Earnings and Profits Analysis Services

M&A Tax
Attribute Services Group

The KPMG M&A Tax Attribute Services Group has a national team of professionals who specialize in the technical provisions of the tax law that govern the analysis and determination of earnings and profit (E&P). Our experience with these types of projects, together with the software models that we have developed, enables us to accurately and efficiently calculate consolidated E&P for our clients.

Why undertake an E&P study?

E&P can significantly impact dispositions, spin-offs, and mergers and acquisitions; however, most companies do not have the software or internal manpower to accurately calculate E&P.

E&P studies serve many purposes for our clients, including:

- Help determine a company's dividend paying capacity.
- Assist in evaluation of the tax character of distributions made to shareholders.
- Inform the decision to sell stock or assets.
- Structure a transaction as currently taxable or tax deferred.
- Improve efficiencies by accelerating the time spent calculating E&P and allowing for modeling of different scenarios in real time.
- Ascertain the tax consequences of certain intragroup reorganizations, both domestic and foreign.
- Determine whether taxable gain will be realized on a spin-off.
- Assist companies with Form 1099-DIV reporting requirements and determination of withholding tax implication of distributions made to non-U.S. shareholders.

KPMG approach

Determining E&P can be a significant undertaking. The determination has grown increasingly difficult because of continuous changes in applicable tax law over the years. Myriad rules and limitations require not only a very thorough technical understanding of the statutory, regulatory, and judicial provisions, but also a thorough method to calculate their effect correctly and expeditiously.

Our team

Attribute Services Group professionals have experienced a wide range of scenarios, including:

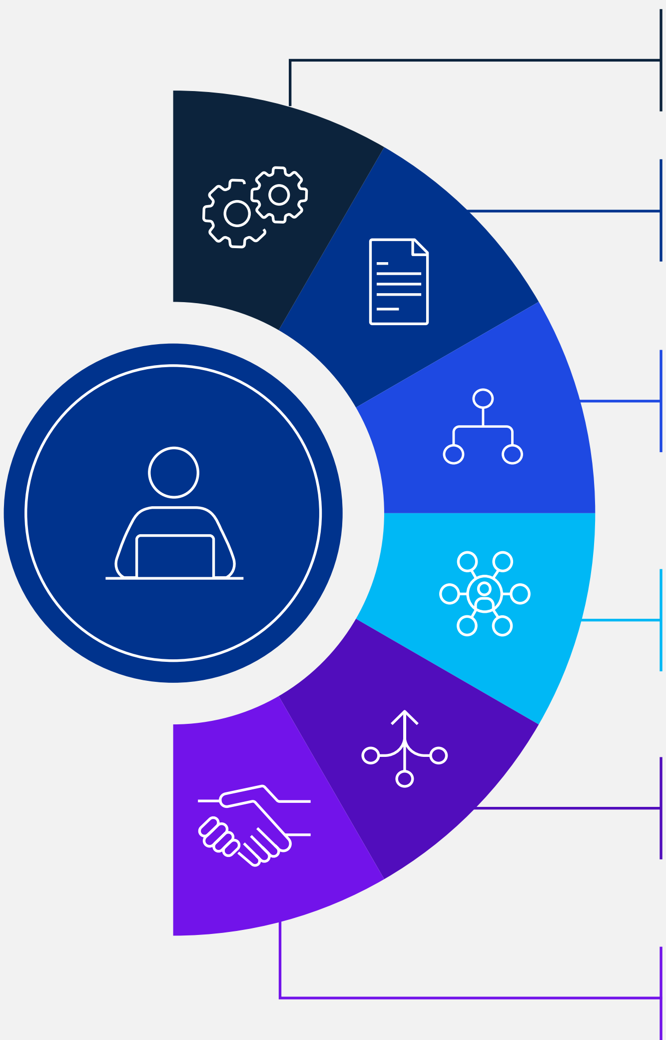
- Prepared E&P calculations for numerous companies involved in spin-off, real estate investment trust conversion, S Corporation conversion, repatriation, and special dividend transactions.
- Served as a principal drafter and technical reviewer of Reg. Secs. 1.1502-13 (intercompany transaction accounting); 1.1502-21 (SRLY limitations); 1.1502-32 (stock-basis adjustments); 1.1502-76 (taxable year); and 1.1502-90 and 1.1502-99 (consolidated returns).
- Obtained multiple private letter rulings on section 355 spin-off transactions.
- Authored a revenue procedure involving intercompany transactions.

Our technology

While any one component of the E&P process may be relatively straightforward to model, bringing all elements together offers a significant challenge. For instance, determining E&P for any one company may involve complex, but generally straightforward, adjustments to taxable income. However, tiering up the E&P of multiple subsidiaries through a complex ownership chain can make the process far more difficult. Similarly, measuring section 382 limitations is often not clear. Determining the impact in an affiliated group with ownership changes, multiple dispositions, separate return limitation year (SRLY) implications, and other transactions is quite involved and not easily modeled.

KPMG 1502 is a wide-ranging system for planning for corporate restructuring, accumulating and tracking E&P, computing tax basis in subsidiaries, and otherwise managing the complexity of the consolidated return regulations. KPMG 1502 performs multiyear tax calculations that consider the effect of transactions on federal income tax, basis of subsidiaries, E&P, intercompany tax allocation, and attribute tracking. KPMG 1502 provides a complete trail of the accumulation of all calculations and results of various planning scenarios.

As both a planning and record-keeping system, KPMG 1502 handles the following tasks in an E&P study:



- Provides a mechanism to accumulate E&P history, including the roll-up effect through the ownership chain
- Tracks detail of E&P adjustments to taxable income by company, by year, and automatically combines this information with consolidated data
- Tracks the fundamental elements of the consolidated return rules, including the application of SRLY rules to pre-affiliated E&P
- Carves out tax attributes of disposed members of the affiliated group
- Combines tax attributes of subsidiaries merged or liquidated within the group
- Settles intercompany tax accounts through use of either (1) intercompany payable and receivable accounts or (2) imputed dividends and capital contributions to the extent that cash payments are different than tax allocated

Sample Consolidated Return Group Inception to Date—Separate Company E&P

Company A, Member of Consolidated Group	Initial E&P and Beginning of Year E&P	Adjusted Taxable Income/ (Loss)	Total E&P Modifications Sec 1503(e) Net Adjs	Distributions from E&P	Distributions in Excess of E&P	E&P Tax Allocation	Tax Sharing Payments in Excess of Tax Allocation	Subsidiary Tierup Adjustments	End of Year E&P
2016	0	3,049,000	(39,145)	0	0	(983,123)	(84,027)	0	1,942,705
2017	1,942,705	5,158,781	(68,516)	0	0	(1,224,999)	(758,265)	1,203,050	6,252,756
2018	6,252,756	(4,192,090)	(56,836)	0	0	0	(151,465)	5,685,371	7,537,736
2019	7,537,736	11,001,540	(77,247)	(36,312,074)	21,700,584	(3,459,595)	(390,944)	0	0
2020	0	5,550,580	(56,586)	0	0	0	(1,942,703)	0	3,551,291
Totals	0	20,567,811	(298,330)	(36,312,074)	21,700,584	(5,667,717)	(3,327,404)	6,888,421	3,551,291

Contact us

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