

# *U.S. Tax Seminar Updates & Developments*

Avram Metzger, Tax Partner, PwC U.S.

Yair Zorea, Tax Partner, PwC Israel

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# *Agenda*



- Current tax reform proposals
- State Aid
- New U.S. Model Income Tax Treaty
- Luxembourg – U.S. Dual Income Tax Treaty

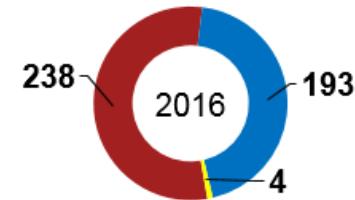
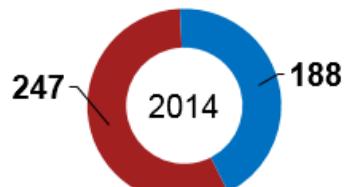
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# *Current tax reform proposals*

# ***2016 elections provide new balance of power with Republican control of White House and Congress***

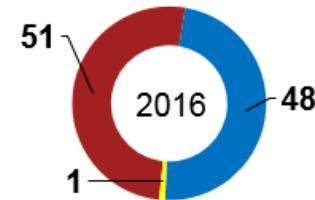
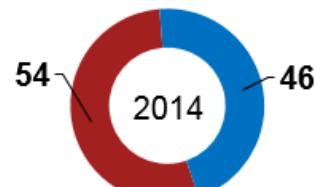
***2016 Elections – final results as of Nov. 10, 10 AM ET***

**US House**

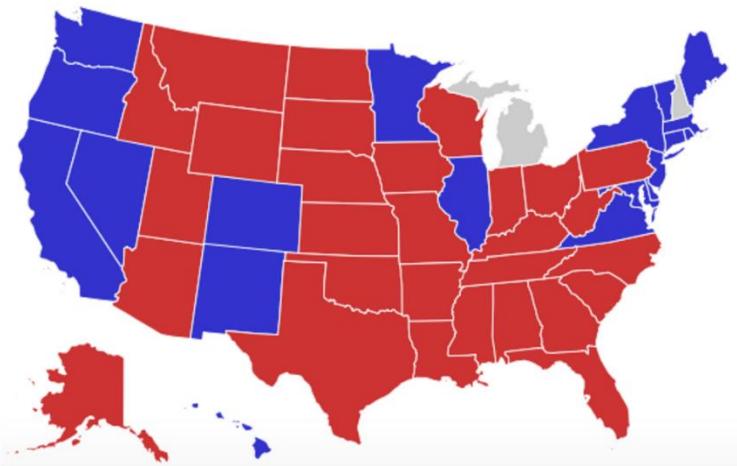


	2014	2016
Republicans	247	238
Democrats	188	193
Undecided	4	4
<b>2016 Net change</b>		<b>House Ds +6</b>

**US Senate**



	2014	2016
Republicans	54	51
Democrats*	46	48
Undecided	1	1
<b>2016 Net change</b>		<b>Senate Ds +2</b>



***2016 electoral college results (270 required to win):***

**Trump**  
**290**

**Clinton**  
**228**

# ***Current tax reform proposals – Selected items***

## President-elect Donald Trump

- Lower individual tax rates, with three brackets: 12%, 25% and 33%
- 20% top capital gains tax rate, with repeal of ACA 3.8% net investment tax
- 15% rate on business income, for C corporations and pass-through business entities
- End deferral of tax on foreign earnings and retain foreign tax credits
- 10% one-time deemed repatriation tax

