

COMMON COSTS ASSOCIATED WITH A NEW BUSINESS

Transactions costs are often a significant component to mergers and acquisitions. Below and on the next page is a summary of common expenses incurred for M&A deals, along with how those expenses are treated for financial reporting and tax reporting purposes. While there is no hard and fast rules that will determine what costs belong in each bucket, the most advantageous decisions can be made through careful review.

SYNDICATION COSTS

Costs of promoting or selling partnership interests. These costs include [1] fees and commissions paid to brokers to sell interests, [2] costs for printing the offering memoranda, [3] legal and accounting fees for tax opinions and projections of income or cash flow, [4] and similar expenses.

ORGANIZATION COSTS

Costs connected directly with creation of a new entity. These costs include [1] legal fees to draft the operating agreement and related documents, [2] costs for filing the articles of incorporation/organization, [3] initial state filing fees, [4] expenses of temporary directors and organizational meetings, [5] and similar expenses.

START-UP COSTS

Costs associated with preopening activities. These costs include [1] employee training, [2] initial advertising, [3] expenses for lining up potential suppliers or potential customers, [4] opening a new facility, [5] and similar expenses.

ACQUISITION COSTS

Costs directly associated with acquiring a new entity or assets. These costs include [1] finders fees, [2] due diligence costs, [3] legal fees associated with purchase agreement, [4] investment banker or other advisor fees, [5] and similar expenses.

	GAAP TREATMENT	TAX TREATMENT
SYNDICATION COSTS	Charged against the contributed capital. SAB 5.A	Capitalized and not amortized. IRC 709(a)
ORGANIZATION COSTS	Expensed as incurred. ASC 720.15	Elect to deduct up to \$5,000 with remainder amortized over 15 years. The \$5,000 is reduced dollar for dollar when expenses exceed \$50,000. IRC 248/709(b)
START-UP COSTS	Expensed as incurred. ASC 720.15	Elect to deduct up to \$5,000 with remainder amortized over 15 years. The \$5,000 is reduced dollar for dollar when expenses exceed \$50,000. IRC 195(b)
ACQUISITION COSTS	Expensed as incurred. ASC 805.10.25	Increase to purchase price, which increases basis in new assets acquired. IRC 263(a), subject to special rules relating to success-based fees

ABOUT MILLER COOPER Miller Cooper's Merger and Acquisition Group specializes in buy-side and sell-side financial due diligence and related transaction consulting. We have a dedicated team of professionals well-versed in performing quality of earnings work, as well as post-acquisition purchase price accounting, working capital true-ups and tax structuring.

For further information on Miller Cooper's M&A services for companies contemplating a merger, acquisition or sale, please contact us at 847-205-5000.