Course Objectives

Taxes have pervasive effects on all business entities, from owner-operated small businesses to large multinational corporations. Taxes also affect all types of investment decisions and the value of compensation and benefits received by employees. This course examines the tax implications of a variety of common business and investment activities. Rather than focus on technical rules and legal details, the course strives to develop a conceptual understanding of the federal income tax system and to provide a framework for integrating income tax planning into the decision-making process. This course is designed to help students anticipate the impact of taxation on business activities and seek alternatives that maximize after-tax value.

Course Requirements

**Texts:** *Taxes and Business Strategy (TBS)*, Second Edition, by Scholes, Wolfson, Erickson, Maydew, and Shevlin, published by Prentice Hall; *Cases in Tax Strategy*, by Merle Erickson, published by Pearson Custom Publishing. The texts will be supplemented with a variety of business press articles, from sources such as *The Wall Street Journal*. Supplemental readings may be downloaded from the course website, by clicking on the appropriate links.

**Quantitative problem sets:** Two sets of quantitative problems will be assigned in the early weeks of the course, due on dates indicated on the attached course calendar. The purpose of these problem sets is to reinforce basic techniques for calculating after-tax return on investment, including NPV. These exercises should be completed using Excel to the greatest extent possible.

**Case analyses:** Each student is assigned to a group of 4-5 students. Each group will prepare a written analysis of 4 cases assigned throughout the course, on dates indicated on the attached course calendar. Students will be evaluated as a group on their written analysis and individually based on contribution to in-class discussion of the case. Case discussion will take place at the beginning of the class period for which the case is assigned and should take 20-30 minutes. Written case analyses will be graded on the following scale:

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<tr>
<th>Grade</th>
<th>Description</th>
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<tbody>
<tr>
<td>3 points</td>
<td>Above Average</td>
</tr>
<tr>
<td>2 points</td>
<td>Average</td>
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<tr>
<td>1 point</td>
<td>Below Average</td>
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<tr>
<td>0 points</td>
<td>Unacceptable or not completed</td>
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Late submissions of problem sets and case analyses will not be accepted. If you cannot be in class when an assignment is due, it is your responsibility to get it to me prior to class. Email submission of problem sets and case analyses, as word documents or in Excel, is acceptable. The email submission must be time labeled prior to the start of the class period in which the assignment is due.

Exams: This course requires in-class midterm and final exams, on dates indicated on the attached course calendar. Exam emphasis is on understanding and application rather than memorization. Exams will be open book and open notes.

I do not give make-up exams. If you have a legitimate excuse for missing the midterm exam, such as illness or family emergency, please discuss the circumstances with me preferably before the exam or as soon as possible afterward. For such an excused absence from the midterm exam, the course weight normally assigned to that exam will be shifted to the final exam. If you miss the midterm exam without a legitimate reason, you will receive a zero for the exam, which usually implies failing the course. The final exam must be completed in order to receive a passing grade in the course.

Class participation: A substantial portion of the course grade will be based on class participation. In addition to participation in case discussions, students will be expected to contribute to class discussion of assigned readings, quantitative exercises, and in-class activities.

Grading

Grades will be based on relative performance and allocated to required course elements as follows:

<table>
<thead>
<tr>
<th>Component</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Midterm exam</td>
<td>30%</td>
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<tr>
<td>Final exam</td>
<td>30%</td>
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<tr>
<td>Quantitative problem sets</td>
<td>10%</td>
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<tr>
<td>Written case analyses</td>
<td>20%</td>
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<tr>
<td>Class participation</td>
<td>10%</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>100%</strong></td>
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Academic Integrity Policy Statement

The Code of Academic Integrity of Villanova University addresses cheating, fabrication of submitted work, plagiarism, handing in work completed for another course without the instructor’s approval, and other forms of dishonesty. For the first offense, a student who violates the Code of Villanova University will receive 0 points for the assignment. The violation will be reported by the instructor to the Dean’s office and recorded in the student’s file. In addition, the student will be expected to complete an education program. For the second offense, the student will be dismissed from the University and the reason noted on the student’s official transcript.

Course Overview

The course contains two broad modules, each with specific educational objectives. Module 1 develops the basic tools and techniques of tax planning. The specific topics in this module are:
• Introduction to tax strategy. This topic defines the building blocks of tax planning, including tax deferral techniques, the importance of income character, shifting of income to low-tax rate entities or individuals, and shifting of income to low-tax rate jurisdictions. We will also review tax law fundamentals and basic tax concepts covered in the introductory undergraduate tax course, focusing on taxation of business and investment activities.

