

ACCT 384.2 - Taxation of Entities I

Spring 2013

Unique Numbers: 02840, 02845

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Office hours | Tuesday 10:00-11:30 am, Thursday 2:00-4:00 pm, when the door is

open and by appointment

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1 Learning objectives

Most individuals working in the tax area will encounter corporate tax issues. To successfully resolve those issues, a solid foundation in the calculation of the corporate tax liability and an understanding of the tax law that affects the transactions that take place in the life of a C corporation are required. Therefore, my goals in this class are

- to facilitate your understanding of the fundamental concepts governing the taxation of corporations,
- to facilitate your understanding of the fundamental concepts governing the taxation of corporate-shareholder transactions, and
- to enhance your ability to read, interpret and apply tax law to corporate operations and transactions involving a corporation and its shareholders.

2 Materials

Text: Hoffman, Raabe, Smith, and Maloney. *Corporations, Partnerships, Estates, and Trusts*, 2013 (35th) edition (ISBN10: 1-133-49550-8, ISBN13: 978-1-133-49550-5). Download chapters specified in the Course Outline (associated with this syllabus) from www.cengagebrain.com.

Instructor class notes and supplemental articles: Available via BlackBoard

Tax Research Services – To access readings not posted to BlackBoard or to undertake tax research, all University of Texas students have access to three electronic tax research libraries - CCH Tax Research Library, RIA Checkpoint Tax Research Service, and Lexis-Nexis Academic Universe – via the University Library's webpage. The BNA Tax Management research service, accessed via RIA, may also be helpful in understanding corporate tax issues.

3 Keys to success

To successfully master the principles of corporate taxation you will need to practice applying the concepts we discuss in class. The theory underlying corporate taxation is straightforward; the application is where everything gets complicated and your understanding of these concepts is truly tested.

You are expected to attend class. This means that you are expected to arrive on time and to remain for the entire class period. If you do miss a class, it is **your** responsibility to ensure that you obtain any handouts or assignments and understand the material

covered in the class missed. Also, because this is an accelerated class you will need to diligently prepare for each session in order to keep up with the material. Falling behind in such a compressed class will make it more difficult to be successful in this class.

Finally, because we will not be using laptops in class, I request that you not turn on or use your laptops during class.

4 *E-mail, BlackBoard and class notes*

I will communicate with you regularly via e-mail; you are responsible for the content of these messages. I will use the e-mail account that appears in the class roster to create a class mailing list. This e-mail address is the one that appears with your name in the UT Directory. If you have changed your e-mail in the recent past you should verify, via UT Direct, that the e-mail specified is the e-mail you are using.

The BlackBoard page maintained for this class also provides useful course information. To access this page you will need a UT-EID. Go to http://courses.utexas.edu. You should access this page on a regular basis to ensure you are up to date and aware of what is going on in ACCT 384.2. Additionally, class notes for each class (a PowerPoint file) will be posted to BlackBoard the day before the class meeting. You will find the tax return project information here, as well.

5 Evaluation

A rigorous academic environment will be maintained in Accounting 384.2. Grades are earned based on your performance on the following:

Midterm exam	150 points
Homework and lab assignments	130 points
Tax return project	200 points
Participation	80 points
<u>Final exam (comprehensive)</u>	200 points
Maximum possible points	760 points

An effort has been made to coordinate exam and assignment dates in this course and Professor Bredeson's course to avoid overwhelming everyone involved.

Tax return project: The tax return project will require you to complete a corporate tax return in four parts. The due dates for the different parts of the project appear in the Course Outline. You may work in groups on this project. A group should consist of **no more** than 3 people. You can choose your own group at the beginning of the term and you will work with that group throughout the semester. If you have trouble finding a group, please let me know. Each group should complete their own project.

Late assignments: If you hand in an assignment after the due date, you will lose 5 points for every day the assignment is late. After the assignment is discussed in class or returned (whichever is earlier), I will no longer accept the assignment for a grade.

Participation: I believe that participating during class allows you to better understand the topics we discuss and improves the learning environment for everyone. Explicitly including participation in your performance evaluation provides an incentive to take preparation for class and participation seriously. Your participation will be evaluated on

three dimensions: (1) attendance, (2) voluntary contributions to class discussion and (3) answers to questions asked of you (by me) during class. That is, during a portion of class each day, I will randomly call on students to answer questions related to the topic of discussion. When you are called on, your participation grade will be detrimentally affected if you choose not to answer the question, cannot attempt a reasonable answer or are not in class.

Anyone arriving late to class (meaning arriving I have started talking) will lose their participation points for that class period. Arriving late disrupts flow of the class and is distracting and disrespectful to everyone in the classroom.

