Navigating M&A tax compliance

A strategic guide for enterprise growth

PRODUCT GUIDE

Avalara
Tax compliance done right

Contents

Avalara

Avalara is redefining how businesses manage tax and compliance by embedding AI agents directly into the tools, systems, and workflows where compliance occurs, including ERPs, ecommerce platforms, POS solutions, email applications, and web browsers. Backed by a legacy of 20+ years of providing innovative solutions for tax and compliance, these agents don't just assist – they complete tasks and do the work. Using expertise, speed, and precision, Avalara agents calculate taxes, file returns, validate data, and manage jurisdictional rules and global e-invoicing requirements for businesses worldwide. With one of the largest and regularly updated collections of tax content, Avalara Agentic Tax and Compliance™ is trusted by over 43,000 businesses in 75+ countries.

Learn why at **avalara.com**.

INTRODUCTION

The hidden tax risks that can derail M&A deals

Mergers and acquisitions are often driven by bold goals: entering new markets, accelerating innovation, and diversifying revenue streams. But companies often overlook tax compliance as a source of risk in the deal life cycle.

Tax compliance missteps can quickly erode valuation, delay closing, or trigger post-close surprises that ripple through finance, IT, and operations.

As scrutiny from regulators intensifies, buyers and sellers alike face rising pressure to identify and resolve tax compliance risks early. That's where Avalara comes in. This guide provides a road map to help enterprises reduce risk and set the foundation for compliant growth before, during, and after the deal.

The M&A landscape: Trends and regulatory hurdles

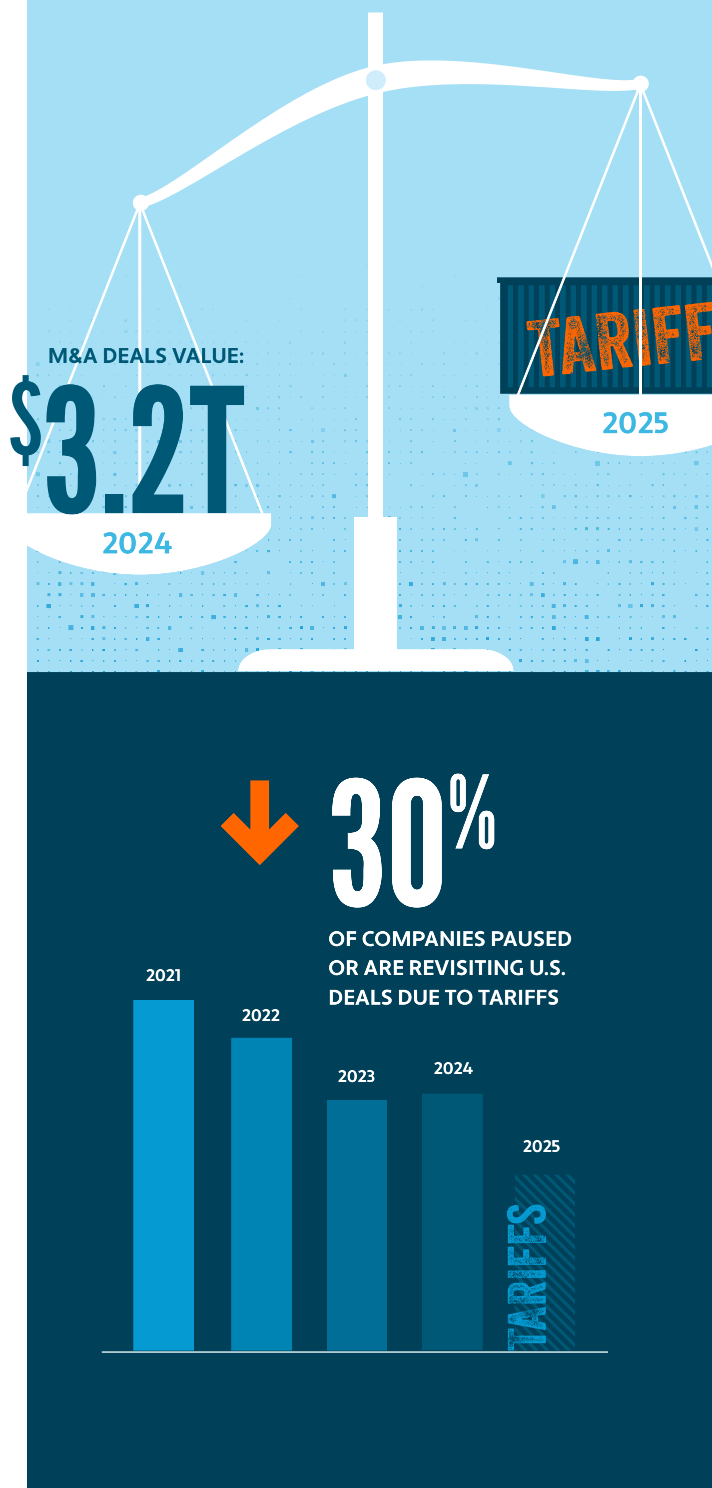
The value of global M&A deals during 2024 hit **$3.2 trillion**, a 10% increase from the prior year. Megadeals over $5 billion led the way. Midway through 2025, however, dealmaking growth stalled as companies try to predict the impacts of new international trade policies.

