**Management 127B**

**Winter 2011**

**Mr. Gordon Klein**

# Contact Information:

Gordon L. Klein

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Office Hours: Monday and Wednesday; 7am-7:30am, and 11:30am to 12:30pm on class instruction days

My office is most easily accessed by entering from the southwest corner of the top level of adjacent Parking Structure, Lot #5 (which is just west of the North Campus food court)

My office is one level above the Undergraduate Accounting Office in the Anderson School.

# Course Objectives:

The course objective is for you to understand the economic and planning issues encountered in forming, operating, and terminating a business enterprise.

**Prerequisites:** Introductory Accounting (Mgt. 127A is not a prerequisite)

**Course Description:**

This course focuses on structuring complex business formations and acquisitions, as well as operating closely-held businesses.

The course begins by examining basic techniques for converting ordinary income into capital gains, deferring income, and sheltering income with business and investment losses.

The course then explores various strategies for forming new corporations and expanding subsidiaries of existing corporations. The focus then shifts to how stockholders “access” their wealth through dividends, stock repurchases, liquidations, and acquisitions. Tax considerations in buying and selling businesses are extensively examined.

Finally, the course shifts its emphasis to selecting the best entity for operating a closely-held business, including S corporations, partnerships, limited partnerships, limited liability partnerships (“LLPs”), and limited liability companies (“LLCs”).

**Course Materials:**

* Southwestern’s Federal Taxation: Corporations, Partnerships, 2011 Edition, available at the Lu Valle Commons bookstore on campus (Do not use an earlier edition. The page and problem assignments will not match the syllabus, and some of the rules will have changed.)
* Course Packet, available at Course Reader Material, 1137 Westwood Blvd
* Solutions Manual to Text Problems, on reserve at the Anderson (Rosenfeld) Library, located at the North end of the Anderson School complex

Please bring the course packet to each class session. I will cover most, but not all, pages in the course reader during class. You do not need to bring the textbook.

**Educational Methodology:**

This course principally is conducted through lectures and short case problems.

**Grading:**

Your grade will be based on the following:

Midterm Exam (20 questions) 80 points

Final Exam (24 questions) 120 points

Total 200 points

In addition, noteworthy class participation may raise your grade by one step. For example, strong class participation would raise a B to a B+ or a C+ to a B-.

Exams are designed to test your ability to apply course material, and will require you to truly understand the principles discussed. Exams do not merely ask you to memorize definitions or basic ideas mentioned in class, but rather, reward you for true comprehension. Sample midterm questions appear in the course packet, roughly at the midpoint of the course packet.

Exams will be closed-book and will be comprised of various short questions and problems. You should bring a calculator to the exam, along with several pencils. All paper and solutions sheets will be provided.

Partial credit will be allowed for items that materially demonstrate comprehension of the material. It will not be allowed, however, for solution elements that demonstrate trivial mastery of the question posed or could have been avoided by carefully verifying the problem facts or the calculations in your solution. The instructor’s grading key and policies are conclusive. Failure to follow exam instructions or to turn your exam in promptly when so instructed will result in No Credit. The final exam primarily will focus on the material in the latter half of the class. Make-up exams will not be given under any circumstance. Course grades will be curved, using the grade distribution mandated by the Accounting Area of the Anderson School.

**Exam Preparation:**

Most students should study, in order of priority, as follows:

1. Review class lecture notes and the course packet
2. Solve assigned homework problems and cases
3. Read the textbook

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**YOU ARE ONLY RESPONSIBLE FOR THE CONCEPTS AND RELATED DETAILS COVERED IN CLASS. THEREFORE, IF A CONCEPT, RULE, OR TERM IS NOT MENTIONED IN CLASS, IT WILL NOT BE TESTED ON EXAMS.**

Textbook problems occasionally introduce a minor topic that was not covered in class. Further, the course reader occasionally mentions a minor topic that I choose not to cover in class. To repeat, these items will *not* be tested. (Although my statement in bold capitals above is emphatically clear, a few students nonetheless waste a tremendous amount of time repeatedly asking if they “need to know” a certain concept. If somehow you find the above statement unclear, spend your time just learning the concept.)

