

***Taxes and Business Strategy***  
***ACCT 8970/FNCE 7970***  
***Prof. Jennifer Blouin – Spring 2023***

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

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

***Prerequisites:***

Finance 6110/6130 or equivalent.

***Materials***

Textbook (REQUIRED): Erickson, Hanlon, Maydew and Shevlin, Scholes and Wolfson's Taxes and Business Strategy, (Cambridge) 6<sup>th</sup> edition **OR** Scholes, Wolfson, Erickson, Hanlon, Maydew and Shevlin, Taxes and Business Strategy: A Planning Approach, (Pearson) 5<sup>th</sup> edition. Note that the 5<sup>th</sup> edition is out of date in terms of tax rates (and little else).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 6<sup>th</sup> edition's rates out of date, too!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)	110 points
Group Project	45 points
Online Homework	25 points
Attendance/Participation	20 points
Total	200 points

**Quizzes.** Quizzes will be administered on the following dates: February 15, March 27 and April 19. 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 55 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 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 group project report will be due on Canvas by 11pm on Monday, April 10th. For the project, you will evaluate and recommend an entity choice for a couple of individuals starting a business. The project attempts to incorporate all of the attributes of a true entrepreneurial endeavor including funding, compensation, and taxes (both income and payroll). Note that there is not necessarily any completely "right" answer because, as with any new business, one doesn't know what the future holds. Instead, you must evaluate the facts and provide a write up where you make a

recommendation and explain the relative trade-offs. Details of the project will be posted on Canvas. This project is to be completed in groups of 4 to 6 students. Groups can be formed from students across either section and may mix undergraduate and MBA students. Once you have formed your group, please register your group and its members on Canvas no later than February 27th. Note that students who have not selected a group by February 27th will be assigned to a group by me.

**On-line Homework.** Over the course of the semester, there are five on-line assignments (designated 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.**

**Attendance/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. I will also factor any interesting tax articles that students forward to me in the computation of their attendance/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. Note that sharing interesting tax articles will not substitute for regular class attendance in the determination of this portion of your grade. 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.

As I will be polling via Poll Everywhere, please make sure that you have created an account ([www.polleverywhere.com](http://www.polleverywhere.com)) with your Wharton email. I will use these polls to track attendance. Note that answering the polls when you are NOT attending class is considered academic dishonesty (see Academic Integrity below).

***February 27<sup>th</sup>, Tentative Optional Class:***

Unless we have to cancel another class for inclement weather, Monday, February 27<sup>th</sup>'s class will be optional (i.e., I won't be taking attendance). In this class session, I will cover advanced partnership (i.e., LLC) topics including Disguised Sales, Anti-abuse Loss Limitations, Liquidating Dividends, "Special" Allocations and, time permitting, Publicly Traded Partnerships. While interesting and useful for those of you operating/owning your own partnership/LLC, these topics are particularly U.S.-centric and, well, ridiculously complex. Given that there is typically quite a few deliverables in your other courses in this period, I thought I'd only force this material on those of you who feel the need to feed your inner tax geek. None of this material will be included on the quizzes and I reserve the right to host this class on Zoom.

***Auditing the Course:***

I do not allow students to audit the course.

***Pertinent Information for students taking the course pass-fail:***

Earning roughly 105 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.

***Academic Integrity:***

All relevant University policies regarding Academic Integrity must be followed. Please consult the [Code of Academic Integrity](#) for a description of prohibited actions. Note that any violation of the Code may lead to a failing grade (which is an “F”). A violation of the [MBA Code of Ethics](#) may lead to additional sanctions.

***Syllabus:***

A detailed syllabus begins on the next page. The first listing is for the 6<sup>th</sup> edition and the green listing is for the 5<sup>th</sup> 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 6<sup>th</sup> edition (e.g., E2.13 refers to the problem at the bottom of page 2-16). (Note that the problem numbering is different in the 5<sup>th</sup> 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 Suggested Problems Discussion on Canvas. This way clarifying questions/answers will aid all students in the course.

*Taxes and Business Strategy*  
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**(Cambridge 6<sup>th</sup> Edition)**

<i>Class</i>	<i>Date</i>	<i>Topic</i>	<i>Class Preparation</i>	<i>Suggested Problems</i>
1	January 18	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 23	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 25	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 30	Stock Options	SWEHMS 8 Pgs E8-6 to 8-24, 8-27 to 8-30 <b>Online HM1</b>	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 1	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 6	Taxation of Corporations	SWEHMS 6 Pgs 6-1 to 6-6	Q6.2, Q6.5, E6.11, E6.12, see Canvas
7	February 8	Taxation of Corporations con't	SWEHMS 6 Pgs 6-14 to 6-19 <b>Seagram's Case</b> <b>Online HM2</b>	E2.18, Q6.9, E6.13 See Canvas
8	February 13	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
9	February 15	<b>QUIZ #1</b> Classes 1 - 7		

