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Tax Due Diligence in Today's Merger & Acquisition (M&A) Market

From Risk Identification to Value Creation

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In today's evolving Merger and Acquisition (M&A) landscape, dealmakers are operating in a more cautious and selective environment. While transaction activity remains resilient, there is increased scrutiny on risk, valuation and deal execution.

Against this backdrop, tax due diligence is no longer a routine compliance exercise. It plays a critical role in supporting negotiations, providing deal clarity, and safeguarding or even enhancing transaction value.

A Changing M&A Environment: Why Tax Due Diligence Matters More Than Ever

Recent market conditions have reinforced the importance of robust tax due diligence:

► **Heightened buyer caution**

Buyers are increasingly focused on risk-adjusted returns, resulting in deeper diligence and tighter deal terms

► **Valuation sensitivity**

Even relatively small tax exposures can have a meaningful impact on pricing and negotiations

► **Increasing regulatory complexity**

Developments such as BEPS Pillar Two, evolving transfer pricing requirements, and cross-border considerations have made tax positions more complex

► **Execution risk**

Transactions may be delayed or renegotiated where issues arise during due diligence

In this environment, tax due diligence serves not only as a defensive tool, but also as a key enabler of informed decision-making.

Key Areas of Focus in Tax Due Diligence

From a practical perspective, tax due diligence typically focuses on several key areas in transactions, including:

- ▶ Withholding tax considerations on cross-border payments
- ▶ Transfer pricing arrangements and documentation
- ▶ Tax incentives and exemption conditions
- ▶ Capital vs revenue classification affecting deductibility
- ▶ Historical tax positions and exposures not immediately apparent from financial statements

Understanding these areas early allows stakeholders to assess potential implications and address them proactively as part of the deal process.

Beyond Risk: How Tax Due Diligence Creates Value

Tax due diligence is not solely about identifying risks – it can also support value creation in a transaction.

It can:

▶ **Support pricing discussions through quantification of potential exposures**

▶ **Identify optimisation opportunities, including utilisation of tax attributes**

▶ **Enhance deal structuring decisions, particularly in cross-border transactions**

▶ **Facilitate smoother post-acquisition integration by reducing uncertainty**

When approached strategically, tax due diligence becomes a tool for value preservation and value enhancement.

Practical Considerations for Buyers and Sellers

For Buyers

- Engage tax advisors early in the transaction process
- Focus on areas with potential financial impact
- Ensure tax findings are aligned with deal structure and negotiation strategy

For Sellers

- Consider vendor due diligence to address matters upfront
- Ensure key tax positions are supported with appropriate documentation
- Prepare early to minimise disruption during buyer due diligence



Conclusion

In a market where execution risk and deal certainty are increasingly important, early visibility of tax matters can make a meaningful difference to transaction outcomes.

By providing clarity on risks and opportunities, tax due diligence supports better decision-making, smoother execution, and stronger deal outcomes.

Please feel free to reach out to us should you wish to discuss how tax due diligence may support your transaction.



Contact us

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