24,226	\$ 20,944	\$ 19,839

The provision for income taxes differs from the amount computed by applying the Federal statutory rate of 35% to earnings before income tax expense due to the following:

	2014	2013	2012
Income tax at Federal statutory rate	\$ 26,968	\$ 23,036	\$ 20,945
State income taxes, net of Federal income taxes	1,182	908	659
Domestic production activities deduction	(2,567)	(1,804)	(1,775)
Other	(1,357)	(1,196)	10
Total income tax provision	\$ 24,226	\$ 20,944	\$ 19,839

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2014 and 2013 were as follows:

	2014	2013
Deferred tax assets:		
Inventories	\$ 1,774	\$ 608
Restricted stock and stock options	4,716	4,590
Other	4,019	758
Total deferred tax assets	10,509	5,956
Deferred tax liabilities:		
Amortization	\$ 60,056	\$ 3,031
Depreciation	17,969	6,978
Prepaid expense	932	542
Other	563	396
Total deferred tax liabilities	79,520	10,947
Net deferred tax liability	\$ 69,011	\$ 4,991

There is no valuation allowance for deferred tax assets at December 31, 2014 and 2013. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is

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dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not the Company will realize the benefits of these deductible differences. The amount of deferred tax asset realizable, however, could change if management's estimate of future taxable income should change.

Provisions of ASC 740-10 clarify whether or not to recognize assets or liabilities for tax positions taken that may be challenged by a tax authority. A reconciliation of the beginning and ending amount of unrecognized tax benefits, which is included in other long-term obligations on the Company's consolidated balance sheets, is as follows:

	2014	2013	2012
Balance at beginning of period	\$ 3,076	\$ 2,292	\$ 2,021
Increases for tax positions of prior years	1,922	445	116
Decreases for tax positions of prior years	(417)	(166)	(224)
Increases for tax positions related to current year	624	505	379
Balance at end of period	\$ 5,205	\$ 3,076	\$ 2,292

All of the Company's unrecognized tax benefits, if recognized in future periods, would impact the Company's effective tax rate in such future periods.

The Company recognizes both interest and penalties as part of the income tax provision. During the years ended December 31, 2014, 2013 and 2012, the Company recognized approximately \$37, \$130 and \$40 in interest and penalties, respectively. As of December 31, 2014 and 2013, accrued interest and penalties were \$1,643 and \$1,052, respectively.

The Company files income tax returns in the U.S. and in various states and foreign countries. In the major jurisdictions where the Company operates, it is generally no longer subject to income tax examinations by tax authorities for years before 2010. The Company does not anticipate any material change in the total amount of unrecognized tax benefits to occur within the next twelve months.

Figure A.2: Tax Footnote: CIK 9326, Closing Date: 2015-12-31

NOTE 8 - INCOME TAXES

Income tax expense consists of the following:

	2015	2014	2013
Current:			
Federal	\$ 29,638	\$ 25,937	\$ 18,366
Foreign	3,021	2,141	1,418
State	2,982	2,412	1,475
Deferred:			
Federal	(6,815)	(5,772)	(75)
Foreign	58	85	74
State	(1,543)	(577)	(314)
Total income tax provision	\$ 27,341	\$ 24,226	\$ 20,944

The provision for income taxes differs from the amount computed by applying the Federal statutory rate of 35% to earnings before income tax expense due to the following:

	2015	2014	2013
Income tax at Federal statutory rate	\$ 30,471	\$ 26,968	\$ 23,036
State income taxes, net of Federal income taxes	556	1,182	908
Domestic production activities deduction	(2,709)	(2,567)	(1,804)
Other	(977)	(1,357)	(1,196)
Total income tax provision	\$ 27,341	\$ 24,226	\$ 20,944

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2015 and 2014 were as follows:

	2015	2014
Deferred tax assets:		
Inventories	\$ 1,432	\$ 1,774
Restricted stock and stock options	4,956	4,716
Other	807	4,019
Total deferred tax assets	7,195	10,509
Deferred tax liabilities:		
Amortization	\$ 49,726	\$ 60,056
Depreciation	22,464	17,969
Prepaid expense	658	932
Other	752	563
Total deferred tax liabilities	73,600	79,520
Net deferred tax liability	\$ 66,405	\$ 69,011

There is no valuation allowance for deferred tax assets at December 31, 2015 and 2014. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not the Company will realize the benefits of these deductible differences. The amount of deferred tax asset realizable, however, could change if management's estimate of future taxable income should change.

