



**TAX CUTS AND JOBS ACT:
FIRST U.S. TAX REFORM FOR 30 YEARS
ERSTE U.S. STEUERREFORM SEIT 30
JAHREN TRITT IN KRAFT**

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WITH YOU TODAY



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INTRODUCTION

CHANGES AFFECTING THE U.S. AND GLOBAL TAX ENVIRONMENT

U.S. TAX REFORM UNDER THE TAX CUTS AND JOBS ACT (“TCJA”) - OVERVIEW

- ▶ Signed into law on December 22, 2017 and generally effective January 1, 2018
- ▶ The TCJA is not a complete “replacement” of the existing system of taxation but a thorough overhaul with new TCJA rules layered onto existing rules resulting in more complexity
- ▶ Enacted in a short time frame with a large number of uncertainties to be clarified through regulations and Internal Revenue Service (“IRS”)/Treasury guidance
- ▶ Significant guidance expected to clarify many aspects of the TCJA
- ▶ 10-year Shelf Life - *e.g.*, individual taxes are set to expire December 31, 2025
- ▶ Number of new TCJA provisions phase in or phase out over a 10-year period

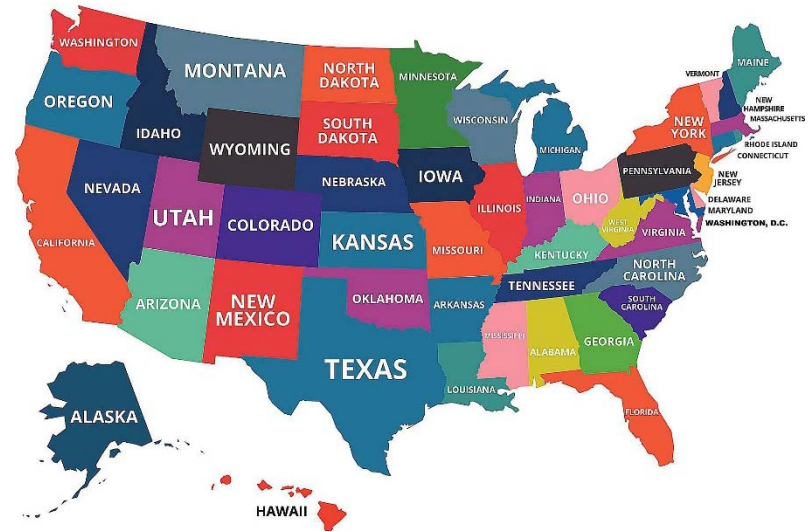


Maintain flexibility to allow for adjustments to business structure

CHANGES AFFECTING THE U.S. AND GLOBAL TAX ENVIRONMENT

THE U.S. TAX SYSTEMS AND ITS JURISDICTIONS

- ▶ Tax jurisdictions of the U.S. encompass Federal plus the 50 U.S. states (and Washington D.C. & Territories - Puerto Rico, Guam, etc.)
- ▶ It is important to distinguish between the different taxation levels:



Federal: Federal Corporate Income Tax administered by IRS

States: State Corporate Income Tax, Franchise Tax, Sales Tax administered by various state agencies, e.g., California Franchise Tax Board, Florida Department of Revenue, etc.

Local: Municipal/City Corporate Income Tax (e.g., New York City)

---No Treaty protection for State & Local---

CHANGES AFFECTING THE U.S. AND GLOBAL TAX ENVIRONMENT

Key U.S. Domestic Provisions

- ▶ Corporate income tax rate at 21%
- ▶ Immediate expensing of capital assets
- ▶ Net operating loss rules changed
- ▶ Revised interest deductibility
- ▶ Quasi patent box regime with ETR at 13.125% (16.406% after 2025)
- ▶ Repeal of Alternative Minimum Tax
- ▶ Reduced rates for pass-through entities

Key U.S. International Provisions

- ▶ Participation exemption through dividend received deduction at 100%
- ▶ Controlled Foreign Corporation Regime
- ▶ Base Erosion and Anti-Abuse Tax
- ▶ Anti-hybrid rules
- ▶ GILTI Tax on foreign earned intangible income
- ▶ Partnership interests held by non-U.S. persons

KEY PROVISIONS FOR U.S. INBOUND INVESTMENTS

KEY PROVISIONS FOR U.S. INBOUND INVESTMENTS

TCJA - VALUE CHAIN CONSIDERATIONS

TCJA with most significant changes to U.S. tax landscape in 30 years has broad impact in variety of areas such as:

Corporate Income Tax Rate at 21%

- ▶ Tax rate arbitrage
- ▶ Encourages U.S. investments

Interest Expense Limits

- ▶ Targets high leverage
- ▶ Relevance of debt push down, back-to-back loans and hybrid instruments
- ▶ Affects pricing of deals and investment vehicles due to new provisions

