

**ECON542- Taxation & Business Strategy**  
Peking University HSBC Business School 2015 Spring

**Logistics**

Class: Room 229

1:30 p.m. -3:20 p.m. Monday and Thursday

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Office Hours: 3:30 p.m. ~ 5:30 p.m. Monday or by appointment at Room 665

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**Course Description**

Contrast to public finance course, the main agent in this course is business entity, instead of tax authority (government), so the major concern is profit maximization and tax strategy of business rather than social welfare maximization. In running business, taxes play an important role in various aspects. This course aims to present the students with an analytical framework to see how various business decisions such as investment, finance, labor relations, are affected by taxation. In addition, to be more realistic, this course takes holistic approaches by incorporating implicit tax rates, tax regulations, and non-tax factors into the analysis. The first part of the course is mainly to provide theoretical tools to analyze taxes and business strategy in general. On the other hand, the second part of the course discusses specific business decisions, such as capital structures, compensating and retirement plan for employees, applying the theoretical framework.

**Learning Objectives**

1. Professional knowledge about the role and its importance of tax in various business decisions :  
Learn deeper knowledge about tax issues that firms deal with and comprehend in terms of profit maximization. Understand how significantly they affect various business decisions such as investment, finance, labor contracts.
2. Capacity to identify tax issues of a business decision:  
Ability to apply the knowledge and ability to penetrate often complex business decisions are necessary for finding what are tax advantage and tax disadvantages in various business environments. For proper analysis of various business problems, identification of key factors is crucial.
3. Logical ability to provide tax strategies as solutions for business decisions:  
The knowledge and identification of key factors are ultimately for finding solution of business decision. Develop the skills of logical reasoning to get the solution by applying the learned framework for analysis.
4. Communication skills for conveying idea and for a good team work:  
In most of work place, team work is usual. Thus, it is useful to develop communicational and relationship skills for a team work. Moreover, in practice, it is important to deliver your analysis about tax-related business decisions to your (potential) audience and to persuade them.

In sum, eventual goal of this course is to guide you to being a professional who can conduct consulting (a research project) regarding tax-related business decisions.

## Course Material

Main Textbook: Myron S. Scholes, Mark A. Wolfs, Merle M. Erickson, Edward L. Maydew, Terrence J. Shevlin "Taxes & Business Strategy" 4<sup>th</sup> edition, Prentice Hall.

Useful reference: Sally Jones, Shelley Rhoades Catanach, "Advanced Strategies in Taxation" 4<sup>th</sup> edition, McGraw-Hill/Irwin.

## Course Works and Grading

|                              |     |
|------------------------------|-----|
| Class participation/attitude | 10% |
| Problem sets                 | 30% |
| Exam (18th of June)          | 35% |
| Presentation (Team Project)  | 25% |

- Two problem sets will be assigned (before and after the exam). The first problem set weighs 10% and the second problem set does 20%. Submission after the announced deadline is graded as zero. The first problem set will be assigned as homework. The second problem set can be either homework or replaced with in-class quiz instead of solving in home.
- Exam will be held at **June 18th Thursday** in the class (1:30 p.m.-3:20 p.m.). For the sake of fair grading by testing with the exactly equal written exam (which weighs most among others), no exception for the examination date is allowed. If you have time conflict, then not-taking this course is recommended.
- Presentation (Team Project):  
Instead of taking a written final exam, how well you understand overall class materials will be tested by a team project on an application of what is discussed in the class via 30 minutes' presentation in the last week of the 3<sup>rd</sup> module. At most, by 18<sup>th</sup> of March, each team should be formed and list of team members should be submitted.

As long as relevant to the class, each team is free to choose the content of the presentation. Some examples will be offered in the middle of class, for reference. By the 18<sup>th</sup> of June, short proposal of the presentation (up to seven pages) is to be submitted. The presentation has to have clear research question, concrete research method, and accurate sources. The outcome should be original not copy other's work. As a penalty for plagiarism, both the grade for team project (25%) and the grade for class participation (10%) will be zero.

At the presentation in the last week of this module, each team should submit both the presentation slide (submission of the term paper is optional) and detailed document about each student's contribution (which part you did for presentation) for the sake of fair grading.

[Reschedule] The class at the 22nd of June (Monday) will be rescheduled to the 24th of June (Wednesday) due to Dragon Boat Festival.

## **List of Topics in the Course**

1. Introduction of the Course  
Logistics, Scope and aim of the course; Overview of the course, Various tax burdens in business, and Basic concepts.
2. Tax Strategy and Tax planning [Chapter 1 & 2]  
What is tax strategy and why does tax strategy for business matter?  
Types of tax planning, Restrictions on taxpayer behavior, Tax law factors that affect firm's decisions
3. Taxes and Returns on Alternative Investment Vehicles [Chapter 3]  
How does different tax treatment of saving vehicles that yields equal before-tax rate of return affect after-tax rate of return?
4. Taxes and Choice of Organizational Form of Firms [Chapter 4]  
What are differences in tax treatment of organizations that produce goods and service and how does it affect the choice of organizational form of a firm?
5. Implicit Tax, Tax Arbitrage, and Restrictions [Chapter 5]  
What is implicit tax in a competitive market without any restrictions? What is tax arbitrage and how does it reduce tax liabilities?
6. Nontax Costs of Tax planning [Chapter 6]  
How do frictions in informations and market competition affect tax planning?
7. Marginal Tax Rates and Dynamic Tax Planning Considerations [Chapter 7]  
How do we calculate marginal tax rate for tax planning over time?
8. Corporations: Formation, Operation, Capital Structure, and Liquidation [Chapter 12]  
Throughout the life cycle of the corporation from formation to liquidation, what are the roles of taxes?
9. Compensation Planning [Chapter 8]  
In designing contracts to hire employee, what are tax consequences of compensation alternatives on both employee and employers?
10. Pension and retirement planning [Chapter 9]  
Given special tax treatments on savings for pension account, what are the tax strategies of different pension plans?
11. Estate and Gift Tax Planning [Chapter 18]  
Facing several forms of taxation which arises when an accumulated wealth from a family business is transferred, what are optimal tax strategies?
12. Multinational Tax Planning and Investment Decisions [Chapter 10]  
How do taxes of multinational companies affect location and structure of investments?
13. Introduction to Mergers, Acquisitions, and Divestitures [Chapter 13]  
What are major tax and nontax issues associated with mergers, acquisitions, and divestitures?
14. Case studies (Applications): presentations