Data compiled for **Reuters** shows that M&A volume dropped 13% during the first quarter of 2025 in the U.S., which accounts for almost half of global M&A transactions. M&A volumes were up 7% in Europe and 92% in Asia-Pacific over the same period.

PwC's May 2025 Pulse Survey found that 30% of companies that responded have paused or are revisiting U.S. deals due to tariff issues.

Still, enterprises continue to pursue mergers and acquisitions to accelerate digital transformation, enter new markets, and scale operations. When respondents to the PwC survey were asked about the status of pursuing new mergers and acquisitions, about half (51%) reported initial steps are underway or they're further along.

Companies considering a merger or acquisition need to evaluate tax compliance as part of due diligence. Poor tax planning by either party can inflate costs and compromise deal value. A company that acquires a business with unresolved tax liabilities, whether known or unknown, could inherit the unpaid taxes, interest, and penalties.



Many acquirers are contending with regulatory scrutiny, which can extend the pre-close period from three months to up to two years, according to **Bain & Company**. Overlooking tax compliance can further delay deals.

Avalara supports both acquiring companies and target companies during mergers and acquisitions by bringing automation and tax expertise to the due diligence process.

For acquiring companies, Avalara helps streamline discovery and reduce risk exposure. Avalara's AI-powered solutions surface potential nexus and tax liabilities, identify tax risks based on combined business activities, and assess the target company's compliance history. These insights support more accurate valuations, fewer surprises, and a faster path to close.

Target companies can turn to Avalara for help assessing and documenting their sales tax compliance posture. With proper authorization, Avalara AI agents can scan historical filings to flag missed registrations, unfiled returns, or gaps in remittance. This information gives target companies an opportunity to address issues before due diligence or provide clearer documentation during review.

When deeper analysis is needed, the Avalara Professional Services team is available to guide compliance planning during M&A and help companies confidently close deals faster.

Businesses that implement Avalara technology reduce their compliance risk. These solutions can make target companies more attractive and help ensure parent companies and newly formed entities remain compliant going forward.

FORRESTER®

According to a commissioned **Forrester study**, a composite organization that used Avalara tax compliance achieved:

153%
ROI IN 3 YEARS
and realized payback in less than six months

510
HOURS SAVED ANNUALLY
on tax return management and filing

416
HOURS SAVED ANNUALLY
managing exemption certificates

85%
FASTER AUDIT PREPERATION
saving 34 hours per audit

90%
TAX RESEARCH AVOIDED
saving 384 hours per year

Fixing ERP integration issues by centralizing tax compliance

Technology plays a central role in reducing compliance risk during and after a merger or acquisition. But the way technology is implemented can determine whether a company gains lasting control over its compliance obligations or continues to battle inefficiencies. That's especially true when two businesses bring together multiple ERP, ecommerce, and POS platforms. Aligning these systems under a centralized tax compliance model isn't just a matter of operational hygiene. It's a prerequisite for confident, scalable growth.