Immediate Expensing of Capital Expenditures

- ▶ Encourages U.S. investment
- ▶ Interrelation with new NOL limitation to 80% impairs NOL value and time value of money

Cash Flow Impact due to Transition Tax

- ▶ Challenge to permanent reinvestment of foreign earnings to service debt

Preferred Tax Rate on Foreign Earned Income

- ▶ On-shoring of IP through preferential tax rates
- ▶ R&D and U.S. Manufacturing
- ▶ Revisit substance of DEMPE functions in country

KEY PROVISIONS FOR U.S. INBOUND INVESTMENTS

TCJA - VALUE CHAIN CONSIDERATIONS

TCJA with most significant changes to U.S. tax landscape in 30 years has broad impact in variety of areas such as:

Anti-Abuse Tax on Certain Business Expenses to Foreign Parties ("BEAT")

- ▶ Targets base eroding payments that result in business expense deductions
- ▶ Potential impact on transfer pricing position
- ▶ May require supply chain modification for high-value services as it affects U.S. and foreign multi-national groups
- ▶ Consider buy-sell arrangement

GILTI

- ▶ Targets low-taxed subsidiaries of U.S. multi-national companies
- ▶ May affect APB 23 position

Hybrid Dividends

- ▶ Similar to BEPS
- ▶ Dividends from hybrid transactions or hybrid entities are targeted

IP Offshore Transfer

- ▶ Further limited by way of capturing more intangibles

BUSINESS TAX REFORM

BUSINESS TAX REFORM

KEY HIGHLIGHTS

Provision	Law through December 31, 2017	Signed into Law on December 22, 2017, mostly effective January 1, 2018 - shelf-life of 10 years
Corporate Tax Rate	▶ Progressive rates ranging from 15% - 35% brackets	▶ 21% flat rate
Net Operating Losses ("NOLs")	▶ Carried forward 20 years, carryback 2 years; limited to 90% of AMT taxable income	▶ Carried forward indefinitely - no carry back; limited to 80% of taxable income
AMT	▶ YES with average gross receipts of \$7.5M over 3 preceding years	▶ Corporate AMT repealed, but preserves prior year AMT credit to offset regular tax liability. Threshold for individual AMT increased
Expensing of Asset Investments	▶ Bonus depreciation Section 168(k) 50% in 2017 and \$510,000 Section 179 deduction subject to dollar-for-dollar reduction if > \$2M.	▶ Full expensing of qualified property placed in service after September 27, 2017 and before January 1, 2023 with option to elect 50% expensing, phased down in succeeding years from 80% to 20% through December 31, 2027 ▶ Section 179 deduction increase to \$1m with \$2.5m phase-out amount
Deduction for Meals & Entertainment (M&E)	▶ 50% deduction for M&E	▶ Repeals deductions for most entertainment and employer provided fringe benefits unless includable in the income of employees
▶ Interest deductions	▶ IRC Section 163(j) with 1.5 to 1 debt to equity ratio (safe harbor rule) and net interest expense in excess of 50% of "EBITA"	▶ Partial limitation on deduction of "net interest" expense ▶ 30% EBITDA ▶ 30% EBIT as of 1/1/2022

Section references are to the Internal Revenue Code ("IRC") of 1986, including amendments and Treasury regulations promulgated thereunder, unless otherwise noted

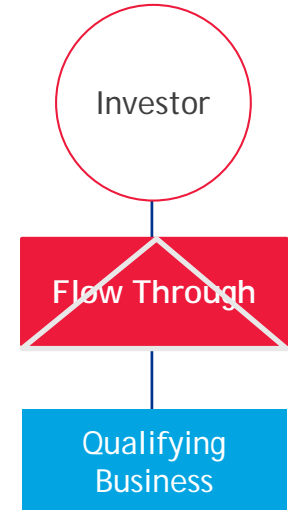
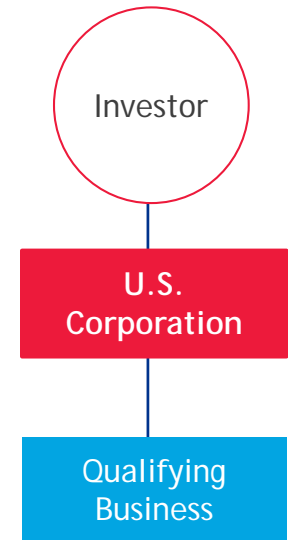
TAX REFORM - OVERVIEW

