



Special Alert: Now Tracking... Two Complex Bills

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As expected, the Senate Finance Committee released its initial tax reform proposal on Friday. Separately, the House Ways and Means Committee put out its final legislative markup (the night before). Yes, we now have two bills to evaluate. Thankfully, you will see many overlapping provisions. On the other hand, expect challenges following the legislation, as each chamber of congress is introducing its own unique game-changers, and both bills add a ton of new complexity for multinationals.

Alvarez & Marsal Taxand Says:

We suggest corporates use the chart below to monitor the international provisions of both bills.

We also recommend using high-level analytical tools to quickly assess the comparative impact of the bills through the remainder of the legislative process (as we are also doing with our clients).

And finally, we suggest corporates immediately identify potential year-end planning techniques and action items, especially considering the high likelihood and overlapping provisions of the bills.

New Bombshells from the Senate:

For those of you following our series, here are the most notable and unique surprises coming from the Senate:

- A delay of the corporate rate-drop (to 20%) until 2019;
- A special deduction aiming to reduce the U.S. tax rate to 12.5% on income from export sales and services attributable to intellectual property;
- A new penalty for corporates that expatriate: pay full tax on the toll-charge earnings;
- A tax-neutral mechanism to move foreign intellectual property to the U.S.;
- An increased cost of transferring intellectual property out of the U.S. by including goodwill and going-concern values;
- A minimum base-erosion tax on foreign corporates investing in the U.S.; and
- A new base erosion and profit shifting (BEPS)-inspired tax penalty on corporates using hybrid entities or instruments.

Viewpoint:

Both proposals go a long way toward making the U.S. a more attractive place for multinationals to do business by reducing the corporate tax rate to 20%.

The Senate proposal takes a step further by directly inviting U.S. multinationals to bring intellectual property back to the U.S. tax-free, coupled with an even lower rate on foreign income from intellectual property (12.5%).

Both chambers have come up with innovative proposals to “level the tax playing field for U.S. multinationals,” by eliminating or offsetting tax advantages that have been available only to foreign multinationals.

TRACKER: Most Impactful International Corporate Provisions:

TOPIC	DESCRIPTION	HOUSE MARKUP	SENATE BILL	COMMENTS
CORPORATE RATE REDUCTION	Corporate rate = 20%	✓	✓	House bill drops rate in 2018; Senate delays rate until 2019.
FULL CAP-X EXPENSING	Immediate 100% expensing of qualified capital expenditures for 5 years	✓	✓	
MODIFICATION OF NOL DEDUCTION	NOLs can offset only 90% of income	✓	✓	
LIMIT ON INTEREST DEDUCTIBILITY	Limits interest deductibility for businesses, subject to certain exceptions	✓	✓	House & Senate disallow interest in excess of 30% of EBITDA and contain additional limitations based on U.S. company's share of debt within its global affiliated group
PARTICIPATION EXEMPTION SYSTEM	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 historical foreign earnings & profits to U.S. 10% shareholders	✓	✓	House applies a 7% and 14% rate to non-cash and cash earnings, respectively; Senate sets equivalent rates at 5% and 10%
TAXATION OF CERTAIN FOREIGN RETURNS	U.S. shareholders of foreign subs subject to tax on certain high-return, low-taxed income	✓	✓	House applies tax on foreign high returns over and above a prescribed rate; Senate applies tax to certain earnings derived from intangible property
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	Tax on certain outbound payments to related parties (i.e., an excise tax or base erosion tax)	✓	✓	House applies a 20% excise tax to certain related-party payments (if at least \$100M in payments); Senate applies tax on base-eroding payments to related parties (for companies with at least \$500M in gross receipts).
FOREIGN-DERIVED INTANGIBLE INCOME	Allows a reduced rate of tax (12.5%) for foreign-derived intangible income, subject to limitations		✓	
HYBRID PAYMENT DEDUCTION LIMIT	Denies a deduction for disqualified related-party payments where payee does not recognize income		✓	
DEFINITION OF IP AMENDED (OUTBOUND)	Revises the definition of intellectual property and confirms the authority to require certain valuation methods		✓	
INBOUND TRANSFER OF IP FROM A CFC	New special rules for transfers of intangible property from a controlled foreign corporation to U.S. shareholders		✓	

[See here for our deck](#) covering all the provisions of both bills.

What's Next:

Today (Monday): The Senate Finance Committee begins its own markup phase, expected to last the week.

This week: The House expects a floor vote by Thursday on the final markup bill from the House Ways and Means Committee.

As more details emerge from both chambers, look for coming posts from A&M Taxand with our proactive insights and thought leadership.

Related Issues:

Harmful Omissions: Tax Reform Impact on Business Value and Financial Statements

Here at A&M we see two important issues notably missing in the public discussion over the release of the Tax Cuts and Jobs

Act. One issue pertains to investors and the other to tax leaders.

Preparing for Tax Reform

The various tax proposals share a number of common elements, but also have several unique provisions. Until draft legislation is available, companies with US activities will have many questions as to the impact of potential tax reform.

Special Alert: A Blueprint Becomes a Framework Becomes a Bill

Today, the House Ways and Means Committee released the statutory language and detailed explanation of its long-awaited, 429-page tax reform bill, the Tax Cuts and Jobs Act. This bill is the culmination of more than a year of anticipation and speculation about competing plans, from the 2016 House Blueprint, to candidate Trump's plan, to President Trump's April one-pager and most recently to the September Framework proposal. We are feverishly reviewing the package for our clients; watch for coming editions of Tax Advisor Weekly where we will share our planning insights.

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Authors:

Albert Liguori

Kenneth Brewer