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Provisions of ASC 740-10 clarify whether or not to recognize assets or liabilities for tax positions taken that may be challenged by a tax authority. A reconciliation of the beginning and ending amount of unrecognized tax benefits, which is included in other long-term obligations on the Company's consolidated balance sheets, is as follows:

	2015	2014	2013
Balance at beginning of period	\$ 5,205	\$ 3,076	2,292
Increases for tax positions of prior years	943	1,922	445
Decreases for tax positions of prior years	(120)	(417)	(166)
Increases for tax positions related to current year	542	624	505
Balance at end of period	\$ 6,570	\$ 5,205	3,076

All of the Company's unrecognized tax benefits, if recognized in future periods, would impact the Company's effective tax rate in such future periods.

The Company recognizes both interest and penalties as part of the income tax provision. During the years ended December 31, 2015, 2014 and 2013, the Company recognized approximately \$138, \$37 and \$130 in interest and penalties, respectively. As of December 31, 2015 and 2014, accrued interest and penalties were \$2,405 and \$1,643, respectively.

The Company files income tax returns in the U.S. and in various states and foreign countries. In the major jurisdictions where the Company operates, it is generally no longer subject to income tax examinations by tax authorities for years before 2011. The Company does not anticipate any material change in the total amount of unrecognized tax benefits to occur within the next twelve months.

A.2.3 Average Modification Score

In the following, we show the tax footnotes of the firm with CIK 835324 with closing dates 2013-12-31 and 2014-12-31. ΔTFN in 2014 (i.e., the modification

between 2013 and 2014) is 0.098 (near the mean of ΔTFN according to Table 4). Note that in 2014, the firm inserted several sentences about "A valuation allowance [...]", "Realization of deferred tax assets" and a completed tax authority examination ("During the second quarter of 2014 [...]").

Figure A.3: Tax Footnote: CIK 835324, Closing Date: 2013-12-31

(8) Income Taxes

Components of income tax expense (benefit) from operations for the years ended December 31, 2013, 2012, and 2011 were as follows:

(In thousands)	Year ended December 31,		
	2013	2012	2011
Current tax expense			
Federal	\$ 10,322	\$ 11,895	\$ 9,748
State	336	672	511
Total current tax expense	10,658	12,567	10,259
Deferred tax benefit			
Federal	450	(2,800)	(1,934)
State	120	(133)	(134)
Total deferred tax benefit	570	(2,933)	(2,068)
Total income tax expense	\$ 11,228	\$ 9,634	\$ 8,191

Components of income tax (benefit) expense recorded directly to stockholders' equity for the years ended December 31, 2013, 2012, and 2011 were as follows:

(In thousands)	Year ended December 31,		
	2013	2012	2011
Unrealized (loss) gain on securities available for sale	\$ (4,234)	\$ (24)	\$ 1,362
Reclassification adjustment for securities losses realized in income	2	—	—
Unrealized gain on derivatives	8	—	—
Compensation expense for tax purposes in excess of amounts recognized for financial reporting purposes	(265)	(83)	(125)
Minimum pension liability adjustment	111	2	(111)
Total income tax (benefit) expense recorded directly to stockholders' equity	\$ (4,378)	\$ (105)	\$ 1,126

An analysis of the difference between the statutory and effective tax rates from operations for the years ended December 31, 2013, 2012, and 2011 were as follows:

	Year ended December 31,		
	2013	2012	2011
U.S. federal income tax rate	35.0%	35.0%	35.0%
Tax exempt interest income	(2.1)	(3.8)	(3.7)
Tax credits	(2.5)	(2.2)	(2.6)
Cash surrender value of life insurance	(2.0)	(1.9)	(1.5)
State income taxes	0.8	1.0	0.9
Nontaxable gain on acquisition	(0.4)	—	—
Nondeductible acquisition costs	0.2	—	—
Establish deferred taxes on tax credit investments	—	—	(2.2)
Other, net	0.2	(0.9)	(0.1)
	29.2%	27.2%	25.8%

The reduction of tax expense attributable to tax credits arises from Bancorp's policy to record both tax credits and amortization of the related investment in income tax expense using the effective yield method.

