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Determining Tax Implications of Organizational Structure: A Two-Part Decision-Based Case Assignment

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Abstract

A two-part applied tax case is presented. In the first part, students are introduced to The Gourmet Rancher, a newly formed farm-to-table style restaurant owned by three friends. Students are asked to complete a partnership return and related schedules. The first part is a straightforward application of partnership tax concepts including partnership income and deductions, allocation of separately listed items (including built-in-gains), and reconciliation of partner capital accounts. The second part is an analysis of organizational structure options under two different performance scenarios, which requires critical thinking and decision making under uncertainty. The first part of this case is appropriate for any level tax course and facilitates the assessment of student understanding and application of several partnership tax concepts. The second part of this case is appropriate for an advanced undergraduate or a graduate level tax course and provides an opportunity for instructors to evaluate the critical thinking and decision-making efforts of students, based on multiple possible performance scenarios. Classroom validation using 32 students in 4 sections of graduate level tax courses at 2 universities suggests that the case assignment is effective at reinforcing learning objectives, and student attitudes toward the assignment are positive.

Case

The Gourmet Rancher Part 1 – A New Adventure

Brendan Smith, Jenny Webb and Alice Barrett are three friends who have been participating in cooking clubs for over 12 years. All of them are quite talented hobbyist cooks from Texas. All three faced career challenges in 2019, and while commiserating on their respective woes during a Halloween pot-luck event in 2019, the three decided to team up to open a new farm-to-table style restaurant. While not all were able to give up their day jobs, they all had something to contribute to the new venture.

They decided not to incorporate and instead formed a limited partnership. After consulting with several friends who are knowledgeable in the areas of business law and tax, they mustered their resources and agreed on the terms of the partnership, then they rented a storefront at 123 Main Street, Levelland, TX, 79336. They named the business The Gourmet Rancher and they opened to customers on January 1, 2020. The company's tax identification number is 98-4561234.

Partner Information:

Brendan Smith contributed two acres of farmland for a 50% capital interest and 40% profits interest, which Brendan acquired three years ago for $175,000 and the fair market value of which at the time of contribution was $320,000. There was also a nonrecourse mortgage of $120,000 attached to the land. Brendan does materially participate in the partnership's operations. He is considered the general partner and performs most managerial functions for the partnership. His social security number is 456-78-9023. His address is 270 Bancroft Street, Levelland, TX, 79336. Jenny Webb contributed services to the partnership for a 20% profits interest. All three partners agreed that the value of those services was $100,000. Jenny now works for the restaurant full-time and qualifies as a material participant in the partnership's operations. Her social security number is 742-10-3658. Her address is 318 Dorr Street, Levelland, TX, 79336.

Alice Barrett contributed $200,000 in cash to the partnership for a 50% capital interest and 40% profits interest. She did not perform any work for the partnership in 2020. Her social security number is 123-45-9876. Her address is 456 Central Avenue, Levelland, TX, 79336.

Financial Information:

Statement of Revenue and Expenses for the period ending 12/31/2020

Revenue	$800,000
Cost of Goods Sold	$500,000
Gross Profit	$300,000
Operating Expenses:	
Advertising	$60,000
Wages	$50,000
Payroll Taxes	$3,825
Guaranteed Payment	$60,000
Meals	$7,000
Rent Expense	$25,000
Income from Operations	$94,175
Other Income (Expenses):	
Interest Income	$2,000
Interest Expense	($6,000)
Gain from sale of land	$12,825
Net Income	$103,000

Additional Information:

1. The Gourmet Rancher prepares their financial statements using the income tax basis of accounting. They elect to prepare their tax returns on a cash basis. Assets, liabilities, and capital accounts are reported using tax basis on both the financial statements and Form 1065 Schedule L.[1]
2. The reported gain is related to a selling a portion of the land contributed by Brendan. The sale took place on March 15th. The company sold 1/4 of the contributed land for $56,575. The disposed portion had a tax basis of $43,750. For tax purposes, the sale of land generated a gain of $12,825. The sale did not affect the outstanding loan balance.
3. The guaranteed payment was made to Jenny for work performed during the year. No other partner received a guaranteed payment.
4. Brendan took a $40,000 distribution from the partnership. No other partner took a distribution.
5. There was no ending inventory at the end of the year.
6. Interest expense is related to the loan contributed by Brenden. The loan proceeds were originally used to purchase the land which is used in ordinary operations. Only interest payments were made on the loan. The principle has not changed.