• Calculating after-tax return on investment for alternative investment/savings options. Six basic investment vehicles will be examined, and used as templates for developing formulas to express after-tax return. These six vehicles differ across important tax planning dimensions with respect to the timing of income taxation and the character of the income (and thus the rate at which it is taxed).

• Implicit taxes, tax clienteles, tax arbitrage, market frictions and restrictions affecting after-tax return on investment. This group of topics requires refinement of the basic investment templates to consider issues that affect specific types of transactions differentially.

• Organizational form and the tax and non-tax factors affecting the optimal choice. This topic extends the investment return templates developed previously to consider the optimal organizational form in which to conduct business and investment activities. The basic forms to be considered include sole proprietorship, domestic corporation, foreign corporation, and pass-through entity (partnership, LLP, LLC, or S corporation).

• Non-tax costs of tax planning. This topic discusses additional issues related to value maximization, including risk, uncertainty, and conflicts between financial reporting and tax planning.

• The importance of marginal tax rates, and the difference between dynamic and static tax planning. Effective tax planning requires an accurate prediction of the taxpayer’s future marginal tax rates. We will discuss issues affecting marginal tax rates and sensitivity analysis techniques for dealing with tax rate uncertainty.

Educational objectives for module 1:

• Develop a conceptual understanding of the federal income tax system.
• Provide a framework for integrating income tax planning into the decision-making process.
• Understand the differences in tax costs and benefits of alternative forms of investment, including alternative organizational forms for conducting business.
• Quantify tax and non-tax costs and benefits of decision alternatives, and calculate the net-present value of after-tax cash flows.

Module 2 applies the tools and techniques learned in module 1 to a variety of important business decisions. In general, the topics selected involve broad strategic issues with significant tax and non-tax implications for business profitability. Module 2 topics are:
• Tax issues in compensation planning. This topic will consider the tax attributes of a variety of compensation and employee benefits topics, including current and deferred compensation, stock options, insurance benefits, etc. We will also explore the preferential tax treatment associated with qualified pension and retirement benefits plans.

• Corporate tax planning issues associated with corporate formation, operation, capital structure, and liquidation. Issues explore will include tax-free incorporations, thin capitalization, double-taxation of corporate earnings, tax treatment of corporate distributions, and taxation of corporate liquidations.

• Tax planning for mergers, acquisitions, reorganizations, and divestitures. We will develop a basic acquisitions model, and define the requirements for tax-free treatment of reorganization transactions. We will compare the tax consequences to shareholders, acquirers, and target corporations of taxable versus tax-free acquisitions.

Educational objectives for module 2:

• Apply the planning tools and techniques learned in module 1 to important business decisions.
• Understand the tax benefits provided to employers and employees of a variety of compensation options.
• Explore corporate tax planning issues and the tax costs of the corporate form.
• Identify alternative structures for acquiring ownership of another corporation, and the important differences in tax consequences of these alternatives.
Course Calendar

June 3  Course Introduction. Review of syllabus and course requirements. Introduction to tax strategy. Review of tax law fundamentals and basic tax planning strategies.

Reading: TBS (Taxes and Business Strategy) chapters 1 and 2.

6  Returns to alternative savings vehicles.

Reading: TBS chapter 3.

10 Choosing the optimal organization form.

Reading: TBS chapter 4.

Problem Set #1 due

13 Implicit taxes, tax clienteles, market frictions, restrictions affecting after-tax return on investment, and tax arbitrage.

Reading: TBS chapter 5.

17 Non-tax costs of tax planning, marginal tax rates.

Reading: TBS chapters 6 and 7.
“PricewaterhouseCoopers’ complex plan ultimately caused embarrassment,” The Wall Street Journal, 8/21/00.

Problem Set #2 due

20 Catch-up and review for midterm exam

24 Midterm Exam

27 Midterm exam return and discussed

Tax issues in compensation planning.

Reading: TBS chapter 8.

July 1  Tax issues in compensation planning continued.
Reading: TBS chapter 9.

4 NO CLASS – HOLIDAY

8 Case: Case 3 Part I from “Cases in Tax Strategy”
Corporate tax planning issues.

Reading: TBS chapter 12.

Corporate tax planning issues continued.

15 Mergers and acquisitions.

Reading: TBS chapters 13 and 14.

18 Case: Case 2 from “Cases in Tax Strategy”
Mergers and acquisitions continued.

Reading: TBS chapter 16.

22 Case: Barry Diller, Vivendi, and Mixing Bowl Partnerships
Divestitures.

Reading: TBS chapter 17.

25 Catch-up, course wrap-up, and review for final exam.

29 Final Exam