



Stock Basis Analysis Services

M&A Tax
Attribute Services Group



The KPMG M&A Tax Attribute Services Group offers stock basis analysis designed to provide decision makers the quantitative tax information essential to planning and implementing tax-efficient transactions.

Why undertake a stock basis study?

Whether you are contemplating a corporate restructuring, disposition, or other transaction that involves members of a consolidated group, the Attribute Services Group can assist you with an analysis of stock basis that will enable you to:

- Determine the gain or loss from the sale of a subsidiary out of a consolidated group or determine the deferred intercompany gain or loss for a sale within a consolidated group
- Compute the amount of worthless stock deduction that may be taken with respect to a consolidated group subsidiary
- Determine the amount of cash or property available to be distributed by a controlled corporation to creditors in connection with a reorganization transaction described under section 368(a)(1)(D)
- Calculate the reduction in tax attributes following certain cancellation-of-debt events
- Monitor creation or potential income triggering due to so-called excess loss account (negative stock basis)
- Comply with section 6045B reporting requirements.

KPMG approach

Determining tax basis in subsidiary stock can be a significant undertaking. The determination has grown increasingly difficult because of continual changes

in applicable tax law over the years. Myriad rules and limitations require not only a thorough technical understanding of the statutory, regulatory, and judicial provisions, but also the means to accurately and expeditiously calculate their impact.

Most companies lack the internal resources or software to accurately calculate tax basis in subsidiary stock. KPMG offers a national team of professionals who focus on performing stock basis studies for large consolidated groups and for companies in various industries. Furthermore, our software enables us to accurately and efficiently calculate stock basis.

Our team

The Attribute Services Group is closely supported by a full range of technical tax professionals in our Washington National Tax practice. Many of these professionals have Internal Revenue Service and/or Treasury experience such as:

- Serving 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)
- Obtaining multiple private letter rulings on section 355 spin-off transactions
- Authoring a revenue procedure involving intercompany transactions.

Our technology

Our proprietary software, KPMG 1502, enables us to accurately calculate stock basis for large consolidated return groups by performing quantitative analyses of various consolidated return issues resulting from historical or contemplated acquisitions, dispositions, or other corporate restructuring transactions.

KPMG 1502 assists with planning for corporate restructuring, computing tax basis in subsidiary stock, calculating consolidated and separate company

earnings and profits (E&P), and navigating the complex consolidated return regulations. KPMG 1502 performs multiyear tax calculations that account for the effect of transactions on federal income tax, basis of subsidiary stock, E&P, intercompany tax allocations, and attribute tracking. KPMG 1502 provides a detailed audit trail for historical calculations and can be used to model the tax consequences of future planning scenarios.

As both a planning and record-keeping system, KPMG 1502 handles the following tasks in a stock basis study:

Provides a mechanism to collect and organize all of the components necessary to calculate the tax basis in subsidiary stock for each subsidiary from inception to date

Tracks the tax basis in subsidiary stock for each subsidiary on a year-by-year basis

Tracks the fundamental elements of the consolidated return rules, including the application of separate return limitation year (SRLY) rules to net operating loss (NOL) carryovers and the impact on utilizing NOLs under sections 382 and 384

Tracks the determination of tentative consolidated taxable income for each applicable subsidiary as required under the anticircularity rules of Reg. Sec. 1.1502-11(b) on the disposition of a subsidiary

Carves out tax attributes of disposed members of the affiliated group

Combines tax attributes of subsidiaries merged or liquidated within the group

Calculates and tracks the amount of consolidated NOLs and capital losses allocable to each member of the consolidated group



Sample Consolidated Return Group Inception to Date—Basis

| Company A Version: — Year | Initial Basis and Beginning of Year Basis | Adjusted Taxable Income/ (Loss) | Tax-Exempt and Nondeductible Adjustments | Distributions | Tax Sharing Payments | NOL C/Os, Cap Loss C/Os, Char Cont C/Os Not Utilized/ (Utilized) | Subsidiary Tier-up Adjustments | End of Year Basis |
|---------------------------------|--|--|---|------------------|----------------------------|---|--------------------------------------|----------------------|
| 2016 | 0 | (222,610) | (340) | 0 | 77,914 | (1,258,721) | 4,548,605 | 3,144,848 |
| 2017 | 3,144,848 | (605,566) | (3,182) | (456,358) | 211,948 | (2,157,808) | 8,608,852 | 8,742,734 |
| 2018 | 8,742,734 | (601,143) | (4,081) | 0 | 210,400 | (2,157,808) | 16,965,848 | 23,155,950 |
| 2019 | 23,155,950 | 15,120 | (66) | 0 | (5,292) | (2,157,808) | (1,153,384) | 19,854,520 |
| 2020 | 19,854,520 | 399,621 | 0 | 0 | (139,867) | 0 | 1,816,300 | 21,930,574 |
| Total | | (1,014,578) | (7,669) | (456,358) | 355,103 | (7,732,145) | 30,786,221 | 21,930,574 |

Contact us

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