



SAAS FIRM PREPARES FOR M&A AND REDUCES SALES/USE TAX LIABILITY BY \$1.5M



Challenge

A \$50M SaaS company sought to become due diligence ready for an anticipated acquisition.



Solution

In completing a nexus analysis, taxability review and prior period sales/use tax liability calculation, Armanino's experts identified and quantified a large tax exposure.



Result

By filing VDAs with multiple states, we negotiated the company's tax liability down from \$2.2M to \$650K and reduced the potential purchase price reduction during due diligence.

CLIENT CHALLENGE

A \$50M software-as-a-service (SaaS) company, which had been established for several years, was negotiating a sale of their business. They needed to quickly become due diligence ready for the anticipated acquisition. The buyer's due diligence team would, of course, be reviewing their financials and looking for unidentified liabilities.

THE TAX ISSUE

A crucial step in helping the company become due diligence ready was to complete a nexus analysis. This typically includes reviewing company activities and financials for either physical presence (existence of a warehouse, office or employee, or travel to the state) or economic/Wayfair nexus (confirming whether state thresholds for revenue or transactions were exceeded).

As is often the case with SaaS companies with a large average deal size and large enterprise customers, they frequently traveled to meet with customers to demonstrate proof of concept and close the deal — a common nexus trigger for these firms.

Our experts determined that the company hadn't collected sales/use tax or filed returns in multiple states where they had nexus and calculated a large exposure of close to \$2.2M. If the company didn't remediate this immediately, it could have resulted in a significant purchase price reduction.

OUR SOLUTION

Armanino's State and Local Tax experts completed a nexus analysis, taxability review and prior period liability calculation. After determining the amount of the exposure, our team worked to file voluntary disclosure agreements (VDAs) with multiple states, a program in which they proactively disclosed prior period tax liabilities with a binding agreement.

We were able to limit the number of years of liability and obtain a penalty waiver in each VDA state, thereby reducing the company's tax liability to approximately \$650K. We then set up their compliance infrastructure to begin collecting and filing sales/use tax, stopping the erosion of their profit margin by passing the tax on to the customer.

THE RESULT

In accordance with the VDAs, the SaaS company paid their reduced prior period liability of \$650K, saving over \$1.5M in potential tax, interest and penalties. Having gained compliance by filing correctly and proactively completing due diligence with Armanino, they were free to proceed with M&A without fear of unexpected sales/use tax liabilities.



OUR EXPERT

Malcolm Ellerbe, CPA

Partner, National Sales/Use Tax Leader

Malcolm.Ellerbe@armaninoLLP.com

408 200 6412