Latest developments on US Tax Reform
George Gans, Partner, Deloitte US
2017 Tax Reform for Economic Growth and American Jobs

The Biggest Individual And Business Tax Cut In American History

Goals For Tax Reform

- Grow the economy and create millions of jobs
- Simplify our burdensome tax code
- Provide tax relief to American families—especially middle-income families
- Lower the business tax rate from one of the highest in the world to one of the lowest

Individual Reform

- Tax relief for American families, especially middle-income families:
  - Reducing the 7 tax brackets to 3 tax brackets of 10%, 25%, and 35%
  - Doubling the standard deduction
  - Providing tax relief for families with child and dependent care expenses
- Simplification:
  - Eliminate targeted tax breaks that mainly benefit the wealthiest taxpayers
  - Protect the home ownership and charitable gift tax deductions
  - Repeal the Alternative Minimum Tax
  - Repeal the death tax
- Repeal the 3.8% Obamacare tax that hits small businesses and investment income

Business Reform

- 15% business tax rate
- Territorial tax system to level the playing field for American companies
- One-time tax on trillions of dollars held overseas
- Eliminate tax breaks for special interests

Process

Throughout the month of May, the Trump Administration will hold listening sessions with stakeholders to receive their input and will continue working with the House and Senate to develop the details of a plan that provides massive tax relief, creates jobs, and makes America more competitive—and can pass both chambers.
Latest developments on US Tax Reform
Planning Considerations For Your Business
George Gans, Partner, Deloitte US
Overview of Tax Reform Proposals

Impact of Proposals/Action Items

Immediate Tax Reform Planning Considerations
- Modeling of Tax Reform Scenarios
- Rate Reduction Planning – Permanent Cash Tax Savings
- Transition Tax Considerations
- ASC 740 Considerations
- Multistate Tax Planning Considerations
- Considerations for Global Mobility and Human Resources

Matrix of Planning Objectives by Tax Reform Provision

Next Steps

Appendix
Overview of Tax Reform Proposals
Corporate Tax Rate Reform

Proposed Rate Considerations

- **35%** Current Tax Rate
- **25%** Camp II Proposal
- **20%** House GOP Proposal
- **15%** Trump Administration Proposal

**Considerations that may lower tax base**
- Repeal Corporate AMT
  - Full Expensing of Capital Investments
  - Retain R&D Credit
    - Retain LIFO

**Considerations that may increase tax base**
- Interest Expense Limitation
- Repeal Most Business Tax Expenditures (Trump Administration)
  - Repeal IRC §199
### Domestic Reform Proposals

<table>
<thead>
<tr>
<th>Provision</th>
<th>Current Law</th>
<th>Trump Administration Proposal</th>
<th>House GOP Blueprint</th>
<th>Camp II</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Top Corporate Rate</strong></td>
<td>35%</td>
<td>15%</td>
<td>20%</td>
<td>25%</td>
</tr>
<tr>
<td><strong>Top Individual Rate</strong></td>
<td>39.6% (plus additional 0.9% Medicare tax for high-income earners)</td>
<td>35%</td>
<td>33%</td>
<td>35%</td>
</tr>
<tr>
<td><strong>Research Credit</strong></td>
<td>Generally allows either a 20% credit for qualifying research expenses in excess of a base amount, or a 14% alternative simplified credit</td>
<td>Retain research credit, but repeal most other business tax expenditures</td>
<td>Retain credit; Ways and Means Committee will &quot;evaluate options&quot; to make it &quot;more effective and efficient&quot;</td>
<td>Research credit (alternative simplified credit) would be permanent</td>
</tr>
<tr>
<td><strong>IRC §199 Deduction and Other Business Deductions</strong></td>
<td>Up to 9% deduction under IRC §199 for certain income attributable to domestic production activities</td>
<td>Repeal most business tax expenditures except for the research credit</td>
<td>Repeal IRC §199</td>
<td>Repeal of IRC §199 phased out over two years (6% in year one, 3% in year two); repeal of percentage depletion</td>
</tr>
<tr>
<td><strong>Capital Cost Recovery</strong></td>
<td>Taxpayers generally recover costs under the Modified Accelerated Cost Recovery System (MACRS)</td>
<td>Firms engaged in US manufacturing may elect to deduct the full cost of their capital investments in year one; option revocable within first 36 months</td>
<td>Full expensing in year one of all assets, tangible and intangible, other than land</td>
<td>Depreciation would be computed using straight-line method with longer recovery periods (similar to ADS)</td>
</tr>
<tr>
<td><strong>Net Operating Loss (NOL)</strong></td>
<td>Available for 2-year carryback and 20-year carryforward</td>
<td>No Change Specified</td>
<td>NOLs carried forward indefinitely, annual future deduction is limited to 90% of net taxable income. NOL carrybacks will no longer be permitted</td>
<td>NOL would only be permitted to offset 90% of the corporation’s taxable income in the carryback or carryforward year</td>
</tr>
<tr>
<td><strong>Interest Expense</strong></td>
<td>Generally deductible</td>
<td>Businesses that elect full expensing in year one will lose their ability to deduct net interest expense</td>
<td>Interest expense deductible against interest income, but no current deduction for net interest expense; net interest expense may be carried forward indefinitely</td>
<td>Modifies IRC §163(j) with new thin cap rules; limit for adjusted taxable income reduced from 50% to 40%</td>
</tr>
</tbody>
</table>
International Tax Reform – Scope of US International Taxation

