

## TAX 660 Milestone Three Guidelines and Rubric

**Overview:** Transactions involving stock or ownership interest can result in recognition of capital gain for both individual taxpayers and business entities, and they can have a variety of nontax consequences. Individual taxpayers must consider these consequences when choosing whether to buy or sell stock or ownership interest. When choosing to make a distribution, issue new stock, or engage in a redemption of previously issued stock, business entities must often consider both the tax and nontax consequences for the entity itself and individual taxpayers.

For the third milestone of your final project, you will consider the tax and nontax consequences of transactions involving stock or ownership as you advise Tai-Ga on restructuring the entity five years after formation of the business. Your goal is to devise a plan that results in maximizing tax benefits and minimizing tax costs for all parties concerned, including Andy (who must leave the business due to illness), two potential new owners, and the remaining original owners.

**Prompt:** Read the Milestone Three scenario excerpt below—you can also access the <u>full final project scenario</u>—that explains the concerns and needs of the owners of Tai-Ga with regards to restructuring, and create a professional memorandum that recommends a restructuring plan for the benefit of all stakeholders.

Specifically, the following **critical elements** must be addressed:

- Compose a **memorandum** that includes an executive summary and addresses the following:
  - Whether a change in the form of the entity is needed to facilitate the restructuring (If no change is needed, state so in the recommendation.)
  - o Andy's options and your recommendation for ending his ownership interest with Tai-Ga
  - Tai-Ga's options and your recommendation for adding Brian and Acme as new owners
  - The capital structure (debt vs. equity) of your restructuring recommendation
- Justify your recommendation with a discussion of relevant tax law and regulations.
- Calculate the **tax costs** of your recommendation for the individual taxpayers and the entity.
- Calculate the **tax benefits** of your recommendation for the individual taxpayers and the entity.

## Scenario

The third meeting will be five years after the first two meetings. The business has been successful and Dave's business projections have been substantially met. Based on a net income multiplier of 10:1, Tai-Ga is now worth \$100 million. Andy has become seriously ill and wants to sell his stock and withdraw from the business. Two persons have expressed interest in buying Andy's stock, but issuing new stock is also a possibility. One person is the company's CFO, Brian Bolton. Brian came on board about six months after Tai-Ga commenced operations and has been instrumental in managing the financial aspects of the company's explosive growth. Brian has expressed interest in acquiring up to 2% ownership in Tai-Ga via compensatory stock options. The other investor is Acme Manufacturing, one of Tai-Ga's major suppliers: They wish to acquire up to 10% ownership. They require your input on the best way to approach the restructuring.

Over the last five years, Tai-Ga's total net income has amounted to \$17.5 million after reasonable salaries were paid out to the owners over the years. Of that \$17.5 million, \$5 million has been invested in inventory and other operating assets. The remainder (\$12.5 million) is in cash. The owners have expressed interest



in distributing \$2 million of the cash in some fashion, and they want you to consider that in your memo. The remainder of the cash will be retained in the business to fund future growth.

## Rubric

**Guidelines for Submission:** Your paper should be a 3- to 5-page Microsoft Word document (excluding the cover page and reference pages), with double spacing, 12-point Times New Roman font, one-inch margins, and at least three sources cited in APA format.

Critical Elements	Proficient (100%)	Needs Improvement (75%)	Not Evident (0%)	Value
Memorandum	Composes memorandum to stakeholders outlining restructuring recommendations, including an executive summary of the recommendation and a detailed support section based on research and analysis of relevant information	Composes memorandum to stakeholders outlining restructuring recommendations, but memo is cursory, contains inaccuracies, or is missing key element	Does not compose memorandum to stakeholders outlining restructuring recommendations	40
Relevant Tax Law	Identifies relevant tax law for restructuring the business	Identifies relevant tax law for restructuring the business, but explanation contains inaccuracies or is missing key elements	Does not identify relevant tax law for restructuring the business	30
Tax Costs	Calculates the tax costs of a restructuring plan for each of the stakeholders involved and the business entity	Calculates the tax costs of a restructuring plan for each of the stakeholders involved and the business entity, but calculations contain inaccuracies or are missing key elements	Does not calculate the tax costs of a restructuring plan for each of the stakeholders involved and the business entity	10
Tax Benefits	Calculates the tax benefits of a restructuring plan for each of the stakeholders involved and the business entity	Calculates the tax benefits of a restructuring plan for each of the stakeholders involved and the business entity, but calculations contain inaccuracies or are missing key elements	Does not calculate the tax benefits of a restructuring plan for each of the stakeholders involved and the business entity	10
Articulation of Response	Submission has no major errors related to citations, grammar, spelling, syntax, or organization	Submission has major errors related to citations, grammar, spelling, syntax, or organization that negatively impact readability and articulation of main ideas	Submission has critical errors related to citations, grammar, spelling, syntax, or organization that prevent understanding of ideas	10
	-		Total	100%