

# A Study on Tax Planning in Merger and Acquisition

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## Abstract

Mergers and Acquisitions (M&A) play a significant role in modern corporate restructuring. Taxation and its influence on M&A decisions are critical factors in this process. This study explores the impact of taxation on M&A activities in Country D, using the acquisition of XYZ Energy Limited by ABC Corporation as a case study. A qualitative research approach was adopted, employing purposive sampling and documentary review methods. Additionally, content analysis was conducted to provide a thorough interpretation of the findings. The study reveals a positive relationship between taxation and M&A decisions, highlighting taxation as a key factor in determining whether a merger or acquisition should proceed. The results also indicate that factors such as law enforcement, frequent tax audits, penalties, and prosecutions significantly influence business expansion strategies. Furthermore, M&A decisions serve as a fundamental pathway for business growth among many entities. The findings also suggest that enhancing the capacity of tax officials to interpret tax laws and analyze M&A-related information alongside regular reviews of tax regulations can help reduce tax evasion risks. These improvements are likely to strengthen tax compliance and ultimately increase government revenue collection.

## Keywords

Merger and Acquisition, Taxation, Corporate Restructuring, Tax Compliance

## 1. Introduction

### 1.1. Background Information

The impact of taxation on merger and acquisition (M&A) decisions has been a widely debated topic in the literature. Mergers and acquisitions have become a major influence in the global financial and economic landscape. During periods

of global economic crisis, prudent business leaders often focus on restructuring their organizations. It has been pronounced and adopted with the profound need to combat the economic crisis and neutralize the detrimental effects of such crisis (Sogomi et al., 2022). M&A presents valuable opportunities for successful restructuring or business consolidation (Anthony, 2019; Agrawal & Jafee, 2000). They are considered as one of the business strategies for enriched financial performance and growth (Anthony, 2019; Sahu & Agarwal, 2017).

Driven by tax-related motives, some companies worldwide have been compelled to consolidate their organizational structures through mergers and acquisitions (Col & Errunza, 2022). The introduction of consolidated accounting and tax systems aligned with International Accounting Standards (IAS) has brought greater attention to corporate restructuring and the handling of transactions involving loss-making entities. Additionally, reforms in various tax laws covering corporate governance, bankruptcy, securities, and taxation have created favorable conditions for M&A decisions (World Investment Report, 2000).

A successful merger or acquisition can generate broad benefits for different stakeholders, including shareholders, executive management, employees, customers, communities, political authorities, and the overall economy (Kumar, 2023). In such circumstances, companies with significant investment capital are more inclined to acquire other firms in order to capitalize on external opportunities available in the economic environment.

According to Eric (2015), shareholders' wealth maximization has always been the main objective of every firm. The acquiring firms aim to enhance shareholder value through strategies that would otherwise be unattainable. Key motivations include increased market power, the creation of entry barriers, and market expansion, these are fundamental reasons that drive corporations to pursue mergers. Legal reforms have also played a pivotal role in corporate restructuring, such as the formation of holding companies or the divestment of unprofitable units. Due to dynamic market conditions and the acceleration of business cycles, companies are increasingly required to focus on their core activities and explore new ventures that create synergies with their main business operations (Angwin, 2007). M&A presents as one of the most effective strategies for struggling firms and those that take advantage of economies of scale and synergies that result from such accomplishments (Sogomi et al., 2022).

In Country D, merger and acquisition activities have grown significantly since the 1990s, following the liberalization of several industries, including the Country D Cigarette Company (TCC), Country D Breweries Limited (TBL), and others.

