Tax Cuts and Jobs Act

Impact on U.K. Multinational Groups – Round 2

Recap of recent developments and practical considerations

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With you today

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Program agenda

1	**Background for US corporate income tax reform** — Where are we now? — Path to tax reform — Financial impact perspective
2	**Recap and update of key provisions for US inbound companies** — Notable updates to the Senate Bill since initial publication — General US corporate tax reforms — General US international tax reforms — Key anti base erosion, US IP Incentives and hybrid mismatch
3	**Practical illustration of reform’s impact on US inbounds and potential considerations**
4	**Action steps for immediate consideration and how KPMG can help you**
5	**Stay tuned – KPMG portals to follow the latest US tax reform developments**

Background and perspective

Where are we now?

Republican Party controls House, Senate, and White House **BUT** slim congressional majority = very little room for dissenters

On 16 November, full House approved its version of the Tax Cuts and Jobs Act; On 1 December, full Senate approved its version (51/49)

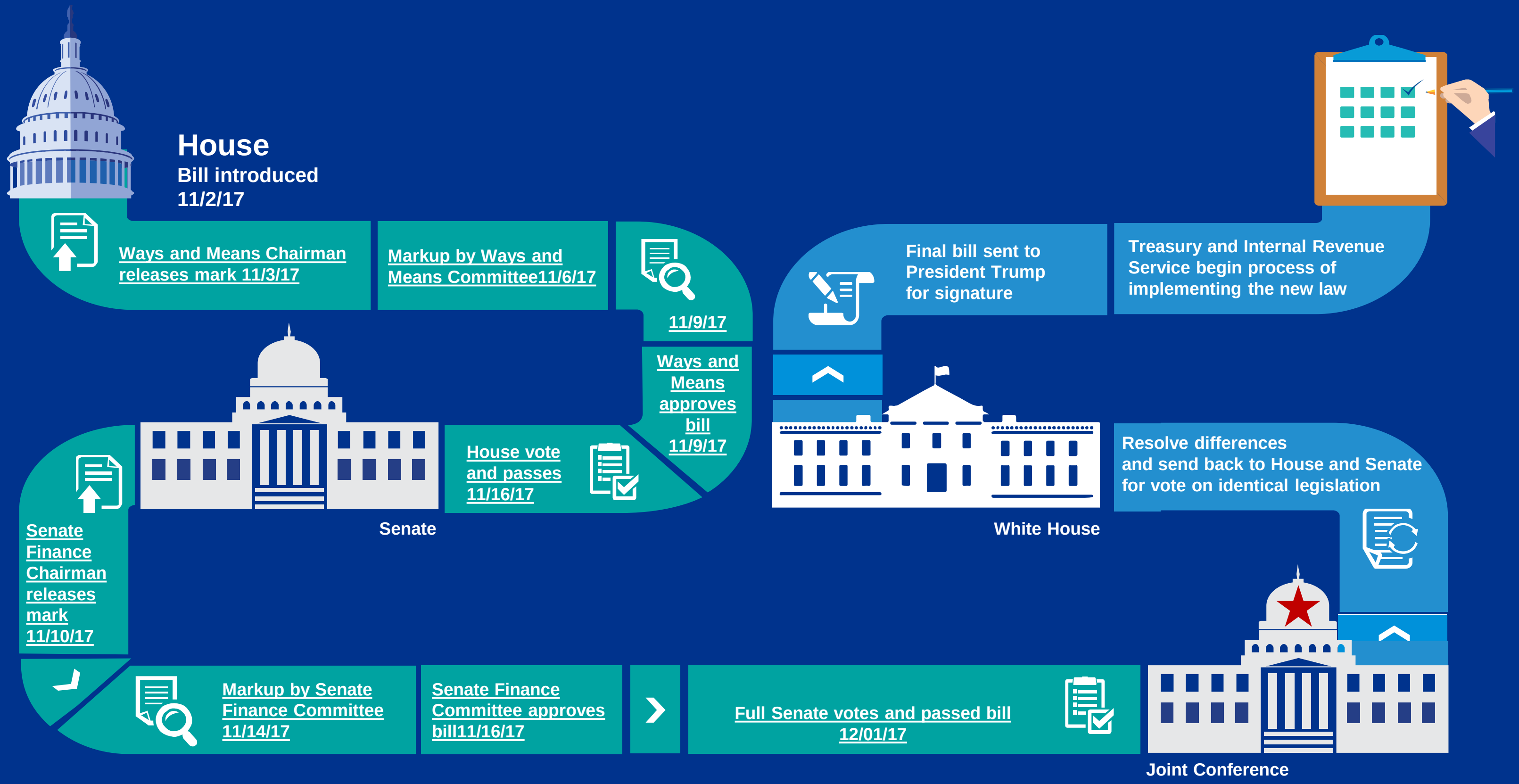
Many similarities between the House and Senate versions, but significant differences remain

