Course Description & Goals: In this course, students will obtain an overview of the economics and taxation of financial instruments. Topics include transactions in stock, debt instruments including interest limitation provisions, commodities, options, short sales, wash sales, straddles, futures, foreign currency transactions, swaps, hedging, mark to market tax accounting, and time value of money issues inherent in financial instruments.

Learning Objectives: Students should learn:

1) The economics of each financial instrument.
2) The basic tax treatment of each financial instrument.
3) To analyzing and debate the appropriateness of the current tax law and tax policy governing financial instruments and transactions.
4) About the skills, experience, and wisdom needed to perform as a successful tax practitioner. The material will frequently be taught through the lens of “real world” client situations.
5) To develop the ability to “talk tax.” Students will regularly be challenged to articulate and explain tax concepts to the class.

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


Course Webpage and administrative matters: All course materials including prior year exams with solutions will be posted on Blackboard. I will be available after most classes if you have questions, and can am most days by appointment. In addition, I will respond to e-mail promptly.

Academic Integrity Statement: All students are held to the Code of Academic Integrity and will be held accountable for violations of Code. Please see http://www.gwu.edu/~ntegrity/code.html for information about Academic Integrity at GW.

Disability Statement: Any student who may need an accommodation based on the potential impact of a disability should contact the Disability Support Services office at 202-994-8250 in the Rome Hall, Suite 102, to establish eligibility and to coordinate reasonable accommodations. For additional information please refer to: http://gwired.gwu.edu/dss/
University Policy on Religious Holidays

1. Students should notify faculty during the first week of the semester of their intention to be absent from class on their day(s) of religious observance.
2. Faculty should extend to these students the courtesy of absence without penalty on such occasions, including permission to make up examinations.
3. Faculty who intend to observe a religious holiday should arrange at the beginning of the semester to reschedule missed classes or to make other provisions for their course-related activities.

Course Requirements: Class 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. In general, students who have done well in the class have been deeply engaged in class discussions. This material is extremely difficult to try to learn on your own.

Grading: Your final grade will be 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.

Schedule of Topics:

Class #1: Options—economics

- Slide Deck #1.
- Web Article “Basics of Options.”
- Options Playbook.
- Problem Set #1

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).
- Estee Lauder Transaction
- Section 125

Class #6: EXAM I (100 points).

Class #7 and #8: 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).
- Problem Set #2
• 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 and #9: 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).
• Law review article (AHYDO), Viva Hammer, Taxation of High-Yield Debt, Tax Analysts (2009). (Read for big picture only).

Class #10: 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 #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.
• Swap Basics
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)**