When companies combine, their technology systems rarely align perfectly. Bringing together these disparate software systems often results in mismatched data, inconsistent settings, and conflicting product classifications.

This process also introduces compliance risk, including inaccurate tax rates, misapplied exemptions, and duplicate or under-reported returns.

Managing tax compliance in a centralized platform helps prevent problems and offers numerous advantages. **Agentic Tax and Compliance**™ centralizes your tax operations by connecting data across systems and supporting end-to-end compliance from calculation to filing – even in hybrid environments.

Avalara AI agents are designed to seamlessly collaborate with other agents within an enterprise, whether they originate from an ERP, POS, or ecommerce system to complete tax and compliance tasks with speed and precision.

Avalara has 1,400+ signed partner integrations, which means post-merger integration teams don't have to reinvent the wheel to sync tax logic across systems. Businesses benefit from more accurate compliance and can onboard newly acquired entities faster.

As businesses grow, expand into new states or countries, and diversify their tech stack, Avalara scales with them.

When ERP consolidation introduces tax errors at scale

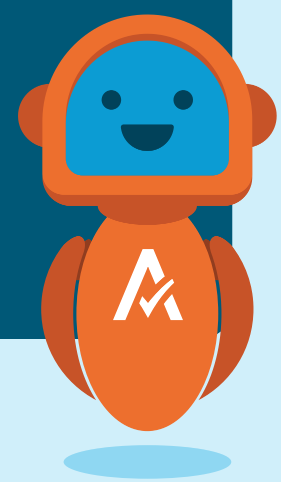
WHAT COULD HAPPEN:

An enterprise software company acquires a logistics tech provider. The companies use different ERPs. Post-close, the software company attempts to centralize all tax calculation in the ERP without a full audit of the acquired company's product taxability settings. Orders begin failing due to mismatched tax codes. Incorrect rates are applied. Tax is overcollected on exempt items and services.

The impact is immediate. Refund requests spike. Support teams scramble to respond. Tax and finance teams struggle to reconcile conflicting records across systems.

HOW AVALARA CAN HELP:

With **Agentic Tax and Compliance**™, Avalara automates compliance across both ERPs using prebuilt integrations. Avalara identifies inconsistencies in product tax codes, maps the acquired company's SKUs to accurate categories, and standardizes exemptions. Orders now flow without interruption and finance leaders maintain confidence in their returns filing.



Managing new nexus obligations before risk spreads

During M&A, acquiring companies and newly merged entities often expand the number of locations where they operate. As they accumulate customers and add remote employees, offices, stores, and warehouses in new states, they establish nexus. Their rapid growth triggers new obligations to collect and remit sales and use tax.

Both parties need to ensure they've accurately filed and paid sales and use tax in all states where they have nexus. Avalara helps both parties monitor and manage these obligations.

AI-powered solutions analyze transaction data and business activity to surface potential nexus exposure, compare it against current registration status, and flag gaps in collection or filing.

Avalara Professional Services can supplement this automation with expert guidance, helping target companies validate their registration footprint, quantify backfiling exposure, and prioritize remediation steps.

The same services can support acquiring companies and newly formed entities post-close to help ensure they start off compliant.

12,000+

U.S. SALES TAX JURISDICTIONS

Risk Assessment

An **Avalara Sales Tax Risk Assessment** provides a comprehensive, state-by-state analysis based on your specific business activity. Avalara tax compliance specialists use these insights to recommend a detailed path forward.

Avoiding licensing disruption when entities change hands

When ownership of a business changes, so can licensing requirements. In many cases, tax registrations and business licenses are tied to the legal entity, not the brand name. So, even if a business appears unchanged to customers, states may require a clean legal record of tax registration under the new ownership.

For example, a surviving entity in a merger may need to update its tax accounts or reregister. When a subsidiary is absorbed into a new legal structure or folded into a parent company, some states may treat it as a new legal entity and require the business to reapply for licenses and permits. No reregistration may be needed in a stock purchase, but changes to names, officers, or addresses may require updates.

