

Doing Business in the UK: M&A and financing your UK business

18 November 2020



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Tax legislation is that prevailing at the time, is subject to change without notice and depends on individual circumstances. Clients should always seek appropriate tax advice from their financial adviser before making financial decisions.





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Agenda

- 1 M&A in the UK
- 2 M&A in the UK - Tax considerations
- 3 Financing your UK business
- 4 Financing your UK business - Tax considerations
- 5 Post-deal integration
- 6 Q&A





M&A in the UK

Mark Benka

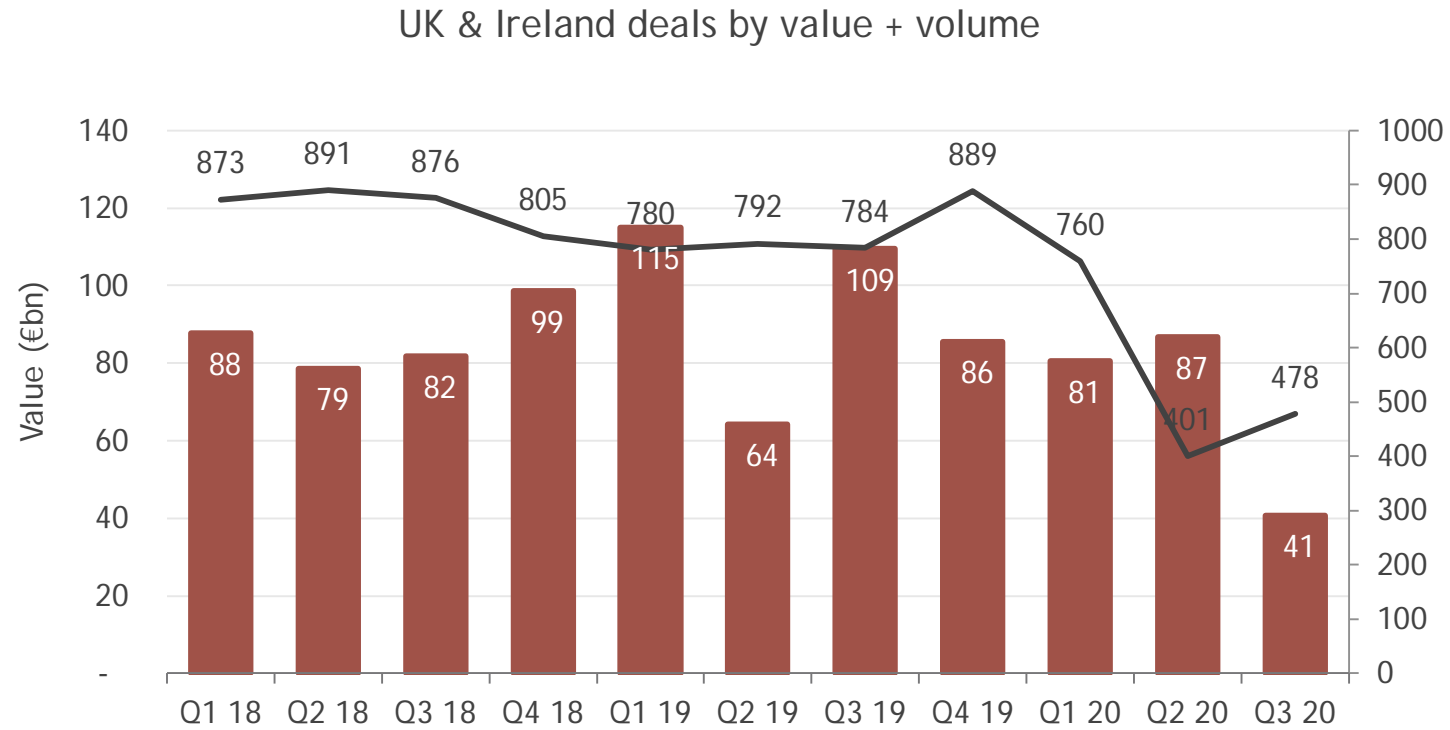
