

Issue: March 2016

ETS Tax Intelligence: 2016 M&A Activity Outlook

Situation

Other than a slight decline in calendar year 2013, merger & acquisition (M&A) activity in the U.S. has been trending upward since the Great Recession, with approximately 12,880 publically announced transactions in 2015. This growth trend is expected to continue well into 2016.

Often overlooked, M&A activity can significantly impact employment tax costs and places a compliance burden on those responsible for managing employment tax filings within an organization.

Solution

The responsibility for employment tax compliance is often held within the payroll or payroll tax departments.

Unfortunately, these departments are often the last to know an M&A transaction has occurred. This delay can prevent the gathering of employment tax information during the due diligence process necessary to assist in planning for the integration. Representatives of the payroll and payroll tax departments must work together to educate M&A committee members on employment tax related issues that can materially impact post-acquisition compliance requirements and costs. One mechanism to create awareness is to add an employment tax section to the due diligence checklist, with specific reference to unemployment tax rate planning and management. This should prompt discussion, education, and pre-transaction analyses early in the acquisition process.

Key information/documents to review during the due diligence process including but not limited to:

- Federal – Form 940, Form 941, and any IRS correspondence/notices received by the target employer over the past three years.
- State – Form 941 equivalent, unemployment tax rate notices, unemployment quarterly contribution and wage reports, and any state correspondence/notices received by the target employer over the past three years.

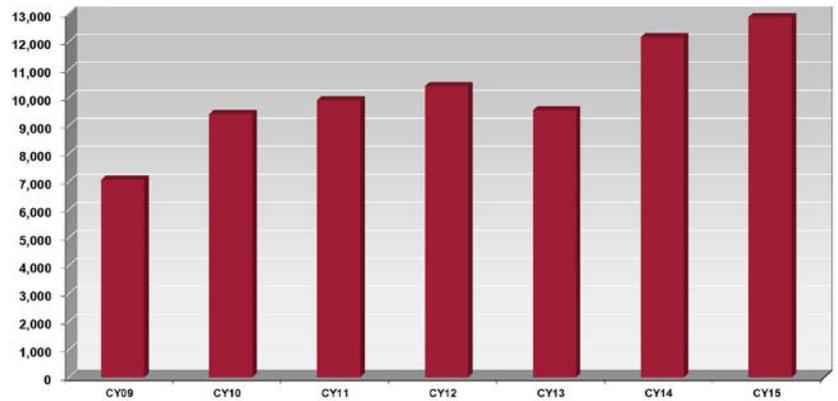
After the due diligence process, planning to meet compliance requirements can begin, including the carryover of annual taxable wage bases whenever possible:

- Compliance – Each state has a different set of documents required to report M&A activity which focuses on the movement of employees from one legal entity to another. Timely navigation of these required documents is important since an error in filing can create the risk of improper rate assignments, miscalculation of tax liabilities, penalty rate assignments, or tax overpayments that must be recovered at a later date, if detected.
- Research and Recovery – When an M&A transaction occurs mid-year, employers must assess the ability to carryover the annual taxable wage bases for FICA, FUTA and SUTA tax purposes. Applicable federal and state statutes must be reviewed to determine if an employer is entitled to carryover the wage base. In addition, other factors may prevent the carryover of wage bases such as payroll system limitations and the amount of time available to transition wage detail from the target employer to the acquiring employer. If the acquiring employer is unable to carryover the wage bases, most taxing jurisdictions allow employers to retroactively apply for a refund of the duplicated taxes going back three years. Most M&A transactions, depending on the facts and circumstances, are of a type that allow an acquiring employer to carryover the taxable wages paid by the target employer in determining the annual taxable wage base limit.

Value

M&A transactions can present significant employment tax risk. Including those within the organization responsible for employment tax oversight early on in the due diligence process can decrease that risk. Equifax assists employers in identifying ways to mitigate risk, manage compliance requirements, and recover overpaid employment taxes associated with M&A transactions that may have occurred years prior. For more information, please contact Pete Krieshok at (314) 214-7325 or via e-mail at pete.krieshok@equifax.com. You can also visit our corporate blog at <http://insight.equifax.com/> for information on other employment tax matters that might impact your organization.

U.S. M&A Activity 2009 - 2015



Source: February 2016 US Flashwire Merger and Acquisition Information