



## MITIGATING TAX RISK IN MERGERS AND ACQUISITIONS

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In the world of mergers and acquisitions, where deal values can reach into the billions and timelines are often compressed, overlooking tax implications can be a costly mistake. In 2025, the complexity of tax regulations, both domestic and international, has only increased. This makes early and thorough tax planning not just advisable but essential for both buyers and sellers.

One of the first and most impactful decisions in any M&A transaction is how the deal will be structured. Buyers often prefer asset purchases because they allow for a step-up in the tax basis of the acquired assets. This enables immediate depreciation and helps shield against undisclosed liabilities. For example, if a buyer acquires ten million dollars in depreciable assets with a remaining life of ten years, they can reduce taxable income by one million dollars annually using straight-line depreciation. Asset deals also offer flexibility, allowing buyers to acquire only the parts of the business they want.

Sellers, on the other hand, typically favor stock transactions. This is especially true for C corporations, where asset sales can result in double taxation. First, the corporation pays tax on the gain from the sale of assets. Then, when the proceeds are distributed to shareholders, those individuals pay capital gains tax again. Stock sales avoid this double layer of taxation, with gains generally taxed once at the long-term capital gains rate, which remains favorable in 2025. This difference in preference often leads to negotiation challenges, requiring careful structuring to meet the financial goals of both parties.

The structure of the deal also determines when taxes are triggered. In a taxable transaction, gains or losses are recognized immediately. In a tax-deferred transaction, such as a stock-for-stock exchange, taxes are postponed until the new shares are sold. Hybrid structures, which combine elements of both, are increasingly common in today's M&A environment. These allow for flexibility when some parties prefer to recognize taxes at closing, while others seek to defer them.

Despite careful planning, tax traps can still emerge. State and local governments continue to expand their reach, assessing a wide range of income, sales, and transfer taxes. This is particularly relevant for companies operating across multiple states or internationally, where nexus rules and digital tax regimes complicate compliance. Buyers must also examine the target company's property tax status, checking for liens and verifying recent payments. A reassessment of property value after the deal closes can lead to unexpected tax increases, and noncompliance can trigger audits and penalties.

To avoid these pitfalls, tax due diligence should begin early in the transaction process. Engaging experienced advisors who understand the nuances of current tax law is essential. Modeling different deal structures and their after-tax outcomes can help both sides make informed decisions and avoid surprises. In 2025, with the rise of digital assets, remote operations, and global dealmaking, staying ahead of tax risks is no longer optional; it is a strategic imperative.

Ultimately, a well-planned M&A transaction can benefit both buyers and sellers. By anticipating tax consequences and structuring deals thoughtfully, buyers can minimize net costs while sellers maximize after-tax proceeds. In a landscape filled with uncertainty, preparation is the key to turning a good deal into a great one.

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