

***Taxes and Business Strategy***  
***ACCT 897/297***  
***Prof. William Gentry – Spring 2016***

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***Prerequisites:***

Finance 601 or equivalent.

***Materials***

Textbook (REQUIRED): Scholes, Wolfson, Erickson, Hanlon, Maydew and Shevlin, Taxes and Business Strategy: A Planning Approach, Prentice Hall, 5<sup>th</sup> 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: Occasionally, supplemental material will be distributed in class or made available on Canvas (barring any copyright issues). Lecture slides will be available on Canvas the night before 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, 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 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 can divert a considerable fraction of a 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)	60%
Group Project	20%
Online Homework	10%
CDP&P	10%

**Quizzes.** Quizzes will be administered in class on the following dates: February 8, March 2, April 4, and April 27. There is no final exam 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. 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 Sunday, April 10<sup>th</sup>. Details of the project can be found on Canvas (i.e., topics are due by Tuesday, March 1). This project is to be completed in groups of 4 to 6 students. Groups can be formed from students across either of my sections. Once you have formed your group, please register your group and its members on Canvas no later than February 12<sup>th</sup>. If you have not selected a group by the deadline, I will assign you to a group.

**On-line Homework.** Over the course of the semester, there are eight on-line assignments homework (designed OL HWx on the syllabus). These homework assignments are set up as brief online quizzes that ask three to five questions about the materials required for the day's class preparations. The point of this homework 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. Homework assignments are due on Canvas at 9 am.

**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 and arrive promptly. 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 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 before the semester ends. This requires me 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. Note that my syllabus does not provide enough feedback (i.e., points) until after the third quiz. 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 must take the first three quizzes. Provisional CDP&P grades will be made for those students requiring my signature on the “Verification of Passing Grade” form.

***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. SWEHMS is the acronym for the assigned text: Scholes, Wolfson, Erickson, Hanlon, 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 of SWEHMS; whereas tpp2.4 refers to Tax Planning Problem 2.4) 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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<i>Class</i>	<i>Date</i>	<i>Topic</i>	<i>Class Preparation</i>	<i>Suggested Problems</i>
1	W, Jan 13	Introduction	SWEHMS ch. 1-2	dq1.7, dq1.8, e1.1, dq2.12, e2.1,
NO CLASS	M, Jan 18	MLK Day		
2	W, Jan 20	Savings Vehicles I	SWEHMS ch. 3.1, pp. 36 - 46	dq3.3, dq3.6, e3.1, e3.2
3	M, Jan 25	Savings Vehicles II	SWEHMS ch. 3.2, pp. 46 – 53, tpp 3.1 <b>OLHM1</b>	dq3.9, e3.4, e3.9, e3.10, tpp3.3
4	W, Jan 27	Implicit Taxes and Clienteles	SWEHMS ch. 5, pp. 90 – 144 tpp 5.1	dq5.6, dq5.7, e5.1, e5.2
5	M, Feb 1	Compensation I: Deferred Compensation and Pensions	SWEHMS Ch. 8.1, 8.2, Ch. 9.1 – 9.5, pp. 201 – 209, 260 – 273	e8.1-e8.3, tpp8.1 dq9.2, e9.1, tpp9.5(parts a-c)
6	W, Feb 3	Compensation II: Stock Options	SWEHMS Ch. 8.3, 8.4, pp. 209 – 232 <b>OLHM2</b>	dq8.9-dq8.11, e8.8 (parts a,b,d) e8.10 (parts a-d, pre-1992 $t_c = 0.34$ ), tpp8.3
7	M, Feb 8	<b>QUIZ #1</b> Classes 1-6		
8	W, Feb 10	Organizational Form	SWEHMS Ch. 4, pp. 58 - 81	dq4.2, dq4.8, e4.1, e4.2, e4.4, e4.7, tpp4.4
9	M, Feb 15	Taxation of Business Formation and Corporations	SWEHMS Ch 12.1, 12.2, pp. 330 – 336 <b>OLHM3</b>	dq12.2, e12.2

