

**Spring 2001**  
**Taxes and Business Strategy (15.518)**  
**Sloan School of Management**  
**Massachusetts Institute of Technology**

**Professor:** Gil B. Manzon  
**E-mail:** [manzong@bc.edu](mailto:manzong@bc.edu)  
**Phone:** 617-552-4637  
**Office Hours:** Monday and Wednesday 10-11, unless otherwise noted or arranged  
**Secretary:** Bill Keevan (wkeevan@mit.edu)  
**Teaching Assistant:** Scott Epstein

**Course Objectives:** First, to help you develop a solid foundation for understanding how taxes affect economic behavior. We will do this by working through a conceptual framework that describes how tax rules affect business decisions. Second, to use this conceptual framework to examine business contexts of particular importance, including compensation, multinational tax issues, and corporate merger and acquisition activity. Ideally, when you have completed this course you will be able to readily identify economic contexts in which significant tax issues arise and have an appreciation of how those issues get addressed. If you can do this, you will have a significant comparative advantage relative to those who can't. This advantage will likely grow over time.

**Prerequisites:** Introductory accounting.

**Course Materials:**

1. Scholes, Wolfson, Erickson, Maydew, and Shevlin, Taxes and Business Strategy, 2<sup>nd</sup> edition, Prentice Hall. (This book is very good)
2. Cases, Handouts, and Problem Sets (These will be made available in class)

<b>Grading:</b>	<b>Scheme 1</b>	<b>Scheme 2</b>
Class Participation	30	15
Assigned Problem Sets Cases	70	35
Final Exam	0	50

There are three problem sets and six cases. Seven of the nine will contribute to your grade. You should feel free to work in groups of up to four people. The final exam is optional—that's right, you can choose not to take it. Moreover, it is almost a free good. Specifically, if you choose to take the final exam your result cannot reduce your overall grade. If you take the final and your result would lower your grade (vs. Scheme 1) Scheme 1 will be used to arrive at your final grade. Thus, the only "cost" associated with taking the final is the opportunity cost of preparing for and taking the test. The final is closed note / closed book—you are allowed one 8 ½ by 11 sheet of notes.

**How Classes will go:** You are assigned readings in the books. Along with the readings, I'll give you a set of notes that summarize (but don't replace) relevant portions of the readings. We'll use the notes to frame (but not provide a straightjacket for) the discussion in the classroom (i.e., I'll

work from the notes but I'll feel free to extemporize and you should feel free to do so as well). There will be problems embedded within the notes that we'll review. I think it's important to work through problems—if only to get a visceral feel for how things “work out.” During case classes, I'll expect that you've read the cases, prepared responses to explicit questions, and are coming to class ready to talk.

### **Course Outline:**

Introduction to Tax Strategy: Taxes and Business Strategy, Chapter 1

Recommended Exercises: 1, 2, 4

Recommended Problems: 1, 4

Tax Law Fundamentals: Taxes and Business Strategy, Chapter 2

Recommended Exercises: 1, 3, 5

Recommended Problems: 1, 4, 6

Alternative Savings Vehicles: Taxes and Business Strategy, Chapter 3, pp. 41-52.

Recommended Exercises: 1, 2, 3

Recommended Problems: 1

**Problem Set 1** consists of highlighted recommended exercise and problems from chapters 1-3. The due date to pass in this problem set will be announced in class.

Choosing the Optimal Organizational Form: Taxes and Business Strategy, Chapter 4, pp. 62-73, 77-end

Recommended Exercises: 1, 2, 3, 4, 5, 6

Recommended Problems: 3, 5

Implicit Taxes and Clienteles, Arbitrage, Restrictions and Frictions: Taxes and Business Strategy, Chapter 5, pp. 91-103, skim 104-114, 115-117

Recommended Exercises: 2, 4

Recommended Problems: 3

**Case1:** Estee Lauder (Note: case solutions, memoranda, etc. must be passed in at the beginning of the class in which the case will be discussed)

Marginal Tax Rates and Dynamic Tax Planning: Taxes and Business Strategy, Chapter 7, pp. 155-160, skim 161-173

Recommended Exercise: 4

Recommended Problems: 1, 2, 4, 5

**Problem Set 2** consists of highlighted recommended exercise and problems from chapters 4, 5, and 7. The due date to pass in this problem set will be announced in class.

Compensation Planning: Taxes and Business Strategy, Chapter 8, pp. 180-185, skip section 8.2, 188-193, skim 194-196, 197-198, 200

Pension and Retirement Planning: Taxes and Business Strategy, Chapter 9, sections 9.1, 9.2, and 9.3

Recommended Exercises, chapter 8: 1, 2, 5, 6

Recommended Problems, chapter 8: 1, 4  
Recommended Exercise, chapter 9: 1

**Case 2:** Silicon Graphics (maximum two page write-up)

International Tax Planning: Introduction and Investment Decisions: Taxes and Business Strategy, Chapter 10

International Tax Planning: Foreign Tax Credit Limitations and Income Shifting: Taxes and Business Strategy, Chapter 11

Recommended Exercises, chapter 10: 1, 2, 3, 4, 5

Recommended Problems, chapter 10: 1, 2, 3

Recommended Exercises, chapter 11: 1, 4

Recommended Problems, chapter 11: 2, 3, 4

**Case 3:** Whelen Pharmaceutical (maximum two page write-up)

**Problem Set 3** consists of highlighted recommended exercise and problems from chapters 8-11. The due date to pass in this problem set will be announced in class.

Corporations: Formation, Operation, Capital Structure and Liquidation: Taxes and Business Strategy, Chapter 12, pp. 291-303, 306-end.

Introduction to Tax Planning for Mergers, Acquisitions and Divestitures: Taxes and Business Strategy, Chapter 13

Taxable Acquisitions of Freestanding C corporations: Taxes and Business Strategy, Chapter 14

Taxable Acquisitions of Conduit Entities: S Corporations: Taxes and Business Strategy, Chapter 15

**Case 4:** The Effect of Taxes on the Structure of, and Price Paid in, the Hi-Stat Acquisition

Tax-Free Acquisitions of Freestanding C Corporations: Taxes and Business Strategy, Chapter 16

**Case 5:** Evaluating the WorldCom/MCI Merger

Tax Planning for Divestitures: Taxes and Business Strategy, Chapter 17

**Case 6:** Analyzing the Sale of Snapple to Triarc