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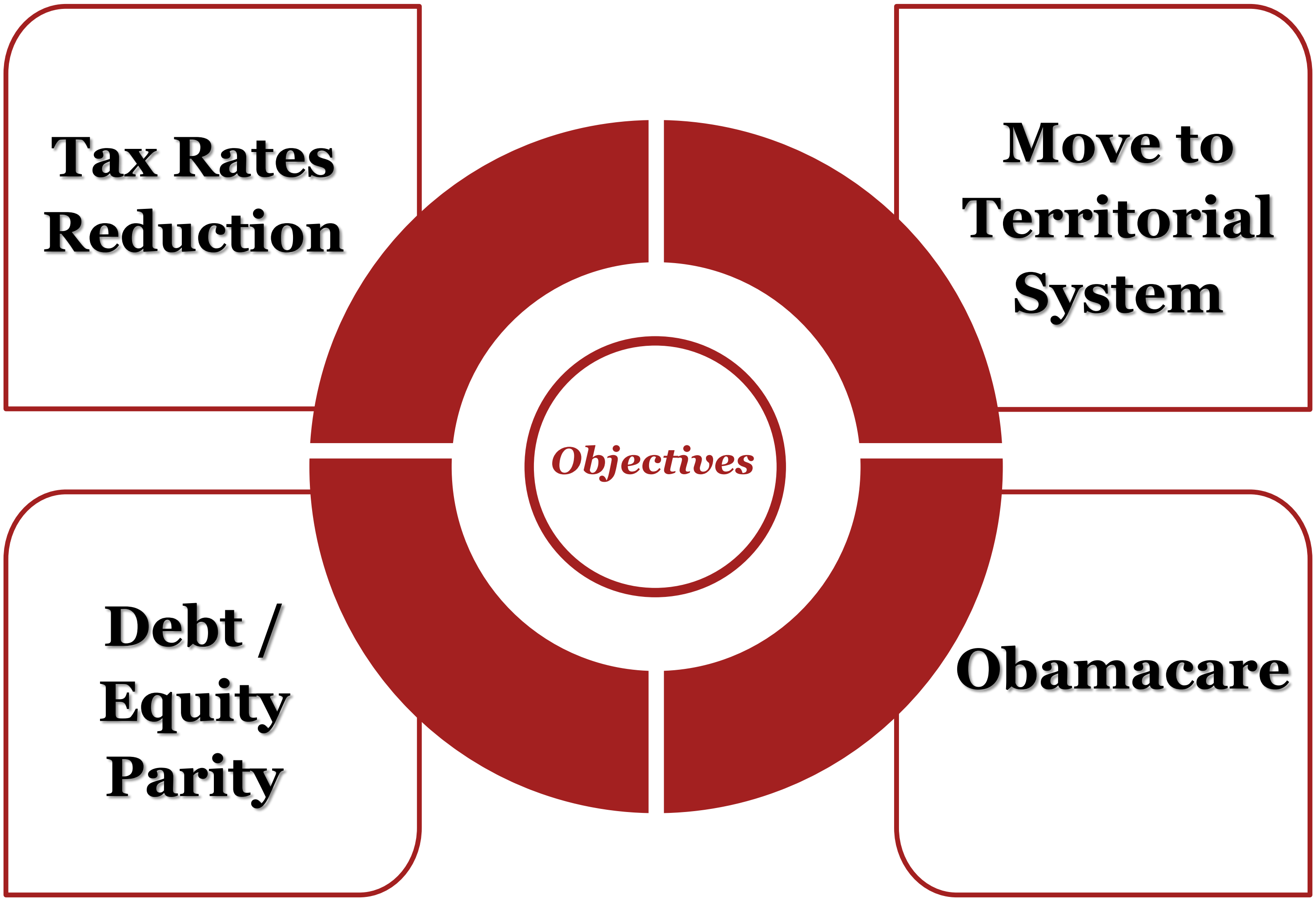
U.S. Tax Reform

