

Active Learning through Tax Case Studies: Nine Cases for Principles of Taxation

A Submission to the
ATA/Deloitte & Touche Teaching Innovation Award Committee
January 10, 2003

C. Bryan Cloyd
Department of Accountancy
360 Wohlers Hall
1206 S. Sixth Street
University of Illinois
Champaign, Illinois 61820
217-333-4592 (office)
217-356-9815 (home)
217-244-0902 (fax)
ccloyd@uiuc.edu

Active Learning through Tax Case Studies: Nine Cases for Principles of Taxation

Table of Contents

	<i>Page</i>
OVERVIEW	
Objectives of the course	1
Common case characteristics and benefits of active learning	2
Logistics of case assignments	3
Measures of success based on student evaluations	4
Suggestions for implementation	5
<i>For each of the nine cases, the following appendices contain:</i>	
<ul style="list-style-type: none">• <i>Overview of case objectives</i>• <i>Students' case-specific evaluations</i>• <i>Case materials</i>• <i>Example of a student group's actual PowerPoint slides</i>	
	<i>Appendix</i>
Case #1: Tax Bill Exceeds Award to Officer in Sex Bias Suit	1
Case #2: Public Disclosure of Corporate Tax Returns	2
Case #3: The Great CEO Pay Heist—How Did §162(m) Affect Executive Compensation?	3
Case #4: The AMT: Out of Control	4
Case #5: Congress' Revenue Estimation Process and Raising the Limit on Deductible Capital Losses (H.R. 1619)	5
Case #6: Tax Planning for Mutual Fund Investors: Time to Squeeze those Lemons?	6
Case #7: Seagate/Veritas: A Deal with Taxing Consequences	7
Case #8: "Economic Substance" and "Substance over Form" Doctrines: A Squeeze Play with the Kansas City Royals	8
Case #9: Exchange Fund Partnerships: A Tax Break for the Rich Who Can Keep a Secret	9

OVERVIEW

This submission consists of nine cases I developed for use in my sections of a “Principles of Taxation” course during the fall 2002 semester. The following summary explains the objectives of this course, how these cases help fulfill the course objectives, logistics of case assignments, and measures of success based on student evaluations.

I hope that these materials might be useful as a model for using active learning techniques in other tax courses. If a group of tax professors were to adopt a common model for developing case materials, those materials could be more easily shared with and used by other instructors to meet the objectives of their particular courses. Over time, a case bank might grow to include cases appropriate for graduate courses.

Objectives of the Course

“Principles of Taxation” is part of an overall accountancy curriculum designed to develop students’ skills, knowledge and attitudes through, in part, the use of discovery-based (or active) learning. It is the only undergraduate tax course in our curriculum and, as such, serves a broad audience with diverse objectives. From a content perspective, the course follows the “entities” approach, which emphasizes the taxation of business entities rather than the details of individual taxation. The complementary knowledge and skill objectives of this course, as stated in the syllabus, are as follows:

Knowledge Objectives:

- A. Understand the basic rules related to income and expense measurement in the tax context, and how social and economic objectives imbedded in this context result in measures that differ from those used in other accounting contexts (e.g., financial reporting). Develop an appreciation for the conflict among reporting/disclosure requirements (and incentives) between the tax context and other accounting contexts, and the reasons underlying the complexity of tax rules.
- B. Understand how taxation affects asset prices (i.e., implicit taxes) and taxpayer behavior (e.g. transactional decisions).
- C. Understand and apply basic tax planning strategies (e.g., deferral, deductibility, exclusion, and shifting of income across parties or jurisdictions), and develop an appreciation for the frictions that limit tax-planning strategies (e.g., transactions costs, contractual restrictions, imperfect information, and other risks).¹
- D. Understand the various objectives of tax policy and conceptual standards for evaluating tax policy.²

¹ Elements of the “Scholes-Wolfson” paradigm (see *Taxes and Business Strategy*, 1992, Prentice Hall) are sprinkled throughout the course so that students gain a fairly complete understanding of this framework while using a traditional textbook.

