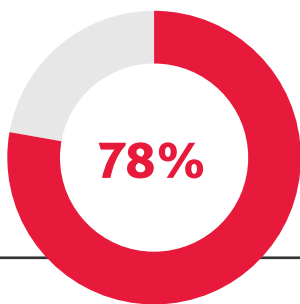


ENHANCING VALUE

Add-On Acquisitions: Domestic and International Insights

This insight was developed following a recent BDO Tax Strategist Private Equity [webcast](#) about the intricacies of add-on acquisitions and cross-border transactions. Read on to deepen your understanding of these complex transactions and learn how to navigate associated tax implications effectively.

THE IMPORTANCE OF TAX DUE DILIGENCE



of participants typically perform due diligence to **manage the risk of unknown tax exposures** in connection with their deals, according to BDO's [webcast](#) responses



Tax Due Diligence Helps Detect Material Exposure and Should:



Identify

- ▶ Tax risks and debt-like items that reduce value
- ▶ Potential tax planning opportunities post-close



Inform

- ▶ Purchase agreement
- ▶ Add-on acquisition planning
- ▶ R&w insurance and lending requirements

TAX CONSIDERATIONS FOR STRUCTURING ADD-ON ACQUISITIONS

Debt structuring is crucial in add-on acquisitions because companies often borrow significantly to finance the deal. As a result, consider increasing potential deductions related to financing and other transaction expenses, which can lower the overall deal cost.

In addition to structuring debt for tax efficiency, selecting an appropriate legal entity structure is also key. Without it, companies may find themselves in inefficient structures that make intercompany transactions and profit improvements challenging.

Tax Considerations for Add-On Acquisitions Include:

- ▶ Legal entity structure
- ▶ Tax basis step-up
- ▶ Sponsor holding period
- ▶ Management rollover
- ▶ General debt and lending considerations
- ▶ Cross-border collateralization of us. Debt
- ▶ Foreign repatriation and withholding tax management
- ▶ Foreign tax credits and dual consolidated losses



60% of **participants** cited **legal entity structure optimization** as the tax issue they are **most concerned** about regarding the structuring of **add-on acquisitions**

TRANSFER PRICING

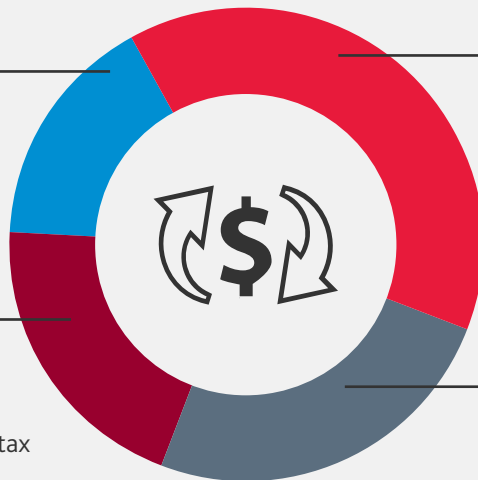
When asked to identify the most significant challenge their organization faces related to transfer pricing, **participants** cited the following:

16%

Our organization is not as focused on transfer pricing as it should be

20%

Addressing impact of business changes or changes in international tax law on the organization's transfer pricing structure



39%

Managing and documenting intercompany transactions in compliance with transfer pricing rules

25%

Responding to transfer pricing tax audits and managing disputes with tax authorities

Arm's Length Standard

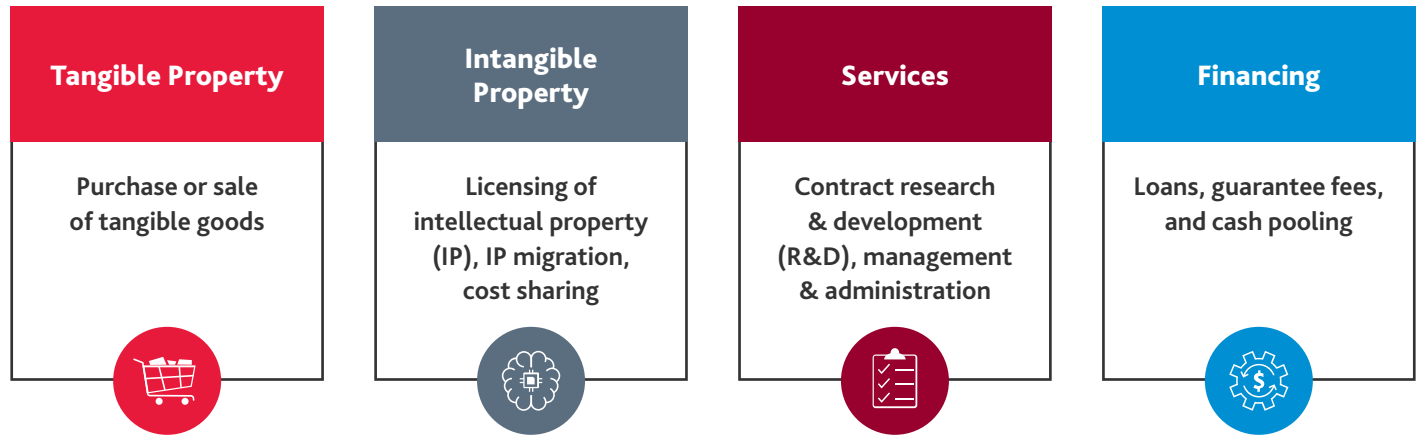
A controlled transaction meets the arm's length standard if the results of the transaction are consistent with the results that would have been realized if uncontrolled taxpayers had engaged in the same transaction under the same circumstances.



Transfer pricing plays a critical role in deals, as any overlooked issues become the responsibility of the buyer. If the target company has not properly managed its transfer pricing, the buyer's risk of adjustments in open audit years may increase, and highlight potential challenges in integrating the tax structures of the combined business. For example, taxpayers are restricted from amending or filing late U.S. tax returns that reduce U.S. taxable income as a result of transfer pricing. This can potentially lead the buyer to face costly adjustments or even double taxation.

TYPES OF INTERCOMPANY TRANSACTIONS

The Four Main Intercompany Transactions and Examples of Each



TRANSFER PRICING IN PRACTICE

Transfer Pricing in connection with acquisitions can create challenges and unique opportunities for tax planning.

Challenges

- ▶ The definition of intangibles for tax purposes is becoming broader
- ▶ Identifying the entity(ies) that own valuable intangibles is not always easy
- ▶ High risk of commingling intellectual property among affiliates, especially in the software/tech space
- ▶ The transfer pricing policies and structures of the acquirer and the seller may not align
- ▶ Poor support for pre-acquisition years could result in significant tax exposure and possible penalties
- ▶ Complex management of dual finance systems

Opportunities

- ▶ Transfer pricing models can contribute to reducing the effective tax rate (ETR) for the combined business
- ▶ Transfer pricing can increase utilization of tax attributes
- ▶ Transfer pricing helps align the acquisition structure with the areas in greatest need of cash
- ▶ Appropriate transfer pricing can help better track business segment/entity-level performance



Responses from participants in BDO's Tax Strategist Private Equity Webcast: [Enhancing Value in Add-On Acquisitions: Domestic and International Insights](#)