IPO tax planning services

M&A Tax

Successfully transforming a company into a publicly-traded enterprise requires substantial, detailed planning and execution. Public markets view businesses through different prisms–requiring both continued operational focus and transformed processes to accommodate the transparency required of public companies. To meet those demands, organizations will assess strengths and weaknesses across all levels and functions. Organizations will also identify and mitigate risk by preparing to respond rapidly to potential volatility in equity markets.

The tax department, like other functions, must plan for this transformation to support the enterprise's well-being, as well as to meet post-IPO operational expectations. IPO planning should move beyond compliance areas and into structural considerations, compensation and benefit planning, and financial statement presentation (both prior results and forecasting requirements). Prepared to meet these challenges, organizations will be well-positioned to address the commitments associated with SEC filings, onboarding new resources, investor roadshows, and IPO launching.

Companies regularly establish four distinct phases in planning and executing the IPO readiness process.

Approach to IPO Readiness

Assess

*Assess the **tax department's readiness** to serve a public company.*

- Capital structure
- Financial reporting of income taxes
- Internal controls over tax department operations
- Potential tax implications and other legal and regulatory matters

Plan

*Create a **detailed plan and timetable** for the Initial Public Offering.*

- IPO timetable
- Tax improvement timetable
- Milestones and key meetings
- Roles and responsibilities
- Interdependencies with other functions

Execute

***Prepare and file** for the Initial Public Offering.*

- Pre-filing changes to tax structure
- Adoption of financial reporting requirements
- Key tax sections of the prospectus
- Pre-clearing unique accounting and/or reporting issues with the SEC
- Information for due diligence exercise

Sustain

*Plan for **ongoing financial reporting** as a public company.*

- Identification of gaps in corporate governance structures and internal controls infrastructure
- On-going tax compliance and reporting calendar
- On-going training of tax department personnel, as needed

A well-thought-out plan and accompanying timetable, prepared by the tax function at the earliest possible stage of the IPO process, are essential components of a successful and effective transaction. Issues highlighted at this early stage can be tackled before the offering, potentially saving both time and money as well as reducing reputational risk.

	Key Considerations	Possible Risks
Capital Planning	– Will the company's capital structure facilitate an IPO? – What are the potential direct and indirect tax consequences of the planned use of IPO proceeds? – Use of tax-efficient, value-enhancing structures (e.g., REIT, MLP, or Up-C)	– Inefficient movement of capital from a tax perspective (e.g., debt modifications creating non-deductible interest expense) – Missed cash tax sharing objectives – Missed opportunities for tax savings (e.g., state and local expansion credits)
Effective Tax Rate and Repatriation Planning	– How does the company's effective tax rate compare to its competitors? – Has the legal entity and transfer pricing structure lagged behind sales and operational growth abroad? – Once valuation allowances release, are U.S. income tax limitations still a concern on tax attribute utilization?	– Failure to benchmark effective tax rate to competitors and thereby timely communicate to management deviations from industry norms – Lost opportunity to reduce effective tax rate through transfer pricing policies, legal entity structure, and other approaches before the IPO
Operational Planning	– Have adequate governance practices been effectively implemented? – Does the tax department have in place a transparent operational plan for implementing the company's plan? – Are internal control systems adequate for a public company? – What is the forecasted maturity model for the tax department, and how will gaps be filled?	– Internal control deficiencies due to lack of development and attention – Significant deficiency or material weakness due to lack of resources, know-how, and proper management – Failure to monitor finance and IT operational changes for potential impacts to tax processes, resulting in an inability to timely generate tax accounting
Financial Information	– What is the scope of financial information available for the prospectus? – Is accurate and timely financial information available for tax accounting and tax compliance?	– Inability to generate timely and accurate tax accounting information for the registration and offering documents – Inability to generate timely and accurate tax accounting information on quarterly basis – Production of inaccurate tax filings, leading to rework, amended positions, and/or increased tax reserves

KPMG has a proven track record of assisting clients prepare for an IPO. Our tailored approach focuses on the specific value drivers and process parameters of the offering. Throughout the course of an IPO, we collaborate with the client's internal team and its other advisers to help foster an effective and efficient process from a tax perspective. We use historical and projected tax information to help clients understand and respond to the significant tax issues raised by an IPO.

Readiness assessment – Early identification of potential tax issues is a crucial component to the success of an IPO. We not only highlight the tax issues, but we can also provide objective commentary on the level of preparedness.