² See Adam Smith, *The Wealth of Nations*, 1776 (book 5, chapter 2).

Skill Objectives:

- E. Master basic legal reasoning and legal research skills, and the ability to combine legal reasoning skills, quantitative skills, and communication skills (both written and oral) to develop and convey plausible solutions to tax-related problems.
- F. Develop critical thinking skills necessary to become a knowledge consumer of and participant in tax policy debates.

Common Case Characteristics and Benefits of Active Learning

Active learning can be defined as anything that “involves students in doing things and thinking about the things they are doing.”³ Not only does active learning promote knowledge retention, it develops research, legal reasoning, and communication skills that are critical to students’ future success as accounting professionals. Students are well aware that the body of tax law is constantly changing such that what they might learn in a purely rules-based course may be of limited future use. Mastery of the course’s skill objectives, which is partially facilitated through these case assignments,⁴ should enable students to cope with frequent changes in tax law that will undoubtedly occur throughout their careers. In brief, active learning teaches students to “learn how to learn”.

All of the cases developed for this course share three common characteristics. First, the requirements of each case were designed to meet both of the course skill objectives and at least two of the course knowledge objectives. Table 1 shows the relation between case requirements and course objectives. In addition, these cases likely achieved other objectives not specifically enumerated in the course syllabus (e.g., refining skills for solving ambiguous problems).

Table 1. Map of case requirements into course objectives

Course Objectives	Cases								
	#1	#2	#3	#4	#5	#6	#7	#8	#9
Knowledge									
A	■	■		■		■			
B		■			■	■	■	■	■
C			■			■	■	■	■
D	■	■	■	■	■				■
Skills									
E	■	■	■	■	■	■	■	■	■
F	■	■	■	■	■	■	■	■	■

Second, each case is built around a recent article from a business periodical or leading newspaper. The advantages of using these sources are that topics are likely to be timely, interesting and controversial, and students are likely to recognize the relevance and realism of the topics and case

³ Charles C. Bonwell and James A. Eison, “Active Learning: Creating Excitement in the Classroom,” ERIC Digest (September 1991).

⁴ In addition to these cases, students also complete three written tax research assignments on an individual basis (see the course syllabus in appendix 10 of this booklet).

materials. Educational research shows that such characteristics make for better cases in general.⁵ But more importantly, these case characteristics help to demonstrate that taxation is relevant, interesting, and controversial, which should stimulate students' interest in taxation.

Third, all of the cases deal with topics that were *not* specifically covered in the textbook or classroom lectures. This approach allowed me to expand the topical content of the course through active learning exercises rather than increased lecture time. For example, I spent very little lecture time discussing the details of the Alternative Minimum Tax.⁶ Instead, I developed two cases that required students to learn about the AMT through their own research, and then teach the rest of the class what they had learned. Case #1 illustrates that the AMT tax base is much broader than the regular tax base, in part because certain deductions are disallowed in computing the AMT base. This case also illustrates that such disallowances can lead to very inequitable results. Case #4 concerns imminent policy issues related to the AMT, which are largely due to the fact that the AMT exemption amount and tax rate are not indexed for inflation. Thus, after completing both cases, students' understanding of the AMT was at least as great as, and probably much better than, what they would have achieved through traditional lecture.

As students' research skills improved throughout the semester, the technical complexity of case topics also increased. For example, Case #7 deals with a "B" reorganization, and Case #9 deals with exchange-fund partnerships. These would probably be considered "advanced" topics for even a graduate-level tax course. Nevertheless, students did a remarkably good job of achieving the case objectives with relatively little technical guidance from me.

