

ACCT347, FALL 2008

ADVANCED FEDERAL INCOME TAX PLANNING

Class Meetings:¹ Tuesdays/Thursdays 02:10 PM—04:00 PM, in Bentley 215

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Office hours: Tuesdays & Thursdays 4:00 pm – 5:00 pm
Wednesdays 10:00 am – 11:30 am & by appointment

Course website: <http://faculty.cob.ohiou.edu/stockt/Teaching.html>

COURSE DESCRIPTION AND OBJECTIVES

Taxation is a system by which society transfers resources from the private sector to the public sector. Traditional first tax courses focus on understanding basic tax concepts relating to transactions between a taxpayer and third parties (i.e., sales, purchases, etc.). In contrast, this course focuses on *transactions between business entities and their owners*. We will see many instances in which the tax law treats transactions between these related parties suspiciously (and frequently with downright hostility). In addition, this course helps you to develop the knowledge and skills necessary to research income tax issues that may arise.

Most of you will not be producers of tax services. Rather, members of this class are more likely to be consumers of tax services, either in your capacity as professional accountants or as producers of taxable income. This premise leads to the following three course objectives:

1. **Tax research skills objective:** Although you are not tax research experts (yet), you will gain additional experience finding, reading, understanding, evaluating, and communicating primary and secondary authority for tax positions. You will gain this additional experience by researching background information and writing a term paper.
2. **Tax planning knowledge & skills objective:** You will calculate the effect of federal income taxation on the cash flows from complex transactions, and (consequently) appreciate how taxation can affect operating, investing and financing decisions. We will use a comprehensive, multiyear case-study (something akin to the BAM approach used in ACCT303-305) to facilitate mastering this objective.
3. **Tax rules knowledge objective:** You will develop a deeper understanding of the complications that arise when owners and entities transact with each other, you will identify relevant tax issues when such transactions occur, and correctly analyze the tax and cash flow consequences of these transactions.

¹ I also teach ACCT317 at 8:00 AM and 10:00 AM on Tuesdays and Thursdays in Copeland 001.

In particular, much of this course involves your comparing and contrasting the tax treatment of corporations and partnerships (including LLCs and LLPs). I chose these entity forms because they dominate other forms of taxpaying and pass-through business entities in terms of numbers of businesses operating as these entities, the volume of transactions, and their equity values. Together, we will use a “life-cycle” approach to understanding the taxation of these entities. That is, we will examine the tax consequences to corporations, partnerships, and their owners, of (1) organizing the entity, (2) distributing profits to owners, (4) liquidating the entity, and (5) restructuring corporate entities.

COURSE MATERIALS²

- **Advanced Income Tax Planning**, a custom course text that includes selected chapters from Jones/Rhoades-Catanach, *Principles of Taxation for Business & Investment Planning*, 2009 Edition and Jones/Rhoades-Catanach, *Advanced Strategies in Taxation*, 4th edition. Prepared by McGraw-Hill Publishing, ISBN# 0-39-018765-8. Available at Specialty Books (only).
- **Slides & Supplemental Readings Packet** The course packet is organized by topic. It includes hard copies of the PowerPoint slides we will use in class and selected supplemental readings. Available at either Grade A Notes or Bobcat Books.

OVERALL PROCEDURES

The following sections of this course syllabus cover the administrative and procedural details that might interest you.

COURSE PREREQUISITE: A basic tax course (ACCT317 or equivalent) is essential background for this course. You must (1) have a basic economic framework for understanding taxation, (2) understand how the federal tax law taxes income earned by individuals and businesses when they transact with unrelated third parties, and (3) understand the tax law hierarchy and have adequate tax research skills. Please see me if you feel that you do not have this background.

