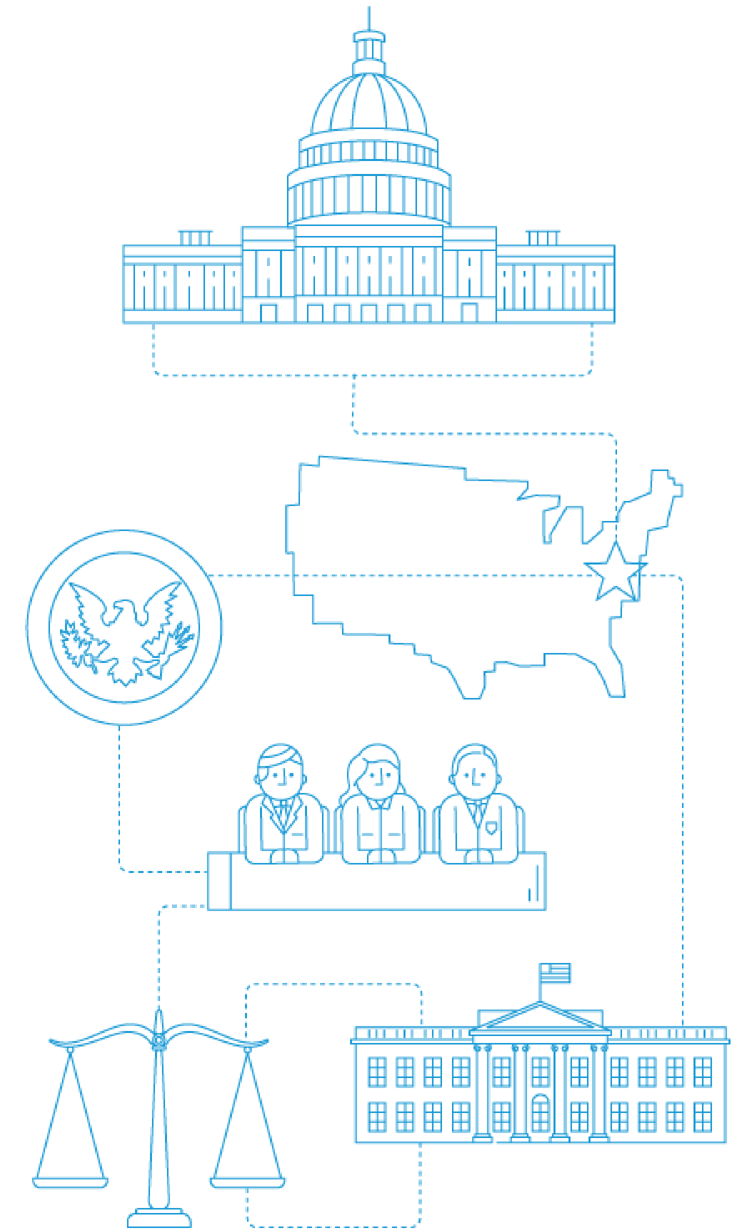
KEY TAX REFORM PROVISIONS: CORPORATE TAX

These new rules will have widespread impact on C corporations.

- Reduced 21 percent corporate income tax rate
- New limit on interest deductions based on earnings
- Net operating loss (NOL) rule changes generally reduce value of NOL carryforwards
- Repeal corporate alternative minimum tax
- Receipt of capital contributions from non-shareholders such as governmental entities must be included in taxable income
- International tax reform aspects:
  - Partial territorial approach toward certain foreign earnings of 10 percent-owned foreign corporations removing those earnings from U.S. tax base for shareholders who are U.S. corporations, via new dividends received deduction
  - Mandatory 2017 deemed repatriation of certain foreign earnings not previously taxed by the United States—can elect to defer related U.S. tax payments over eight years
  - Tax on global intangible low-taxed income of controlled foreign corporations



TAX REFORM RESOURCE CENTER

How might new tax rules affect your business and tax planning?
The Tax Cuts and Jobs Act includes sweeping changes to tax law. This resource center features our latest insights and programming, so that you understand what to expect and the potential impact to your tax planning process.

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TAX REFORM: CORPORATE CONSIDERATIONS

Tax change	Description	Opportunities and hazards
Reduced corporate tax rate	• Reduced 21 percent flat corporate federal income tax rate, generally effective Jan. 1, 2018 • Fiscal-year corporations with a tax year straddling the Jan. 1, 2018 effective date will apply a blended tax rate to that year • Reduce certain dividends received deduction (DRD) amounts to maintain roughly the same after-tax benefit as under prior law • No special rate for personal service corporations	• Profitable companies may seek to defer income or accelerate deductions • May favor taxable transactions over tax-free options • Consider structuring alternatives for new investments, businesses and acquisitions as C corporations, pass-through entities or hybrids
New interest deduction limitation (thin capitalization rule)	• Limits the net interest expense deduction for every business, regardless of form, to 30 percent of adjusted taxable income (ATI) • In 2018 through 2021, ATI will approximate earnings before interest, taxes, depreciation and amortization (EBITDA) • After 2021, ATI will approximate earnings before interest and taxes (EBIT), generally resulting in a lower amount of allowable interest deduction • If interest deduction is disallowed under this new provision, the disallowed interest it generally may be carried forward indefinitely • This new rule also known as the new section 163(j) or thin capitalization rule • Limitation does not apply to businesses with average gross receipts of $25 million and certain agricultural, farming and real estate businesses	• Project and calculate deduction limitation effects • Could have significant effect on cost of capital • Limitation applies to new and old debt alike; no grandfathering of existing debt • Consider using other capital raising methods such as replacing debt with rental, royalty, swap, partnership guaranteed payment arrangements or equity such as preferred stock returns; the extent to which interest limitations are affected by these financing methods may vary
New net operating loss (NOL) rules	• Limits NOL deduction to 80 percent of taxable income for NOLs arising in years beginning after Dec. 31, 2017 • Eliminates NOL carrybacks for NOLs arising in years ending after Dec. 31, 2017 (with exceptions for property and casualty insurance companies and certain farming losses) • NOLs generally carried forward indefinitely if they arise in years ending after Dec. 31, 2017 (but not for property and casualty insurance companies)	• Consider immediate acceleration of income to realize NOL tax benefit prior to effective date of 80 percent limitation • Managing taxable income to avoid large tax loss years may be important • Separate accounting may be necessary for pre- and post-effective date NOL carryforwards, since NOLs from years beginning before Dec. 31, 2017, would appear free of the 80 percent limitation under the plain language of the statute

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