

Taxes and Business Strategy
ACCT 897/297
Prof. Stephanie Sikes – Spring 2010

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

Course Overview:

Traditional finance and strategy courses often 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, which will be valuable even as tax laws change. The key themes of the framework are the following:

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. The planner must consider all costs, including the costly restructuring of the business necessary to implement some tax plans.

We will apply the three themes to various decision contexts.

Part of being financially savvy is having a basic understanding of how taxation affects business decisions that companies typically face: forming the business and raising capital, operating the business, compensating employees, paying dividends and repurchasing shares, financing new

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projects, expanding through acquisition, divesting lines of business, and expanding internationally. Taxes have a direct impact on cash flow and often divert 30% to 40% of a firm's pretax cash flow to the government. Taxes are everywhere and are an essential part of the global business environment. The course takes the perspective that taxes are one additional set of constraints that should be considered in business decisions.

Throughout the course, we will link the tax strategies that we learn with concepts from corporate finance, financial accounting, business law, and economics. We will make extensive use of real transactions to illustrate the impact of the tax structures on earnings and cash flows. Understanding how tax rules work and how they interact with other relevant factors places students at a distinct advantage in the marketplace. This course is particularly useful to those interested in a career in general management (e.g., executive in a large company, entrepreneur, or owner of a family business) or financial intermediation (e.g., financial analyst, venture capitalist, consultant, or investment banker).

Grading:

Your course grade will be determined as follows:

| | |
|---------------------------|------------|
| Quizzes (Best 4 out of 5) | 200 points |
| CD&P | 50 points |
| Total | 250 points |

Quizzes. Quizzes will be administered in class on the following dates: February 3, February 17, March 3, March 31, and April 21. 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.

When determining students' final grades, I will drop the quiz with the lowest mean-adjusted score.

There will be no "make-up" quizzes. The provision to drop your lowest quiz score is made to provide for recruiting conflicts, unexpected emergencies or pre-arranged travel.

The answers on the quiz must be the original work of the student whose name appears on the quiz. You may not communicate with any other individual during a quiz.

All grading disputes must be appealed within one week following the return of a quiz. To have a quiz re-graded, please submit the original quiz (with no modifications) and a written description of your disagreement with the initial grade. I reserve the right to review the entire quiz; thus, your grade could go up *or* down.

Classroom demeanor and participation (CD&P). I will award each student a score based on his or her level of class demeanor and participation (CD&P). A student's CD&P score shall be influenced by three key factors: demeanor, participation and preparation. First, I 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. In assessing your class participation, I will assess the quality (i.e., whether your comment/question enhances the class discussion), not just the quantity, of your input. Finally, I expect students to read the material and prepare any problems designated in the “Class Preparation” portion of the course outline prior to class. Although I will not penalize students for wrong answers, I do expect students to attempt to thoughtfully reason through a problem prior to class. 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.

In order to increase student involvement and to reduce classroom disruptions, please turn off your cell (mobile) phones before class begins. I expect that students will neither send nor receive text messages during class.

Students applying for an H1-B Visa (students taking the course pass-fail will find this section of interest):

In order to increase the odds of receiving an H1-B visa by being part of the masters degree cap pool, students need to provide evidence of meeting graduation requirements by the last week of March. Hence, in mid-March, I am required to opine that a student would pass the class even if he or she did no work for the rest of the term. I take signing this document quite seriously because it enters into an official federal process. I have modified my course syllabus to allow students to earn adequate points to *pass* the course by Spring Break. In order for me to sign a student’s “Verification of Passing Grade” form, the student will need to have amassed 145 points. This means that any student applying for a H1-B visa must take the first three quizzes. Provisional participation grades will be made as of Spring Break for those students requiring my signature on the “Verification of Passing Grade” form. Note that 145 points constitutes a passing grade (the equivalent letter grade at this point level is a “D”) for all students taking the course.

