



Taxes and Business Strategy
Winter 2021

"Many areas of business can be worked through via brute force logic, except taxes."
– Tuck alumni and CEO

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Zoom info & etiquette

All our class sessions will take place on Zoom. Please take care to observe the following norms so that this environment is as productive as possible. Keep your video on whenever possible. Keep your audio muted unless actively participating in a class discussion. Sign on via Single Sign-On so that you are properly authenticated within Zoom. Keep all chat messages within Zoom professional in content and tone. If you opt to use a virtual background, please consider whether it is likely to distract other students. During class you should never - under any circumstances - use your laptop or any other device to check email, send or receive messages, or surf the net. Password for Winter is **whit2000**

Class Sessions (Section 1): 1:15 - 2:45 pm EST

- Meeting ID: 962 4157 3298

Class Sessions (Section 3): 3:15 - 4:45 pm EST

- Meeting ID: 961 8974 8954

Objectives

This course has two objectives:

First, you will *gain exposure to key areas where taxes play a role in implementing business strategy*. Business strategy broadly refers to a firm's working plan for achieving its vision, prioritizing objectives, competing successfully, and optimizing financial performance. Taxes affect many strategic business decisions such as forming a new business and raising capital, investment strategies, financing projects, compensating employees, making shareholder distributions, expanding through acquisition, divesting lines of business, or expanding internationally. There are trade-offs in meeting organizational objectives at the lowest tax cost.

Second, this course will *introduce you to a framework for thinking about tax strategy*. A tax code is a living set of regulations that are constantly changing and adapting in response to politics, perceived abuse, and business innovation. It is precisely this ebb and flow that creates both challenges and opportunities in the world of business. The details of tax law are quite nuanced (and will often require advice from a tax lawyer), but there is a thematic approach to effective tax planning that can guide decision-making even as specific laws and governments change.

Course framework

The framework put forth by Scholes and Wolfson (1993) will be a useful guide to our analysis of taxes in personal and business decisions. The framework suggests evaluating all decisions from three perspectives: **all taxes, all parties, and all costs**. The key idea is to remember that tax planning is much broader than narrowly focusing on tax minimization. Tax minimization is simply the reduction in a single tax liability without regard for other costs, other parties to the transaction, or consideration of other taxes. The focus should always be on maximizing after-tax returns not on minimizing taxes. We will develop an understanding of the framework for tax planning in TBS as we move through the course.

Grading

The course grade will be based on the following three components:

Class participation	35%
Class prep memos	30%
Group project	35%

Class participation

There is a direct relation between how much you prepare for class and how much you take away from the course. This course is primarily case-based. Most class sessions involve an in-class case discussion that builds off a case assignment. Case discussions will generally include both a quantitative and qualitative evaluation of a real or hypothetical scenario. We will review any important aspects of a calculation in class before jumping into the broader discussion.

Every student is capable of contributing to the case discussion. The class participation grade is based on quality, not quantity. I do not, however, expect you to be insightful every time you say something. Please ask questions to help create a lively exchange of ideas. Recognizing that students with different backgrounds will contribute differently to class discussion, and that some of us are more introverted than others, I will use cold calls to foster inclusiveness.

If an emergency precludes you from preparing adequately for a particular class, you should notify the course scribe before the class begins. Tardiness, entering or leaving during class (by turning your camera off), lack of attendance, etc. will have a negative impact on your class participation grade.

Class prep memos

To encourage you to think deeply about the materials for the upcoming class, the cases will generally present you with a scenario that requires a thoughtful analysis. My expectation is that your analysis will be delivered to me as a memo that outlines your analysis along with any underlying assumptions. The memos should be no longer than two pages of text. Supporting figures or tables may be added as an appendix. For each case, I will provide a list of prep questions in Canvas that are intended to guide your analysis of the underlying problem. Memos that solely answer the list of prep questions and memos longer than two pages will be marked down in terms of grading.

The broader purpose of requiring written memos throughout the course is to provide you with opportunities to explain technical issues using clear and concise language, and to identify (and focus on) the most important issues. Save the more nuanced details and exceptions for class discussion. Incorporate one or more aspects of the course framework when applicable.

