

Crisis Response

TAX

Given the instability of the financial system, it is crucial that companies react quickly to changes in the market and take measures to manage their assets effectively and optimize their expenses. KPMG provides its clients with various kinds of tax services that take into account the specific features of the Russian market and the current economic situation.

Mergers & Acquisitions

Due to a downturn in the Russian market, there are companies which are likely to face a dilemma – to raise capital quickly or to be sold, often under a time pressure and at prices attractive for investors.

In the course of M&A transactions involving affected businesses, proper due diligence on the target becomes vital. Due diligence can focus upon the causes of the target's troubles, such as overdue indebtedness, outflow of personnel, or failure of the target's customers to settle their liabilities. As the market situation may change drastically and quickly, the bidder needs to engage a team of experienced legal, tax and financial advisors who are able to promptly propose an integrated solution and relevant advice on acquisition structuring, as well as to assist in elaborating the appropriate tactics for the efficient completion of the acquisition.

In light of the increasing speed of M&A transactions in the current environment, we at KPMG offer a package of services to enable rapid and efficient deal structuring and execution under the most favorable terms.

Our Tax M&A team can conduct an express (3-4 days) due diligence (including financial, legal and tax aspects) of the Target to be acquired or sold, aimed at identifying significant assets, liabilities and risks potentially affecting both the deal price and the structure of the deal. This should enable both the bidder and the seller to prepare for negotiations – including about price discounts – to achieve the desired result.

Our Legal team is ready to negotiate favorable deal terms, including general deal structure, preparation of documents, representations and warranties and hold-back arrangements. We are also pleased to offer escrow services for deal settlements, saving time and resources and eliminating the need to engage external lawyers and banks.

Asset Sales Driven By the Crisis

In light of the uncertainty due to the financial recession, liquidity has become a major problem for most enterprises. A sale of assets may be a valid option for a company to raise the necessary funds to continue ongoing projects and to keep the business running smoothly.

KPMG is ready to provide pre-deal and transaction structuring services taking into account the specifics of the clients' businesses, the requirements of potential investors and the strict deadlines these circumstances may require. We can also provide advice and practical support on implementing the transaction, including: preparation of step actions plans to guide the implementation; drafting of the required contracts; registering legal entities either in Russia or in foreign jurisdictions; support in negotiations with potential investors; escrow services; etc.

We pay particular attention to tax efficiency and to the mitigation of tax risks, working within a tight schedule as required by our clients' circumstances.

Financing Mechanisms

Efficient utilization of existing liquidity sources and the appropriate management of the financial risks of a company are becoming an important task due to the recession in the market. In particular, it is crucial to effectively manage and minimize the risks resulting from high volatility of foreign exchange and interest rates on borrowed capital.

In light of the above it is important to note that current Russian tax legislation provides for a number of lawful opportunities to develop tax-efficient structures for hedging of foreign currency and interest-rate risks by means of derivative transactions. Additionally, onshore and offshore financing structures should be considered to optimize interest expense deductibility for tax purposes and to design structures aimed at efficiently managing the "distressed receivables" of Russian legal entities.

Relying on their extensive practical experience, KPMG Tax professionals are willing to assist you in creating and implementing financing and financial risk management structures that will enable your company to reasonably optimize its tax burden in the current circumstances, which require urgent resolution of liquidity issues and efficient asset management.

Tax planning and cost optimization

Instability in capital markets requires firms to use internal resources to increase business efficiency by re-thinking their cost structure to potentially optimize costs. For this reason, it is of primary importance for companies to efficiently organize the process of systematic cost planning, including tax-related expenses, as well as to speed-up the refund of tax amounts previously paid to the budget, in order to achieve the maximum lawfully available tax savings. Many entities also consider changing their "conservative" tax approach (which presumes direct application of tax law provisions) for a more progressive one, based on a detailed analysis of tax consequences prior to each transaction with the goal of obtaining tax benefits available in the tax legislation and of decreasing the effective tax rate.













Due to urgency of the issues outlined above and, at the same time, the significant risks entailed, it is important that qualified tax specialists were involved at the stage of conceptual analysis and strategy elaboration, as well as in the course of practical implementation of specific strategy steps. With our vast experience in tax law and its practical interpretation in the Russian economic environment, we as KPMG are willing to offer a wide range of services, including tax planning and tax methodology improvement, taking into account the requirements of current tax legislation. Our experts can analyze and diagnose tax planning and management processes currently applied by your company, and suggest constructive solutions as to how to improve strengths and eliminate any weaknesses, in order to prevent any unjustified additional tax burden. Furthermore, we are ready to perform an express review of the current structure of your company's tax liabilities and to design reliable options to realize deferred tax assets and mitigate existing tax risks. We would also be available to assist you in negotiations with the tax authorities concerning tax settlements, targeting accelerated resolution of any pending tax issues for your company's maximum benefit (including tax reconciliations, reimbursement of export VAT from the budget, recovery or netting of tax overpayments, etc).

Employment issues

In a turbulent market, most companies are trying to optimize costs, including those associated with employment. Provisions of the Russian employment laws, which are known to be directed at the protection of employees, need to be carefully considered before announcing any staff reduction or any material changes of employment terms. KPMG lawyers can look through all aspects of the applicable regulations and help you to resolve sensitive employment issues and reduce the risk of potential litigation from staff.

Furthermore, during a stock market recession, stock based incentive plans, which play an important role in the attractiveness of a compensation package to modern employees, may lose their value, discouraging employees from the outstanding performance required to successfully overcome the crisis situation. On the other hand, employers may be obligated to make huge payouts under existing plans, which could be difficult to arrange in the current environment. KPMG has substantial experience in addressing the above issues and can help to lessen the impact of the crisis in these areas.

Also, questions of labor cost and utilizing tax concessions become the topic for discussion again. KPMG People Services Tax team has extensive experience and resources to review your company's employment policies relating to compensation and expenses and to suggest potential tax savings.

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