



## Dbriefs U

# Supplemental Material

The Role of Tax in Mergers and Acquisitions — Why Tax Structure Matters

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### About the Supplemental Material

Each Dbriefs U webcast is accompanied by teaching material including discussion or homework questions, a learning activity, and related resources. Visit the Dbriefs U Faculty Resources Web site to download this material. For access to the site and more information, contact [dbriefsu@deloitte.com](mailto:dbriefsu@deloitte.com).

To request the solutions for this material, email [dbriefsu@deloitte.com](mailto:dbriefsu@deloitte.com).

## Discussion/Homework Questions

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As an M&A executive at a mid-sized US company you have identified a manufacturing business in Asia that you would like to acquire in order to expand you company's manufacturing capabilities in that geography. What types of M&A transactions will you consider in order to complete the transaction?

As the Vice President of Tax at Global Corporation you have been asked to join Global's project team related to its pursuit of an M&A transaction with Midwest Corporation. Provide a list of initial tax considerations that you will provide to the project team at the first meeting.

Access a current business publication (e.g. Wall Street Journal, Financial Times, business section of local newspaper) and identify one example each of an M&A transaction completed by a "strategic" buyer and a "financial" buyer. Who were the parties to the transaction (i.e. the buyer, target, financing sources, other)? Were the transactions mergers, acquisitions, or joint ventures? What were the key terms of the transaction such as purchase price, form of consideration (e.g. cash, shares, notes)?

# Activity

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## Overview

### Comparison of Taxable Acquisitions

**Length:** 30 minutes

**Type:** Individual or Group

**Materials:** Activity sheet

**Learning Objectives:** Understand: 1) the consequences of taxable asset and taxable stock acquisition; and 2) common nontax corporate acquisition issues such as unwanted assets, dissenting shareholders, and the assumption of liabilities.

**Activity:** Given a set of facts, the student will provide recommendations on a series of issues related to acquisition types and tax consequences.

**Facts:**

- 1) Target Corporation (T) is in the retail furniture and household appliance business. T is a regional company, and has an excellent reputation.
- 2) Acquiring Corporation (A) is a nationwide retailer of furniture and is interested into moving into T's market area.
- 3) A has approached T about a possible acquisition and T's management has been receptive.

**Issues:**

- 1) What would be the basic tax consequences to both A and T of an asset acquisition and a stock acquisition?
- 2) Which type of acquisition would you recommend if T had some valuable non-assignable contracts? Why?
- 3) Which acquisition type would you recommend if some of the T shareholders are dissenting? Why?
- 4) T is currently involved in a product liability lawsuit. If T loses this litigation, T will be subject to a significant obligation that is not fully covered by insurance. Which acquisition type would you recommend? Why?

## Related Resources

1. Bittker & Eustice: Federal Income Taxation of Corporations & Shareholders, Chapter 10.40 – “Asset Acquisitions: Allocation of Purchase Price in Computing Basis and Related Problems”
  - Bittker & Eustice. *Federal Income Taxation of Corporations and Shareholders*, 7th ed.
2. BNA Tax Management Portfolio, *Structuring Corporate Acquisitions — Tax Aspects*, No. 770-3<sup>rd</sup>, “Asset Acquisitions vs. Stock Acquisitions”
  - Phillips and Rothman, 770-3<sup>rd</sup> T.M., *Structuring Corporate Acquisitions — Tax Aspects*

## Webcast Poll Questions

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### Question

**Accountants can assist participants in M&A transactions in which of the following ways:**

- Draft the stock and asset purchase agreements
- Perform tax and financial due diligence and provide tax structuring advice
- Provide the financing for the transaction
- Act as the principal decision maker on whether or not to purchase a business

### Question

**Buyers generally perform due diligence in order to:**

- Assess the quality of the Target's assets
- Gain a better understanding of Target's historical earnings
- Identify unrecorded liabilities
- All of the above

### Question

**\_\_\_\_\_ generally requires more due diligence because Buyer inherits all of Target's liabilities.**

- Asset purchases
- Stock purchases
- Mergers
- Both stock purchases and mergers

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