**Trump Administration Proposal:** “Territorial Tax System”

- US Co.
  - US Income
  - Foreign Co.
    - Dividends?
    - Subpart F income?

**House GOP: Dividend Exemption and Border Adjustment**

- US Co.
  - US Income
  - Foreign Co.
    - Dividends
    - Export Income
    - Foreign Base Company Sales/Services Income
    - Passive Income

**Camp Bill**

- US Co.
  - US Income
  - Foreign Co.
    - Dividends
    - Income from Foreign Markets
    - Foreign Base Company Sales Income
    - Other Foreign Income

**NOTE 1:** Trump Administration, House GOP and Camp plans all propose a one-time Transition Tax on previously deferred earnings of Controlled Foreign Corporations. Rates vary from 10% (President Trump) and split rates under House GOP and Camp (3.5% and 8.75%)

**NOTE 2:** The mechanics of the Trump Administration’s territorial tax regime are currently unknown and therefore additional information is needed to determine the extent to which certain income is subject to United States taxation.
### International Tax Reform – Scope of US International Taxation

<table>
<thead>
<tr>
<th></th>
<th>Current Law</th>
<th>Trump Administration Proposal ¹</th>
<th>House GOP Blueprint</th>
<th>Camp Bill</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>US Co’s US Sales/Service Income</strong></td>
<td>Taxable</td>
<td>Taxable</td>
<td>Taxable</td>
<td>Taxable</td>
</tr>
<tr>
<td><strong>US Co’s Foreign Sales/ Services Income</strong></td>
<td>Taxable</td>
<td>Exempt?</td>
<td>Exempt</td>
<td></td>
</tr>
<tr>
<td><strong>Payment to non-US Taxpayer for Cost of Goods Sold (COGS)</strong></td>
<td>Deductible</td>
<td>Deductible?</td>
<td>NOT Deductible</td>
<td>Deductible</td>
</tr>
<tr>
<td><strong>Dividends Received</strong></td>
<td>Taxable</td>
<td>Exempt?</td>
<td>Exemption ²</td>
<td>95% DRD ³</td>
</tr>
<tr>
<td><strong>Foreign Sub’s Foreign Base Company Sales/ Services</strong></td>
<td>Taxable ⁴</td>
<td>Exempt?</td>
<td>Exempt</td>
<td>Taxable at 50% of general tax rate ⁴</td>
</tr>
<tr>
<td><strong>Foreign Sub’s Foreign Personal Holding Company Income</strong></td>
<td>Taxable ⁴</td>
<td>Exempt?</td>
<td>Taxable</td>
<td>Taxable ⁴</td>
</tr>
<tr>
<td><strong>Foreign Sub’s Other Foreign Income</strong></td>
<td>Deferral ⁵</td>
<td>Exempt?</td>
<td>Exempt</td>
<td>Generally 60% taxable (to extent exceeds 10% of basis in tangible assets) ⁴</td>
</tr>
</tbody>
</table>