Provision	Law through 12/31/2017	Signed into Law on 12/22/2017, mostly effective 1/1/2018 -
▶ UNICAP Rules Section 263A	▶ Capitalize certain costs related to real or tangible property if manufactured or, acquired for resale if average gross receipts are > \$10m	▶ Exemption from UNICAP if average gross receipts for preceding 3 years < \$25m.
▶ Net Operating Losses ("NOLs")	▶ Carried forward 20 years, carryback 2 years; limited to 90% of AMT taxable income.	▶ Carried forward indefinitely - no carry back; limited to 80% of taxable income; increased by inflation factor
▶ Deferral of advance payments for goods and services	▶ Rev Proc. 2004-34	▶ Codification of Rev Proc 2004-34 in Section 451
▶ Section 108(e)(6), 118	▶ Exclusion of contributions to capital from gross income of a corporation	▶ Contribution to capital under Section 118 do not include contributions by governmental entity or civic group; resulting in state incentives to be potentially taxable
▶ Domestic DRD	▶ Ownership under 20% - 70% DRD ▶ Ownership 20%+ - under 80% - 80% DRD	▶ Ownership under 20% - 50% DRD ▶ Ownership 20%+ - under 80% - 65% DRD
▶ S-corporation	▶ Non-resident individuals are not permitted shareholders	▶ Now permitted to be indirect shareholders of S-corporations
▶ Carried interest	▶ YES	▶ YES but requires 3-year holding period

BUSINESS TAX REFORM

QBI DEDUCTION FOR PASS THROUGHS

- ▶ Section 199A provides for a deduction of the lesser of domestic “qualified business income” (“QBI”) or 20% of taxable income generated by a partnership, S corporation or sole proprietorship
- ▶ The Section 199A deduction can create an effective maximum rate of 29.6 percent down from the highest maximum rate of 37 percent
- ▶ Significant limitations may result in an inability to achieve the reduced 29.6 percent rate
- ▶ Calculation of the Section 199A deductions required careful analysis and application of entirely new terms and concepts:
 - Qualified Trade or Business; Specified Services Business;
 - Qualified Business Income; Qualified Investment Property;
 - Complicated Deduction Limitation Calculations
- ▶ QBI is all domestic business income other than investment income (e.g., dividends (other than qualified REIT dividends and cooperative dividends)).
- ▶ Most service businesses (law, accounting, health, financial services, athletics, consulting, hedge fund managers) will be excluded



BUSINESS TAX REFORM

INTEREST EXPENSE LIMITATION - BROADENED

IRC Section 163(j)	TCJA Section 163(j)
<ul style="list-style-type: none">▶ Net Interest Expense	<ul style="list-style-type: none">▶ Businesses will be allowed to deduct interest expense against interest income as under current rules
<ul style="list-style-type: none">▶ 1.5 to 1 Debt Equity Ratio	<ul style="list-style-type: none">▶ Safe harbor debt equity ratio requirement no longer applies
<ul style="list-style-type: none">▶ Foreign Related Party and Domestic Tax Exempts	<ul style="list-style-type: none">▶ The limitation on interest expense deductions applies equally to U.S. and foreign corporations and ALL debt, not only related party debt
<ul style="list-style-type: none">▶ Excess over 50% Adjusted Taxable Income	<ul style="list-style-type: none">▶ Limits deduction of net interest expense to 30% of a business's adjusted taxable income ("ATI"), tax earnings before interest, taxes, depreciation and amortization ("EBITDA") concept for years 2018 through 2021▶ After 2021, depreciation, amortization and depletion are not permitted to be added back in calculating ATI (becomes "EBIT"); Potential negative cash tax impact on leveraged deals
<ul style="list-style-type: none">▶ Corporate Taxpayers	<ul style="list-style-type: none">▶ Corporate and non-corporate taxpayers except REITs RICs; interest deductibility is determined at partnership level; Possible negative impact on blocker structure

BUSINESS TAX REFORM

INTEREST EXPENSE LIMITATION - BROADENED

IRC 163(j)	TCJA Section 163(j)
<ul style="list-style-type: none">▶ Disallowed Interest Carryforward Period Indefinite	<ul style="list-style-type: none">▶ Indefinite carryforward of disallowed interest
<ul style="list-style-type: none">▶ Single Taxpayer Rule Unclear	<ul style="list-style-type: none">▶ Unclear if changes
<ul style="list-style-type: none">▶ Effective for Tax Years Beginning before December 31, 2017	<ul style="list-style-type: none">▶ Effective for taxable years beginning after 12/31/2017 and no grandfathering of existing debt
<ul style="list-style-type: none">▶ No Gross Receipts Threshold	<ul style="list-style-type: none">▶ Exception from interest expense limitation for small businesses with average gross receipts of \$25 million or less
<ul style="list-style-type: none">▶ Disallowed Interest Expense generally not subject to Section 382	<ul style="list-style-type: none">▶ Disallowed interest expense considered an attribute for 382 purposes and therefore, more companies may need to track ownership changes

