

## **Week 5 – Chapter 14 & 16**

### **Chapter 14 – Joint Ventures and Strategic Alliances**

In order to complete a legally binding agreement between two parties, businesses or individuals use a contractual agreement to set specific terms and conditions that can be enforced. Most of the time and especially for the contract to be enforceable, the contractual agreements are in writing and signed by both parties.

A strategic alliance is a loose form of a joint venture because it is bound to a project where companies share resources to become more powerful and successful. It can have a formal or an informal agreement and it can be either short-term or long-term. The most crucial characteristic is the common goal that both independent entities are looking to achieve.

A joint venture is an association of two or more companies that cooperate with each other to achieve a common goal and both parties are legally and economically independent of each other, sharing both management tasks, responsibility, and economic risk. The legal basis is the joint venture agreement, in which the common objectives are defined and the legal and economic points of the cooperation are specified. In the case of cooperation across national borders, the respective country-specific legal bases and requirements must also be taken into account and complied with.

Motives for a joint venture are shared costs and risks while skills, know-how, operating facilities, and market access are brought together and shared, resulting in greater reach and strength in the market. This combination can provide a major competitive advantage for a newly formed joint venture, and the cooperation can even influence the development of an entire industry. It can also give a company access to a foreign market that they were unable to operate in without the cooperation.

**Chapter 16 – Tax Issues in M&A**

Within Mergers and Acquisitions, there is a lot of worth and money that is being transitioned. Based on this criterion, there are rules and regulations in place to make sure that the government identifies a fair share. Tax-free transactions are reorganizations which means that different diversifications are being used with various requirements. The types are A through D and come with pending advantages and disadvantages. Taxable transactions, however, would be a stock for stock exchange when the stockholders of the target company receive stock of the acquiring company. Once you make purchases of stock or assets using consideration, the company may be responsible for the tax liability. If a transaction is completed through a combination of stock and cash, the cash will be taxed while the stock may not.

A tax loss carryforward takes place when the acquiring company can use the target's tax debt to offset their income in the following years. This tax benefit is a main factor within the factors for Mergers and Acquisitions. Overall, research shows that if an M&A deal is taxable, the price to be paid by the acquirer tends to be more premium in comparison to tax-deferred transactions.

## Resources

Gaughan, P. A. (2015). *Mergers, Acquisitions, and Corporate Restructurings*. John Wiley & Sons.