Partner, Transactions

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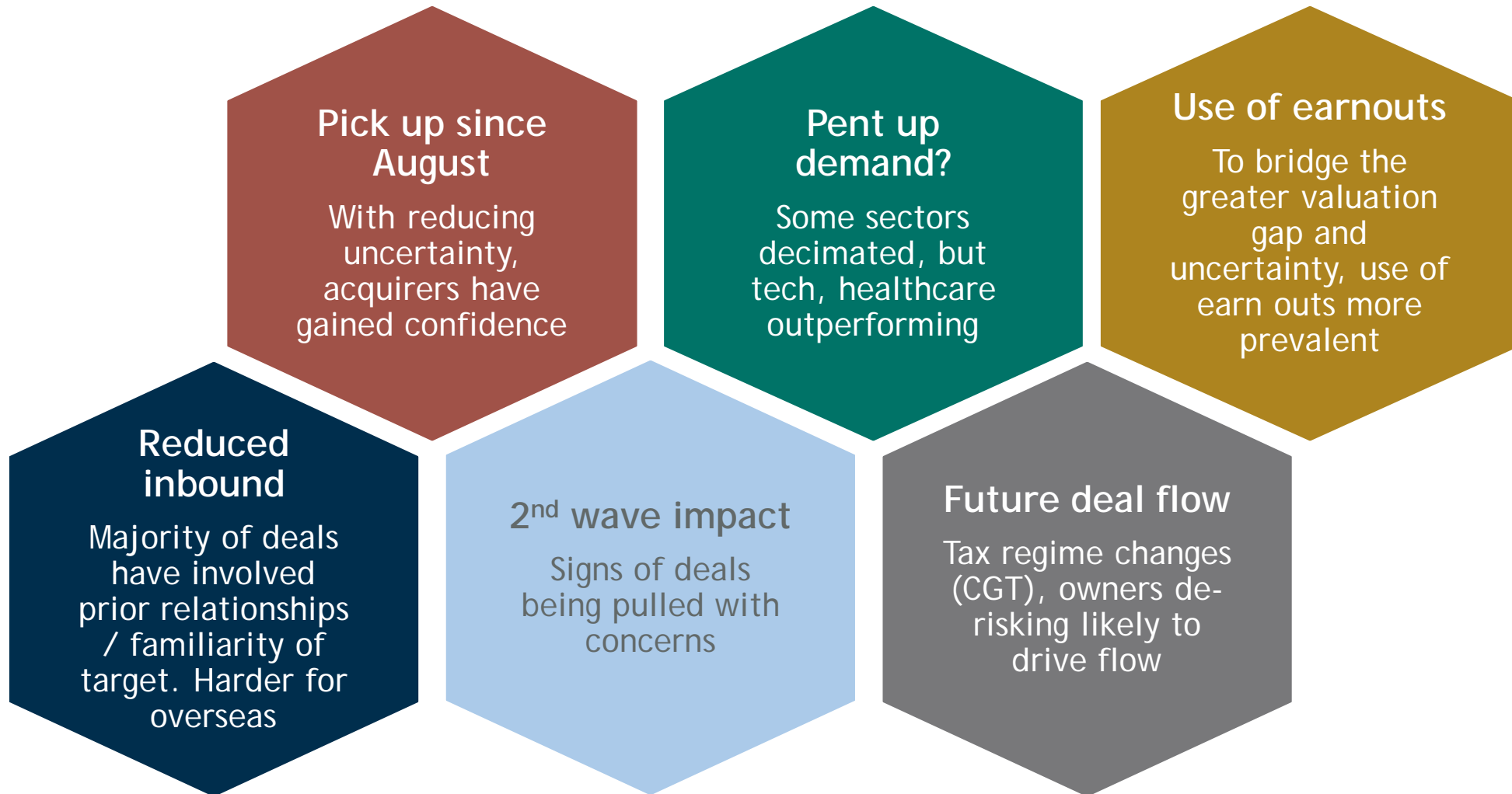
UK M&A - key market features



Source: Pitchbook



UK M&A - key market features





Considerations for buy v build

PROs

- Ready-made market entry
- Potential talent acquisition
- Speed of growth
- Execution risk lower
- Investment cost defined

CONs

- Integration- challenging
- Lack of experience
- Less "Control" of message
- Potential team disruption
- Legacy issues to resolve





UK - key attributes

Market

Access a market of over 60 million people

Tax regime

Business-friendly tax is the lowest in the G20, and taxation rules are simple to understand.