KEY INTERNATIONAL TAX PROVISIONS

KEY INTERNATIONAL TAX PROVISIONS

BEAT - BASE EROSION PROVISIONS

- ▶ Requires U.S. corporation to pay additional corporate income tax (base erosion minimum tax) where certain “base erosion payments” are made to foreign related parties
- ▶ Intends to limit the use of certain related party payments that erode the U.S. tax base
- ▶ Applies to certain large corporate taxpayers (other than RICs, REITS or S Corporations) with:
 - Average annual gross receipts of at least \$500M over a three year testing period, and
 - a “base erosion percentage” of at least 3% or more (2% for banks or registered securities dealer)
 - Corporations within the same 80% controlled group are generally aggregated for purposes of determining annual gross receipts. With respect to foreign corporations within the group, only effectively connected gross receipts are taken into account
- ▶ Applicable to base erosion payments paid or accrued in taxable years beginning after December 31, 2017

KEY INTERNATIONAL PROVISIONS

BEAT - BASE EROSION PROVISIONS

Regular Tax Calculation		BEAT Tax Calculation	
Regular Taxable Income	\$2,500	Regular Taxable Income	\$2,500
Regular Tax Rate	21%	Related Party Payment (license fee subject to WHT)	\$600
Regular Tax before Credits	\$525	Related Party Payment (license fee not subject to WHT)	\$2,800
Tax credits (Non-R&D)	\$0	Modified Taxable Income	\$5,300
Regular Tax Liability	\$525	BEAT Tax Rate	10%
		BEAT Minimum Tax	\$530
BEAT Tax Due	\$5		

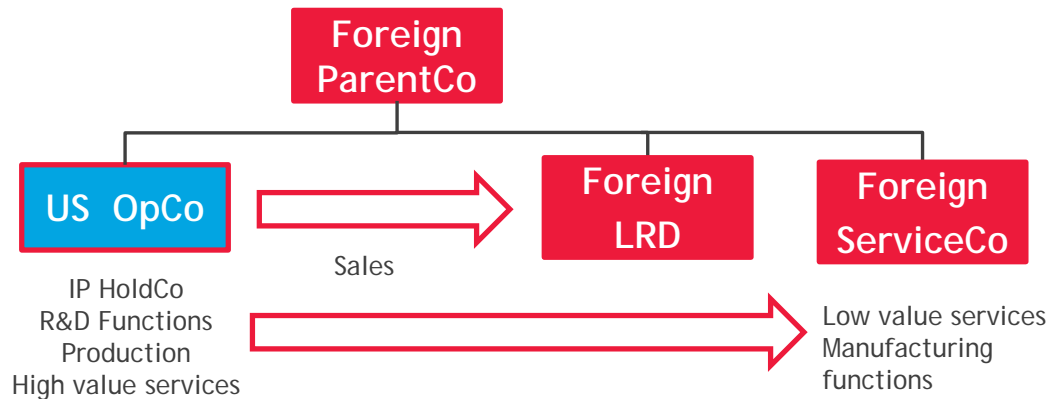
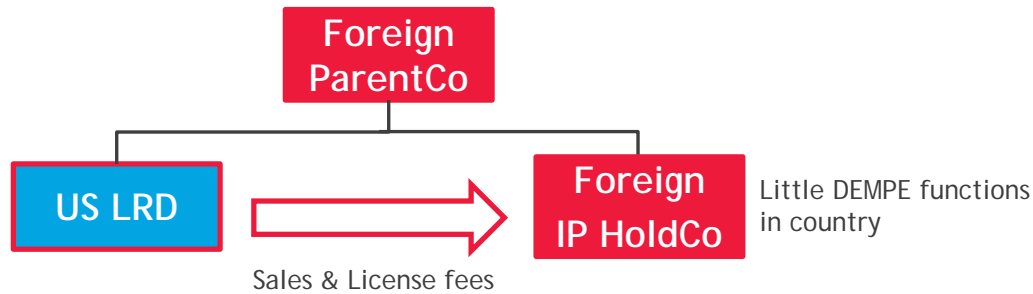
KEY INTERNATIONAL TAX PROVISIONS

BEAT - BASE EROSION PROVISIONS

- ▶ Broadly, Base Erosion Minimum Tax Amount = **Excess of 10% of the modified taxable income over the amount of regular tax liability, which is reduced by certain credits**
- ▶ Modified Taxable Income does not consider payments which were subject to U.S. withholding tax
- ▶ The 10% rate is 5% for taxable years beginning in calendar year 2018, and 12.5% for taxable years beginning after December 31, 2025. Certain banks and securities dealers are subject to increased rates
- ▶ Base erosion payments are payments made or accrued to a 25% related foreign person which include, for example interest, royalties, fees for services with markup, payments for acquisition of depreciable or amortizable assets and certain reinsurance payments
- ▶ Amount of BEAT tax owed (if any) calculated by adding back to base erosion payments for the year
- ▶ Cost of goods sold, amounts paid with respect to services that are eligible for cost method under Section 482, and certain qualified derivative payments are excluded