¹ Trump Administration proposes “territorial tax system” without further detail
² Proposed 100% Participation Exemption
³ Proposed 95% Participation Exemption for 10%-owned Subsidiaries
⁴ Deemed Inclusion to US Co.
⁵ Subject to US Tax upon Future Distribution to US Co
Impact of Proposals / Phases of Planning
Immediate Considerations

- Modeling for Short and Mid-term Planning
  - Attribute Readiness – E&P & Tax Pools, FTCs, NOLs, CFC Basis and FMV
  - Report Potential Impact of Proposals
  - ASC 740 and Multistate Considerations
  - Global Mobility Program Costs
- Permanent Rate Reduction Planning (Accounting Methods)
- Potential Considerations to Address Transition Tax:
  - Conversion to Fiscal Year-end to Delay “Transition” Year
  - E&P Elimination (CFC Method Planning, etc.)
  - E&P Deferral to Post-Enactment / Accelerate Local Taxes
  - Repatriation of Cash & Excess FTCs
  - Investigate Debt “Push Down” Through
    - Repatriation of High-Taxed E&P (IRC §304 w/Debt)
    - Use of Basis for Devalued CFCs
  - Modeling of IP/Principal Structures (assuming no Border Adjustment)
  - Model Effects of Potential Border Adjustments

Mid-Term

- Updated Modeling Based on Final Tax Reform
- Implement One-Time Planning Based on Final Tax Reform Enactment
- Debt “Push Down” Implementation
- If Enacted, Adapt to Border Adjustable Tax through:
  - Foreign Source Income Importation (TP/Business Models)
  - Foreign Source Deduction conversion
- Mitigate Transition Tax on Offshore Earnings
- Communicate Impact of Tax Reform Proposals to Key Stakeholders
- Tax Compliance Readiness
- Assess Revised Data Requirements
- Consider Potential Planning to Reduce Foreign Tax
- Assess Current Global Mobility Policy and Talent Strategy

Long-Term

- Assess New State of Tax
- Accounting Method Review for Post-Reform Benefits
- Compliance Training for Tax Professionals
- Mitigate Impact of Border Adjustment (if Enacted) (Transfer Pricing and Supply Chain)
- Assess Compliance Readiness
- Consider Potential Planning to Reduce Foreign Tax
Immediate Tax Reform Planning Considerations
Modeling of Tax Reform Scenarios

• The need to accurately model and assess the impact of proposed tax reform proposals on your business will affect your ability to:
  • Establish a-point of view on tax reform
  • Update C-Suite on potential considerations
  • Align domestic and international tax planning posture
  • Prioritize planning that can be implemented shortly after the enactment of tax reform (i.e., mid-term strategies), including:
    o Identifying Stakeholders
    o Preparing Workplans
    o Making Treasury Decisions
  • Review ASC 740 impacts of various tax proposals and planning impacts
  • As tax reform proposals will undoubtedly evolve throughout this calendar year, it will be important to have an agile approach to modeling the tax effects of new proposals on your business operations
  • Deloitte is undertaking to build a dynamic tax reform technology solution that will give our tax professionals the ability to help companies weigh proposals against one another, scenario plan, and create customized alternatives in order to analyze the effects of reform proposals on your business. See Appendix for screenshots of the proposed web-based Tax Reform Navigator
Modeling of Tax Reform Scenarios (cont.)

Tax Reform Readiness Plan of Action

3 Different Current Proposals / New Developments Anticipated
Effective Dates
Interplay between International and Domestic Planning Objectives
US Deferred Tax Assets (FTCs, NOLs, AMT)
E&P and Tax Pools

Accounting Law Changes (ARB 51)
US Foreign Tax Credit Position
Offshore Cash Balances
Interest Expense
Customer Location

Various Modeling Inputs
Rate Reduction Planning – Permanent Cash Savings

Tax Reform Proposals Include a Reduction in Corporate Rates Between 10 – 20%

<table>
<thead>
<tr>
<th>Accounting Method Planning Implemented Prior to Rate Reform May Result in Permanent Rate Reduction for Taxpayers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Gross DTA</td>
</tr>
<tr>
<td>$100,000,000</td>
</tr>
</tbody>
</table>

Generally, a taxpayer changing its method of accounting for an item of income or expense only shifts the recognition of such items between deferred and current tax expense. The change would typically produce cash tax savings but rarely creates a permanent tax benefit.

