

Episode 6 – On Biden's Proposed Minimum Book Tax

This document provides resources for educators looking for ways to incorporate current events into their curriculum. Each podcast episode is approximately 20 minutes long and available on all major podcast outlets for free. This document provides multiple choice and true/false questions to test for high-level comprehension of podcast topics as well as opportunities for either short-answer/essay-style questions or discussion questions to delve further into topics. Email taxnerds@gmail.com for an answer key.

In this episode, we discuss President Biden's proposed minimum tax on book income for large corporations. This provision of his Made in America Tax Plan is intended to increase corporate tax revenue to fund a sustained increase in investments in infrastructure and research, and provide support for manufacturing. It also intends to address corporate tax avoidance.

Multiple Choice and T/F Questions

1. Which of the following is **true** about President Biden's Minimum Book Tax? Select all that apply.
    a. One of its primary goals is to curb aggressive corporate tax avoidance
    b. It addresses situations where a corporation reports profits to shareholders but pays little tax
    c. It can serve as a backstop against international tax avoidance
    d. It is a broadly focused provision that would apply to all C corporations

2. According to the podcast, what is "tax avoidance"?
    a. Anything a taxpayer does to reduce their tax liability
    b. Reducing tax liabilities through fraud or other illegal activity
    c. Not filing a tax return
    d. Underreporting income from a cash business

3. True or False: Tax avoidance includes entirely legal strategies such as claiming tax deductions for qualified charitable contributions.

4. Classify each action as tax avoidance, aggressive tax avoidance, or tax evasion:

    a. Donating a paperback book to a qualified charity and claiming a $5 tax deduction
    b. Donating a paperback book to a qualified charity and claiming a $50 tax deduction

c. Claiming a $5 tax deduction for a charitable contribution without making a donation.

5. Which is **not** a primary objective of income tax laws?
    a. Generating revenue for government spending
    b. Protecting retail investors
    c. Redistributing wealth among taxpayers
    d. Incentivizing or disincentivizing taxpayer behavior

6. Which of the following are reasons discussed in the podcast why book income multiplied by 21% often does not accurately reflect a corporation's tax liability? Select all that apply.
    a. The tax law allows accelerated depreciation to incentivize investment
    b. Book income and taxable income are often measured over different time periods
    c. Book income does not include deductions for stock-based compensation whereas taxable income does
    d. Tax law allows corporations to reduce their tax liability by claiming credits, which are not a book income concept

7. Which of the following are elements of the proposed minimum book tax discussed in the podcast? Select all that apply
    a. It would impose a rate of 15% on book income
    b. It would apply to corporations with over $1B in book income
    c. It would apply only to U.S. book income, not worldwide book income
    d. It would allow corporations to consider tax credits like foreign tax credits and R&D credits.

8. True or False: According to the podcast, the general sentiment among academic researchers is that the minimum book tax could be a strong and effective policy tool.

9. True or False: This is not the first time the federal government has considered implementing a minimum tax on book profits.

10. Which of the following are limitations of the Minimum Book Tax Discussed in the podcast? Select all that apply.
    a. Assessing a tax on book income could hamper Congress' ability to use taxes to incentivize or disincentivize taxpayer behavior.
    b. The minimum book tax would require more work from financial statement auditors thereby making audits more costly.
    c. Expected revenues from the tax are relatively low – less than $150B over 10 years.
    d. Assessing a tax on worldwide book income is inconsistent with recent attempts to shift the U.S. to a territorial system of international taxation.

11. True or False: As discussed on the podcast, an increase in book-tax conformity is generally considered undesirable as it makes both measures of income less informative.

12. What is “book-tax conformity”?
    a. Having the same firm prepare your tax return and audit your financial statements
    b. Using the cash method to prepare your tax return
    c. The degree to which book income and taxable income are computed using similar rules
    d. Using non-GAAP earnings metrics to adjust for income tax expense

13. True or False: According to the podcast, managers are not always focused on reporting high GAAP income; other financial metrics are sometimes more important.

Short answer/essay or in-class discussion questions

1. In your own words, summarize the pros and cons of a minimum book tax.

2. In your own words, explain how an increased focus on non-GAAP earnings or other key performance indicators (KPI) could threaten the efficacy of a minimum book tax.

3. In your own words, explain how a minimum book tax increases the difficulty of Congress’ using the tax code to incentivize or disincentivize taxpayer behavior.

4. Think of a company you might expect to be subject to the minimum book tax. Look up their income tax footnote and estimate whether they would likely be subject. Why or why not?

5. In your opinion, is a minimum book tax a good idea? Why or why not?

Data analytics/visualization

Using data from Compustat/Calcbench, etc., compile a list of companies that could be subject to the minimum book tax using the pre-tax book income threshold discussed in the podcast. Analyze the list by industry, asset size, headquarter location and/or any other variable of interest. Show on average and how by industry how much additional tax these companies would owe relative to their current rate of taxes paid scaled by pretax book income.