

Tax Insurance for Tax Planning: Enhancing Certainty, Preserving Value



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Sophisticated taxpayers use tax insurance to bring greater certainty to complex tax positions taken in the ordinary course of business and investment activity. Rather than relying solely on traditional reserves or negotiation with counterparties, tax insurance can transfer identified tax risks to a highly rated insurer, helping protect balance sheets, transaction economics, and stakeholder returns.

Tax insurance is a well established tool used by corporates, funds, financial institutions and high net worth investors to address a wide range of domestic and cross border tax issues, from structuring and reorganizations to financing, IP planning and incentive arrangements. Aon's broad range of tax insurance solutions addresses many tax risks faced by deal teams, corporate tax professionals, and tax credit investors. When working with Aon, our clients are confident that their investments are secure and certainty for their tax positions is realized.

How Tax Insurance Supports Tax Planning

An unexpected adverse tax ruling can potentially result in the loss of anticipated tax benefits, a failed transaction, or eroded cash flow and earnings. To help protect against these risks, Tax insurance can help address identified, material tax uncertainties in both third-party and private transactions including:

- **Corporate restructurings and reorganizations** – coverage for risks arising from mergers, spin offs, internal restructurings and other group reorganizations.
- **Financing and capital** – deductibility of interest, withholding tax exposure, hybrid instruments and other financing related tax issues.
- **Intellectual property and supply chain** – transfer pricing, IP migration and principal structures, including multinational exposures.
- **Incentive and compensation arrangements** – treatment of management equity, deferred compensation, carried interest and other incentive plans.
- **Specific technical positions** – targeted relief for discrete issues where the taxpayer and advisers are comfortable with the technical position but want balance sheet protection against an adverse challenge.



Tax insurance does not replace sound tax advice. Instead, it complements work of your tax advisers to. This allows organizations to:

- Achieve certainty absent a private letter ruling from the IRS
- Mitigate counterparty credit risk in tax indemnity agreements
- Address the small probability of significant loss
- Replace or reduce escrow required by a buyer

Insurable Tax Risks Include:

- S Corp Qualification
- Transaction Structures and Step Plans
- Tax Free Spin-offs and Reorganizations
- Capital vs Ordinary Income
- Debt vs Equity Treatment
- Cross Border Reorganizations/FIRPTA
- State and Local Tax positions
- Deferred Compensation/409A
- Valuation of NOLs
- Interest Deductions, Bad Debt/Worthless stock Deductions
- Transfer Pricing/Intercompany Transactions
- Tax Credits/Recapture



Using Tax Insurance to Unlock Value in M&A and Tax Credit Transactions

Tax insurance is used by deal teams, developers, and investors to protect value in M&A and tax credit transactions. By transferring identified tax risks to insurers, it helps reduce friction during negotiations, supports cleaner exits, and brings greater certainty to transaction economics and projected returns.



M&A transactions – Buyers and sellers use tax insurance to address known tax exposures uncovered during due diligence

(for example, historical NOL usage, restructurings or VAT/sales tax issues). This can reduce the need for escrows or price reductions and help both sides achieve cleaner exits and more efficient capital deployment.



Renewable energy and tax credit investments – As investors and sponsors pursue energy transition strategies, tax insurance can help support structures involving investment in and transfer of tax credits. By insuring key tax assumptions, parties can gain greater confidence in projected returns and reduce the need for conservative reserves in projects

The Aon Advantage

Aon is a global leader in providing comprehensive solutions for mergers and acquisitions and other complex tax-efficient and financing transactions. For over three decades, we've helped more companies achieve deal success and create value than any other firm in the industry. By transforming risk into opportunity, we empower companies to capture value, make better deal decisions, and achieve stronger results.

Our global team of M&A, tax, and contingent risk lawyers and professionals, along with risk, human capital, and benefits professionals, are passionate about developing tailored solutions to address your unique deal risks. We offer innovative transaction solutions and claims facilitation services in areas such as:

- Tax Insurance
- Legal Position Insurance
- Representation & Warranty / Warranty & Indemnity Insurance
- Risk, Cyber and Human Capital Diligence

Aon Tax Risk Solutions

Since 2014, Aon's U.S. tax insurance practice has placed hundreds of policies representing over \$60 billion of limits. It is the industry-leading tax insurance team in North America with a best-in-class dedicated tax team, and an expansive tax team globally. Aon's team, comprised of tax attorneys, tax accounting-professionals, and M&A professionals, allows Aon to bring a depth of knowledge and passion needed to develop tailored solutions to your transactions. We understand that timing and precision are critical to your deal's success. That's why we work seamlessly with your deal team and our network of insurance providers to deliver tailored solutions that mitigate risks and enhance deal outcomes.



About Aon

Aon plc (NYSE: AON) exists to shape decisions for the better — to protect and enrich the lives of people around the world. Through actionable analytic insight, globally integrated Risk Capital and Human Capital expertise, and locally relevant solutions, our colleagues provide clients in over 120 countries with the clarity and confidence to make better risk and people decisions that help protect and grow their businesses.

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If you are interested in obtaining coverage or have questions about this coverage, please contact us and we will connect you to a duly licensed broker.