ATERWYNNE LLP
ATTORNEYS AT LAW

CLIENT ALERT

January 5, 2018

John C. Ramig
Partner
jcr@aterwynne.com

John Ramig is a partner in Ater Wynne's Global Trade, Business, Emerging Business and Family Business Groups. He works with clients on general business and corporate matters including entity formation, acquisition or sale of companies and corporate financings.

John has expertise in international business transactions including the structuring of international sourcing and manufacturing operations. He provides expert services relating to the design and implementation of international corporate structures that maximize operational and tax efficiencies.

Tax Cuts and Jobs Act of 2017: Major Changes for Companies with International Operations

On December 22nd, President Trump signed the Tax Cuts and Jobs Act of 2017 (the "Act"), which will have significant impact on the business decisions and operations of U.S. companies. The Act will have wide-ranging effects on market practices, providing meaningful opportunities for tax minimization, but also traps for the unwary.

As a general matter, the Act was designed with the objective of encouraging investment inside the U.S. In particular, the Act provides significant tax benefits for businesses that make substantial investments in the U.S.-based employees and/or U.S.-based tangible property. Similarly, the Act's cross border international provisions include a mandatory deemed repatriation of offshore earnings into the U.S. and provide disincentives for the movement of intangible property to low-taxed overseas destinations. While the Act embodies far-reaching changes to taxation of U.S. companies' international operations, a few of the more significant ones are summarized below:

- **Mandatory, Deemed Repatriation of Deferred Foreign Earnings.** This provision creates an immediate tax impact for companies with foreign operations. The deemed repatriation generally applied retroactively to earnings accumulated since 1986. These earnings will be taxed at a 15.5% rate to the extent that the underlying foreign earnings are attributable to the U.S. shareholders cash position and an 8% rate for other amounts. U.S. companies have up to 8 years to pay taxes due under this provision with the majority of the tax due after 5 years, with no interest charge. Tax due may be partially offset by foreign tax credits and other factors.

- **Limited Participation Exemption.** The Act changes the taxation of domestic corporations from a worldwide tax system to a hybrid territorial tax system by establishing a limited participation exemption system. The participation system will allow a domestic C corporation to claim a 100% deduction for the foreign-sourced portion of a dividend received by such corporation from foreign subsidiaries.

- **GILTI Income.** The Act includes a new provision which requires United States shareholders of foreign subsidiaries to include in income, as a deemed dividend, the global and tangible load-taxed income (GILTI) of its subsidiaries. Fifty percent of the GILTI income may be deducted by a domestic corporation.

The new, 21% tax rate applicable to C corporations, in combination with the limited participation exemption and GILTI income provisions may create incentives for U.S. parent companies currently organized as pass-through entities (e.g., S corporations or LLCs) to consider reorganizing as C corporations. This should be evaluated on a company -specific basis.

The international provisions of the Act are far more extensive than those highlighted above. U.S. companies with international operations should carefully evaluate the Act as a whole with an eye to making timely adjustments that will allow them to realize opportunities for tax minimization while avoiding potential pitfalls.

Ater Wynne LLP

Lovejoy Building
1331 NW Lovejoy St, Ste. 900
Portland, OR 97209-3280

Phone: 503-226-1191

www.aterwynne.com

Copyright ©2018. All Rights Reserved