

# Alert: A Capital Hot Topic



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## Transaction cost study methodologies approved in PLR 201002036

In a Technical Advice Memorandum (TAM) issued January 21, 2010 by the IRS, methodologies were approved similar to those already employed by Baker Tilly Virchow Krause, LLP. In PLR 201002036, the IRS has concluded that allocation spreadsheets supported by information obtained from employee interviews qualified as "other records" under Reg. §1.263(a)-5(f).

Under Reg. § 1.263(a)-5, a taxpayer must capitalize an amount paid to facilitate the acquisition of a trade or business. Specifically, costs that facilitate a "covered transaction" must be capitalized. A covered transaction includes a taxable acquisition of an ownership interest in a business entity if immediately after the transaction, the acquirer and target are related.

Reg. § 1.263(a)-5(f) provides detailed rules on the supporting documentation necessary to establish the deductible portion of success based fees. Fees which are contingent on the successful closing of a covered transaction are success based fees. Only the portion of success based fees which are allocable to activities that do not facilitate the transaction, are potentially deductible. The documentation must consist of more than merely an allocation between activities that facilitate the transaction and activities that do not facilitate the transaction, and must consist of supporting records that identify the activities performed, the fee allocable to those activities, the date of performance, and the service provider. Your Baker Tilly Virchow Krause, LLP team has successfully prepared and defended transaction cost study reports which meet those documentation requirements.

Public and large private companies are looking more and more to Baker Tilly Virchow Krause, LLP for cost effective services. Our staff has the knowledge experience, depth, and methodologies to perform a Transaction Cost Study which can substantiate tax deductible fees. In addition to addressing success based fees, deliverables of a typical Transaction Cost Study include a one to six inch spiral bound report with more than a dozen exhibits identifying and substantiating deductible fees from numerous service providers.

You may have an opportunity for substantial tax savings through a Transaction Study. If you are not sure what level, if any, of effort your situation warrants, please do not hesitate to call your Baker Tilly Virchow Krause, LLP tax advisor.

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