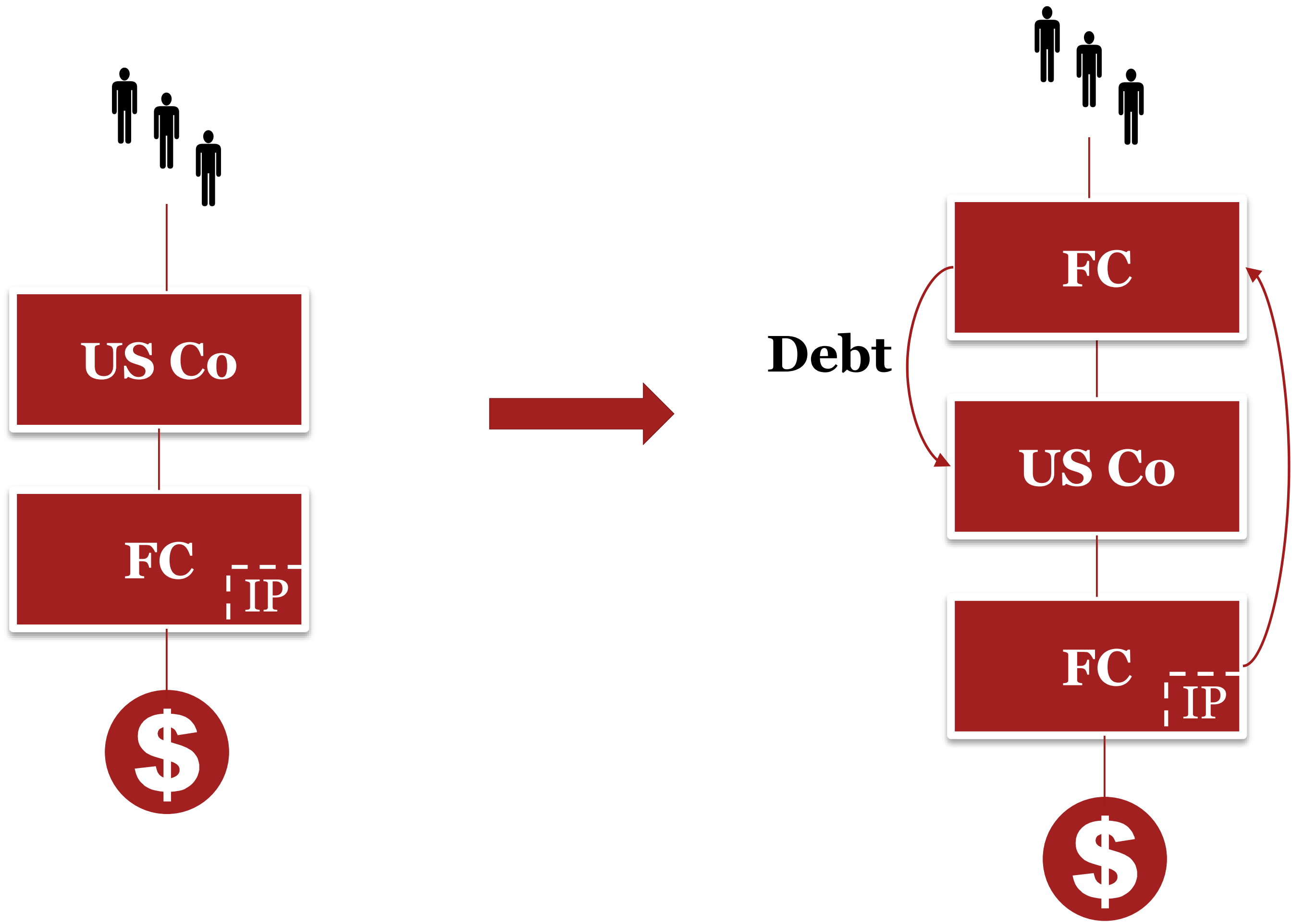
PwC Israel

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- **Corporate Alternative Minimum Tax (AMT) will be repealed**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 = **$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 = **$1**

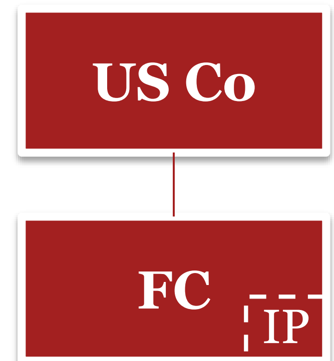
- The BEAT will apply with respect to payments made by U.S. companies with an average annual gross receipts in excess of $500 million

Territorial Tax System & Toll Charge

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

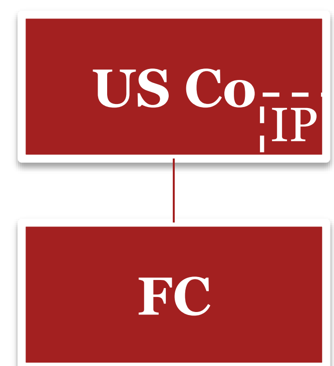
Global Intangible Low-Taxed Income (GILTI) & Foreign Derived Intangible Income (FDII)

- **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 (*e.g.*, S corporations, partnerships, LLC, *etc.*) 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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