To be fair to all students, my Teaching Assistants and I will **not** discuss exam content or exam preparation strategies individually. Time will be allotted during class before exams for all such questions.

**Class Participation:**

Class participation points will be added to your exam grades for meaningful contributions to class discussions that demonstrate a solid understanding of the cases and topics being discussed.

Class participation points will be deducted for students who disrupt the learning environment or demonstrate that they do not follow the rules stated in the syllabus. Specifically:

* If you must walk into class late, do so unobtrusively, while minimizing disruptions to others in class.
* Do not waste the instructor’s time regarding information that you should have and would have known if you had (1) attended class; (2) read the syllabus; or (3) read instructor emails. It is no excuse that you “don’t know anyone” in the class, hold a part-time job, or missed class. Introduce yourself to someone early in the class and make arrangements with them in case you one day have to miss class due to illness, job interviews, traffic, or other reasons.
* Do not ask about exam content or what you “need to know” for the exam.

**Receiving and Reviewing Exams**

Your midterm answer sheet normally will be returned at the end of the class session that follows the exam date. If you do not attend that class session, your exam will be available for pickup, starting the following day, at my Teaching Assistants’ office hours. Exams may be picked up there for a period of one week following the date on which exams were returned in class.

Midterm answers and solution explanations may be reviewed at times and places announced in class when exams are returned.

Your final exam answer sheet may be reviewed during the following quarter, starting during Week 2. The exact times and places for review will be posted on my office door at D521, Anderson School, as of the start of Week 2 of the quarter following the quarter during which you were enrolled.

**Getting Questions Answered:**

The answer manual for all assigned problems is posted on the course website.

I have several superb Teaching Assistants, all of whom received top grades in my classes and have excellent communication skills. Questions concerning the textbook, reader, problems, and class discussions should initially be directed to them.

Email is a useful communication tool. However, a few individuals view email as an around-the-clock substitute for attending class or interacting with classmates. Due to the huge volume of emails I receive, please adhere to the following guidelines before sending me an email:

1. Does your email concern administrative issues, such as picking up materials from when you missed class? Please direct your question to a fellow classmate.
2. Is your email truly so urgent that you sincerely need to interrupt my weekend or my professional time off campus? If so, please contact me. However, if it is not urgent, please save your inquiry for my Teaching Assistants or our next class session. I am happy to chat before and after class.
3. If your email concerns grading records or the textbook, please assume that I do not have these documents with me since I usually answer emails from home.
4. Please state discrete questions that call for succinct “yes” or “no” answers. I am a slow typist on my Blackberry, so questions that call for long answers simply won’t get answered.
5. I am happy to discuss your grades in person. Privacy laws prevent me from using email.

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If your email meets the above criteria, type “UCLA” and the course number in the subject heading of your email. Otherwise, it may end up in my “junk” mail folder and go unread.

**Class Attendance and Homework:**

I do not take attendance or collect homework. However, the Accounting Minor is a professional program and you are responsible for attending class. Also, exams emphasize classroom discussions. If you miss class, please do not ask me to repeat class information for you.

**Impacted Course:**

This course is an impacted course. As a result, you cannot drop this course after the first two weeks unless the university grants you a rare, special exception. Please consult university rules.

**The Instructor:**

Gordon Klein is a CPA (Illinois), attorney, and expert witness on a diverse set of accounting issues, ranging from the Hoover Dam’s hydropower profits to financial aspects of the pornography industry. He has served as the General Counsel, Director, or advisor to numerous emerging and established businesses.

Mr. Klein has taught accounting, tax planning, financial analysis, commercial law, and entrepreneurship at both the UCLA Law School and the Anderson School. He appears regularly on CNBC TV, and his commentaries have appeared in the New York Times, Wall Street Journal, Business Week, Forbes, Fortune, People, and Los Angeles Times. Mr. Klein earned his degrees at the University of Michigan Law School and Business School. In addition, he frequently testifies in state and federal court as an expert witness on accounting issues.

