

Tax Liability Insurance

When there is uncertainty in the application of corporate tax laws or inadequate time for a taxpayer to obtain an advance tax ruling, corporations leave themselves and their balance sheets subject to future challenge by tax authorities and vulnerable to potentially substantial tax liability.

Tax Liability Insurance from AIG's Mergers & Acquisitions Insurance Group allows a taxpayer to reduce or eliminate the contingent tax exposure that arises when the underlying legal conclusions supporting the tax treatment of a transaction, investment or other activity is being reviewed by tax authorities.

Coverage Highlights

- ▲ Highly customized coverage can address:
 - Federal, state, local or foreign tax exposure
 - Expenses of outside legal advisors or accountants needed to resolve disputes with tax authorities
 - Gross-up of taxes payable with respect to insurance proceeds
 - Interest and non-criminal fines or penalties related to any actual tax liability determined
- ▲ Up to \$20 million in capacity is available for a single transaction, with larger limits available on a case-by-case basis.
- ▲ Pricing and retentions are structured on a case-by-case basis, based on the nature of the transaction, strength of the tax position, and structure of the insurance program.
- ▲ Policy period generally aligns with the applicable statute of limitations.

Tax Liability Insurance at Work

A publicly-traded manufacturing company negotiating to sell assets to a publicly-traded REIT. The parties structured a two-step transaction involving: (i) a tax-free spin-off of the manufacturing company's subsidiary holding the assets; and (ii) acquisition of this subsidiary by the REIT via a tax-free merger. The parties estimated the potential tax exposure to be \$1 billion if the IRS did not treat the transaction as a tax-free spin-off.

The parties were unable to secure a private letter ruling from the IRS regarding the tax-free treatment of the spin-off and refused to proceed with the transaction without an alternative to address the potential tax exposure. The parties made securing insurance to protect against 50% of the exposure a condition to closing the deal. AIG's Mergers & Acquisitions Insurance Group structured and participated in a tax liability insurance program that put the deal back on track and enabled the transaction.

Expert Claim and Litigation Management

In the event of a claim, the AIG companies® have a claims team dedicated to transactional insurance, including Tax Liability Insurance. These seasoned professionals specialize in disputes surrounding complex transactions and in processing customer claims in a professional and expedient manner.

**ADDITIONAL
COVERAGE INFORMATION**



For more information, contact your broker or local AIG Executive Liability® office. You can also e-mail MAInsurance@aig.com or visit www.aig.com/aigexecutiveliability.

Tax Liability Insurance is part of a suite of insurance products AIG's Mergers & Acquisitions Insurance Group offers for the spectrum of exposures inherent in mergers, acquisitions, divestitures and other transactions. Other products in the suite include Representations & Warranties Insurance, Contingent Liability Insurance, Litigation Buyout Insurance and Investment Banking Engagement Insurance.

Insurance is underwritten by subsidiaries of American International Group, Inc., and is subject to underwriting review and approval. Some coverages may be underwritten by a surplus lines insurer. Risks placed with a surplus lines insurer must be placed in accordance with surplus lines laws and other applicable laws. Surplus lines insurers do not generally participate in state guaranty funds and insureds are not protected by such funds. The information contained herein is for general information only and does not constitute an offer to sell or a solicitation. The description herein is a summary only. It does not include all terms, conditions and exclusions of the policies described. Please refer to the actual policies for complete details of coverage and exclusions. Coverage may not be available in all jurisdictions.



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