The increase in income tax expense from 2012 to 2013 is the result of reduced tax exempt interest in 2013 as well as the reflection of the recognition of certain federal historic rehabilitation tax credits related to an investment in redevelopment of a Louisville landmark in 2012.

The increase in income tax expense from 2011 to 2012 is the result of an adjustment of approximately \$700,000 made in 2011 to Bancorp's deferred tax asset that relates to tax-advantaged investments that Bancorp has made in its primary market area over the years.

The effects of temporary differences that gave rise to significant portions of deferred tax assets and deferred tax liabilities for the years ended December 31, 2013 and 2012 were as follows:

(In thousands)	December 31,	
	2013	2012
Allowance for loan loss	\$ 10,236	\$ 11,495
Deferred compensation	4,778	3,950
Accrued expenses	1,604	1,451
Investments in partnerships	826	713
Write-downs and costs associated with other real estate owned	749	1,335
Loans	564	211
Other-than-temporary impairment	311	312
Other assets	299	324
Total deferred tax assets	19,367	19,791
Securities	354	4,088
Property and equipment	1,377	1,162
Loan costs	702	648
Prepayment penalty on modification of FHLB advances	156	263
Mortgage servicing rights	608	703
Leases	428	100
Core deposit intangible	772	—
Other liabilities	416	289
Total deferred tax liabilities	4,813	7,253
Net deferred tax asset	\$ 14,554	\$ 12,538

As a result of the acquisition of Oldham, Bancorp has a federal net operating loss carryforward of \$61,698 as of January 1, 2014. Bancorp expects to fully utilize this loss in 2014.

No valuation allowance for deferred tax assets was recorded as of December 31, 2013 and 2012 because Bancorp has sufficient prior taxable income, future projected taxable income, and tax planning strategies to allow for utilization of the deductible temporary differences, net operating losses and capital losses within the carryback and carryforward periods. Management believes it is more likely than not that all deferred tax assets will be realized.

US GAAP provides guidance on the financial statement recognition and measurement of tax positions taken, or expected to be taken, in tax returns. As of December 31, 2013 and 2012, the gross amount of unrecognized tax benefits was \$40,000 and \$70,000, respectively. If recognized, all of the tax benefits would increase net income, resulting in a decrease in the effective tax rate.

Bancorp is currently under IRS examination of its 2011 corporate income tax return. Management does not expect that the results of the examination will have a material effect on our financial condition. While management believes tax positions are appropriate, the IRS could challenge Bancorp's positions as a part of this examination. Federal and state income tax returns are subject to examination for the tax return years after 2009.

Bancorp's policy is to report interest and penalties, if any, related to unrecognized tax benefits in income tax expense. As of December 31, 2013 and 2012, the amount accrued for the potential payment of interest and penalties was \$2,000 and \$4,000, respectively.

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A reconciliation of the amount of unrecognized tax benefits for the years ended December 31, 2013 and 2012 follows:

(In thousands)		
	2013	2012
Balance as of January 1	\$ 70	\$ 101
Increases - current year tax positions	11	10
Lapse of statute of limitations	(41)	(41)
Balance as of December 31	\$ 40	\$ 70

Figure A.4: Tax Footnote: CIK 835324, Closing Date: 2014-12-31

(8) Income Taxes

Components of income tax expense (benefit) from operations for the years ended December 31, 2014, 2013, and 2012 were as follows:

(In thousands)	Year ended December 31,		
	2014	2013	2012
Current tax expense			
Federal	\$ 14,958	\$ 10,322	\$ 11,895
State	641	336	672
Total current tax expense	15,599	10,658	12,567
Deferred tax (benefit) expense			
Federal	(385)	450	(2,800)
State	26	120	(133)
Total deferred tax benefit	(359)	570	(2,933)
Change in valuation allowance	41	—	—
Total income tax expense	\$ 15,281	\$ 11,228	\$ 9,634

Components of income tax (benefit) expense recorded directly to stockholders' equity for the years ended December 31, 2014, 2013, and 2012 were as follows:

(In thousands)	Year ended December 31,		
	2014	2013	2012
Unrealized gain (loss) on securities available for sale	\$ 2,383	\$ (4,234)	\$ (24)
Reclassification adjustment for securities losses realized in income	3	2	—
Unrealized gain on derivatives	—	8	—
Compensation expense for tax purposes in excess of amounts recognized for financial reporting purposes	(378)	(265)	(83)
Minimum pension liability adjustment	(69)	111	2
Total income tax (benefit) expense recorded directly to stockholders' equity	\$ 1,939	\$ (4,378)	\$ (105)

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An analysis of the difference between the statutory and effective tax rates from operations for the years ended December 31, 2014, 2013, and 2012 were as follows:

	Year ended December 31,		
	2014	2013	2012
U.S. federal income tax rate	35.0%	35.0%	35.0%
Tax exempt interest income	(1.5)	(2.1)	(3.8)
Tax credits	(3.1)	(2.5)	(2.2)
Cash surrender value of life insurance	(1.4)	(2.0)	(1.9)
State income taxes	0.9	0.8	1.0
Nontaxable gain on acquisition	—	(0.4)	—
Nondeductible acquisition costs	—	0.2	—
Other, net	0.6	0.2	(0.9)
	30.5%	29.2%	27.2%

The increase in the effective tax rate from 2013 to 2014 arose from proportionally lower nontaxable income from the increase in cash value of life insurance and municipal securities. This was partially offset by the effect of reclassifying amortization of tax credit investments to other non-interest expense in 2014. The increase in the effective tax rate from 2012 to 2013 is primarily the result of higher tax-exempt interest in 2012 due to a \$740 thousand prepayment penalty received on a tax-exempt loan.

The reduction of tax expense attributable to tax credits arises from inclusion of tax credits and, in some cases, the amortization of related investments in income tax expense. Prior to 2014, all tax credit investment amortization was included in income tax expense using the effective yield method. In 2014, Bancorp began using the flow through method of amortization for investments not qualifying as affordable housing projects.

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The effects of temporary differences that gave rise to significant portions of deferred tax assets and deferred tax liabilities for the years ended December 31, 2014 and 2013 were as follows:

(In thousands)	December 31,	
	2014	2013
Allowance for loan loss	\$ 8,929	\$ 10,236
Deferred compensation	5,442	4,778
Accrued expenses	1,854	1,604
Investments in partnerships	1,031	826
Write-downs and costs associated with other real estate owned	491	749
Loans	678	564
Other-than-temporary impairment	310	311
Other assets	219	299
Total deferred tax assets	18,954	19,367
Securities	2,594	354
Property and equipment	1,250	1,377
Loan costs	756	702
Prepayment penalty on modification of FHLB advances	76	156
Mortgage servicing rights	356	608
Leases	422	428
Core deposit intangible	652	772
Other liabilities	430	416
Total deferred tax liabilities	6,536	4,813
Valuation allowance	41	
Net deferred tax asset	\$ 12,377	\$ 14,554

As a result of the acquisition of Oldham, Bancorp has a federal net operating loss carryforward of \$62 thousand as of January 1, 2014. Bancorp expects to fully utilize this loss upon filing the 2014 federal tax return.

A valuation allowance is recognized for a deferred tax asset if, based on the weight of available evidence, it is more-likely-than-not that some portion of the entire deferred tax asset will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projection for future taxable income over the periods which the temporary differences resulting in the remaining deferred tax assets are deductible, management believes it is more-likely-than-not that Bancorp will realize the benefits of these deductible differences, net of the valuation allowance, at December 31, 2014.