In taxable years bordering a change in federal corporate tax rates, however, taxpayers can capitalize on a permanent tax savings opportunity by decreasing current tax expense as much as possible in years where a decrease in rates is anticipated.

**Tax Reform has provided Companies with an opportunity to use accounting method changes that may result in cash tax savings as well as permanent rate savings.**

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Competing proposals create uncertainty around tax reform and may lead to inaction.

However...

- **There is Common Ground**: The Trump, House GOP and Camp proposals all include:
  - Transition Tax
  - Headline Rate Reduction

- **Time value of money**: US tax attributes are worth more today than they will be tomorrow (and may expire with tax reform)

- **Window of opportunity**: through tax reform implementation to achieve potential current and future year ETR benefits

- **Material foreign jurisdictions are NOT radically reforming** their tax regimes

- **Pending more specific direction on tax reform**, US multinationals may wish to consider:
  - Mitigating transition tax and defer earnings to post-transition period
  - Utilizing / monetizing existing tax attributes (including unrecognized attributes)
  - Exploring opportunities for permanent tax savings through accounting method changes
  - Reducing foreign tax
## International Tax Reform Action Steps (cont.)

**Planning for the Transition Tax**

<table>
<thead>
<tr>
<th>Modeling of Various Scenarios</th>
<th>Change Year-End of CFCs</th>
<th>CFC Earnings &amp; Profits</th>
<th>Defer Earnings &amp; Profits / Accelerate Foreign Taxes</th>
<th>Repatriate Cash and Excess Foreign Tax Credits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Various Proposals</td>
<td>May delay transition year for calendar year taxpayers</td>
<td>Utilization of E&amp;P Deficits</td>
<td>Accounting Method Changes Impact Earnings</td>
<td>Dividends Return of Basis</td>
</tr>
<tr>
<td>Various Transition Years</td>
<td>Fiscal year taxpayers may already enjoy deferral</td>
<td>Identify Loss Assets owned by CFCs</td>
<td>Pending Foreign Tax Adjustments Affect Foreign Tax Pools</td>
<td></td>
</tr>
<tr>
<td>With and Without E&amp;P Deficit Offset</td>
<td>Make year end change on 2016 tax return</td>
<td>Restructuring Transactions to Impact E&amp;P</td>
<td>Consider Accelerating Taxable Foreign Transactions</td>
<td></td>
</tr>
<tr>
<td>With and Without use of FTCs</td>
<td>Consider filing of 2016 tax return prior to tax reform enacted</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
ASC 740 Considerations

Evaluate the Impact On:

- Deferred taxes – reduction in tax rate could have unfavorable impact on net DTA position, favorable impact on net DTL position
- Inventory of temporary differences – e.g., DTA for interest could be eliminated
- DTAs for specific tax attributes – foreign tax credits (i.e., future availability), AMT credits
- Potential effective tax rate (ETR) impact
  - Unfavorable impact on IRC §199, COGS related to imports, interest or other business expenses
  - Favorable impact for exempt foreign sales, dividends received and non-passive Subpart F income
- Valuation allowance implications
  - Change in net deferred tax position
  - Future projections of income

Re-evaluate Outside Basis Exceptions:

- Repatriate prior to enactment to utilize FTC (no longer permanently reinvested)
- “Deemed repatriation” – enactment may cause forced change in assertion

Other Considerations:

- State tax conformity
- Border adjustability tax
- Disclosures
Multistate Tax Planning Considerations

• Corporate background and profile
  – Impact of federal tax reform will vary by industry, geography and type of tax

• Decrease in federal income tax rate
  – State impact of federal accounting method changes
    o For example, a federal accounting method change may impact the Texas Margin Tax (e.g. the repair regulations)

• State tax attribute analysis (NOLs and credits, release of valuation allowances/tax accounting impact, etc.)
  – Overlooked state tax attributes in prior years may become valuable with onset of accounting method changes, repatriation and federal/state tax reform differences

• Review of territorial impact/BEPS/ IRC §385 implications, if applicable
  – Filing methodologies and elections
  – Understand what planning steps have been taken to address BEPS and IRC §385 concerns and how tax reform will impact those plans
  – State tax impact may remain despite federal changes to interest deduction (e.g. Massachusetts)

