



## M&A tax considerations across a range of transactions

### Turnaround and restructuring



For companies that are underperforming and facing financial distress, it's important to understand the critical actions that can be taken early to preserve [value](#) and manage risk. Proactive tax planning throughout the restructuring lifecycle can lead to future tax savings, enhanced financial stability, tax and operating efficiencies, and [margin improvement](#). Below is a sample of high-level questions that dealmakers should consider:

1

#### What are the early indicators of financial distress?

- Businesses may be experiencing declining sales, underperforming stock prices, debt trading at a discount, liquidity constraints, debt defaults, layoffs, or high management turnover, and as such, evaluating tax planning considerations early is critical.
- Often distressed companies may be considering a refinancing or restructuring of its debt obligations, may be experiencing changes in its ownership or equity structure, and may be contemplating a disposition of entities or assets.

2

#### How can tax planning drive value throughout the turnaround and restructuring tax lifecycle?

- Team with other workstreams, advisors, and key stakeholders to stay informed on financial, commercial, and legal considerations and the related impact to tax implications and reduce adverse tax consequences.
- Preserve valuable tax attributes (e.g., net operating losses, credits) to improve financial stability and enhance cash flow.
- Tax planning to enable cash preservation and tax efficiencies.
- Identify changes in economic drivers (e.g., claims, valuations, financing, etc.) to provide tax insight to variables.

3

#### What tax risks may arise in debt restructuring?

- Debt modifications can result in unintended tax burdens including phantom income.
- Cancellation of debt income may create unexpected tax liabilities or significantly reduce tax attributes and tax basis.
- Interest deductibility can be impacted by renegotiated debt terms.
- Equity ownership shifts may trigger limitations on tax attributes.
- In-court versus out-of-court restructuring has different tax consequences including tax treatment of cancellation of debt income, limitations on use of tax attributes, etc.

4

#### How can tax modeling inform restructuring decisions?

- A dynamic tax model allows for flexibility in adapting to evolving deal structures.
- Modeling can provide insights on decisions on mergers, liquidations, and alternative restructuring paths.
- Forecasting short- and long-term tax impact can help evaluate restructuring scenarios.
- Analyzing cancellation of debt income likelihood can impact tax planning considerations.
- Real-time tax assessments can improve restructuring efficiency.

## 5 What are some common compliance and reporting obligations post-restructuring?

- As a result of the restructuring, tax forms and elections may be required as part of tax compliance.
- Proper documentation enables compliance with financial and tax reporting processes.
- Tax rulings or opinions can clarify critical tax positions.
- Analyze tax treatment of professional fees and reorganization costs.

## 6 How can restructuring outcomes be enhanced for long-term tax efficiency?

- Identifying tax planning considerations through the restructuring lifestyle can impact future savings post-restructuring.
- Aligning tax strategy with broader business goals can help lasting financial stability.
- Evaluating ownership shifts post-restructuring can preserve tax attributes.
- Performing legal entity rationalization analysis to identify tax and operating efficiencies.
- Continuous monitoring of tax law changes can mitigate unexpected liabilities.
- Modernizing technology platforms and using analytics to identify and respond to tax issues more quickly.

## Let's talk

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