



Case Study: Resolving State Tax Exposure for a Successful Sale

When a privately held marketing services company entered due diligence for a major acquisition, the buyer uncovered significant unfiled California income tax returns and unpaid liabilities – estimated at approximately 10% of the purchase price – putting the deal at risk. The company owner turned to Smith + Howard to resolve the exposure and close the transaction.

The Challenge

- + Significant California income tax exposure identified during diligence
- + Unfiled returns and unpaid liabilities dating back to inception
- + Transaction at risk due to estimated exposure (~10% of purchase price)

Our Approach

- + Conducted a **comprehensive revenue sourcing analysis**, including contract review, technical research, and quantitative modeling, to support a defensible California tax position
- + **Integrated with the client's deal team, legal counsel, and CPA** to address broader tax considerations and ensure proper filing positions throughout the transaction
- + Reduced estimated exposure through strategic re-sourcing of revenue and **development of a supporting technical memorandum**, and defended the position with the buyer's deal team
- + Prepared and managed voluntary disclosure agreement (VDA) applications, **working directly with state authorities to expedite resolution of outstanding liabilities**

Results Delivered

- + Reduced material state tax exposure
- + Resolved historical compliance issues efficiently
- + Restored buyer confidence and enabled the transaction to move forward to a successful close

The Takeaway

Addressing complex tax exposures early and strategically can preserve deal value, reduce risk, and keep transactions on track. With the right technical approach and coordination across advisors, even significant issues uncovered during diligence can be resolved efficiently.

**Marketing
Services**
INDUSTRY

50+
EMPLOYEES

\$6.8M
ANNUAL
REVENUE