• Full expensing of business investment
  – State Conformity
    o Reasonable expectation that state conformity to federal tax reform will vary widely, potentially increasing federal and state tax differences
    o Technology solutions may be necessary/recommended to more accurately and efficiently track variances
  – State Credits and Incentives opportunities

• Elimination of state interest expense
  – State conformity

• Elimination of deductions/credits
  – State conformity
Multistate Tax Planning Considerations (cont.)
Examples of the “urgency” to act now for State taxes

Immediate Considerations for State Tax Analysis

1. The resolution of state tax audits resulting in payments, may yield a permanent tax rate benefit
   ✔ Negotiating a resolution can be a time consuming process
2. The analysis and resolution of client’s uncertain tax positions (e.g., proactive filing in states with economic nexus, VDAs, market sourcing, etc.) may yield a permanent tax rate benefit
3. Reporting of federal RAR changes to states where a liability may result

Other Benefits

1. Expiring statutes of limitations in various states may limit the ability to utilize additional state attributes such as net operating losses, credits/incentives
2. Analyzing the state tax effect of federal changes may provide a company more time to initiate changes to mitigate an unfavorable impact
3. If tax reform allows for the repatriation of funds from overseas under beneficial terms, investment of those funds in certain states could bring potential tax benefits from states’ economic development agencies; given the potential magnitude of funds to be repatriated, companies should proactively explore potential credits and incentives packages so that they are prepared to take necessary action steps in the event of repatriation of funds
Considerations for Global Mobility and Human Resources

Key considerations and planning

Costs of international assignments
• Changes to individual income tax rates will result in changes to the company costs incurred in relation to tax equalized assignments
• US hypothetical taxes may decrease
• Tax reimbursement costs could increase or decrease depending on the mix of assignees inbound and outbound to the US, and also to high or low-tax countries

Talent
• Changes in the ability to move employees between countries may require companies to reassess their talent strategy as it relates to talent acquisition, mobility, global footprint, and overall employer brand.
• These changes may include cross-border entry constraints related to immigration and also new taxes/tariffs.
• International travel may become increasingly difficult or costly for business travelers.

Business travel
• Decrease in corporate tax rates may incentivize companies to identify non-US sourced income to effectively utilize foreign tax credits
• Employers may be able to increase the amount of non-US income by better monitoring where revenue-producing employees work

Accelerated corporate tax deductions
• Employee benefit plans may present several considerations for accelerating deductions, for example:
  - Accelerating the accrual of bonus payments
  - Pre-funding of qualified retirement plans
  - Pre-funding Voluntary Employees Beneficiary Association Plans (VEBAs)

Deferral of income by individuals
• Anticipation of lower individual tax rates may motivate employees to defer income to future tax years
• Deferral of income by employees may also delay corporate tax deductions related to that income

Affordable Care Act
• ACA remains the law of the land, including the employer mandate that requires employers to offer healthcare coverage to 95% of full-time employees
• Identifying full-time employees based on the tax law and regulations can be complex and employers could face a significant liability if the 95% requirement is not satisfied
• Information reporting requirements (i.e., Forms 1095-B, 1095-C) remain in-place

Trump administration and GOP key policy objectives:
• Reducing both corporate and individual tax rates
• Creating jobs in the US
• US (and global) cross-border policy reform
• Repealing and replacing the Affordable Care Act (ACA)

Additional considerations
• Share-based income tax accounting. Changes to corporate tax rates will magnify issues presented by recent share-based payments guidance (ASU 2016-09)
• Corporate transactions. May trigger change-in-control and other payments; consider the impact of a change in corporate tax rates when assessing the rights to tax deductions during negotiation for a transaction
• Payroll. Changes to income tax rates may be effective mid-year and will require a swift update to payroll withholding tables, with a potential need for retroactive adjustments
Matrix of Additional Planning Objectives by Tax Reform Provision
# Domestic Reform Planning Matrix