[1] Instructors may modify instructions to use financial statements prepared using generally accepted accounting principles (GAAP) rather than income tax basis if they wish to focus more on book-tax differences and the related deferred tax accounts as required by ASC 740.

7. Interest income is from their main bank account. There are no other investments generating interest or dividends.
8. Ending cash is $306,750. You should have enough information to create the ending Form 1065 Schedule L for the company based on the above information.
9. For Form 1065 schedules L, M-1, M-2, and Form K-1 list the beginning of the year as all zeros. Since the partnership did not exist last year, there are no beginning values.
10. Answer questions 1 and 2 found on page 2 of Form 1065. Select "No" to all other yes/no questions on pages 2 and 3 of Form 1065. None of the partners are foreign citizens. None of the partners have foreign bank accounts or assets. No payments were made that would require the Gourmet Rancher to file Form 1099. The partnership is not electing out of centralized audit regime.

Part 1 Requirements:

You have been asked to help the Gourmet Rancher complete their first-year tax return (for tax year 2020). You have agreed to complete the following.

1. Prepare Form 1065. This includes schedules K, L, M-1, and M-2.
2. Prepare Form K-1 for all three partners, including each partner's capital account analysis.

Please see the additional instructions provided by your instructor for directions on how to submit your assignment.

The Gourmet Rancher Part 2 – Looking Toward the Future.

Brendan has been thinking about The Gourmet Rancher partnership. He has done several projections for the next 5 years. In one scenario the business generates a profit of $200,000 each year. In the other scenario the business generates a loss of $120,000 each year.

Brendan is worried that operating as a partnership might create tax disadvantages. He has come to you for advice. Could you help Brendan identify the advantages and disadvantages of converting the partnership to a C corporation or a S corporation? In particular, how would each change affect the partnership's and individual owners' future taxes? (Consider what profit/loss is taxed at a corporate level and what flows-through to the owners.)

Part 2 Requirements:

You have been asked to help the Gourmet Rancher determine the best organizational form for an uncertain future.

a. Use the two tables below to structure your comparison of three potential organizational structures: Partnership, C-Corporation, and S-Corporation. Use the Scenario 1 table to consider tax implications if future taxable years are profitable. Use the Scenario 2 table to consider tax implication if future taxable years generate losses.
b. After each comparison, select one of the three organization types as your recommendation for the given scenario.
c. Finally, provide a recommendation to Gourmet Rancher considering its uncertain future. Your discussion should be supported with tax and other non-tax factors.

Scenario 1: Future Profits		
Tax Implications of:		
Remaining a Partnership	Changing to a C Corporation	Changing to a S Corporation

Your Advice Assuming Scenario 1 (Pick one):

Remain a partnership	Become C Corporation	Become S Corporation

Scenario 2: Future Losses		
Tax Implications of:		
Remaining a Partnership	Changing to a C Corporation	Changing to a S Corporation

Your Advice Assuming Scenario 2 (Pick one):

Remain a partnership	Become C Corporation	Become S Corporation

Finally, not knowing for sure if the restaurant will be profitable in the future, what do you suggest The Gourmet Rancher do? Try to make a compelling and persuasive case using your analysis above as well as other non-tax factors that you think should be considered.

What is your recommendation for Gourmet Rancher's organizational form considering its uncertain future? Discuss your recommendation and its supporting arguments below.

Feel free to add as many additional sheets of paper as you need to make a strong argument. Please see the additional instructions provided by your instructor for directions on how to submit your assignment.