## 1.2. Statement of the Problem

This research aims to assess the impact of taxation on merger and acquisition (M&A) decisions. Typically, firms involved in such decisions consider various taxes, including corporate tax, capital gains tax, and other applicable taxes under the Country D tax system. Research conducted by Ciobanu and Dobre (2015)

shows that statutory corporate tax rate, the effective tax rate, other taxes besides corporate income and labor taxes and the number of taxes paid by a taxpayer are significant in explaining the number of mergers and acquisitions in the world. They collected data from 46 developing and developed countries and found that effective tax rates play a decisive role in such deals (Ciobanu & Dobre, 2015). Since firms are profit-driven, they often structure their internal operations to minimize tax liabilities. Taxation is frequently cited as a key factor influencing M&A decisions, as it plays a crucial role in shaping corporate strategies. Bauer et al. (2018) taxation can directly impact the cost and feasibility of transactions, potentially altering the attractiveness of a deal. This study examines whether taxation has a significant influence on M&A decisions, specifically by analyzing whether multinational corporations alter their behavior in response to changes in the tax system.

Scholarly research on mergers and acquisitions has yielded diverse findings. However, most studies conclude that firms pursue M&As primarily to acquire new skills and diversify risks (Angwin, 2007; Bauer et al., 2018). This suggests that companies considering a merger or acquisition must evaluate various factors, including the tax structure of the target firm's country, to determine whether there are potential benefits such as loss diversification. It is essential for businesses to thoroughly analyze the tax implication to ensure that the transaction is structured in a way that minimizes tax liabilities and maximizes financial benefits (Batas, 2024). However, this creates a conflict of interest: while firms seek to maximize profits for shareholders, governments aim to collect more tax revenue to fund public expenditures.

Existing literature has largely focused on general tax reforms and ownership changes, with limited emphasis on how taxation specifically impacts M&A decisions. Additionally, no study has examined the case of ABC Mining Group's acquisition of XYZ Energy Ltd. This research aims to fill that gap by assessing the role of taxation in M&A decisions, using ABC Mining Group's acquisition of XYZ Energy Ltd as a case study. The study explores whether taxation has a positive impact on future M&A decisions and is further motivated by the need to analyze the application of Section 56 of the Country D Income Tax Act, 2004.

### **1.3. Objectives of the Study**

#### **1.3.1. Main Objective**

The main objective of this study is to examine the impact of taxation on mergers and acquisitions in Country D as a case study of ABC Mining Group Plc acquiring XYZ Energy Limited.

#### **1.3.2. Specific Objectives**

This study had the following specific objectives:

- i) To identify which taxes are applicable to Mergers and Acquisitions.
- ii) To determine whether taxes have an impact on Merger and Acquisition decisions.

#### 1.4. Research Questions

The study is also driven by the questions such as follows:

- 1) What are the types of taxes that affect Mergers and Acquisitions?
- 2) Do the identified taxes have positive impact on Merger and Acquisition decisions?

#### 1.5. Research Methodology

The research adopts a qualitative approach and was conducted in Country D Revenue Authority Large Taxpayer Department, International Taxation Unit Head office, documentary review and interviewing of the tax consultant. The Large taxpayer's department and secondary data method was selected because of the availability of information. A purposive sampling technique was used to select 40 participants for the study. These participants were categorized into two groups: consultants and tax officers. Data were gathered through both structured and unstructured interviews. The collected data were then analyzed using content analysis.

#### 1.6. Limitations of the Study

The research was limited to qualitative data due to challenges in accessing financial information from entities involved in amalgamation decisions, which could have been used to quantitatively assess the tax advantages resulting from such decisions. Nevertheless, future studies consider adopting a quantitative approach to provide empirical evidence on the tax impact related to mergers and acquisition decisions in Country D.

### 2. Literature Review

Mergers and acquisitions (M&A) are common strategies that firms use to expand their operations. These activities often lead to changes in a company's financial structure and can significantly impact its organizational setup, including internal operations and management roles. Many researchers have explored the topic of M&A, focusing particularly on the factors that drive companies to pursue such consolidations.

