International tax reform

Prepare now to maximize your results and flexibility

With Republicans in control, the likelihood of sweeping tax reform is greater now than in decades

Republicans moved two steps closer to tax reform when the House Ways and Means Committee approved a modified version of its bill on Nov. 9 and the Senate Finance Committee immediately responded by releasing its full tax reform plan. Together, these steps represent one of the biggest advances towards comprehensive tax reform since the 1986 Act. Although many questions remain, one thing is clear, the bills would result in a dramatic transformation in the way corporations with international operations are taxed. **Businesses that act quickly and map out a strategy stand to gain significant financial and competitive advantages.**

Comparison of major international tenets in the House and Senate bills (as of Nov. 13, 2017)

Issue	House bill	Senate bill
Territorial	• 100% exemption for repatriated dividends (DRD system) • Applies to dividends paid to corporations from 10% or more owned foreign corporations • 180 day holding period requirement	• 100% exemption for repatriated dividends (DRD system) • Applies to dividends paid to corporations from 10% or more owned foreign corporations • 365 day holding period requirement • Not available to "hybrid dividends"
One-time transition tax	• Imposes one-time tax on previously unrepatriated earnings of 14% for cash & equivalents and 7% for the remainder of earnings (with 8-year installment period – equal payments) • The measurement is the greater of E&P on either Nov. 2 or Dec. 31 of 2017 • Calculated on an aggregate basis, taking into account earnings and deficits of each 10 percent owned foreign subsidiary	• Imposes one-time tax on previously unrepatriated earnings of 10% for cash & equivalents and 5% for the remainder of earnings (with 8-year installment period – escalating payments) • The measurement date is Nov. 9, 2017, or other dates as deemed appropriate • Calculated on an aggregate basis, taking into account earnings and deficits of each 10 percent owned foreign subsidiary
Minimum tax	• U.S. shareholders of one or more controlled foreign corporations (CFC) would be subject to current U.S. tax on its "foreign high return income" (FHRI) • FHRI is the excess of the CFCs' aggregated net income over a "routine return" on certain qualified tangible assets (the rate of return is equal to 7% plus the federal short-term rate) • U.S. inclusion is limited to 50% of FHRI, 80% FTC available	• U.S. shareholders of one or more CFCs would be subject to current U.S. tax on its "global intangible low-taxed income" (GILTI) • GILTI is the excess of the CFCs' aggregated net income over a "routine return" on certain qualified tangible assets (the rate of return is 10%). 80% FTC available • Provides a deduction of 37.5% of U.S. foreign-derived intangible income plus the GILTI income (subject to a taxable income limitation)
Base erosion tax	• Imposes a 20% excise tax on amounts paid or incurred by a domestic corporation to a foreign corporation which is a member of the same multinational group • Only applies to groups with a three-year average of payments from U.S. corporations to foreign-related corporations that exceeds $100 million • Provides several exceptions, including interest expense, services with no mark-up, payments which are effectively connected income (ECI), etc. • Allows the foreign payee to elect to treat the income as ECI in lieu of the domestic corporation paying the excise tax	• Imposes a 10% minimum tax on a modified taxable income (computed without regard to benefit from base erosion payments, as well as a percentage of NOLs attributable to base erosion payments) of domestic corporations which are members of a multinational group that engages in excess base erosion • Only applies to groups with a three-year average of annual gross receipts of at least $500 million and a base erosion percentage (a ratio of base erosion deductions compared to total deductions) of 4% or higher for the taxable year • Provides narrow exceptions for payments subject to withholding
Global interest limitations	• Limits deduction for net interest expense to the extent a U.S. corporation's share of the group's worldwide net interest expense exceeded 110% of the U.S. corporation's share of the group's global EBITDA • 5 year carryforward period (utilized on a first in, first out basis) • Only applies to groups with a three-year average of annual gross receipts of more than $100 million (aggregate of all global entities)	• Limits net interest expense by an amount determined based on a "debt-to-equity differential percentage," which compares the U.S. debt-to-equity ratio to the global group ratio • Indefinite carryforward period • Does not exclude small groups
Other provisions	• Modifies certain provisions related to possessions of the United States • Modifies attribution rules for determining CFC status • Numerous other provisions	• Special rules to incentivize the repatriation of intangible assets • Repeals IC-DISC rules • Modifies definition of U.S. Shareholder and attribution rules for determining CFC status • Numerous other provisions