Literature Review

Case studies are a relatively common teaching and assessment technique for advanced undergraduate and graduate level business toipics. Case studies are used extensively in the area of Strategic Management, where the problems that students are presented with are unstructured and for which there is no single correct answer (Jennings, 2002). In accounting, problems often have a single an optimal solution, however they can still be very complex and be subject to substantial uncertainty.

Harris (2022) highlights the importance of accounting case study assignments on student outcomes. Specifically, Adler and Milne (1997) argue that action oriented tasks, similar to those employed in this case study, can influence a variety of skills, attitudes and knowledge areas. They conducted an experiment using business student subjects in a Junior level accounting class, in which 45 skills, attitudes and knowledge areas were assessed, and they identified relationships between the use of action oriented tasks and all aggregated groups of learning outcomes (12 Attitudes, 18 Skills, 3 Knowledge Areas and 3 Course Characteristics), This sentiment is echoed by Cheng and Ding (2021) who provide evidence that applied exercises increase engagement among international students in particular.

In addition to providing students with more complex activities characterized by more uncertainty than they may get using traditional assignments, case studies can facilitate the development of "soft" skills, such as communication, organization and in some cases teamwork (Boyce et al., 2001). A number of researchers have tied soft skills to a variety of carrer outcomes, including professional presence (Kermis & Kermis, 2010), interview success and client interactions (Camacho, 2015). Camacho (2015) interviewed human resource managers at accounting firms to determine which skills they associated with career success, and identified several soft skills, such as representing the company well in meetings through strong communication skills, the ability to write good reports and attention to detail. The case study presented in this paper requires students to make and support a organizational structure decision and present that decision, which provides them an opportunity to present a pursuasive argument in a simulated professional setting, including tax and non-tax factors.

The case-study presented above was designed to reinforce student knowledge regarding partnership tax issues, to stimulate critical thinking, and facilate decision making. While the case requires a broad knowledge of partnership structure and tax related issues, the requirement to calculate and allocate built-in-gains on Forms 1065 and K-1 is unique among published partnership tax case studies. Adams et al. (2022) discuss 50 educational tax cases, of which three focus on partnership entities. Drnevich and Sternburg (2017) compare tax treatments between coporation and partnership entities, focusing on both financial and tax accounting for the different entity types. However, they do not require the completion of appropriate tax forms. In contrast, our case has a greater focus on tax compliance by requiring Forms 1065 and K-1 to be prepared. We also ask students to consider the S-corporation organizational form in addition to C-corporation and partnership structures. Finally, our case incorporates recent changes in the recently passed Tax Cuts and Jobs Act of 2017.[2] The other two identified tax cases have little overlap with our case as they focus on partnership journal entries (Fisher and Hageman, 2012) and auditing a family-owned business (Kalesnikoff and Phillips, 2009). We believe our case-study represents a unique and a useful learning tool which incorporates partnership tax issues and organizational form issues that have not been fully addressed in previously published cases.

Learning Objectives

This assignment seeks to provide instructors with an additional tool with which to evaluate student application of partnership tax concepts using a moderately challenging business case, as well as critical thinking under multiple performance scenarios.

This case assignment is divided into two parts. The first part is a straightforward application of several tax concepts and culminates in the completion of the U.S. Return of Partnership Income form 1065, including schedules K, L, M-1 and M-2, as well as schedule K-1s for the three partners. The second part presents students with two performance scenarios (a profit scenario and a loss scenario) and asks them to determine entity level and individual level tax implications under each performance scenario. Additionally, students are asked to determine tax implications under each performance scenario should the partnership change to a C corporation and to a S corporation. Completing this part of the assignment requires students to demonstrate proficiency in several areas of business taxation and to apply critical thinking and analysis skills. Finally, students are asked to make a recommendation under uncertainty (i.e. students do not know if the profit scenario or the loss scenario will play out), requiring further critical thinking and requiring students to support their position with compelling argumentation.

The learning objectives (LO) are outlined below:
LO1: Students will apply relevant tax concepts to analyze a business scenario;
LO2: Students will accurately complete multiple IRS tax forms using information contained in a business scenario;
LO3: Students will analyze the tax implications of organizational form decisions at the entity and individual level;
LO4: Students will recommend a choice of organizational form based on thoughtful analysis of a complex business scenario under uncertainty;
LO5: Students will support their recommendation for organizational form based on compelling thoughtful argumentation.