Realization of deferred tax assets associated with the investment in tax credit partnerships is dependent upon generating sufficient taxable capital gain income prior to their expiration. A valuation allowance to reflect management's estimate of the temporary deductible differences that may expire prior to their utilization has been recorded as of December 31, 2014. No valuation allowance for deferred tax assets was recorded as of December 31, 2013 because Bancorp has sufficient prior taxable income, future projected taxable income, and tax planning strategies to allow for utilization of the deductible temporary differences, net operating losses and capital losses within the carryback and carryforward periods.

US GAAP provides guidance on the financial statement recognition and measurement of tax positions taken, or expected to be taken, in tax returns. As of December 31, 2014 and 2013, the gross amount of unrecognized tax benefits was \$40 thousand. If recognized, all of the tax benefits would increase net income, resulting in a decrease in the effective tax rate. The amount of unrecognized tax benefits may increase or decrease in future periods for various reasons including adding amounts for current tax year positions, expiration of open income tax returns due to statutes of

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limitation, changes in management's judgment about the level of uncertainty, status of examination, litigation and legislative activity and the addition or elimination of uncertain tax positions.

During the second quarter of 2014, the IRS completed the examination of Bancorp's 2011 corporate income tax return. There were no significant adjustments to taxable income. Federal income tax returns are subject to examination for the years after 2011 and state income tax returns are subject to examination for the years after 2010.

Bancorp's policy is to report interest and penalties, if any, related to unrecognized tax benefits in income tax expense. As of December 31, 2014 and 2013, the amount accrued for the potential payment of interest and penalties was \$2 thousand.

A reconciliation of the amount of unrecognized tax benefits for the years ended December 31, 2014 and 2013 follows:

(In thousands)	2014	2013
Balance as of January 1	\$ 40	\$ 70
Increases - current year tax positions	11	11
Lapse of statute of limitations	(11)	(41)
Balance as of December 31	\$ 40	\$ 40

A.2.4 High Modification Score

In the following, we show the tax footnotes of the firm with CIK 1527590 with closing dates 2015-12-31 and 2016-12-31. ΔTFN in 2016 (i.e., the modification between 2015 and 2016) is 0.597. Note that the firm was part of a merger in 2016 and discusses the changes in the tax footnote ("we were designated as the accounting acquirer in the merger transaction with ZAIS Financial. The financial information presented herein reflects our historical tax information in combination with the tax assets and liabilities of ZAIS Financial as of October 31, 2016".)

Figure A.5: Tax Footnote: CIK 1527590, Closing Date: 2015-12-31

16. Income Taxes

For the years ended December 31, 2015, December 31, 2014, and December 31, 2013 and at December 31, 2015 and December 31, 2014, the Company qualified to be taxed as a REIT under the Code for U.S. federal income tax purposes. As long as the Company qualifies as a REIT, the Company generally will not be subject to U.S. federal income taxes on its taxable income to the extent it annually distributes its net taxable income to stockholders and does not engage in prohibited transactions. The majority of states also recognize the Company's REIT status.

The Company has separately made joint elections with three of its subsidiaries, ZFC Funding, Inc., ZFC Trust TRS I, LLC and ZFC Honeybee TRS, LLC to treat such subsidiaries as taxable REIT subsidiaries (the "TRS entities"). The Company's TRS entities file separate tax returns and are taxed as standalone C-Corporations for U.S. income tax purposes.

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The following table summarizes the tax provision (benefit) recorded at the TRS entity level for the years ended December 31, 2015, December 31, 2014 and December 31, 2013:

Provision for Income Taxes

	Year Ended		
	December 31, 2015	December 31, 2014	December 31, 2013
Current tax expense (benefit)			
Federal	\$ —	\$ —	\$ —
State	—	—	—
Total current tax (benefit) expense	—	—	—
Deferred tax expense (benefit)			
Federal	3,547,809	(677,780)	—
State	867,665	(173,216)	—
Total deferred tax expense (benefit)	\$ 4,415,474	\$ (850,996)	—
Total expense (benefit) for income taxes	\$ 4,415,474	\$ (850,996)	—