## House GOP Blueprint

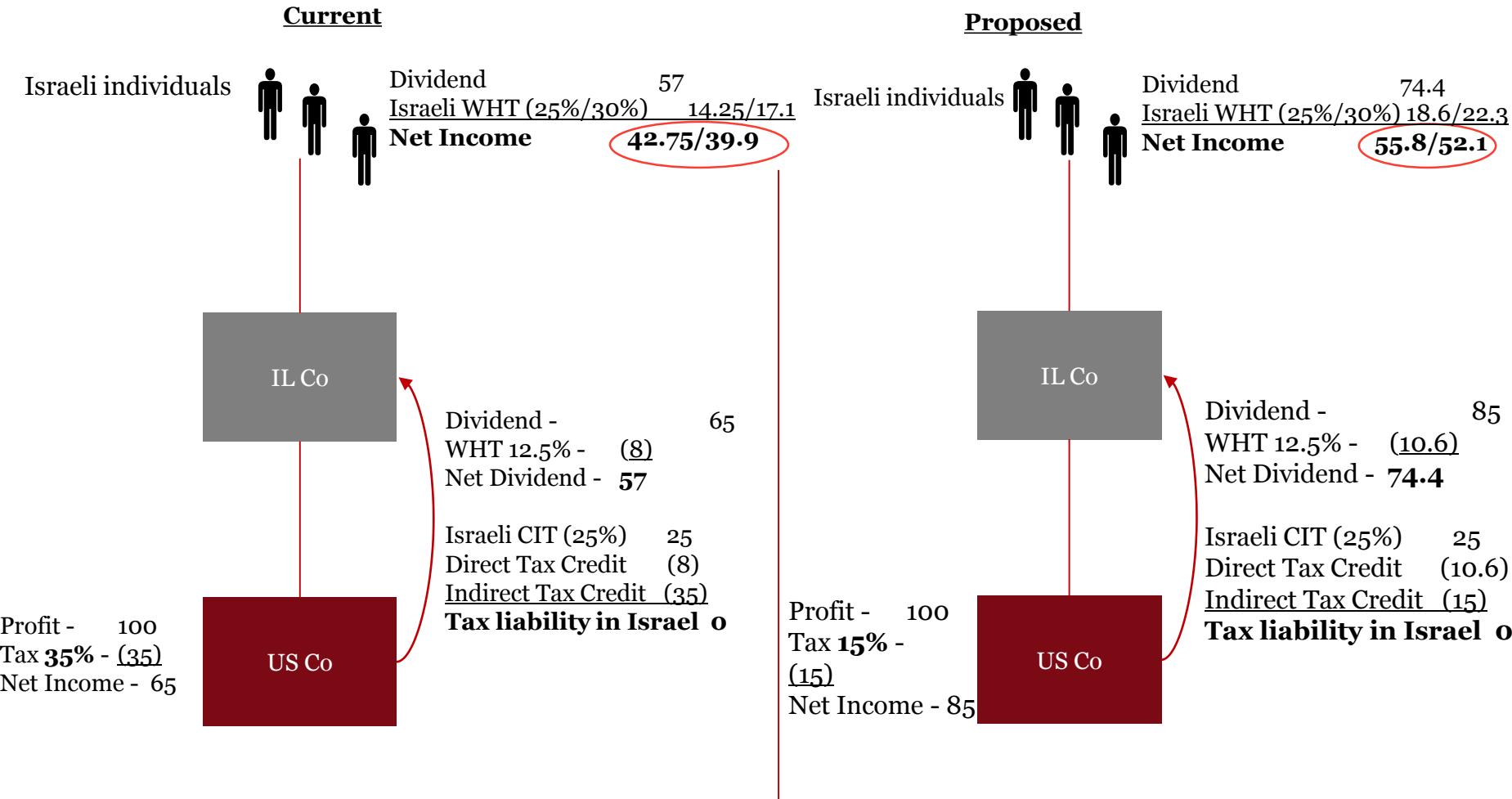
- Lower individual tax rates, with three brackets: 12%, 25% and 33%
- 50% exclusion for capital gains, dividends and interest (16.5% top rate)
- 20% corporate tax rate, with 25% rate for pass-through businesses
- Border-adjustable 100% expensing for equipment and real property
- No deduction for business net interest expense
- 100% territorial dividend exemption
- Subpart F FPHCI (passive income) is retained; remainder is repealed
- Deemed repatriation tax: 8.75% cash / 3.5% other

