

Taxes and Business Strategy
ACCT 897/297
Prof. Jennifer Blouin – Spring 2020

Email: blouin@wharton.upenn.edu
Phone: (215) 898-1266

Office: SHDH 1315
Office hours: by appointment, please email me
to schedule a meeting

Prerequisites:

Finance 611/612 or equivalent.

Materials

Textbook (REQUIRED): Scholes, Wolfson, Erickson, Hanlon, Maydew and Shevlin, *Taxes and Business Strategy: A Planning Approach*, (Cambridge) 6th 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). 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, 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 often divert 30% to 40% 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 2 out of 3)	120 points
Group Policy Write-ups	40 points
Online Homework	20 points
Participation	20 points
<hr/> Total	<hr/> 200 points

Quizzes. Quizzes will be administered in class on the following dates: February 17, March 30, and April 29. 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 60 points.

Quizzes are exclusively quantitative in nature. The method to prepare for the quizzes is to attend class and complete the suggested problems. Prior quizzes will not be provided as exam questions are derived from the suggested problems. Please bring a calculator to the 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 Policy Write-ups. As the class is somewhat policy oriented, over the course of the semester, your group must submit two short position pieces from a list of articles/topics salient to the course. Each write-up should be four to six pages (double-spaced) in length (references may be provided in bibliography format – these don't count toward the max length). An appropriate piece should read more like an executive summary of the pros/cons of the issue/position with a conclusion of position your group supports. Note that the topics on which you will write may have no "right"

answer. Instead, you must evaluate both sides of the debate and take a position (which may be the lesser of two evils!). The write-ups will be due on Canvas by 11pm on February 26th and April 8th. Details of the topics will be posted on Canvas.

These write-ups are to be completed in groups of 4 to 6 students. Groups can be formed from students across any of my three sections. Once you have formed your group, please register your group and its members on Canvas no later than February 10th. Note that students who have not selected a group by February 10th will be assigned to a group by me.

On-line Homework. Over the course of the semester, there are four 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. **Homeworks are due on Canvas at 10am.**

Participation. A student's participation score shall be influenced by three key factors: demeanor, participation and preparation. 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 participation score. Note that students have to attend class in order to participate in the class discussion. In addition, I will factor any interesting tax articles that students forward to me in the computation of their participation score. 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 skimmed the material and prepared any problems designated in the "Class Preparation" portion of the syllabus (these have been bolded). 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 participation score will be penalized making it difficult to get an A in the class.

Auditing the Course:

I do not allow students to audit the course.

Pertinent Information for students taking the course pass-fail:

Earning around 110 points constitutes a passing grade (the equivalent letter grade at this point level is a "D") for all students taking the course. Failure to earn a sufficient number of points will result in a student failing 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 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 ("Q"), exercises ("E") and/or tax planning problems ("TP") (e.g., E2.1 refers to Exercise 2.1 on page 32 of the Fifth Edition of SWEHMS; whereas TP2.4 refers to Tax Planning Problem 2.4 on page 33. Note that the problem numbering in the 6th edition is far more intuitive.) 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 are 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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(Cambridge 6th Edition)

<i>Class</i>	<i>Date</i>	<i>Topic</i>	<i>Class Preparation</i>	<i>Suggested Problems</i>
1	January 15	Overview Investments	SWEHMS 1-3 Pgs 1-1 to 1-10, 2-1 to 2-13, 3-1 to 3-12 (ignore SV VII)	Q1.7, Q1.8, E1.10, Q2.12, E2.13, Q3.3, Q3.6, E3.11, E3.12
NO CLASS	January 20	MLK		
2	January 22	Investments con't	SWEHMS 3 Pgs 3-12 to 3-18	Q3.9, E3.14, E3.19, E3.20, TP3.23, TP3.25
3	January 27	Deferred Compensation	SWEHMS 8-9 Pgs. 8-1 to 8-6, 9-1 to 9-8	E8.13, E8.14, TP8.22 Q9.2, E9.13
4	January 29	Stock Options	SWEHMS 8 Pgs E8-6 to 8-24, 8-27 to 8-30 E8.20 Online HM1	Q8.8-Q8.10, E8.19 (parts a,b,d) E8.21 (parts a-d, pre-1992 t _c = 0.34), TP8.24
5	February 3	Organizational Form	SWEHMS 5 Pgs 5-1 to 5-24, Appendix 5.1	Q5.2, Q5.8, E3.13, E5.17, E5.18, E5.20, TP5.27
6	February 5	Taxation of Corporations	SWEHMS 6 Pgs 6-1 to 6-6	Q6.2, Q6.5, E6.11, E6.12, see Canvas
7	February 10	Taxation of Corporations con't (GROUP SIGN-UP DUE on Canvas)	SWEHMS 6 Pgs 6-14 to 6-19 Seagram's Case Online HM2	E2.18, Q6.9, E6.13 See Canvas
8	February 12	Interest, Net Operating Losses and Marginal Tax Rates	SWEHMS 4 4-11 to 4-18 SWEHMS 6 Pgs 6-6 to 6-13 (Ignore trust preferred section)	Q4.9, E4.19, E4.20, TP4.34(parts a-d) See Canvas

