



# Legal entity rationalization

Eliminate excess with legal entity rationalization services



Peaks in deal activity coupled with slowdowns create an ideal opportunity for organizations to optimize their tax, legal and operating structures. Many organizations are seeking creative ways to reorganize their operations, contain cash expenditures and improve their tax positions.

KPMG LLP (KPMG) recognizes that a LER project can affect many functions and processes, so we have developed an operationally aware approach to assist in executing LER projects. Our approach can be used to plan—then implement—a new, sustainable, and more efficient structure that can help unlock tangible and intangible benefits by reducing costs, realizing potential tax benefits, and optimize the entity structure with a company's business approach.



## Reshape success

LER services can help companies determine if significant direct and indirect savings can be achieved by simplifying their organizational complexity.

Using a phased approach, proper risk management, and established leading practices, a LER project can help companies:

**Increase efficiency and reduce overhead through the consolidation of operations**

**Eliminate nonessential entities**

**Consolidate entities acquired from historical mergers or acquisitions**

**Gain more transparency into financial reporting environments**

**Potentially reduce costs of tax filings**

**Identify tax planning opportunities**

**Mitigate risks**

**Increase operational readiness and efficiencies**

**Identify and manage critical paths and interdependencies**

**Minimize business operation interruptions**

**Establish a governance structure**

**Identify value creation opportunities and synergies**

**Enhance alignment with operational strategy and facilitate leadership buy-in**

Besides the tangible benefits of LER, many clients believe the intangible benefits are even greater. These potential benefits include the redeployment of company resources to higher value-add activities and, as discussed below, the better alignment of organizational structure with organizational approach. In LER engagements facilitated by use of proprietary software, KPMG Legal Entity Manager, these potential benefits also include access to enormous amounts of a client's organizational data collected and organized within the software.

## LER transformation components

LER is a key cornerstone of business transformation. A LER project involves helping the client evaluate whether the current corporate structure is adding more cost than value; clarifying the desired organizational end state; and, if entity reduction is selected, developing a clear plan to reduce excessive organizational structure without materially affecting ongoing operations.

The LER process could align the company's business approach and future operating model.

Key components are:





# Top eight considerations for legal operational readiness

Companies executing legal entity reorganizations should begin by assessing the needs and impacts of the new structure

## 01 Tax planning

Identify the tax objectives of the new business, develop an optimal tax structure, and facilitate the transaction. The tax objectives of the business determines the structure of the transaction (fully taxable, partially taxable, tax free, etc.).

## 02 Legal entity structure

The legal entity structure is the main driver of the legal entity's activities. The structure dictates where legal entities need to be formed and operationalized or closed. The timing of legal entity formations has a direct cross-functional operational impact on the business and drives the timing of all legal entity related activities. Global companies undergoing transactions use this opportunity to reassess their legal entity footprint and typically require external in-country and central support to implement the desired structure.

## 03 IT systems setup

Define future state requirements and implement systems to accommodate the new legal entity structure. The end state system structure, including master data transfers and critical dates for the system setup need to be identified early in the process to ensure the business is properly supported at close.

## 04 Funding and working capital

Determine working capital needs and fund accounts accordingly. Maintaining and/or enhancing efficient channels for the efficient movement of cash.

## 05 Employee transition and alignment

Develop a employee communication plan, convey the value of the transaction, and seek buy in from employees. Lack of transparency and information sharing can lead to low morale and attrition. To retain key talent, competitive incentives should be introduced.

## 06 Asset transfer pricing

Ascertain practices and align entities on the transaction valuation approach. In instances where a segment is considered separately from its multi segment parent, transfer pricing valuations are used to evaluate the segment on a stand-alone basis. To accurately reflect the health of the business, the valuation of the segment should be based on business valuations and not asset transfer pricing.

## 07 Regulatory authorizations

Determine regulatory requirements and obtain product market authorizations. For example, the inability to obtain a product registration reflecting the correct legal entity name can prevent a life-saving product from import or sale in a jurisdiction.

## 08 Vendor management

Identify all vendors, reevaluate contracts, and develop a plan to split, assign, renegotiate, break, or end the renewal of contracts. Legal entity changes necessitate a review of contracts due to the change in the contracting entity. In instances where contracts are dedicated to the segment and there are no change of control provisions, the segment will continue to be supported by the contract. In instances where the contract is shared with the parent or other segments, or where change of control provisions exist, additional steps need to be taken to split the contract, fulfill the change of control provision, renegotiate, or terminate the contract.



# KPMG Legal Entity Manager

LER projects generally raise complex regulatory, commercial, legal, tax, finance, HR, and other considerations. A typical external team, even one staffed with strong technicians, may incur significant time working to build an efficient, global LER process. Fortunately, KPMG has developed an operationally aware approach to assist with LER.

