THE USV ANNALS OF ECONOMICS AND PUBLIC ADMINISTRATION | VOLUME 15, ISSUE 1(21), 2015

SHOULD TAX COURSES BE REQUIRED FOR ALL ROMANIAN UNIVERSITIES' BUSINESS STUDENTS? THE NEW FUTURE OF BUSINESS EDUCATION

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Abstract:

Typically, Romanian university colleges of business require students to pursue basic accounting, economics, finance, and management classes at the undergraduate level or, for the first time, while pursuing studies in the masters of business administration (MBA) program. Generally, university administrators do not impose tax courses on business students (economics, finance, management, etc.) and sometimes do not even require them for accounting students.

Administrators likely do not require tax studies because of the combination of their real-world advisors, managers, not truly understanding the value of tax planning in their own businesses let alone in university curricula and few available tax professors.

Many real-world managers, universities' advisors, also do not truly comprehend the value of tax planning. With these beliefs then, they generally do not advise university administrators to require tax courses for students who are about to enter the business field.

Too few tax professors are available not just in Romania but also globally. Individuals in the tax field earn so much that they rarely consider entering academia because of the pay cut.

The paper then provides examples, evidencing the necessity of combining tax knowledge with financial accounting, economics, finance, and management studies. Next, solutions to the lack of professors are discussed. These results are then analyzed with implications for Romanian universities with the conclusion following.

Key words: Romanian universities; tax courses; required curriculum; business students.

JEL classification: M40.

1. INTRODUCTION

Many Romanian universities emerged in the early 1990s. Given that specific timing, an opportunity has existed to pursue new-world educational methods. Romanian universities have capitalized on this opportunity, becoming leaders of emerging nations with regard to business education development (Popescu and Crenicean, 2012).

Part of this effort was required because of the 1999 Bologna Declaration (Scarlat, 2007). However, at least in one area then, tax studies, an old-world notion still exists (Scarlat, 2007). More specifically, Romanian university administrators have not yet necessarily found the value of tax courses to the extent that other countries' university administrators have.

This paper seeks to change that attitude toward tax courses. In fact, it endeavors to demonstrate that not only should tax courses be provided but also required of all business students because of the necessity of this knowledge to the new-world business professional.

The paper begins with the discussion of the reasons for the current lack of required tax courses in Romanian university business curricula. In explanation, it mentions the combination of real-world managers, not just in Romania but elsewhere, not truly understanding the value of tax planning and then advising universities on what courses should be offered and of few available tax professors.

The paper then pursues the case studies to show the importance of tax knowledge to managers. It then shows how the issue of insufficient tax professors can be solved.

The paper ends by considering implications to Romanian university administrators with the conclusion following.

2. LITERATURE REVIEW

Romania is definitely at the leading edge of education for developing countries (Popescu and Crenicean, 2012). However, in the survey of 94 fourth-year students, Romanian business schools were seen as not matching the level of preparation in certain business skills that these students were seeking (Glazer-Segura *et al.*, 2007). Also, Romanian university administrators have been forced to rely more on real-world managers for curricula advice has occurred (Scarlat, 2007). This idea has received additional support (Bordean, 2012).

3. CASE STUDIES

3.1. APPLE

Many Romanian business students, academics, and professionals look to Apple as the world's ideally managed business. Innovations occur at the highest levels possible. Sales are in hundreds of billions. The company has the largest market capitalization in the history of the world and continues to improve on that record. Most importantly for at least those student Apple idolizers, the company is extremely profitable, $41.7 billion in net income in 2012, leading to some of the world's highest salaries. In fact, compensation is so high at Apple that even the directors on its board earn $1 million each year. Leaders of Romanian companies would consider such compensation to be equivalent to winning the lottery.

While the leadership style, innovations, sales, market capitalization, and profitability in general are ever cited, what gets lost in these specific successes is how important it is to Apple's executives to manage their tax expenses and how that emphasis results in their record-setting innovations, sales, market capitalization, and profitability.