<i>Class</i>	<i>Date</i>	<i>Topic</i>	<i>Class Preparation</i>	<i>Suggested Problems</i>
9	February 17	QUIZ #1 Classes 1-8		
10	February 19	S-Corporations	See Canvas SWEHMS 9 Pgs 9-18 to 9-19	See Canvas
11	February 24	Partnerships	See Canvas	E2.14, See Canvas
12	February 26	Partnerships con't First Group Write-up DUE on Canvas by 11pm	See Canvas	
13	March 2	Introduction to International Taxation	SWEHMS 10 10-1 to 10-8, 10- 11 to 10-12 See Canvas	Q10.1, Q10.5, Q10.8, Q10.9
14	March 4	International Taxation con't	10-9 to 10-10, 10- 12 to 10-15	E10.13, E10.15
NO CLASS	March 9			
NO CLASS	March 11			
NO CLASS	March 16			
15	March 18	Accounting for Income Taxes	SWEHMS 7 Pgs 7-12 to 7-37 SWEHMS 8, Appendix 8.1 See Canvas Simple Example OL HM3	Q7.15 See Canvas
16	March 23	Accounting for Income Taxes Con't	See Canvas	See Canvas
17	March 25	More Accounting for Income Taxes	See Canvas	See Canvas

<i>Class</i>	<i>Date</i>	<i>Topic</i>	<i>Class Preparation</i>	<i>Suggested Problems</i>
18	March 30	QUIZ #2 Classes 1-17 Emphasis on 10-17		
19	April 1	Taxation of Mergers & Acquisitions (M&A) and NOL values	SWEHMS 11 Pgs 11-1 to 11-9 SWEHMS 14 Pgs 14-14 to 14-17	Q11.4, Q11.5, Q11.11
20	April 6	Taxation of M&A con't	SWEHMS 12 Pgs 12-1 to 12-15 (understand intuition of 12-9 to 12-15 – don't worry about formulas)	Q12.2, Q12.3, Q12.5, Q12.6, TP12.8
21	April 8	Taxation of M&A con't Second Group Write-up DUE on Canvas by 11pm	SWEHMS 14 Pgs 14-1 to 14-13, 14-17 to 14-19	Q14.2, Q14.3, Q14.4, TP14.10, TP14.11
22	April 13	Conduit M&A Topics	SWEHMS 13 13-1 to 13-19 (focus on the intuition not the formulas)	TP13.4
23	April 15	Divisive Maneuvers	SWEHMS 15 Pgs 15-1 to 15-17 TP15-9	Q15.3, Q15.4 TP15-7
24	April 20	Divisive Maneuvers	SWEHMS 15 Pgs 15-17 to 15-20	See Canvas
NO CLASS	April 22			
25	April 27	Case and Wrap-up	Case – See Canvas OL HM4	
26	April 29	QUIZ #3 Classes 1-25, emphasis on 19-25		

(Pearson 5th Edition)

(Note that these page numbers correspond to the US Edition of the text. Rumor has it that there is a "Global" edition with different pagination.)

