ACCY 6900: TAXATION OF FINANCIAL INSTRUMENTS
George Washington University, School of Business, Department of Accountancy
Tuesday 7:10 to 9:40 p.m.  10 Minute Break at 8:30.
Professor: Michael Blinder, 202-220-2074, mblinder@deloitte.com

Course description: The course provides an overview of the taxation of financial instruments. Topics include transactions in stock, debt instruments, commodities, options, short sales, futures, foreign currency transactions, swaps, and time value of money issues inherent in financial instruments. The course will have a dual focus: first, understanding the economics of each financial transaction, and second, learning the basic tax treatment. Also, students will be challenged to consider the appropriateness of the current tax law governing financial instruments.

Suggested prerequisites: Federal Income Taxation and one introductory finance course.

Required text: Capital Gains, Kaye A. Thomas.

Administrative matters: I will be available after most classes if you have questions. The course will follow the GW Code of Academic Integrity.

Grading: Based on two midterm exams each worth 100 and a final exam worth 150 points. The final exam will comprehensive with a focus on the material after the second midterm. All exams will be in class and open book. Attendance will not be taken, however exams will be based primarily on in-class lectures. The lecture style will be very interactive. Class participation will be strongly encouraged.

Schedule of Topics:

Class #1: Options—economics
- Slide Deck #1.
- Web Article “Basics of Options.”
- Options Playbook.

Class #2: Options—taxation (Internal Revenue Code Section 1234).
- Slide Deck #1 (continued).
- Textbook Chapter 13, Stock Options.
- Internal Revenue Code, Section 1234.
- Revenue Ruling 78-182.
Class #3: Forwards and Futures contracts—taxation (Section 1256) and economics.

- Slide Deck #2.
- Textbook Chapter 14, Section 1256 Contracts.
- Web article “Basics of Futures Trading.”
- Keyes 13.02, 13.03

Class #4: Short Sales (Section 1233)—economics and basic taxation.

Slide Deck #3.

- Textbook Chapters 2 (Capital Gain), 3 (Tax CG), and 12 (Short Sales)
- Article, Netting Rules
- Web Article, Short Selling
- IRC Section 1233, Section 1058

Class #5: Constructive Sales (section 1259).

Slide Deck #4.

- Textbook Chapter 15 (Constructive Sales).
- Law review article, William Paul, *Constructive Sales under New Section 1259*, Tax Notes (1997). Law review articles are required reading, however only focus on the “big picture” outlined in the law review articles. Do not worry about every small detail and footnote.
- Estee Lauder Transaction
- Section 1259

Class #6: EXAM I (100 points).
Class #7: Debt instruments fundamentals—debt vs. equity; Original issue discount (OID) (Sections 1271-1275, 163); Market discount (Sections 1276-1278); Acquisition premium; Bond premium (Section 171).

- Slide Deck #5.
- Notice 94-47 (Debt / equity).
- Keyes 3.06 (Debt / equity).
- Keyes 4.01, 4.02[1][2], 4.03, 4.04 (Original Issue Discount) (OID).
- Keyes 3.03 (Bond premium).
- Keyes Chapter 8 (Market discount) (Read for big picture, but don’t merely skim).

Class #8: Debt instrument “anti-abuse” rules—AHYDO-Section 163(i) and Section 163(e)(5); Disqualified debt instruments-Section 163(l); Below market loans (Section 7872); Earnings stripping-Section 163(j).

- Slide Deck #6.
- Keyes (Below market loans) 11.01, 11.02, 11.03, 11.04.
- Keyes (AHYDO) 4.05.
- KPMG client memo on section 163(j), Treasury Keeps Spotlight on Earnings Stripping (2009).

Class #9: Advanced issues regarding debt instruments—Convertible debt instruments; Investment units-Section 1273(c)(2); Repo transactions; Foreign currency denominated debt instruments (Section 988).

- Slide Deck #7.
- Keyes (Foreign currency) 15.03[2][a] thru[d].
- Keyes (Convertibles) 4.02[3][a][b].
Class #10: Debt modifications (Reg. 1.1001-3); Conversion transactions (Section 1258), and carryover topics.

- Slide Deck #8.
- Keyes (Conversion transactions) Chapter 19.
- Keyes (Debt modifications) Section 3.05.

Class #11: EXAM II (100 points).

Class #12: Notional principal contracts (“Swaps”) (Reg. 1.446-3); Credit default swaps.

- Slide Deck #9.
- Keyes 14.01, 14.02 (skim); 14.03 (skim); 14.04[1][2].
- Article on credit default swaps: TBA.

Class #13: Wash Sales (Section 1091); Straddles (Section 1092).

- Slide Deck #10.
- Keyes (Wash sales) 16.01, 16.02[1][2], [3a].
- Keyes (Straddles) 17.01, 17.02[1][2][5], 17.03, 17.05.

Class #14: Hedging (Reg. 1.1221-2, Reg. 1.446-4); Mark to Market election for traders in securities (Section 475(f)).

- Slide Deck #11.
- Keyes 18.01, 18.03, 18.04.
- Web Article—475(f) trader election.

FINAL EXAM (150 points)