PREPARATION FOR CLASS: A primary responsibility you have is to get ready for each class by (1) *actively* reading the assigned text material, taking notes from the text and working examples as you read the assigned pages; (2) finding and reviewing the main primary authority relating to the reading for the day; and (3) reviewing course packet information for the day. I expect that all students will have prepared in this way before every class. You should also work suggested homework problems after we cover the related materials and before the next class session. ***If you feel, for whatever reason, that you cannot make this commitment, then you should drop this class immediately.***

ATTENDANCE: It is essential that you attend every class. I informally take attendance, and reserve the right to drop you from the class if you miss more than 3 classes. My inclination to drop you will depend on the number of classes missed, reason for your absences, and the likelihood of future absences. Note that you will have to present a very persuasive reason for staying in the class if you miss more than 4 classes.

ASSESSMENT & GRADING

The table below shows how students accumulate points in the course. *Note that a minimum requirement for passing this class is that you must submit each of the assignments above and earn at least 50% of the points on each of these items.*

² You must also have access to the CCH on-line tax service. This service is available at Ohio University to students free of charge from any university computer or from off-campus computers (but you must enter your OAK ID and password).

Tax research skills assessment (100 points; 16 2/3% of final grade)	
• Tax research term paper & presentation	100
Tax planning knowledge & skills assessment (100 points; 16 2/3% of final grade)	
• JL creation case	40
• JL distributions case	20
• JL restructuring case	40
Tax law knowledge assessment (300 points; 50% of final grade)	
• Exam 1: Compensation & multijurisdictional tax planning	100
• Exam 2: Entity organization, distributions, & liquidations	100
• Exam 3: Corporate restructuring & other topics	100
Other assessments (100 points; 16 2/3% of final grade)	
• Homework journal	100
Total points	<u>600</u>

TAX RESEARCH TERM PAPER & PRESENTATION: The number 1 issue facing the practice of professional accountancy today is the impending adoption of international accounting reporting standards (IFRS). PwC estimates that these new standards will result in about 100 book-tax differences new to firms when compared to book-tax differences arising from current US GAAP! Your assignment is to write an 8-10 page, double-spaced paper that identifies and analyzes these new book-tax differences.³ Depending on how you frame your paper, you might survey a large number of these differences or you might choose a subset of them depending on your interests and our negotiations about your paper. A large part of this project will involve your researching the IFRS rules and how they relate to current tax law. Each student must summarize his/her conclusions about this issue to the class during the final exam period and be ready to justify that conclusion.

Your deliverables include a project plan and detailed outline about 1/3 of the way through the class and a progress report about 2/3 of the way through the class. The final paper is due at the beginning of the last day of class, and the presentation is due during the final exam period. The project plan and outline count for 25 points, the progress report counts for 15 points, the final paper counts for the 40 points, and the presentation counts for 20 points.

As an additional incentive, I will pick the best paper from the class and work with the author of that paper to revise the paper for submission to the 2009 American Accounting Association Ohio Region Mid-Year Meeting student manuscript contest. The first prize for this contest is a plaque and \$500; the runner-up prize is a plaque and \$250. The School of Accountancy will also pay the expenses for the winner or runner-up to attend the conference in early May, 2009. In addition, if the quality of the paper is sufficiently high, you and I will consider a co-authored submission of a heavily-revised version of the paper to the AICPA's *Journal of Accountancy* for publication in that practitioner journal.

³ The usual specifications apply: the page limit does not include references, data tables, or figures; you must use either a 10, 11, or 12 point font; and margins must be at least 1" on all four sides.

TAX PLANNING CASE STUDY: A central part of this course revolves around illustrating the major concepts covered in class with a comprehensive case study. The case study varies two major factors to illustrate these concepts. First, we consider tax consequences varying the type of entity in the case study. That is, we will examine how various transactions impact the case entity as a corporation, and then again as a partnership. This will permit us to compare the tax and cash flow consequences of selecting a corporate or a partnership form of organization directly. Second, the case study is longitudinal in nature. Thus, we will examine the effects of various transactions over the entity's entire life. One case study that captures both of these elements will enhance your understanding of the course content greatly. This case study will count for 60 course points.