[Avalara License Management]() can help your new or expanded business stay compliant. The solution automates license requirement research, filing, and renewals for hundreds to thousands of licenses, permits, and tax registrations.

[Avalara License Professional Services]() specialists are experienced in M&A consulting. They can help determine whether the acquiring company or merged entity needs to register in states, apply for new licenses, or transfer existing licenses, and if any licenses will become redundant. They can apply for and renew licenses on your behalf and help ensure they're ready to send to authorities when your deal becomes public.

When business license blind spots disrupt operations

WHAT COULD HAPPEN:

An enterprise hotel brand acquires a smaller chain with locations across six states. Post-merger, the hotel brand assumes licenses will transfer automatically. But several states treat the entity as new, requiring fresh registrations. Others require updates.

Two locations are cited for operating without current licenses. One location loses weeks of revenue due to a missing liquor license. Local tax agencies send notices to the wrong entity, causing confusion.

HOW AVALARA CAN HELP:

Avalara License Professional Services conducts a license portfolio audit across all locations and applies for

100+ licenses on behalf of the hotel brand.

High-risk locations are brought into compliance. The hotel brand implements Avalara License Management to track renewals going forward.

Why product taxability standardization matters

Going through mergers and acquisitions often means your business suddenly needs to calculate rates on many new products and services.

Unfortunately, there's little consistency among product taxability rates and rules across jurisdictions. And those rates and rules change frequently. In 2023, there were 11,192 sales and use tax rate updates in the U.S. In addition, there were 85,836 taxability updates in the U.S. and Canada combined.

If you're not tracking tax changes closely, you could inadvertently undercharge tax.

Avalara AvaTax calculates U.S. tax, VAT, and duty logic in milliseconds. The solution tracks taxability for products and services in all states. At the core of AvaTax is Avalara's AI-powered tax content engine, maintained with real-time updates across 190+ countries.

MCP servers allow AI agents to instantly configure nexus, map product codes, and embed compliance intelligence directly into your workflows. AvaTax also validates customer addresses based on geolocation to ensure correct tax rates are applied.

AvaTax users can add newly acquired businesses to their AvaTax account and extend standardized tax codes for products they sell to companies they acquire.

Avalara Tax Research is an expert-backed solution that provides businesses with concise answers to complex tax questions. Companies can use Avi, Avalara's AI research assistant, to get fast, plain-language answers with citations. They can quickly access highly accurate, state-specific taxability rules and rates as well as cross-border trade content.

Reducing major audit risks: Exemptions and use tax errors

Your business is more likely to face hurdles if you acquire or merge with a business that has a history of frequent or negative sales and use tax audits.

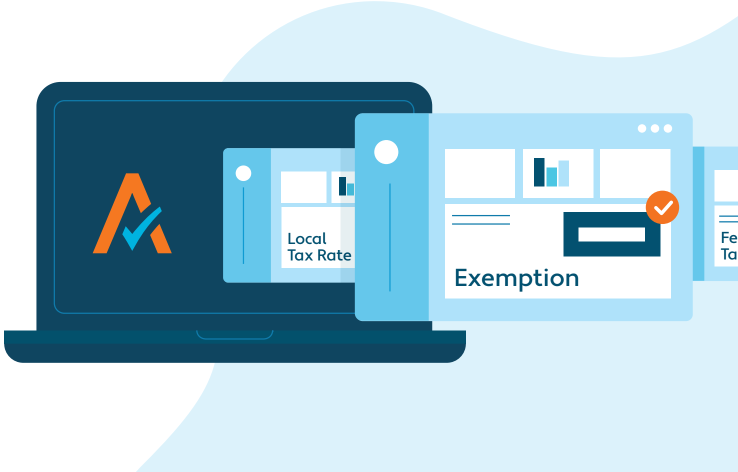
Auditors may be more likely to scrutinize businesses that report a high sales volume, many exempt sales, or have a high rate of exempt sales to total sales.

