

Exhibit 2: Assignment sheet

Tax decision-making assignment (A):

New equipment: *FJE* is considering a proposal that replaces a major portion of its production equipment with new equipment that would increase annual production by 25% at a cost of \$20,000,000. The company estimates a 10-year life for the equipment. Additional annual interest expense on the equipment would be \$300,000. The financial effect of this major investment is shown below.

| | Current | | With equipment purchase |
|-----------------------------|--------------------|-----------------------------------|-------------------------|
| Revenue | \$32,000,000 | | \$40,000,000 |
| COGS | (22,000,000) | | (27,000,000) |
| | | Additional financial depreciation | <u>(2,000,000)</u> |
| Gross profit | 10,000,000 | | 11,000,000 |
| Other expenses | (5,800,000) | | (6,200,000) |
| Additional interest expense | | | <u>(300,000)</u> |
| Pretax income | 4,200,000 | | 4,500,000 |
| Tax @ 33.3% | <u>(1,400,000)</u> | | <u>(1,500,000)</u> |
| Net income | <u>2,800,000</u> | | <u>3,000,000</u> |

1. Would you recommend that *FJE* implement this proposal?
2. The government has extended bonus depreciation (allowing an additional 50% tax depreciation deduction to be taken on this equipment during the first year) for tax purposes for the upcoming tax year only, so that this expenditure would be eligible for the benefit. How would this tax incentive affect the taxable income for the company for this year? Would the availability of this tax incentive affect your recommendation?
3. The client has informed you, based on its discussions with various suppliers of this type of equipment, that one supplier let it be known that it is working on a new piece of production equipment that would be more efficient (costing less to run and maintain the equipment) and would likely increase the company's production capacity by 33%. This new production equipment will not be available for purchase until 2014, at the earliest. Would this knowledge affect your recommendation?
4. What else should you, as a tax adviser, consider when making your recommendation?

Tax decision-making assignment (B):

As a tax adviser to *FJE*, you have been asked to evaluate the following options. *FJE* is one of your firm's largest clients and has been a client for five years.

Hiring proposal: *FJE* is considering a proposal to add a third shift to its production line that would increase output by 25%. Estimates are that costs related to adding these new employees, including wages, benefits, and FICA taxes, would be \$2,300,000 a year. The financial effect of this proposal for the current year is shown below.

| | Current | | Hire workers |
|-----------------------------|--------------------|------------------|--------------------|
| Revenue | \$32,000,000 | | \$40,000,000 |
| COGS | (22,000,000) | | (27,000,000) |
| | | Additional wages | <u>(2,300,000)</u> |
| Gross profit | 10,000,000 | | 10,700,000 |
| Other expenses | (5,800,000) | | (6,200,000) |
| Additional interest expense | | | |
| Pretax income | 4,200,000 | | 4,500,000 |
| Tax @ 33.3% | <u>(1,400,000)</u> | | <u>(1,500,000)</u> |
| Net income | <u>2,800,000</u> | | <u>3,000,000</u> |

5. Would you recommend that *FJE* implement this proposal?
6. The federal government has instituted a hiring incentive program that waives the company's portion of FICA tax (6.2%) for one year for all new hires. The employees must be new, previously unemployed workers for the company to be eligible for the holiday from the employer side of the FICA tax for a maximum of one year. *FJE*'s newly hired shift employees would qualify the company for this benefit. Would the availability of this tax incentive affect your recommendation?
7. If the government offered this waiver for a three-year period, how would this affect your answer?
8. What else should you, as a tax adviser, consider when making your recommendation?

This exhibit accompanies the May 2013 Campus to Clients column in The Tax Adviser, "Making the Connection Between Tax and Strategic Business Decision-Making."