The following is a reconciliation of the statutory federal and state rate to the effective rate for the years ended December 31, 2015, December 31, 2014 and December 31, 2013:

Reconciliation of Statutory Tax Rate to Effective Tax Rate

	Year Ended		
	December 31, 2015	December 31, 2014	December 31, 2013
Tax expense/(benefit) at statutory rate	34.00%	35.00%	35.00%
State and local taxes, net of Federal Benefit	13.61%	(0.82)%	0.00%
Impact of REIT election ⁽¹⁾	58.88%	(39.46)%	(35.00)%
Change in valuation allowance ⁽²⁾	37.11%	2.31%	0.00%
Other non-deductible/non-taxable items ⁽³⁾	2.42%	0.03%	0.00%
Adjustment of tax rate used to value deferred taxes ⁽⁴⁾	1.35%	0.00%	0.00%
Effective Tax Rate	147.37%	(2.94)%	0.00%

(1) For all tax years, the Company's effective tax rate differs from its statutory tax rate due to the deduction for dividend distributions required to be paid under Code section 857(a).

(2) For the years ended December 31, 2015 and December 31, 2014, the change in valuation allowance relates to the change in reserve related to net operating losses and other future deductible items for ZFC Trust TRS, LLC and ZFC Funding, Inc.

(3) For the years ended December 31, 2015 and December 31, 2014, the amount primarily relates to non-deductible meals and entertainment expenses.

(4) For the year ended December 31, 2015, the amount primarily relates to the change in U.S. Federal statutory income tax rate used to value deferred tax assets and liabilities from 35% to 34%.

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amount of assets and liabilities for financial reporting and tax purposes. The Company assesses whether a valuation allowance should be established against its deferred tax assets based on the consideration of all available evidence using a "more likely than not" approach. The Company's estimate of net deferred tax assets could change in future periods to the extent that actual or revised estimates of future taxable income during the carryforward periods change from current expectations. The deferred tax assets and liabilities reported below relate solely to the TRS entities.

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For the year ended December 31, 2015, the Company had activity in the ZFC Honeybee TRS, LLC which resulted in gross deferred tax assets of \$3.9 million and gross deferred tax liabilities of \$7.5 million and net deferred tax liability of \$3.6 million. Based on ZFC Honeybee TRS, LLC's earnings forecast and the availability of deferred tax liabilities, the Company feels that it is more likely than not that the Company will be able to utilize these deferred tax assets. The Company also had activity in ZFC Trust TRS I, LLC and ZFC Funding, Inc., which resulted in deferred tax assets of \$1.8 million. As of December 31, 2015, the Company has established a full valuation allowance for deferred tax assets related to net operating loss and other future deductible amounts of ZFC Trust TRS I, LLC and ZFC Funding, Inc., as these entities do not have a history of earnings and are currently in a cumulative taxable loss position since inception. At December 31, 2014, the Company had activity in the TRS entities, which resulted in a deferred tax asset of \$0.8 million after establishing a partial valuation allowance related to net operating losses and other future deductible amounts for tax purposes. The Company is allowed to carryforward its net operating losses for 20 years under U.S. Federal Income tax law and between 12 and 20 years in the majority of states which it operates in. The Company's net operating losses will expire between the years 2026-2035.

Components of the Company's net deferred tax asset and liability at December 31, 2015 and December 31, 2014 are presented in the following table:

	December 31, 2015	December 31, 2014
Deferred tax assets:		
Tax effect of unrealized losses and other temporary differences	\$ 519,503	\$ 1,207,520
Accrued compensation	333,946	—
Loan loss reserves	249,745	—
Goodwill and intangible assets	634,491	—
Capital loss carryforward	364,803	—
Net operating loss carryforward	3,586,676	673,052
Total deferred tax assets	5,689,164	1,880,572
Valuation allowance	(1,762,628)	(671,913)
Total deferred tax assets less valuation allowance	3,926,536	1,208,659
Deferred tax liabilities:		
MSRs	(7,187,289)	—
Tax effect of unrealized gains and other temporary differences	(303,725)	(357,663)
Total deferred tax liabilities	(7,491,014)	(357,663)
Total Deferred Tax (Liability) Asset, net of Valuation Allowance	\$ (3,564,478)	\$ 850,996

The Company evaluates uncertain income tax positions each period. Based upon its analysis of income tax positions, the Company concluded that there are no significant uncertain tax positions that meet the recognition or measurement criteria at either December 31, 2015 or December 31, 2014. Additionally, there were no amounts accrued for penalties or interest as of or during the periods presented in the Company's consolidated financial statements.

