

# Mergers and acquisitions – a positive for financial services

## US Tax Reform

### Business opportunities for financial services

## Key potential considerations for mergers and acquisitions (M&A)

- ▶ Increased flexibility pertaining to M&A decisions.
- ▶ Meaningfully increases earnings power to redeploy into M&A and return of capital.
- ▶ Flexibility to repatriate foreign earnings.
- ▶ Lower rates may create greater cost savings for M&A.
- ▶ Benefits to economic growth from increased investment by companies should provide additional tailwinds to the banking industry.
- ▶ Legal entity restructuring and operating model changes may be required.
- ▶ Necessity of additional M&A diligence for ascertaining elements specific to one-time repatriation tax, DTA valuation and additional components of the broader tax law.
- ▶ Activist pressure may accelerate if institutions are too slow to release excess capital, creating boardroom pressures for those banks as potential targets.
- ▶ For certain companies like private equity and broker dealers, limitations on interest deductibility may reduce the advantage of financing M&A with debt. Capital structures and valuation may also need to be revaluated, as the cost of debt could materially increase.
- ▶ The structure of M&A transactions may be influenced, as immediate expensing of capital assets may impact buyer/seller preference to structure transactions as asset purchases for tax purposes.

### Impact on analyst effective tax rate estimates for banks

Median 2018 effective tax rates from 12/1/2017 (pre-tax reform) to 1/11/2018



### Impact on analyst EPS estimates for banks

Median next 12 months EPS growth from 12/1/2017 (pre tax reform) to 1/11/2018



### Tax Cuts and Jobs Act key applicable tax provisions for M&A:

- ▶ Reduction of maximum corporate tax rate from 35% to 21%
- ▶ Transition tax on deferred foreign earnings, but removal of most tax barriers to ongoing earnings repatriation
- ▶ Immediate expensing of capital expenditures
- ▶ The act limits the deduction for net operating losses (NOLs) to 80% of taxable income (determined without regard to the deduction) for losses. (Property and casualty insurance companies are exempt from this limitation.)
- ▶ Significantly amends limitation of interest deduction to 30% of earnings before interest, taxes, depreciation and amortization (EBITDA) for four years; thereafter, 30% of earnings before interest and tax (EBIT); worldwide debt limit removed
- ▶ Broad-based anti-deferral provision taxes global intangible low-taxed income (GILTI) on a current basis at 10.5% effective tax rate (some foreign tax credits available)
- ▶ Base erosion anti-abuse tax (BEAT) provision applied on income determined after adding back deductible payments made to related foreign persons, if certain thresholds are met

Contact your EY Advisor or visit: [ey.com/taxreform](https://ey.com/taxreform)



EY | Assurance | Tax | Transactions | Advisory

#### About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

Ernst & Young LLP is a client-serving member firm of Ernst & Young Global Limited operating in the US.

#### EY is a leader in serving the global financial services marketplace

Nearly 51,000 EY financial services professionals around the world provide integrated assurance, tax, transaction and advisory services to our asset management, banking, capital markets and insurance clients. In the Americas, EY is the only public accounting organization with a separate business unit dedicated to the financial services marketplace. Created in 2000, the Americas Financial Services Organization today includes more than 11,000 professionals at member firms in over 50 locations throughout the US, the Caribbean and Latin America.

EY professionals in our financial services practices worldwide align with key global industry groups, including EY's Global Wealth & Asset Management Center, Global Banking & Capital Markets Center, Global Insurance Center and Global Private Equity Center, which act as hubs for sharing industry-focused knowledge on current and emerging trends and regulations in order to help our clients address key issues. Our practitioners span many disciplines and provide a well-rounded understanding of business issues and challenges, as well as integrated services to our clients.

With a global presence and industry-focused advice, EY's financial services professionals provide high-quality assurance, tax, transaction and advisory services, including operations, process improvement, risk and technology, to financial services companies worldwide.

© 2018 Ernst & Young LLP.  
All Rights Reserved.

US SCORE no. 03844-181US  
1802-2583388 BDFSO  
ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

**ey.com**