Logistics of Case Assignments

Each class was divided into nine groups of three to four students. Each group prepared three cases during the semester, one of which they presented to the class, and two of which they discussed following another group's presentation. Students were encouraged, but not required, to participate in the discussion of the other six cases. The class time devoted to case presentations and discussions ranged from 25 to 40 minutes.⁷

Case instructions were posted to the course website approximately two weeks prior to the due date. Both presenting and discussing groups prepared PowerPoint slides, and submitted hardcopies of these slides to me for grading. Performance evaluations for presenting groups were based on both the quality and substance of their oral presentations and slides. For discussing groups I evaluated the substance of their PowerPoint slides and the questions they asked of the presenting group. I provided feedback to each group on each case via short memoranda.

⁵ See Barbara G. Davis, *Tools for Teaching*, 1993, Jossey-Bass Publishers, particularly chapter 4, "Role playing and case studies."

⁶ From prior experiences, I have found that students perceive the AMT as extremely tedious when covered by lecture, and that if they get bogged down in the details of these rules they are likely to miss important concepts and policy considerations.

⁷ The logistics described here reflect what actually happened, and differ somewhat from those described in the syllabus. The variance in time was due mostly to the number of questions raised by students who had not prepared the case. The level of participation, particularly by these students, was directly related to the extent to which they saw the topic as interesting or controversial.

Measures of Success Based on Student Evaluations

After completing all nine cases, I asked students to evaluate the cases individually and on an overall basis. Table 2 shows the relative frequency of students' responses to the six overall measures. Data are aggregated across the three course sections I taught in the fall 2002 semester.

Table 2. Students' Overall Evaluations of Cases

	Relative Frequency of Responses (N = 91)					Mean ⁸
	Strongly Disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly Agree (5)	
On an OVERALL basis, the NINE case presentations...						
(1)...made the course more interesting.	0%	3%	15%	60%	22%	4.00
(2)...helped me understand the relevance of taxation to individuals and businesses.	0%	1%	9%	55%	35%	4.24
(3)...improved my understanding of tax concepts.	1%	3%	20%	56%	20%	3.90
On an OVERALL basis, the THREE cases I prepared improved my...						
(4)...research skills.	0%	1%	11%	47%	41%	4.27
(5)...presentation skills.	1%	9%	40%	31%	20%	3.59
(6)...understanding of tax concepts.	0%	1%	7%	49%	43%	4.34

Items 1 through 3 are overall evaluations of all nine case presentations. Eighty-two percent of students either agreed or strongly agreed that the cases “made the course more interesting” (Item 1). Ninety percent of students either agreed or strongly agreed that the cases helped them to “understand the relevance of taxation to individuals and businesses” (Item 2). Although these are not direct measures of learning, an intellectual interest in course topics and appreciation of the relevance of those topics are likely to stimulate students' motivation to learn.

Items 4 through 6 are overall evaluations of the three cases students actually prepared, either for purposes of presentation or discussion. Eighty-eight percent of students agreed or strongly agreed that preparing these cases improved their research skills (Item 4). However, only 51% of students agreed or strongly agreed that preparing the cases improved their presentation skills.

Items 3 and 6 are self-assessments of the extent to which the cases helped students to achieve the course's knowledge objectives. Not surprisingly, students were more likely to agree or strongly agree that the cases improved their “understanding of tax concepts” when focused on the three cases they actually prepared (92%) rather than the nine cases as a whole (76%). Similarly, the mean rating for item 6 (4.34) is significantly greater than the mean for item 3 (3.90, $t = 5.49$, $p < .01$).

⁸ The mean response to all six items is significantly greater ($p < .01$) than the scale midpoint of 3.0.

In addition to these overall evaluations, students also rated their agreement with the following statements on a case-by-case basis using the same five-point scale shown in table 2:

- This case helped me **learn** something important about taxation.
- This case **stimulated my interest** in taxation.
- This case was a **reasonable extension** of other course topics.

The appendix for each case shows the mean responses to these statements across all students, and by sub-groups based on whether the student actually prepared the case. Two general conclusions can be drawn from students' case-specific evaluations. First, across all nine cases, students' mean response to each statement is significantly greater ($p < .01$) than the scale midpoint across all students, and across both sub-groups. Thus, even students who did not prepare the case generally agreed that they learned something important from each case, and that each case stimulated their interest in taxation.

