Introduction to the course

Traditional business courses analyze an array of factors affecting business decisions but provide little systematic consideration of the role of taxes. By contrast, tax accounting courses traditionally concentrate on technical and administrative issues while ignoring the environment in which taxes enter firms’ decisions. The intent of this course is to bridge this gap by providing a framework for recognizing how taxes affect numerous business decisions. The key themes are:

All Parties Effective tax planning requires considering the tax implications of a transaction to all parties to the transaction. In many cases, it is differences in tax status that create tax arbitrage opportunities.

All Taxes Effective tax planning requires considering both explicit taxes (taxes paid directly to the government) and implicit taxes (taxes paid indirectly in the form of lower before-tax rates of return on tax-favored investments).

All Costs Effective tax planning requires recognizing that taxes represent only one of many business costs, and all costs must be considered in the planning process.

The course begins with some basic analytical tools of this framework. The role that taxes may play in business decisions are presented within the life-cycle of a firm, from the tax issues at start-up (e.g., the choice of organizational form for a new venture), the compensation of workers (e.g., current and deferred compensation, stock options), investment opportunities (e.g., stocks, bonds, annuities), capital structure and dividend policy, multistate and multinational operations, financial innovations, and mergers and acquisitions.

Another goal is to provide an approach to thinking about taxes that will be valuable even as the tax laws change. A useful by-product of this approach is the ability to think critically about tax policy issues generally.

Some Key dates:
- Problem set 1: September 21
- Midterm: October 14
- No meetings: October 19 & 21 (SIP), November 11 & 25
- Final: Week of December 13
Grading

Your grade will be based on the following weights:

<table>
<thead>
<tr>
<th>Activity</th>
<th>Percent</th>
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<tbody>
<tr>
<td>Contributions to Class Discussion</td>
<td>10</td>
</tr>
<tr>
<td>Written Homework</td>
<td>30</td>
</tr>
<tr>
<td>Midterm (October 14)</td>
<td>20</td>
</tr>
<tr>
<td>Final Examination</td>
<td>40</td>
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</tbody>
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Assignments may be done in groups of two or three unless otherwise stated, and are intended to help you learn and practice the mechanics of the course material. This means the work you turn in must be your own and not copied from another. This does not mean you have to work on assignments in isolation; you are permitted to consult with others in order to understand, or better understand, the material. Seeking and giving such assistance is encouraged. If you are unsure whether some particular form of interaction is proper under these rules please consult me and/or T.A. for clarification. Late assignments will not be accepted.

Regrade Policy

If you believe an error has been made in grading your homework or exam, you may request a regrade by doing the following: Write a brief note to the T.A. explaining why you think there is an error and submit both the note and the entire assignment to which it pertains. All regrade requests must occur within seven (7) calendar days of the day graded material is returned to the class. We reserve the right to regrade the entire contents of any submitted assignment or exam.

Conduct

Professional conduct is built upon the idea of mutual respect. Such conduct entails (but is not necessarily limited to):

- **Attending the class.** Each class benefits from the attendance and participation of all students. Your grade for participation will be affected by absences.
- **Arriving on time.** Late arrivals are disruptive to both lectures and class discussion, and show disrespect to those who are on time.
- **Minimizing disruptions.** All cell phones and pagers should be turned off during class. You should not leave and re-enter the class. You should avoid engaging in side conversations after class has begun.
- **Focusing on the class.** While you may take notes on laptops, do not use laptop computers or hand-held devices for other tasks while in class.
- **Being prepared for class.** You should be ready to discuss any assigned readings and to answer any assigned questions for each day's class, including being ready to open a case assigned for that day.
- **Respect.** You should act respectfully toward all class participants.
- **Academic integrity.** The work you submit for grading should be your own. Instances of academic dishonesty will be addressed both through your grade and referral to the appropriate disciplinary committees.

Class participation grading reflects student adherence to these principles; students gain credit for contributing valuable insights and lose credit if they fail to adhere to the above guidelines.
Tentative Course Outline for 15.518, Fall 2004
Changes will be announced in class and SloanSpace

Part I: General tax planning issues
September 8 - October 14

Overview of the course
  ch: 1, 2
  prep: ch 1: E 2,4; ch. 2: E 1

A framework for tax planning
  ch: 3
  prep: E1-6, TPP 1

Implicit taxes and clienteles
  ch: 5 (118-134)
  prep: E 1-3

Organizational form
  ch: 4
  prep: E 1-2, 4; TPP 1, 8

Arbitrage and limits to tax planning
  ch: 5 (134 - end)
  prep: TPP 7-8

Non-tax costs
  ch: 6
  prep: E 1, 3-4, TPP 1-2

Marginal tax rates
  ch: 7
  prep: E 1, 3 TPP 2-4

A review of financial accounting:
  Accounting for Income Taxes
  ch: Appendix 2.2
  (may be moved to after the midterm)

Part II: Tax planning applications
October 26 - December 9

Compensation
  ch: 8, 9 (skim)
  prep: ch 8: E 1, 8 - 9, TPP 2, 4

Capital structure
  ch: 12 (335 - 352)
  prep: DQ 4, 5, 7, 9, E 5
  case: Burlington Northern

International tax issues
  ch: 10, 11
  prep: ch 10: E 1, 3, TPP 1, 3; ch 11: E 1, TPP 2
  cp: Whelan Pharmaceuticals, Global Electronic Commerce

Taxable acquisitions
  ch: 13, 14
  prep: ch 13: DQ 3, 10, 12; ch. 14: DQ 2 - 4, TPP 1

Tax-free acquisitions
  ch: 16
  prep: DQ 6 - 8, TPP 2

Divestitures
  ch: 17
  prep: DQ 1 - 2, TPP 1, 2

Current Issues in Tax Policy

(ch) denotes chapter readings, (cp) denotes the reading is in the course pack. Problems listed as prep represents suggested problems to help you better understand the material. Unless otherwise noted the problems are from the same chapter as assigned for that day. DQ represents discussion questions, E represents end of chapter exercises, TPP represents “tax planning problems.”