Any company's decisions can be judged as to how ethical they are. However, with that point to the side and not just an important consideration in the tax area but in any business area, the case can be analyzed for what it stands, how important tax knowledge is to any business professional.

Because Apple's executives had knowledge of not just of the currently required business core courses but also of taxes, the company was able to create offshore entities, such as Apple Operations International, without tax residency in any jurisdiction (US Senate, 2013). While Ireland utilizes management and control to test the location of tax residency, the US refers to the place of incorporation. With AOI incorporated in Ireland but not managed and controlled from there, neither taxing authority would consider it to be resident in its jurisdiction. Because of this tax knowledge then, the entity had $30 billion of financial accounting income from 2009 to 2012 but paid zero dollars in taxes (US Senate, 2013). Based on US tax rates then, this structuring literally saved over $10 billion.

Further, Apple established Apple Sales International to own its offshore intellectual property in exchange for sharing in the main company's research and development costs. Similarly, without being resident in any tax jurisdiction, its income of $74 billion from 2009 to 2012 was taxed at the rate of zero percent (US Senate, 2013). In essence, to get this rate, Apple Sales International had to be expertly structured with general business and tax knowledge to buy finished products from its Chinese supplier, sell at higher prices to other Apple entities, and then maintain those earnings. This structuring could have saved Apple, based on US tax rates on global income, almost $25 billion.

For many years then, knowledge of global taxes led Apple executives to establish these entities in Ireland. The Irish government provided the special tax rate of 2 percent or less, which was below its already lowest (other than zero-percent jurisdictions) tax rate in the EU (US Senate, 2013). The less meant rates so low as .05%, .0005 in the decimal form (US Senate, 2013).

Relying on check-the-box and look-through tax rules, Apple executives also deferred taxes on $44 billion of offshore income from 2009 to 2012. Check-the-box rules enabled executives to ignore lower-tier overseas entities for taxation purposes and instead have them treated as part of higher-tier overseas entities. Transactions between ignored entities then do not exist under the US tax system and their payments to each other then become payments from and to the same higher-tier entity. Payments to and from the same entity are not considered in the US tax system. This case is true whether the payments were based on sales revenue or were dividends. Because of the time value of money, any tax payments deferred to later dates can in the interim be reinvested to earn returns on that money. Thus, roughly $15 billion in money could be reinvested. If only 4 percent return on the investment were earned over just the single year, $600 million dollars would be received.

While roughly $36 billion could have been in the pocket of governments, Apple instead had access to it and could invest it on more research and development to create even more innovations, sales staff to reach even higher sales, or at the least on showing higher profitability, leading to ever higher stock prices and market capitalization. Thus, knowledge of taxes matters to business leaders. Many times, it can matter more than knowledge in any other single discipline.

3.2. HEWLETT PACKARD

While not to the level of Apple in legendary status, Hewlett Packard has been at the Fortune 20 level for many years. The company's executives used loans to return offshore earnings to the US from two overseas entities (US Senate, 2012). Hewlett Packard executives did not directly return earnings to the US as doing so would result in those earnings being subject to US taxation under the interaction between the Tax Code and Accounting Principles Board (APB) 23. Indeed, APB 23 would have required the company to report more expenses and less profitability if those earnings were not deemed to be permanently reinvested overseas and therein not subject to consideration of US tax liabilities on them. These loans were so extensive that they completely funded the cash requirements for the company's US operations (US Senate, 2012). In fact, Hewlett Packard would have had insufficient cash to continue in business in the US if not for these loans (US Senate, 2012). In any given year, the US parent could have been borrowing between from $6 to $9 billion (US Senate, 2012).