Incentives

Skilled workforce; support for research and development and tax relief to encourage investment





UK M&A processes - key observations

DD process

- Vendor due diligence concept widely use - Duty of care given to purchaser
- Limited impact on DD process from COVID-19
- Prevalence of W&I insurance

Completion mechanism

- Sellers prefer locked box approach
- Completion accounts still used eg in carve out, complex situations

Accounting

- UK companies either UK GAAP (FRS102) or IFRS
- Need to understand key differences during DD
- Revenue recognition
- Share schemes





M&A in the UK - Tax issues

Alistair Shaw

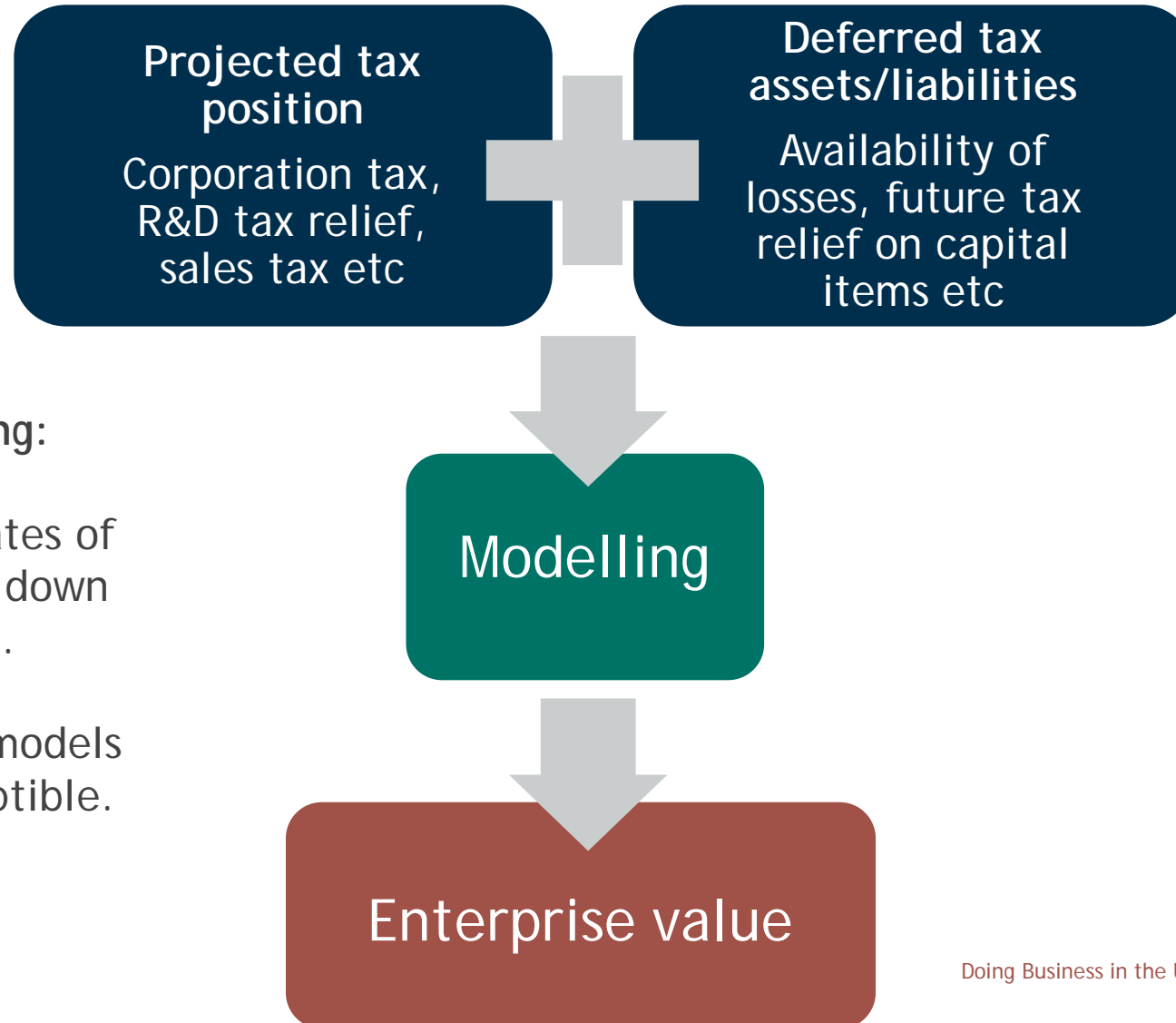
Partner, Corporate Tax

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Determining the value of the business



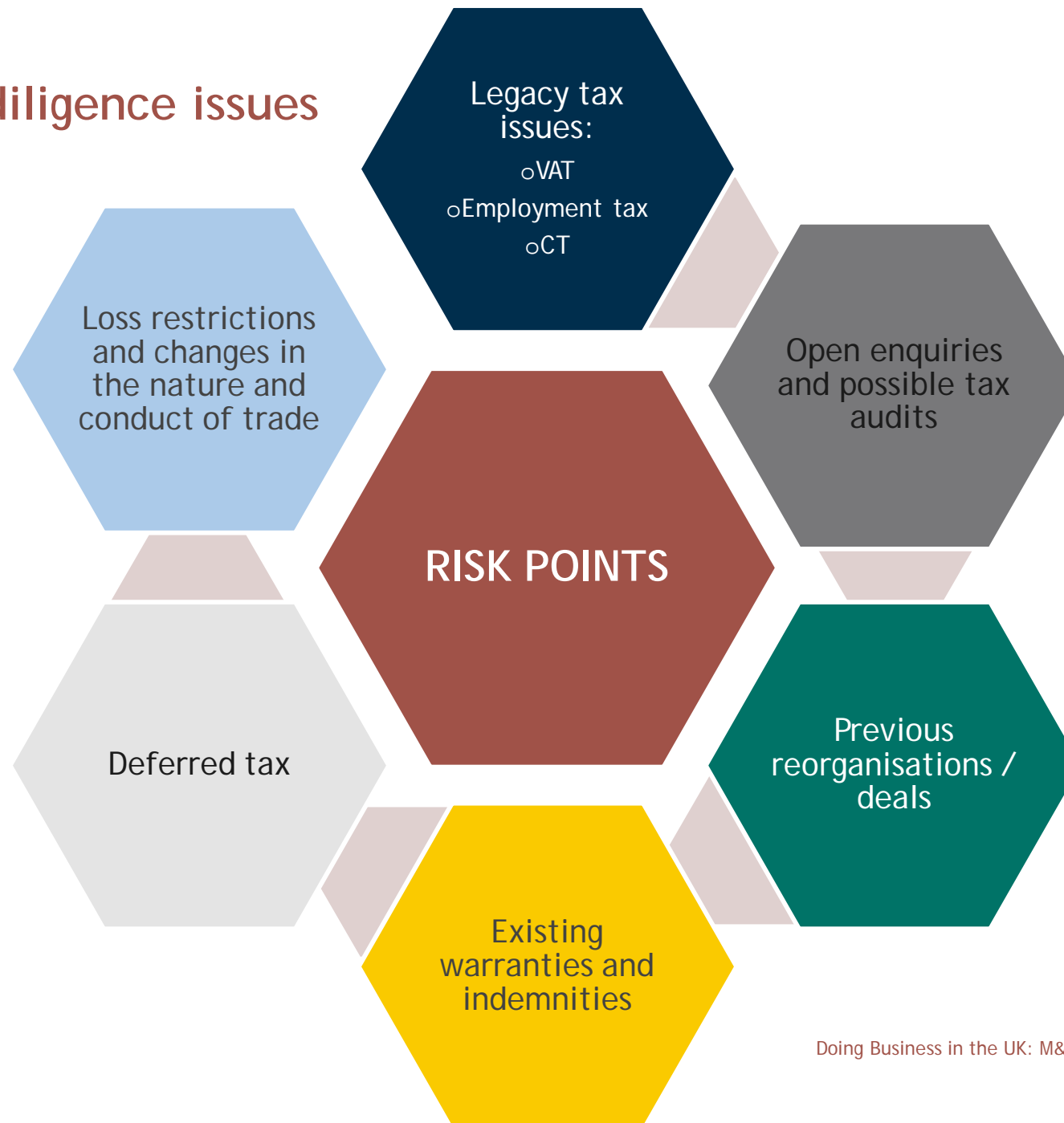
What we are seeing:

