



TAX REFORM AND THE BOARD'S ROLE

2018

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Presenters



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Agenda



- ▶ Tax Reform Overview
- ▶ Financial Statement Accounting Impact
- ▶ Financial Statement Auditing Impact

Tax Reform Overview



Matthew Becker
Tax Managing Partner



Tax Reform Legislation Summary

- ▶ The law takes effect on January 1, 2018
 - The law needs to be considered in the period of enactment (Q4 2017)

- ▶ Impact on domestic taxes
 - Corporate federal tax rate decreases to 21%
 - Corporate AMT has been repealed with a refundable credit for historical AMT credits
 - Limitations on the deduction of interest expense
 - Accelerated depreciation for capital expenditures
 - Limitations and indefinite carryforward period on future NOLs



Tax Reform Legislation Summary

▶ Impact on foreign taxes

- Transition tax will be assessed on historical foreign earnings and profits (E&P) not previously subject to U.S. taxes
 - Applies to U.S. shareholders who own at least 10% of a foreign subsidiary
 - E&P comprised in cash will be taxed at 15.5% with all remaining E&P taxed at 8%
 - Transition tax can be repaid ratably over eight years - starting April 1, 2018
- Future foreign earnings and profits are not subject to U.S. taxes

Financial Statement Accounting Impact



Yosef Barbut
National Assurance Partner

Impact to Current Year Provisions

- ▶ All effects must be recognized in the enactment period subject to SAB 118 guidance
 - Q4 2017 for calendar year or another quarter for fiscal year
 - Impact of the change should be reported within income tax expense
 - Reported as interim period discrete item (not included in the Effective Tax Rate calculation)

- ▶ Domestic Provisions
 - Measure deferred income taxes at the new corporate rate
 - Accelerated depreciation on capital expenditures placed in service after September 27
 - Historical AMT credits not fully utilized are refundable in 2023
 - Consider changes to certain tax credit rules
 - Annual limitations on NOL utilization and Interest deduction
 - Reassess the need for valuation allowances and uncertain benefits (FIN 48)

Impact to Current Year Provisions

▶ Multinational Provisions

- Transition tax owed on historical foreign earnings
 - Analysis could go all the way back to 1986
 - Two rates used to calculate the tax: 15.5% on cash and 8% on earnings reinvested in other assets
 - May use NOLs to offset the obligation
 - May use some foreign tax credits (carryforwards and foreign taxes paid on accumulated income)
 - Can elect to pay this tax over an eight year period
 - Tax obligation is current/non-current tax payable depending on payment(s) timing
- Modified territorial system for future foreign earnings
 - Special anti-abusive/anti base erosion rules (GILTI, BEAT)

Financial Statement Auditing Impact



Phillip Austin
National Managing Partner - Auditing

Audit Risks of Misstatement

- ▶ Auditors will seek to understand how the business will account for the tax reform changes
 - What is the **timeline** the company is operating under?
 - How is the company **gathering information and preparing entries**?
 - What is the board/audit committee **involvement**?
 - Has management determined which of the **tax law changes will have an impact** on the business
 - What **judgmental estimates** used in the approaches applied need to be understood?
 - Consider if the business meets the criteria for reporting estimates
 - Provisional amounts must be trued up with actual calculations in the subsequent period



Internal Controls

- ▶ Auditors will ask about and seek to evaluate the design and operating effectiveness of the internal controls over tax calculations
 - Are current internal controls designed to allow consideration and evaluation of the changes in the tax laws?
 - How is management to ensure completeness and accuracy of information used to calculate the applicable tax balances?
 - What controls are being exercised over the preparation of entries to record known impacts?
 - How may critical estimates used in the tax calculations be challenged?
 - If aspects of impact cannot be recorded or estimates, what are the disclosure controls around the reasons for this?

Financial Statement Reporting

- ▶ Criteria for reporting provisional amounts
 - Actual amounts should be reported when possible
 - Provisional amounts require enhanced disclosures to explain the estimates
 - What does the SEC expect in the near term?
 - [SEC Press Release](#)
 - [SAB 118](#)

- ▶ Additional financial statement disclosures and analysis
 - How might liquidity requirements to pay taxes on historical foreign income be impacted?
 - What is the anticipated impact on current period operating results?

Key Take-Aways & Resources



BDO KNOWS

TAX REFORM

Tax Reform - Latest Insights

Tax reform of this magnitude will have broad implications - both on businesses and the people behind them. Learn what you should be doing immediately to prepare for the impending changes.