Next step is to agree on a UNIFIED tax reform bill – Joint House and Senate Conference Committee

Following Conference Committee action, full House and Senate will have to vote again to pass the unified version

Trump Administration and Republican leaders in Congress are confident of final passage by year-end

A possible path to tax reform



The Tax cuts and Jobs Act: The numbers tell the story

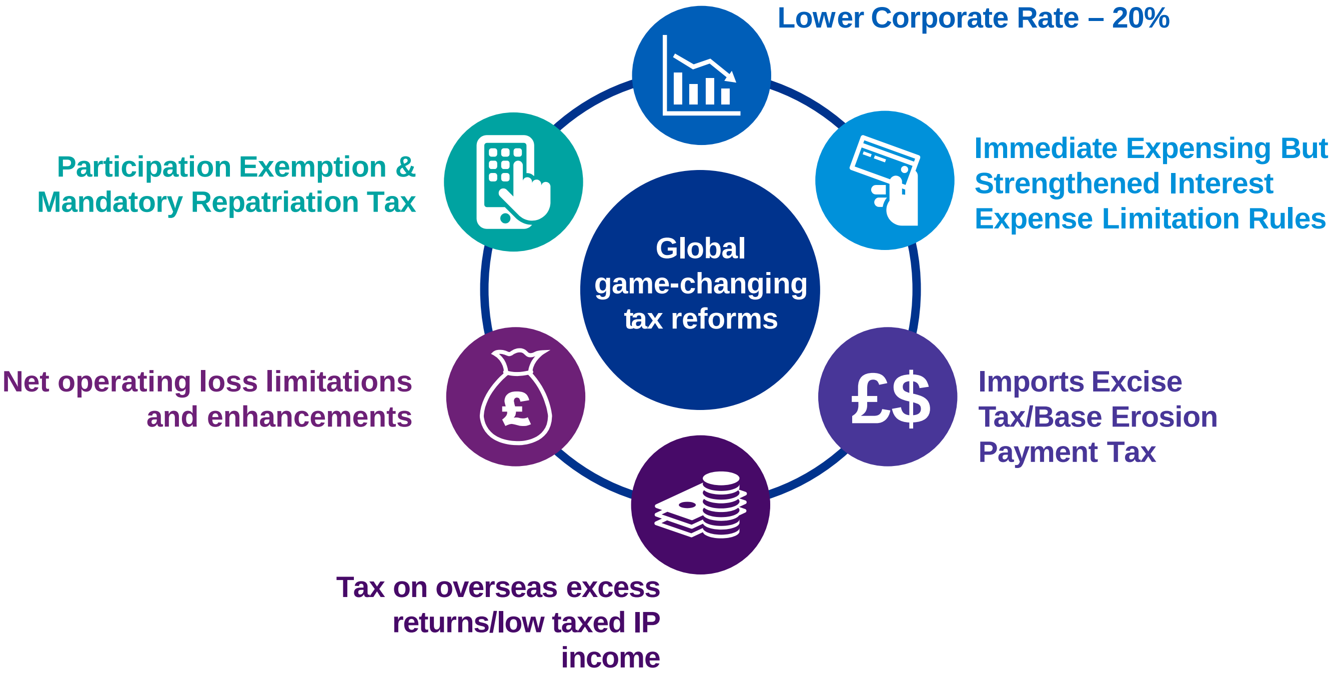
	House[a]	Provisions	Senate[a]
	$1,456	Reduce corporate rate to 20%	**$1,329**
	$597	Pass-throughs	**$339**
	$25	Temporary, limited expensing	**$27**
	$205	Territoriality	**$204**
	---	Onshore IP Incentives	**$99**
	$293	Mandatory Repatriation	**$298**
	$95	Base eroding payments/transfers	**$141**
	$68	Super Subpart F	**$135**
	$206	Interest expense reforms	**$317**
	$156	NOL reform	**$158**
	$95	Repeal section 199	**$85**
	$1,073	Business and Int'l Tax Reform Deficit (including pass-through)[b]	**$864**

