



Taxes and Business Strategy
15.518 / 15.5181
Spring 2016

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| Professor | Petro (Pete) Lisowsky |
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| Office hours | by appointment |
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| Phone | (617) 253-0283 |
| Class time | M W 10:00-11:30am |
| Classroom | E51-345 |
| Teaching Assistant | Ben Yost (byost@mit.edu) |

Course Description

This course is designed to give you the tools to identify, understand, and evaluate tax planning opportunities. To maximize the lasting benefit you will get from the course, we begin by developing a conceptual framework for thinking about how tax rules affect business decisions. Once developed, the framework is brought to life by application to a variety of settings.

Part of being financially savvy is having an understanding of how taxation affects business decisions, e.g., forming a corporation and raising capital, operating the firm, distributing cash to shareholders through dividends and share repurchases, expanding through acquisition, and divesting lines of business. Taxes have a direct impact on cash flow and often divert 30% to 40% of the firm's pretax cash flow to the government, making the government the single largest stakeholder in many firms. Having an understanding of taxation and how firms plan accordingly is important for just about any career path you choose, whether you will be an investment banker, venture capitalist, consultant, money manager, CFO, treasurer, controller, taking over a family-owned business, or as an entrepreneur setting up a new business. Taxes are everywhere and it pays to have some understanding of them.

A recurring theme will be linking the tax strategies that we learn with concepts from corporate finance, financial accounting, business law, and economics. I make extensive use of real transactions to illustrate the impact of tax structure on earnings and cash flow. I think you will find that people who understand the tax consequences and trade-offs of decisions have a distinct advantage in the marketplace.

Course Materials

- Textbook: Scholes, M., Wolfson, M., Erickson, M., Hanlon, M., Maydew, E., and Shevlin, T. Taxes and Business Strategy: A Planning Approach. Prentice Hall, 5th Edition.
- Class Materials (lecture slides, cases, handouts, additional readings, etc.) will be posted to Stellar every week at: <http://stellar.mit.edu/S/course/15/sp16/15.518/index.html>
You must be registered and have an Athena account to view the class materials.

Grading

| Activity | Percent |
|------------------------|------------|
| Problem Sets and Cases | 40 |
| Quizzes | 50 |
| Participation | <u>10</u> |
| <i>Total</i> | <i>100</i> |

Problem Sets and Cases

Problem sets and cases are designed to help you solidify your understanding of tax planning. You should work in groups with a maximum of 4 per group under Type 3 Collaboration (see below). Each group should turn in only one solution to the problem set or case. Please bring extra copies of your solutions to class to facilitate discussion. Assignments are due at the beginning of class; no late assignments are accepted for any reason.

Quizzes

Quizzes will be given in class on the dates noted in the course outline. Absence from or non-completion of either of the quizzes at the scheduled time will result in a grade of zero unless a valid excuse is provided prior to the quiz. A valid excuse includes an illness or family emergency; however, a job interview or office visit is not a valid excuse. In order to be excused from a quiz, you must email me *prior* to the quiz and be ready to provide documentation after the quiz (e.g., from MIT Medical that you were ill). Students who do not make pre-arrangements for missing a quiz will receive a grade of zero. If a quiz is missed due to a valid excuse, the course grade will be re-weighted using the other assignments. *There are no make-up quizzes.*

Re-Grading Policy. If you believe an error has been made in grading a problem set, case, or quiz, you may request a re-grade by writing a brief note to explain why you think there is an error, and submit both the note and the assignment to which it pertains. All re-grading requests must occur within one week from the day that graded material is returned to the class. Please note that I reserve the right to re-grade the entire content of any re-submitted material, which could result in a lower overall grade.

Class Participation

The success of our course will depend on the enthusiasm with which you discuss the material. Class participation will be graded based on attendance and in-class discussions. Similar to the quizzes, an excused absence includes an illness or family emergency; however, a job interview or office visit is not an excused absence. Please plan any travel accordingly. Also, please come to class prepared; I may call on you to ask your opinion.