- Tax Reform Resources
- Tax Reform & Industry Implication
- Upcoming Webinars and Live Events: **Planning for Tax Reform - January 11, 2018**
- Podcasts and Webinar Recordings

<https://www.bdo.com/tax-reform>

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| Title | Date |
|--|---------------|
| BDO Webinar: Planning for Tax Reform | January 2017 |
| BDO Webinar: Tax Reform and the Board's Role | January 2017 |
| Quarterly Technical Update - Q4 2017 | January 2018 |
| 2017 Executive Pay Outlook for Mid-Cap Companies - Are Your Prepared? | December 2017 |
| 2017 SEC Yearend End Update and Hot Topics | November 2017 |
| Internal Audit's Role in Monitoring and Controlling International Exposure | November 2017 |
| Due Diligence and Oversight of Vendors in the Current Regulatory Environment | November 2017 |
| Building an Effective Compensation Committee | October 2017 |
| Quarterly Technical Update - Q3 2017 | October 2017 |
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| Quarterly Technical Update - Q3 2017 | October 2017 |
| Harnessing the Power of Data Analytics and Continuous Monitoring | Sept 2017 |
| Quarterly Technical Update - Q2 2017 | July 2017 |
| AICPA SOC for Cybersecurity - What You Need to Know Now | June 2017 |
| Internal Audit's Role in Highly Acquisitive Organizations | June 2017 |
| Applying the New Revenue Standard - Part 2 | June 2017 |
| Applying the New Revenue Standard - Part 1 | June 2017 |

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| Board Leadership - How to Onboard Your Board | May 2017 |
| Reducing the Burden of Sox Compliance | April 2017 |
| Blockchain: Technology, Applications and Risks | April 2017 |
| Quarterly Technical Update - Q1 2017 | April 2017 |
| Compensation Committee - How is Your Organization Managing Your Global Equity Compensation Risk? | April 2017 |
| Trump, Legislation & Taxes: How Expected Tax Reform May Impact Global Organizations | March 2017 |
| Tax Planning for Executive Compensation | March 2017 |
| What Boards Need to Know About Cybersecurity (But May Be Afraid to Ask) | March 2017 |
| Establishing an Effective Vendor Audit Program | February 2017 |
| Are You Ready to Comply with the New Lease Accounting Standard? | February 2017 |
| Countering Corruption Part II: ISO 37001 Compliance & Certification - What's Next | February 2017 |
| Boards as Catalysts for Intrapreneurship and Innovation | February 2017 |
| Small Cap Boards - Realities and Strategies for Capital Structuring | January 2017 |

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| SEC Year in Review | January 2018 |
| SEC and Tax Reform - SAS 118 | January 2018 |
| Compensation and Benefit Programs - Thinking Strategically in the Tax Reform Era | January 2018 |
| Corporate Tax Reform - Summary of New Laws Taking Effect | January 2018 |
| Modernization and Simplification of Regulation S-K | December 2017 |
| How Can You Prepare for Tax Reform | December 2017 |
| U.S. Tax Reform Financial Reporting and Audit Considerations | December 2017 |
| ASC Topic 606 Adoption Timetable | December 2017 |
| ASC Topic 606 - Tax Implementation Roadmap | December 2017 |
| House and Senate Pass Tax Reform Bill; President Expected to Sign | December 2017 |
| The Future of Auditor Reporting is Here | December 2007 |
| 2017 Year-end Tax Planning for Businesses | December 2017 |
| House and Senate Reach Tax Reform Compromise | December 2017 |

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| The House Tax Bill Released | November 2017 |
| The SEC Approves the New PCAOB Auditor's Reporting Model | November 2017 |
| The BDO 600 - CEO and CFO Pay | November 2017 |
| EBD Commentator - 2017 COLA Update | October 2017 |
| Standing Guard Against Evolving Cyber Risks | October 2017 |
| M&A Horror Stories - Deals That Go Bump in the Night | October 2017 |
| Disaster Tax Relief and Airport and Airway Extension Act of 2017 | October 2017 |
| SEC Proposes Amendments to Regulation S-K | October 2017 |
| Topic 606, Revenue From Contracts with Customers - Exploring Transition Methods | October 2017 |
| Topic 606, Revenue From Contracts with Customers - Presentation and Disclosure | October 2017 |
| Initial Offerings Newsletter - Fall 2017 | October 2017 |
| Accounting Guidance Related to Natural Disasters | October 2017 |
| Significant Accounting & Reporting Matters - Q3 2017 | October 2017 |