<i>Class</i>	<i>Date</i>	<i>Topic</i>	<i>Class Preparation</i>	<i>Suggested Problems</i>
1	January 15	Overview Investments	SWEHMS 1-2 Pgs 1-13, 16-28 SWEHMS 3 Pgs36-46	Q1.7, Q1.8, e1.1, Q2.12, E2.1, Q3.3, Q3.6, E3.1, E3.2
NO CLASS	January 20	MLK		
2	January 22	Investments con't	SWEHMS 3 Pgs 46-52	Q3.9, E3.4, e3.9, E3.10, TP3.1, TP3.3
3	January 27	Deferred Compensation	SWEHMS 8-9 Pgs. 201-206, 260-267	E8.1, E8.2, TP8.1 Q9.2, E9.1
4	January 29	Stock Options	SWEHMS 8 Pgs 209-227, 230-232 E8.9 Online HM1	Q8.9-Q8.11, E8.8 (parts a,b,d) E8.10 (parts a-d, pre- 1992 $t_c = 0.34$), TP8.3
5	February 3	Organizational Form	SWEHMS 4 Pgs 58-80, Appendix 4.1	Q4.2, Q4.8, E3.3, E4.1, E4.2, E4.4, TP4.4
6	February 5	Taxation of Corporations	SWEHMS 12 Pgs 330-336	Q12.2, Q12.5, E12.1, e12.2, see Canvas
7	February 10	Taxation of Corporations con't (GROUP SIGN-UP DUE on Canvas)	SWEHMS 12 Pgs 344-350 Seagram's Case Online HM2	E2.6, Q12.9, E12.3 See Canvas
8	February 12	Interest, Net Operating Losses and Marginal Tax Rates	SWEHMS 7 Pgs 175-186 SWEHMS 12 Pgs 336-344 (Ignore trust preferred section)	Q7.4, E7.1, E7.2, TP7.6 (parts a-d) See Canvas

<i>Class</i>	<i>Date</i>	<i>Topic</i>	<i>Class Preparation</i>	<i>Suggested Problems</i>
9	February 17	QUIZ #1 Classes 1-8		
10	February 19	S-Corporations	See Canvas SWEHMS 9 Pgs 277-279	See Canvas
11	February 24	Partnerships	See Canvas	E2.2, See Canvas
12	February 26	Partnerships con't First Group Write-up DUE on Canvas by 11pm	See Canvas	
13	March 2	Introduction to International Taxation	SWEHMS 10-11 Pgs 287-296, 299-304, 307- 308, 313-320	Q10.1, Q10.5, Q10.8, Q10.9,
14	March 4	International Taxation con't	SWEHMS 10-11 Pgs 297-299, 320-324	E10.1, E10.4
NO CLASS	March 9			
NO CLASS	March 11			
NO CLASS	March 16			
15	March 18	Accounting for Income Taxes	SWEHMS 6 Pgs 135-160 SWEHMS 8, Appendix 8.1 See Canvas Simple Example OL HM3	Q 6.15 See Canvas
16	March 23	Accounting for Income Taxes Con't	See Canvas	See Canvas
17	March 25	More Accounting for Income Taxes	See Canvas	See Canvas

<i>Class</i>	<i>Date</i>	<i>Topic</i>	<i>Class Preparation</i>	<i>Suggested Problems</i>
18	March 30	QUIZ #2 Classes 1-17 Emphasis on 10-17		
19	April 1	Taxation of Mergers & Acquisitions (M&A) and NOLs	SWEHMS 13 Pgs 354-362 SWEHMS 16 424-428	Q13.4, Q13.5, Q13.11 Q7.4, E7.1, E7.2, TP7.6 (parts a-d)
20	April 6	Taxation of M&A con't	SWEHMS 14 Pgs 365-383 (understand intuition not formulas of 374-380)	Q14.2, Q14.3, Q14.5, Q14.6, TP14.2
21	April 8	Taxation of M&A con't Second Group Write-up DUE on Canvas by 11pm	SWEHMS 16 Pgs 410-424, 428-437	Q16.2, Q16.3, Q16.4, TP16.5, TP16.6
22	April 13	Conduit M&A Topics	SWEHMS 15 Pgs 386-406 (focus on the intuition not the formulas)	TP15.1
23	April 15	Divisive Maneuvers	SWEHMS 17 Pgs 442-458 TP17.3 (Assume t=21% v. 35%)	Q17.4, Q17.5, TP17.1 (but use 21% tax rate instead of 35%)
24	April 20	Divisive Maneuvers con't	SWEHMS 17 Pgs 458-463	See Canvas
NO CLASS	April 22			
25	April 27	Case and Wrap-up	Case – See Canvas OL HM4	
26	April 29	QUIZ #3 Classes 1-25, emphasis on 19-25		