KPMG
cutting through complexity

Accounting Methods and Credit Services

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Contents

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Overview

Companies that understand the impact of their accounting policies are better positioned to take full advantage of tax-efficient accounting methods and credits—and thereby improve cash flow and, in some cases, their effective tax rate.

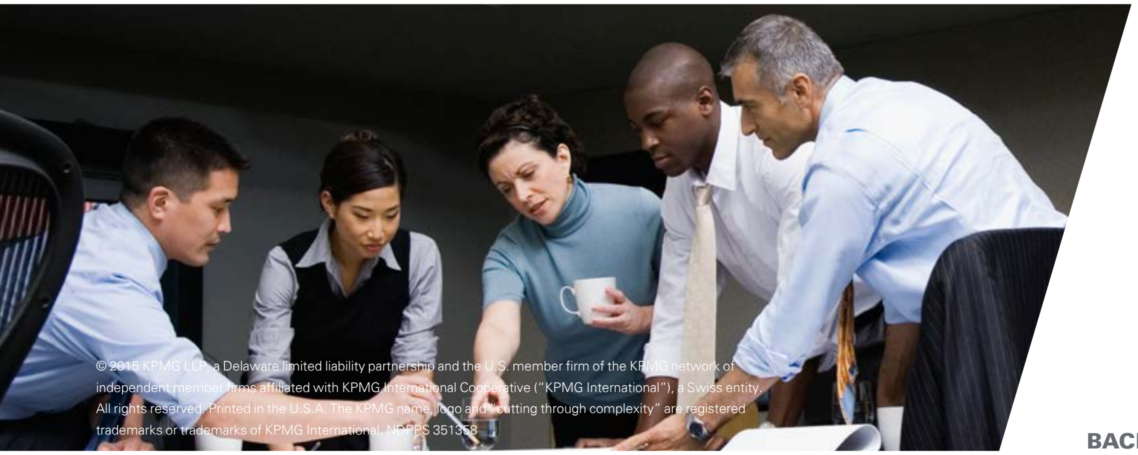
KPMG LLP's (KPMG) Accounting Methods and Credit Services (AMCS) tax professionals can help companies in all industries achieve greater tax efficiency. The AMCS group, comprising a nationally dedicated team of professionals with backgrounds in tax accounting, fixed assets, and federal business credits, has experience across a broad range of tax issues—from inventory accounting and research and development (R&D) credit to tangible property and meals and entertainment (M&E). Our team includes the Washington National Tax (WNT) practice, which constantly monitors changes in laws and policies that can affect both the procedural and technical aspects of tax accounting methods and credit issues.

We use a multidisciplinary approach and a consistent tax consulting methodology to help companies manage their cash taxes, effective tax rate, and tax risks. We offer you:

- Dedicated teams with in-depth knowledge of tax laws and regulations in tax accounting, fixed assets, and federal business credits such as R&D tax credits and renewable energy
- Established processes and technology that help enhance efficiency and effectiveness
- Statistical modeling performed by on-staff PhDs
- Global resources with extensive tax technical, architecture, and engineering knowledge

KPMG's AMCS practice can assist you in four areas:

- Tax Accounting Services
- Fixed Asset Services
- Credit Services
- Cross-Disciplinary Services



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Tax Accounting Services

Tax Accounting Services (TAS) assists companies with achieving tax efficiency through their tax accounting methods. Comprising experienced professionals across the country, TAS professionals help build a company's competitive edge by assisting with the proper reporting of taxable income. Our capabilities can benefit new companies by helping ensure the proper election of appropriate accounting methods, and existing organizations by examining and recommending changes to their accounting methods. We can also assist companies with determining the effect tax accounting methods might have on a company's financial statement income, including the impact of a conversion from GAAP to IFRS.