#### 2.1. Theoretical Basis

Impacts of taxation have been differently explained in relation to merger and acquisition. According to [Palil and Mustapha \(2011\)](#), some studies claimed that tax have a direct impact on merger and acquisition. Findings from those studies claimed that in merger and acquisition, tax can take an important part and their central role is to merger and acquisition decision. Study by [Shah and Devos \(2021\)](#) analyzed the pattern and change in various tax characteristic, with a focus on effective tax rates, dividends, tax shields, the number of deals and the value of those deals show a strong association between firms with higher market capitalization and certain tax advantages through merger and acquisition deals. It was found that most high market capital firms were frequently involved in merger and ac-

quisition transaction and continued to invest funds into such deals (Shah & Devos, 2021). The study also found that there was a strong association between high market capital firms and the utilization of tax shields (Shah & Devis, 2021). However, Palil and Mustapha (2011) disputed that procedures and the tax laws could enhance decision on merger and acquisition which are also considered in the theories.

### **2.1.1. Related Theories**

A theory is a set of assumptions, propositions or accepted facts that attempts to provide a plausible or rational explanation of cause-and-effect (causal) relationships among groups of observed phenomena.

One school of thought is grounded in classical microeconomic theory, where merger and acquisition decisions are viewed as rational and aimed at maximizing utility, particularly when considering tax-related aspects of mergers and acquisitions. According to this perspective, firms seek to maximize their expected utility under conditions of uncertainty (Allingham & Sandmo, 1972). However, Andrade, Mitchell, and Stafford (2001) observe that a significant portion of merger activity has occurred in response to changes in government rules and regulations that govern business practices. Since taxes stem from government policy, they serve as a key factor influencing mergers and acquisitions.

In contrast, another school of thought incorporates sociological and psychological elements such as morality, shame, trust, political influence, and game theory into its theoretical framework. According to Brundin et al. (2022), employees' emotional appraisals play a large role in the merger and acquisition literature. Negative emotions such as anger, resentment, guilt, frustration, anxiety, distraction, worry or helplessness have shown the potential to linger over time and remain the same from the initial to the final stage of the acquisition process, even if the negative appraisal of the merger changes over time (Fugate et al., 2002). On the other hand, positive appraisals of happiness, pride and relief activated by personal and organizational growth expectations, trigger emotional attachment in employees as part of identification building during an acquisition and integration process (Raitis et al., 2017). Proponents argue that these factors can shape compliance behavior in ways that traditional utility-based models fail to explain (Bernasconi, 1998; Kirchler, Hoelzl, & Wahl, 2008; Kirchler & Braithwaite, 2007).

### **2.1.2. Expected Utility Theory**

This theory states that the decision maker chooses between risky or uncertain prospects by comparing their expected utility values. Guo (2024) describes EUT as the decision maker's preferred choices in the face of multiple possible outcomes through the expected utility function. EUT posits that decisions regarding risky or uncertain prospects are made by comparing their "expected utility" values (Hemawan, 2021; Misra, 2019; Piolatto & Rablen, 2017; Slemrod, 2008; Wenzel, 2005; Allingham, 1972). In theory, the decision-maker in a merger and acquisition scenario aims to maximize the expected utility of engaging in tax evasion, carefully

weighing the potential benefits of successful tax avoidance against the inherent risks of detection and subsequent penalties imposed by tax authorities. [Belz et al. \(2013\)](#) described that tax avoidance is one possible driver of mergers and acquisitions. This reflects a classic risk-return trade-off, where the potential gains from evasion are balanced against the likelihood and severity of enforcement actions.

Taxpayers are also assumed to have accurate knowledge of both penalty rates and the probability of detection. Within this framework, increasing either the severity of penalties or the likelihood of detection is expected to deter evasion and encourage greater income disclosure. Although this model has practical limitations in fully explaining tax evasion behavior, the foundational merger and acquisition decision model based on expected utility theory offers valuable insights into how enhancements in tax administration can influence merger and acquisition decisions.

### **2.1.3. Consensus Theory**

This theory underscores the importance of shared values as the foundation of any enduring social order. It suggests that a common understanding among members of a society regarding norms, values, rules, and regulations plays a critical role, particularly for decision-makers, prior to engaging in merger and acquisition activities.

The dimension of social norms highlights the degree to which tax avoidance is deemed socially acceptable by the wider public. A general consensus emerges from the assumption that societies inherently strive to preserve a state of relative equilibrium, sustained through the interconnected and mutually reinforcing functions of their core institutions.