Enabled by tools and custom software, KPMG adapts its LER methodology to each client's individual goals and fee expectations. Our web-based LER software application, KPMG Legal Entity Manager, and methodology can be used to model a client's existing complex entity structure, maintain entity information, and collect feedback. This information can then be used to manage restructuring, merger or acquisition simulations, tax rationalization, and other analyses.

KPMG Legal Entity Manager provides the ability to manage large quantities of data and support the creation of a more streamlined, effective structure by:

## Capturing data attributes to create profiles for each entity

## Modeling future-state organization and identifying changes to the current structure

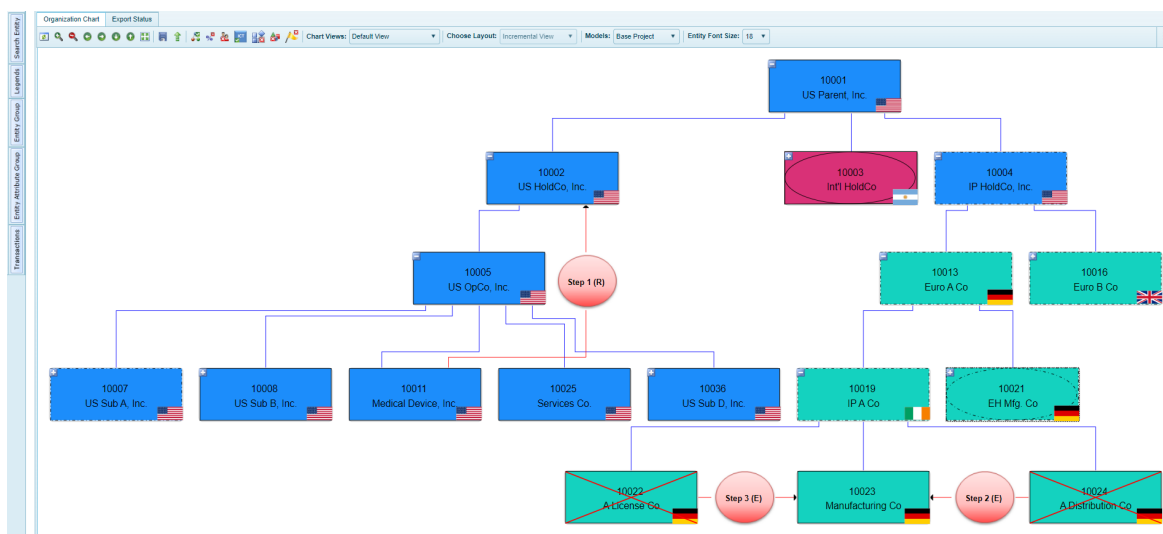
The tool makes it easy to navigate complex organizational charts and zoom in on the desired entities or groups of entities. The features of KPMG Legal Entity Manager include:

- Multiuser functionality
- Configurable import framework compatible with XLS or CSV.

- Flexible organization chart and user interface, including
- Presentation of intercompany accounts
- Versioning (copy) capabilities for entire project
- Ad hoc reports and charting capabilities
- Complex security framework.

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## Sample of KPMG Legal Entity Manager output



**KPMG Legal Entity Manager is highly flexible and is customized to focus on each client's individual goals**

**Flexibility**

- Configure project settings
- Define client specific entity attributes
- Configure client specific organization units
- Configure imports to suit data sources (XLS or CSV)

**Collaboration**

- Web based
- Supports concurrent users updating project information
- Able to upload questions and obtain feedback from multiple organizational units

**Organizational chart**

- Multiple organizational chart display layouts
- Icons to readily refer data conditions
- Ability to filter entities based on selected criteria
- Colors and shapes to represent entity attributes

**Reporting**

- Sophisticated ad hoc reporting framework
- Ability to publish selected ad hoc reports as canned reports
- Ability to export reports to Excel, PDF, or HTML