Figure A.6: Tax Footnote: CIK 1527590, Closing Date: 2016-12-31

Note 20 – Income Taxes

As described in Footnote 5 – *Business Combinations*, we were designated as the accounting acquirer in the merger transaction with ZAIS Financial. The financial information presented herein reflects our historical tax information in combination with the tax assets and liabilities of ZAIS Financial as of October 31, 2016. For tax purposes, ZAIS Financial is the surviving entity. ZAIS Financial elected to be taxed as a REIT commencing with its taxable year ended December 31, 2011. Our qualification as a REIT depends on our ability to meet various requirements imposed by the Internal Revenue Code, which relate to our organizational structure, diversity of stock ownership and certain requirements with regard to the nature of our assets and the sources of our income. As a REIT, we generally must distribute annually at least 90% of our net taxable income, subject to certain adjustments and excluding any net capital gain, in order for U.S. federal income tax not to apply to our earnings that we distribute. To the extent that we satisfy this distribution requirement, but distribute less than 100% of our net taxable income, we will be subject to U.S. federal income tax on our undistributed taxable income. In addition, we will be subject to a 4% nondeductible excise tax if the actual amount that we pay out to our stockholders in a calendar year is less than a minimum amount specified under U.S. federal tax laws. Even if we qualify as a REIT, we may be subject to certain U.S. federal income and excise taxes and state and local taxes on our income and assets. If we fail to maintain our qualification as a REIT for any taxable year, we may be subject to material penalties as well as federal, state and local income tax on our taxable income at regular corporate rates and we would not be able to qualify as a REIT for the subsequent four taxable years. As of December 31, 2016, 2015 and 2014, we are in compliance with all REIT requirements.

Certain of our subsidiaries have elected to be treated as taxable REIT subsidiaries (“TRSs”). TRSs permit us to participate in certain activities from which REITs are generally precluded, as long as these activities meet specific criteria, are conducted within the parameters of certain limitations established by the Code, and are conducted in entities which elect to be treated as taxable subsidiaries under the Code. To the extent these criteria are met, we will continue to maintain our qualification as a REIT.

Our TRSs engage in various real estate related operations, including originating and securitizing commercial and residential mortgage loans, and investments in real property. The majority of our TRSs are held within the SBC Conventional Originations, SBA Originations, Acquisitions and Servicing, and Residential Mortgage Banking segments.

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Our TRSs are not consolidated for federal income tax purposes, but are instead taxed as corporations. For financial reporting purposes, a provision for current and deferred income taxes is established for the portion of earnings recognized by us with respect to our interest in TRSs.

Our income tax provision consists of the following:

(In Thousands)	Year Ended December 31,		
	2016	2015	2014
Current			
Federal income tax	\$ 6,441	\$ 5,234	\$ 2,517
State and local income tax	947	710	324
Net current tax provision	7,388	5,944	2,841
Deferred			
Federal income tax	1,401	750	308
State and local income tax	583	248	267
Valuation allowance	279	868	(2,519)
Net deferred tax provision	2,263	1,866	(1,944)
Total income tax provision	\$ 9,651	\$ 7,810	\$ 897

The following table is a reconciliation of our federal income tax determined using our statutory federal tax rate to our reported income tax provision for the years ended December 31, 2016, 2015 and 2014:

(In Thousands)	Year Ended December 31,		
	2016	2015	2014
U.S. statutory tax	\$ 22,825	\$ 18,099	\$ 12,310
State and local income tax	2,322	721	600
Income attributable to REIT	(14,522)	(10,138)	(8,155)
Income attributable to Non-controlling interests	(1,251)	(1,491)	(1,151)
Nondeductible	21	18	11
Other	(23)	(267)	(199)
Valuation allowance	279	868	(2,519)
Effective income tax	\$ 9,651	\$ 7,810	\$ 897