## Senate Finance Committee

- Senate Finance Committee Chairman Orrin Hatch (R-UT) and his staff have been working on a detailed corporate integration proposal that could be considered as part of reform efforts.
- Finance Committee Ranking Member Ron Wyden (D-OR) has released detailed statutory tax reform discussion drafts addressing cost recovery rules and the tax treatment of derivatives.
- Senator Wyden also is working on legislation to address corporate ‘inversions’

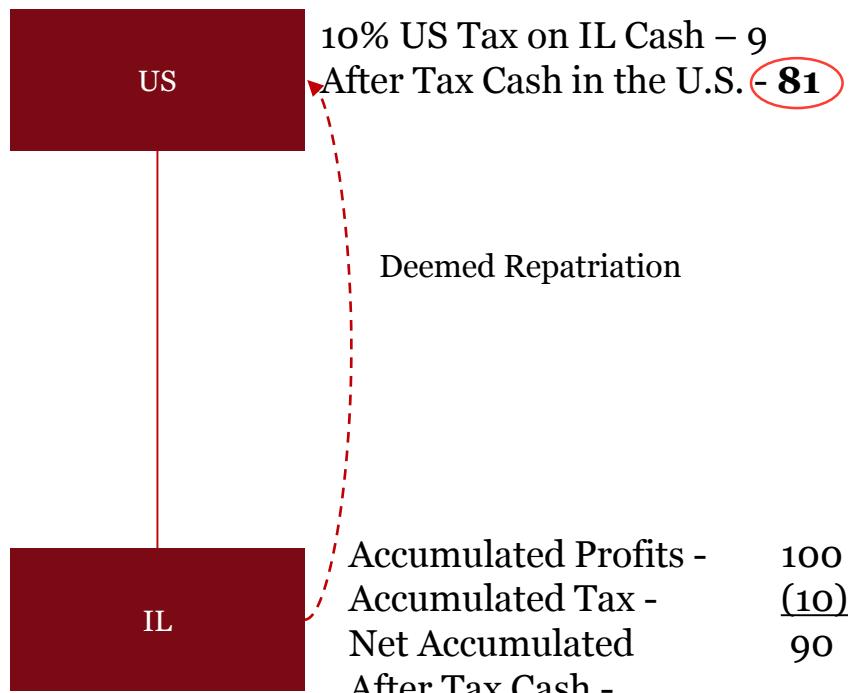
# Current tax reform proposals (con't)

Reduction of corporate tax rate to a flat rate of 15% (Trump) /20% (Republican Party Blue Print)