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| Title | Date |
|--|----------------|
| SEC Adopts Interpretive Guidance for Pay Ratio Disclosures | October 2017 |
| BDO Knows: Topic 606, Revenue from Contracts with Customers - Exploring Transition Methods | October 2017 |
| SEC Updates to Reflect New Revenue Recognition Standard | October 2017 |
| PCAOB 2017 Inspections Will Continue to Focus Where Risk Resides | September 2017 |
| 2017 BDO Cyber Governance Survey | September 2017 |
| Breaking Down the Equifax Data Breach | September 2017 |
| BDO Disaster Response | September 2017 |
| EBP Commentator - Summer 2017 | September 2017 |
| Relief Measures Impacting Employee Benefit Plan Sponsors | September 2017 |
| FASB Issues Targeted Improvements to Hedge Accounting | September 2017 |
| SEC Staff Guidance Updates | September 2017 |
| 2017 BDO Board Survey | September 2017 |
| FASB Simplifies Accounting for Instruments with Down Rounds | July 2017 |
| Delayed Adoption of ASC 606 and 842 Permitted for Certain Entities | July 2017 |
| New SEC Chair Sets Tone for SEC's Agenda Focused on Main Street Investors | July 2017 |
| Significant Accounting & Reporting Matters Q2 2017 | July 2017 |

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| Title | Date |
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| Reminder: SEC SAB 74 Disclosures and Controls for New Accounting Standard | July 2017 |
| SEC Extends Voluntary Submission of Draft Registration Statements to All Companies | July 2017 |
| U.S. IPO Market Rebounds Strongly in First Half of 2017 | July 2017 |
| BDO Knows Cybersecurity: Petya Cyber Attack | June 2017 |
| BDO Knows FASB 606: Revenue from Contracts with Customers - A View from the Kitchen | June 2017 |
| BDO Highlights Important DHS - FBI Cyber Alert on North Korea - Hidden Cobra | June 2017 |
| PCAOB Adopts New Standard to Enhance the Auditor's Report... | June 2017 |
| Introducing SOC for Cybersecurity: Translating Cyber Risk For Every Stakeholder | June 2017 |
| 2017 Approach to Audit Quality | June 2017 |
| FASB Clarifies Accounting for Service Concession Arrangements | May 2017 |
| SEC Chief Accountant Speech: Advancing the Role and Effectiveness of Audit Committees | May 2017 |
| Significant Accounting & Reporting Matters - Q1 2017 | April 2017 |
| A Focus on Income Tax Implications: United Kingdom Beginning the Formal Process of Exiting European Union | April 2017 |

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| Cybersecurity Officially Reaches the Board | April 2017 |
| Portion of Conflict Minerals Rule No Longer to be Enforced | April 2017 |
| FASB Shortens Premium Amortization Period for Purchased Callable Debt Securities | April 2017 |
| SEC Flash: Rule and Form Amendments Applicable to Emerging Growth Companies | April 2017 |
| U.S. IPO Market Delivers Impressive Year-Over-Year Growth in Q1 of 2017 | April 2017 |
| AICPA Issues SAS 132 on Going Concern | April 2017 |
| FASB Updates Presentation of Pension and Other Postretirement Benefit Plan Costs | March 2017 |
| 2017 BDO Shareholder Meeting Alert | March 2017 |
| FASB Updates Presentation of Employee Benefit Plan Interest in a Master Trust | March 2017 |
| FASB Clarifies the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets | March 2017 |
| BDO's Noel Clehane Interviews Executive Director of the CAQ Cindy Fornelli | March 2017 |
| 2017 BDO Tax Survey | March 2017 |
| Topic 606, Revenue from Contracts with Customers | March 2017 |

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| Title | Date |
|--|---------------|
| SEC Flash Report - Dodd-Frank SEC Rules - One Nullified and Others Scrutinized | February 2017 |
| BDO Knows: Cybersecurity - NY Department of Financial Services Final Cybersecurity Regulation | February 2017 |
| BDO Knows: Compliance Without Borders: ISO 37001 Introduces Global Anti-Bribery Standards and Codification Program | February 2017 |
| FASB Simplified Goodwill Impairment Test | February 2017 |
| Audit Committee Requirements Practice Aid | February 2017 |
| FASB Clarifies Consolidation Guidance for Non-for-Profit Entities | February 2017 |
| Significant Accounting & Reporting Matters Q4 2016 | January 2017 |
| 2016 Audit Committee Round-Up: Focal Points, Tools & Resources | January 2017 |
| FASB Flash Report - FASB Clarifies the Definition of a Business | January 2017 |
| 2016 Accounting Year in Review | January 2017 |
| FASB Flash Report - FASB Issues Technical Corrections and Improvements to New Revenue Standard | January 2017 |
| 2017 BDO IPO Outlook | January 2017 |
| BDO Assurance Practice SEC Newsletter (Year In Review) | January 2017 |

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