### **2.1.4. Theory of Crime**

The deterrence doctrine finds its roots in the classical works of Jeremy Bentham and Cesare, as noted by [Johnson \(2019\)](#). Their classical utility theory of crime posits that individuals are rational actors who make decisions aimed at maximizing their expected utility. Building on this, [Becker \(1968\)](#) argues that revenue authorities must strike an optimal balance between the detection of non-compliance and the imposition of sanctions, such that engaging in non-compliance becomes an irrational choice.

This theoretical framework highlights a dilemma in merger and acquisition decisions: while firms aim to maximize profits, governments must secure sufficient revenue to meet public expenditures. Consequently, revenue authorities must continuously refine and enhance anti-avoidance regulations to effectively address emerging tax avoidance strategies related to mergers and acquisitions.

## **2.2. Conceptual Reviews**

### **2.2.1. Taxation**

Taxation encompasses the process through which government implements the tax regulations and laws in order to benefit from its application. Taxation is not only

an instrument of rising revenue for government, but also a tool for administering social justice (Jhingan, 2006).

According to Luoga (2000), the classical view of taxation sees it primarily as an economic tool for generating revenue to meet public expenditure. Governments are obligated to provide essential public services, maintain law and order, ensure national defense, and address other areas inadequately served by the free market. It's through a critical analysis of taxation process that social justice of the tax governing institutions can be assessed on those affected by the taxation scheme.

### **Taxation and the Impact of Mergers and Acquisition**

Taxation is a key consideration in business decisions, including mergers and acquisitions. Tax benefits can be realized through the treatment of business losses, accelerated depreciation deductions, investment tax credits and other incentives. However, tax laws governing such transactions can be highly complex. For instance, in the United States, income tax regulations surrounding mergers and acquisitions are particularly intricate. Similarly, Country D Income Tax Act of 2004 stipulates that if the underlying ownership of the acquiring firm changes by more than 50 percent, the decision to merge or acquire may be affected.

### **Taxes and Merger Activity**

Various strategies are employed to minimize tax liabilities at both the individual and corporate levels. In the context of mergers and acquisitions, these strategies can significantly influence the structure and timing of deals, with taxation remaining a central factor in the decision-making process.

### **2.2.2. Shareholders and Taxation on Merger and Acquisition Decision**

Upon acquisition, shareholders of the acquired company may receive payment in various forms when realizing the value of their shares. These may include cash, common stock, preferred shares, or debenture stock. The tax treatment of such payments depends on the form and structure of the transaction, some may be classified as taxable income, while others may be tax-exempt.

If the payment is taxable, shareholders are typically required to pay capital gains tax on any proceeds that exceed the cost or market value of the original shares. In such cases, no tax advantage arises for shareholders. However, if the transaction qualifies for tax exemption, such as through certain stock-for-stock exchanges or rollover relief provisions, shareholders may defer or entirely avoid capital gains tax, thus gaining a tax advantage.

For example, when cash is used as the acquisition consideration, shareholders usually face immediate tax liability on any gain, offering no tax deferral benefit. In contrast, if the acquisition is structured as a stock-for-stock exchange and meets the criteria for tax deferral under applicable tax laws, shareholders can avoid immediate taxation. This allows them to diversify their portfolio without selling their shares, thereby deferring capital gains tax and recognizing a tax advantage.

Thus, the tax implications of payment methods in mergers and acquisitions significantly influence deal structuring and the strategic decisions of shareholders and companies alike. Transactions designed to qualify for non-recognition of gain

(under tax-deferral provisions) are particularly attractive due to their favorable tax treatment.

### 2.3. Empirical Literature Review

Various studies have explored the motives driving mergers and acquisitions (M&As), yet limited research has directly addressed the impact of taxation on M&A activities. For instance, [Mahangila and Nchimbi \(2015\)](#) discuss mergers and acquisitions primarily in the context of tax avoidance and tax planning strategies, where firms acquire loss-making companies to reduce their overall tax liabilities. However, their work does not examine how taxation influences the broader M&A decision-making process, an area this study seeks to explore.