<table>
<thead>
<tr>
<th>Provision</th>
<th>Immediate Planning Consideration</th>
<th>Enactment of New Tax Legislation (Pre-Effective Date)</th>
<th>Future State Planning (Post-Effective Date)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Corporate Rate Reduction</strong></td>
<td>- Accounting method planning to accelerate deductions / defer revenue</td>
<td>- Implement one-time planning for potential permanent cash deduction (generally requires cash):</td>
<td>- Model out new ETR for your business</td>
</tr>
<tr>
<td></td>
<td>- Analyze elections/non-method items that allow for greater expensing/deferral</td>
<td>- Prefund pension</td>
<td>- Analyze prospective accounting method changes under new regime</td>
</tr>
<tr>
<td></td>
<td>- IRC §174</td>
<td>- Prefund Veba</td>
<td>- Analyze IP/BMO planning if 15% rate is enacted</td>
</tr>
<tr>
<td></td>
<td>- Disputed Revenue</td>
<td>- Review timing of accrual for bonus payments</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Analyze payment streams available for insuring in a captive and/or paying to a Veba</td>
<td>- Make payment to Captive</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Accounting methods for CFCs to drive down E&amp;P/enhance FTCs</td>
<td>- Prepay service contracts and state taxes</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- LIFO Adoption (inflationary industries)</td>
<td>- Review revenue recognition studies under ASC 606 to identify revenue deferral opportunities</td>
<td></td>
</tr>
<tr>
<td><strong>IRC §199 Repeal and Other Business Deductions</strong></td>
<td>- Model scenarios of business expense</td>
<td>- Assess transition rules and phase-out for IRC §199 and credits (if applicable)</td>
<td>- Amended return opportunities for open tax years</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Identify business expenses and credits that may be affected post-effective date; make determination on utilization planning</td>
<td></td>
</tr>
<tr>
<td><strong>Capital Cost Recovery</strong></td>
<td>- Model out future tax liability with full expensing of capital investments in the future</td>
<td>- Weigh ready and available analysis and placing assets in service pre-effective date vs deferring acquisition costs post-effective date</td>
<td>- Change methods to capitalize more costs to fully expensed capital investments:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Interest Capitalization (may provide permanent benefit)</td>
<td>- IRC §263A – overhead, engineering, fleet, etc.</td>
</tr>
</tbody>
</table>

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## Domestic Reform Planning Matrix (cont.)

<table>
<thead>
<tr>
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<th>Future State Planning (Post-Effective Date)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net Operating Loss (NOL)</strong></td>
<td>• NOL companies may consider IRC §172(f) opportunities to reduce DTA for eligible 10-year carryback items (i.e., environmental liability, workers comp, product liability, land reclamation)</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>Interest Expense</strong></td>
<td>• Accelerate interest expense into pre-reform years</td>
<td>• Assess interplay between existing IRC §163(j) limitation and changes to interest deductions in the future. Potential to increase the annual limitation with repatriation planning • Push Down” Debt through external facilities or I/C debt</td>
<td>• Review the potential to create interest income in the future to offset interest disallowance</td>
</tr>
<tr>
<td><strong>Individual Rate Reduction</strong></td>
<td>• Model potential change in global mobility program costs</td>
<td>• Evaluate global mobility policies and strategy and assess opportunity for changes • Update assignment cost accruals</td>
<td>• Implement policy changes</td>
</tr>
</tbody>
</table>

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## International Reform Planning Matrix

<table>
<thead>
<tr>
<th>Provision</th>
<th>Immediate Planning Consideration</th>
<th>Enactment of New Tax Legislation (Pre-Effective Date)</th>
<th>Future State Planning (Post-Effective Date)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Territorial Regime</strong></td>
<td></td>
<td>· Re-evaluate permanently re-invested assertion</td>
<td>· Consider impact of Participation Exemption (under Trump Administration, House GOP and Camp II) on Treasury cash management strategy</td>
</tr>
<tr>
<td><strong>Transition Tax</strong></td>
<td>· Evaluate CFCs with significant E&amp;P</td>
<td>· Loss planning and E&amp;P management</td>
<td>· Mitigate Transition Tax on Offshore-Earnings (relationship with repatriation, FTC, and E&amp;P)</td>
</tr>
<tr>
<td></td>
<td>· Identify offshore cash pockets</td>
<td>· Worthless stock deductions</td>
<td></td>
</tr>
<tr>
<td></td>
<td>· Cash balances vs. non-cash assets</td>
<td>· Utilize E&amp;P deficit pools</td>
<td></td>
</tr>
<tr>
<td></td>
<td>· House GOP proposals suggests 8.75% rate for cash and cash-equivalents, but 3.5% rate for other assets</td>
<td>· Cash Repatriation, if FTCs will yield ETR that is lower than Transition Tax Rate</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>· Enhance FTCs through planning</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>· Repatriation planning (see Appendix)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>· Review Asset mix, if lower tax rate is applied to non-cash assets</td>
<td></td>
</tr>
<tr>
<td><strong>Prevention of Base Erosion – Subpart F</strong></td>
<td></td>
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<tr>
<td>IRC §163(j) interest expense</td>
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<td></td>
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<tr>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Border Adjustability of Tax Base</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>· Accelerate Imports</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>· Defer Export Sales</td>
<td></td>
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</tbody>
</table>

