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Tax Intelligence

Mergers, Acquisitions and Reorganizations – An Employment Tax Perspective

Situation

As the economy continues to improve, one may expect to see a significant increase in mergers, acquisitions and divestitures. In addition, many companies may reorganize business operations to better address business needs. When undertaking these transactions, a comprehensive employment tax review is necessary to maximize employment tax value, mitigate risks, and ease payroll integration in business processes.

Solution

When determining payroll tax impacts and action items with respect to mergers, acquisitions and reorganizations, most companies utilize a phased approach to ensure all objectives and requirements are met. A comprehensive employment tax review should include the following:



Best Practices

- Payroll should be involved **as soon as possible** to evaluate risks, ease integration, and gather information necessary to meet compliance obligations. Unfortunately, most payroll teams are not involved until Step 3.
- Acquisition agreements should address "Seller's Responsibilities for Payroll Transition," include the information needs of purchaser, and insure predecessor approvals are secured when beneficial.
- Assumption of state unemployment tax (SUI) liabilities should be a **significant** concern. Contrary to the treatment of other tax and legal liabilities, assumption of SUI liabilities are not generally avoided by structuring a transaction as an asset acquisition or by purchasing out of bankruptcy. However, stringent due diligence and tax clearance processes can limit liabilities.
- Wage base restarts are usually not required with mid-year acquisitions. Workarounds can be implemented if system limitations that prevent wage base continuation are present.
- To mitigate employment tax risk, *timely filing of compliance paperwork is mandatory*. State unemployment agencies have systems to track employee movements, and failure to report could lead to delays in processing SUI tax rate transfers and/or substantial tax assessments.

Value

A due diligence review and proper planning procedures will identify potential planning opportunities, ensure compliance, minimize risk, and reduce unemployment tax costs. TALX can assist employers that have had or are planning for merger, acquisition, or reorganization activity to ensure all employment tax compliance requirements are met and tax planning strategies have been evaluated. For more information, please contact Pete Krieshok at (314) 214-7325 or pkrieshok@talx.com or visit our corporate blog at <http://blog.talx.com>.