Individual absences from class do not need to be explained, but if you would like to e-mail me to tell me that you will not be in attendance, you are welcome to do so.

Finally, I expect that you will attend the section of the course in which you are enrolled.

Midterm and final exam: This course has a midterm exam and a comprehensive final exam. You are required to take both of these exams. There are no make-ups for any exam. Both the midterm and the final will be given in the evening. The date and location of these exams are detailed in the course outline, will be posted to BlackBoard and will be announced in class. Each student is responsible for managing his/her own personal schedule to be present at these exams. If you miss an exam because of an illness or other dire and irreconcilable conflict, you should notify me as soon as possible and present written documentation of your absence (e.g., note from physician). I have final authority to determine if your absence is justified. Your grade will be determined at the time that your absence is excused. Note that this is an individual determination based on the facts and circumstances of each case.

Grade disputes: Any concerns or questions about grading on an assignment or exam must be resolved in the week after the graded assignment or exam is returned in class. This time frame applies whether or not you were present in class to receive your graded assignment or chose to retrieve it from your mail folder. Beginning in the Fall 2009 semester the University of Texas at Austin instituted plus/minus grading for all students. Department of Accounting policy requires that a grading scale including pluses and minuses be used for all Accounting classes. Note that for MPA students, a grade point average of 3.0 is required to successfully graduate from the University of Texas at Austin.

6 Dropping the course

The course catalog details both add and drop date deadlines. Students enrolled in graduate classes, at the discretion of the instructor, are allowed to drop the class up until the last day of the term without academic penalty. A student who stops attending without notification or without the submission of a drop form will automatically earn a grade of "F" for the semester.

7 *Academic misconduct*

Academic misconduct includes (but is not limited to) cheating, fabrication, facilitation of academic misconduct by others, and plagiarism, and is a serious academic offense. Neither the Department of Accounting nor I will tolerate academic dishonesty. The responsibilities of both students and faculty with regard to scholastic dishonesty are

described in detail in the department's Policy Statement on Scholastic Dishonesty in the MPA Program. By teaching this course, I have agreed to observe all of the faculty responsibilities described in that document. By enrolling in this class, you have agreed to observe all of the student responsibilities described in that document. If the application of that policy statement to this class and its assignments is unclear in any way, it is your responsibility to ask me for clarification.

Application of departmental policy to assignments in this course

Graded assignments (e.g., Tax return projects, homework problems): Each group's solution should be independently prepared. Groups should not refer to other students, other groups' solutions, or to solutions prepared in previous semesters. All questions about the tax return project are to be directed to me or to the TA for this class; all other questions directed to me. Violation of these policies will be treated as an act of scholastic dishonesty. Evidence of non-independent work will be forwarded to Student Judicial Services with a recommendation that a grade of "F" be assigned in the course.

Exams: Each student is expected to independently complete an exam during the designated exam period. No student should refer to other students' exam solutions or discuss the exam with other students during the exam period. Violation of this policy will be treated as an act of scholastic dishonesty. Evidence of non-independent work will be forwarded to Student Judicial Services with a recommendation that a grade of "F" be assigned in the course.

8 | Course outline

Note: This course outline is current as of January 1, 2013. The outline may be modified to reflect overly optimistic projections of what is to be covered each class period or tax law changes affecting course content.

Topic(s) Assignments

Course overview; Introduction Incorporation

Readings:

- 1. Jan 2
- ✓ Wayne How Delaware thrives as a corporate tax have Blackboard
- ✓ Furchtgott-Roth Cutting corporate taxes would stimulate the economy **Blackboard**
- ✓ Wilkie, Young and Nutter Blackboard
- ✓ Hoffman, Chapter 4, pp. 4-1 through 4-18
- ✓ IRC Sec. 362(e) (bring to class)

Incorporation (concluded)
Corporate operations
Tax year
Methods of accounting

2. Jan 3

Readings:

- ✓ Peracchi v. Comm, 81 AFTR 2d 98-1754 (CA9 1998)
- ✓ Reg. Sec. 1.461-5
- ✓ Excerpt from Rev. Proc. 2004-34 **Blackboard**

	Topic(s)	Assignments
	Corporate operations Property transactions: Depreciation, asset dispositions	
3. Jan 4	 Readings: ✓ Tax Research Consultant – Depreciation (excerpt) Blackboard ✓ Rev. Procs. 87-56 and 87-57 (skim first 8 pages of each) and print 3 pages of the table that appears after 6. EFFECT ON OTHER REVENUE PROCEDURES in Rev. Proc. 87-56 	
4. Jan 7	Property transactions (concluded) Corporate Operations - Deductions Organizational and start up expenditures Charitable contributions Dividends received deduction	
	Readings: ✓ BNA Portfolio 605 (excerpt) – Intangible drilling costs Blackboard ✓ Hoffman, Chapter 2, pp. 2-14 to 2-21 ✓ Cambridge Hotels, RIA TC Memo 1968-263 (1968) ✓ Singletary – Donations, deductions and the deficit Blackboard ✓ IRC Sec. 246 (bring to class)	
5. Jan 9	Corporate Operations - Deductions Net operating losses Domestic production activities	
	Readings: ✓ Hoffman, Chapter 3, pp. 3-1 to 3-17 ✓ IRC. Sec. 199 (bring to class)	

