

***Taxes and Business Strategy***  
***ACCT 897/297***  
***Prof. Jennifer Blouin – Spring 2021***

**PRELIMINARY SYLLABUS:** Note that I will have some asynchronous content at the beginning of some classes. Additionally, I reserve the right to assign the "topic" of the group policy project write-up. I suspect that taxes may be at the top of the incoming administration's "to-do list" and I may mandate that everyone write on the same topic. As always, participation will be a function of attendance and class contribution.

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***Prerequisites:***

Finance 611/612 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 edition is out of date in terms of tax rates (and little else).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 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 edition's rates out of date, too!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. 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-up	45 points
Online Homework	25 points
Participation	10 points
Total	200 points

**Quizzes.** Quizzes will be administered on the following dates: February 17, March 29 and April 28. There is no final exam or quiz in the regularly scheduled final exam period. Sixty minutes will be allowed for each online 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. 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 (if such thing ever returns).

**Group Policy Write-up.** As the class is somewhat policy oriented, your group must submit a position pieces 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 7th. Details of the topics will be posted on Canvas.

The write-up is 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 March 1st. Note that students who have not selected a group by March 1st will be assigned to a group by me.

**On-line Homework.** Over the course of the semester, there are five 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. Occasionally, some of these homeworks will be asking questions about material covered in class. **Homeworks are due on Canvas at 10am EASTERN regardless of your section meeting time.**

**Participation.** A student's participation score shall be influenced by three key factors: attendance, participation and preparation. I will expect students to attend class, and if we are ever in the classroom again, 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.

#### ***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 6<sup>th</sup> 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.

*Taxes and Business Strategy*  
*Prof. Jennifer Blouin – Spring 2020*  
**(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 20	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 25	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	February 1	Stock Options	SWEHMS 8 Pgs E8-6 to 8-24, 8-27 to 8-30 <b>E8.20</b> <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 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 8	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	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 15	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

Class	Date	Topic	Class Preparation	Suggested Problems
9	February 17	<b>QUIZ #1</b> Classes 1-8		
10	February 22	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	March 1	Partnerships con't  <b>(GROUP SIGN-UP DUE on Canvas)</b>	See Canvas	
13	March 3	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 8	International Taxation con't	10-9 to 10-10, 10-12 to 10-15	E10.13, E10.15
NO CLASS	March 10			
NO CLASS	March 15			
15	March 17	Accounting for Income Taxes	SWEHMS 7 Pgs 7-12 to 7-37 SWEHMS 8, Appendix 8.1 <b>See Canvas Simple Example OL HM3</b>	Q7.15 See Canvas
16	March 22	Accounting for Income Taxes Con't	See Canvas	See Canvas
17	March 24	More Accounting for Income Taxes	See Canvas	See Canvas
18	March 29	<b>QUIZ #2</b> Classes 1-17 Emphasis on classes 10-17		

<i>Class</i>	<i>Date</i>	<i>Topic</i>	<i>Class Preparation</i>	<i>Suggested Problems</i>
19	March 31	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 5	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) <b>OL HM4</b>	Q12.2, Q12.3, Q12.5, Q12.6, TP12.8
21	April 7	Taxation of M&A con't  <b>Group Write-up DUE on Canvas by 11pm</b>	SWEHMS 14 Pgs 14-1 to 14-13, 14-17 to 14-19	Q14.2, Q14.3, Q14.4, TP14.10, TP14.11
NO CLASS	April 12			
22	April 14	Conduit M&A Topics	SWEHMS 13 13-1 to 13-19 (focus on the intuition not the formulas)	TP13.4
23	April 19	Divisive Maneuvers	SWEHMS 15 Pgs 15-1 to 15-17 <b>OL HM5</b> <b>TP15-9</b>	Q15.3, Q15.4 TP15.7
24	April 21	Divisive Maneuvers	SWEHMS 15 Pgs 15-17 to 15-20	See Canvas
25	April 26	Case and Wrap-up	<b>Case – See Canvas</b>	
26	April 28	<b>QUIZ #3</b> Classes 1-25, emphasis on 18-25		

(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 20	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 25	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	February 1	Stock Options	SWEHMS 8 Pgs 209-227, 230-232 <b>E8.9</b> <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 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 8	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 <b>Seagram's Case</b> <b>Online HM2</b>	E2.6, Q12.9, E12.3 See Canvas
8	February 15	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
9	February 17	<b>QUIZ #1</b> Classes 1-8		



<i>Class</i>	<i>Date</i>	<i>Topic</i>	<i>Class Preparation</i>	<i>Suggested Problems</i>
10	February 22	S-Corporations	See Canvas SWEHMS 9 Pgs 277-279	See Canvas
11	February 24	Partnerships	See Canvas	E2.2, See Canvas
12	March 1	Partnerships con't  <b>(GROUP SIGN-UP DUE on Canvas)</b>	See Canvas	
13	March 3	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 8	International Taxation con't	SWEHMS 10-11 Pgs 297-299, 320-324	E10.1, E10.4
NO CLASS	March 10			
NO CLASS	March 15			
15	March 17	Accounting for Income Taxes	SWEHMS 6 Pgs 135-160 SWEHMS 8, Appendix 8.1 <b>See Canvas Simple Example OL HM3</b>	Q 6.15 See Canvas
16	March 22	Accounting for Income Taxes Con't	See Canvas	See Canvas
17	March 24	More Accounting for Income Taxes	See Canvas	See Canvas
18	March 29	<b>QUIZ #2</b> Classes 1-17 Emphasis on classes 10-17 Accounting for Income Taxes Con't		

<i>Class</i>	<i>Date</i>	<i>Topic</i>	<i>Class Preparation</i>	<i>Suggested Problems</i>
19	March 31	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 5	Taxation of M&A con't	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
21	April 7	Taxation of M&A con't  <b>Group Write-up DUE on Canvas by 11pm</b>	SWEHMS 16 Pgs 410-424, 428-437	Q16.2, Q16.3, Q16.4, TP16.5, TP16.6
NO CLASS	April 12			
22	April 14	Conduit M&A Topics	SWEHMS 15 Pgs 386-406 (focus on the intuition not the formulas)	TP15.1
23	April 19	Divisive Maneuvers	SWEHMS 17 Pgs 442-458 <b>TP17.3 (Assume <math>t=21\%</math> v. <math>35\%</math>)</b> <b>Online HM5</b>	Q17.4, Q17.5, TP17.1 (but use 21% tax rate instead of 35%)
24	April 21	Divisive Maneuvers con't	SWEHMS 17 Pgs 458-463	See Canvas
25	April 26	Case and Wrap-up	Case – See Canvas	
26	April 28	<b>QUIZ #3</b> Classes 1-25, emphasis on 18-25		