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| **Week** | **Topic** | **Reading** | **Problems** |
| March 28th | **REVIEW OF BASIC TAX PRINCIPLES COVERED IN MGT. 127A**- Ordinary Gain and Loss Rules- NOLs- Capital Gain and Loss | **Ch. 2 (“Capital Gains and Losses” on p.11-12, p. 16)*****-*** *Planning Case: “Jack in the Beanstalk” Case* | **6, 14, 15, 42, 43, 44** |
| April 4th  | - The Dividends-Received Deduction (“DRD”)  | **Chapter 2 (p.16 - 18)** | None |
| April 11th  | - The Economic Rationale for the DRD- Cash Flow Analysis in DRD Scenario | *- Planning Case:* Friendship- *Planning Case:* Dividend Capturing: The Scam | None |
| April 18th | **Strategies for Transferring Assets Into a Corporation**- The difference between a “one-way” and a “two-way” corporate formation- The rules applicable to Section 351 transactions | **Chapter 4 (p.1 – 18; 24 - end)***- Article:* Section 351, Internal Revenue Code- *Planning Issue:* Would a taxpayer ever consider contributing property to a corporation without receiving stock (or any other consideration) in return?*- Planning Case:* Negotiating Ownership Share*- Planning Case:* Win-Win  | **26, 28, 29, 30, 31, 34****38, 39** |
| April 25th  | **Strategies for Withdrawing Assets from a Corporation**- Cash Distributions (We will cover only the first 3 cases. Case 4 rarely arises.) - Property Distributions- Economic Substance of Constructive Dividends**Stock Redemptions**- The Economics of Mutual, Proportionate Stock Redemptions- Stock Redemptions: The Loophole- Stock Redemptions: Plugging The Loophole- The Impact of Stock Redemptions on the Distributing Corporation **NOTE: MATERIAL ABOVE THIS SENTENCE WILL BE TESTED ON THE MIDTERM. MATERIAL BELOW HERE WILL APPEAR ONLY ON THE FINAL EXAM.** | **Ch. 5** **Ch. 6 (p. 1 to p.14)***- Planning Case:* The Addams Family (*How many shares must Grandma sell to the corporation to obtain capital gain treatment?)**- Economics Issue: Do the tax rules concerning stock redemptions reflect “economic substance over form” concepts?”*- *Article: “Hollywood Shuffle: Seagrams and Dupont*- *Planning Issue: Did Edgar Bronfman serve the best interests of his shareholders?* | **24, 34 (b, c, d),** 38 (a and b)**36, 37, 38, 43, 44, 48** |
| May 2nd |  |  |  |
| May 9th | **Complete Liquidations**- The Kimball-Diamond Doctrine and Section 338- Tax Considerations in Tender Offers- The Liquidation- Reincorporation Doctrin | **Ch. 6 (p. bottom, 16 – end)** *- Economics Issues: Was the government’s victory in the Kimball-Diamond case actually a defeat?**- Planning Issue: Does Section 338 still have usefulness to many taxpayers?* | 52, 57, 62 (a, b, c) |
| May 16th | **S Corporations:** - S Corporations: The Taxation of Profits- S Corporations: The Taxation of Losses- S Corporations: The Taxation of Separately Stated Items  | **Ch. 12 (p. 1 to 14; 21 - 24) (Ignore all references to “AEP” and “AAA.”)***- Economics Issue: What is the economic justification for identifying certain items as “separately stated?”*- *Planning Case:* Midget S Corporation | 24, 31, 33, 37, 38, 39, 40 |
| May 23rd | **Comparing Partnership Tax Rules to Partnership Financial Accounting Rules**- The Capital Account Concept- Symmetries Between S Corporation “Flow-Through” Rules and Partnership Rules- The “Substantial Economic Effect” Test |  |  |
| June 2nd | Structuring Transactions Between a Partner and the Partnership: Distributions | **Ch. 11 (p. 1 – 11; 17 – 20)**  | **23, 40, 52, 54,**  |
| Final: | Monday June 6th | 3:00pm-6:00pm |  |