Similarly, [Ishengoma & Kappel \(2008\)](#) found that taxation significantly constrains the growth and performance of micro and small enterprises. Their findings align with similar studies in Latin America, which show that high taxes reduce internal financing capacity, thereby limiting business expansion and production growth. While these insights support the broader research objective of investigating whether taxation impacts mergers and acquisitions, they fall short of directly analyzing the effect of taxation on M&A decisions, particularly in the case of ABC Mining Group Plc.

Therefore, this research addresses a critical gap by examining how taxation affects mergers and acquisitions, with a specific focus on ABC Mining Group Plc, which has not been previously explored in existing literature.

## 3. Research Methodology

### 3.1. Research Design

This study adopts a qualitative research design using case study. Case study is one of the most common qualitative designs used to examine a person, group, community or institution ([Hoover, 2021](#)). It is where the researcher explores in depth a program, event, activity, process, or one or more individuals ([Priya, 2020](#)).

### 3.2. Population and Sampling

This study adopts a purposive sampling technique. According to [Shaheen et al. \(2016\)](#), a purposive sampling technique resides on the proposition that information-rich samples are to be selected to have an in-depth view of the phenomena. This type of sampling is generally small in size and is designed by the researcher based on the objectives of the study ([Shaheen et al., 2018](#)).

Therefore, for the purpose of this research, a purposive sampling technique was adopted by selecting 40 participants, which were categorized into two groups: tax consultants and tax officers.

### 3.3. Data Collection Methods

This study employed both documentary review and interviews to collect data. Secondary data were obtained from the Large Taxpayers Department, chosen for its

accessibility and the relevance of available information. In addition, primary data were collected through interviews with selected participants. Data were gathered through both structured and unstructured interviews to allow for comprehensive insights. The interviews aimed to capture both factual information and personal perspectives related to tax compliance practices.

The collected qualitative data were analyzed using content analysis to identify common themes, patterns, and differences in response.

## 4. Results and Findings

### 4.1. Analysis of the Case Study

Effective from 1st October 2012, ABC Mining Group acquired two mining companies which are XYZ Energy Ltd and DEF Resources Ltd. These acquisitions significantly increased ABC's mineral assets in Country D, particularly in coal and uranium, and positioned the company as a leading multi-commodity mineral explorer and developer in Country D.

During this period, ABC acquired 100% of the share capital of XYZ Energy Ltd., including its wholly owned subsidiaries:

- XYZ1 Holdings Ltd.
- XYZ2 Coal Ltd.
- XYZ3 Power Ltd.

This acquisition was completed through ABC's wholly owned subsidiary, ABC1 Mining (Cyprus) Ltd, for a total consideration of £20.4 million, which was fully financed by issuing 680,297,733 ordinary shares.

Similarly, the acquisition of DEF Resources Ltd was valued at £0.8 million and was also financed by issuing 26,666,667 ordinary shares.

#### **Acquisition of XYZ Energy Limited and its related entities as a single indivisible transaction**

Cost of investments on acquisition date:	
Acquisition of XYZ Energy Ltd and its subsidiaries	£20,408,932
Acquisition of DEF Resources Investments (Pty) Ltd	£800,000
Net asset values of subsidiaries acquired	(£700,111)
Net acquisition cost	£20,508,821
Separately identifiable intangible asset – XYZ2 Coal Project at fair value	(£17,201,064)
Goodwill on acquisition of subsidiaries	£3,307,757

#### **4.1.1. The Acquisition Transaction Analysis**

The acquisition consideration for XYZ Group Ltd totaled £20,408,932, which was entirely financed through the issuance of new shares by ABC Group Plc (as detailed in Note 14 of the Group's 2012 Financial Report). In this transaction, the shareholders of XYZ Group Ltd realized their ownership interests by accepting

newly issued ordinary shares in ABC Group, rather than receiving cash or other forms of payment.