International Tax reform—Prepare now for maximum advantage

Why Grant Thornton?

Grant Thornton is focused on the impact of tax reform on dynamic companies like yours.

Grant Thornton's Washington National Tax Office works closely with senior members of the IRS and the Treasury Department to analyze and understand both existing and developing tax policies, and monitors legislative developments every day.

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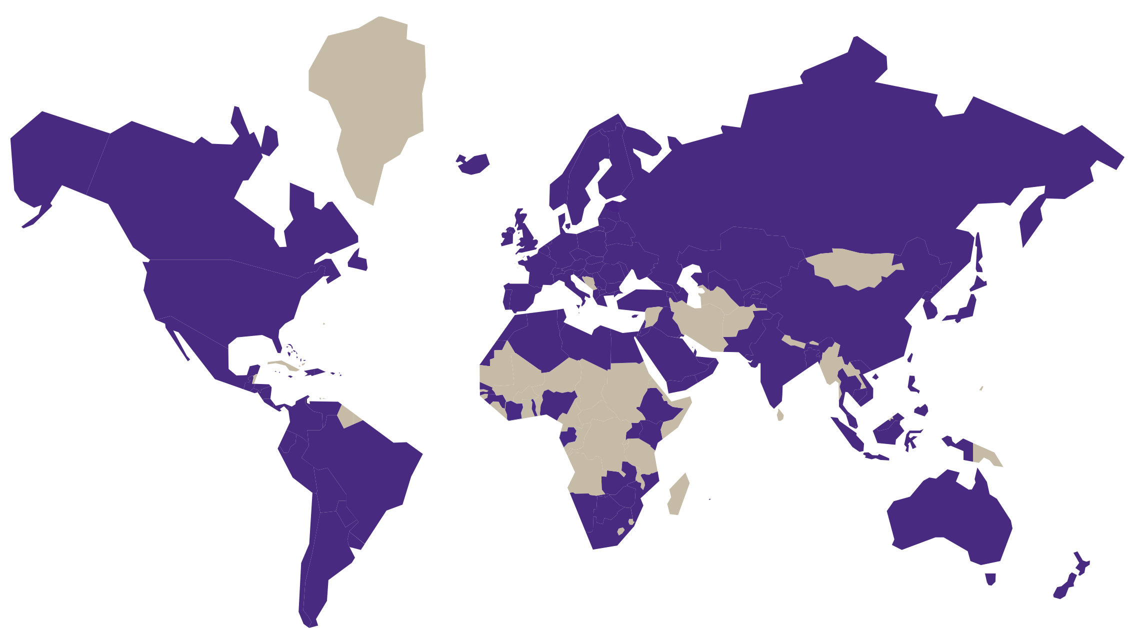

Prepare & act now

Wait-and-see won't work when it comes to making the most of tax reform.

Businesses that anticipate the new rules will be in a better position to take full advantage. Planning should start now for changes needed later, but more importantly, some actions can't wait until tax reform is enacted. You don't want to miss significant opportunities like accelerating deductions before a rate change takes place, assessing unrepatriated earnings before a mandatory tax, or assessing tax risk in your current acquisition or financing deals.

Grant Thornton's **three-step cycle** provides insight as tax reform advances. Currently in the drafting stage, reform proposals will evolve as legislation moves through the House of Representatives and the Senate. The professionals in our Washington National Tax Office are monitoring legislative developments every day.

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