

***Taxes and Business Strategy***

ACCT 897/297

*Prof. Jennifer Blouin – Spring 2009*

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***Prerequisites:***

Finance 601 or equivalent.

***Materials***

Textbook (REQUIRED): Scholes, Wolfson, Erickson, Maydew and Shevlin, Taxes and Business Strategy: A Planning Approach, Prentice Hall, 4th edition.

WebCafé: This site includes course information, important announcements and any lecture slides, course handouts, cases, problem solutions and optional articles.

In-class handouts: On rare occasions will supplemental material be distributed in class. If distributed, these materials will also be available on WebCafé (barring any copyright issues). Note that lecture slides will not be distributed in class. Please download these prior to class.

***Course Goals and Objectives:***

Traditional finance and strategy courses do not consider the role of taxes. Similarly, traditional tax courses often ignore the richness of the decision context in which tax factors operate. The objective of this course is to develop a framework for understanding how taxes affect business decisions.

The key themes of the framework are:

***All Parties:*** Effective tax planning requires the planner to consider the tax implications of a proposed transaction for all of the parties to the transaction.

***All Taxes:*** Effective tax planning requires the planner, in making investment and financing decisions, to consider not only explicit taxes (tax dollars paid directly to taxing authorities) but also implicit taxes (taxes paid indirectly as lower before-tax rates of return on tax-favored investments).

***All Costs:*** Effective tax planning requires the planner to recognize that taxes represent only one among many business costs. In the planning process all costs must be considered, including the costly restructuring of the business necessary to implement some tax plans.

The three themes are applied to decision contexts, such as investments, compensation, organizational form, regulated industries, financial instruments, tax-sheltered investments, family wealth planning, mergers and acquisitions, and multinational. The ultimate goal is to

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provide you with a new approach to thinking about taxes (and all forms of government intervention) that will be valuable even as laws and governments change.

Part of being financially literate is having a basic understanding of how taxation affects business decisions that companies typically face: forming the business and raising capital, operating the firm, distributing cash to shareholders through dividends and share repurchases, expanding through acquisition, divesting lines of business, and expanding internationally. Taxes have a direct impact on cash flow and often divert 40% to 50% of the firm's pretax cash flow to the government. Having an understanding of taxation and how firms plan accordingly is important whether you will be running the firm (e.g., executive in large company, entrepreneur, or running a family owned business) or assessing it from the outside (e.g., financial analyst, venture capitalist, or investment banker). Taxes are everywhere and it pays to have some understanding of them.

A recurring theme will be linking the tax strategies that we learn with concepts from corporate finance, financial accounting, business law, and economics. We make extensive use of real transactions to illustrate the impact of tax structure on earnings and cash flow. I think you will find that people who understand how these rules work and how they interact have a distinct advantage in the marketplace.

***Grading:***

Your course grade will be determined as follows:

Quizzes(5)	250 points
CD&P	50 points
Total	300 points

**Quizzes.** Quizzes will be administered in class on the following dates: February 4, February 18, March 4, April 1, and April 23. There is no final exam or quiz in the regularly scheduled final exam period. Each in-class quiz is closed-book and closed-notes. Students will receive the entire class period to complete each in-class quiz. Each quiz will be graded based on 50 points.

There will be no “make-up” quizzes. However, special accommodations for quiz conflicts on scheduled quiz dates shall be considered on a case-by-case basis. There are three broad categories of conflicts. A “Class A” conflict is something tantamount to a medical emergency. In the event of a medical emergency for which the student provides adequate documentation, that quiz shall be ignored and the student shall be graded exclusively based on his or her performance on the other four quizzes (i.e., essentially each of the other quizzes will be based 62.5 points). A “Class B” conflict is something tantamount to an unforeseen conflict with another academic obligation. A conflict can only constitute a “Class B” if I am informed of the situation in advance. In the event that a student has a conflict of this nature, the *lowest* score among the four other quizzes a student takes shall be received for the missing quiz. A “Class C” conflict is anything deemed avoidable or frivolous. In this event, a student shall be assigned a score of zero for that quiz.

A student must take *at least* four quizzes in order to get credit for the class.

**Classroom demeanor and participation (CD&P).** Each student shall be awarded a score based on his or her level of class demeanor and participation (CD&P). A student's CD&P score shall be

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influenced by three key factors: demeanor, participation and preparation. First, I will expect students to attend class, arrive promptly and sit in their designated seats. Students who habitually arrive after class begins, or fail to attend at all, shall be penalized via their CD&P score. Second, I expect students to volunteer to participate, but will avoid calling on the same students repeatedly. Reward will not be given for mere quantity of comments but rather whether the questions asked/comments made add value to everyone's classroom experience. Finally, I expect students to have read the material and prepared any problems designated in the "Class Preparation" portion of the syllabus. Although there is no penalty for wrong answers, I do expect students to have attempted to thoughtfully reason through a problem. Please note that if you do not speak in class at all during the term, your CD&P score may be severely penalized making it difficult to get a DS or A in the class.

