

Proposed Purchase of Milford Water Company



Prepared for the Board of Selectmen
January 9, 2017

Summary of Proposal

- Town of Milford (the “Town”) will purchase Milford Water Company (the “Company”)
- The Company is and has historically operated as a C corporation for tax purposes
- Purchase price: \$63 million
- The transaction will be structured as a ***stock purchase***
- The Town will immediately liquidate the Company after purchasing the stock
 - Following such liquidation, the Town will hold the Company’s assets directly and operate the water facilities directly



Income Tax Considerations

■ The Town's acquisition of the Company could result in taxable gain at the Company level

- The Town, as the owner of the Company, would ultimately bear the burden of the tax on the deemed taxable transfer, unless the stock purchase agreement states otherwise

■ This result occurs whether or not the Company is liquidated

- An actual or a deemed liquidation, in this circumstance, would be treated as a taxable transfer of all of the Company's assets for fair market value ("FMV")
- Gain would be the difference between the FMV and the tax basis of the assets

■ Under current Treasury Regulations, the Company will be *deemed* to liquidate if it changes its status to that of a tax-exempt entity (e.g., an entity qualifying under IRC Section 115)

Here, the Company, as a "public utility" for this purpose, would likely qualify under IRC Section 115 because its income should accrue to the Town; this creates a "change in status" which triggers a deemed liquidation



Other Tax Considerations

■ Massachusetts Tax

- Property Tax: The Town may owe to Hopkinton amounts equivalent to property tax (generally based on the average assessed taxable valuation of the land for the three years preceding its acquisition thereof)
- Corporation Excise Tax: If the Company has gross income for federal income tax purposes as a result of the deemed asset transfer, Massachusetts corporation excise tax would generally also be applicable



Next Steps

- Tax diligence questions have been forwarded to the Company
- Town acquisition team will use the diligence responses to determine (to the extent possible) (a) the extent of taxable gain and (b) the best mitigation strategy
 - Extent of taxable gain will allow for quantification of tax risk and any necessary purchase price adjustments
 - Type of gain (e.g., recapture) will factor into utility of a PLR request
- Deliver accounting results at next meeting – January 23 – to allow Selectmen to determine best course of action

