



**Taxation and Management Decisions (ACC 819)**  
**Course Overview**  
**2008-2009**  
**Quarter 2**

**This class is . . .** a strategy class which blends law, finance, accounting and strategy and focuses on high value-added business decisions.

**This class is not about. . .**

Tax compliance:	the correct way to file tax returns
Tax complexity:	finding loopholes
Tax minimization:	beating Uncle Sam
Tax evasion:	illegal tax avoidance

My goal in this class is to change the way you think about how you transact and at what price you transact. To reach that goal, this course explores how taxes affect a variety of fundamental business issues such as forming a company, compensating employees and attracting investors. Taxes directly or indirectly pervade most business transactions. In some cases, tax considerations drive the transaction. In many cases, however, other factors override the tax considerations. This course provides students with a framework for evaluating the priority taxes have in business decisions, which will enable them to make better decisions. While the topics deal primarily with US income taxes, the course's conceptual framework applies irrespective of time and jurisdiction. The course objective is NOT to enable students to complete tax returns but to prepare them to be more effective entrepreneurs, managers and business advisors. This course prepares more effective businesspersons by creating an awareness of how taxes affect the financial returns of organizational decisions, by giving a solid foundation of tax law in key areas and by providing tools with which to evaluate the tax consequences of strategic decisions.

**Summary of Course Objectives:**

- Change the perception of the role of taxes in business decisions
- Generate an awareness of how taxes affect the financial returns to business decisions
- Develop a framework to evaluate the priority of tax consequences in business decisions
- Provide a solid foundation of tax law in key areas

**For Whom This Course Is Intended:**

This course is intended for entrepreneurs, managers and advisors who will implement organizational strategies and whose objective is to maximize value. Primarily students seeking careers in management consulting, investment banking, venture capital and industry (especially general management, corporate finance or accounting) will find this course of interest.

**Topics:**

This course will address a broad range of decisions including (but not limited to): investing assets in the appropriate savings account, arranging effective compensation agreements, starting an entrepreneurial venture, distributing company profits, liquidating an investment position, establishing divisions overseas and taking aggressive tax position.

**Principal Mode(s) of Instruction:** Cases; Articles

**Prerequisites:** You do not need any prior knowledge of taxation to take this course.

**Grading Policy:**

40% Class contribution

The primary determinant is my daily grade. A daily and overall course peer assessment of contribution, which will be discussed on the first day of class, is also considered.

20% Take-home, mid-term exercise

Posted in the class folder by 8 am on Saturday, October 25th. Due at 8:00 am on Wednesday, October 29<sup>th</sup>. This exercise provides an opportunity to practice the basic framework for our numerical analyses before beginning more complex analyses.

40% Final team project

Three to four people per team. This project provides an opportunity to pull together the components of the framework (ALL TAXES, ALL PARTIES, ALL COSTS) and practice your analytical skills in a strategic decision of personal interest. When submitting your project, include the cover page provided in this course pack with team members' names and honor pledge signatures. Also required is an assessment of your team members' contribution on the form that is provided in the course pack.

**Attendance Policy:**

The attendance policy is consistent with first year. Attendance is required for all classes. If you must be absent, please send me an email prior to class explaining your absence. Any absence will prevent you from receiving a daily contribution grade and students with more than two unexcused absences cannot receive an overall class contribution grade higher than a "B-".

**Materials:**

REQUIRED: Loose-leaf course pack, so you will need a binder.

## FINAL TEAM PROJECT

*Goal:* Explore the tax and non-tax factors affecting a business decision

*Team size:* 3 to 4 students

*Output:* Paper

### *Topic Ideas:*

- Initial public offering of a hedge fund
- Tax shelters
- Creation of new securities
- Venture capital arrangements
- Starting a company
- Compensation packages
- Family wealth planning
- International expansion
- Funding research and development
- Promoting conservation
- Tax reform

### *Suggested Format:*

#### Layout

- Length: 10 - 15 pages excluding exhibits
- Spacing: 1 ½
- Font: 12 point
- Margins: 1 inch

#### Structure

##### 1. Background

- Summarize the strategic decision
- Discuss the alternatives
- Diagrams/exhibits are useful if well integrated with the text

##### 2. Analysis

- **A numerical analysis is required**
- Compare at least two alternatives using numerical analysis. I recommend a complete and interesting analysis of two alternatives rather than an incomplete analysis of multiple alternatives.
- The discussion should incorporate
  - ALL TAXES - The major explicit and implicit tax consequences of the decision.
  - ALL PARTIES - The main parties involved in or affected by the decision.
  - ALL COSTS - The non-tax benefits and costs of the decision.

## FINAL TEAM PROJECT (CONTINUED)

### 3. Conclusion

- Make a Decision

What course of action would you recommend to the client, company, voter, etc.? Summarize your reasons. The key is to adequately support your position.

### Grading

Even though you may speak to me throughout the quarter regarding your project ideas, I try NOT to remember specifics of our conversations, so I can grade the projects as anonymously as possible. Therefore, you should attach the cover page provided in this course pack to your project and in the top right corner of every page of your project put your team's number, so I can identify your paper after the grading is complete. Your team's number is the last 4 digits of the social security number of the team member, whose last name is first, if sorted in alphabetical order.

### Comments on Team Projects

Over the last two years, the distinguishing factors among the papers have been the quality of the writing and numerical analysis. It was obvious from the writing if the groups had worked as a team or compiled independent components to create the final product. Poor writing made it difficult to navigate the project even if the numerical analysis looked reasonable. In other projects with well-written and organized discussions, the substance of the numerical analysis varied. A solid numerical analysis explicitly considers the underlying assumptions and the sensitivity of the results to those assumptions. The key to a good paper is a thoughtful, organized and well-written discussion with a sound numerical analysis. I have provided a few examples of some of the best projects from previous years in the class folder.

