

PRESENTED AT
14th Annual Mergers and
Acquisitions Institute

October 4-5, 2018
The Ritz-Carlton
Dallas, Texas

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

Samantha Crispin, Baker Botts L.L.P.
Dave Klein, PwC
Alejandro Ruiz, McDermott, Will & Emery LLP
Michael Threet, Haynes and Boone, LLP

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

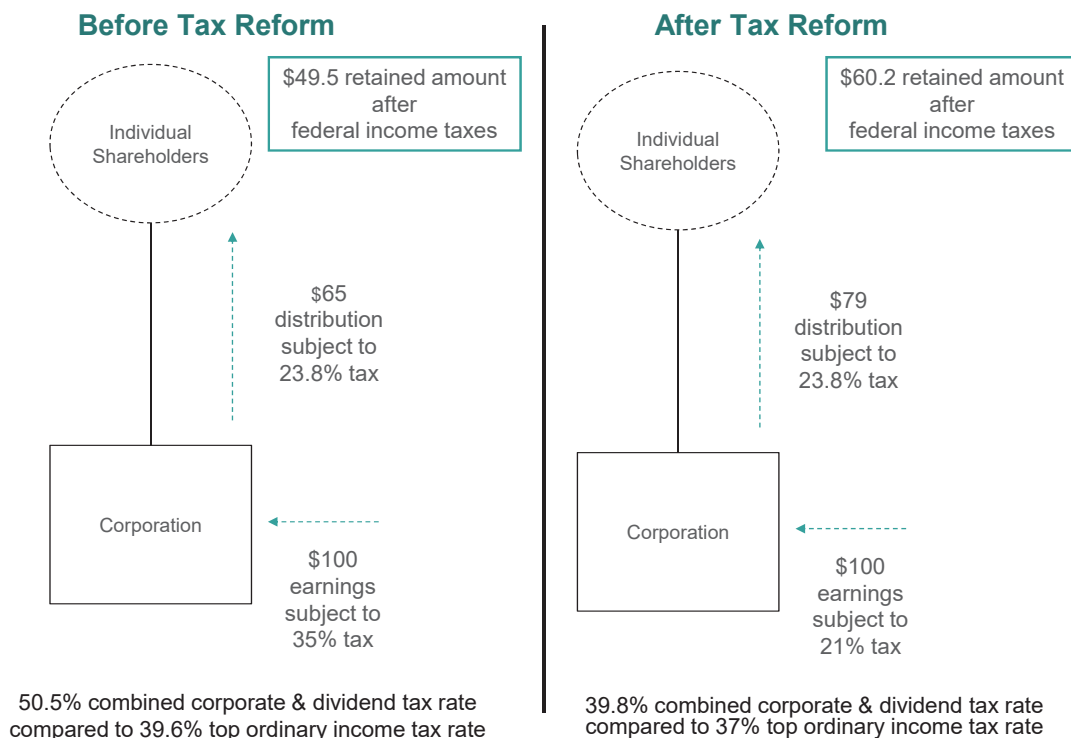
Corporate Income Tax Rates

- 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



Background Overview: Changes in Income Tax Rates

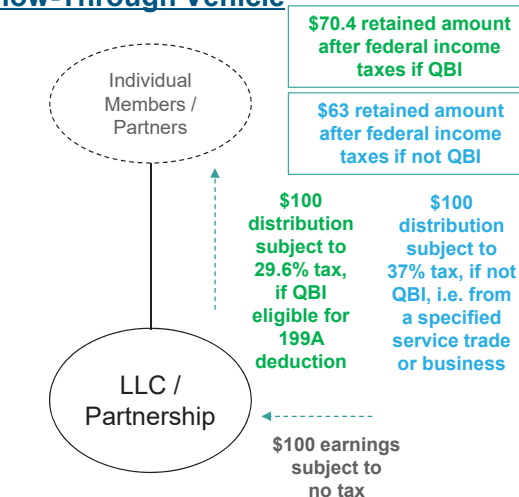
Partnership / Flow Through Income Tax Changes

- 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

5

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

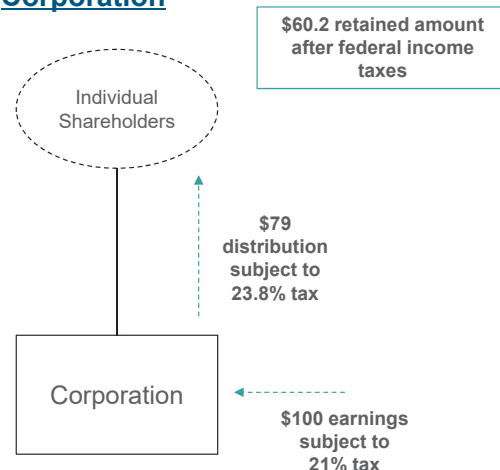
Flow-Through Vehicle



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.

Find the full text of this and thousands of other resources from leading experts in dozens of legal practice areas in the [UT Law CLE eLibrary \(utcle.org/elibrary\)](https://utcle.org/elibrary)

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

First appeared as part of the conference materials for the
14th Annual Mergers and Acquisitions Institute session

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