Second, for most case-question combinations, the mean response of students who prepared the case is significantly greater than the mean response of those who did not. This result is consistent with the significant difference between the mean responses to items #3 and #6 discussed above. Again, this result is not surprising; it merely confirms the benefits of using active learning exercises—*students learn more when they are more actively engaged*.

Suggestions for Implementation

As noted above, student evaluations of the cases suggest that the cases were successful in helping to achieve the course's knowledge and skill objectives. These data also suggest that greater success might be obtained with respect to the knowledge objectives by taking steps to increase the involvement of all students in all cases. For example, all groups could be required to prepare all nine cases, even though they would still present only once during the semester. However, this approach could also have detrimental effects, as it would substantially increase students' workloads in a course that is already viewed as quite challenging. The total number of cases, group size, and number of cases assigned to each group are all parameters that instructors can easily adjust to fit their individual needs.

The material for the nine cases included herein is readily transferable to other tax courses. More importantly, I hope that the model demonstrated by these cases, while probably not entirely unique, will be adopted in other tax courses. Use of a common model would facilitate collaboration across instructors and could lead to a large case bank available to ATA members.

Case #1: Tax Bill Exceeds Award to Officer in Sex Bias Suit

Case Objectives:

- Understand the basics of the Alternative Minimum Tax
- Compute after-tax cash flows
- Evaluate current tax law in light of tax policy objectives and conceptual standards (e.g., equity, certainty, convenience, and economy).
- Develop tax policy recommendations

Student Evaluations of Case 1[†]

	All Students N = 88	Presented or Discussed	
		No n = 56	Yes n = 32
This case helped me learn something important about taxation.	4.08	3.89	4.41**
This case stimulated my interest in taxation.	3.68	3.54	3.94*
This case was a reasonable extension of other course topics.	3.81	3.71	3.97

[†] Students responded to each item using a five-point scale with endpoints labeled “Strongly Disagree” (1) and “Strongly Agree” (5). The mean response to each item is significantly greater ($p < .01$) than the scale midpoint of 3.0 for all students, and for each sub-group.

*, ** The mean response is significantly greater for students or presented or discussed than for students who did not (* indicates $p < .05$, ** indicates $p < .01$).

Case #2: Public Disclosure of Corporate Tax Returns

Case Objectives:

- Understand the differing objectives of the financial accounting and tax measurement systems
- Identify the tensions that might exist between financial and tax accounting objectives (i.e., the potential tax costs of overstating book income, and the potential non-tax costs of minimizing taxable income).
- Evaluate the advantages and disadvantages of requiring public disclosure of corporate tax returns.
- Develop a recommendation regarding required disclosure of corporate tax returns.

Student Evaluations of Case 2[†]

	All Students N = 83	Presented or Discussed	
		No n = 58	Yes n = 25
This case helped me learn something important about taxation.	3.90	3.78	4.20*
This case stimulated my interest in taxation.	3.54	3.43	3.80*
This case was a reasonable extension of other course topics.	3.80	3.66	4.12**

[†] Students responded to each item using a five-point scale with endpoints labeled “Strongly Disagree” (1) and “Strongly Agree” (5). The mean response to each item is significantly greater ($p < .01$) than the scale midpoint of 3.0 for all students, and for each sub-group.

*, ** The mean response is significantly greater for students or presented or discussed than for students who did not (* indicates $p < .05$, ** indicates $p < .01$).

Case #3: The Great CEO Pay Heist: How Did §162(m) Affect Executive Compensation?

Case Objectives:

- Understand the political and economic objectives underlying tax rules.
- Identify the intended and unintended economic consequences of tax rule changes.
- Perform limited empirical research to determine how tax rules affect contracting between economic agents.
- Evaluate the consequences of a controversial tax rule change.