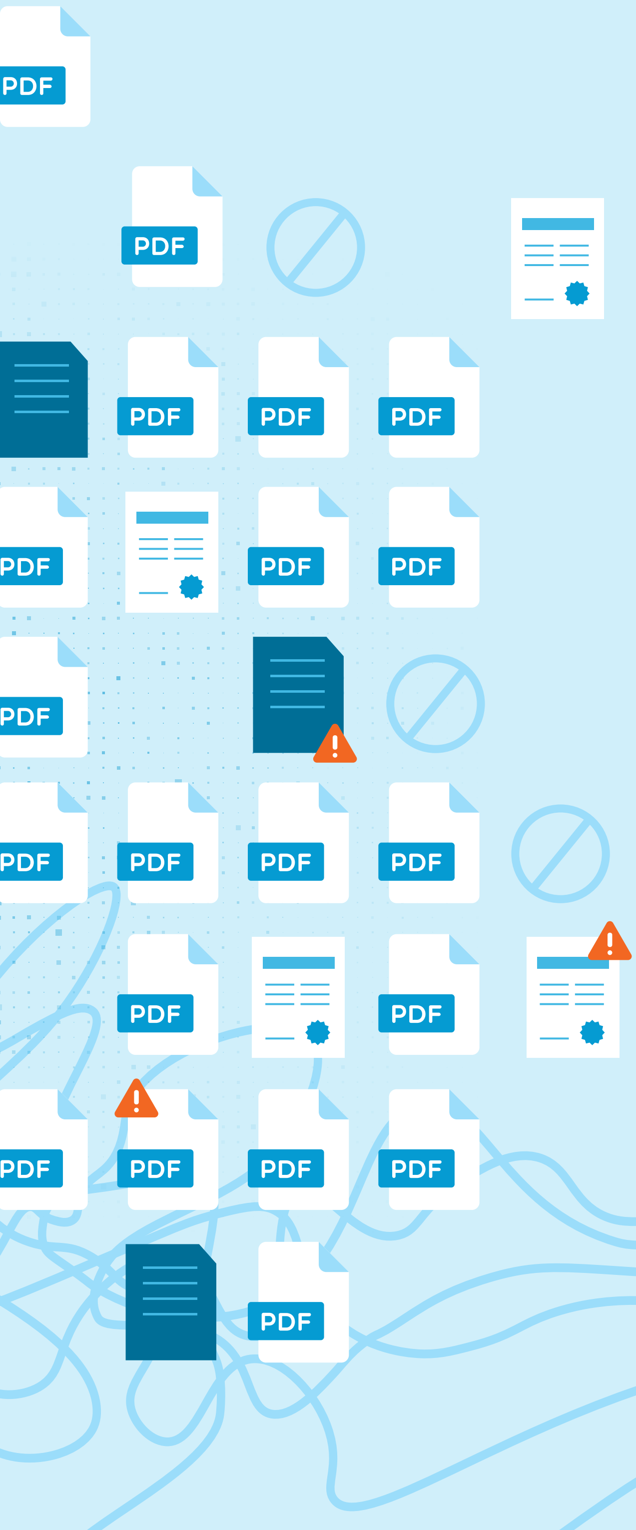
Avalara Exemption Certificate Management (ECM) automates the creation, collection, verification, usage, and storage of exemption certificates with AI for improved compliance. The solution supports M&A by enabling businesses to consolidate tax exemption data between disparate systems.

ECM manages millions of documents and uses machine learning to match certificates to buyers and transactions. As certificates are submitted, they're validated in real time and reconciled directly within the tax workflow. ECM also flags expired, invalid, or missing certificates before issues surface during an audit. Comprehensive reporting and research features allow your business to be audit ready.

Even the type of business your company acquires can impact your audit exposure. Some industries, like manufacturing, retail, and hospitality, often face greater risks of use tax noncompliance because of how they buy and consume products in their operations.

Avalara AvaTax for Accounts Payable helps solve use tax challenges. After a merger, your business might have to work with hundreds or even thousands of new suppliers. AvaTax for Accounts Payable automatically determines whether vendors charged and collected sales tax correctly or if your business needs to self-assess and pay use tax. This process reduces errors and helps keep your purchase records accurate, even as your vendor list grows.