	Topic(s)	Assignments
6. Jan 11	Corporate Operations Corporate tax liability – Explanation, calculation Alternative Minimum Tax (AMT) theory and calculation	TR project - Part I due at the start of class
	Readings:	the start or class
	✓ Form 1120 (www.irs.gov)✓ Hoffman, Chapter 3, pp. 3-17 to 3-25	
	✓ Jacobius – Hike in carried interest tax Blackboard	
	Corporate Operations	
7. Jan 14	AMT discussion (concluded) Credits, penalty taxes	
	Readings:	
	✓ Yang – Section 199 Blackboard	
	✓ Hoffman, Chapter 3, pp. 3-17 to 3-30	
	Corporate Distributions	
	Cash, property and stock distributions	
	Readings:	
8. Jan 16	✓ <i>Hoffman,</i> Chapter 5, pp. 5-1 to 5-10	
0. Juli 10	 ✓ Ralph Nader letter to Microsoft Blackboard ✓ Davis - The death of dividends Blackboard 	
	✓ Cheng – Dividend stocks become heroes Blackboard	
	✓ Economist – Apple's cash pile Blackboard	
	✓ E&P as we know it (for reference - skim now, refer to for final, project) Blackboard	
9. Jan 22	Midterm exam (Tuesday evening) – 6 to 8:15 pm	

	Topic(s)	Assignments
	Corporate Distributions Distributions Stock redemptions	
10. Jan 23	Readings: ✓ Hoffman, Chapter 5, pp. 5-10 to 5-20 ✓ Reilly – Moving the market Blackboard ✓ Vascellaro – Apple's share buybacks Blackboard	
Jan 24		TR project - Part II due by 5 pm
	Corporate Distributions Stock redemptions	
11. Jan 25	Readings: ✓ Hoffman, Chapter 5, pp. 5-10 to 5-20 ✓ Willens – Wynn Resorts and dividend stripping Blackboard ✓ Erickson and Wang (only pp. 35 – 41) Blackboard ✓ Sloan - Seagram and DuPont Blackboard ✓ Taub – Vivendi settles Blackboard	
	Corporate Distributions Stock redemptions	
12. Jan 28	Readings: ✓ Hoffman, Chapter 6, pp. 6-3 to 6-27 ✓ Dale – The art of the sale Blackboard	
	Research Practice (Mod Lab West) - Second half of class	

	Topic(s)	Assignments
	Corporate Distributions Liquidations	
	Compensation	
13. Jan 30	Readings: ✓ Berman letter Blackboard ✓ Thurm – CEO pay moves with corporate results Blackboard ✓ Menard v. Commissioner, 103 AFTR 2d 2009-1280 (CA7 2009) ✓ Last names beginning A–L: Elliotts, Inc. v. Comm, 52 AFTR 2d 83-5976 (CA9 1983) ✓ Last names beginning M-Z: Exacto Spring Corporation v. Comm, 84 AFTR 2d 99-6977 (CA7 1999)	
	Compensation	
14. Feb 1	Readings: ✓ Dalton – Quantifying the choice between a Roth and regular IRA Blackboard ✓ Pozuollo and Kaplan – Deferred compensation Blackboard ✓ Economist – A gold-plated burden Blackboard ✓ Grant Thornton – Stock option taxation discussion (ISO portion) Blackboard	TR project - Part III due at the start of class
	Compensation	
15. Feb 4	Readings: ✓ Rev. Proc. 2012-29, 2012-28 IRB 49 ✓ Grant Thornton – Stock option taxation discussion (all) Blackboard ✓ Helft and Norris - Google issues transferable options Blackboard ✓ Kocieniewski – Tax benefits from options as windfall for businesses Blackboard	

	Topic(s)	Assignments
16. Feb 6	Compensation (concluded) Readings: ✓ Melbinger and Pluth – Stock based compensation Blackboard ✓ Thomas – Grants or awards of stock Blackboard ✓ Fleischer – Why Facebook is paying the tab on employee compensation Blackboard Final exam review	
Feb 7	Final exam 6-9 pm	
Feb 8		TR project – Part IV due by 5pm