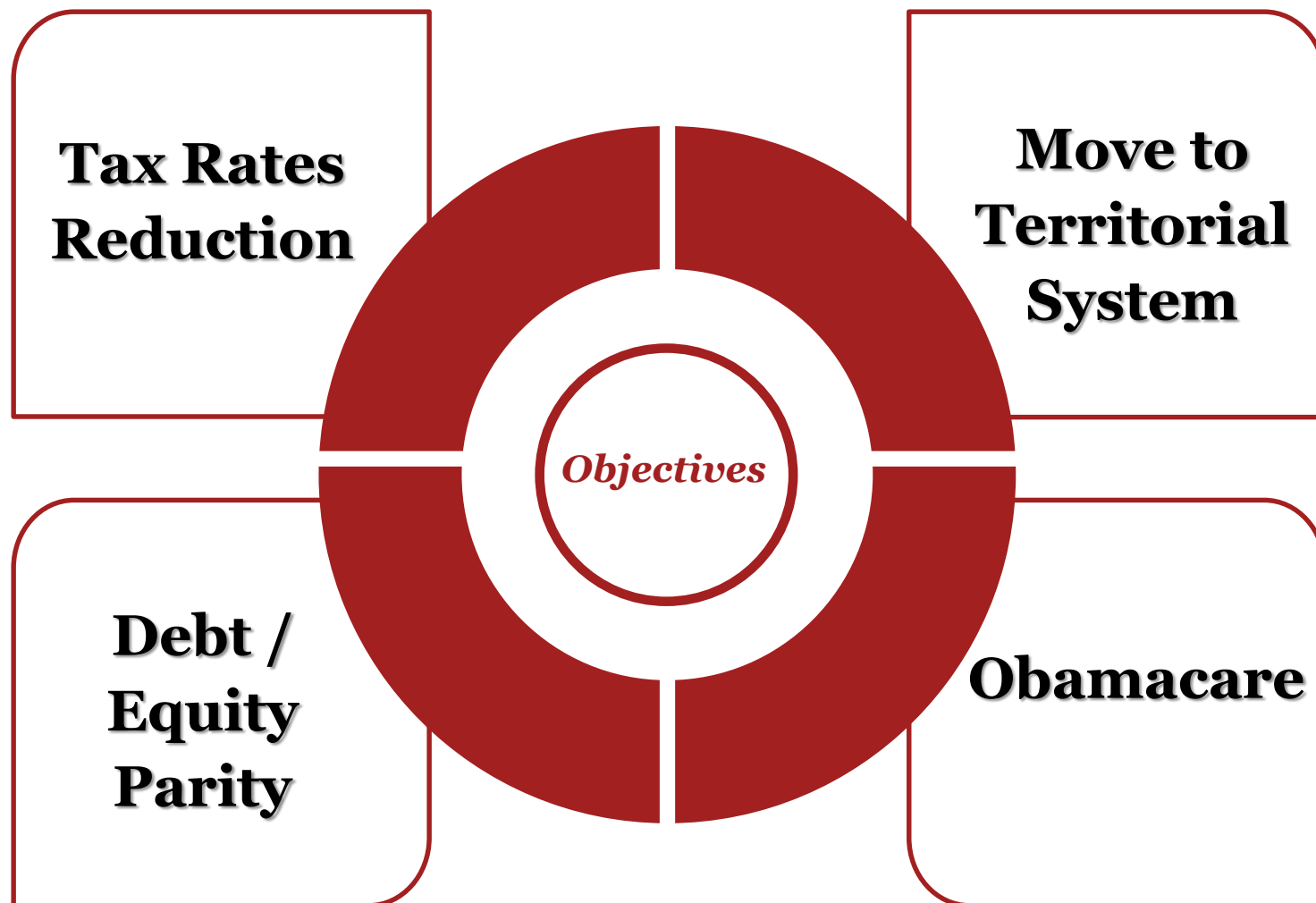


U.S. Tax Reform

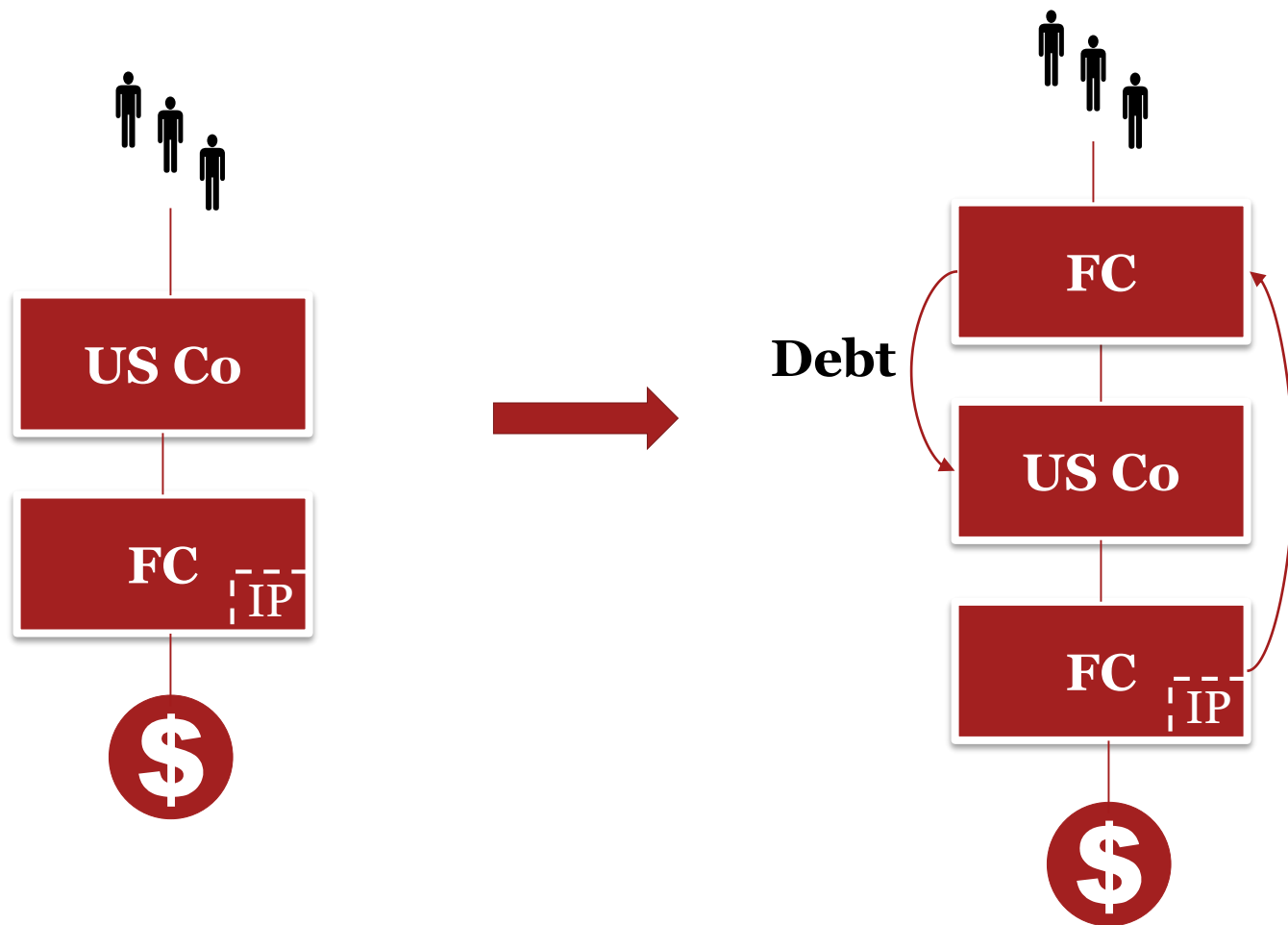
PwC Israel

April 2018

Tax Reform - Objectives



Tax Reform – Problem Presented



Agenda

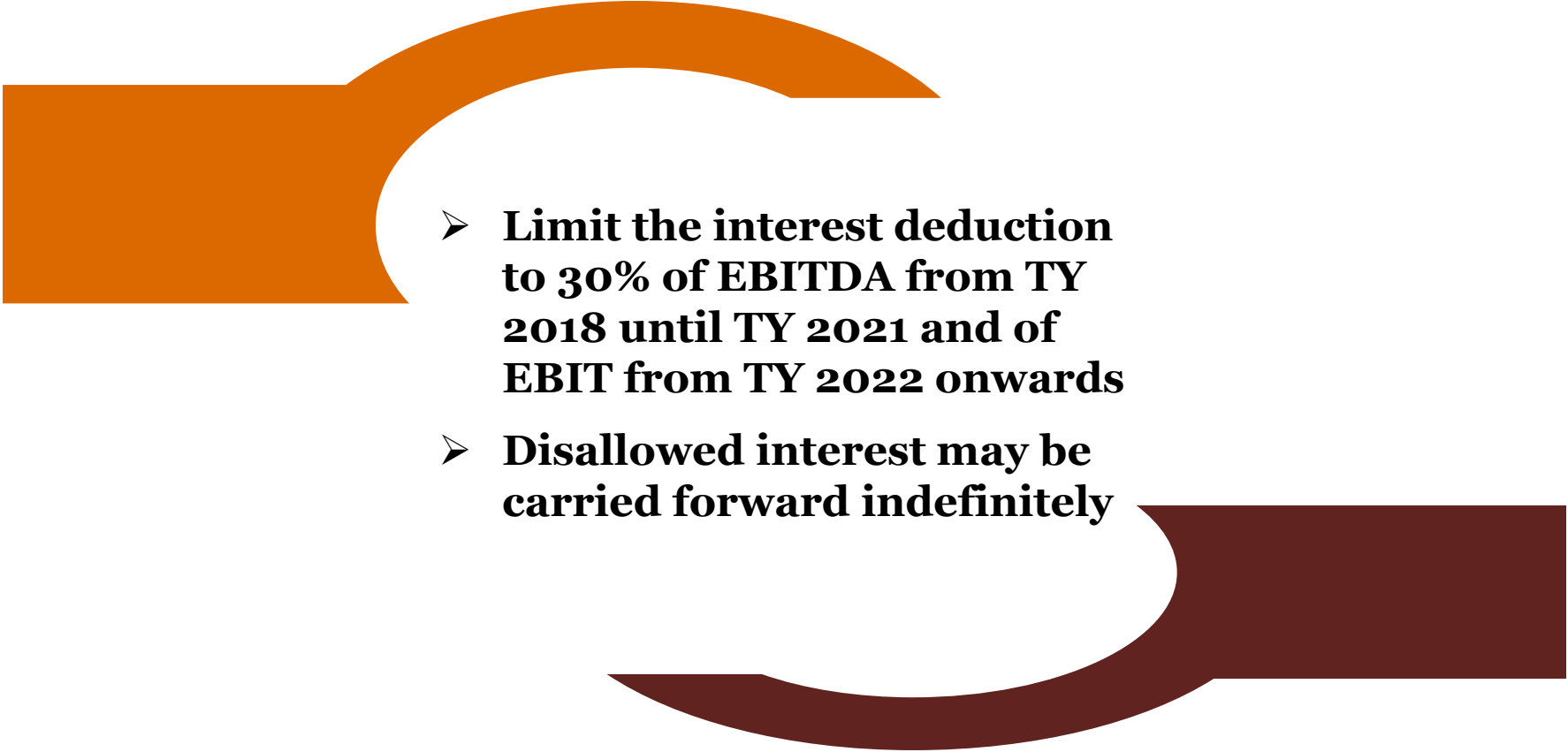
- 1. Corporate Tax System & Financial Statements Considerations**
- 2. Interest Deduction Limitations**
- 3. Base Erosion and Anti Abuse Tax (BEAT)**
- 4. Territorial System & Toll Charge**
- 5. Global Intangible Low-Taxed Income (GILTI) & Foreign Derived Intangible Income (FDII)**
- 6. Other Key Items**



Corporate Tax System

- **Corporate income tax rate will be reduced to 21% (effective as of January 1, 2018)**
- **Corporate Alternative Minimum Tax (AMT) will be repealed**
- **Net operating losses (NOLs) will be limited to 80% of taxable income**
- **NOLs will be carried forward, but not carried back**
- **Impact on financial statements for FY 2017 (effective as of signing by President Trump)**

Interest Expense Deduction

- 
- **Limit the interest deduction to 30% of EBITDA from TY 2018 until TY 2021 and of EBIT from TY 2022 onwards**
 - **Disallowed interest may be carried forward indefinitely**

Interest Expense Deduction (Cont.)