4. SOLUTIONS TO SHORTAGE OF TAX PROFESSORS

University administrators can seek funding from private sources to endow professors' salaries. For instance, the Big Four accounting firms utilize endowing and then naming professors as an important advertising method to get future students from those respective universities interested in working for their firms. Also, the Big Four enjoy the opportunity to collaborate with such academics, in exchange for the endowment then, in providing tax advice for their clients. Many universities have as currently employed "so-and-so," the Deloitte, Ernst & Young, KPMG, or PwC professor of accounting or tax. By approaching the Big Four for funding, administrators could then provide the necessary level of compensation to attract tax professionals to higher education.

However, university administrators with an interest in change with regard to tax should also try to push their universities and therein the Romanian government at large to fund and require that discipline.

5. IMPLICATIONS

The successful negotiation to get funding for, provide, and require tax courses would involve sharing some of what has already been discussed in the case studies. First, graduates of Romanian university colleges of business should have the requisite knowledge necessary to succeed in that field, or the university is not completing its educational mission. As the paper has previously demonstrated, tax knowledge is equally (if not many times then more) important to business professionals as other required courses, financial accounting, economics, finance, and management.

Second, individuals who decide to enter the tax field, given the high level of compensation, can actually give back to the university who educated them. Donations to be able to employ more tax professors can come from the students who have just been educated at this university in this discipline.

Next, if the tax course of study is provided, more students would be attracted to enroll at that particular Romanian university. For example, if any consumer has only enough time to shop at one location, all other things equal, that consumer would likely choose the store that has more products to offer.

Fourth, current professors who have less students because of the newly required tax courses can be consoled easily. In the long run, as more students choose that university with its greater offering of study opportunities, the entire business program enrollment would grow. Students who enroll at the university to study tax could find financial accounting, economics, finance, or management more interesting and end up choosing those other disciplines. The end result would permit any short-term student losses to be more than compensated for in the long run with the aggregate greater enrollment.

6. CONCLUSION

While there is not extensive research on the implementation of new disciplines in the Romanian context, the Bologna Declaration at the least requires universities to try to provide knowledge-based educations. As such, students should be offered the opportunity to study tax but also required to study it as part of the business core curriculum. As Scarlat (2007) mentioned, the role of Romanian universities is to prepare students for their specialized interest but also in general for the area in which they are to be employed. This approach requires tax courses to be implemented in Romanian universities. However, in the end then, Romanian universities benefit from inclusion of this course of study.

7. FUTURE RESEARCH OPPORTUNITIES THEN

The future of business education is now in the balance. It is up to those individuals who care the most to push for this change. While not every university could want to follow this new approach, including tax courses is the good starting point. However, ultimately, tax courses should be required as part of the general business curricula at every university.

Other research opportunities exist. Surveys of current students' perceptions on the issue could be completed at the various universities. However, before surveying, the researcher should provide the students with the opportunity to understand the value of tax courses. To be fair then, the alternative view could be presented. Tax courses as require would lessen the amount of electives or remove other business core courses from the curricula. Students do enjoy the opportunity to have electives so as to better construct what subjects are of primary importance to each of them individually. Removing other business core courses should primarily be of an issue to the current professors in those areas. Nevertheless, if the growth occurs by being first to the market with these offerings, long-run growth in enrollments should reach the courses with lower enrollment in the beginning because of this proposal.

While surveys of specific Romanian universities can be of importance, comparative surveys would be of even more benefit. The French university v. the Romanian university would be an example. The researcher could analyze the various options at the French university, the related costs, and students' perceptions. Then, the researcher could compare those results to the Romanian university's results.

More research should be finished on how important taxes are to managers in Romania. While anecdotal evidence supports the discussions in this paper, greater information in the area can only be more helpful.

More research should be completed on the availability of tax professors and venues to educate tax professors in Romania. This knowledge would better enable schools of business to deal with how to fund the employment of such professors.

Finally, government support of this move should be considered. While governments should not necessarily have strong influences on business school curricula, involving the Romanian government could lead to greater support for this endeavor. Surveys could be the primary methodology.

This research could lead to projects on what the budgetary support has been for universities over the years. Those results could provide greater background for how difficult it would be to support the creation of tax courses.

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