

# Mergers and Acquisitions

---

A sales tax compliance overview to help reduce your risk

GUIDE

# Prepare for your M&A transition

In recent years, businesses have learned to expect only two constants: volatility and uncertainty. And this feeling isn't industry specific. Players from every corner of the business world are riding the waves of change brought on by inflation, talent shortages, geopolitical risks, and more. In an effort to remain agile and competitive despite adversity, businesses are turning to mergers and acquisitions (M&A). This reaction isn't so surprising, as mergers and acquisitions remain a leading growth driver and help companies become more efficient and more profitable, and help them provide additional products and resources to their customers.

Among the many factors to consider while undergoing a business reorganization, sales tax compliance tends to fall near the bottom of the list. However, ensuring your company stays tax compliant is crucial in avoiding additional tax obligations and costly penalties. Here are a few typical scenarios you may encounter and key considerations to help prepare for your M&A transition.

## M&A situations

⊗ **Merger**

⊙ **Acquisition**

⊘ **Consolidation**

## Areas of focus



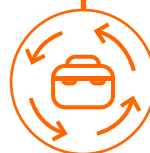
**Be aware of where you have nexus**



**Don't overlook your business licenses**



**Keep up with document management**



**Understand impacts to business systems**

# Common M&A situations that may impact tax compliance



**Merger**

| Acquisition

| Consolidation



## Merger

**Joan is the controller for a small software company.** Her company is purchased by a larger software company and subsequently enters into a statutory merger. After the merger, Joan's company ceases to exist and now operates as a division within the merged company. **Clive is the chief financial officer of the surviving company.**

Joan's legacy company will typically need to deregister in states where it has active sales tax licenses and permits, as well as business licenses. She'll need to make sure the company stops collecting tax, closes out its sales tax licenses and permits, and files final tax returns through the last day of the company's required tax reporting period.

Clive will need to reevaluate the new, surviving company's **nexus** footprint, which has possibly expanded into additional taxing jurisdictions where Joan's division continues to conduct business activities like selling products or performing services.

Clive will also need to make sure he obtains new tax exemption certificates from customers of Joan's division who will now buy tax-exempt goods and services from the surviving company where he works. In addition, Clive may need to adapt his company's sales tax compliance software and reporting process to accommodate any new revenue streams that impact tax reporting.

# Common M&A situations that may impact tax compliance



Merger

Acquisition

Consolidation



## Acquisition

**Camille oversees an ecommerce team at a luxury fashion house. Jeremy is a senior accountant at a retailer known for its affordable apparel.**

Camille's company purchases all of the stock in Jeremy's company. Jeremy's company and brand remain intact and are still owned by the luxury fashion house.

Jeremy may need to notify various taxing authorities of a change in ownership in jurisdictions where his company is registered for tax reporting.

Camille's business will need to analyze where it may have created additional nexus, and therefore additional tax registration and reporting requirements, due to acquiring the apparel line. Her company will also need to obtain new tax exemption certificates from customers of Jeremy's company who may start purchasing merchandise tax exempt or "for resale" from the luxury fashion house.



# Common M&A situations that may impact tax compliance



Merger

Acquisition

Consolidation



## Consolidation

**Mark is vice president of finance for a bicycle factory. Pamela is the chief financial officer for a manufacturer of sports accessories.** Their businesses consolidate into an entirely new company. The companies they previously worked for dissolve and no longer exist after the consolidation.

Both legacy businesses need to notify taxing authorities of the consolidation in jurisdictions where they have active sales tax accounts, permits, and business licenses. Typically, these taxing authorities will require them to close out their existing tax licenses and permits, and then open new ones under the newly formed company.

The new company will need to assess where it has created nexus as a result of its combined operations and register for tax reporting in those jurisdictions. It must also obtain new tax exemption certificates from customers of both former businesses who start purchasing goods tax exempt or “for resale” from the new company.

## Other M&A types

Other M&A deals include tender offer, acquisition of assets, and management acquisition. Each of these cases is unique, yet in each case, businesses must address sales tax compliance issues similar to those above.



# Key areas of focus for tax compliance



Be aware of where you have nexus



Don't overlook your business licenses



Keep up with document management



Understand impacts to business systems

**Regardless of which type of M&A activity your company is going through, you'll likely face sales tax compliance challenges.** These can absorb your time, require you to keep tabs on changing regulations, and expose your business to potential risk. And, too many times, the last department made aware of a merger or acquisition is the tax or operations department. Keeping your tax professionals out of the loop can have negative consequences, especially if you're audited.

It's also a good practice to assign an individual to manage all aspects of tax compliance changes during the business reorganization. Often, these changes involve multiple departments, including tax, accounting, IT, legal, and operations. Interactions with state and local governments, such as deregistering and reregistering, can span months.