Taxable Income	\$70
Total Interest Expense (paid to related and unrelated parties)	\$50
Depreciation	\$10
Adjusted Taxable Income (EBITDA)	$\$70 + (\$50 + \$10) = \130
30% of Adjusted Taxable Income	$\$130 * 30\% = \39
Disallowed Interest Expense	$\$50 - \$39 = \text{\textcolor{red}{\$11}}$

Base Erosion and Anti Abuse Tax (BEAT)

- Taxation of payments paid or accrued by a U.S. taxpayer to a related party foreign person
- Base Erosion Payments are payments with respect to which a deduction is allowable (*e.g.*, interest, royalties and management fee, *etc.*) and payments for depreciable / amortizable property
- Tax liability at a rate of 5% in TY 2018 and 10% in the following tax years on gross amounts



Base Erosion and Anti Abuse Tax (BEAT)

“Regular” Taxable Income	\$100
Base Erosion Payments	\$120
Modified Taxable Income	\$220
10% of Modified Taxable Income	\$22
“Regular” Corporate Tax Liability	\$21
BEAT	$\$22 - \$21 = \text{\textcolor{red}{\$1}}$

- The BEAT will apply with respect to payments made by U.S. companies with an average annual gross receipts in excess of \$500 million

Territorial Tax System & Toll Charge

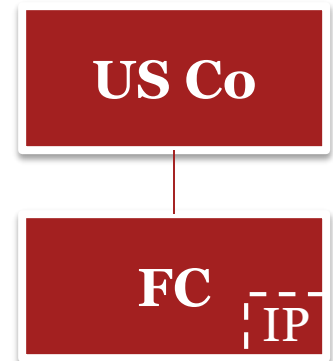


- **Moving to a territorial system**
- **100% foreign dividend exemption**
- **No repeal of CFC rules**
- **One-time repatriation “toll charge”**

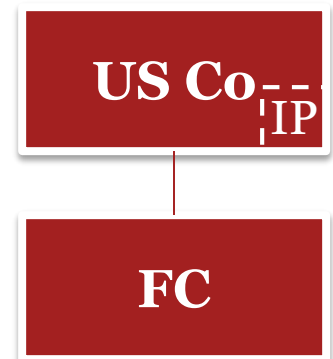
Global Intangible Low-Taxed Income (GILTI) & Foreign Derived Intangible Income (FDII)

➤ **GILTI = CFC income in excess of 10% return on tangible assets**

- ✓ The GILTI will be subject to an effective tax rate of 10.5%
- ✓ 80% of foreign tax credit will be allowed (*i.e.*, if the tax rate with respect to the income of the CFC in the foreign country is higher than 13.125%, the GILTI should not be taxed)



➤ **FDII – an incentive to own IP in the U.S.**



Other Key Items

Topic	Proposal
Cost Recovery (expensing) & Section 199	▪ Immediate expensing in certain rates for investments made after September 27, 2017 and before January 1, 2028 ▪ Repeal of the deduction allowed for domestic production activities under Section 199
Individual Income Tax Rates	Seven tax brackets — 10%, 12%, 22%, 24%, 32%, 35%, and 37% (in TY 2018 through TY 2025)
Pass-Through Entities	Owners of pass-through entities (<i>e.g.</i> , S corporations, partnerships, LLC, <i>etc.</i>) will be eligible for a 20% deduction on their business income (in TY 2018 through TY 2025)
Estate Tax	The exemption will be doubled to estates worth \$ 11 million for individuals and \$ 22 million for married couples (in TY 2018 through TY 2025. Following TY 2025 the exemption will revert to the previous amounts)

Thank You!

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