Course Outline:

A detailed course outline begins on the next page. The first three columns are self-explanatory (Class, Date and Topic). “Class Preparation” includes the material and problems that I expect students to read and prepare 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 list the specific pages that I intend to cover. In addition, you should prepare 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 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. I will post detailed solutions to the problems in the “Suggested Problems” column on WebCafé and we will generally not discuss these problems in class. Material in the “Suggested Problems” will aid students in their preparation for the quizzes. Please post any questions regarding the suggested problems on the Suggested Problems Discussion on WebCafé so that clarifying questions/answers will aid all students in the course. If you email a question to me directly, I will post it as an anonymous question along with my response to WebCafé.

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| <i>Class</i> | <i>Date</i> | <i>Topic</i> | <i>Class Preparation</i> | <i>Suggested Problems</i> |
|-------------------------|-------------|--|--|--|
| NO CLASS DUE TO ILLNESS | January 13 | | | |
| NO CLASS | January 18 | | | |
| 1 | January 20 | Overview Investments | SWEMS 1-2 Pgs 1-15, 19-33 SWEMS 3 Pgs 67-77 | dq1.7, dq1.9, dq2.12, e2.1, e2.6, dq3.3, dq3.6, e3.1, e3.2 |
| 2 | January 25 | Investments con't | SWEMS 3 Pgs 78-84 tpp3.1 | dq3.9, e3.4, e3.9, e3.10, tpp3.3 |
| 3 | January 27 | 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 | February 1 | Stock Options | SWEMS 8 Pgs 240-259, 262-264 Appendix 8.2 e8.9 | dq8.9-dq8.11, e8.8 (parts a,b,d) e8.10 (parts a-d, $t_c = 0.35$), tpp8.3 |
| 5 | February 3 | QUIZ #1 Classes 1-4 | | |
| 6 | February 8 | 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 |
| 7 | February 10 | Introduction to International Taxation | SWEMS 10-11 Pgs 325-337, 358-370 | dq10.8, dq10.9, dq11.1, e11.1, e11.2 |
| 8 | February 15 | International Taxation con't | SWEMS 10 Pgs 337-349 | e10.1, tpp10.1 (parts a-c), tpp10.2 |
| 9 | February 17 | QUIZ #2 Classes 1-8 | | |

| <i>Class</i> | <i>Date</i> | <i>Topic</i> | <i>Class Preparation</i> | <i>Suggested Problems</i> |
|--------------|-------------|--|--|--|
| 10 | February 22 | Accounting for Income Taxes | SWEMS 2 Appendix 2.2 SWEMS 8, Pgs 259-262, Appendix 8.1 Handout | dq 2.13 see WebCafé |
| 11 | February 24 | Accounting for Income Taxes Con't | Simple Example see WebCafé | See WebCafé |
| 12 | March 1 | Accounting for Income Taxes Con't | To be determined Case | See WebCafé |
| 13 | March 3 | QUIZ #3 Classes 1-12 emphasis on 10-12 | | |
| NO CLASS | March 8 | | | |
| NO CLASS | March 10 | | | |
| 14 | March 15 | 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 |
| 15 | March 17 | Partnership Formation | Handouts | see WebCafé |
| 16 | March 22 | Guest Speaker | | |
| 17 | March 24 | Taxation of Corporations | SWEMS 12 Pgs 376-392 | dq12.2, dq12.5, e12.1, e12.2, see WebCafé |
| 18 | March 29 | Taxation of Corporations con't | SWEMS 12 Pgs 392-399 | dq12.9, e12.3 see WebCafé |
| 19 | March 31 | QUIZ #4 Classes 1-18, emphasis on 14-18 | | |

| <i>Class</i> | <i>Date</i> | <i>Topic</i> | <i>Class Preparation</i> | <i>Suggested Problems</i> |
|--------------|-------------|--|-------------------------------------|--|
| 20 | April 5 | Taxation of Mergers & Acquisitions (M&A) | SWEMS 13 Pgs 404-418 | dq13.4, dq13.5, dq13.11 |
| 21 | April 7 | 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 12 | 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 14 | Divisive Maneuvers | SWEMS 17 Pgs 510-527 tpp17.3 | dq17.3, dq17.4, |
| 24 | April 19 | Divisive Maneuvers con't and Case | SWEMS 17 Pgs 527-538 Case | tpp17.5 |
| 25 | April 21 | QUIZ #5 Classes 1-24, emphasis on 20-24 | | |
| 26 | April 26 | Guest Speaker | | |