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**M&A After Tax Reform:
A Practical Survival Guide to New Opportunities
and Challenges Facing Deal Lawyers**

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Impact of Tax Changes on M&A Transactions

- **Background Overview**
 - Changes in Income Tax Rates
- **Transaction Structure Considerations**
 - Acquisition Vehicle: Flow-Through vs. C-Corp
 - Alternatives
 - Traps for the Unwary
 - Acquisition Type: Asset vs. Stock
 - Acquisition Financing: Leverage
- **Other Transaction Tax Matters**
 - Purchase Price Allocation
 - Changes Impacting Foreign Operations
- **Serious Uncertainty**

Background Overview: Changes in Income Tax Rates

Corporate Income Tax Rates

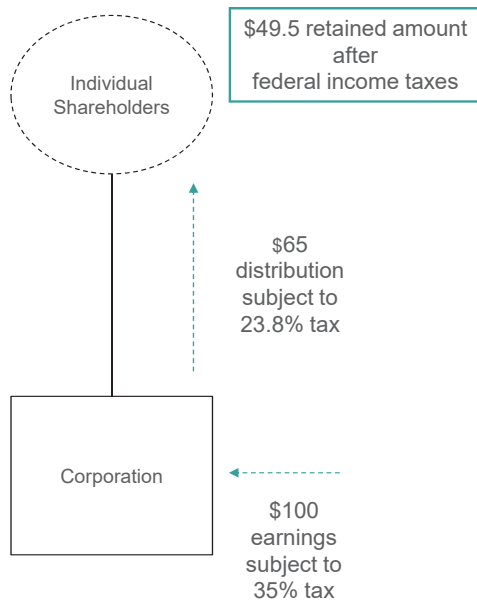
- New Corporate Income Tax Rate: 21%
 - Prior graduated rates with top rate of 35% now 21% flat rate
 - Effective for tax years after 12/31/17 and permanent going forward
 - Fiscal year taxpayers benefit from rate change starting 1/1/18 by applying a blended rate for the fiscal year based on the number of days of the fiscal year before and after the effective date

Individual Income Tax Rates

- Reduction in Rates
 - Highest marginal rate for individuals reduced from 39.6% to 37%; 3.8% net investment income tax retained
 - 29.6% effective federal rate to the extent the 20% “pass-through deduction” under Section 199A is available

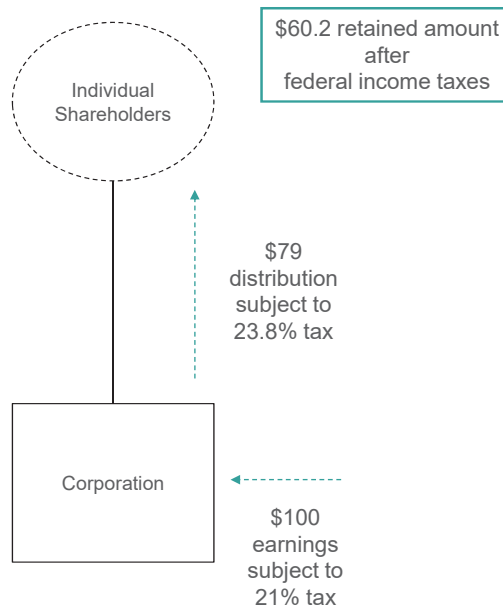
Background Overview: Changes in Income Tax Rates

Before Tax Reform



50.5% combined corporate & dividend tax rate compared to 39.6% top ordinary income tax rate

After Tax Reform



39.8% combined corporate & dividend tax rate compared to 37% top ordinary income tax rate

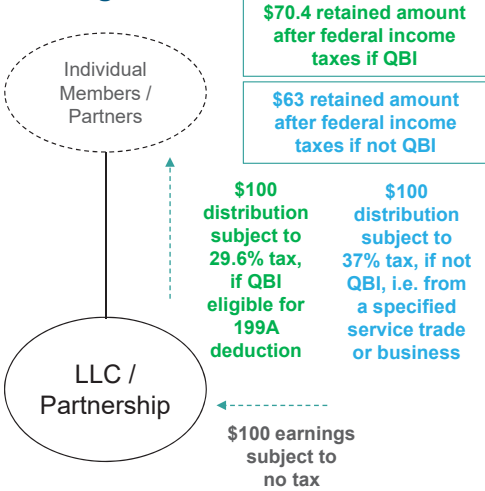
Background Overview: Changes in Income Tax Rates

Partnership / Flow Through Income Tax Changes

- Qualified Business Income Deduction
 - 20% deduction for qualified business income through 2025 (sunset for tax years beginning after 2025), limited to greater of a) 50% of W-2 wages, or b) 25% of W-2 wages + 2.5% of capital assets
 - Meant to capture earnings from capital (and not wages)
 - Specified personal services businesses not eligible, except for taxpayers with taxable income <\$157,500/\$315,000 (deduction phased out over next \$50k/\$100k)
 - Personal services businesses include, among others, legal, financial, healthcare or any business where the principal asset is the reputation or skill of its employees or owners
 - Deduction for qualified business income may impact structure of management equity vehicles and employment companies due to the need for W-2 wages
 - Recent guidance addresses aggregation and related entity planning

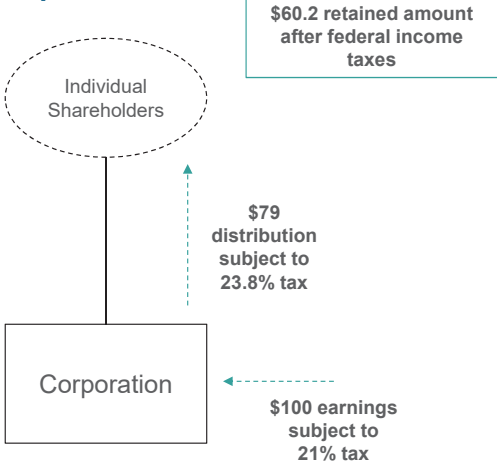
Transaction Structure Considerations: Acquisition Vehicle Comparison Flow-Through vs. C-Corp

Flow-Through Vehicle



Specified service trade or businesses include (among others): **healthcare, law, financial services, and investing and investment management services**
 Pre-Reform: tax rate of 39.6% would result in \$60.20 retained.

Corporation



39.8% combined corporate & dividend tax rate compared to 37% top ordinary income tax rate
 Pre-Reform: 50.5% combined corporate and dividend tax rate would result in \$49.50 retained.

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