Student Evaluations of Case 3[†]

	All Students N = 90	Presented or Discussed	
		No n = 57	Yes n = 33
This case helped me learn something important about taxation.	4.11	3.95	4.39**
This case stimulated my interest in taxation.	3.79	3.68	3.97
This case was a reasonable extension of other course topics.	3.90	3.88	3.94

[†] Students responded to each item using a five-point scale with endpoints labeled “Strongly Disagree” (1) and “Strongly Agree” (5). The mean response to each item is significantly greater ($p < .01$) than the scale midpoint of 3.0 for all students, and for each sub-group.

*, ** The mean response is significantly greater for students or presented or discussed than for students who did not (* indicates $p < .05$, ** indicates $p < .01$).

Case #4: The AMT: Out of Control

Case Objectives:

- Understand the purpose of the Alternative Minimum Tax.
- Understand the tax policy problems created by (1) weaknesses in the design of the AMT and (2) subsequent changes in the regular income tax.
- Understand the political and economic constraints that limit Congress' ability to address the AMT problem.
- Develop tax policy recommendations in light of conceptual standards for good tax policy (e.g., equity, certainty, convenience and economy) and practical constraints.

Student Evaluations of Case 4[†]

	All Students N = 86	Presented or Discussed	
		No n = 54	Yes n = 32
This case helped me learn something important about taxation.	3.87	3.67	4.22**
This case stimulated my interest in taxation.	3.43	3.20	3.81**
This case was a reasonable extension of other course topics.	3.77	3.72	3.84

[†] Students responded to each item using a five-point scale with endpoints labeled “Strongly Disagree” (1) and “Strongly Agree” (5). The mean response to each item is significantly greater ($p < .05$) than the scale midpoint of 3.0 for all students, and for each sub-group.

** The mean response is significantly greater ($p < .01$) for students or presented or discussed than for students who did not.

Case #5: Congress' Revenue Estimation Process and Raising the Limit on Deductible Capital Losses (H.R. 1619)

Case Objectives:

- Understand the revenue estimation process that shapes and constrains new tax legislation.
- Evaluate the advantages and disadvantages of “dynamic scoring” in developing revenue estimates.
- Understand the political and philosophical objectives underlying the debate on “dynamic scoring.”
- Anticipate the potential behavioral effects of a current proposal to increase the limitation on deductibility of capital losses.
- Evaluate the sensitivity of revenue estimates to assumptions about the behavioral effects of tax rule changes.

Student Evaluations of Case 5[†]

	All Students N = 83	Presented or Discussed*	
		No n = 57	Yes n = 26
This case helped me learn something important about taxation.	4.04	3.95	4.23
This case stimulated my interest in taxation.	3.48	3.47	3.50
This case was a reasonable extension of other course topics.	3.83	3.75	4.00

[†] Students responded to each item using a five-point scale with endpoints labeled “Strongly Disagree” (1) and “Strongly Agree” (5). The mean response to each item is significantly greater ($p < .01$) than the scale midpoint of 3.0 for all students, and for each sub-group.

* The mean responses for students who presented or discussed this case are not significantly different than the mean responses for students who did not prepare the case.

Case #6: Tax Planning for Mutual Fund Investors: Time to Squeeze those Lemons?

Case Objectives:

- Understand the tax consequences of investing in mutual funds.
- Evaluate tax-planning advice concerning year-end purchases and sales of mutual fund shares, and how this advice may be sensitive to market conditions.
- Understand the tax planning forces of deductibility, deferral and exclusion.
- Quantify and compare the advantages of alternative tax planning strategies.

Student Evaluations of Case 6[†]

	All Students N = 83	Presented or Discussed	
		No n = 50	Yes n = 33
This case helped me learn something important about taxation.	3.95	3.60	4.48**
This case stimulated my interest in taxation.	3.72	3.40	4.21**
This case was a reasonable extension of other course topics.	3.59	3.44	3.82*

[†] Students responded to each item using a five-point scale with endpoints labeled “Strongly Disagree” (1) and “Strongly Agree” (5). The mean response to each item is significantly greater ($p < .01$) than the scale midpoint of 3.0 for all students, and for each sub-group.