<i>Class</i>	<i>Date</i>	<i>Topic</i>	<i>Class Preparation</i>	<i>Suggested Problems</i>
10	W, Feb 17	Marginal Tax Rates and Dynamic Tax Planning	SWEHMS ch. 7	dq7.2, dq7.4, e7.1
11	M, Feb 22	Capital Structure: Debt vs. Equity (and what is in between)	SWEHMS ch. 12.3, 12.4, pp. 336 – 343 <b>OLHM4</b>	dq12.8
12	W, Feb 24	Capital Structure: Dividends and share repurchases	SWEHMS ch. 12.5, 12.6, 12.7 pp. 344 - 350	e2.6, dq12.9, e12.3
13	M, Feb 29	Finish capital structure and catch up	SWEHMS Appendix 4.1, pp. 82 - 84	
14	W, Mar 2	<b>Quiz #2</b> Classes 1 – 13 Emphasis on 8 - 13		
NO CLASS	M, Mar 7	Spring Break		
NO CLASS	W, Mar 9	Spring Break		
15	M, Mar 14	Multinational Corporations I: Overview and Foreign Tax Credits	SWEHMS ch. 10.1, ch. 11.1, pp. 287 – 298, pp. 313 – 320	dq10.1, dq10.8, dq10.9, dq11.1, e11.1, e11.2
16	W, Mar 16	Multinational Corporations II: Foreign Investment and Repatriation Decisions	SWEHMS ch. 10.2 and 10.3, pp. 299 – 308 <b>OLHM5</b>	e10.1, tpp10.1, tpp10.2
17	M, Mar 21	Multinational Corporations III: Financial Structure & Transfer Pricing	SWEHMS ch. 11.2, 11.3, 11.4, pp. 320 - 325	dq11.7, dq11.8
18	W, Mar 23	Multinational Corporations IV	CASE: Stanley Works and the Lure of Tax Havens <b>OLHM6</b>	
19	M, Mar 28	Limits to Tax Arbitrage	SWEHMS Ch. 6.1 – 6.4, pp. 123 - 134	dq6.4, e6.3

<i>Class</i>	<i>Date</i>	<i>Topic</i>	<i>Class Preparation</i>	<i>Suggested Problems</i>
20	W, Mar 30	Accounting for Income Taxes	SWEHMS 6.5, pp. 135 - 165 <b>OLHM7</b>	dq6.9, dq6.11, See Canvas
21	M, Apr 4	<b>QUIZ #3</b> Classes 1 - 20 Emphasis on 15 - 20		
22	W, Apr 6	Financial Innovation I: Taxation of Financial Products	See Canvas	
23	M, Apr 11	Financial Innovation II: Swap Contracts & Equity-backed Securities	See Canvas	
24	W, Apr 13	Mergers & Acquisitions I: Overview of Tax Rules	SWEHMS Ch. 13, Ch. 14.1, 14.2 pp. 354 - 362, 365 – 379	dq13.4, dq13.11, dq14.2, dq14.3, dq14.5, dq14.6 tpp14.2
25	M, Apr 18	Mergers & Acquisitions II: Choice Between Taxable & Tax-free Mergers	SWEHMS Ch. 16, pp. 410 - 437	dq16.2, dq16.5, dq16.9, dq16.10, tpp16.4, tpp16.6
26	W, Apr 20	Mergers & Acquisitions III: Divisive Maneuvers	SWEHMS Ch. 17, pp. 442 – 463 <b>OLHM8</b>	dq17.3, dq17.4, tpp17.3
27	M, Apr 25	Multinational Merger & Acquisition Activity	See Canvas	
25	W, Apr 27	<b>QUIZ #4</b> Classes 1 - 27, Emphasis on 22 - 27		