Note: (a) Based on scores provided by the Joint Committee on Taxation. US Dollar amounts are in billions

(b) Approximate amounts

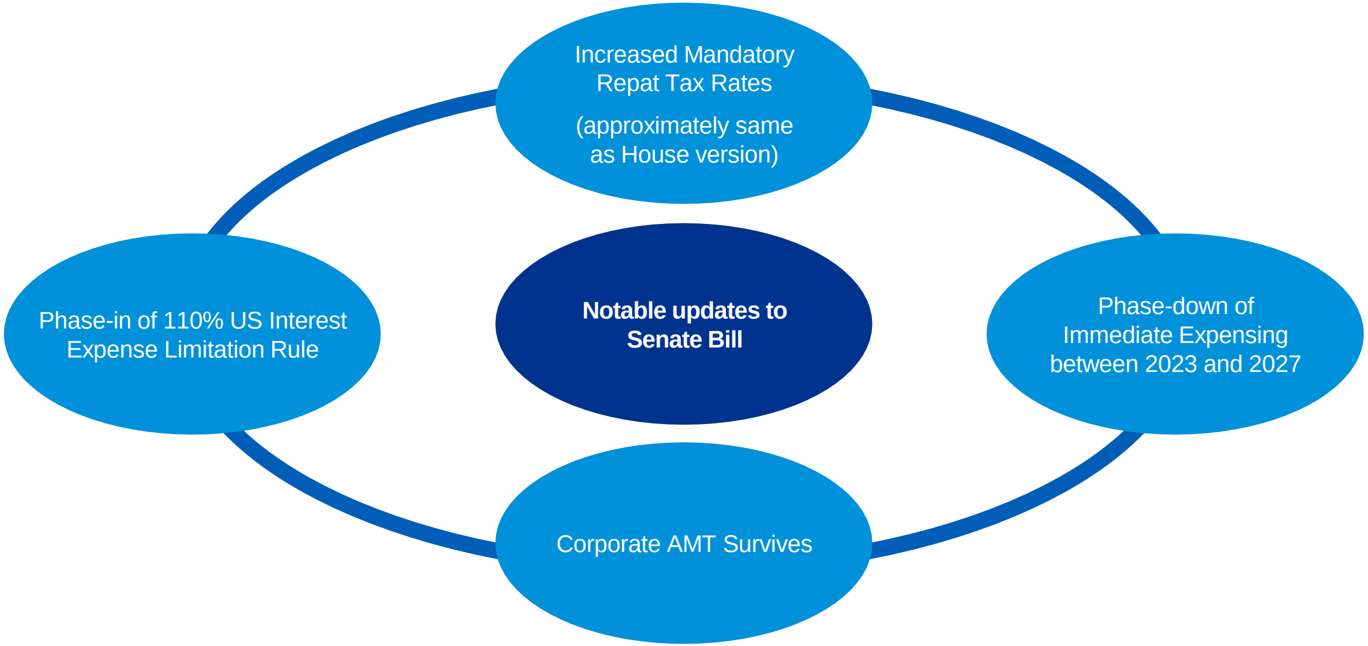
US inbound company-specific considerations

