



# Tax valuations



## General overview

Navigating an evolving economic and regulatory landscape can prove challenging for any business, especially when faced with difficult valuation questions that can impact the company's cash tax position. Valuations performed for tax purposes often carry significant financial implications and continue to receive heavy scrutiny from the Internal Revenue Service (IRS), the courts, and foreign revenue agencies. With these challenges in mind, it is essential for the company and its appraiser to understand the importance of several tax-related nuances when developing a defensible tax position. The Economic & Valuation Services (EVS) professionals of KPMG LLP (KPMG) have extensive consulting and industry experience in performing tax valuations for compliance and regulatory purposes that can benefit clients in various situations.



## Why KPMG



### Qualifications

Our team has significant experience with tax valuations, including legal entity valuations and purchase price allocations for tax purposes. Our prior experience includes numerous valuations performed for both U.S. and foreign clients.



### Differentiation in tax valuations

Among the Big Four firms, EVS has the only valuation practice residing in Tax and is the only one to offer both valuation and transfer pricing services, which also enables us to offer the most integrated offering on tax valuations. EVS also has dedicated valuation specialists residing in our Washington National Tax (WNT) practice office that stay current on emerging issues affecting tax valuations and frequently support engagement teams on complex tax valuation issues.



### Leading insight

KPMG has extensive experience working with the IRS and the courts on tax valuation-related matters. Similarly, we have also worked with the Securities and Exchange Commission and the Public Company Accounting Oversight Board on financial reporting valuations. As a result, we can help you better understand these authorities' views of your positions on valuation and transfer pricing issues.



### Global reach

Should the need arise, KPMG has valuation professionals located in over 50 countries who are familiar with local tax and financial reporting regulations.



### Specialization

Valuations are required for a wide variety of international, federal, and state tax planning and compliance purposes. KPMG has significant valuation experience in the following tax planning and compliance matters:

- Legal entity restructurings and reorganizations
- Purchase price allocations prepared for domestic and cross-border acquisitions
- Foreign Investment in Real Property Tax Act (FIRPTA) planning and compliance
- Partnership tax planning and compliance
- Utilization of net operating losses
- Worthless stock deductions
- Debt modifications and cancellations
- State and local tax planning and compliance including property tax optimization and sales and use tax
- Gift and estate tax planning
- Charitable contributions
- Employee compensation.

We have a dedicated team of valuation professionals in our WNT practice who bring deep experience in the above tax valuation matters.



### Managing risk in tax valuations

Clients and appraisers can avoid common pitfalls in tax valuation by understanding commonly recurring issues, which include:

- Improperly relying on book value as a proxy for fair market value
- Misuse of financial projections due to a lack of insight into how they were derived
- Inappropriately reflecting the tax characteristics and attributes specific to the subject entity
- Creating internal inconsistencies by utilizing assumptions that do not reconcile to similar inputs used in transfer pricing or other analyses
- Inappropriate treatment of intercompany debt
- Failing to capture the value impact of certain transaction structures on the balance sheet
- Failing to bridge time gaps between the valuation and transaction dates
- Inadequately documenting the rationale for differences in value between financial reporting and tax conclusions.

Most, if not all, of these pitfalls can be mitigated through close alignment and integration of the client and its tax, valuation, and transfer pricing advisers. It is also helpful to work with a valuation adviser that specializes in the field of tax valuations and clearly understands the scope, purpose, and applicable guidance for the valuation engagement.



### When KPMG can help

EVS's tax valuation professionals aid our clients in various situations:

- Acquisitions, divestitures, spin-offs, and joint ventures
- Internal planning and budgeting
- Multientity valuation requirements
- Tax compliance, restructuring, and planning.

Further, our EVS professionals are equipped to assist our clients in better serving intercompany cross-border transactions through our valuation and transfer pricing integration. Forming a joint transfer pricing valuation team is essential to the successful completion of an engagement when (1) a multinational entity valuation is needed so that the entity-level financials are analyzed for their transfer pricing policy or (2) a cross-border transfer of assets is planned during the postclosing integration so that the value of the assets needs to be reviewed from a transfer pricing perspective.



### How KPMG can help

Our team has the technical knowledge and a strong understanding of the tax regulations pertinent to purchase price allocations and legal entity valuations to effectively meet our clients' valuation needs and to help them vigorously defend their tax positions. KPMG Transfer Pricing professionals also reside within EVS, which is unique among our competitors. Having an integrated valuation and transfer pricing team allows for greater coordination in serving clients and mitigates any exposure that may arise in tax valuations.

As a service line within the KPMG Tax practice, EVS is closely aligned with each of our tax groups. Among the Big Four, the KPMG valuation practice is the only one that resides in Tax, which enables us to offer the most integrated offering on tax valuations.

## Contact us

For more information please contact us:

**Milind Shah**

**T:** 202-533-8984

**E:** milindshah@kpmg.com

**Yuwon Pak**

**T:** 202-533-4021

**E:** ywpak@kpmg.com

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