There are 13 graded class prep memos, and of those 13, I will drop the lowest score. The assignments can be completed in groups of up to 3 students. This group will also serve as your project group. As soon as possible, please set up your group in Canvas. The memos should be submitted via Canvas prior to the start of class and late assignments will not be graded. Submit one assignment per group.

Group project

The objective of the group project is to allow you to explore at a deeper level some aspect of taxation that is of interest to you. Guidelines for this assignment will be left intentionally general to permit some latitude in identifying a topic of interest. The group project is expected to be a 'deep dive' into a specific tax issue. One strategy for identifying a topic is to consider the tax implications of economic choices from your work or educational experience where taxes appear to be particularly important but perhaps misunderstood. Another angle would be to consider the effects of changes in tax policy on a particular constituency. Note that you are welcome to explore issues beyond the U.S. borders or a tax issue that we touched on only tangentially (or maybe not at all) during the course (perhaps it is industry specific).

The term paper is due for presentation during the final week of the course. The paper itself should have maximum 10 double-spaced pages (plus tables and references). Upload the term paper and your presentation slides 24 and 3 hours, respectively, prior to the class session in which you are scheduled to present. It may be helpful to treat this project as if you are developing a case to use in this course. You should begin by identifying and providing some background on the problem, policy or transaction and realistic alternatives. If it is a transaction, a diagram of the transaction can be useful. Next, you should identify the prominent economic issues inherent in your topic and apply the principles and concepts from this class to investigate the issue. In all cases, your analysis should be done relative to at least one alternative choice, i.e. there should be some form of numerical analysis comparing at least two options. Conclude by making a persuasive, balanced, and reasoned recommendation to a decision-maker, whether it be an individual or policy maker.

Resources

- All background reading, case materials, and discussion questions to prepare for class are in Canvas.
- Optional textbook: Erickson, Hanlon, Maydew and Shevlin, *Scholes, Wolfson's 'Taxes and Business Strategy'*, Cambridge Business Publishers. There are several copies of this textbook on reserve in the Feldberg library.
- If you need extra help with the material, do not hesitate to reach out early and often. Please send me an email so that we can arrange a convenient time to meet.

Honor principle

Discussion of the course material and assignments with other students is highly encouraged. Looking at notes, handouts, problem sets, spreadsheets, or solutions from prior course offerings of Taxes and Business Strategy all constitute violations of the Tuck Academic Honor Principle. After the course is over, you will not provide any materials from the course to future students.

Course overview

Module 1

Savings, compensation, and employer-employee tax issues

Class 1: Savings and investment (Case: Practice problem – see Canvas)

Class 2: Background on tax issues in compensation (Case: Executive compensation summary)

Class 3: Non-qualified deferred compensation (Case: Comcast)

Class 4: Equity compensation in private companies (Case: Good Technology/BlackBerry)

Class 5: Work-from-home tax issues (no case assignment)

Module 2

Business income, entity choice, and investor taxation

Class 6: Background on tax issues in entity choice (Case: Second Company)

Class 7: Tax-motivated financing I (Case: Rexford Studios)

Class 8: Tax-motivated financing II (Case: Enron)

Class 9: Tax treatment of corporate distributions (Case: Seagram/Dupont)

Module 3

Tax issues surrounding mergers, acquisitions, and divestitures

Class 10: Background on tax issues in deal structures (no case assignment)

Class 11: Tax-free reorganizations with NOLs (Case: Xperi/TiVo)

Class 12: Taxable acquisitions with basis step-up (Case: Aramark/Avendra/AmeriPride)

Class 13: Tax-free spin-offs (Case: Yahoo/Alibaba)

Module 4

Misc issues – International, social responsibility, and non-profits

Class 14: Intellectual property strategies (Case: Amazon)

Class 15: Socially responsible tax strategies (Case: Etsy)

Class 16: Tax issues surrounding non-profits (no case assignment)

Group projects

Class 17: Presentations

Class 18: Presentations (cont.)