*, ** The mean response is significantly greater for students who presented or discussed than for students who did not (* indicates $p < .05$, ** indicates $p < .01$).

Case #7: Seagate/Veritas: A Deal with Taxing Consequences

Case Objectives:

- Apply concepts applicable to “tax-free” transactions between corporations and their shareholders (based on detailed coverage of corporate formations) to understand the basics of a “tax-free” corporate reorganization.
- Understand the importance of both tax and non-tax considerations in corporate restructuring.
- Understand how a transaction is structured to comply with the technical requirements of a tax rule.
- Understand how various parties to a contract can share the benefits of tax planning (i.e., how the benefits of tax planning can be shared with other parties to induce them to participate in a transaction designed to achieve those benefits).

Student Evaluations of Case 7[†]

	All Students N = 82	Presented or Discussed	
		No n = 50	Yes n = 32
This case helped me learn something important about taxation.	3.76	3.52	4.13**
This case stimulated my interest in taxation.	3.32	3.24	3.44
This case was a reasonable extension of other course topics.	3.61	3.48	3.81

[†] Students responded to each item using a five-point scale with endpoints labeled “Strongly Disagree” (1) and “Strongly Agree” (5). The mean response to each item is significantly greater ($p < .05$) than the scale midpoint of 3.0 for all students, and for each sub-group.

** The mean response is significantly greater ($p < .01$) for students who presented or discussed than for students who did not.

Case #8: “Economic Substance” and “Substance over Form” Doctrines: A Squeeze Play with the Kansas City Royals

Case Objectives:

- Understand the concepts of “economic substance” and “substance over form.”
- Understand the subjectivity of asset valuation and its importance for determining the tax consequences of many transactions.
- Understand the importance of tax planning in solving business problems without creating tax problems.
- Understand how various parties to a contract can structure a transaction to achieve mutually beneficial outcomes.

Student Evaluations of Case 8[†]

	All Students N = 82	Presented or Discussed	
		No n = 56	Yes n = 26
This case helped me learn something important about taxation.	3.95	3.77	4.35**
This case stimulated my interest in taxation.	3.85	3.75	4.08
This case was a reasonable extension of other course topics.	3.85	3.68	4.23**

[†] Students responded to each item using a five-point scale with endpoints labeled “Strongly Disagree” (1) and “Strongly Agree” (5). The mean response to each item is significantly greater ($p < .01$) than the scale midpoint of 3.0 for all students, and for each sub-group.

** The mean response is significantly greater ($p < .01$) for students who presented or discussed than for students who did not.

Case #9: Exchange Fund Partnerships: A Tax Break for the Rich Who Can Keep a Secret

Case Objectives:

- Understand the importance of detail in tax planning (i.e., how significant tax consequences often turn on the application of detailed tax rules or definitions).
- Understand the purpose of tax rule restrictions on creating of an “investment company” via a tax-free formation of either a corporation or a partnership.
- Evaluate the effectiveness of these tax rule restrictions given the widespread use of exchange fund partnerships.
- Evaluate whether permitting exchange fund partnerships is good tax policy.
- Develop tax policy recommendations.

Student Evaluations of Case 9[†]

	All Students N = 88	Presented or Discussed	
		No n = 56	Yes n = 32
This case helped me learn something important about taxation.	4.03	3.84	4.38**
This case stimulated my interest in taxation.	3.86	3.59	4.34**
This case was a reasonable extension of other course topics.	4.01	3.88	4.25*

[†] Students responded to each item using a five-point scale with endpoints labeled “Strongly Disagree” (1) and “Strongly Agree” (5). The mean response to each item is significantly greater ($p < .01$) than the scale midpoint of 3.0 for all students, and for each sub-group.

*, ** The mean response is significantly greater for students or presented or discussed than for students who did not (* indicates $p < .05$, ** indicates $p < .01$).