The Tax Cuts and Jobs Act: Cornerstone provisions for US inbounds (Senate and House Bills)



Key provisions for US inbound companies

Notable Last-minute Revisions to Senate Bill's Int'l and Corporate Tax Provisions



Key provisions for US inbound companies

Key Provisions – General Corporate Tax Measures Recap		Effective Date
Lower corporate tax rate	20% rate (reduced from current 35% rate)	**House** – Tax years beginning after 31 December 2017 **Senate** – Tax years beginning after 31 December 2018
Immediate expensing	100% expensing for certain qualified capital expenditures for five years (Senate includes extended phase-out)	Generally, qualified property placed in service after 27 September 2017
Strengthened interest expense limitations	Two US interest expense limitation rules – 30% rule and 110% rule **30% rule:** Net interest expense limitation based on 30% EBITDA (House) or EBIT (Senate); **110% rule:** Limitation generally applies where US interest expense/debt disproportionate to global group levels (110% limitation phased in over four years) Apply both 30% and 110% rules; allow only lower amount	Tax years beginning after 31 December 2017 No grandfathering of existing debt
NOL limitations	Annual use of future NOL carryforwards generally limited to 90% of corporate taxable income (80% of TI beginning after 31 December 2022 in Senate Bill)	Tax years beginning after 31 December 2017
AMT repeal (House)	Repeals corporate AMT; credit carryforwards	Tax years beginning after 31 December 2017

Key provisions for US inbound companies

Key Provisions – General International Tax Measures Recap		Effective Date
Mandatory Repatriation	Deferred foreign corp earnings subject to one-time tax (onerous multiple testing dates to determine earnings); **House** – 14% rate on cash/7% rate on non-cash; **Senate** – 14.5% rate on cash/7.5% rate on non-cash	Tax years beginning after 31 December 2017
Super Subpart F regime	Subpart F regime mostly unchanged, but expansion of CFC stock attribution rules and US S/H definition and Section 956 generally eliminated	House – Tax years beginning after 31 December 2017 Senate – Generally, tax years beginning after 31 December 2017 (CFC stock attribution rule also applies to last tax year of foreign corp beginning before 01 January 2018)
Global CFC low-taxed excess returns tax	Global minimum tax on US corporate shareholder's share of CFC's non Sub-F income in excess of deemed routine return (limited FTCs available)	Tax years beginning after 31 December 2017
Foreign source dividend exemption system	Creates 100% exemption for dividends received by US corporations from 10% owned foreign corporations attributable to non Sub-F and non low-taxed excess returns amounts	Tax years beginning after 31 December 2017

Key provisions for US inbound companies

Key Provisions – Anti Base Erosion, IP Incentives and Hybrids Recap		Effective Date
Base erosion related party payment taxation	20% imports excise tax or 20% alternative foreign recipient ECI net income tax election (House) vs. minimum 10%/12.5% tax (after 31 December 2025) (Senate) on certain deductible payments made to foreign affiliates	House – Tax years beginning after 31 December 2018 Senate – Tax years beginning after 31 December 2017
Intellectual property incentives **(Senate Only)**	Tax-deferred domestication of foreign-owned IP and deduction for foreign-derived IP income (US-style patent box or BAT-light?)	Tax years beginning after 31 December 2017
Hybrid Mismatch Rule **(Senate Only)**	Disallows US tax deductions for interest and royalties paid or accrued to a related party in connection with hybrid transactions and/or hybrid entities	Tax years beginning after 31 December 2017

Practical considerations in US tax reform environment

Illustration of potential US inbound considerations in US tax reform environment

Overview

— FP, a multinational corporation, has IP, manufacturing and R&D offshore and sells to the US market via a captive US LRD

— In the future state, the company moves its IP, manufacturing, and R&D into new US HubCo

US tax reform impact

Senate Bill:

— Global CFC low-taxed excess returns tax (i.e., GILTI) expected to impose a minimum tax on foreign IP returns

— Low tax attributable to US IP under IP incentives regime – could facilitate US production and export model