KEY INTERNATIONAL TAX PROVISIONS

BEAT - BASE EROSION PROVISIONS



- 21% U.S. CIT
- FDII rate at 13.125%
- BEAT risk limited
- Substance/DEMPE in foreign country
- Reduce overall ETR

KEY INTERNATIONAL TAX PROVISIONS

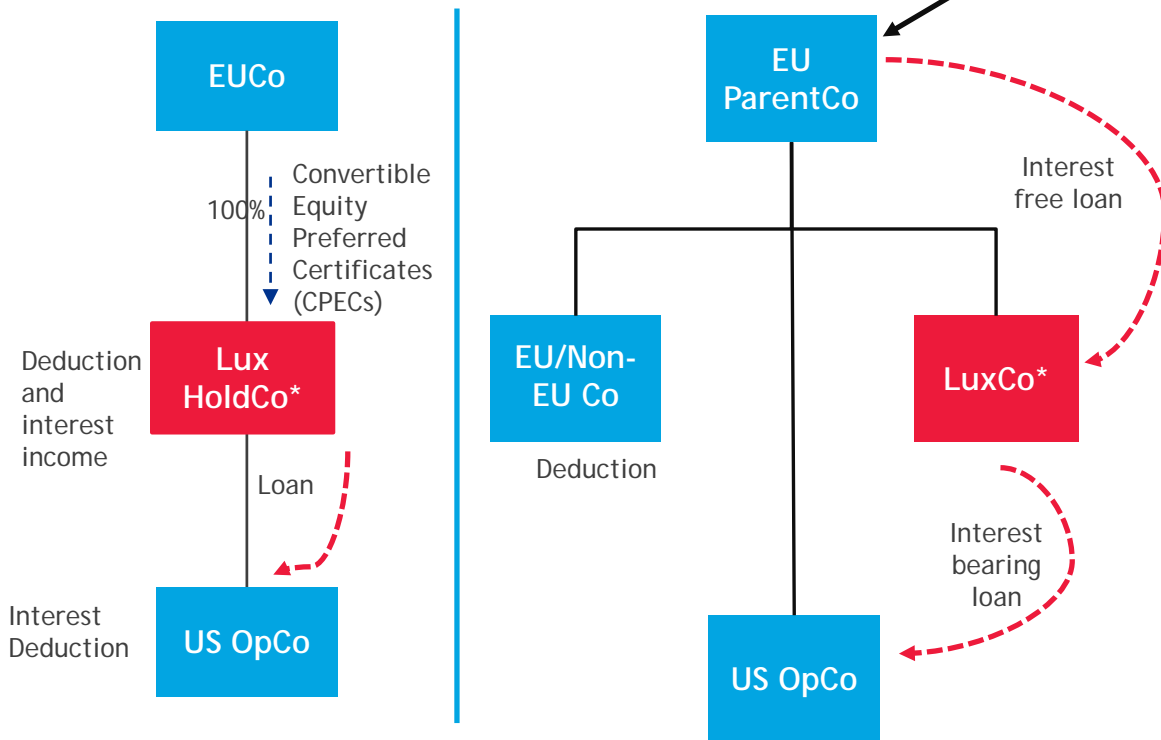
RELATED PARTY ANTI-HYBRID PROVISIONS

- ▶ New related party anti-hybrid provision denies a deduction for any disqualified related party amount paid or accrued pursuant to a hybrid transaction or by, or to, a hybrid entity
- ▶ Disqualified related party amount is generally any interest or royalty payments paid or accrued to a related party (50% control or common control) to the extent that:
 - Such amount is not included in the income of such related party under the tax law of its country, or
 - The related party is allowed a deduction with respect to such amount under the tax law of its country
- ▶ Hybrid transactions include any one transaction or a series of transactions, agreement or instrument pursuant to which a payment is made that is treated as a interest or royalty for U.S. tax purposes but not under local law of the recipient
- ▶ A hybrid entity includes an entity which is treated as fiscally transparent for U.S. tax purposes but not so treated under local law of the recipient

KEY INTERNATIONAL PROVISIONS

RELATED PARTY ANTI-HYBRID PROVISIONS

Typical Financing Structures



*Local law may be impacted by Anti-Tax Avoidance Directive 1/2

- ▶ Broad authority to Treasury to issue clarifying regulations on denial of deductions for:
 - Conduit arrangements involving hybrid entities or hybrid instruments
 - Interest or royalty payments that are subject to a participation exemption or similar system that provides for the exclusion or deduction of a substantial portion of such payment in the country of the recipient
 - Foreign branches

- ▶ A targeted tax preference is an exclusion from income if such tax preference has the effect of reducing the generally applicable statutory rate by at least 25%

