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M&A tax considerations across a range of transactions

Post-merger integration

Executing a successful M&A transition requires a proactive tax strategy that is ready to deliver on Day 1 compliance, tax planning, and departmental needs. It's important to address potential issues or opportunities that were identified during diligence to create synergies and enhance long-term **value**. Below is a sample of high-level questions that dealmakers should consider:

1 How can a Buyer start assessing and planning for tax integration considerations during the tax due diligence process and sign-to-close period?

- Inquire about the Company's tax function and operations, including use of systems and tax technology.
- Develop a plan for the first combined income tax accounting close, including short-period close for tax balance sheet accounts and opening balance sheet analysis.
- Identify transaction tax filings (e.g., stamp duty, transfer tax) and develop global tax filing calendar to prevent missed deadlines and penalties for post-close filings.
- Coordinate with Accounting and IT to plan for any system changes that impact tax (e.g., fixed asset system, ERP integration).
- Plan for addressing tax exposures identified during the tax due diligence process.
- Model tax implications related to the transaction (e.g., attribute limitations, transaction cost analysis).
- Assess Pillar 2 implications of the acquired business, including safe-harbor analysis and data accessibility.
- Assess tax resource needs and professional advisor fees that may be necessary, both one-time costs and future steady-state operations, as Buyer learns about tax profile of the Company.
- Understand the employee profile, providers, and systems setup for the acquired Company and evaluate equity and compensation plan harmonization.

2 How can tax support a seamless integration?

- Pre-close integration planning can help mitigate unintended tax consequences post-close.
- Proactively providing tax inputs into cross-functional planning can allow for tax needs to be met, prevent system reconfiguration, and automate manual processes where possible. Disruption to customers, vendors, and employees should also be proactively considered.
- Aligning tax planning with operational and financial goals can boost cross-functional support and engagement for tax planning projects.
- Identifying tax synergies early can unlock savings and help meet overall synergy targets.
- Aligning on changes to equity plans, severance, and nonqualified deferred compensation plans can streamline the analysis of tax impacts.

3 What are some of the tax implications of aligning business structures?

- Changes to product flows and supply chain flows might impact the taxability of day-to-day business transactions (e.g., sales and use tax, VAT, transfer pricing).
- Post-merger supply chain changes may require new or updated intercompany agreements and may create new exposures and registration requirements.
- Rationalizing legal entities in jurisdictions with redundant or dormant entities may reduce tax and regulatory compliance costs and other costs for operating the legal entity (e.g., statutory audit fees, ERP maintenance).

4 What should tax consider for post-transaction financial reporting?

- Establish processes and responsibilities related to the acquired business and conveyed employees.
- Analyze historic tax balances, uncertain tax benefits, and valuation allowances; understand and align on income tax accounting policies.
- Assess tax technology for necessary updates and enhancements, including evaluating if the current technology is compatible with the long-term plan.
- Align with the Accounting and External Reporting functions to confirm disclosure changes, close calendar, and other considerations that may impact tax.
- Understand parties responsible for meeting statutory reporting deadlines and timing for required tax inputs.
- Update tax controls for the combined company and confirm adequate transaction-specific controls are in place and documented.

5 How might tax risks evolve post transaction?

- Business changes and shifts to supply chains may trigger new tax liabilities and cross-border transactions may introduce regulatory complexities.
- Unaddressed tax department resource needs may lead to missed or delinquent compliance filings and unresolved tax exposures may continue to grow.
- Cross-selling of products could introduce tax complexity and manual processes if systems aren't set up to properly account for indirect tax implications.

6 How can tax technology support an integrated tax department?

- Fully vetted and developed taxability matrix for the indirect tax engine(s) can help reduce manual processes and rework.
- Provision and compliance software packages can streamline processes and mitigate risk from spreadsheet models and manual manipulations.
- Tax sensitizing the chart of accounts during ERP configuration can improve data access and automate aspects of provision and compliance processes.
- Automation of data pulls and tax computations linked directly into income tax accounting and compliance tools can increase efficiency.

7 What tax planning considerations might impact long-term value post-merger?

- Preservation of tax attributes and identification of tax attribute utilization opportunities.
- Understand the debt structuring plan to assess interest expense deductibility.
- Evaluation of the acquired company for credit and incentive opportunities as a combined business.
- Evaluation of changes to transfer pricing and/or cost sharing policies to confirm that shared service costs are properly allocated, and revenue/expense recognition is accurate.
- Analyze consolidated global tax methods for cash tax and/or rate considerations.
- Alignment of post-close legal entity structure to the integrated business model to drive an effective tax rate benefit, access to available attributes, enable SG&A cost savings and/or assist with future cash repatriation needs.

Let's talk

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