An additional way to increase your class participation grade is to discuss a relevant news article in class. For example, the Wall Street Journal may report a story about a firm seeking to move its headquarters to a lower tax-rate jurisdiction. You can volunteer to present the article in class and discuss how it relates to the topics we have covered. The presentations can be done individually or in groups of no more than 4 people and should be 5-10 minutes in length. Good presentations will increase your class participation grade. If you find an article, please email me and the TA. Opportunities to present will be awarded on a first-come, first-serve basis.

Personal Conduct

Behavior inconsistent with the Personal Conduct guidelines (see below) can adversely affect your participation grade. Professional conduct is built upon the idea of mutual respect. Such conduct entails (but is not necessarily limited to):

1. *Attending class.* Each class benefits from the attendance and contributions of all students. **Please display a legible name card at all times.**
2. *Arriving on time.* Late arrivals are disruptive to both lectures and class discussion.
3. *Minimizing disruptions.* All cell phones and noise-emitting devices should be turned off during class. Please avoid engaging in side conversations after class has begun.
4. *Focusing on the class.* While you may take notes on laptops, do not use them or hand-held devices for other tasks while in class. Activities such as web surfing, looking at social network sites, and answering email are impolite and disruptive to the class.
5. *Being prepared for class.* Please be ready to discuss any readings and answer questions for each day's class, including questions about the cases.

TENTATIVE Course Outline (as of Nov. 23, 2015)

| Session | Date | Topic | Textbook | Assignment | Additional |
|--|-------------------|--|----------------------|------------|------------|
| 1 | W Feb. 3 | Tax Planning Fundamentals | Ch 1 & 2 | | |
| 2 | M Feb. 8 | Tax Planning for Investments | Ch 3 | | |
| 3 | W Feb. 10 | Tax Planning for Compensation | Ch 8 (and some of 9) | | |
| <i>Feb. 15 Presidents' Day – No Class (meet Tues., Feb. 16 instead)</i> | | | | | |
| 4 | Tu Feb. 16 | Organizational Form | Ch 4 | | |
| 5 | W Feb. 17 | Taxation of Corporate Operations and Financing | Ch 12 | | |
| 6 | M Feb. 22 | Taxation of Corporate Operations and Financing (<i>cont'd</i>) | | | |
| 7 | W Feb. 24 | International Taxation | Ch 10 & 11 | | |
| 8 | M Feb. 29 | International Taxation (<i>cont'd</i>) | | | |
| 9 | W Mar. 2 | International Taxation (<i>cont'd</i>) | | | |
| 10 | M Mar. 7 | Taxes and Regulation | | | |
| | W Mar. 9 | Quiz 1: In Class | | | |
| <i>Mar 14 and Mar 16: No Class – SIP Week Mar 21 and Mar 23: No Class – Spring Break</i> | | | | | |
| 11 | M Mar. 28 | Tax Information in Financial Statements | Ch 6 | | |
| 12 | W Mar. 30 | Tax Information in Financial Statements (<i>cont'd</i>) | | | |
| 13 | M Apr. 4 | Tax Information in Financial Statements (<i>cont'd</i>) | | | |
| 14 | W Apr. 6 | Tax Planning for Mergers and Acquisitions | Ch 13 & 14 | | |
| 15 | M Apr. 11 | Tax Planning for Mergers and Acquisitions (<i>cont'd</i>) | Ch 14 | | |
| 16 | W Apr. 13 | Tax Planning for Mergers and Acquisitions (<i>cont'd</i>) | Ch 16 | | |
| <i>Apr 18 Patriots Day – No Class Apr 20 Work on Problem Set – No Class</i> | | | | | |
| 17 | M Apr. 25 | Tax Planning for Mergers and Acquisitions (<i>cont'd</i>) | Ch 16 | | |
| 18 | W Apr. 27 | Tax Planning for Divestitures | Ch 17 | | |
| 19 | M May 2 | Wrap up M&A Discussion of Tax Rates | Ch 7 | | |
| 20 | W May 4 | High Net Worth Tax Planning | Ch 18 | | |
| 21 | M May 9 | High Net Worth Tax Planning (<i>cont'd</i>) | | | |
| | W May 11 | Quiz 2: In Class | | | |

MIT SLOAN ACADEMIC STANDARDS

As a member of the MIT Sloan academic community, the highest standards of academic behavior are expected of you. It is your responsibility to make yourself aware of the standards and adhere to them. These standards are discussed below, specifically regarding plagiarism, individual work, and team work.