When a merger creates exemption certificate chaos

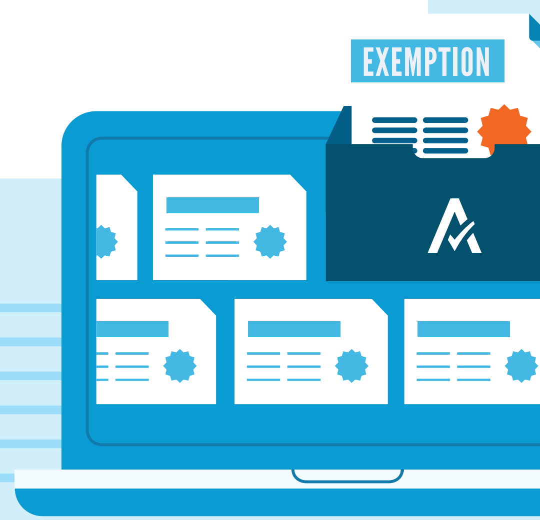
WHAT COULD HAPPEN:

Two medical device manufacturers merge. Both make large volumes of exempt sales across hospitals and universities. Each company maintained separate systems for managing exemption certificates; one manually stored PDFs and the other used partially customized software.

Post-merger, the businesses don't know which certificates are valid. Some certificates are missing. The risk of audit exposure spikes.

HOW AVALARA CAN HELP:

The merged company uses Avalara Exemption Certificate Management (ECM) to centralize certificates from both systems. ECM auto-validates certificates, flags expirations, and initiates re-collection via customer emails with secure upload links.



Managing tax filing with multiple legal entities

It's not enough to start out compliant; your business needs to remain compliant.

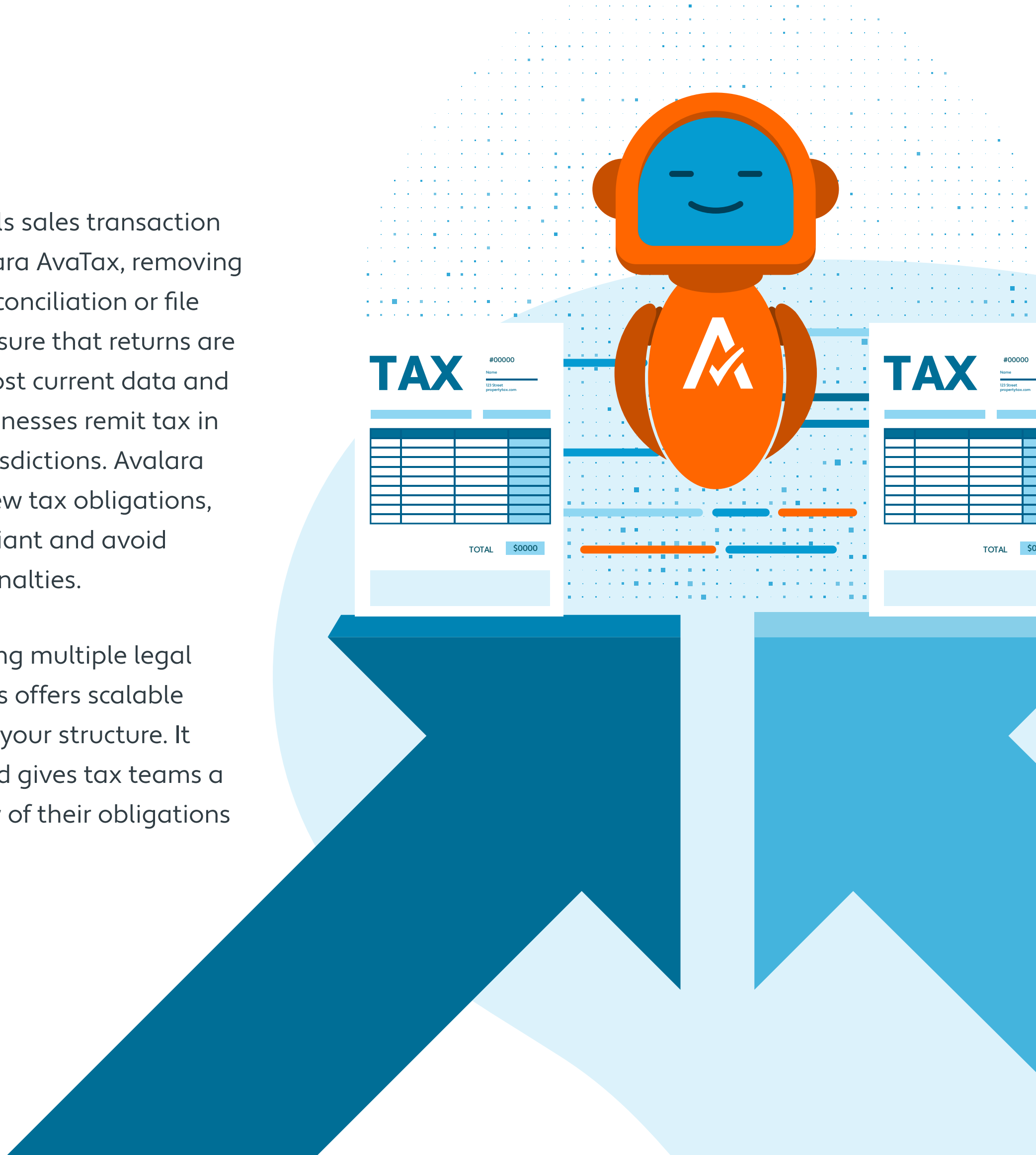
After a merger or acquisition, your business must manage sales tax filings across newly combined entities.