Accounting Methods

Our TAS team can help companies evaluate their overall tax position, identify important tax deductions or income deferrals, and recommend the most appropriate accounting methods. Our focus areas include both the procedural and the technical aspects of:

- **Income Recognition** – advanced payments for goods or services (e.g., gift cards), disputed income, deposits, premium coupons, service warranty income, and long-term contracts
- **Expense Recognition** – bad debts, payroll and employment taxes, employee compensation, cooperative advertising, incurred but not reported (IBNR) expenses, and deficiency interest
- **Cost Recovery of Capitalized Items** – interest capitalization; spare parts; environmental costs; acquired intangibles (e.g., excess premium payments and franchise rights); amounts paid to obtain, modify, or terminate contract rights; prepaid expenses; computer software; and transaction costs
- **Inventory Accounting** – uniform capitalization; cash and trade discounts; the retail inventory method; lower of cost or market valuation; Last-in, First-out (LIFO); and estimated shrinkage accruals

Select Permanent Items

Our TAS team also provides services related to select permanent deductions, including:

- **Section 199 (Domestic Production Activities Deduction)** – KPMG has considerable experience assisting companies with understanding, computing, and defending section 199 deductions upon IRS exams, helping to ensure that the full value of the deduction available is captured.
- **Meals & Entertainment** – Although a fundamental cost of doing business, M&E deductions may end up costing companies more than they should. KPMG's TAS team has vast experience in M&E deductions. Our experience with data analytics combined with a technology-enabled methodology helps companies realize more of the tax advantages from their M&E expenses.
- **Lobbying Expenses** – In reference to the Lobbying Disclosure Act of 1995, to determine nondeductible add-back under section 162(e), we can gather, analyze, review, and prepare documentation to help properly classify internal lobbyist, external lobbyist, and lobbying association costs, thus helping you to decrease your effective tax rate and potentially realize significant permanent tax savings.

Our TAS practice specializes in assisting companies with the implementation of tax accounting methods aimed at accelerating cash flow. However, in today's economic climate, many companies find themselves in the unfamiliar situation of wanting to accelerate income or defer deductions. For example, a company with expiring net operating losses (NOLs) or other tax benefits may want to increase current year income to permanently offset taxable income. There are many accounting methods or elections taxpayer can pursue on a long-term or short-term basis and our TAS practice can help.

KPMG Differentiators

- Broad-based, multidisciplinary approach and client deliverable
- On-site and remote client staff training on new methods
- Fully dedicated team
- Extensive technical experience
- Thorough documentation

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Fixed Asset Services

KPMG's Fixed Asset Services (FAS) professionals can help you stay compliant with the latest fixed asset tax regulations coming out of Washington, and, through our knowledge and experience, may help you better identify and manage efficient tax treatment of fixed asset costs.

Fixed Asset Review
KPMG's Fixed Asset Services address not only the challenges companies face in fixed asset tax accounting, but also help uncover potential tax benefits. Our team can also help identify and document potential tax deductions through a review of historical and current year fixed asset records and capital improvement projects. Potential additional tax deductions may be accumulated either by qualifying costs into accelerated tax recovery periods or as current period expenses.

Tangible Property Regulations ("Repair Regs")
The final tangible property regulations represent complex compliance challenges for almost every company. KPMG can provide a thorough analysis customized to your industry using a phased approach aligned with your needs. For all the tools and resources you need to stay current with the final tangible property regulations, please visit www.kpmg.com/us/repairregs.

Cost Segregation
Cost segregation is the analysis of construction costs, leasehold improvements, and acquired real property assets to help accelerate tax depreciation expense by identifying costs and activities attributable to assets with shorter tax recovery periods. Erroneously classifying these costs may lead to sizable missed savings. KPMG draws on the skills of architectural, engineering, and valuation professionals to help segregate construction costs into the appropriate federal tax recovery periods.

Construction Tax Planning
Construction Tax Planning (CTP), unlike traditional cost segregation studies, is KPMG's proactive approach to helping companies identify tax benefits related to new and planned construction projects. Our CTP team is involved throughout the construction project life cycle allowing an interface between the company's design and build teams. We can help you identify qualifying assets and document your design and construction from the earliest stages of a construction project, resulting in additional tax benefits and enhanced documentation.

Embedded Cost Review
Companies that contract for the construction of facilities to be used in their trade or business may unknowingly capitalize significant costs that are currently deductible. Identifying embedded, or sunk, costs may provide considerable savings through tax deductions or tax credits in a given year. Our professionals will work with you to analyze design and engineering costs to identify potential costs eligible for a current year deduction that may otherwise have been capitalized to the basis of property.

Our national FAS team includes licensed architects, professional engineers, Leadership in Energy and Environmental Design (LEED) accredited professionals, and CPAs. We have extensive experience defending fixed asset studies under IRS audit. And, our experience with multiple fixed asset accounting software platforms enables us to assist with the implementation of results.