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Next Steps
Next Steps

• Deloitte can assist with tax reform readiness by tailoring a broad-based approach to address our Clients’ tax planning objectives. This may include:
  o Analyzing Clients’ current tax position (TI, credits, DTAs, etc.);
  o Assisting Clients in modeling anticipated effects of tax reform at federal, international, and state level;
  o Addressing the ASC 740 impacts of reform (for non-attest Clients only due to independence limitations);
  o Reviewing global mobility policies and talent strategy in light of potentially reduced tax rates and potential changes in US policy around offshore manufacturing and augmented border entry efforts;
  o Helping to identify and model out potential tax planning considerations, both immediate and longer-term, under various proposals; and
  o Assisting Clients to prioritize implementation plans

• To get started, Deloitte proposes to perform an initial assessment phase, in which we will:
  o Gather some preliminary information from the company;
  o Establish clients’ key tax planning objectives around reform;
  o Perform an initial impact analysis;
  o Identify potential corporate rate reduction and E&P/FTC considerations that can be implemented on the 2016 return; and
  o Prepare a deliverable outlining the initial design of a readiness plan for your consideration
Appendix
Note:

- Certain aspects of the Tax Reform Model may not be available for use on attest clients due to independence limitations.
- Hypothetical tax calculation only—the use of the Tax Reform Model is not a substitute for a full analysis of the potential tax and financial accounting consequences of any possible Proposal.
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### Effective Tax Rates

<table>
<thead>
<tr>
<th>Attributes</th>
<th>CY</th>
<th>CY + 1</th>
<th>CY + 2</th>
<th>CY + 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income tax using the U.S. statutory rate</td>
<td>15.0%</td>
<td>15.0%</td>
<td>15.0%</td>
<td>15.0%</td>
</tr>
<tr>
<td>State taxes</td>
<td>3.5%</td>
<td>3.5%</td>
<td>3.5%</td>
<td>3.5%</td>
</tr>
<tr>
<td>Effect of tax rates in foreign jurisdictions</td>
<td>0.8%</td>
<td>0.8%</td>
<td>0.8%</td>
<td>0.8%</td>
</tr>
<tr>
<td>Non-deductible Expenses</td>
<td>0.5%</td>
<td>0.5%</td>
<td>0.5%</td>
<td>0.5%</td>
</tr>
<tr>
<td>Tax incentives not recognized in the income statement</td>
<td>-16.3%</td>
<td>-16.3%</td>
<td>-16.3%</td>
<td>-16.3%</td>
</tr>
<tr>
<td>Other</td>
<td>5.4%</td>
<td>5.4%</td>
<td>5.4%</td>
<td>5.4%</td>
</tr>
<tr>
<td>Total before Tax Reform impact of Discrete Items</td>
<td>9.0%</td>
<td>9.0%</td>
<td>9.0%</td>
<td>9.0%</td>
</tr>
<tr>
<td>Tax Reform Impact of CY Items on Rate</td>
<td>8.8%</td>
<td>18.7%</td>
<td>13.3%</td>
<td>7.5%</td>
</tr>
<tr>
<td>Tax Reform Impact of Changes to DTA/DTLs on Rate</td>
<td>12.0%</td>
<td>11.6%</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Total Effective Tax Rate after Tax Reform</td>
<td>29.8%</td>
<td>38.3%</td>
<td>22.3%</td>
<td>16.8%</td>
</tr>
</tbody>
</table>
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