### Be aware of where you have nexus

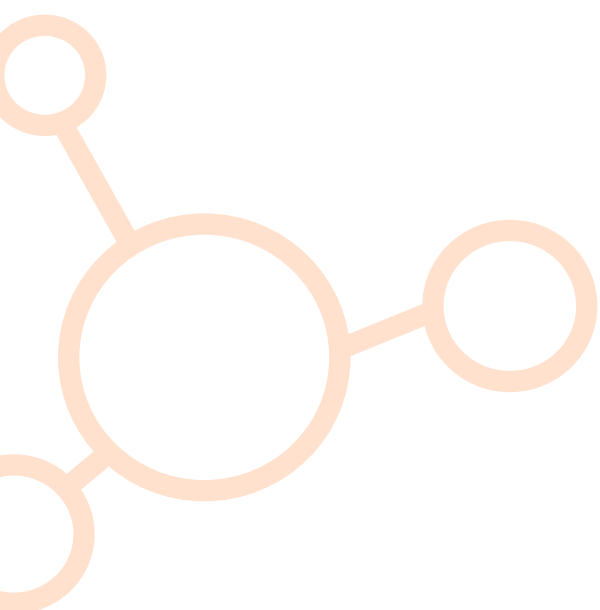
M&A activity can expand your nexus footprint. Knowing where your company has created physical or economic nexus because of a merger, acquisition, or consolidation is important in determining your company's tax reporting obligations. You may need to register in new taxing jurisdictions.

Avalara's team of tax specialists offer a **sales tax risk assessment** to help you evaluate your nexus footprint and identify where you may have sales tax responsibilities.



#### **Avalara Tax Research:** *Expert tax services at your fingertips*

Avalara Tax Research provides sales and use tax answers, tax research, and access to expert consultants to help companies get tax compliance right. Our experts can help you understand how products and services are taxed when going through a merger or acquisition.





### Don't overlook your business licenses

When acquiring another company, you don't automatically absorb their business licenses or regulatory licenses. If you plan on immediately operating your acquired locations, selling products, and keeping your supply chain up and running, you need to be sure the licenses owned and maintained by your acquired company are up to date. You'll also need a strategy to transfer the licenses or acquire new valid licenses if they're not transferable. If you're the target company, you'll want to do the preliminary work to confirm guarantee your licenses are in good standing so as not to add risk or unexpected liability that can sour an acquisition.

#### **Avalara License Professional Services:** *Let us do the hard work for you*

Avalara License Professional Services can conduct an audit of your licensing requirements and status and handle your sales tax registrations, obtain your business licenses, and manage your filings with your Secretary of State's office. In addition, our consultants are able to help you better understand impacts to your licensing requirements.

#### **Avalara License Management:** *Manage thousands of licenses easily*

Avalara License Management is ideal for larger businesses and enterprises with hundreds to thousands of licenses to manage. The single, easy-to-use solution speeds up acquiring or renewing business licenses, permits, and tax registrations to streamline your compliance burden and help you avoid fines or penalties.





## Keep up with document management

During M&A, you'll need to ensure that all tax documentation, including customer exemption and resale certificates, are replaced and that they reflect new business information when appropriate. Getting new exemption documentation is often necessary to maintain compliance. Businesses should also maintain all of an acquired company's historical "tax-sensitive" data for several years after a business reorganization since you could be audited.

### **Avalara Exemption Certificate Management (ECM):** *Automate your exemption certificate processes*

Avalara Exemption Certificate Management (ECM) allows you to collect, verify, store, and access exemption and resale certificates in minutes. This solution works in harmony with the Avalara AvaTax calculation system. Or—let Avalara's team of experts handle the tedious work. With Avalara ECM Managed Services, we'll take care of compliance documentation operations for you, so you can focus on your core business.



## Understand impacts to business systems

During M&A, it's important to consider which business systems and sales channels each company has been using. This includes shopping carts; software for ecommerce, business, and accounting systems; and even online marketplaces. If the parent company's ERP handles sales tax differently from the acquired company's ERP, for example, it could cause data instabilities.

### **Avalara AvaTax:** *Resolve existing and future tax discrepancies*

Avalara AvaTax can help resolve tax compliance discrepancies. And, with more than 1,200+ signed partner integrations, Avalara solutions are compatible with many of today's accounting, CRM, POS, and shopping cart systems.

## Avalara is here to help

A merger or acquisition can be an exciting time for your company. Don't let sales tax compliance hinder your M&A experience. Let Avalara help you handle your tax complexities so you can focus on day-to-day operations, leaving the stressful work to us.



For more information on Avalara products and services that can help expedite a business reorganization, please contact your Avalara account manager or call 877-780-4848.