EXAM FORMAT: Given the technical nature of some of the material in this class, the exams are take-home exams. Problems are predominantly short-answer, problem, and/or essay. The course packet provides sample exam questions for your use. My advice for preparing for the exams is to focus on the material that we focus most on in class. We will cover a lot of territory, but the reading materials include even more. However, you may assume that I will focus class discussions and activities on the most important material, so you can allocate your study time according to the amount of class time spent on a topic.

HOMEWORK JOURNAL: Given the more technical nature of the material in this course relative to ACCT317, I generally allow you to work assigned homework problems after we cover the associated material. However, this means the day after we cover the material, not the day before the related exam ☺. To incent you to take this homework seriously and do it close to the time that we cover the related material in class, you must keep a "homework journal" of the assigned homework problems from the text. The purpose of this journal is to organize and document your work and to impose discipline on your exam preparation. I will collect and grade these journals 5 times during the quarter (generally, after each unit). The focus here is on your learning, not on numerical perfection. Thus, I grade this based primarily on my impression of your learning and effort, not on whether you get particular problems or individual numbers right or wrong. If all you do is copy answers from the solutions manual, you will receive a grade of 0, as that indicates no learning. The five assessments are worth 10, 25, 15, 30, and 20 points, respectively for units 1-5.

CLASS PARTICIPATION: In general, class participation in ACCT347 has been high. However, I reserve the right to increase or decrease your grade by one level (e.g., from a B- to a B, or vice-versa) for outstandingly good or bad class participation. In very extreme cases, your grade might rise or fall by more than one level.

SCHEDULE OF READINGS AND ASSIGNMENTS: In addition to the assigned text readings, you are also responsible for reading the assigned code sections before the class in which we first discuss them. See the schedule that starts on the next page for the dates I expect that we will begin each topic. The primary authority reading list for units 3-5 is, by topic:

Class topic	Most relevant code & regulation sections
① Entity formation	§§195, 248
② Corporate & partnership organization	§§351, 357, §721
③ Corporate cash and property dividends	§§301, 311, 312
④ Corporate stock redemptions	§§302, 318
⑤ Partnership distributions	§§731, 752
⑥ Corporate taxable liquidations	§§331, 334, 336
⑦ Corporate tax-deferred liquidations	§§332, 334, 337
⑧ Partnership liquidations	§§731, 752
⑨ Corporate taxable acquisitions	§§197, 338(a)—(g)
⑩ Corporate reorganizations—taxation	§§354, 358, 361
①① Corporate reorganizations—types	§368
①② Corporate tax attribute use	§§381, 382

ACCT347 FALL 2008 TENTATIVE SCHEDULE

DATE	TOPIC(S)	READINGS	ASSIGNMENTS
Unit One—Continuing ACCT317: Shifting Income Across Jurisdictions			
Sep 9	<u>Course Introduction</u> <u>SALT Planning</u> —State definitions —Apportionment of income	Course syllabus SJ13: 355-361 SJSRC10: 261-273	Review ACCT317 slides included in ACCT347 course packet SJ13: 1; SJSRC10: 4 SJ13: 2, 3, 4
Sep 11	--Territorial v. unitary systems <u>International Tax Planning</u> —Introduction & foreign tax credit	SJSRC10: 274-278 SJ13: 361-366 SJSRC11: 289-299	SJSRC10: 3, 6, 7, 11, 13 SJ13: 7, 8, 9, 10, 12, 14 SJSRC11: 4, 8
Sep 16	—Organizational forms & transfer pricing	SJ13: 366-375 SJSRC11: 299-311	SJ13: 18, 19, 20, 23 SJSRC11: 7, 9, 10, 11
Unit Two—Continuing ACCT317: Applying Tax Planning to Compensating Employees			
Sep 18	<u>Compensation Planning</u> —Non-qualified compensation —Qualified & nonqualified compensation plans	SJ15: 429-433 SJ15: 441-452	HW Journal from Unit 1 due SJ15: 25, 27 SJ15: 23, 33, 35
Sep 23	—Stock as compensation: options	SJ15: 437-440	SJ15: 13-17 (#17 might require review of the AMT)
Sep 25	—Stock as compensation: restrictions —Current v. deferred compensation	SJSRC4: 89-96	SJSRC4: 9, 10, 11, 12, 13, 14 + Course packet case study
SEP 28	TAKE-HOME EXAM #1 DUE TO COURSE DROP BOX BY 11:59:59 PM!		
Unit Three—Entity/Owner Transactions: Creation			
Sep 30	<u>Entity Creation</u> —Overview ❶ —Corporate organization	SJSRC3: 49-55 SJSRC3: 55-63	HW Journal from Unit 2 due <i>JL Creation Case distributed</i> SJSRC3: 13, 14, 15, 16
Oct 2	—Corporate organization ❷ —Partnership organization	SJSRC3: 63-68	Term paper plan & outline due SJSRC3: 5, 6, 7, 8, 10, 11
Unit Four—Entity/Owner Transactions: Distributions and Liquidations			
Oct 7	<u>Entity distributions</u> <i>Corporate distributions</i> —Cash & property dividends ❸ —Stock & constructive dividends	SJSRC8: 203-208 SJSRC8: 208-210	HW Journal from Unit 3 due <i>JL Distribution Case distributed</i> SJSRC8: 1, 2, 3, 4, 5, 6, 7, 8 SJSRC8: 9, 10, 11
Oct 9	—Stock redemptions ❹ <i>Partnership distributions</i> ❺	SJSRC12: 327-332 SJSRC8: 215-218	SJSRC12: 6, 7, 8, 9 SJSRC8: 14, 15, 16 <i>JL Creation Case due</i>

