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
35%
21%

Corporate tax rate reduced from **35% to 21%** (effective for tax years beginning after 31 December 2017)

Repeal

Repeal of the corporate alternative minimum tax (AMT)

80

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)**

US deductions for **foreign-derived intangible income (FDII)**

Controlled foreign corporation definition widened leading to **increasing reporting requirements**

30% withholding tax remains applicable on US source payments related to fixed, determinable, annual periodical (FDAP) income

30%

pwc

How it affects

Tax

Model out tax reform **impacts on current structures** (consider BEAT, GILTI, FDII, full expensing, bonus depreciation, toll tax, etc.)

Evaluate global IP in relation to practical business operations/ supply chain management, market proximity

Review existing cross-border transactions; consider **business restructurings/ pricing alternatives** to mitigate BEAT impact

Consider existing financing structures, external and intercompany; model out **potential impact of interest deduction limitation** on cost of capital

Consider **global value chain functions** (procurement, sales, R&D, regional HQs and related party transaction)

Consider impact of **30% US withholding tax** on various items of income (dividend, interest, royalties)

Deals

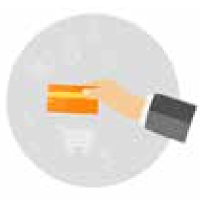
Intent is to stimulate **US economic growth** and increase **employment**

Reshape legacy inertia of corporate America to **park earnings offshore**

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

Targets may need to be **revalued/ reassessed** for a more optimal mix of projects (global vs domestic)

Incentive to move **research and development** (R&D) and **intellectual property** (IP) to the US



Cash management and planning becomes a priority to meet toll charge obligation over next 8 years

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)

Effect reported discretely as part of tax expense or benefit in continuing operations, regardless of the category of **income or loss** to which deferred taxes relate

Existing valuation allowances on **AMT credit carryforwards** may be released since the asset is fully refundable

Consider changes to **internal controls** to monitor required changes in processes, controls, data needs, and systems

Companies should evaluate changes to **systems and processes** to comply with new US tax laws including tracking tax attributes and additional tax obligations as relevant

Tax accounting under US GAAP and IFRS is largely similar however certain provisions may be evaluated differently

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

Companies may have interest limitations and an **additional DTA** for interest carryforwards. Record a **tax payable** for the toll charge regardless of whether any actual remittance of funds to the US occurs

Deferred tax assets (DTAs) for NOL should be measured at the applicable tax rate in effect when the NOL is expected to be utilised; **the 80% limitation** and changes to the carryforward/carryback period can impact valuation allowance assessments for NOLs generated after 31 December 2017

Contact us

Allison Cheung
Partner, Corporate Tax Advisory
+65 6236 7428
allison.cheung@sg.pwc.com

Nikki Mullins
Senior Manager
+65 9626 6053
nikki.mullins@sg.pwc.com