KPMG's FAS team is exceptionally positioned in the marketplace, as the client service delivery teams address depreciation, cost segregation, repairs and maintenance costs, ghost asset and placed in service date verification, energy-efficient building systems analysis, and database consulting simultaneously during engagements.

Companies can help improve cash flow in the first five to seven years after a construction project is placed in service by identifying expenses that qualify for federal income tax deductions.

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Credit Services

Our Credit Services team can assist clients to help identify and optimize tax deductions and credits for R&D activities and expenditures. We also advise clients on the emerging issues associated with renewable energy and climate sustainability.

Research & Development Credit

Tax credits for R&D present a valuable opportunity for businesses to recover a portion of the costs incurred in the development of innovative products and processes. KPMG can help you leverage available R&D tax credit opportunities to enhance your tax efficiency and cash flow, while mitigating potential audit risks and helping to increase the return on your R&D investment. We use a proprietary Web-based tool, *KPMG LINK R&D Exchange,* to obtain, organize, and substantiate R&D data more effectively. To stay current on the latest R&D tax credit developments, please visit www.kpmg.com/us/rdtaxcredit.

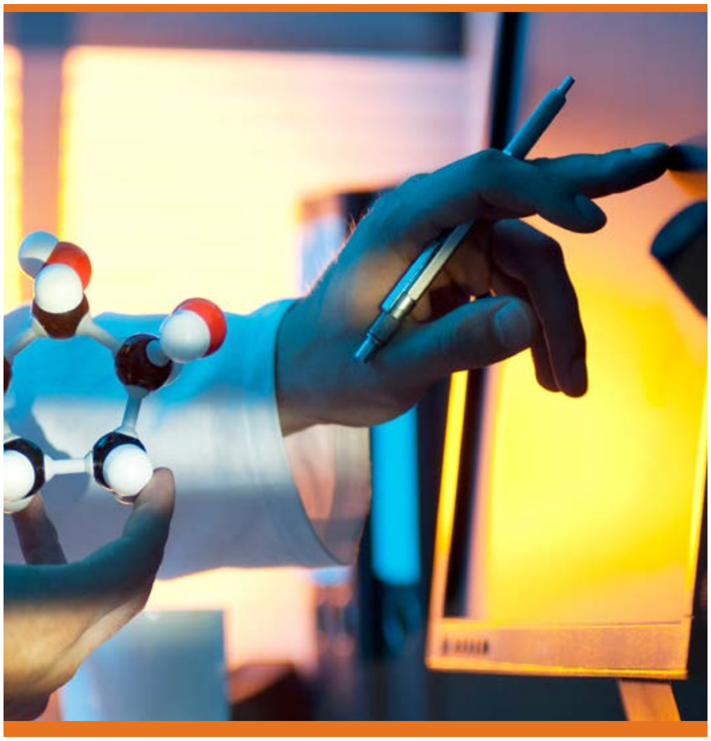
Energy Sustainability

Governments around the world are increasing the use of tax as a tool to change corporate behavior and help achieve green policy goals, such as carbon reduction and resource efficiency. As a result, green tax incentives and penalties are proliferating. Green taxes can have a material impact on corporate investment decisions, and can make or break the economics of projects developed to achieve a company's corporate energy or sustainability strategy. KPMG can help identify, quantify, and capture green tax credits and incentives. Our services include but are not limited to sustainability studies, tax incentives and grants, tax advice, transaction structuring, and monitoring legislation.

Our Credit Services team is comprised of a national team of tax and accounting professionals, and various specialists, including: scientists, engineers, and/or other industry specialists who speak the same language as your engineers and researchers, and who will help uncover eligible activities previously overlooked.

R&D tax credits are available in many states in the United States and similar incentives are available in many foreign jurisdictions in accordance with their respective R&D statutes.

Green tax incentives may be available to many companies, and through KPMG's global network of member firms, Tax and Sustainability professionals can help clients navigate the complex landscape of green tax incentives and penalties. To learn more, visit www.kpmg.com/us/greentaxindex.