This discussion of academic honesty is not exhaustive, and there may be areas that remain unclear to you. If you are unsure whether some particular course of action is proper, it is your responsibility to consult with your professor and/or teaching assistant for clarification.

When students are found to have violated academic standards, disciplinary action will result. Possible consequences include grade reduction, an F grade, a transcript notation, delay of graduation, or expulsion from MIT Sloan.

Plagiarism

Plagiarism occurs when you use another's intellectual property (words or ideas) and do not acknowledge that you have done so. Plagiarism is a very serious offense. If it is found that you have plagiarized -- deliberately or inadvertently -- you will face serious consequences, as indicated above.

The best way to avoid plagiarism is to cite your sources - both within the body of your assignment and in a bibliography of sources you used at the end of your document.

Internet Research

Materials gathered through research via the Internet must be cited in the same manner as more traditionally published material. Lack of such citation constitutes plagiarism.

These definitions were drawn from the MIT Libraries website. For more information please visit: <http://libguides.mit.edu/>

Individual Assignments

When you are asked to do *individual* work, you are expected to adhere to the following standards:

- Do not copy all or part of another student's work (with or without "permission").
- Do not allow another student to copy your work.
- Do not ask another person to write all or part of an assignment for you.
- Do not work together with another student in order to answer a question, or solve a problem, or write a computer program jointly.
- Do not consult or submit work (in whole or in part) that has been completed by other students in this or previous years for the same or substantially the same assignment.

- Do not use print or internet materials directly related to a case/problem set unless explicitly authorized by the instructor.
- Do not use print or internet materials without explicit quotation and/or citation.
- Do not submit the same, or similar, piece of work for two or more subjects without the explicit approval of the two or more instructors involved.

Please note that many classes will require a combination of team work and individual work. *Be sure that you follow all the guidelines for individual work when a faculty member identifies an assignment as an individual one.*

Team Assignments

When you are asked to *work in teams*, there is a broad spectrum of faculty expectations. Three general types of appropriate collaboration on team assignments are described below. The instructor will indicate in the syllabus what his/her expectations are. If there is any uncertainty, it is the student's responsibility to clarify with the professor or TA the type of team work that is expected.

Type 1 collaboration: the professor states that collaboration is allowed, but the final product must be individual. An example of this might be a problem set.

- You are allowed to discuss the assignment with other team members and work through the problems together.
- What you turn in, however, must be your own product, written in your own handwriting, or in a computer file of which you are the sole author.
- Copying another's work or electronic file is not acceptable.

Type 2 collaboration: the professor states that collaboration is encouraged but that each person's contribution to the deliverable does not have to be substantial (taking a "divide and conquer" approach). An example of this might be a brief progress report.

- Each team member is encouraged to contribute substantially to the team assignment, however, the team may choose to assign one or more team members to prepare and submit the deliverable on behalf of the team.
- Regardless of how work is shared or responsibilities are divided among individual team members, each member of the team will be held accountable for the academic integrity of the entire assignment. If, for example, one member of the team submits plagiarized work on behalf of the team, the entire team will be subject to sanctions as appropriate.
- The team may not collaborate with other students outside of the team unless the professor explicitly permits such collaboration.

Type 3 collaboration: the professor states that collaboration is expected and that each team member must contribute substantially to the deliverable.

- Each team member must make a substantial contribution to the assignment. It is not, for example, acceptable to divide the assignments amongst the team members, though

the team may divide the work of any one assignment to complete it as they deem appropriate.

- The team may not collaborate with other students outside of the team unless the professor explicitly permits such collaboration.

