



HONG KONG TAX ALERT

ISSUE 16 | Sep 2017



Update: Unified Framework for U.S. Tax Reform

Summary

The Trump Administration and Republican leadership in Congress released a “unified framework” for tax reform on Wednesday, 27 September.

The framework is expected to serve as a template for tax-writing committees that will develop legislation through a transparent and inclusive committee process.

With the uncertainties of the legislative process, it remains unclear whether the tax legislation will be enacted in the near future.

Last night, the Trump Administration and Republican leadership in Congress released a tax reform framework that will be used to craft U.S. tax reform legislation. Here is a summary of key provisions:

Corporate and international tax provisions:

1. Corporate tax rate to be reduced to 20%; corporate AMT (alternative minimum tax) may be eliminated
2. Full expensing of the cost of new investments made after 27 September 2017, for at least five years
3. Net interest expense of C corporations will be partially limited (rules not specified)
4. Domestic manufacturing (Section 199) deduction and numerous other special exclusions and deductions to be repealed or restricted (details not specified)
5. Deemed repatriation of earnings held offshore in foreign subsidiaries, subject to reduced tax rates; earnings held in illiquid assets will be subject to even lower tax rates (rates not specified)
6. Full exclusion of dividends paid by offshore subsidiaries in which the U.S. parent owns at least a 10% stake
7. Foreign profits of U.S. multinational corporations to be taxed at a reduced rate on a global basis (rates not specified)
8. Rules yet to be specified to “level the playing field” for both US-headquartered parent companies and foreign-headquartered parent companies

US individual and small business tax provisions:

1. The current seven tax brackets will be reduced to three – 12%, 25% and 35% – with the potential for an additional top rate for the highest-income taxpayers (rate not specified)
2. The standard deduction will be increased to \$12,000 (single filers) and \$24,000 (married filing jointly) but personal exemptions for taxpayer and spouse will be repealed

3. Many itemized deductions primarily used by the wealthy will be eliminated but tax incentives for home mortgage interest and charitable contributions will be retained
4. Tax incentives for work, higher education and retirement security will be retained
5. Child tax credits will be significantly increased but personal exemptions for dependents will be repealed
6. Estate tax and generation skipping transfer tax to be repealed
7. Individual AMT (alternative minimum tax) to be repealed
8. The framework limits the maximum tax rate for small and family-owned businesses conducted as sole proprietorships, partnerships or S corporations to 25%
9. Section 199 deduction to be eliminated

What the legislation will actually say, and whether and when it will pass, are not clear. It is expected the U.S. Senate will be a major hurdle because 60 votes are needed, but Republicans hold only 52 votes. If U.S. Senate Republicans want to pass the proposed tax legislation with a simple majority, then the tax legislation will need to be “revenue neutral” under the budget reconciliation process, and it is not clear whether that will be the case.

Contact us:

Lewis Y. Lu
Head of Tax, KPMG China
Tel: +86 21 2212 3421
lewis.lu@kpmg.com

Curtis Ng
Head of Tax, Hong Kong
Tel: +852 2143 8709
curtis.ng@kpmg.com

Corporate Tax

Chris Abbiss
Head of Real Estate Tax, KPMG China
Tel: +852 2826 7226
chris.abbiss@kpmg.com

Stanley Ho
Principal
Tel: +852 2826 7296
stanley.ho@kpmg.com

Charles Kinsley
Principal
Tel: +852 2826 8070
charles.kinsley@kpmg.com

Alice Leung
Partner
Tel: +852 2143 8711
alice.leung@kpmg.com

John Timpany
Partner
Tel: +852 2143 8790
john.timpany@kpmg.com

Matthew Fenwick
Director
Tel: +852 2143 8761
matthew.fenwick@kpmg.com

Sandy Fung
Director
Tel: +852 2143 8821
sandy.fung@kpmg.com

Ivor Morris
Director
Tel: +852 2847 5092
ivor.morris@kpmg.com

Natalie To
Director
Tel: +852 2143 8509
natalie.to@kpmg.com

Michael Olesnicky
Special Advisor
Tel: +852 2913 2980
michael.olesnicky@kpmg.com

M & A Tax

Darren Bowdern
Head of Financial Services Tax, KPMG China
Tel: +852 2826 7166
darren.bowdern@kpmg.com

Yvette Chan
Principal
Tel: +852 2847 5108
yvette.chan@kpmg.com

Benjamin Pong
Principal
Tel: +852 2143 8525
benjamin.pong@kpmg.com

Malcolm Prebble
Principal
Tel: +852 2685 7472
malcolm.j.prebble@kpmg.com

China Tax

Karmen Yeung
Partner
Tel: +852 2143 8753
karmen.yeung@kpmg.com

Daniel Hui
Principal
Tel: +852 2685 7815
daniel.hui@kpmg.com

Adam Zhong
Principal
Tel: +852 2685 7559
adam.zhong@kpmg.com

John Kondos
Seconded Partner
Tel: +852 2685 7457
john.kondos@kpmg.com

Lu Chen
Principal
Tel: +852 2143 8777
lu.l.chen@kpmg.com

Travis Lee
Director
Tel: +852 2143 8524
travis.lee@kpmg.com

Steve Man
Director
Tel: +852 2978 8976
steve.man@kpmg.com

Irene Lee
Director
Tel: +852 2685 7372
irene.lee@kpmg.com

Global Mobility Services

Barbara Forrest
Principal
Tel: +852 2978 8941
barbara.forrest@kpmg.com

Murray Sarelius
Principal
Tel: +852 3927 5671
murray.sarelius@kpmg.com

David Siew
Principal
Tel: +852 2143 8785
david.siew@kpmg.com

Wade Wagatsuma
Head of US Corporate Tax, KPMG China
Tel: +852 2685 7806
wade.wagatsuma@kpmg.com

Lachlan Wolfers
Head of Indirect Tax, KPMG China Regional Leader, Asia Pacific Indirect Tax
Tel: +852 2685 7791
lachlan.wolfers@kpmg.com

Erica Chan
Director
Tel: +852 3927 5572
erica.chan@kpmg.com

Kate Lai
Director
Tel: +852 2978 8942
kate.lai@kpmg.com

Becky Wong
Director
Tel: +852 2978 8271
becky.wong@kpmg.com

US Tax

Indirect Tax

kpmg.com/cn

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

© 2017 KPMG Huazhen LLP — a People's Republic of China partnership, KPMG Advisory (China) Limited — a wholly foreign owned enterprise in China, and KPMG — a Hong Kong partnership, are member firms of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

© 2017 KPMG, a Macau partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

The KPMG name and logo are registered trademarks or trademarks of KPMG International.