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Cross-Disciplinary Services

KPMG also provides tax consulting services to assist clients with various tax issues specific to their industry, location, accounting standards, and methods. KPMG's AMCS practice, in cooperation with other KPMG service lines, offers the following services:

Medical Device Excise Tax

Makers of medical devices are required to pay an excise tax on the sale of FDA listed medical devices. Compliance with this first-ever excise tax based on revenue-producing transactions requires a full understanding of the specific manufacturing activity, the supply chain, the contractual arrangements, and the transactions themselves. Our cross-disciplinary team of professionals can help you with all aspects of the medical device excise tax, from the complex and often overwhelming transactions and calculations to the use of technology resources.

Hedging & Derivatives

Companies across all industries routinely use derivatives to manage their business risks, yet many fail to appreciate the complex, nuanced tax rules that apply, resulting in missed opportunities and traps which can affect character, timing, source, and other tax positions, such as Subpart F income. Our assessment and recommendations may result in permanent effective tax rate benefits; improved communication, integration, and transparency of your derivative and hedging activities; and mitigation of tax risk.

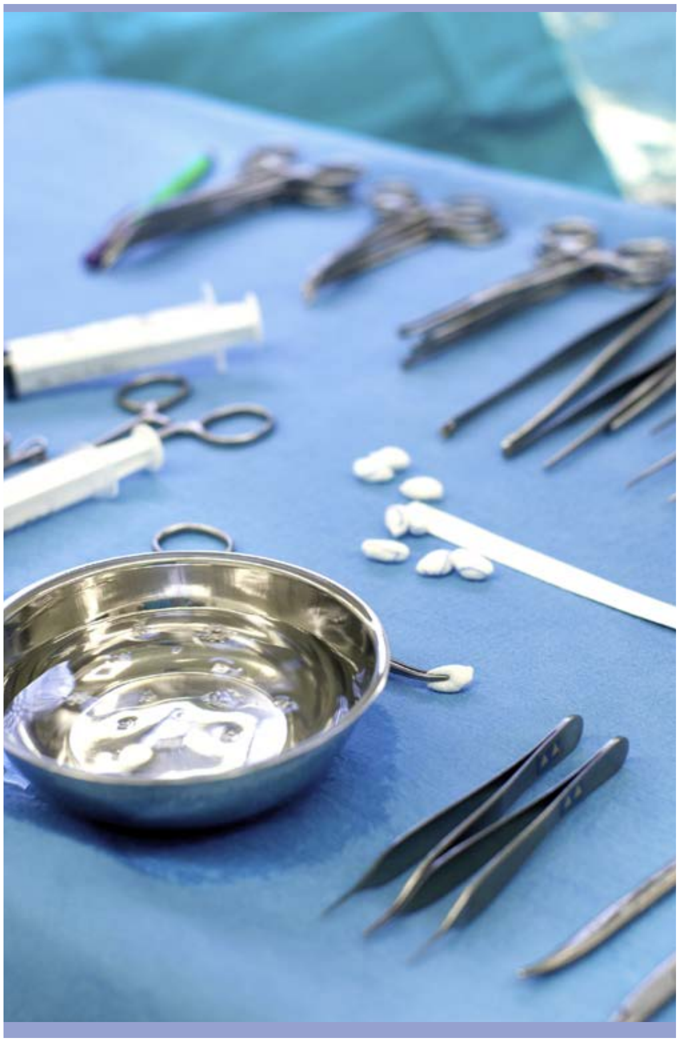
International Operations

KPMG can help U.S. companies with international operations obtain tax benefits by accelerating or deferring recognition of foreign-source income (or deductions) or the Earnings & Profits (E&P) attributable to the foreign-income source. The resulting benefits may include a reduction in U.S. tax through enhanced foreign tax credit utilization, a reduction in Subpart F income or a passive foreign investment company (PFIC) inclusion, or a reduction in the amount subject to tax in a section 367(b) or section 1248 transaction. Additionally, a financial statement benefit may result if the company is able to use foreign tax credits that otherwise would have expired.

Mergers & Acquisitions

Accounting methods are frequently affected by transactions, including stock and asset acquisitions and internal restructuring transactions. Understanding the impact that certain transactions may have on a taxpayer's accounting methods is essential to achieving proper treatment of tax items going forward and identifying any potential planning opportunities and pitfalls that transactions can present. KPMG has an experienced team that can identify accounting methods issues and opportunities to consider in structuring a transaction.

We spend the time to understand and evaluate the facts, and provide new and practical ways to address potential issues. We will tailor the engagement to meet your needs.



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