Class	Date	Topic	Class Preparation	Suggested Problems
10	February 20	S-Corporations	See Canvas SWEHMS 9 Pgs 9-18 to 9-19	See Canvas
11	February 22	Partnerships	See Canvas	E2.14, See Canvas
12	February 27	<u>Tentative Optional Class:</u> Advanced Partnerships ( <b>GROUP SIGN-UP DUE</b> on Canvas)	See Canvas	
NO CLASS	March 1			
NO CLASS	March 6			
NO CLASS	March 8			
13	March 13	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 15	International Taxation con't	SWEHMS 10 10-8 to 10-10, 10-12 to 10-15 <b>Online HM3</b>	E10.13, E10.15
15	March 20	Introduction to 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
16	March 22	Taxable M&A Transactions	SWEHMS 12 Pgs 12-1 to 12-15 (understand intuition of 12-9 to 12-15 – don't worry about formulas) <b>OL HM4</b>	Q12.2, Q12.3, Q12.5, Q12.6, TP12.8

<i>Class</i>	<i>Date</i>	<i>Topic</i>	<i>Class Preparation</i>	<i>Suggested Problems</i>
17	March 27	<b>QUIZ#2</b> Classes 1-15 Emphasis on classes 8-15		
18	March 29	Group Project Work Day NO IN PERSON CLASS		
19	April 3	Taxation of M&A con't	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 5	Conduit M&A Topics	SWEHMS 13 13-1 to 13-19 (focus on the intuition not the formulas) <b>OL HM5</b>	TP13.4
21	April 10	Divisive Maneuvers <b>Group Project DUE on Canvas by 11pm</b>	SWEHMS 15 Pgs 15-1 to 15-17	Q15.3, Q15.4 TP15.7
22	April 12	Divisive Maneuvers	SWEHMS 15 Pgs 15-17 to 15-20	See Canvas
23	April 17	Case, Group Project Debrief and Wrap-up	<b>Case – See Canvas</b>	
24	April 19	<b>QUIZ #3</b> Classes 1-23, emphasis on 16-23		

(Pearson 5<sup>th</sup> 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 18	Overview Investments	SWEHMS 1-2 Pgs 1-13, 16-28 SWEHMS 3 Pgs 36-46	Q1.7, Q1.8, e1.1, Q2.12, E2.1, Q3.3, Q3.6, E3.1, E3.2
2	January 23	Investments con't	SWEHMS 3 Pgs 46-52	Q3.9, E3.4, e3.9, E3.10, TP3.1, TP3.3
3	January 25	Deferred Compensation	SWEHMS 8-9 Pgs. 201-206, 260-267	E8.1, E8.2, TP8.1 Q9.2, E9.1
4	January 30	Stock Options	SWEHMS 8 Pgs 209-227, 230-232 <b>Online HM1</b>	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 1	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 6	Taxation of Corporations	SWEHMS 12 Pgs 330-336	Q12.2, Q12.5, E12.1, e12.2, see Canvas
7	February 8	Taxation of Corporations con't	SWEHMS 12 Pgs 344-350 <b>Seagram's Case</b> <b>Online HM2</b>	E2.6, Q12.9, E12.3 See Canvas
8	February 13	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
9	February 15	<b>QUIZ #1</b> Classes 1 - 7		



<i>Class</i>	<i>Date</i>	<i>Topic</i>	<i>Class Preparation</i>	<i>Suggested Problems</i>
10	February 20	S-Corporations	See Canvas SWEHMS 9 Pgs 277-279	See Canvas
11	February 22	Partnerships	See Canvas	E2.2, See Canvas
12	February 27	<u><i>Tentative Optional Class:</i></u> Advanced Partnerships ( <b>GROUP SIGN-UP DUE</b> on Canvas)	See Canvas	
NO CLASS	March 1			
NO CLASS	March 6			
NO CLASS	March 8			
13	March 13	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 15	International Taxation con't	SWEHMS 10-11 Pgs 297-299, 320-324 <b>Online HM3</b>	E10.1, E10.4
15	March 20	Introduction to Taxation of Mergers & Acquisitions (M&A) and NOL values	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)
16	March 22	Taxable M&A Transactions	SWEHMS 14 Pgs 365-383 (understand intuition not formulas of 374- 380) <b>Online HM4</b>	Q14.2, Q14.3, Q14.5, Q14.6, TP14.2

<i>Class</i>	<i>Date</i>	<i>Topic</i>	<i>Class Preparation</i>	<i>Suggested Problems</i>
17	March 27	QUIZ#2 Classes 1-15 Emphasis on classes 8-15	See Canvas	See Canvas
18	March 29	Group Project Work Day NO IN-PERSON CLASS		
19	April 3	Taxation of M&A con't	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) <b>Online HM5</b>	TP15.1
21	April 10	Divisive Maneuvers <b>Group Write-up DUE on Canvas by 11pm</b>	SWEHMS 17 Pgs 442-458	Q17.4, Q17.5, TP17.1 (but use 21% tax rate instead of 35%)
22	April 12	Divisive Maneuvers con't	SWEHMS 17 Pgs 458-463	See Canvas
23	April 17	Case and Wrap-up	Case – See Canvas	
24	April 19	<b>QUIZ #3</b> Classes 1-23, emphasis on 16-23		