Position the company for sale – Once potential tax issues are identified, KPMG can help resolve them (assisting with letter rulings and voluntary disclosure filings, for example).

IPO tax planning – Each IPO has its own unique set of facts that will drive structuring. KPMG can model and propose structures intended to help produce additional cash and tax efficiencies. We can assist with the selection of an IPO vehicle and help analyze potential value-drivers (such as master limited partnerships, "Up-C IPOs," and "YieldCos") to monetize tax attributes and enhance after-tax cash proceeds. These services also include assistance with determining the amount and character of the anticipated gain or loss.

Tax attribute studies – KPMG can assist in determining whether an Internal Revenue Code ("IRC") Section 382 ownership change has occurred, and if it has, the potential consequences of that change. If the IPO may result in an ownership change, we may be able to recommend structural approaches that may increase the corporation's ability to use its tax attributes after that change occurs.

Stock basis studies – Stock basis affects the amount of taxable gain or loss that will be recognized – it should be measured for the investor team.

Earnings and profits (E&P) studies – IPO transactions can trigger the need for an E&P study for a variety of reasons, including determining the tax characterization of a corporate distribution. In addition to the investors' tax treatment, the tax characterization affects the corporation's reporting and withholding obligations.

IRC Sections 162(m) and 280G – We can analyze incentive plans for IRC Sections 162(m) and 280G compliance and make recommendations for post-closing compliance.

IRC Section 409A – Our IRC Section 409A services include analyzing deferred compensation plan documents for compliance with IRC Section 409A and for applicable limitations post-IPO.

Payroll tax compliance and planning – We can calculate payroll taxes due upon the exercise of compensatory options and other "triggered" compensation, as well as on pre/post-IPO payroll reporting, to address the restarting FICA wage bases.

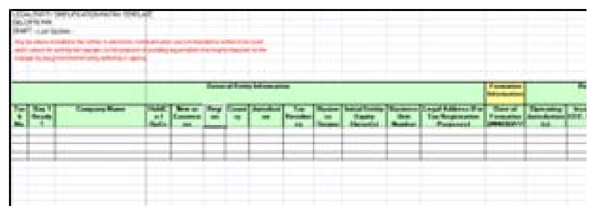
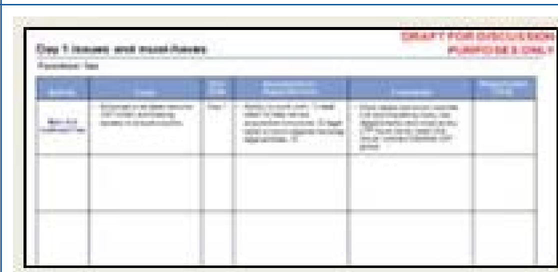
Benefit rationalization – We can assist with benefit plan benchmarking and rationalization in preparation for an IPO, including qualified plans, health plans, and fringe benefit plans.

Opening deferred taxes – We can assist with calculating the company's post-IPO opening deferred taxes, taking into account the particulars of the IPO transaction.

Transaction document assistance – We can comment on the tax aspects of IPO-related documents, to help determine that the mechanics of the IPO work from a tax perspective.

Other IPO tax assistance – Upon request, KPMG can provide other IPO-related tax assistance, including the drafting of tax opinions and IRS ruling requests.

By involving KPMG early in the IPO planning process, we can help determine that the company proactively identifies and responds to the challenges and opportunities presented by the offering. Below are some of the initial deliverables that we can provide in IPO engagements.

Deliverable	Objectives	Sample
Tax Project Charter	– Clearly communicate the roles and responsibilities Tax will undertake, and help identify non-tax dependencies for preparation for the IPO.	
Readiness Assessment Report	– Identify areas for potential improvement in (i) legal entity and trade flows; (ii) material processes (data for provision and statutory compliance); (iii) transaction readiness; and (iv) topical areas of taxation that can impact the business or reflect "public company" objectives (e.g., IRC Sections 409A and 162(m)). – Understand existing consolidation and reporting structures.	
Tax Readiness Work Plan	– Help prioritize critical path items for transaction and departmental preparedness. – Help identify key areas, timelines, and resources serving as critical path milestones.	

Contact us

KPMG can offer extensive tax advice on IPO transactions. If you are considering an IPO, or would like to learn more about KPMG's M&A Tax Transition Services, please contact any of the individuals listed below.

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