



北京大學  
汇丰商学院

Peking University HSBC Business School

# ECON542

## Taxation & Business Strategy

### Module 1, 2017-2018

#### Course Information

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Office Hour: Friday 17:30-19:30 or by appointment

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**Classes:**

Lectures: Monday & Thursday 10:30 am -12:20 pm

Venue: PHBS Building, Room 311

## 1. Course Description

### 1.1 Context

Contrast to public finance course, the main agent in this course is business entity, instead of tax authority (government), so the major concern is after-tax 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.

### 1.2 Textbooks and Reading Materials

Main Textbook

Myron S. Scholes, Mark A. Wolfs, Merle M. Erickson, Edward L. Maydew, Terrence J. Shevlin  
“Taxes & Business Strategy” 5th edition, Prentice Hall.

Supplementary Textbook

World Bank Group and PwC “Paying Taxes 2017: The Global Picture” World Bank Publication.

Alan Carter (eds) “International Tax Dialogue: Key Issues and Debates in VAT, SME Taxation and the Tax Treatment of the Financial Sector”

Readings

Dowd, Tim, Paul Landefeld, and Anne Moore, "Profit Shifting of US Multinationals," *Journal of Public Economics*, 2017, 148: 1-13.

Alan Auerbach, Michael Devereux, and Helen Simpson, "Taxing Corporate Income" *Dimension of Tax Design: the Mirrlees Review*, 2010, Oxford University Press.

Jinjarak, Yothin, "The Collection Efficiency of the Value Added Tax: Theory and International Evidence" *Journal of International Trade and Economic Development*, 2008, 17(3): pp. 391-410.

Gale, William, Hilary Gelfond, and Aaron Krupkin, "Entrepreneurship and Small Business Under a Value-Added Tax" *Brookings Institution Working Paper*: Washington, DC, 2015.

Michael P. Devereux, Li Liu, and Simon Loretz, "The Elasticity of Corporate Taxable Income: New Evidence from UK Tax Records," *American Economic Journal: Economic Policy*, 2014, 6(2): 19-53.

Zhou, Xiaona. "The Analysis for Value-Added Tax Changes in Fixed Assets Investment about Hebei Province" *Advances in Information Sciences and Service Sciences*, 2013, 5.5, 921-928.

Sally Jones, Shelley Rhoades Catanach, "Advanced Strategies in Taxation" 4th edition, McGraw-Hill/Irwin.

## 2. Learning Outcomes

### 2.1 Intended Learning Outcomes

Learning Goals	Objectives
1. Our graduates will be effective communicators.	1.1. Our students will produce quality business and research-oriented documents.
	1.2. Students are able to professionally present their ideas and also logically explain and defend their argument.
2. Our graduates will be skilled in team work and leadership.	2.1. Students will be able to lead and participate in group for projects, discussion, and presentation.
	2.2. Students will be able to apply leadership theories and related skills.
3. Our graduates will be trained in ethics.	3.1. In a case setting, students will use appropriate techniques to analyze business problems and identify the ethical aspects, provide a solution and defend it.
	3.2. Our students will practice ethics in the duration of the program.
4. Our graduates will have a global perspective.	4.1. Students will have an international exposure.
5. Our graduates will be skilled in problem-solving and critical thinking.	5.1. Our students will have a good understanding of fundamental theories in their fields.
	5.2. Our students will be prepared to face problems in various business settings and find solutions.
	5.3. Our students will demonstrate competency in critical thinking.

### 2.2 Course specific objectives

### 2.3 Assessment/Grading Details

Assessment task	Weighting	Due date
Class participation (attendance)/attitude	10%	Every class
Problem sets	30%	TBA

Exam	35%	Oct 26th Thursday
Presentation (Team Project)	25%	Last week of the class
Total	100%	

Two problem sets will be assigned (before and after the exam). The first problem set weighs 15% and the second problem set does 15%. Submission after the announced deadline is graded as zero, as a way of assessing the learning goal 3. 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 the 26th Thursday of October in the class (10:30-12:20) as a way of assessing the learning goal 5. This will be a closed-book exam and any digital devices are not allowed to be used during the exam. For the sake of fair grading by testing with the exactly equal written exam (which weighs most among others) under the same environment, no exception for the examination date is allowed. If you have a time conflict with this midterm exam schedule, not-taking this course is strongly recommended.