These learning objectives map to the outcomes identified in the AACSB (2018) Accreditation Standards for Accounting Accreditation, the AICPA (2014) Model Tax Curriculum, as well as the updated AICPA (2021) Evolution Model Curriculum (EMC), as outlined in Table 1. These standards are the most current as of February 28, 2022.

<<< Insert Table 1: Mapping of Assignment Learning Objectives to AACSB and AICPA Outcomes about here >>>

[2] The Tax Cuts and Jobs Act of 2017 lowered corporate tax rates to 21%. This reduced corporate rates below the highest individual tax rate of 37%. However, the Tax Cuts and Jobs Act of 2017 also created the Deduction for Qualified Business Income (QBI) for individuals. This deduction is applicable in our project for both S corporation and partnership formations. These changes should significanly impact student recommendations when considering the taxation of business entities in part 2 of the case.

Implementation guidance

This study can be used in whole or in part in a variety of business tax courses. The first part of this study is a straightforward partnership tax assignment in which students read a business scenario, identify information relevant to completing tax forms and then complete Form 1065, schedules K, L, M-1, M-2 and K-1s. As such, part 1 of this assignment can be used in any tax course that covers basic partnership concepts. While straightforward, the assignment is challenging in that it requires proficiency in several tax concepts including partnership income and deductions, allocation of separately stated items (including built-in-gains), and reconciliation of book and taxable income. Although not required, the first part of this study can also be completed with the assistance of preparation software, at the discretion of the instructor.

The second part of this assignment requires students to analyze the influence of organizational form decisions on tax outcomes at both the entity and individual level under multiple performance scenarios and under uncertainty. This is a complex critical thinking exercise that is most appropriate for an advanced undergraduate or a graduate level tax course. Further, the recommendation element of part 2 of the assignment requires students to support their decision with thoughtful analysis and persuasive argumentation, also most appropriate for an advanced level undergraduate or a graduate level course. Instructors may decide to provide further guidance on this section, or they may prefer to leave it open ended, providing them with the opportunity to evaluate the extent to which students demonstrate a thoughtful understanding of the business factors which influence the decision, and the quality of their argumentation and support.

Before assigning part 1, instructors should have covered relevant material related to partnership income tax including partnership income and deductions, allocation of separately listed items, and reconciliation of book and taxable income. Before assigning part 2, instructors may consider introducing a decision-making framework such as the DECIDE model (Guo, 2020). If the instructor intends to grade the analytical questions in part 2 of the assignment using a rubric, the instructor may consider sharing that rubric with the students in advance. Rubric categories are left to the discretion of the instructors because they should match course objectives, which can vary between accounting programs. Instructors may consider the following:

- Demonstrates understanding of US Tax Law
- Demonstrates understanding of Organizational Forms
- Accuracy of Scenario Projections
- Extensiveness of Analysis
- Consideration of Risk
- Persuasiveness of Recommendation

The first part of this assignment is an applied assignment with a single correct answer (a package of tax forms). This means that it is best employed as an individual assignment. Instructors may consider varying the numbers each semester, or even assigning a different number set to each student. It can be easily updated annually using new IRS forms. The second part of the assignment requires substantial critical thinking and some writing. As written, the second part also performs well as an individual assignment, however it could be assigned as a small group assignment. If an instructor choose to assign part 2 as a small group assignment, they may consider expanding the written recommendation to a full, formally presented business report, complete with an executive summary, background, analysis section (including analysis of the different tax implications across the 3 organizational forms and 2 performance scenarios), recommendation section and implementation section. In this form, the faculty would assign part 1 to individual students and part 2 to groups.

