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U.S. Tax Developments and Planning

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Agenda

- Tax Concepts/Trends
- US Corporate Tax Reforms
- Small Business Tax Reforms
- Opportunity Zones
- Individual Tax Reforms
- Tax Planning

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Top Marginal Corporate Tax Rates

- Ireland - 12.5%
- Hong Kong – 16.5%
- Singapore - 17%
- **USA (was 35%) / 21% -New Tax Act**
- United Kingdom – 19%
- Switzerland – 17.8%
- Netherlands – 25%
- Germany – 29.8%
- Canada - 26.5%
- Costa Rica - 30%
- Mexico - 30%
- Japan - 30.9%
- Belgium - 34%

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Top Marginal Individual Tax Rates

- Hong Kong – 15%
- Singapore - 20%
- Costa Rica - 15%
- Mexico - 35% (@ $160k)
- **USA (was 39.6%) / 37% -New Tax Act** (@ $500k)
- United Kingdom – 45%
- Switzerland – 40%
- Germany – 45%
- Canada - 54%
- Belgium - 50% (@$50k)
- Japan - 56%

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US Tax Facts

- Taxation based on Citizenship (Only other Eritrea)
- “Green-card” holders taxed as citizens
- Worldwide Taxation
- Must file tax returns
- Must report ownership of offshore entities
- Must report ownership of financial assets
- Foreign mutual funds, UK ISAs SICAVs taxable

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Global Trends

- Transparency Initiatives
- IRS Enforcement - International Tax “Compliance Campaigns”
- FATCA (USA)
- OECD Common Reporting Standards CRS (except USA)
- Transfer Pricing Initiatives
- Base Erosion & Profit Shifting (BEPS)

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Corporate Tax Reforms Under The New Tax Act

- US tax rules are moving away from a worldwide tax system in favor of a territorial system
- Adds complex tax rules and taxes on foreign income
- Similar to many European participation exemption regimes except just a dividend received reduction (DRD)
- Must hold a 10%+ interest /365 days in foreign sub.
- 0% Tax on qualifying dividends received

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Corporate Tax Reforms Under The New Tax Act

- Deemed repatriation tax was imposed (1987-2017 E&P)
- CFC and Subpart F regimes remain and are expanded
- US Federal tax rate for corporations has been cut to a **flat 21%**
- New GILTI provision will require a US shareholder in a CFC to include in income it’s pro rata share of the CFC’s “global intangible low-taxed income”

TAX CUTS & JOBS ACT
MORE *jobs* | FAIRER *taxes* | BIGGER *paychecks*

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Corporate Tax Reforms Under The New Tax Act

- GILTI is the excess of a US shareholders aggregate net income over a routine return of 10% of its share of the CFC's depreciable tangible property
- This is much broader than it may seem because the GILTI provision does not only catch intangible income it catches any income that is not derived from depreciable tangible property
- This will result in US owners of offshore Corps. loading up with depreciable tangible assets they don't need for their business to increase assumed 10% return and avoid the GILTI deemed repatriation

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Corporate Tax Reforms Under The New Tax Act

- The full amount of GILTI would be included in a US shareholder's income
- The GILTI provision catches any income that is not derived from depreciable tangible property
- This will result in US owners of offshore Corps. loading up with depreciable tangible assets they don't need for their business to increase assumed 10% return and avoid the GILTI deemed repatriation
- Corporate US shareholders would be allowed a deduction of 50% of GILTI
- Effective tax rate on GILTI income will be 10.5%
- Non-corporate US shareholders generally would be subject to full US tax on GILTI inclusions (effective tax rates)

Corporate Tax Reforms Under The New Tax Act

Other Provisions

- Foreign-derived intangible income - if a US Corp. earns profits offshore from intangible assets (including licenses and leases) that it owns, the Act provides 13.125% effective tax rate
- Base Erosion and Anti-Abuse Tax - The good news is that BEAT only applies to domestic corporations which are part of a group with average annual domestic gross receipts of more than $50 million

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Small Business Tax Reforms

- The new tax code makes a big change to the way pass-through business income is taxed. This includes income earned by sole proprietorships, LLCs, partnerships, and S corporations.
- Pass-through businesses will be able to deduct 20% of their pass-through income.
- There are phaseout income limits that apply to "professional services" business owners such as lawyers, doctors, and consultants, which are set at $157,500 for single filers and $315,000 for pass-through business owners who file a joint return.

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Opportunity Zone Program

- Investments in Opportunity Zones provide tax benefits to investors. Investors can elect to temporarily defer tax on capital gains that are reinvested in a Qualified Opportunity Fund (QOF). The tax on the gain can be deferred until the earlier of the date on which the QOF investment is sold or exchanged, or Dec. 31, 2026. If the investor holds the investment in the QOF for at least ten years, the investor may be eligible for a **permanent exclusion of any capital gain** realized by the sale or exchange of the QOF investment.

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Individual Tax Reforms Under The New Tax Act

- New seven-bracket structure with lower tax rates (10%,12%,22%,32%,35%,37%)
- Certain deductions are simplified
- Estate Tax Exemption - Now, for 2018, individuals get a $11.18 million lifetime exemption and married couples get to exclude $22.4 million. As you can probably imagine, this won't leave too many families paying the estate tax.
- Most tax changes are temporary -- they're set to expire after the 2025 tax year.
- No changes for US expats – taxation remains based upon citizenship

Tax Planning

- Consult with US citizen/green-card holder business owners
- Pre-immigration Tax Planning
- Consider Entity Classification Election
- Reporting of foreign financial assets and ownership of foreign businesses required
- Contact IAPA US Firm

Questions

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