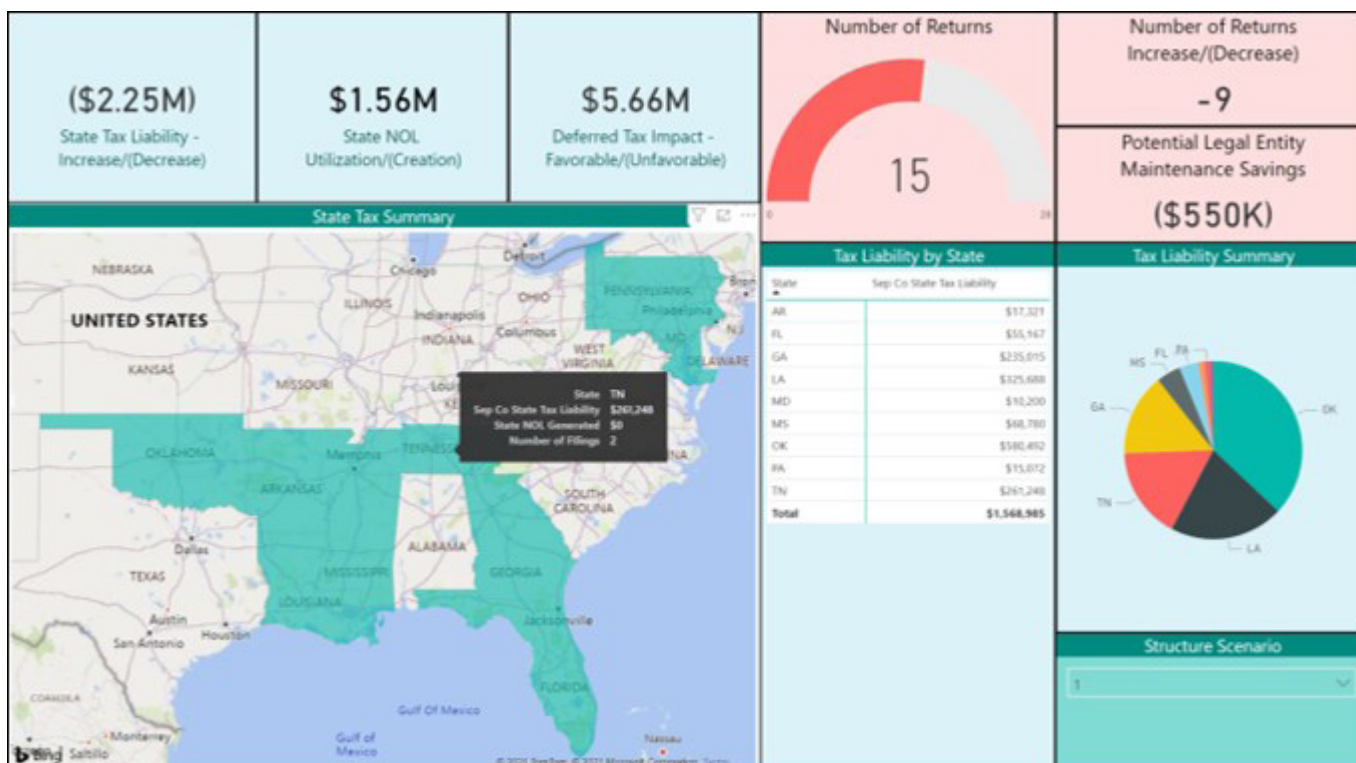
# KPMG State Tax Analysis and Restructuring tool

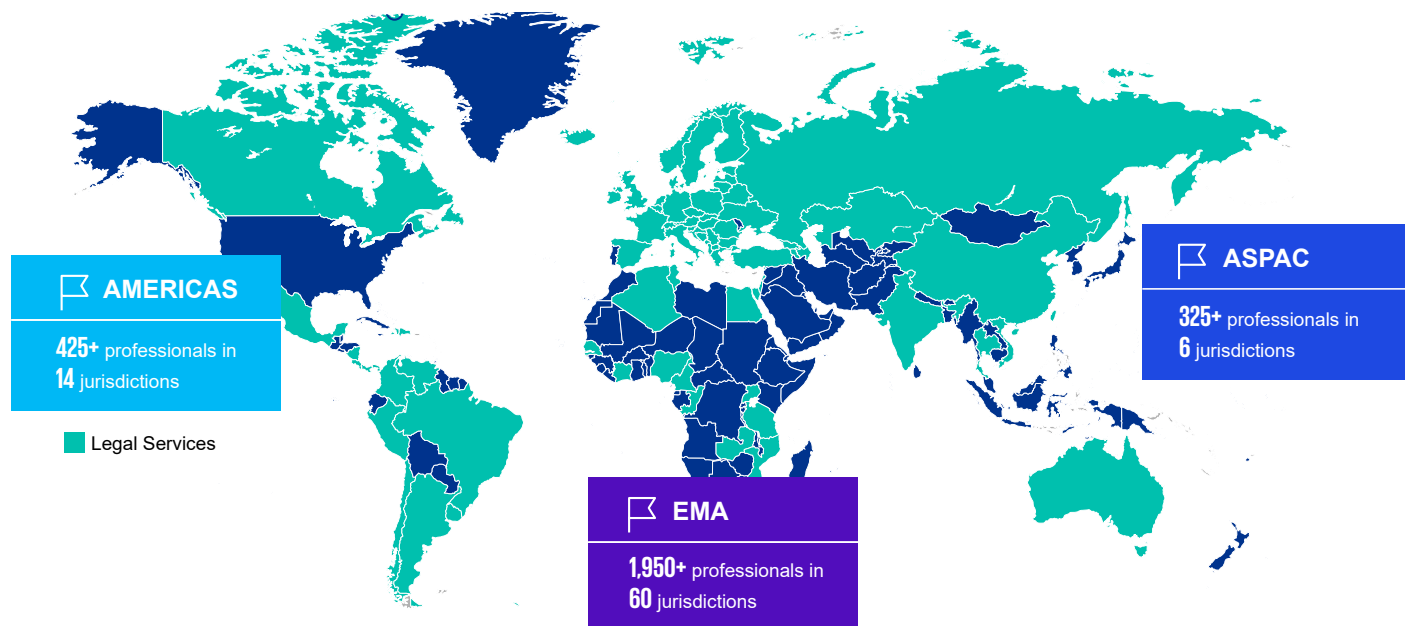
The KPMG State Tax Analysis and Restructuring Tool is a powerful software application that analyzes an organization's domestic corporate structure and models alternatives. The tool identifies state income tax planning opportunities through rearranging legal entities, which may result in potential cost reductions.