Presentation (Team Project):

Instead of taking a final exam, how well you understand overall class materials will also 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 4nd module. This is for assessing the learning goals 1, 2, and 4. At most, by 28th of September, each team should be formed and list of team members should be submitted.

As long as relevant to the course, each team is free to choose the topic of the presentation. Examples are abundant such as (i) analysing corporate tax regulations of various countries located over the Maritime Silk Road, also known as One Belt, One Road (一帶一路), (ii) a case study on effects of the recent VAT tax reform in China and the like.

By the 26th of October, 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 (citation). 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, as a way of assessing the learning goal 3. By the same reason, as a penalty for cheating during the midterm exam, both the grade for midterm exam (35%) and the grade of class participation (10%) will be zero. Both misconducts will be reported to the PHBS Discipline Committee.

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. Moreover, every member of each team should take part in presenting the team project outcome.

## **2.4 Academic Honesty and Plagiarism**

It is important for a student's effort and credit to be recognized through class assessment. Credits earned for a student work due to efforts done by others are clearly unfair. Deliberate dishonesty is considered academic misconducts, which include plagiarism; cheating on assignments or examinations; engaging in unauthorized collaboration on academic work; taking, acquiring, or using test materials without faculty permission; submitting false or incomplete records of academic achievement; acting alone or in cooperation with another to falsify records or to obtain dishonestly grades, honors, awards, or professional endorsement; or altering, forging, or misusing a University academic record; or fabricating or falsifying of data, research procedures, or data analysis.

All assessments are subject to academic misconduct check. Misconduct check may include reproducing the assessment, providing a copy to another member of faculty, and/or communicate a copy of this assignment to the PHBS Discipline Committee. A suspected plagiarized document/assignment submitted to a plagiarism checking service may be kept in its database for future reference purpose.

Where violation is suspected, penalties will be implemented. The penalties for academic misconduct may include: deduction of honour points, a mark of zero on the assessment, a fail grade for the whole course, and reference of the matter to the Peking University Registrar. For more information of plagiarism, please refer to *PHBS Student Handbook*.

### 3. Topics & Teaching Schedule

Schedule	Topics	Lectures
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	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 [Main Textbook, Chapter 1 & 2]
3.	Taxes and Returns on Alternative Investment Vehicles	How does different tax treatment of saving vehicles that yields equal before-tax rate of return affect after-tax rate of return? [Main Textbook, Chapter 3]
4.	Taxes and Choice of Organizational Form of Firms	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? [Main Textbook, Chapter 4] [Auerbach, Devereux, and Simpson 2010; Devereux, Liu, and Loretz 2014]
5.	Value-added tax	How value added taxes are calculated in business of various sizes and what are impact of value added taxes? [Jinjarak 2008; Zhou 2013; Gale, Gelfond, and Krupkin 2015]
6.	Tax Policy and Administration	What is a role for corporates in tax system reform? What is the recent trend in tax reforms? [Supplementary Textbook, Chapter 4]
7.	Nontax Costs of Tax planning	How do frictions in information and other non-monetary costs affect tax planning? [Main Textbook, Chapter 6]
8.	Marginal Tax Rates and Dynamic Tax Planning Considerations	How do we calculate marginal tax rate for tax planning over time? [Main Textbook, Chapter 7]
9.	Corporations: Formation, Operation, Capital Structure, and Liquidation	Throughout the life cycle of the corporation from formation to liquidation, what are the roles of taxes? [Main Textbook, Chapter 12]

<b>10.</b>	Compensation Planning	In designing contracts to hire employee, what are tax consequences of compensation alternatives on both employee and employers? [Main Textbook, Chapter 8]
<b>11.</b>	Pension and Retirement Planning	Given special tax treatments on savings for pension account, what are the tax strategies of different pension plans? [Main Textbook, Chapter 9]
<b>12.</b>	Multinational Tax Planning and Investment Decisions	How do taxes of multinational companies affect location and structure of investments? [Main Textbook, Chapter 10] [Dowd, Landefeld, and Moore, 2017]
<b>13.</b>	Introduction to Mergers, Acquisitions, and Divestitures	What are major tax and nontax issues associated with mergers, acquisitions, and divestitures? [Main Textbook, Chapter 13]
<b>14.</b>	Case studies (Applications): presentations	[Supplementary Textbook, Chapter 3]