#### ***Syllabus:***

A detailed syllabus begins on the next page. The first three columns are self-explanatory (Class, Date and Topic). "Class Preparation" is the material that I expect students to have read and/or problems to have been attempted prior to class. SWEMS is the acronym for the assigned text: Scholes, Wolfson, Erickson, Maydew and Shevlin, Taxes and Business Strategy: A Planning Approach. I have listed the specific pages that I intend to cover. In addition, discussion questions ("dq"), exercises ("e") and/or tax planning problems ("tpp") (e.g., e2.1 refers to Exercise 2.1 on page 63 of SWEMS; whereas tpp2.4 refers to Tax Planning Problem 2.4 on page 64) included in the "Class Preparation" column should be prepared prior to class as we will cover these problems during class. Discussion questions, exercises and problems included in the "Suggested Problems" column are for students to work on their own. Detailed solutions to these problems will be posted on WebCafé and these problems will generally not be discussed in class. Material in the "Suggested Problems" will aid students in their preparation for the quizzes.

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<i>Class</i>	<i>Date</i>	<i>Topic</i>	<i>Class Preparation</i>	<i>Suggested Problems</i>
1	January 14	Overview Investments	SWEMS 1-2 Pgs 1-15, 19-33 SWEMS 3 Pgs67-77	dq1.7, dq1.9, dq2.12, e2.1, e2.6, dq3.3, dq3.6, e3.1, e3.2
NO CLASS	January 19			
2	January 21	Investments con't	SWEMS 3 Pgs 78-84 tpp3.1	dq3.9, e3.4, e3.9, e3.10, tpp3.3
3	January 26	Deferred Compensation	SWEMS 8-9 Pgs. 232-240, 294-302	e8.1-e8.3, tpp8.1 dq9.2, e9.1, tpp9.5(parts a-c)
4	January 28	Stock Options	SWEMS 8 Pgs 240-259, 262-264 e8.9	dq8.10-dq8.12, e8.8 (parts a,b,d) e8.10 (parts a-d, $t_c = 0.35$ ), tpp8.3
5	February 2	Organizational Form	SWEMS 4 Pgs 91-110, 112-118, 123-124	dq4.2, dq4.8, e4.1, e4.2, e4.4, e4.7, tpp4.4
6	February 4	<b>QUIZ #1</b> Classes 1-4		
7	February 9	Implicit Taxes and Tax Arbitrage	SWEMS 5 Pgs. 130-158	dq1.8, e1.1, e5.1, e5.5, e5.6, tpp5.1 (parts a-b), tpp5.2 (parts a-c), tpp5.3
8	February 11	Introduction to International Taxation	SWEMS 10-11 Pgs 325-339, 358-370	dq10.8, dq10.9, dq11.1, e11.1, e11.2
9	February 16	International Taxation con't	SWEMS 10 Pgs 339-349	e10.1, tpp10.1 (parts a-c), tpp10.2
10	February 18	<b>QUIZ #2</b> Classes 1-9		

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<i>Class</i>	<i>Date</i>	<i>Topic</i>	<i>Class Preparation</i>	<i>Suggested Problems</i>
11	February 23	Accounting for Income Taxes	SWEMS 2 Appendix 2.2 SWEMS 8, Pgs 259-262, Appendix 8.1 Handout	dq 2.13 see WebCafé
12	February 25	Accounting for Income Taxes Con't	Simple Example see WebCafé	See WebCafé
13	March 2	Accounting for Income Taxes Con't	To be determined Case	See WebCafé
14	March 4	<b>Quiz #3</b> Classes 1-13 emphasis on 11-13		
NO CLASS	March 9			
NO CLASS	March 11			
NO CLASS	March 16			
15	March 18	Taxation of Corporations	SWEMS 12 Pgs 376-392	dq12.2, dq12.5, e12.1, e12.2,
16	March 23	Taxation of Corporations con't	SWEMS 12 Pgs 392-399	dq12.9, e12.3
17	March 25	Partnership Formation	Handouts	see WebCafé
18	March 30	Taxation of Mergers & Acquisitions (M&A)	SWEMS 13 Pgs 404-418	dq13.4, dq13.5, dq13.11
19	April 1	<b>QUIZ #4</b> Classes 1-17, emphasis on 15-17		

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<i>Class</i>	<i>Date</i>	<i>Topic</i>	<i>Class Preparation</i>	<i>Suggested Problems</i>
20	April 6	Guest Speaker		
21	April 8	Taxation of M&A con't	SWEMS 14 Pgs 421-431, 438-443	dq14.2, dq14.3, dq14.6, dq14.7 tpp14.2
22	April 13	Taxation of M&A con't	SWEMS 16 Pgs 471-504	dq16.2, dq16.5, dq16.9, dq16.10, tpp16.4, tpp16.6 See WebCafé
23	April 15	Divisive Maneuvers	SWEMS 17 Pgs 510-527 tpp17.3	dq17.3, dq17.4,
24	April 20	Divisive Maneuvers con't and Case	SWEMS 17 Pgs 527-538 Case	tpp17.5
25	April 22	<b>QUIZ #5</b> Classes 1-24, emphasis on 18-24		
NO CLASS	April 27			

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