Finally, instructors may choose to make changes to the case assignment to fit the objectives of their course. The case asks for a partnership return, but instructors may ask students to complete either a partnership or a corporate tax return based on the choice of business format made by students. The case assumes the cash method of accounting. Instructors could alternatively use the accrual method. Alternatively, instructors could assign students to several different positions, e.g., entity type of corporation and partnership or accounting method of cash and accrual, and have students compare the tax implications between the different positions.[3]

Classroom Validation and Student Feedback

A pilot study was conducted in the Spring semester of 2021 using students from a small section of a graduate tax course. Seven students completed the case. In order the evaluate the efficacy of the assignment in assessing learning objectives, measures were developed for each learning objective, and all learning objectives were met. Since initial results were encouraging, a larger sample was collected in 2022, in which 25 students from three sections of graduate level tax courses at two different universities participated. Table 2 identifies how many students met each objective using the combined data from all 3 sections (including the pilot study in 2021).

We consider the objective to be met at the course level if 85% of students meet that objective. When all data is combined, all of the objectives were met. While most of the objectives were met by a comfortable margin, only 28 out of 32 or 87.5% met LO1. At the section level, LO1 was not met in one tax course, and was met in three other sections. Since the section-level sample is very small, other factors may come into play and this finding should be interpreted as explatory rather than confirmatory.

<<< Insert Table 2: Results of Learning Objectives about here >>>

Anecdotally, some students required substantial guidance on part 1 of the assignment, suggesting that the assignment was effective at stimulating learning. In particular, students requested guidance on how to calculate taxable income, complete the reconciliation of book and taxable income, and prepare Schedule L for Form 1065. This led the instructor to consider more thorough emphasis on similarities and differences between financial reporting and tax reporting during the lecture portion of the course in subsequent semesters. Students seemed more confident with part 2 of the assignment. This outcome may be attributed to a College of Business level initiative to improve critical thinking and professional written communication, which has permeated the undergraduate curriculum (most of the graduate students completed their undergraduate degrees at the same University and thus participated in this program).

Additionaly, in fall of 2022, students were asked to answer multiple questions regarding their attitudes about the case, in which 15 students from two sections of graduate level tax courses at two different universities participated. Students were provided questionaires before the case was assigned and after the submission deadline. These questions and aggregate results are prestened in Table 3. The first nine questions were asked on both questionaires to measure student improvement. Students responded using a 5-point Likert scale (low, low-moderate, moderate, moderate-high, high). Eight of the nine questions show significant increases to the mean response. Knowledge and understanding regarding the completion of a partnership tax return and the ability to defer tax when forming a partnership showed the largest increase of 1.333, p-values of 0.012 and 0.009. Knowledge and understanding regarding the differences between business entities showed the smallest increase of 0.714, p-value of 0.104. All nine questions examining student improvement showed increases to the mean response, suggesting the case was effective in improving student knowledge and critical thinking skills.

The survey admisinstered after the submission deadline asked 12 additional questions which focused more on students' opinions and experiences. Students responded using a 5-point Likert scale (strongly disagree, disagree, neither agree nor disagree, agree, strongly agree). Students indicated that they enjoyed the case (4.083), believed it

[3]For an advanced or graduate level course, instructors can provide alternate scenarios to study tax implications of issues such as 1) Investing cash to generate investment income (e.g., interest and dividend income); 2) Registering the business as a foreign entity.

helped develop critical thinking skills (4.533), and expanded knowledge beyond a textbook and typical lectures (4.600). Overall, the students strongly recommend this case be used as a tool in future tax courses (4.600).
<<< Insert Table 3: Results of Fall 2022 Student Survey about here >>>

Finally, the survey administered after the submission deadline asked students three open ended questions. Selected answers are presented below.

1. What was the most interesting aspect of the case to you?
    a. I liked the part two in terms of analyzing what was best for the entity to classify as in different scenarios.
    b. Seeing how the K-1s for the individual partners were different depending on what they had put into the business.
    c. The most interesting aspect of this case is seeing how the information on the tax forms flowed with one another and how to go through provided information in the case and analyze what pieces are relevant and what they're trying to tell you.
    d. The most interesting aspect of the case was learning how income and losses from a partnership can impact the individual partners and their unique situations.
    e. I thought the most interesting aspect of this case was how many different categories there are to indicate each source of income when filling out the K-1. Part 2 also really opened my eyes to how much of a negative impact being a C corporation can be, all else being equal.

