

Taxes and Business Strategy
ACCT 897/FNCE 797
Prof. Jennifer Blouin – Spring 2022

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Prerequisites:

Finance 611/621 or equivalent.

Materials

Textbook (REQUIRED): Erickson, Hanlon, Maydew and Shevlin, Scholes and Wolfson's Taxes and Business Strategy, (Cambridge) 6th edition **OR** Scholes, Wolfson, Erickson, Hanlon, Maydew and Shevlin, Taxes and Business Strategy: A Planning Approach, (Pearson) 5th edition. Note that the 5th edition is out of date in terms of tax rates (and little else). Given the price difference, you may want to consider just mentally noting the "current" rates. Additionally, I suspect that the tax rates may change in the next year or so therefore rendering the 6th edition's rates out of date, too!

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

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, mergers and acquisitions, and multinational operations. 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 structures on earnings and/or cash flows. 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-up	45 points
Online Homework	25 points
Participation	10 points
Total	200 points

Quizzes. Quizzes will be administered on the following dates: February 14, March 23 and April 20. There is no final exam or quiz in the regularly scheduled final exam period. ***Each in-class quiz is closed-book and closed-notes.*** Assuming that the quizzes will be administered in class, 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 practice problems. Prior quizzes will not be provided as exam questions are derived from the "Suggested Problems" described in the syllabus (see below). You will need a calculator for each 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-up. As the class is somewhat policy oriented, your group must submit a position piece from a list of articles/topics salient to the course. Your write-up should be six to eight 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 April 4th. Details of the topics will be posted on Canvas.

The write-up is to be completed in groups of 3 to 5 students. Groups can be formed from students from either section. Once you have formed your group, please register your group and its members on Canvas no later than February 21. Note that students who have not selected a group by February 21 will be assigned to a group by me.

On-line Homework. Over the course of the semester, there are five on-line assignments (designed Online 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. The point of these homeworks is to ensure that students have read the class/case materials and understand some of the pertinent facts. Occasionally, some of these homeworks will be asking questions about material covered in class. **Homeworks are due on Canvas at 8am EASTERN regardless of your section meeting time.**

Participation. A student’s participation score shall be influenced by attendance and participation. I will expect students to attend class, arrive promptly and sit in their designated seats. 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 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.

Auditing the Course:

I do not allow students to audit the course.

Pertinent Information for students taking the course pass-fail:

Earning roughly 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 listing is for the 6th edition and the green listing is for the 5th edition of the text. The first three columns are self-explanatory (Class, Date and Topic). “Class Preparation” is the material that I expect students to have read prior to class. SWEHMS is the acronym for the assigned text based on the authors names: Scholes, Wolfson, Erickson, Hanlon, Maydew and Shevlin. I have listed the specific pages that I intend to cover in each class period. To supplement the textbook, I will occasionally provide background reading materials on Canvas.

Discussion questions (“Q”), exercises (“E”) and/or tax planning problems (“TP”) in the “Suggested Problems” column are for students to work on their own. The numbering of the problems is straightforward in the 6th edition (e.g., E2.13 refers to the problem at the bottom of page 2-16). (Note that the problem numbering is a different in the 5th edition of the text. 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.) Detailed solutions to the “Suggested Problems” are posted on Canvas and these problems will generally not be discussed in class. Additionally, for topics not covered in the textbook, I have posted practice problems on Canvas. 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 19 VIRTUAL	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
2	January 24	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 26	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 31	Stock Options	SWEHMS 8 Pgs E8-6 to 8-24, 8-27 to 8-30 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 2	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 7	Taxation of Corporations	SWEHMS 6 Pgs 6-1 to 6-6	Q6.2, Q6.5, E6.11, E6.12, see Canvas
7	February 9	Taxation of Corporations con't	SWEHMS 6 Pgs 6-14 to 6-19 Seagram's Case Online HM2	E2.18, Q6.9, E6.13 See Canvas
8	February 14	QUIZ#1 Classes 1-7		

