KPMG

KPMG State Tax Analysis and Restructuring Tool

tax.kpmg.us

Does your current organizational structure consider state tax efficiency and operational costs? Put our "brain" to work and see how our newly developed software can help you rethink restructuring.

Seeking a smarter structure

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 arrangement. Options are presented in an easy-to-understand dashboard.

The system's "brain" works fast. It's based on an analytics platform used by data scientists to solve business problems. Within hours, the system synthesizes basic information obtained from prior-period income tax returns and/or workpapers.

Organizations that have many tax entities and pay a significant amount of income tax to separate company reporting states may see significant cost savings by restructuring. Also, companies undergoing operational changes—acquisitions, divestitures, or changes in business operations—are typically good candidates for a fresh look at their structures.

How it works

A standardized template is populated at the entity level with basic state information such as taxable income, major state modifications, apportionment factors, and net operating loss carryforward balances. The completed template is uploaded into the KPMG State Tax Analysis and Restructuring Tool, which analyzes the multitude of variables contributing to separate state tax liability. If deferred tax assets or liabilities are provided, the tool will also generate an estimate of the effect on deferred tax.

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 could be eliminated in the various structures thereby 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.

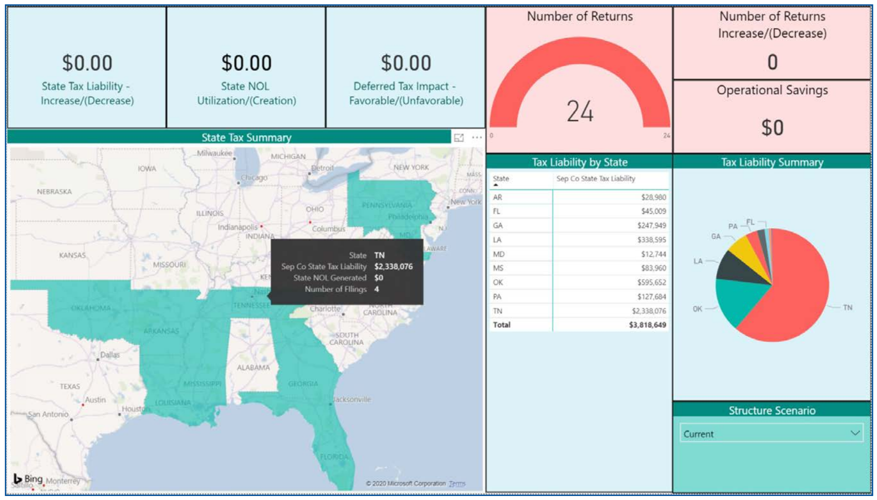
Why consider restructuring?

A restructuring can potentially:

- Reduce administrative and legal costs
- Capitalize on state tax rules designed to incentivize business activity in that state
- Lower the effective state tax rate, which has become more material since federal tax reform
- Lessen the compliance burden on a tax department
- Lower fees paid to outside advisers

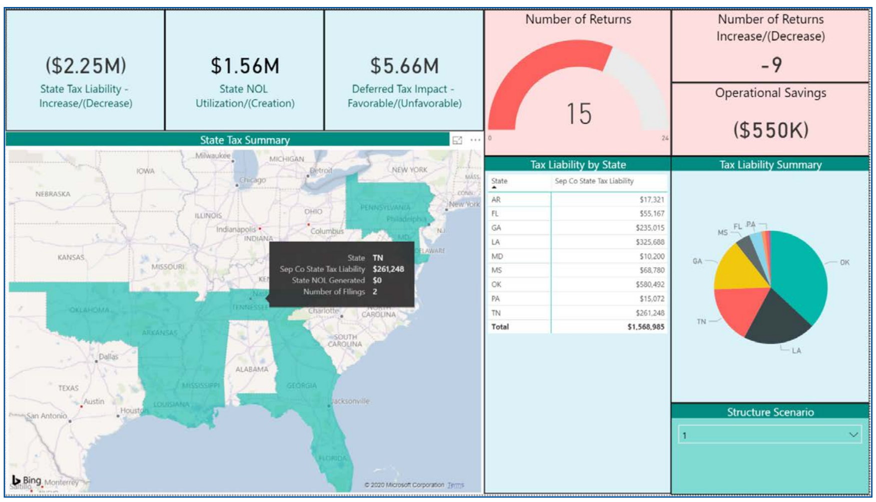
A clear and concise dashboard

Organizations using the tool can view their state tax footprint at a glance on a dashboard. It features geographical views of state income tax liability, as well as anticipated net operating loss utilization. The dashboard also details the count of income tax filings by state and in aggregate. These various data points are the focus of the tool's analysis along with financial statement impact and operational savings.



Before running the tool

The dashboard at right shows an organization paying several million dollars in separate state income tax with 24 state tax return filings.



Savings afterward

The screen at left shows the state income tax profile of the same company, organized in a more efficient manner. The KPMG State Tax Analysis and Restructuring Tool helped to reduce annual separate state tax liability by nearly 60 percent and decreased the number of required tax filings by nine. The new structure positioned the organization to use "trapped" net operating losses and reduce the valuation allowance on the deferred tax asset. Additionally, reducing legal entities could save the company an estimated $550,000 annually.

Contact us for a demo:

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