2. What is your experience with tax professional work (including internships) and for how long?
    a. Most students indicated no tax experience.
    b. 3.5 years total.
    c. I had a tax internship last spring where I completed K1s, 1065s, and 1040s.
    d. One internship for a single tax season- around 4 months. Work with an LLC doing monthly sales tax and preparation for two years
    e. 3.5 month busy season internship where I did mostly tax work.
    f. I've had four internships but only one in tax for 3 months this summer. I'm starting with them full time next August in the tax department. I prepared and filed tax returns, mainly for S-Corporations and Investment Funds, by utilizing different tax sofrtware programs and the templates prepared to reconcile M-1's, allocate partnership interest, find QBID and ordinary income, etc.

3. Please share any additional comments or insights about the case below.
    a. The case was pretty tough for being someone without much if any experience. However, I believe you graded fairly to represent what was needed.
    b. It was a good introduction to partnerships.
    c. Emphasizes asking questions when stuck, with road bumps comes learning opportunity.
    d. I really enjoyed doing this project and it was benefical to put into practice what we learned in class and try to apply the various concepts to a real life situation. Since I'm working in tax, this was valuable experience I will take with me into my career.
    e. I enjoyed the hands-on nature of the case and was able to learn more about tax that way than other assignments in the course.

In summary, initial classroom validation across four sections of two gradaute courses at two universities has yielded promising results in terms of learning objective effectiveness and student attitudes. However, it is worth noting that the authors have not yet been able to validate the assignment using undergraduate students.

Conclusion

Consistent with recent calls for relatable yet realistic teaching scenarios (Lynch & Chen, 2021; Wygal et al., 2017), a tax case for a new small hospitality business was developed. This case has two parts and can be used in a variety of tax courses. The first part is very applied and serves to assess proficiency in partnership tax preparation, including calculation of built-in-gains. The second part requires substantial critical thinking and analysis. The learning objectives map to AACSB standards and AICPA model curriculum outcomes. This assignment has been applied successfully in graduate tax courses, and we hope that it proves useful to other tax instructors.

Teaching Notes

Suggested Solutions

The following 2 subsections provide solutions to part 1 and part 2 of the Gourmet Rancher case assignment. All calculations were done using tax year 2020 tax rates and law.

Part 1: Partnership Tax Forms

The solution is included in Appendix A.

Part 2a: Partnership/C Corp/S Corp Comparisons

The comparisons may have multiple correct answers. Under the profit scenario, students should identify the following points for each organizational form:

Scenario 1: Future Profits		
Tax Implications of:		
Remaining a Partnership	Changing to a C Corporation	Changing to a S Corporation
Future profits are subject to additional self-employment taxes. Flow-through income will be taxed at owner's marginal tax rate. Flow-through income will generate the deduction for qualified business income. Future distributions will be tax free or use long-term capital gain rates depending on basis. With consecutive profits, partners will most-likely have basis for future distributions.	Future profits are not subject to additional self-employment taxes. Income will be taxed at 21% rate. Property will be distributed as taxable dividends to owners. Dividends will use long-term capital gain rates.	Future profits are not subject to additional self-employment taxes. Flow-through income will be taxed at owner's marginal tax rate. Flow-through income will generate the deduction for qualified business income. Future distributions will be tax free or use long-term capital gain rates depending on basis. With consecutive profits, partners will most-likely have basis for future distributions.

Scenario 2: Future Losses		
Tax Implications of:		
Remaining a Partnership	Changing to a C Corporation	Changing to a S Corporation
Losses will flow-through to the owner's tax return depending on basis. This can potentially offset other income on the owner's tax return. Future distributions will be tax free or use long-term capital gain rates depending on basis. With consecutive losses, partners will most-likely not have basis for future distributions.	Losses will not flow-through to the owner's tax return. Losses are locked inside of the corporation. Property will be distributed as taxable dividends to owners. Dividends will use long-term capital gain rates.	Losses will flow-through to the owner's tax return depending on basis. This can potentially offset other income on the owner's tax return. Future distributions will be tax free or use long-term capital gain rates depending on basis. With consecutive losses, partners will most-likely not have basis for future distributions.