As a result, this share-for-share exchange did not trigger any immediate tax liabilities for the shareholders of XYZ Group. Specifically, no capital gains tax (CGT) was imposed at the time of the transaction, despite the fact that the acquisition value exceeded the original cost base of XYZ Group's assets. This is because the transaction was non-cash-based and structured through the issuance of shares, which is often treated as a tax-deferred event under prevailing tax laws, provided certain conditions are met.

Such treatment aligns with common international tax principles, whereby share-for-share acquisitions, if conducted under approved restructuring or merger provisions, may qualify for capital gains tax deferral or exemption, allowing the shareholders to defer taxation until a future disposal of the new shares.

#### **4.1.2. Financial Performance Transaction Analysis**

According to ABC Group Plc's financial statements for the year ending 2012, the company reported a net loss of £4,483,079, which was determined after accounting for depreciation and other transaction-related expenses. As indicated in Notes 1, 6, and 7 of the financial report, no corporate tax expense was recorded for the period due to the net loss position. This reflects a common scenario in which loss-making entities are not liable for income tax, thereby temporarily shielding them from immediate tax obligations.

##### **Impairment of Intangible Assets**

As disclosed in Note 18 of the 2012 annual report, the impairment of intangible assets acquired was not recognized during the reporting year. The directors concluded that it was not necessary to assess impairment at that time. However, management noted that writing off the carrying value of intangible assets, based on appropriate judgment, would align with financial prudence. In this regard, the absence of impairment charges may present a tax advantage, as the carrying value remains deductible in future periods, thereby deferring tax liabilities.

##### **Financial Corporate Losses and Tax Allowance**

The financial losses recorded by the group and its subsidiaries had significant tax implications. The losses incurred resulted in no corporate income tax liabilities for the year. Notably, all entities incorporated in Country D under the ABC Group umbrella also reported corporate losses, with the exception of XYZ Power Ltd, which posted a profit. Under Section 19 of the Country D Income Tax Act, 2004, such business operating losses qualify as tax allowances and can be carried forward to offset taxable income in subsequent accounting periods. Therefore, the group stands to benefit from tax deductions in future years, particularly for the financial year 2013 and beyond.

##### **Other Allowable Deductions**

In addition to losses, the group may also benefit from other statutory deductions allowed under the Country D Income Tax Act, 2004. These include deductions for interest expenses, research and development costs, depreciation, and

other qualifying expenditures. Proper application of these deductions contributes further to the group's overall tax efficiency, enhancing its ability to optimize after-tax profits in future reporting periods.

#### **4.2. Practices of Merger and Acquisition Decision in Relation to Tax Issues as Depicted from the Questions Given to Tax Consultants and Country D Revenue Authority Staff**

The first objective of this research was to identify the types of taxes applicable to mergers and acquisitions (M&As). Findings from the study reveal that 38 respondents from the Revenue Authority indicated that ABC Mining Group Plc, like other multinational companies operating in Country D, is subject to various taxes depending on the nature of the transactions. These include corporate income tax, capital gains tax, Pay-As-You-Earn (PAYE), and other transaction-related taxes.

To assess whether taxation influences M&A decisions, 39 respondents, comprising staff from the Revenue Authority and tax consultants, affirmed that taxation has a direct impact on such transactions. Notably, one respondent cited Section 56 of the Country D Income Tax Act, 2004, which imposes anti-avoidance rules that restrict ownership changes exceeding 50%. Under this provision, a company undergoing such a change is deemed to have realized all its assets and liabilities immediately before the ownership change, thereby triggering capital gains tax liabilities. This finding supports the earlier observations by [Mahangila and Nchimbi \(2015\)](#), who argued that companies often acquire loss-making entities as a tax planning strategy to reduce their tax obligations.

Further evidence from ABC Mining Plc's 2012 Annual Report shows that the company was involved in M&A arrangements in Country D and utilized tax planning strategies commonly employed by multinational corporations. However, these arrangements are constrained by the Country D Income Tax Act, 2004, and its associated regulations.