If both companies were filing in the same jurisdictions, the risk of duplicate returns or missed filings increases. Tax teams must quickly determine which entities are active, which accounts should be consolidated or closed, and how to unify filing processes without disrupting operations.

[Avalara Returns]() addresses these challenges by automating and centralizing the entire filing and remittance process.

The AI-first solution pulls sales transaction data directly from Avalara AvaTax, removing the need for manual reconciliation or file preparation. It helps ensure that returns are generated using the most current data and submitted on time. Businesses remit tax in one payment for all jurisdictions. Avalara Returns alerts you to new tax obligations, helping you stay compliant and avoid unnecessary fines or penalties.

For companies managing multiple legal entities, Avalara Returns offers scalable support that adapts to your structure. It reduces redundancy and gives tax teams a clear, consolidated view of their obligations across all jurisdictions.



Avoiding property tax surprises that sour the deal

When one company acquires another, it takes on responsibility for paying property tax for the target company's real estate and tangible personal property assets.

As part of due diligence, it's critical to understand the tax position of the company being acquired. You need to understand how much they're paying in property tax and whether historical filings reflect accurate and complete asset data. Complications can occur if the acquired company's records are incomplete or certain assets haven't been reported.

What's more, assessors may use different valuation standards than the fair value in your books – potentially resulting in higher assessments after the deal closes. In some cases, your only option is to file an appeal to avoid paying more tax than you should.

Avalara Property Tax uses automation to make submitting accurate returns the first time you file post-merger easier and to simplify managing property tax going forward. The solution automates data entry for increased accuracy, attaches tax notices and documents to designated accounts, and tracks due dates. Avalara Property Tax lets you explain how an asset has changed year over year and report additions and deletions. You can also revise values or adjust asset acquisition dates, keeping your records aligned and compliance on track.

Avalara Property Tax Managed Services is a comprehensive, full-service solution that leverages agentic AI technology to significantly simplify and digitize property tax compliance for businesses. Property Tax Managed Services generates actionable insights and data-driven compliance plans, prepares and delivers signature-ready property tax returns, and automates payments. Your enterprise can focus resources on core strategic initiatives, like M&A deals.

Better M&A outcomes start with compliance

From due diligence to post-close, Avalara helps make mergers and acquisitions smoother. Enterprises are able to streamline tax compliance without losing momentum. Your team gains peace of mind and is able to focus on bigger priorities, like growing your business. Contact an Avalara tax compliance specialist to find out how we can help your company navigate M&A.

Start today

DISCLAIMER