### Team Members and Topics Due: November 6<sup>th</sup>

Please email me on November 6<sup>th</sup> with your team members and the topic for your project.

### Submitting Final Team Projects

Please submit to my assistant, Karen Wolf, in FOB 187 by 5 pm on Friday, December 12<sup>th</sup>:

- One hard copy of your final team project per team including the cover page provided in this course pack with the **honor pledge signed\*** by all team members.
- One feedback form provided in this course pack per team member.

Also, please email an electronic copy of your team project directly to me.

**\*Please review what qualifies as plagiarism before submitting your final project and make sure all your group members are aware.**

## TENTATIVE Calendar

### October 2008

Monday	Tuesday	Wednesday	Thursday	Friday
16	14	15 ASSIGNMENT 1: WHAT SKILLS SHOULD YOU ACQUIRE AT DARDEN? <b>VARIOUS READINGS</b>	16 ASSIGNMENT 2: WHICH INVESTMENT ACCOUNT IS OPTIMAL FOR YOUR PORTFOLIO? <b>VARIOUS READINGS</b>	17
20	21	22 ASSIGNMENT 3: IS DEFERRED COMPENSATION OR SALARY OPTIMAL? <b>CASE: COMPENSATION PLANNING AT STANFORD UNIVERSITY</b>	23 ASSIGNMENT 4: WHAT TYPE OF EMPLOYEE STOCK OPTION IS OPTIMAL? <b>CASE: MICROSOFT AND THE TAX REFORM ACT OF 1986</b>	24 ASSIGNMENT 5: WHICH TYPE OF ENTITY FOR YOUR NEW VENTURE IS OPTIMAL? <b>CASE: QUABBIN CABLEVISION MID-TERM EXERCISE DISTRIBUTED</b>
27	28	29 ASSIGNMENT 6: REVIEW AND POLICY IMPLICATIONS <b>MID-TERM EXERCISE DUE</b>	30 ASSIGNMENT 7: ARE DIVIDENDS OR SHARE REPURCHASES THE OPTIMAL METHOD TO DISTRIBUTE EARNINGS? <b>CASE: SEAGRAMS-DUPONT</b>	31
<b>November 2008</b>				
03	04 <b>ELECTION DAY</b>	05	06 ASSIGNMENT 8: WHAT TYPE OF CAPITAL STRUCTURE IS OPTIMAL? <b>VARIOUS READINGS FINAL TEAM PROJECT INFO DUE</b>	07 ASSIGNMENT 9: HOW DO YOU ALLOCATE ASSETS IN A PENSION PLAN? <b>CASE: THE BOOTS COMPANY PLC FAMILY DAY</b>

<b>November 2008</b>				
<b>Monday</b>	<b>Tuesday</b>	<b>Wednesday</b>	<b>Thursday</b>	<b>Friday</b>
10	11	12 ASSIGNMENT 10: WHAT SOURCE OF PROJECT FINANCING IS OPTIMAL? <b>CASE: REXFORD FILM</b>	13 ASSIGNMENT 11: WHAT IS THE OPTIMAL METHOD TO MONETIZE AN INVESTMENT? <b>CASE: ESTEE LAUDER</b>	14
17	18	19 ASSIGNMENT 12: OVERVIEW OF THE TAXATION OF INTERNATIONAL ACTIVITIES <b>VARIOUS READINGS</b>	20 ASSIGNMENT 13: IN WHICH COUNTRY IS IT OPTIMAL TO INCORPORATE? <b>CASE: STANLEY WORKS</b>	21
24	25	26	27 and 28  THANKSGIVING HOLIDAY	
<b>December 2008</b>				
01	02	03 ASSIGNMENT 14: WHAT IS THE OPTIMAL AMOUNT OF TAX PLANNING? <b>TBD</b>	04 ASSIGNMENT 15: <b>DEBATE:</b> <b>THE TAX SYSTEM</b>	<b>GROUP PROJECTS DUE ON FRIDAY, DECEMBER 12th AT 5 PM</b>

## FRAMEWORK

<b>ALL COSTS</b>			
<i>DAY 13</i> INTERNATIONAL		<i>DAY 14</i> TAX AGGRESSIVENESS	
		<i>DAY 15</i> TAX AGGRESSIVENESS / TAX SYSTEM	
<i>DAY 9</i> CAPTIAL STRUCTURE: PENSION POLICY	<i>DAY 10</i> PROJECT FINANCING	<i>DAY 11</i> FINANCIAL ENGINEERING	<i>DAY 12</i> INTERNATIONAL
<i>DAY 5</i> ENTITY FORMATION	<i>DAY 6</i> REVIEW AND POLICY IMPLICATIONS	<i>DAY 7</i> DISTRIBUTION OF CORPORATE EARNINGS	<i>DAY 8</i> CAPITAL STRUCTURE: DEBT

<b>ALL PARTIES</b>	
<i>DAY 3</i> COMPENSATION CONTRACTS DEFERRED COMPENSATION	<i>DAY 4</i> COMPENSATION CONTRACTS EMPLOYEE STOCK OPTIONS

<b>ALL TAXES</b>	
<i>DAY 1</i> AFTER-TAX RETURNS IMPLICIT TAXES	<i>DAY 2</i> AFTER-TAX RETURNS TIMING, RATE and DEDUCTIBILITY