Section 86.1 Information for Canadian Shareholders of KAR Auction Services, Inc. and Additional Information for Québec Income Tax Filers

Where a Canadian shareholder of the share(s) of a foreign company receives a distribution of shares ("spin-off shares") from the company as a result of an eligible corporate reorganization ("spin-off'), section 86.1 of the federal Canadian *Income Tax Act* (the "Act") may permit such a spin-off share distribution to pass on a rollover basis (e.g., taxation of any gains is deferred) to the shareholder, provided the shareholder complies with certain filing requirements specified in section 86.1 of the Act. The below provides a basic overview of the election requirements pursuant to section 86.1 of the Act as they may apply to the June 28, 2019, KAR Auction Services, Inc. ("KAR") spin-off of the shares of IAA, Inc. ("IAA"), which has been approved by the Canada Revenue Agency (the "CRA") as eligible for Canadian federal income tax purposes, but offers no accounting or tax guidance, as a specialist should be consulted for those purposes. Additional information for Québec income tax filers is provided in a separate section below.

Basic Overview – Section 86.1 Election Requirements

In order for the spin-off shares on an eligible distribution to pass on a rollover basis to the shareholder, paragraph 86.1(2)(f) of the Act requires the taxpayer to provide the following documentation and information to the CRA:

1. A letter addressed to the CRA stating that the shareholder wishes section 86.1 of the Act to apply to the spin-off share distribution that has been approved by the CRA (a letter is used because there is currently no prescribed form for this specific election);

2. The letter must be filed with the shareholder's income tax return, within the prescribed filing time, for the taxation year in which the distribution took place (late filings may be accepted, but penalties may apply);

3. The letter must state the following information about the original shares (i.e., the shares of KAR) the shareholder owned immediately before the distribution of the spin-off shares (i.e., the shares of IAA) to the shareholder:

    a. The number of the original shares owned;
    b. The aggregate adjusted cost basis of the original shares to the shareholder (e.g. the price the shareholder paid on acquisition of the shares); and
    c. The aggregate fair market value of the original shares;

4. The letter must state the following information about the original shares (i.e., the shares of KAR) and the spin-off shares (i.e., the shares of IAA) the shareholder owned immediately after the distribution of the spin-off shares to the shareholder:

    a. The number of the original shares owned;
    b. The aggregate fair market value of the original shares;
    c. The number of the spin-off (distributed) shares received; and
    d. The aggregate fair market value of the spin-off shares.

A Summary of the Transaction and Illustrative Example

On June 28, 2019, KAR completed the spin-off. Each shareholder of KAR common stock received one share of IAA for every one share of KAR common stock held as at 5:00 p.m. EDT on the record date of June 18, 2019.

Illustrative Example/Assumptions

a. Shares of KAR common stock owned immediately before the distribution: 1,000
b. KAR shareholder's aggregate cost basis immediately before the distribution (assumes all 1,000 common shares acquired in one transaction for US$60.00 per share): total cost base = US$60,000.00
c. Shares of IAA common stock received in the distribution: 1,000
d. Illustrative fair market values of IAA common stock and KAR common stock: US$38.78 and US$25.00, respectively as illustrated using the closing market price of each stock on the distribution date

Illustrative Allocated Adjusted Cost Basis

	# of Shares Owned Immediately After the Distribution	Illustrative Fair Market Value Per Share	Percentage of Total Fair Market Value	Allocated Adjusted Cost Basis
KAR Common Stock	1,000	$ 25.00	39.20%	$ 23,518.34
IAA Common Stock	1,000	$ 38.78	60.80%	$ 36,481.66
Total	**2,000**	**$ 63.78**	**100.00%**	**$ 60,000.00**

All values in US$

THIS INFORMATION IS SOLELY FOR ILLUSTRATIVE PURPOSES AND IS NOT TAX ADVICE. YOU SHOULD CONSULT YOUR TAX ADVISOR AS TO THE TAX CONSEQUENCES AND FILING REQUIREMENTS OF THE DISTRIBUTION.

Additional Information for Québec Income Tax Filers

Québec income tax filers who wish to take advantage of the section 86.1 rollover for the KAR distribution for both, federal and Québec tax purposes, should enclose, in their Québec income tax returns, a copy of the section 86.1 election letter addressed to the CRA and also a separate letter addressed to Revenu Québec explaining that the enclosed copy of the letter to the CRA is in compliance with subsection 578.1(f) of the Québec *Taxation Act* and sets out the information required by subsection 578.3(2) of the Québec *Taxation Act*. Québec filers should additionally enclose a copy of the CRA letter which confirms the eligibility of the June 28, 2019 Spin-Off, a copy of which is included below.

Consult Your Tax Advisor

The information regarding the Canadian income tax consequences of the spin-off presented above is for general information purposes only and does not constitute tax advice. The information presented does not purport to cover all income tax consequences that may apply to all categories of shareholders. Shareholders should consult their own tax advisors regarding the federal, provincial, and foreign tax

consequences of the spin-off, including the applicability and the effect of any Canadian federal, provincial, territorial and foreign tax laws, and the advisability of, and actions and information necessary to make, any available election under section 86.1 of the Act. This document was not intended or written to be used, and it cannot be used, for the purpose of avoiding tax penalties that may be imposed on the taxpayer.

CRA's approval - https://www.canada.ca/en/revenue-agency/services/tax/businesses/topics/eligible-spin-offs.html

Agence du revenu du Canada | Canada Revenue Agency

Quebec, December 2nd, 2019

Mr. Eric Loughmiller
EVP & CFO
KAR Auction Services, Inc.
13085 Hamilton Crossing Boulevard
Carmel, Indiana 46032 USA

RE: Spin-off of IAA, Inc. by KAR Auction Services, Inc.

Sir,

We are replying to the correspondence of PricewaterhouseCoopers LLP dated November 25, 2019 in which was submitted information with regards to the tax treatment of the spin-off undertaken on June 28th, 2019 by KAR Auction Services, Inc. of its subsidiary IAA, Inc.

Based on the information that was provided, the distribution meets the requirements of paragraph 86.1(2)(e) of the Canadian Income Tax Act (the Act). Since PricewaterhouseCoopers LLC has provided all of the information required under this paragraph, shareholders will be entitled to elect under section 86.1 of the Act in respect of the distribution.

However, if the IRS reviews the distribution at a later date and determines the distribution taxable, we will reverse our decision.

We also acknowledge receipt of KAR's consent to publish the fact that the information required to meet the conditions of paragraph 86.1(2)(e) of the Act were met. The information regarding the spin-off will be available in the following days on the Canada Revenue Agency website at the following link:

https://www.canada.ca/en/revenue-agency/services/tax/businesses/topics/eligible-spin-offs.html

Should you have any questions, do not hesitate to contact me at (418) 634-3136.

Yours truly,

Nancy Chénier
International Tax Auditor | Vérificatrice de l'impôt international
International and Large Business Directorate | Direction du secteur international et des grandes entreprises

cc : D.Klassen, PricewaterhouseCoopers LLP