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M&A Update

New Rules Will Limit Shareholders' Tax-Free Treatment on Inversions

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In what may be the first of a series of steps, the government took decisive action today to ensure that shareholders of US companies inverting by merger must pay tax on the transfer of their US company shares if they hold a majority of the combined company's equity.

Notice 2014-32 does not affect the central inversion rules but instead prevents US company shareholders from deferring tax under the tax-free reorganization rules on certain inversions. The Notice applies immediately, subject to a limited grandfather rule.

Although the Notice will affect only a small subset of inversion transactions that could be structured to shield US company shareholders from tax, it further evidences the government's narrow reading of the inversion rules and dovetails with the Obama Administration's 2015 budget proposal to narrow the scope of permitted inversions.

The Notice may not be the last piece of guidance released, underscoring the benefits of focusing now on inversion transactions.

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If you have any questions, please contact any of the following attorneys or your Cadwalader contact:

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