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of the assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are presented net by tax jurisdiction and are reported in other assets and other liabilities, respectively. The following table presents the tax effects of temporary differences on their respective net deferred tax assets and liabilities (in thousands):

(In Thousands)	December 31, 2016	December 31, 2015
Deferred tax assets:		
Net operating loss carryforwards	\$ 4,159	\$ 515
Unrealized losses	488	233
Impairment and reserves	7,826	8,086
Accruals	402	151
Depreciation/amortization	668	800
Goodwill	7,134	—
Compensation	1,669	—
Intangibles	896	—
Other	859	—
Total deferred tax assets	24,101	9,785
Deferred tax liabilities:		
Loan / servicing rights balance	20,995	8,774
Derivative instruments	1,152	—
Other taxable temporary difference	69	64
Total deferred tax liabilities	22,216	8,838
Valuation allowance	(1,147)	(868)

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Net deferred tax assets	\$ 738	\$ 79
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The Company has \$10.7 million of net operating loss carryforwards that will begin to expire in 2033.

As result of the ZAIS merger, our deferred tax assets increased by approximately \$2.9 million. Based on our analysis of limitations imposed by Section 382 of the Internal Revenue Code, we estimate we are able to fully utilize this net operating loss, limited to \$1.1 million per year.

We recognize deferred tax assets and liabilities for future tax consequences arising from differences between the carrying amounts of existing assets and liabilities under GAAP and their respective tax bases. We evaluate our deferred tax assets for recoverability using a consistent approach which considers the relative impact of negative and positive evidence, including our historical profitability and projections of future taxable income.

As of December 31, 2016, we continued to conclude that the positive evidence in favor of the recoverability of our deferred tax asset outweighed the negative evidence and that it is more likely than not that our deferred tax assets will be realized. Our framework for assessing the recoverability of deferred tax assets requires us to weigh all available evidence, including the sustainability of recent profitability required to realize the deferred tax assets, the cumulative net income in our consolidated statements of income in recent years, and the carryforward periods for any carryforwards of net operating losses.

The Company believes, based on expectations as to future taxable income in the jurisdictions in which it operates, the recognized net deferred tax asset of \$0.7 million at December 31, 2016 is more likely than not to be realized.

The tables above do not include tax information on discontinued operations. The tax rate on discontinued operations is approximately 39%. The difference between the statutory rate of 35% and the effective income tax rate is primarily due to state and local taxes.

As of December 31, 2016, the Company has concluded that it is not required to establish a liability for uncertain tax positions. Additionally, it is the belief of management that the total amount of uncertain tax positions, if any, will not materially change over the next 12 months.

Our major tax jurisdictions where we file income tax returns include Federal, New York State and New York City. Our 2013 and forward tax years are subject to examination. The TRS major tax jurisdictions are Federal, New York State, New York City, New Jersey and California. For Federal and state purposes, with the exception of New Jersey, the TRS entities are subject to examination for the 2013 and forward tax years. For New Jersey, the TRS entities are subject to examination for the 2012 and forward tax years.

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A.3 Sample Selection

Table A.18: Detailed Sample Selection Process

Textual 10-K Download Data	165,876
TFN cannot be extracted	-50,284
Drop TFN with $LEN > 2,000$	-3,873
Final Number of TFN	111,719
Calculate ΔTFN	83,526
Drop TFN with $\Delta TFN > 0.7$	-1,218
Non-missing values for ΔTFN	82,308
Drop observations with Negative Income Before Taxes ¹	-44,313
	37,995
Complete set of non-missing values for ΔTFN and ETR	33,521
Complete set of non-missing values for ΔTFN and ΔETR	29,699
Complete set of non-missing values for ΔTFN , ΔETR , and control variables	14,998

¹Note that we remove ΔTFN_t in the case of $IBT_{t-1} < 0$ since ΔTFN_t measures the modification between $t - 1$ (loss year, should be excluded) and t .