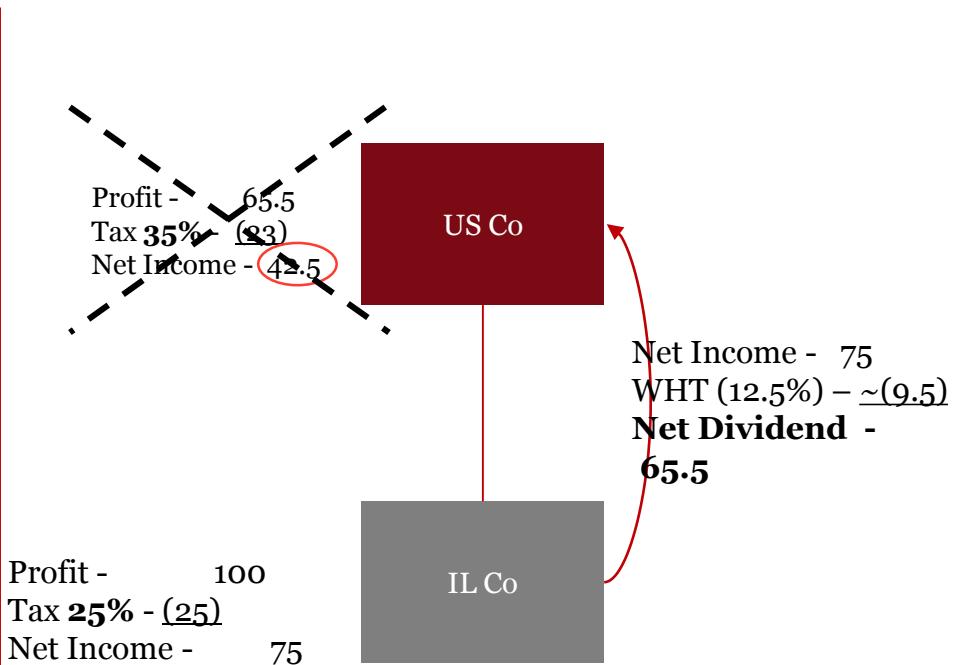


## Current tax reform proposals (con't)

### One-time deemed repatriation tax



### 100% tax exemption with respect to dividends from foreign subsidiaries



## ***Current tax reform proposals (con't)***

**Border adjustable:** no deduction for cost of imported goods and services; no tax on receipts from exported goods and services

ABC Inc.

<b>Revenue</b>	<b>Current</b>	<b>Proposed</b>
US Income associated with US COGS	1,000	
US Income associated with Non-US COGS	750	
US COGS	500	
Non- US COGS	400	
US gross profits associated with US COGS	500	500
US gross profits associated with Non-US COGS	350	750
<b>Total taxable income</b>	<b>850</b>	<b>1,250</b>

## ***Current tax reform proposals (con't)***

Consolidation of the current seven tax brackets into three and overall reduction of tax rates

Current		Proposed	
Rate	Single Filer	Rate	Single Filer
<b>10%</b>	0 - 9,225	<b>12%</b>	0 - 37,500
<b>15%</b>	9,275 - 37,650	<b>25%</b>	37,500 - 112,500
<b>25%</b>	37,650 - 91,150		
<b>28%</b>	91,150 - 190,150		
<b>33%</b>	190,150 - 413,350		
<b>35%</b>	413,350 - 415,050	<b>33%</b>	112,500+
<b>39.6%</b>	415,050+		