— Base erosion related party payments taxation (i.e., BEAT) disallowance may still apply to the sourcing services fee in the future state scenario unless compensated at cost

House Bill:

— No base erosion related party payment taxation (i.e., the imports excise tax should not apply)

— CFC global minimum tax (i.e., FHRA) generally may not apply

— Expected participation exemption at FP permits profits (inclusive of tax savings) to be freely repatriated

— Immediate expensing of capital assets

— With respect to US market sales, FP's global profits are expected to be taxed at a rate closer to 20%; profits on non-US sales are taxed at less than 10%

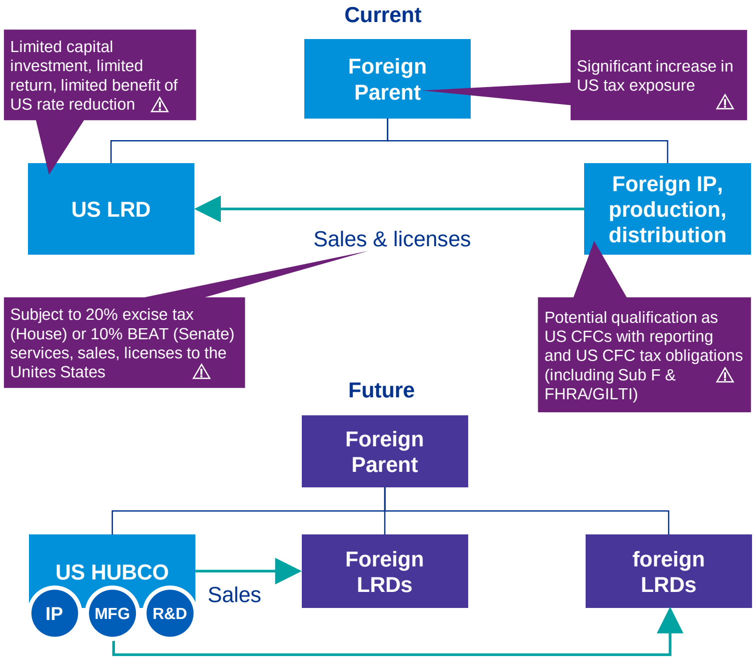


Illustration of ETR implications of House and Senate Bills

Case study

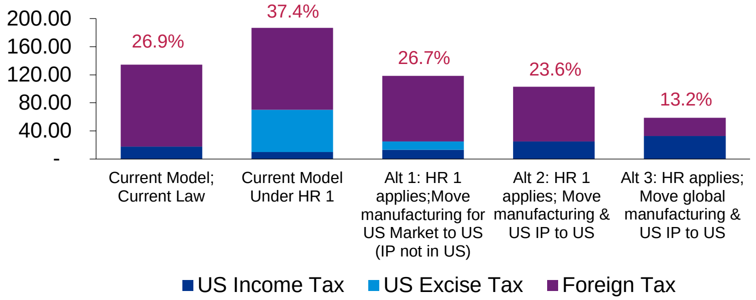
Assume the following:

- FP group's non-US tax blended tax rate is 26%
- 40% of the market is in USP which currently imports the goods
- Non-sales profit for US market lands OUS
- Global margins are significant
- Payments from US LRD to foreign affiliates are more than $100 million annually

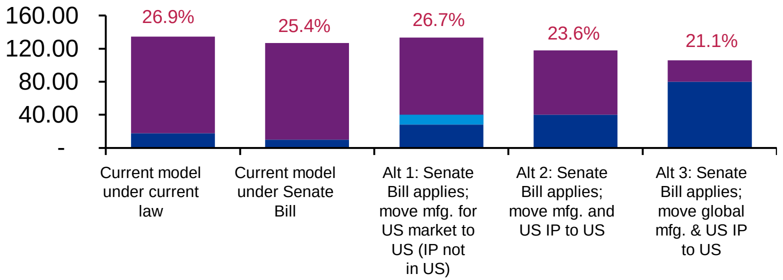
With no changes, House Bill impact drives ETR from approximately 27% → approximately 37%, while Senate proposal produces modest decrease