Applying proprietary technology developed by KPMG, an algorithm generates various corporate structures that may be more efficient than the current structure. Options are presented in an easy-to-understand dashboard.

A typical output contains 10 scenarios that reduce separate state income tax plus an additional 10 scenarios that generate a financial statement benefit (increase in deferred tax asset or decrease in deferred tax liability). Additionally, the software estimates the number of tax entities that can be eliminated in the various structures thereby potentially reducing the state tax compliance burden.

The tool contemplates tax, financial, and operational impact. Reports include proposed entity combinations for each structure and a detailed buildup of state income tax liability, including tax base, apportionment, net operating loss utilization, effective tax rate, and credit utilization.





Albania	Bosnia & Herzegovina	Croatia	Germany	Jordan	Netherlands	Senegal	Thailand
Algeria	Brazil	Cyprus	Greece	Kazakhstan	Nicaragua	Serbia	Tunisia
Argentina	Bulgaria	Czech Republic	Guatemala	Latvia	Nigeria	Slovakia	Trukey
Armenia	Cameroon	Denmark	Hong Kong(SAR)	Lithuania	Norway	Slovenia	Uganda
Australia	Canada	Dominican Republic	Hungary	Luxembourg	Panama	South Africa	Ukraine
Austria	Chile	Egypt	Iceland	Macedonia	Peru	Spain	United Kingdom
Azerbaijan	China (mainland)	Estonia	India	Malta	Poland	Sweden	Uruguay
Bahrain	Colombia	Finland	Ireland	Mexico	Qatar	Switzerland	Venezuela
Belarus	Congo (Republic of)	France	Italy	Monaco	Romania	Taiwan	Vietnam
Belgium	Costa Rica	Georgia	Ivory Coast	Mozambique	Russia	Tanzania	Zambia

## KPMG Law

Non-U.S. members of the KPMG Law network can assist clients with the legal ramifications of the LER process. Through collaboration and innovation, KPMG Law is able to combine knowledge in law with business insight and technology-enabled applications. KPMG Law combines deep legal knowledge with wider skills and business insight to offer an innovative solution. The KPMG Law network is supported globally in 80 countries with more than 2,700 professionals. KPMG firms globally are in 143 countries and territories with more than 265,000+ professionals.

## KPMG Legal Entity Reduction Delivery Platform

Developed by experienced reorganization lawyers in coordination with expert legal technologists, this legal technology platform supports clients with the planning and implementation of their LER project.

The platform will:

- Support a multidisciplinary KPMG team to deliver LER projects from inception to delivery
- Leverage propriety code to automate key aspects of project processes, enabling KPMG Law to deliver quickly and efficiently and share them with clients
- Provide project teams with control, visibility, and accountability for their LER projects, with real-time access for information and easy to use visual dashboards
- Establish a single source of truth for projects to breakdown cross-functional silos.

This tool is developed, owned and used by KPMG Legal (UK).



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KPMG cross-functional teams are experienced in LER planning and implementation. Our professionals offer in-depth skills, experience, and an unbiased approach to think beyond the current state and offer more transparency. With multijurisdictional knowledge and an established track record, our professionals help mitigate risks and address business, regulatory, and commercial considerations while building a new, sustainable, and more efficient structure for our clients.

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