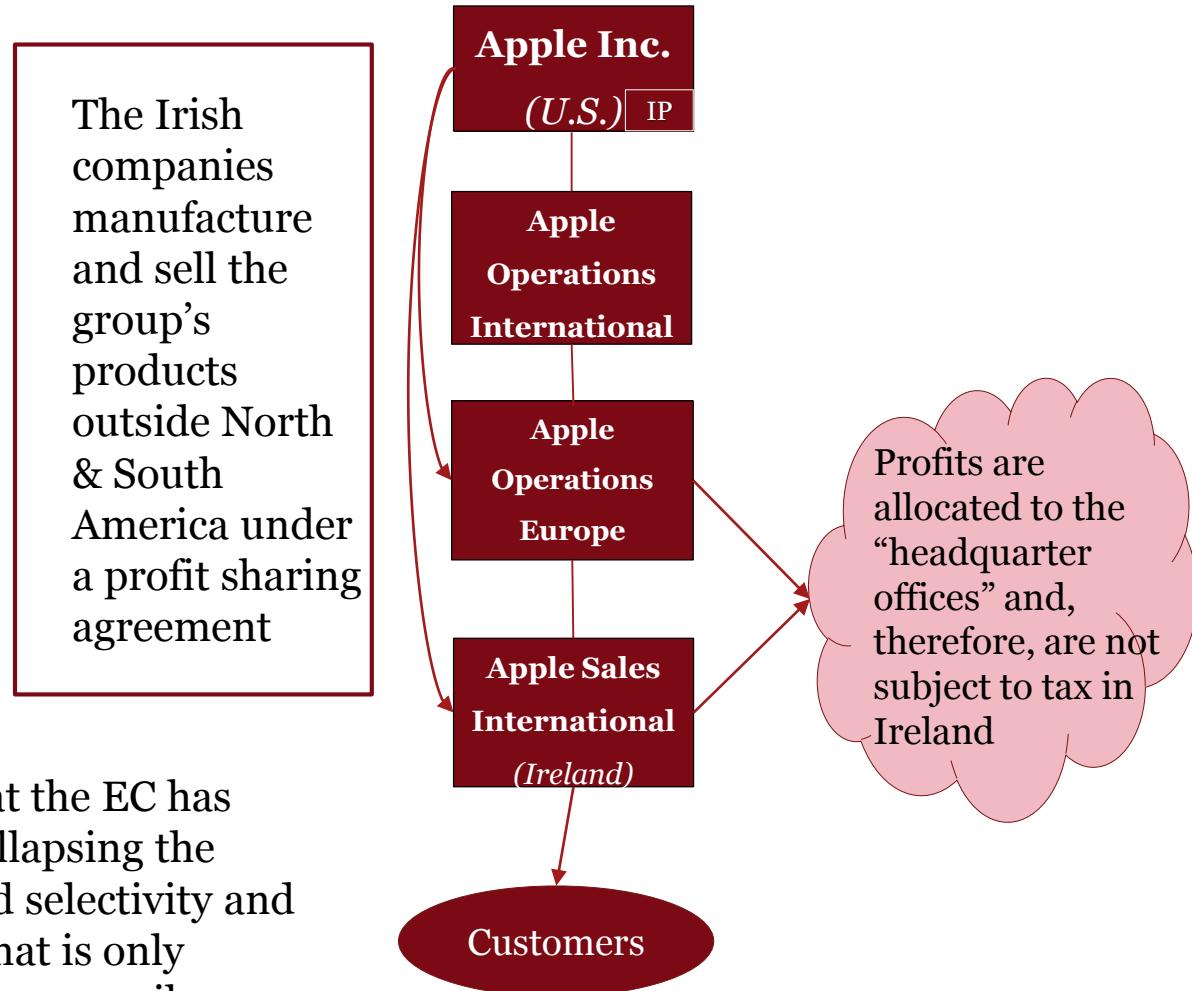
# *State Aid*

# ***The European Commission Decision - Apple***

## **The EC Decision**

- ✓ The rulings were selective and thus, constituted unlawful state aid
- ✓ Apple paid effective corporate income tax which was reduced from 1% in 2003 to 0.005% in 2014
- ✓ EC ordered Ireland to recover from Apple € 13 billion

The Irish companies manufacture and sell the group's products outside North & South America under a profit sharing agreement



## **Treasury White Paper**

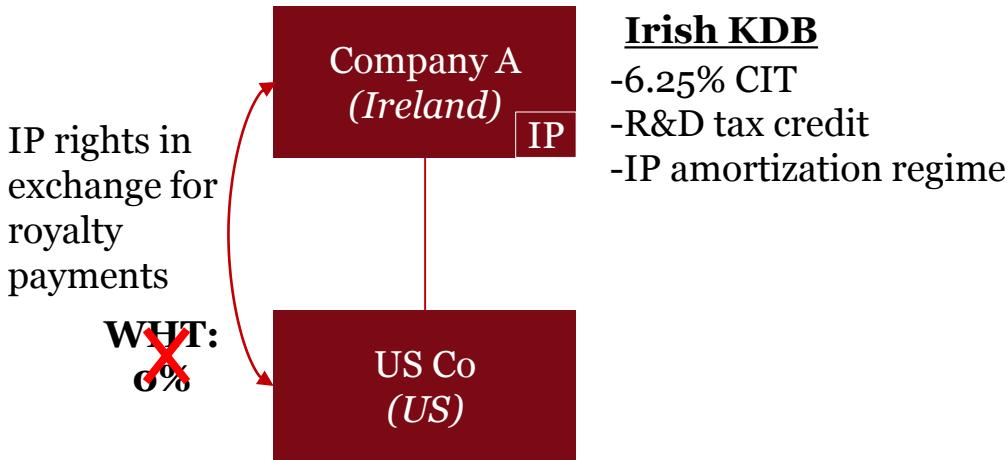
- ✓ The US Treasury considers that the EC has adopted a new approach by collapsing the requirements of advantage and selectivity and by considering an advantage that is only available to multinationals as necessarily selective.