Under either proposal, increased investment in US assets and functions creates decreased global taxation

Global tax alternatives – House Bill



Global tax alternatives – Senate Bill



Action steps

Action steps for immediate consideration

1	Develop high-level economic model of overall effect on group's tax position/ETR
2	Consider investment in US capital equipment to benefit from immediate expensing
3	Consider restructuring related-party supply chain to minimise 'imports' excise tax/base erosion payments tax
4	Evaluate benefits under Senate IP incentives, including possibly inbounding foreign subsidiary IP to the US and modelling deduction for foreign intangibles income
5	Evaluate US and global debt levels under interest expense and hybrid mismatch rules
6	Compute E & P to the extent of mandatory repatriation tax exposure
7	Evaluate opportunity to defer income to 2018 and accelerate expenses/losses in 2017
8	Evaluate DTA/DTL financial reporting impact of the legislation

Action steps: How KPMG can help?

Experienced and **dedicated tax professionals** + **sophisticated** US tax reform **modelling tool** to assist you navigate **your journey in the US tax reform landscape**, including the following services

Model impact of US tax reform proposals on US and Global ETR and identify opportunities

E&P studies to quantify mandatory repatriation tax

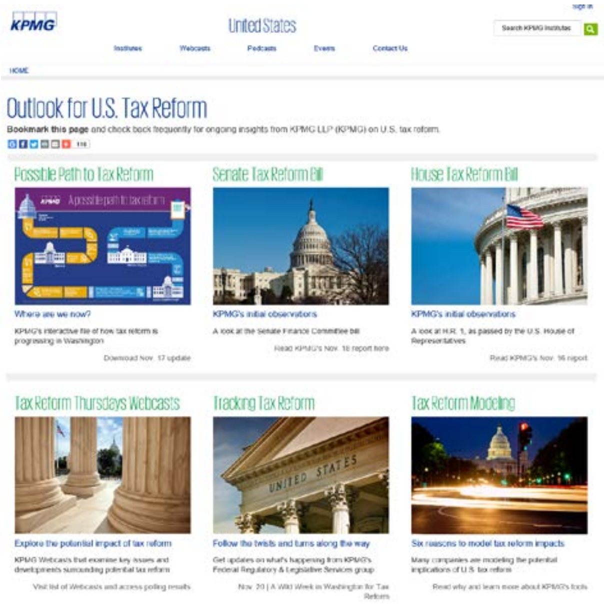
Customized workshops to assess impact on your supply chains and operating model going forward

Stay tuned

Follow the latest tax reform news with KPMG

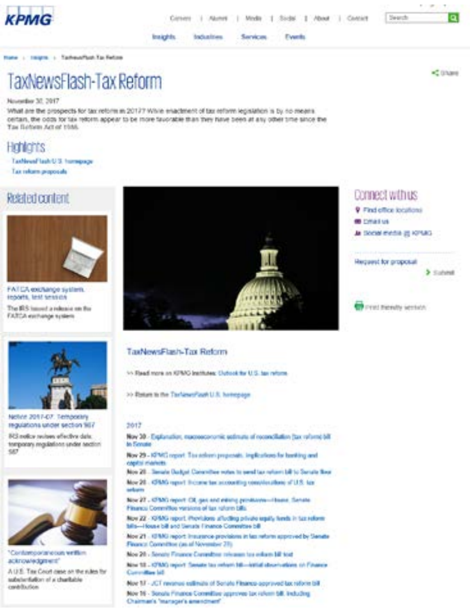
Stay tuned: KPMG portals to follow the latest news

KPMG Institutes – US Tax reform portal



Link: http://www.kpmg-institutes.com/institutes/tax-governance-institute/articles/campaigns/tax-reform-under-trump.html

TaxNewsFlash – US Tax reform portal



Link: https://home.kpmg.com/us/en/home/insights/2016/12/tnf-tax-reform-expectations-for-2017.html

Q&A

Thank you

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