Tax considerations during the M&A Journey

During an **M&A Journey, working in a thorough analysis of the Tax complexities of the deal**, a detailed strategy and having a strong implementation plan can make the difference, **specially in terms of returns**. Although the tax aspects alone are not motivators for establishing a M&A deal, they often end up being good drivers – **especially in LatAm and Brazil where tax laws are complex and could really jeopardize an operation**. In this context, **Deloitte Tax Advisory experts will share some basics points of attention in each step of the M&A journey:**

Ace your financial model

In order to design a **robust investment thesis and financial model, knowledge of tax laws is key to secure return on investment.** Asking for a tax professional to double check your model is a good practice especially in the case of cross-border deals. You should always check for the NOLs rules, the existence of tax financing programs, possible tax credits and tax incentives etc.

Debt vs. equity funding sources

In the funding structure of a deal, it is critical to assess the alternatives not only in terms of costs and governance but also, among others, **a minimum maturity period**, thin-cap rules; tax and Central Bank rules on both short and long terms depending on your strategy.

Valuation & Due Diligence

Understanding **the tax elements of a balance sheets and P&L are one of the main processes of a strong valuation** especially when the target includes complex tax assets or liabilities. A tax due diligence process is absolutely essential as it allows the buyer to discover any hidden liabilities or tax contingencies and secure the understanding of pre-identified tax gains.

Understanding purchase price allocation

In order for companies to account correctly the positive/negative goodwill arising from the transaction, **it is important to analyze the purchase price allocation method from an accounting and tax perspective.** When we talk about a share based deal, it is necessary to estimate the fair value of the shares for accounting perspective.

Adjust your target business model

Defining a post deal business model is the first step in the deal value capture process. In order to avoid miscalculation, **it is key to understand the tax rules** especially to ensure to pass from a gross revenue to a net of tax. Moreover, using the right formula for top line taxes, social charges, amortization rules and corporate tax is key in the design of the future business model.

Assess the exit strategies

When the investment is not strategic and includes an exit perspective, it is critical **to assess the different exit options** (IPOs, strategic sales and secondary transaction alternatives…) from a Tax prism to avoid losing the expected return.

Cross-border deal tax tips: A specific analysis is required when dealing with cross border payments considering that the Brazilian tax system is complex and subject to frequent changes. In addition, Brazilian tax authorities usually have an aggressive position and impose several different taxes. Finally, indirect taxes demand extensive attention from the companies operating in Brazil on top of corporate and withholding taxes.

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