Course Outline

Part 1. Fundamental Concepts

1. Tuesday, October 26  
   Orientation and Tax System Design
   
   **Skim:** Chapters 1 and 2
   **Read:** 1–8, 19–29
   Judicial Doctrines and Tax Law Uncertainty
   
   **Illustration:** *Special interests and political pork*
   Rifle shot tax breaks
   The Boeing Formation
   
   **Illustration:** *Why are all tax systems complicated?*
   Flat tax forms
   Excess Burden and Mr. Figg

2. Thursday, October 28  
   Savings Vehicles and Personal Financial Planning
   
   **Read:** Chapter 3
   Before- and After-tax Returns
   
   **Illustration:** *Tax Alchemy: Short-term gains become long-term gains*
   Where There’s a Tax Cut, Wall Street Finds a Way
   Tax Plan Could Hurt Hedge Play
   
   *Roth IRAs: Old wine in new bottles*
   Bush’s IRA Plan Means ‘New Math’ for Savers
   Jam Today or Jam Tomorrow? Roth IRA Will Show Many Investors It Pays to Wait

   **Problems:** 3.1
   Upper Grapple Questions (see also article “Upper-Bracket Taxpayers Must Grapple With Strategies on Shifting Securities”)

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3. Tuesday, November 2  Organizational Form, Leverage, and Production Decisions

    Skim:  Chapter 4
    John R. Graham, Lecture 4—Taxes and the marginal investor

    Read:  81–102
    Rates of Return and Organizational Form
    Assignment A

    Illustration:  *Tax-motivated design of hybrid securities*
    ‘Century Bonds’ Days may Be Numbered

    Exercise:  4.1
    Problems:  4.4
    Net-of-tax returns on real and financial assets

4. Thursday, November 4  Orientation to Tax Research at Pattee Library
    This special session will be conducted by a University business librarian. Please meet at the regular class time in *Paterno Library Room 302*.

5. Tuesday, November 9  Implicit Taxes

    Skim:  Chapter 5

    Read:  134–139 and 142–145
    Implicit Taxes and Clienteles
    Taxable versus Tax-exempt Bonds
    Plot of US municipal, corporate, and treasury bond yields over time

    Illustration:  *Wiping out all taxes*
    Colleges Aided By End to Cap On Borrowing

    Problems:  Portfolio Choice by the Rich and Poor
    5.2 and 5.3

    Case:  *A taxable corporation borrows at the muni rate*
    Lockheed Aeromod Center, Inc.
6. Thursday, November 11  
Dynamic Tax Planning

   **Skim:** Chapter 7
   **Read:** 195–204
   Dynamic Tax Planning at Mutual Funds

   **Illustration:** *Changing income timing and type*
   Elite’s Earnings Are Exposed and Taxed… and It’s a Scandal?

   **Illustration:** *Effects of frequent tax law changes*
   Whether or Not They Benefit, Companies Decry Instability in Tax Law as a Barrier to Planning

   **Illustration:** *Taxes and trading of financial assets*
   Which Stock Funds Keep Tax Bills Low? The Ones That Get Heaps of New Cash
   Payouts Pose Tax Trap for New Fund Buyers

   **Illustration:** *Lock-in Effect*
   Landmark Sale: The Kennedy Clan Decides to Cash In Its Last Big Business

   **Table 1 Illustration of highest in first out**

   **Illustration:** *Newboy problems—Daycare expenses*

   **Exercise:** 7.6
   **Problem:** 7.5
   Timing Options

   **Due:** Assignment A

7. Tuesday, November 16  
The Distinction Between Effective Tax Planning and Tax Minimization: Concepts and Applications

   **Skim:** Chapter 6
   **Read:** 155–166
   Repackaging ownership rights
   Oil and Gas Tax Shelters
   Note 7.1 Alternative Compensation

   **Illustration:** *Incentive contracting—Oil and gas exploration partnerships*

   **Illustration:** *Non-tax costs—Bankruptcy in Canada*
   Restructuring of O&Y Faces Stumbling Block
Exercise: 6.3

Problem: Corporate auction problem

Assignment B: Step-down preferred stock

Assignment B: Exchange Funds—Treasury Seeks to Eliminate ‘Exchange’ Funds (Tom Herman Wall Street Journal 2/8/00)

8. Thursday, November 18

The Importance of Marginal Tax Rates and Difficulties in Calculating Them

Comment: This is a difficult but important chapter. In class, we will work through an example related to the chapter.