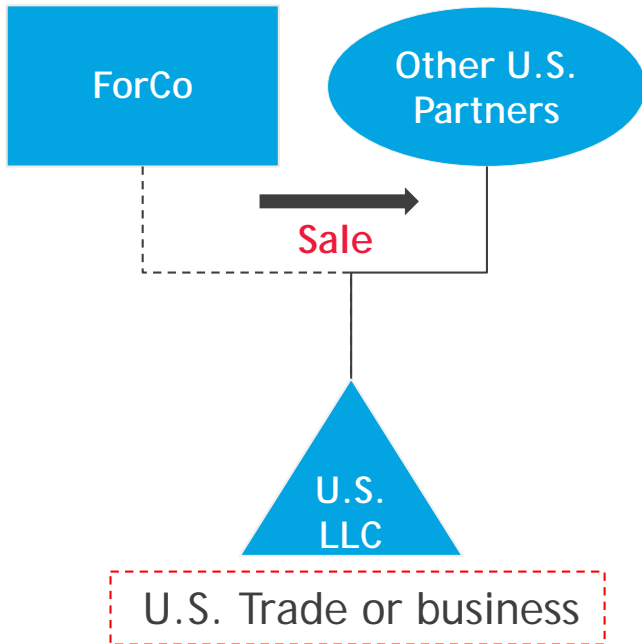
KEY INTERNATIONAL PROVISIONS

FDII - FOREIGN DERIVED INTANGIBLE INCOME

- ▶ Incentive to earn foreign source income in the U.S.
- ▶ For U.S. corporations, allows as a deduction of 37.5% of foreign-derived intangible income (“FDII”) and 50% of GILTI, if any, for tax years after December 31, 2017 and before January 1, 2026
- ▶ Deduction for FDII after December 31, 2025 is 21.875% and for GILTI is reduced to 37.5%
- ▶ FDII provides for a formalistic deduction for a U.S. corporation for income derived from servicing foreign markets
- ▶ Under a 21% CIT rate the effective tax rate (“ETR”) on FDII is 13.125% and for GILTI 10.5% for tax years between January 1, 2018 through December 31, 2025
- ▶ For tax years as of January 1, 2026, the ETR on FDII is 16.406% and on GILTI is 13.125%
- ▶ Does not apply to individuals, partnerships, S corporations, RICs or REITs

KEY INTERNATIONAL PROVISIONS

U.S. PARTNERSHIP INTEREST - SALE BY FOREIGN PERSON



**Grecian Magnesite Mining, Industrial & Shipping Co., S.A. v. Commissioner, 149 T.C. No. 3 (July 13, 2017)*

Background:

- ▶ Gain recognized from the disposition of an interest in a partnership is generally capital gain
- ▶ Capital gain recognized by a non-U.S. person is not subject to U.S. Federal income tax unless it is *effectively connected* with such non-U.S. person's conduct of a U.S. trade or business ("ECI")
- ▶ Capital gain of a non-U.S. person will be ECI only if such gain is attributable to a *U.S. office or fixed place of business* through which such non-U.S. person conducts a U.S. trade or business ("USTB") and such USTB materially participates in the production of such gain*
- ▶ In contrast, the IRS took position in Rev. Rul. 91-32 that the non-U.S. person is treated as selling, through the U.S. office of the partnership, its proportionate share of the partnership's assets

New TCJA Provision:

- ▶ Effective for sales on or after November 27, 2018
- ▶ Gain from the sale to the extent attributable to partnership assets used in a U.S. trade or business is subject to U.S. tax
- ▶ Buyers of partnership interest must withhold 10% on ECI
- ▶ Buyers must withhold 15% on U.S. real estate based on FIRPTA
- ▶ Partnership must withhold on new partner if the buyer did not withhold on sale

FROM WORLDWIDE TO TERRITORIAL TAX SYSTEM

FROM WORLDWIDE TO A TERRITORIAL SYSTEM OF TAXATION – A JOURNEY

Prior years

As of January 1, 2018



- ▶ Exempt foreign active business income through a 100% exemption for dividends received from foreign subsidiaries (“Territorial System”)
- ▶ Applies to foreign-source dividends received by a U.S. C corporation (other than a RIC or REIT) from a 10-percent owned foreign corporation when certain conditions are satisfied
- ▶ One-year holding period within 2 year period, hybrid dividends excluded
- ▶ Stock basis adjustment for DRD exempt distributions to limit loss from sale of stock
- ▶ Does not apply to individuals, partnerships or S corporations