Class	Date	Topic	Class Preparation	Suggested Problems
9	February 16	Interest, Net Operating Losses and Measuring 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
10	February 21	S-Corporations (GROUP SIGN-UP DUE on Canvas)	See Canvas SWEHMS 9 Pgs 9-18 to 9-19	See Canvas
11	February 23	Partnerships	See Canvas	E2.14, See Canvas
12	February 28	Partnerships con't	See Canvas	
NO CLASS	March 2			
NO CLASS	March 7			
NO CLASS	March 9			
13	March 14	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 16	International Taxation con't	SWEHMS 10 10-8 to 10-10, 10-12 to 10-15 Online HM3	E10.13, E10.15
15	March 21	Group Project Work Day NO IN PERSON CLASS		
16	March 23	QUIZ#2 Classes 1-14 Emphasis on classes 8-14		
17	March 28	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

<i>Class</i>	<i>Date</i>	<i>Topic</i>	<i>Class Preparation</i>	<i>Suggested Problems</i>
18	March 30	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) OL HM4	Q12.2, Q12.3, Q12.5, Q12.6, TP12.8
19	April 4	Taxation of M&A con't 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
20	April 6	Conduit M&A Topics	SWEHMS 13 13-1 to 13-19 (focus on the intuition not the formulas)	TP13.4
21	April 11	Divisive Maneuvers	SWEHMS 15 Pgs 15-1 to 15-17 OL HM5	Q15.3, Q15.4 TP15.7
22	April 13	Divisive Maneuvers	SWEHMS 15 Pgs 15-17 to 15-20	See Canvas
23	April 18	Case and Wrap-up	Case – See Canvas	
24	April 20	QUIZ #3 Classes 1-23, emphasis on 17-23		

(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 19 VIRTUAL	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
2	January 24	Investments con't	SWEHMS 3 Pgs 46-52	Q3.9, E3.4, e3.9, E3.10, TP3.1, TP3.3
3	January 26	Deferred Compensation	SWEHMS 8-9 Pgs. 201-206, 260-267	E8.1, E8.2, TP8.1 Q9.2, E9.1
4	January 31	Stock Options	SWEHMS 8 Pgs 209-227, 230-232 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 2	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 9	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	SWEHMS 12 Pgs 344-350 Seagram's Case Online HM2	E2.6, Q12.9, E12.3 See Canvas
8	February 14	QUIZ#1 Class 1-7		

<i>Class</i>	<i>Date</i>	<i>Topic</i>	<i>Class Preparation</i>	<i>Suggested Problems</i>
9	February 16	Interest, Net Operating Losses and Measuring 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
10	February 21	S-Corporations (GROUP SIGN-UP DUE on Canvas)	See Canvas SWEHMS 9 Pgs 277-279	See Canvas
11	February 23	Partnerships	See Canvas	E2.2, See Canvas
12	February 28	Partnerships con't	See Canvas	
NO CLASS	March 2			
NO CLASS	March 7			
NO CLASS	March 9			
13	March 14	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 16	International Taxation con't	SWEHMS 10-11 Pgs 297-299, 320-324 Online HM3	E10.1, E10.4
15	March 21	Group Project Work Day NO IN-PERSON CLASS		
16	March 23	QUIZ#2 Classes 1-14 Emphasis on classes 8-14	See Canvas	See Canvas
17	March 28	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)

<i>Class</i>	<i>Date</i>	<i>Topic</i>	<i>Class Preparation</i>	<i>Suggested Problems</i>
18	March 30	Taxation of M&A con't	SWEHMS 14 Pgs 365-383 (understand intuition not formulas of 374-380) Online HM4	Q14.2, Q14.3, Q14.5, Q14.6, TP14.2
19	April 4	Taxation of M&A con't 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
20	April 6	Conduit M&A Topics	SWEHMS 15 Pgs 386-406 (focus on the intuition not the formulas)	TP15.1
21	April 11	Divisive Maneuvers	SWEHMS 17 Pgs 442-458 Online HM5	Q17.4, Q17.5, TP17.1 (but use 21% tax rate instead of 35%)
22	April 13	Divisive Maneuvers con't	SWEHMS 17 Pgs 458-463	See Canvas
23	April 18	Case and Wrap-up	Case – See Canvas	
24	April 20	QUIZ #3 Classes 1-23, emphasis on 17-23		