Skim: Chapter 7


Read: 184–193

Marginal Tax Rates

Illustration: Hybrid financial instruments

It Looks Like a Stock but Deducits Like a Bond

Assignment B: Low income housing credits
Part 2: Applications of the Framework to Specific Decision Contexts

9. Tuesday, November 23  Multinational Tax Planning

   Read:  Chapter 10
          International Taxation
          Tax systems in developing and transition economies

   Illustration:  Repatriation of foreign earnings to the US and the FTC

   Illustration:  Special economic development zones: Puerto Rico
          Drug Firms Get Tax Break Exceeding $70,000 for Each
          Worker in Puerto Rico Business Case P-5

   Illustration:  Extraterritorial Compliance and Enforcement
          Merrill’s Role In Tax Deals Is Described
          Financial Fracas: German Tax Collectors Rile Country’s
          Banks With Aggressive Raid

   Problems:  Anita Corporation
          10.7
          SW14.1, SW14.3

   Assignment B  Daimler/Chrysler multinational tax issues
   Assignment B  Unintended use of tax provisions: Colgate-Palmolive’s
                Offshore Financing
   Assignment B  Bermudian inversion transactions

10. Tuesday, November 30  The Dividend Puzzle and Imputation Systems

   Read:  Systems of Taxation
          Dividend Policy

   Skim:  Lang and Shackelford: Capitalization of capital gains
taxes: evidence from stock price reactions to the 1997
69–85

          La Porta et al.  Agency problems and dividend policies
          around the world (abstracts from 11/97 working pa-
          per)

   Case:  Wesfarmers Limited: The Dividend Decision HBS case 9-
          293-098 10/15/93
Assignment B  Australian Dividend Stripping—Australia’s introduction of a dividend tax credit induces changes in capital structure

11. Thursday, December 2  Compensation Planning

  Skim:  Chapters 8 and 9
  Read:  212–220
  Compensation Planning
  Pensions and ESOPs

Illustration:  Structuring tax-efficient compensation
  Tax Breaks for Executives Who Earn Now, Pay Later
  Putting Aside $1 Billion While Making a Company Thrive
  Columbia Tax Fight Could Set Pay Precedent

Illustration:  Importance of non-tax factors—§162(m) $1 million salary cap
  Firms Forfeit Tax Break to Pay Top Brass $1 Million-Plus

Illustration:  Deferred compensation
  Promises, promises
  Deferred Compensation at a Business School

Illustration:  Planning before a tax rate change—University faculty salaries and TRA ’86

Illustration:  Tax incentives to exercise options
  Disney Officials Get $187 Million From Stock Sale

Illustration:  Tax and accounting treatments of stock options in Canada, UK, US, and Sweden
  Table 3. International variation in the tax treatment accorded employee stock options

Illustration:  Clever actuarial assumptions mean tax savings when tax rates are volatile
  Pension Fund Managers Face Moment of Truth
  IRS, New York Law Firm Clash Over Audit of Pension Payments

Problems:  Deferred compensation problem
  Taxation of Stock Options
  Tax benefit right problem
Assignment B  Microsoft’s Employee Stock Option Conversion Program and Disclosures

Assignment B  Stock Options Compensation in the United Kingdom—see instructor for details

Assignment B  Stock options at Sprint: Troubling options: Inside the tough call

Assignment B  Company-owned Life Insurance (a.k.a. Janitor Insurance)

12. Tuesday, December 7  Mergers and Acquisitions

  Skim:  Chapters 12 and 13

  Read:  364–373
        Flipping assets for basis step-up
        Mergers and Acquisitions

  Illustration:  Depreciation of intangibles
        High Court Rejects I.R.S. Depreciation Rule

  Problem:  Mergers and Acquisitions Problems

        Case:  Effecting a tax-free step-up in basis on transfer of assets between divisions located in different countries
        Société Générale du Papier

Assignment B  Divestitures—German Tax Plan Could Prove a Turning Point (Deborah Steinburn Wall Street Journal 12/27/99)

13. Thursday, December 9  Compliance, Enforcement and Ethics

*Skim:* Ethical implications of international variation in the deductibility of illegal payments
OECD Ministers Agree to Ban Bribery As Means for Companies to Win Business

*Read:* Compliance and Evasion

*Illustration:* International tax treaty networks
The network expands

*Illustration:* Ability of tax authority to reach across national borders to seize evidence; role of international tax treaties
Tea Totaler: Overpricing of Herbs Was Key to Tax Scam, L.A. Prosecutors Say
Couple Plead Guilty To Felony Charges
Use of the tax authority for political ends
The Kennedys and the IRS

*Illustration:* Efficiency of tax collections and enforcement in the U.S.
‘Misery II’ Could Be a Stephen King Book About IRS Agents: They Are Shot At, Ridiculed Socially, Attacked by Dogs; Then They File Form 4652
Taxing Disparity: IRS Excels at Tracking the Average Earner, But Not the Wealthy
Tax evaders beware: rich countries prepare for crackdown on Havens

*Illustration:* Efficiency of tax collections and enforcement in less-developed nations
In Need of Revenue, China Pushes Harder To Collect Its Taxes

*Illustration:* Intellectual property rights and tax planning innovations
The Outsider: Did Smith Barney Cheat a Stockbroker To Clinch a Merger?

**Assignment B** PWC Markets Paper Investment Losses—IRS Moves to Disallow a Tax Shelter That Generates Paper Investment Loss (John D. McKinnon Wall Street Journal 12/10/99)
Assignment B  Unhappy Returns: Accounting Firms Face Backlash Over the Tax Shelters They Sold (Cassell Bryan-Low Wall Street Journal 02/07/2003)

Due: Assignment C Gulf Canada Limited

Exam  Take-home Final Examination