FROM WORLDWIDE TO TERRITORIAL TAX SYSTEM

SECTION 965: TRANSITION TAX

- ▶ Section 965 is a transition rule to affect the participation exemption regime
- ▶ A 'transition tax' applies to a U.S. shareholder's share of net foreign earnings and profits ("E&P") not previously subject to U.S. taxation in the form of Subpart F inclusion
- ▶ Applies for tax years beginning BEFORE 2018 and applied on the higher of the net E&P as of November 2, 2017, or December 31, 2017
- ▶ Transition Tax on:
 - 15.5% tax on accumulated foreign earnings held in cash or cash equivalents and
 - 8% tax on all other accumulated foreign earnings
- ▶ Companies may be able to pay the repatriation tax over an 8-year period in installments with the first installment in April 2018
- ▶ Use of NOLs, unless "op-out"
- ▶ Indirect foreign tax credits ("FTC") allowed against transition tax are limited, for foreign dividends under dividend received deduction ("DRD") indirect FTC is repealed
- ▶ U.S. individuals and pass-through entities may be impacted
- ▶ Deferral election for S corporation shareholders – numerous definitions and special rules relating to application of provision, *i.e.*, certain triggering events

FROM WORLDWIDE TO TERRITORIAL TAX SYSTEM

TRANSITION TAX

		Cash	Non-Cash	Total
Post 1986 E&P		125.00	375.00	500.00
Participation Exemption (DRD)		(69.64)	(289.28)	(358.91)
	55.71%			
	77.14%			
Total Foreign Income Tax Pool				100.00
Creditable deemed-paid taxes / Sec 78 gross-up		11.07	17.15	
<i>Taxable Income</i>		66.44	102.87	169.31
U.S. tax @35% (pre-credit)	0.35	23.25	36.00	59.26
FTC for deemed-paid taxes		(11.07)	(17.15)	(28.22)
<i>Tax liability (before FTC carryover)</i>		12.18	18.86	31.04

FROM WORLDWIDE TO TERRITORIAL TAX SYSTEM

FINANCIAL REPORTING CONSIDERATIONS - EFFECT OF LAW CHANGES

- ▶ Enactment period accounting - income tax effects of tax reform are recognized in period of enactment. For calendar year taxpayers this may be Q4 of fiscal year ended December 31, 2017
- ▶ Existing deferred tax asset (“DTA”) and/or deferred tax liability (“DTL”) subject to revaluation/re-measurement as a result of tax reform
- ▶ Current year tax refunds and payables recorded in Q4 to reflect effect on ETR
- ▶ DTLs may need to be recorded for withholding taxes and state taxes if distributions are anticipated
- ▶ Valuation allowance impact for use of NOL and/or FTCs against mandatory deemed repatriation under transition tax
- ▶ GILTI - whether position of permanent reinvestment is affected and increase in ETR
- ▶ BEAT - potential increase in ETR
- ▶ FDII - positive effect for ETR due to additional deduction
- ▶ SEC concessions - SAB No. 118 provides measurement period approach, does not change U.S. GAAP to provide relief to comply for accounting within measurement period to provide a reasonable estimate; requires true up in a later period
- ▶ Transition Tax - must reflect tax return positions that are MLTN

INDIVIDUAL TAX REFORM

INDIVIDUAL TAX REFORM

KEY HIGHLIGHTS

Tax Reform TCJA Provision	Details
Ordinary Income Tax Rates	<ul style="list-style-type: none">▶ The Act has seven tax brackets: 10%, 12%, 22%, 24%, 32%, 35%, and 37%▶ These brackets apply to tax years beginning after December 31, 2017, and before January 1, 2026▶ The breakpoints between the 0% and 15% rates and between the 15% and 20% rates are the same as the under present law
Standard Deduction/Personal Exemption	<ul style="list-style-type: none">▶ The standard deduction is to be increased, <i>i.e.</i>, joint return to \$24,000 (\$10,000 for single filers)▶ Personal exemptions are lost
Itemized Deductions	<ul style="list-style-type: none">▶ Most itemized deductions are eliminated - state and local taxes allowed up to \$10,000▶ Charitable deductions preserved
Home Mortgage	<ul style="list-style-type: none">▶ Mortgage interest deduction is reduced to \$750,000 of acquisition indebtedness interest for debt incurred after December 15, 2017▶ The \$1M limitation remains for older debt. For tax years beginning after December 31, 2025, the limitation reverts back to \$1M regardless of when the debt was incurred▶ No deduction for interest paid for home equity indebtedness interest expense
Alternative Minimum Tax	<ul style="list-style-type: none">▶ Individual alternative minimum tax stays but increased thresholds to 109,400 with increased phase-out - impact to be seen since most itemized deductions eliminated

INDIVIDUAL TAX REFORM

KEY HIGHLIGHTS

Tax Reform TCJA Provision	Details
Sale of Residence	<ul style="list-style-type: none">▶ Exclude gain up to \$250,000 or \$500,000 for MFJ on principal residence 2 out of 5 years - remains
SALT Deductions	<ul style="list-style-type: none">▶ Individual taxpayers may elect to deduct state and local sales, income, or property taxes up to \$10,000 (\$5,000 for a married taxpayer filing a separate return) for tax years beginning after December 31, 2017, and beginning before January 1, 2026
Net Investment Income Tax	<ul style="list-style-type: none">▶ Remains at 3.8%
Itemized Deductions	<ul style="list-style-type: none">▶ Allow state and local tax deduction up to \$10,000▶ Charitable deductions preserved
Estate Tax	<ul style="list-style-type: none">▶ Estate tax exemption to be doubled and then will be repealed from 2024
Effective Through	<ul style="list-style-type: none">▶ 10-Year Shelf Life