Part 2b & c: Recommendation Decision

The recommendation decision may have multiple correct answers based on the student's perception of risk. Under the profit scenario, changing to a S Corporation is the optimal organizational form because flow-through income avoids self-employment taxes and future profit distributions will most-likely be tax-free. Under the loss scenario, changing to a C Corporation is the worst organizational form because losses are trapped inside the corporation and will not flow through to the owner's tax return. For the loss years, remaining a partnership or changing to a S Corporation will have similar tax consequences. Initially, both profit and loss scenarios are judged purely on changes in tax for the business and its owners and do not consider non-tax factors, such as limited liability protection, ease of ownership transfer, etc.

However, because there is uncertainty regarding which performance scenario the restaurant will face students will have to weigh the risks and advantages, both tax and non-tax, of each option to justify their final recommendation. Instructors should assess argument quality in a way that is consistent with the course and program objectives. Ignoring arguments based on non-tax factors, changing to a S Corporation should be the optimal organizational form under uncertainty as the form avoids self-employment taxes on profits, allows losses to flow-through to the owner's return, and allows for potentially tax-free distributions.[4]

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[4] The Tax Cuts and Jobs Act of 2017 lowered corporate tax rates to 21%. This reduced corporate rates below the highest individual tax rate of 37%. However, the Tax Cuts and Jobs Act of 2017 also created the Deduction for Qualified Business Income (QBI) for individuals. This deduction is applicable in our project for both S corporation and partnership formations. After considering the double-taxation of C corporation dividends and the Deduction for QBI related to S corporation profits, analysis of the profit scenario finds the S corporation formation produces a lower overall tax rate compared to C corporations.

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Appendix A: Part I Solution

Table 1:Mapping of Assignment Learning Objectives to AACSB and AICPA Outcomes

AACSB Outcome	Case Study Learning Objective	Notes
The ability to identify issues and develop questions, apply appropriate analyses, interpret results, and communicate conclusions.	LO1, LO3, LO4, LO5	
The roles accountants play in society to provide and ensure the integrity of financial, managerial, and other information.	LO2	
The ethical and regulatory environment for accountants.	LO1, LO2	The application of tax concepts requires proficiency in the regulatory environment.
Internal controls and security.		
Recording, analysis, and interpretation of historical and prospective financial and non-financial information.	LO1, LO4	Making an organizational form recommendation under multiple performance scenarios involves analysis and interpretation of prospective financial information.
Project and engagement management.		
Tax policy, strategy, and compliance for individuals and enterprises.	LO1, LO2, LO3	
International accounting issues and practices, including roles and responsibilities played by accountants in a global context.		
AICPA (2014) Outcome	**Case Study Learning Objective**	**Notes**
Demonstrate knowledge of the components of the basic income tax formula for individuals and business entities, understand when income and deductions are recognized, and describe when they are excluded (or disallowed) or deferred.	LO1, LO2, LO3, LO4	Maps to the 2021 EMC Model Tax Core Module 5 Topic 1 Obj 1-3 Topic 2 Obj 1 Topic 4 Obj 1 Module 7 Topic 1 Obj 1, Topic 2, Obj 1, 2 Module 8 Topic 2 Obj 1, Module 9 Topic 1 Obj 1, 2, 6, 8 Topic 2 Obj 1, 2, 6, 8
Explain the interrelationships and differences between financial accounting and tax accounting.	LO2, LO3, LO4	Maps to the 2021 EMC Model Tax Core Module 7: Topic 3 Obj 1, 2, 3, 4
Apply analytical reasoning tools to assess how taxes affect economic decisions for individuals and business entities.	LO3, LO4, LO5	Maps to the 2021 EMC Model Tax Core Module 12 Topic 2 Obj 1, 2, 3