DATE	TOPIC(S)	READINGS	ASSIGNMENTS
Oct 14	Entity Liquidations <i>Corporate Liquidations</i> —Taxable ⑥	SJSRC14: 386-390	SJSRC14: 7,8, 9a, 10
Oct 16	—Tax-deferred ⑦ Partnership Liquidations ⑧	None SJSRC14: 390-396	SJSRC14: 9b, 11 <i>JL Distribution Case due</i> SJSRC14: 12, 13, 14, 15, 16, 17
OCT 19	TAKE-HOME EXAM #2 DUE TO COURSE DROP BOX BY 11:59:59 PM!		
Unit Five—Entity/Owner Transactions: Corporate Acquisitions			
Oct 21	Corporate acquisition economics Taxable corporate acquisitions —Asset purchases	Reading A: all SJSRC13: 351-357	HW Journal from Unit 4 due SJSRC13: 1a, 6
Oct 23	—Stock purchases —Section 338 elections ⑨	Reading B: All	SJSRC13: 1b, 2
Oct 28	Tax-deferred corporate acquisitions —Introduction —Taxation of reorganizations ⑩	SJSRC13: 358-364	SJSRC13: 3, 8 <i>Term paper progress report due</i>
Oct 30	—Types of reorganizations ① ① —Organizational structures that solve non-tax problems	Read my detailed M&A memo in course packet	SJSRC13: 4, 5, 7, 9, 10, 11, 12
Nov 4	Tax Attributes & Their Use by Acquirers ① ②	SJSRC13: 364-367	<i>JL Restructuring Case distributed</i> SJSRC13: 13, 14, 15
Postscript: Academic Issues in Taxation			
Nov 6	<i>Academic Career Information</i> <i>Academic Research Basics</i>	TBA	HW Journal from Unit 5 due
Nov 13	Examples of Academic Tax Research	Reading C: all + Read either CPS96 or SS06 (to be assigned)	Think about & respond to TS questions about each paper. <i>JL Restructuring Case due</i>
<p>Term paper presentations due during final exam period, which is on Thursday, November 20, 2:30—4:30 p.m.</p> <p>Take-home final exam due to course drop box by <u>5:00 PM on Friday, November 21</u></p>			

Legend:

SJ = reading or homework problem from Sally Jones introductory tax text chapter in main course text.

SJSRC = reading or homework problem from Sally Jones/Shelly Rhoades-Catanach advanced tax text chapter in main course text.

⑨ = code section reading #9 from table on page 4 of this syllabus.