STATE TAX IMPACT OF FEDERAL TAX REFORM

STATE TAX IMPACT OF FEDERAL REFORM

THE FEDERAL REFORM MAY ALSO HAVE SOME SIGNIFICANT IMPLICATIONS FOR STATE TAXES

- ▶ Almost all states begin the state computation of taxable income with federal taxable income and therefore any federal changes will have an impact at the state level
- ▶ Certain states automatically conform to the IRC upon enactment of the federal legislation, some conform as of a particular date, some adopt certain provisions of the code through future legislation
- ▶ The reduction of the corporate income tax rate to 21% may have an effect in those states that allow a deduction for federal taxes paid
- ▶ Impact of accelerated depreciation/immediate expensing of the cost of acquiring certain assets
- ▶ Interest expense limit may affect states and may not conform with current interest add back rules some states currently apply
- ▶ Repatriation of deferred foreign earnings/dividend taxation

TAX REFORM TOOLS

BE PREPARED, PLAN AND UPDATE

ACTION	TOOL
Mandatory Transition Tax	<ul style="list-style-type: none">• Effective Process and Model to compute E&P and transition tax impact• Information gathering• Review existing E&P data• Analyze reorganizations, dispositions, acquisitions and elections that may affect E&P• Compute and fine tune E&P
Interest Limitation	Updated model to compute interest expense limitation Planning to mitigate negative impact of cash flow and to reestablish efficient financing structure
Entity Choice	Entity selection tool comparing efficiency of Corporation, S-Corporation, partnership, etc.
Acceleration of Capex	Tools to analyze benefits of expensing
	GILTI and FDII analysis and planning for future supply chain
Morphing guidance and regulations	BDO Expert Teams monitor issuance of guidance, regulations and updates
Holistic approach	Integrated analysis and modelling of all components of TCJA.

THANK YOU

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A detailed overview from BDO's US tax team

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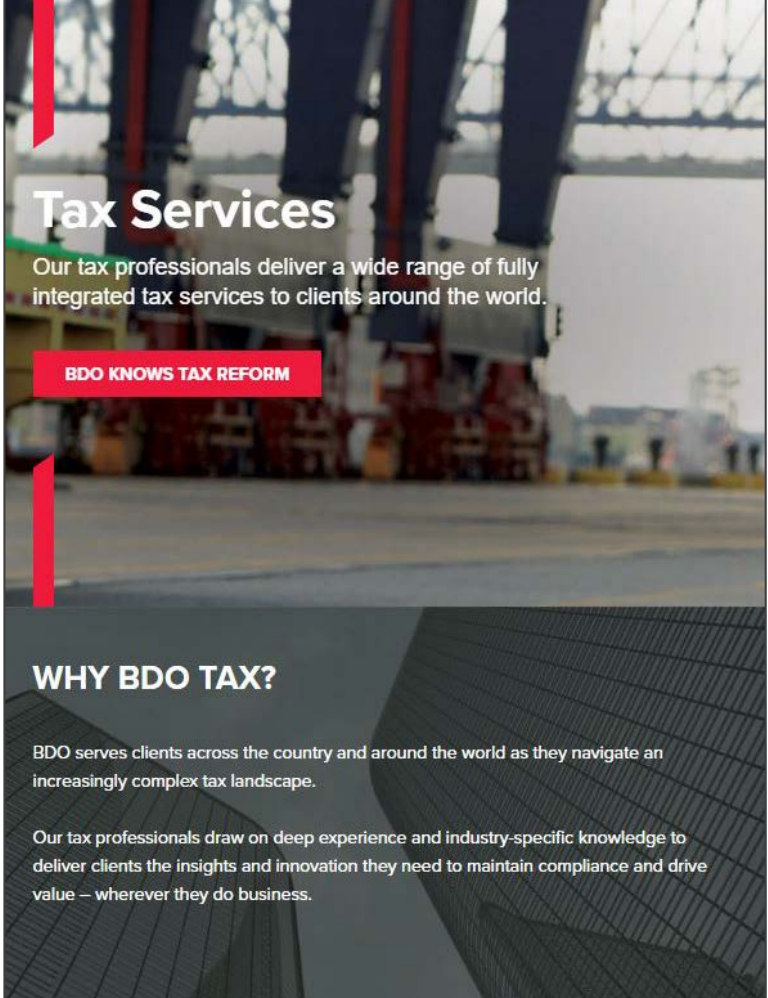
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