



U.S. TAX REFORM – TAX CUTS AND JOBS ACT
Tax Reform & Supply Chain

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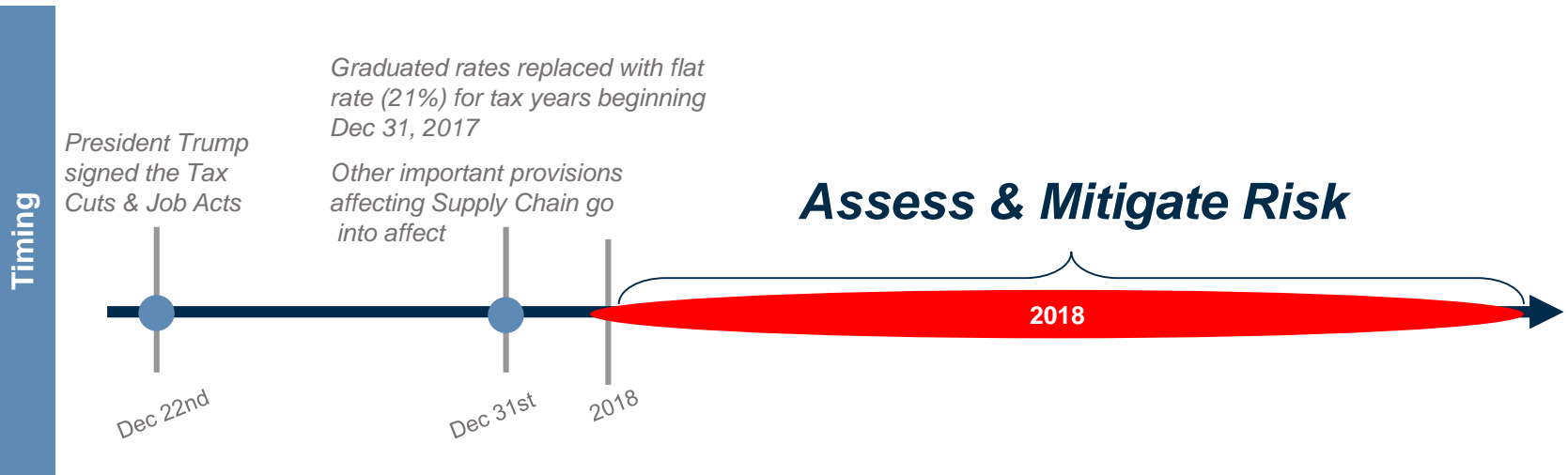


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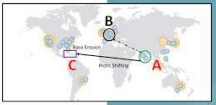

Tax Reform | Overview

Tax Reform Could Have Significant Impact On The U.S. Taxation of Global Supply Chains

	Pros	Cons
Key Impacts	<ul style="list-style-type: none">▪ Reduction in U.S. Corporate tax rate (35% to 21%).▪ Immediate expensing of certain capital expenditures (does not include real property).▪ Special U.S. deductions may be available for U.S. Corporations that provide services or sell goods to foreign customers.▪ U.S. Corporations may repatriate earnings from foreign subsidiaries without paying U.S. tax.	<ul style="list-style-type: none">▪ Certain payments made by U.S. Corporations to foreign related parties may be subject to U.S. tax.▪ U.S. parented organizations may be subject to a U.S. minimum tax on profits which are taxed at low foreign rates.▪ U.S. Corporations may be denied interest deductions for interest paid to banks and related parties.



Tax Reform | Key Changes Impacting Supply Chain

Tax Law Change	Type of Company Affected & Key Stakeholder	Primary Industry Sectors	Potential Impact
<p>Limitations on Interest Expense Deductions</p> 	<p>US Corporations w/ Debt <i>CFO, Controller, Treasury</i></p>	 <p>ALL INDUSTRIES</p>	<ul style="list-style-type: none"> - Loss of Interest deductibility - Decrease in cash available for CapEx Spend, M&A and Working Capital - Reduced Efficiencies of current capital structures
<p>Immediate Deductions for CapEx Spend</p> 	<p>US Corporations w/Planned CapEx spend of over next five years <i>CFO, COO, Controller, Procurement</i></p>	 <p>Auto Manufacturing Energy Telcos</p>	<ul style="list-style-type: none"> - Reduce taxable income in year of CapEx spend - Increase in cash available for M&A and Working Capital - Competitive advantage against companies with lower or foreign CapEx spend
<p>Penalty Tax on Certain Payments to Related Parties</p> 	<p>U.S and Foreign based Multi-Nationals where taxpayers with annual U.S. gross receipts in excess of \$500M (3-year average) <i>CFO, COO, Controller, Procurement</i></p>	 <p>Engineering Services Technology Life Sciences</p>	<ul style="list-style-type: none"> - Increased taxes & compliance burden - Decrease in free Case Flow - Competitive disadvantage in using internal Supply Chain

Tax Reform | Supply Chain Considerations

FOUR ASPECTS INFLUENCE AN ORGANIZATION'S SUPPLY CHAIN:



CUSTOMERS



OPERATIONS



LOCAL OF ASSETS
(PERSONNEL)



LOCATION OF IP
(MANUFACTURING)

Considerations of the effect of tax reform on supply chain is critical. Organizations should model the impact of US tax law changes and assess alternatives to improve results.

Public and private companies with audited financials are required to report the impact of tax reform in their financial statements and will need tax advisory assistance to do so.

Most Impactful Corporate Provisions - A&M Tracker

TOPIC	CURRENT LAW
CORPORATE RATE REDUCTION	Corporate rate – 21%
PASS-THROUGH RATE REDUCTION	Lower rates applicable to income by individuals earned through partnerships, s-corporations, etc.
FULL CAPEX EXPENSING	Immediate 100% expensing of qualified capital expenditures
MODIFICATION OF NOL DEDUCTION	NOLs can only offset 80% of income, and NOL carrybacks are generally no longer allowable
LIMIT ON INTEREST DEDUCTIBILITY	Limits interest deductibility for businesses, subject to certain exceptions
PARTICIPATION EXEMPTION SYSTEM	Foreign dividends paid by a foreign corporation to a U.S. 10% corporate shareholder are exempt
TOLL CHARGE FOR HISTORICAL E&P	Taxable deemed distribution of historic foreign E&P to U.S. 10% shareholders
CFC – MODIFIED STOCK ATTRIBUTION RULES	U.S. corporations treated as constructively owning shares actually owned by their foreign shareholders
TAXATION OF CERTAIN FOREIGN HIGH RETURNS	U.S. shareholders subject to current U.S. tax on income of CFCs deemed attributable to intangibles
HOLDING PERIOD FOR CARRIED INTEREST	Three-year holding period to qualify for long term capital gain treatment for carried interest
BASE EROSION AND ANTI-ABUSE TAX (BEAT)	Tax on certain outbound payments to related parties
FOREIGN-DERIVED INTANGIBLE INCOME	Allows a deduction for foreign-derived intangible income and GILTI income inclusions, subject to limitations
HYBRID PAYMENT DEDUCTION LIMIT	Denies a deduction for disqualified related party amounts paid or accrued
DEFINITION OF IP AMENDED (OUTBOUND)	Revises the definition of IP and confirms the authority to require certain valuation methods
REPEAL OF CORPORATE AMT	Repeals corporate AMT
REPEAL ACTIVE TRADE OR BUSINESS EXCEPTION	This would repeal §367, disallowing nonrecognition for transfers of property to foreign corporations

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