Taxes and Business Strategy
ACCT 897/297
Prof. Jennifer Blouin – Spring 2013

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                                                                          to schedule a meeting

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.

Canvas: This site includes course information, important announcements, online homework
assignments 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 Canvas (barring any copyright issues). After the
second class, 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, financial instruments, tax-sheltered investments, family wealth planning,
mergers and acquisitions, and multinational. The ultimate goal is to 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 a 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 (Best 3 out of 4)	150 points
Group Project	50 points
Online Homework	20 points
CDP&P	30 points
Total	250 points

Quizzes. Quizzes will be administered in class on the following dates: January 30, February 13, February 27, and March 27. 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.

Group Project. The written group project report will be due on Canvas by 11pm on Monday, April 8th. Details of the project can be found on Canvas. This project is to be completed in groups of 4 to 6 students. Groups can be formed from students across any of my three sections. Note that students who have trouble finding a group will be assigned to one by me. Once you have formed your group, please register your group and its members on Canvas no later than February 4th.

On-line Homework. Over the course of the semester, there are seven on-line assignments homework (designed OL HWx on the syllabus). These homeworks are set up as brief online quizzes that ask three to five questions about the materials required for the day's class preparations –

particularly on days where case preparation is required. The point of these homeworks is to ensure that students have read the class/case materials and understand some of the pertinent facts. They do not presume full understanding of the material.

Classroom demeanor, preparation and participation (CDP&P). Each student shall be awarded a score based on his or her level of class demeanor, preparation and participation (CDP&P). A student's CDP&P score shall be 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 CDP&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. In addition, I will factor any interesting tax articles that students forward to me in the computation of the participation component of their CDP&P. However, these articles must be from a source *other* than *The Wall Street Journal*, *The Financial Times* or *The New York Times* – as I already read these publications on a fairly regular basis. 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 CDP&P score may be severely penalized making it difficult to get an A in the class.

Students applying for an H1-B Visa (students taking the course pass-fail will find this section of interest):
In order to increase their chances 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 they did no more 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 150 points. This means that any student applying for a H1-B visa <u>must take the first three quizzes</u>. Provisional CDP&P grades will be made as of Spring Break for those students requiring my signature on the "Verification of Passing Grade" form. Note that 150 points constitutes a passing grade (the equivalent letter grade at this point level is a "D") for all students taking the course.

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 <u>prior to</u> class. SWEMS is the acronym for the assigned text: Scholes, Wolfson, Erickson, Maydew and Shevlin, <u>Taxes and Business Strategy: A Planning Approach</u>. 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 Canvas and these problems will generally not be discussed 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 Suggestion Problems Discussion on Canvas. This way clarifying questions/answers will aid all students in the course.

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Class	Date	Topic	Class Preparation	Suggested Problems
1	January 9	Overview Investments	SWEMS 1-2 Pgs 1-15, 19-33 SWEMS 3 Pgs67-77	dq1.7, dq1.8, e1.1, dq2.12, e2.1, dq3.3, dq3.6, e3.1, e3.2
2	January 14	Investments con't	SWEMS 3 Pgs 78-85 tpp3.1	dq3.9, e3.4, e3.9, e3.10, tpp3.3
3	January 16	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)
NO CLASS	January 21			
4	January 23	Stock Options	SWEMS 8 Pgs 240-259, 262-264 Appendix 8.2 e8.9 Online HM1	dq8.9-dq8.11, e8.8 (parts a,b,d) e8.10 (parts a-d, pre-1992 t_c = 0.34), tpp8.3
5	January 28	Organizational Form	SWEMS 4 Pgs 91-110, 112-118, 123-124	dq4.2, dq4.8, e3.3, e4.1, e4.2, e4.4, e4.7, tpp4.4
6	January 30	**QUIZ #1** Classes 1-**4**		
7	February 4	Taxation of Corporations	SWEMS 12 Pgs 376-392	dq12.2, dq12.5, e12.1, e12.2, see Canvas
8	February 6	Taxation of Corporations con't	SWEMS 12 Pgs 392-399 Online HM2	e2.6, dq12.9, e12.3 see Canvas
9	February 11	Corporations/S-Corporations	See Canvas	See Canvas
10	February 13	**QUIZ #2** Classes 1-9 Emphasis on 5-9		

Class	Date	Topic	Class Preparation	Suggested Problems
11	February 18	Partnership formation	Handouts	e2.2, See Canvas
12	February 20	Introduction to International Taxation	SWEMS 10-11 Pgs 325-337, 358-370 Online HM3	dq10.1, dq10.8, dq10.9, dq11.1, e11.1, e11.2
13	February 25	International Taxation con't	SWEMS 10 Pgs 337-349	e10.1, tpp10.1 (parts a-c), tpp10.2
14	February 27	**Quiz #3** Classes 1-13 emphasis on 11-13		
NO CLASS	March 4			
NO CLASS	March 6			
NO CLASS	March 11			
15	March 13	Accounting for Income Taxes	SWEMS 2 Appendix 2.2 SWEMS 8, Pgs 259-262, Appendix 8.1 Handout	dq 2.13 see Canvas
16	March 18	Guest Speaker		See Canvas
17	March 20	Accounting for Income Taxes Con't	Simple Example see Canvas OL HM4	See Canvas
18	March 25	Accounting for Income Taxes Con't	To be determined Case OL HM5	See Canvas
19	March 27	**QUIZ #4** Classes 1-18, emphasis on 15-18		

Class	Date	Topic	Class Preparation	Suggested Problems
20	April 1	Taxation of Mergers & Acquisitions (M&A)	SWEMS 13 Pgs 404-418	dq13.4, dq13.5, dq13.11
21	April 3	Taxation of M&A con't	SWEMS 14 Pgs 421-431, 438-443, 488-492	dq14.2, dq14.3, dq14.6, dq14.7 tpp14.2
NO CLASS	April 8	PROJECTS DUE at 11pm		
22	April 10	Taxation of M&A con't	SWEMS 16 Pgs 471-487, 492-504 GW Basis Case – See Canvas OL HM6	dq16.2, dq16.5, dq16.9, dq16.10, tpp16.4, tpp16.6 See Canvas
23	April 15	Divisive Maneuvers	SWEMS 17 Pgs 510-527 tpp17.3	dq17.3, dq17.4,
24	April 17	Divisive Maneuvers con't and Case	SWEMS 17 Pgs 527-538 Case – See Canvas OL HM7	tpp17.5
NO CLASS	April 22			