

University of Washington
Graduate School of Business Administration

Accounting 513 - Tax Effects of Business Decisions
Spring 2006
Professor Terry Shevlin

Monday & Wednesday 1.30-3.20pm, Balmer 416.

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Office Hours: Tuesday and Thursday 10.30 – 11.30am
and by appointment or drop by.

PURPOSE OF COURSE:

This course focuses on the importance of tax considerations in making business decisions. Our objectives for the course are to develop and apply a theoretical tax planning framework: 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 first third of the class is devoted to developing an understanding of these themes (building the framework). The remainder of the class involves applying these three themes to decision contexts, such as organizational form, compensation including employee stock options (ESOs) and pensions, multinational tax planning, mergers and acquisitions. 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.

Although we spend some time reviewing important tax “rules” this IS NOT a rules-oriented class. Instead we take the perspective that taxes are one additional set of constraints which should be considered in business decisions. As time permits, we will also review the policy implications and the economic, political, and social background of any important pending tax provisions.

CONDUCT OF THE COURSE:

I strongly believe that students must be active participants in the learning process. Active learning involves students in doing things and thinking about things they are doing rather than passively receiving information and memorizing it. Thus, the classroom format is informal and questions are welcome at all times. The instruction will involve mini-lectures and classroom discussions and problem solving (individually and in groups). Participants must be prepared for class for two reasons. First, students will often be called upon to analyze and resolve problems involved in various personal and business transactions. Second, the reading material (see below) needs to be read in advance for students to fully understand the concepts discussed in class.

There are reading assignments from the main text, supplemented by financial press articles, and various handouts to be distributed during the quarter. The volume of reading is substantial and in some cases difficult, and such readings are mandatory for understanding the material presented in class. The concepts build upon one another sequentially so that remaining current with the readings and lecture is essential to learning and understanding the material.

GRADING:

There will be a midterm and a final exam. Both exams are open notes. The midterm will be worth 30 percent of the final grade, the final exam 40 percent, hand-in homework assignments 10 percent, with the remaining 20 percent based on class participation (both quantity and quality will be considered).

REQUIRED TEXT:

The text is Taxes and Business Strategy: A Planning Approach, Myron Scholes, Mark Wolfson, Merle Erickson, Ed Maydew and Terry Shevlin, Prentice-Hall, Third edition.

Helpful texts:

Federal Taxes and Management Decisions, Ray M. Sommerfeld and Sally Jones, Irwin, Latest Edition.

Introduction to Taxation, Steven J. Rice, South Western, Latest Edition.

Who should take this class?

MBA students considering managerial positions (or positions with consulting or investment firms) that need to be somewhat aware of the tax ramifications of business decisions (investing, financing, compensation, etc.) It is far better to consider the tax ramifications of a transaction before it is undertaken (so that it can be structured to be tax efficient) rather than after it is completed (and the dreadful tax outcomes become rather apparent). This course draws on microeconomic, finance, and accounting concepts to analyze transactions that are commonly encountered in the business world. We also simplify complex issues via simple algebra.

If you have any interest in the following questions then this class might be for you.

If I invest in stock versus taxable corporate bonds versus municipal bonds when will I be able to retire?

How are stock investments taxed?

What effect will President Bush's tax plan to remove taxation on corporate dividends have on corporate cost of capital, on stock prices, on what assets to invest in?

What are corporate tax shelters? What is the controversy?

When is the corporate form tax favored over the partnership form?

What are the tax ramifications to me of exercising my employee stock options (incentive or nonqualified)?

How can Microsoft report huge profits but apparently pay little in federal income taxes?

What is a corporate inversion? Why do it? Why the controversy?

What is a foreign tax credit? Why is it important to a multinational firm?

What is the corporate dividend received deduction? Why did Seagrams think it was important?

What is a taxable merger? How did Boeing structure its merger with McDonald Douglas?

Who is the Professor?

I joined the University of Washington as a rookie Assistant Professor of Accounting in 1986. I am from Australia and became interested in this tax stuff when I was pursuing my PhD at Stanford and took the first class offered by the authors of the first edition of this textbook (Scholes and Wolfson – yes Scholes is the option pricing guy, the Nobel Prize winner, and most recent of the Long Term Capital Management Hedge Fund fiasco!).

I have taught this class the past 10 years with students generally liking the material – although there is much to cover they felt they learned a lot. My research includes not only tax (of the type discussed in the text, some of my work is even mentioned in the text and I will be sure to cover that material!) but also financial accounting issues. Currently I am interested in employee stock options and incentives.

Accounting 513 – Spring 2006: Class Schedule: Monday/Wednesday

Class	Date	Topic	Reading	Class discussion
1	March 27	Introduction	Ch. 1	DQ 1,3 Ex. 1,3,4 P.4.
2	March 29	Overview of tax planning	Ch. 2	DQ 5,11,13 Ex. 2,3, 6,7 P. 1,6 Case: Seagram/Dupont
3	April 3	Savings vehicles I	Ch. 3	DQ 1,3,6 Ex. 1,2,3,4 P.1
4	April 5	Savings vehicles II	Ch. 3	Ex. 5,6,7,8,12 , P. 4,5
5	April 10	Organizational form	Ch. 4	DQ 1,3,4 Ex. 1,2,4 P. 6,7 Case: Catellus (REITS)
6	April 12	Implicit taxes	Ch. 5	DQ 1,9,10 Ex. 2,3 P.2
7	April 17	Tax planning I	Ch. 6	DQ 1,2,4,7,10 Ex. 1 P. 2,5
8	April 19	Tax planning II	Ch. 7	DQ 1,3 Ex. 2 P. 1,4,6
9	April 24	Salary, deferred comp & fringe benefits	Ch. 8	DQ 2 Ex. 1,2,3 P.1
10	April 26	Stock-based compensation	Ch. 8	DQ 9,10, Ex. 5,6,7,9,11 P.4 Case: Enron's Tax Disclosures
11	May 1	Pension plans	Ch. 9	Case: Sprint DQ 1,3 Ex. 1,3,5 P. 3
12	May 3	Midterm exam		
13	May 8	Multinational tax planning I	Ch. 10	DQ. 1,5,9 Ex. 1,4 P. 1,4
14	May 10	Multinational tax planning II	Ch. 11	DQ. 1,2,3,10 Ex. 1,4 P. 4
15	May 15	Capital structure	Ch. 12	DQ. 4,7 Ex. 1,2,3,4 Case: Enron and MIPS
16	May 17	M&A – Overview	Ch. 13	DQ. 3,4,5,6,7,12
17	May 22	Taxable mergers	Ch. 14 & 15	Ch. 14 DQ. 1,2 P. 1,2 Ch. 15 DQ. 2,4 P. 1
18	May 24	Tax-free reorgs	Ch. 16	DQ. 2,7,8 P. 1,2 Case: Snapple I
19	May 29	Memorial Day Holiday		
20	May 31	Divestitures	Ch. 17	DQ. 1,6,7 P. 1,2,4

- Class discussion items in boldface are assignments that will be collected and graded. Please bring a second copy of your solution to class for collection at the start of class.
- The Cases listed will be copied and distributed by the instructor and will form the basis of a large part of the discussion for the session.