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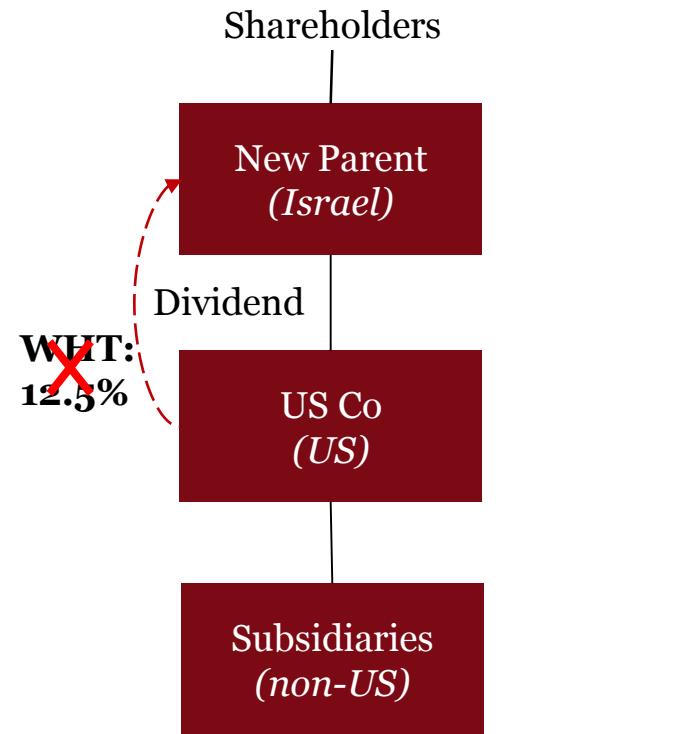
# *New U.S. Model Income Tax Treaty*

# New U.S. Model Income Tax Treaty

**Limiting treaty benefits for income subject to certain preferential tax regimes**



**Limiting treaty benefits for payments made by inverted companies to related persons**



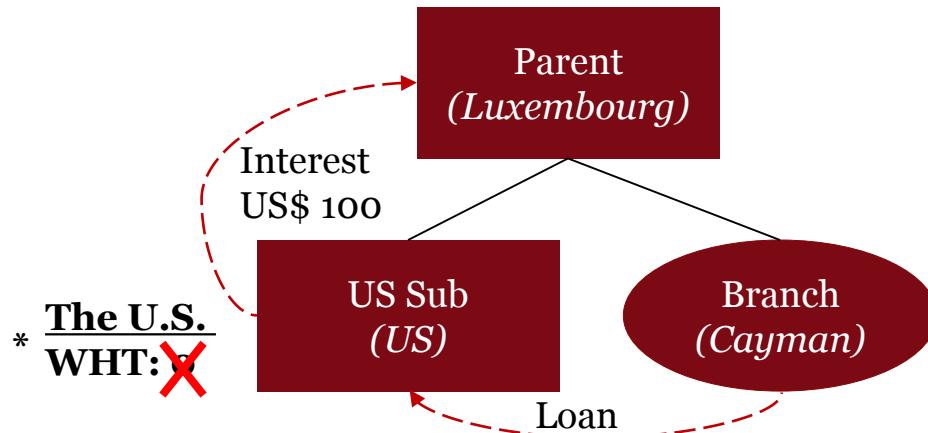
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# *Luxembourg – U.S. Dual Income Tax Treaty*

# **Luxembourg – U.S. Dual Income Tax Treaty**

## Luxembourg

- Income: US\$ 100
- The foreign branch's income is exempt from tax



## The U.S.

- CIT: 35%
- Expense: US\$ 100
- Tax Saving: US\$ 35

## Cayman

- Income: US\$ 100
- CIT: 0%

**\* Pending Senate Ratification**

# **Thank You!**

***Avram Metzger, Tax Partner, PwC U.S.***

[Avram.s.Metzger@us.pwc.com](mailto:Avram.s.Metzger@us.pwc.com)

Tel: (646) 471-7469

***Yair Zorea, Tax Partner, PwC Israel***

[Yair.Zorea@il.pwc.com](mailto:Yair.Zorea@il.pwc.com)

Tel: 03-795-4465

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