To repeat, if there is any question about the rules for a particular assignment the student should check with the faculty member.

PERSONAL CONDUCT

MIT Sloan's Professional Standards provide a guideline for professional behavior by students, and faculty inside the classroom. The MIT Sloan School is committed to creating an environment in which every individual can work and study in a culture of mutual respect. When making individual decisions we must keep in mind the interests of the many other stakeholders.

Consistent with the general goal of mutual respect, faculty, students, and staff are reminded to demonstrate:

- **On-time arrival to classes and presentations, with uninterrupted attendance for the duration.**
For example, those who arrive on time to an event or class and stay until it ends show courtesy to both the speaker and the audience, and avoid disrupting the session for others.
- **On-time initiation and termination of classes and presentations.**
For example, there is a 10-minute transition time period allocated between MIT Sloan class sessions. A class session or any other public meeting is expected to formally end 5 minutes before its scheduled ending time, and the following class session or meeting is expected to begin 5 minutes after its scheduled starting time. Students and faculty who observe this practice allow classrooms to be cleared in a reasonable way, facilitate traffic flow between rooms, and minimize disruptions to MIT Sloan's tightly-scheduled facilities.
- **Maintenance of a professional atmosphere. This includes, but is not limited to:**
 - ⇒ **Using respectful comments and humor**
Be aware that once you matriculate at MIT Sloan, you'll be representing the MIT Sloan School and MIT for the rest of your life. Make a positive impact as an individual and School representative by extending respect to your MIT Sloan community colleagues and all other guests and strangers. For example, minimize misunderstanding by communicating thoughtfully and using humor carefully in a context of mutual respect with new acquaintances and strangers—and in the context of your preexisting relationships with your friends. Those who use the 'Golden Rule' (e.g., treating others as they would like to be treated themselves) as a starting point in their interactions with others will always have solid friendships and business relationships at hand.

⇒ **Utilizing computers and technology suitably (e.g., silencing wireless devices, no web-browsing or emailing)**

For example, those who switch off their cell phones before the start of class respect our academic environment by allowing uninterrupted learning to proceed. Similarly, those who turn off laptop computers before a class or meeting avoid ‘multitasking’ activities such as internet browsing and emailing that are unwelcome and distracting to their neighbors. Unless specifically permitted by a faculty member, an event organizer, or a presenter, laptops should remain closed during MIT Sloan class sessions, presentations, and meetings.

⇒ **Refraining from distracting or disrespectful activities (e.g., avoiding side conversations and games)**

As with the improper use of cell phones and laptops, side conversations and game playing during meetings, events, and classes are distracting and discourteous to colleagues, guests, and presenters, reflect poorly on the MIT Sloan School—and should be avoided.

- **Courtesy towards all guests, hosts and participants in the classroom.**

MBA community members are expected to maintain decorum in interactions with members and guests of the MIT Sloan community. Such behavior should: 1)—reflect MIT Sloan Professional Standards, and; 2)—be consistent with the North American business practices. Appropriate, courteous behavior enhances MIT Sloan’s reputation and encourages others to participate in our activities, hire our students, and contribute to our School. In MIT Sloan’s environment, MBA students are expected to observe the proper dress, decorum, and etiquette that is appropriate to MIT Sloan Professional Standards and North American business customs for each setting they are in. For example, unless otherwise specified, business casual attire is the norm for the classroom.

- **Observance of the most conservative standards when one is unsure about which norms apply.**

For example, if you are unsure whether a faculty member allows the use of laptop computers in class, assume that laptops are not permitted unless/until you learn otherwise. And if you are unsure if your comments will be offensive to someone, particularly from another culture, refrain from sharing them.

These points offer specific illustrative examples to encourage broader reflection of each individual’s impact on the MIT Sloan community. For more guidance on these standards, please contact the MBA Student Affairs Office in E52-101 (253-6816), or the Values @ MIT Sloan Committee.

Upholding these expectations and the standards upon which they are based is a shared right and responsibility for all faculty, students and staff at the MIT Sloan School. As a learning and professional community, we seek and deserve no less.