Overly prudent estimates of tax liabilities, driving down enterprise values.

Discounted cash flow models are particularly susceptible.

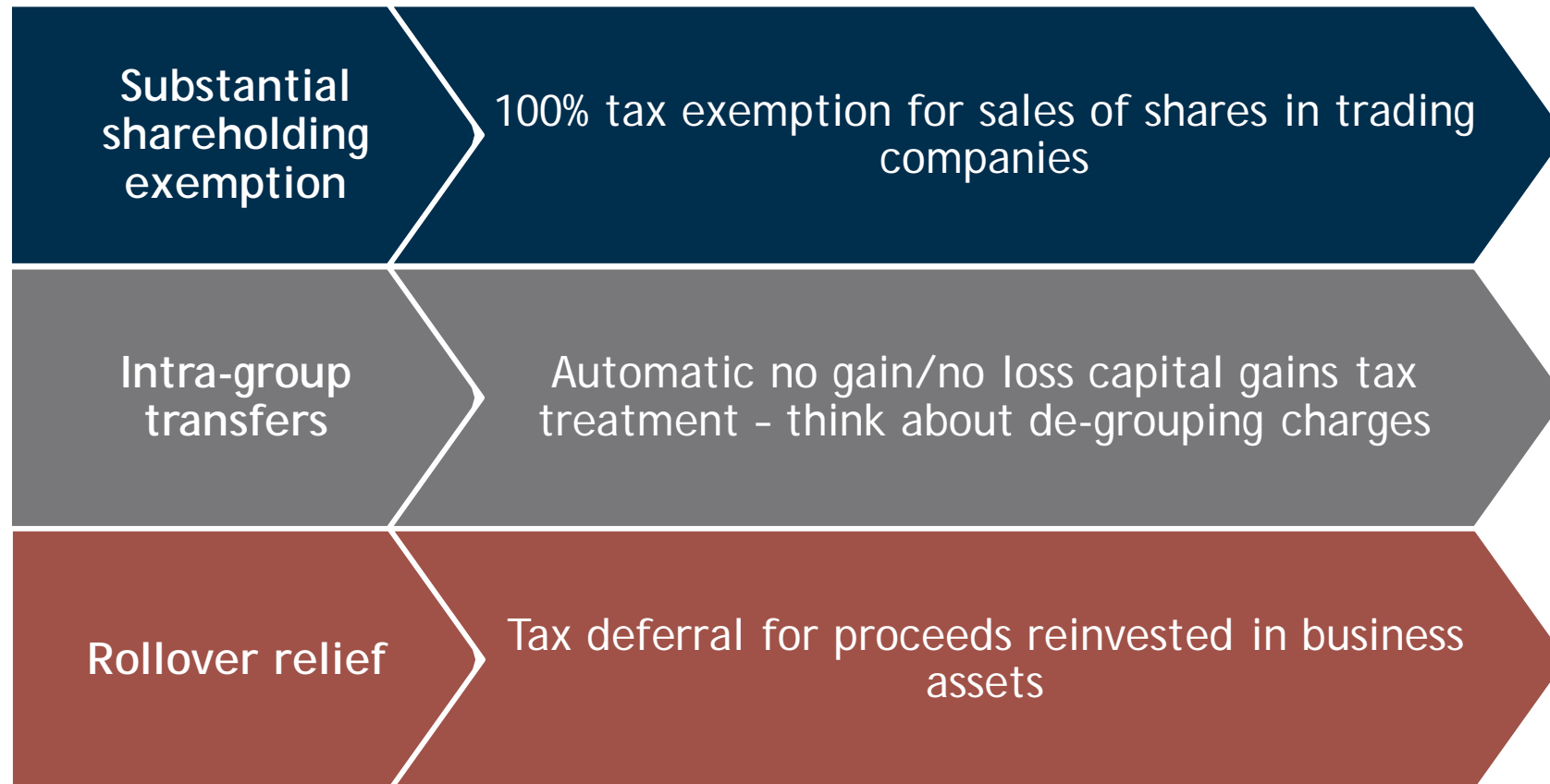


Common tax due diligence issues





Tax structuring ahead of a deal: UK tax reliefs and exemptions



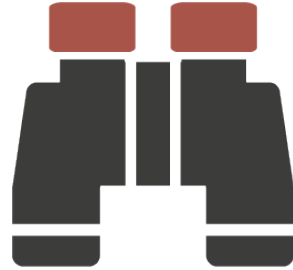


Other tax issues



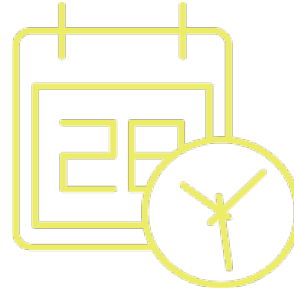
Corporate Criminal Offence

Are procedures in place?
Are there sufficient indemnities for potentially unlimited fines?



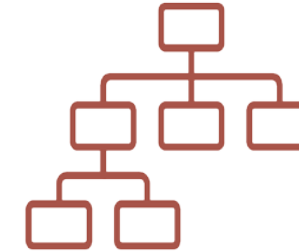
Overclaimed COVID financial support

Is there a risk of penalties? There are heavy penalties for excessive claims.



Tax deadlines

Be sure not to miss crucial deadlines for claims, payment and filing.



Groups

Changes to group membership can affect payment dates, eligibility for reliefs and filing requirements



DAC6

Has the target been involved in reportable cross-border arrangements? There is a greater risk if no EU/UK advisers are involved.





Financing your UK business

Mark Benka

Partner, Transactions

Smith & Williamson LLP





Financing - UK lenders

Types of lender

- Traditional lenders less active
- Challenger banks or private credit funds moving in

Availability

- Strong, but...
- Sector important
- 2021?

Terms

- Rates
- Covenants - supportive



Financing your UK business – Tax issues

Alexandra Bray

Director, Corporate Tax

Smith & Williamson LLP





Restrictions on interest deductibility



Hybrid mismatch rules: Interest disallowed on hybrid arrangements



Corporate Interest Restriction: Interest over £2m restricted to $\approx 30\%$ EBITDA



Transfer pricing / thin capitalisation: Intra-group interest rates and debt quantum must be at arms-length



Withholding tax on payments to non-UK lenders

No treaty relief:



Full treaty relief is available:



Double Taxation Treaty Passport scheme:

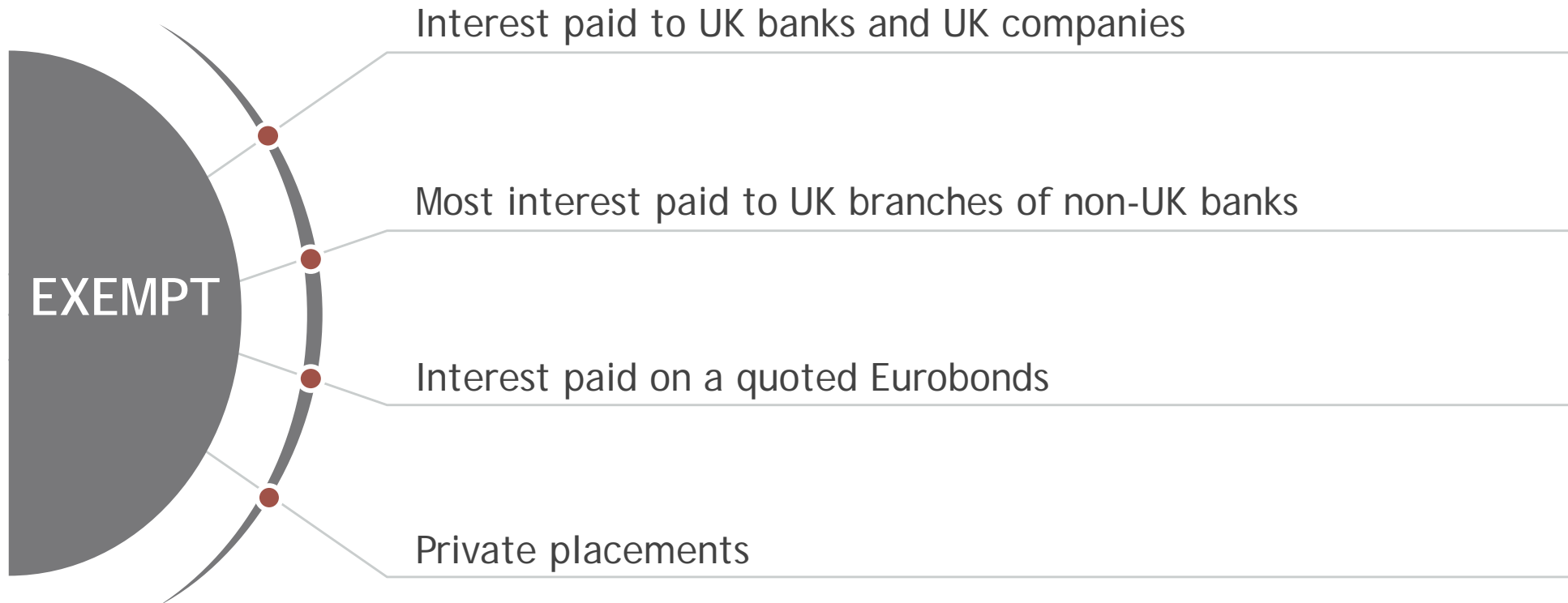


Admin burden and time cost





Exemptions from withholding tax





Post-deal integration

Mark Benka, Alexandra Bray





Post deal integration

Priorities

- Bring acquired team on quickly with clear communication and timelines
- Ensure the talent you are acquiring feels valued

Focus on objectives, culture & value proposition

- Consideration for people, processes and systems
- Prioritise customers, if applicable

Understanding key differences in the UK environment

Planning

- Pre-close
- 100 day plan
- Longer term objectives





Post deal integration - tax and accounting considerations

Alignment and optimisation

- Restructuring, rationalisation
- Capture synergies
- Mitigate historic exposures
- Align policies e.g.
 - Reward
 - Transfer pricing
 - Controls and governance
- Think about losses?
- Does the target trade with the EU and is it Brexit ready?

Compliance

- Key tax deadlines
 - Corporate income tax returns - due 12 months after period end, payments due in advance
 - Payroll - monthly
 - P11D - annually 6 July
 - VAT - usually quarterly returns and payments
- Group thresholds
 - New legislation applicable?
 - Do you need an audit?



How can S&W & CLA help?

Pre-transaction:

Target identification
Initial due diligence
Transaction and tax structuring
Acquisition price and price adjustments
Financial modelling

During the deal:

Detailed due diligence:
- Tax and accounting
- Operations and human resources
- Systems and technology.
Reviewing contract terms, warranties and indemnities

Post-transaction:

Integration support
Valuations
Accounting for the acquisition and purchase price allocation
Purchase price adjustments





Q&A with the speakers



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Post-Brexit: The UK as a hub for Europe

Wednesday 9 December 2020
10 am CT/11 am ET/4 pm BST





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