Demonstrate the ability to conduct tax research.	LO1, LO2, LO3, LO4, LO5	Maps to the 2021 EMC Model Tax Core Module 3 Topic 3 Obj 1, 2, 3, 4, 5
Understand tax-related statutory, regulatory, and professional ethics obligations and identify tax-based community service opportunities.	LO2, LO4	Maps to the 2021 EMC Model Tax Core Module 1 Topic Obj 1, 3, 4
Explain basic tax policy considerations underlying common tax regimes		

Table 2: Combined Learning Objective Results

OBJECTIVE	MEASURE:	NUMBER OF STUDENTS MEETING THIS OBJECTIVE	NUMBER NOT MEETING THIS OBJECTIVE
LO1	Students will apply relevant tax concepts to analyze a business scenario	28	4
LO2	Students will accurately complete multiple IRS tax forms using information contained in a business scenario	30	2
LO3	Students will analyze the tax implications of organizational form decisions at the entity and individual level	29	3
LO4	Students will recommend a choice of organizational form based on thoughtful analysis of a complex business scenario under uncertainty	32	0
LO5	Students will support their recommendation for organizational form based on compelling thoughtful argumentation	30	2

Table 3: Results of Fall 2022 Student Survey

Question	Associated Learning Objective	Mean Response (Out of 5, except for the last question)		
		After Assignment	Before Assignment	Difference (p-value)
Rate your knowledge and understanding of the differences between business entities and how they are taxed.	LO1, LO3	4.000	3.286	0.714 (0.104)
Rate your knowledge and understanding of how profit from different business entity types affect individual owners.	LO1, LO3	4.133	3.267	0.866** (0.024)
Rate your knowledge and understanding of how losses from different business entity types affect individual owners.	LO1, LO3	4.000	2.933	1.067** (0.011)
Rate your knowledge and understanding of completing a partnership tax return (Form 1065).	LO2	4.000	2.667	1.333** (0.012)
Rate your knowledge and understanding of reconciling book-tax income (Schedule M-1).	LO2	3.733	2.733	1.000** (0.025)
Rate your knowledge and understanding of allocating separately stated items to prepare partners' Form K-1s.	LO2	4.000	2.933	1.067* (0.051)
Rate your knowledge and understanding of calculating partners' tax basis of the partnership.	LO2	4.000	3.067	0.933** (0.045)
Rate your knowledge and understanding of deferring tax when forming a partnership (Section 721).	LO1, LO2	3.733	2.400	1.333*** (0.009)
I feel capable of advising a client on which business entity type they should choose at formation.	LO1, LO3, LO4	3.933	3.133	0.800** (0.024)
I enjoyed the case.		4.083		
This case and related questions required me to use and development my critical thinking.	LO1, LO3, LO4, LO5	4.533		
This case caused me to have better awareness of the complexity of preparing a partnership tax return (Form 1065).	LO1, LO2	4.467		

This case caused me to have better awareness of tax benefits and tax determents between the various business entity types.	LO3, LO4, LO5	4.333		
The case was difficult.		4.000		
The case was realistic.		4.200		
This case impressed upon me the importance of calculating partners' tax basis.	LO2	4.267		
This case impressed upon me the importance of reconciling book-tax income.	LO2	4.400		
This case caused me to have better awareness of how tax is an important factor that influences economic decisions for individuals and business entities."	LO1, LO3, LO4, LO5	4.467		
Overall, this case expanded my knowledge beyond typical textbook and lecture-based learning.		4.600		
I would recommend this case as a learning tool for future tax courses		4.600		
I estimate that this case took me _______ hours (round to the nearest 2 decimals) to complete.		6.607		

Notes: This table shows results of student surveys administered fall 2022. The first nine questions were administered before the case was assigned and after the submission deadline. The next 12 questions were asked only after the submission deadline. Students were asked to answer each item, excluding the last question, using a 5-point Likert scale. A response of 1 indicated a low rate of knowledge or a strong disagreement with the provided statement. A response of 5 indicated a high rate of knowledge or a strong agreement with the provided statement. Two-tail p-values are reported for differences in mean responses. *** $p<0.01$, ** $p<0.05$, * $p<0.1$