Navigating Through Change

US Tax Reform at a Glance

The 2017 tax reform reconciliation act is the most comprehensive US tax legislation in 31 years. Here, we highlight key provisions and answer some questions regarding the new legislation and how it will impact Singapore businesses, including those investing and operating in the United States and abroad.

12 Highlights for businesses to consider

- **Reduced** Corporate tax rate reduced from 35% to 21% (effective for tax years beginning after 31 December 2017)
- **Repeal** of the corporate alternative minimum tax (AMT)
- **NOL usage limited to 80% of income** with indefinite carryforward. No carryback
- **100% expensing of capital investments** subject to certain limitations
- **Interest expense deduction** limited to 30% of adjusted taxable income (ATI) (roughly equivalent to EBITDA/EBIT)
- **One-time ‘toll tax’** on undistributed, non- previously taxed post-1986 earnings and profits (E&P) of certain US-owned foreign corporations
- **100% Dividend received deduction** for US corporations for dividends received from certain foreign corporation
- **Add-on minimum tax** for certain US corporations with deductible related party payments (i.e., “base eroding payments”)
- **Tax** on global intangible low-taxed income (GILTI)
- **30% withholding tax remains** applicable on US source payments related to fixed, determinable, annual periodical (FDAP) income
- **US deductions for foreign-derived intangible income (FDII)**
- **Controlled foreign corporation definition** widened leading to increasing reporting requirements
- **30%**
How it affects

**Tax**
- Model out tax reform impacts on current structures (consider BEAT, GILTI, FDII, full expensing, bonus depreciation, toll tax, etc.)
- Review existing cross-border transactions; consider business restructurings/pricing alternatives to mitigate BEAT impact
- Consider global value chain functions (procurement, sales, R&D, regional HQs and related party transaction)
- Consider existing financing structures, external and intercompany; model out potential impact of interest deduction limitation on cost of capital

**Assurance**
- Tax effects of changes in tax laws or rates should be recognised in the period in which the law is enacted (bill was signed into law 22 December 2017)
- Consider changes to internal controls to monitor required changes in processes, controls, data needs, and systems
- Tax accounting under US GAAP and IFRS is largely similar however certain provisions may be evaluated differently

**Deals**
- Intent is to stimulate US economic growth and increase employment
- US becomes more attractive as a hub for operations and export of goods and services while the cash repatriation to the US should improve financing for acquisitions/US capital projects
- Incentive to move research and development (R&D) and intellectual property (IP) to the US
- Reshape legacy inertia of corporate America to park earnings offshore
- Targets may need to be revalued/reassessed for a more optimal mix of projects (global vs domestic)
- Cash management and planning becomes a priority to meet toll charge obligation over next 8 years

**Financial Accounting Standards Board (FASB) indicated the tax liability on the toll tax payable should not be discounted although it can be paid over an extended period of time on an interest-free basis**

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