Several provisions of the Country D Income Tax Act 2004 are relevant in this context:

- Section 33(1) prohibits tax avoidance through transactions between associated companies that do not adhere to the arm's length principle.
- Section 34(1) grants the Commissioner General the authority to adjust such transactions.
- Section 55(a) and (b) requires that any realization be based on the market value of the asset.
- Section 36(3) stipulates that capital gains on investment assets are calculated as the excess of the total proceeds (incomings) over the cost of the asset.

These provisions demonstrated that tax regulations have a direct impact on merger and acquisition decisions. The presence of anti-avoidance rules places clear limitations on tax planning strategies, thereby influencing how companies structure their transactions. As such, the study recommends further research into ef-

fective tax policy reforms that can balance the need for revenue generation with fair corporate taxation. Continued constraints without clear guidance may undermine tax morale among other taxpayers and negatively impact government revenue, which is essential for funding social services and public development.

## 5. Conclusion and Recommendations

### 5.1. Conclusion

This research explored the impact of taxation on merger and acquisition (M&A) decisions, using the acquisition of XYZ Energy by ABC Mining Plc as a case study. The central hypothesis tested was whether taxation influences M&A decisions. The study found a significant relationship between taxation and the structuring of mergers and acquisitions. The theoretical framework and empirical findings indicate that tax advantages, such as the use of accumulated losses, capital gains treatment and allowable deductions, can be a major determinant in the decision to merge or acquire.

The 2012 Annual Financial Report of ABC Mining Plc provided empirical evidence supporting this relationship. It demonstrated that tax losses carried forward by one firm can offset positive earnings of another post-acquisition, thus, creating a tax shield. For these tax benefits to be realized, specific conditions, such as continuity of business purpose and stock-based acquisitions, must be met to comply with tax legislation and anti-avoidance rules.

Moreover, even if both firms are profitable at the time of the merger, the ability to utilize future operating losses of one firm against the taxable income of the other still provides a tax benefit. These findings highlight that taxation has a substantial influence on the financial strategy and structure of M&A transactions.

In developing countries, taxation often plays a central role in corporate restructuring decisions. Elements such as asset basis revaluation, net operating losses and loss carry-forwards are critical considerations for both acquiring and target firms. In some cases, the tax implications may even drive the M&A event itself, particularly where tax sheltering opportunities are available.

While several existing pieces of literature have examined the classification and strategic motivations behind mergers and acquisitions, few have focused specifically on the extent of taxation's impact. This study contributes to filling that gap by confirming the significance of tax considerations in M&A decisions. Notably, 30 out of 40 respondents (75%) affirmed that taxation is an important factor influencing M&A strategies.

However, further research is needed to quantitatively assess the depth and scope of taxation's impact on mergers and acquisitions across various industries and jurisdictions, as this was beyond the scope of the current study.

### 5.2. Recommendations

Based on the findings and conclusions of this research, the following recommendations are made:

### 1) Examine the Tax Impact of Mergers and Acquisitions

The observed link between taxation and merger and acquisition (M&A) decisions should be thoroughly analyzed to assess the extent of tax avoidance involved in these transactions. Tax policies should be strategically used to address and minimize tax avoidance related to M&A activities.

### 2) Enhance the Capacity of the International Taxation Unit

The government, through the Ministry of Finance, should invest in building the capacity of the International Taxation Unit. This includes training and equipping staff with the skills and knowledge needed to effectively detect and manage emerging tax avoidance techniques associated with M&A transactions.

### 3) Review and Strengthen Regulatory Measures on M&A

The government should conduct a comprehensive review and evaluation of existing policies and enforcement mechanisms related to illegal M&A transactions. This will help in identifying gaps and strengthening oversight to address potential abuses arising from the observed relationship between tax and M&A.

## Conflicts of Interest

The authors declare no conflicts of interest regarding the publication of this paper.

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## Annual Reports

1. ABC Mining Plc for the year ended 2011.
2. ABC Mining Plc for the year ended 2012.
3. ABC Mining Plc interim reports for the years 2011, 2012, 2013 and 2014.