UHY LLP Certified Public Accountants

TAX CUTS AND JOBS ACT

OVERVIEW OF KEY PROVISIONS

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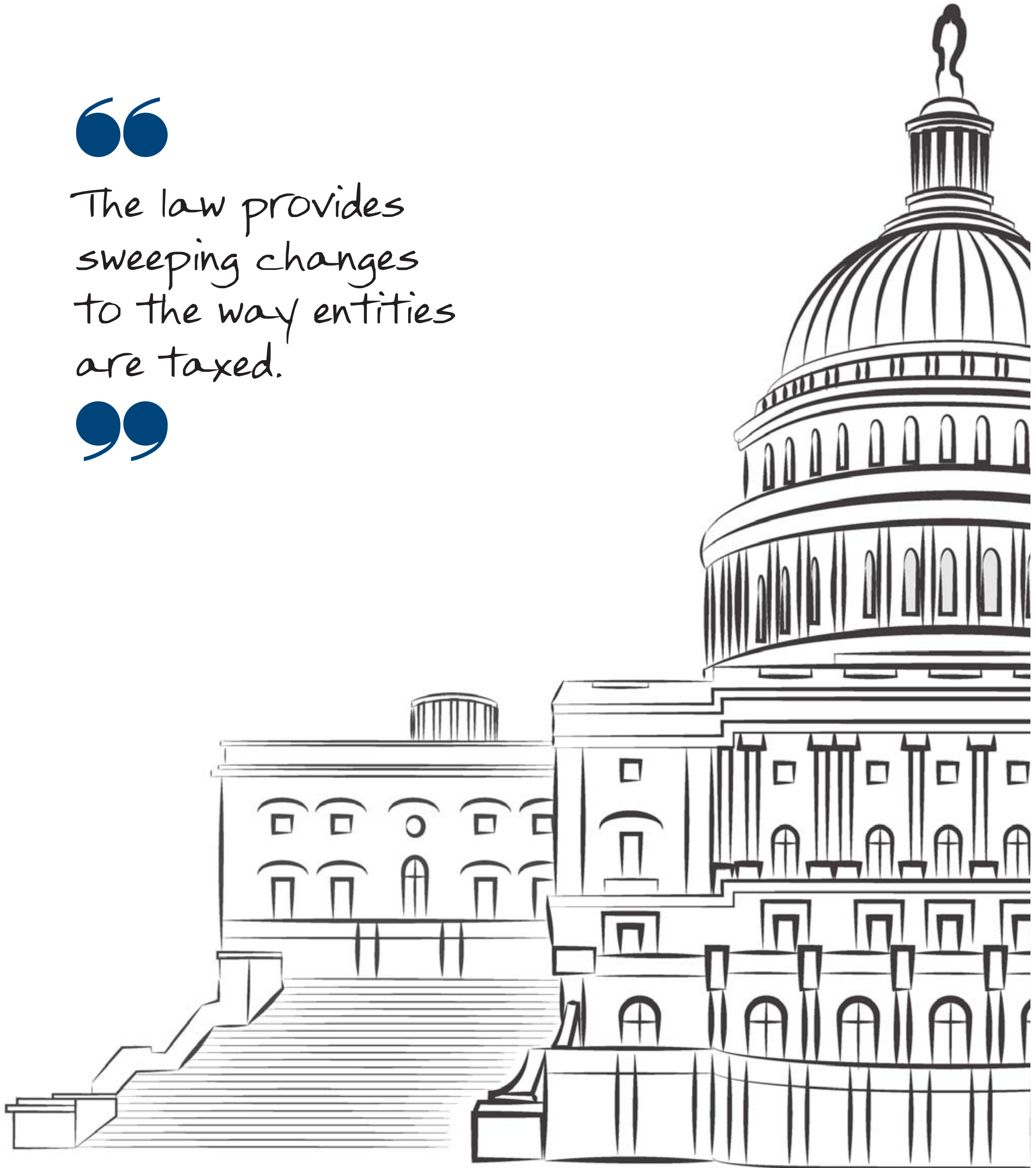
OVERVIEW OF THE BILL

LEGISLATION OVERVIEW



> "The law provides sweeping changes to the way entities are taxed."

In late December 2017 President Donald Trump signed into law the most sweeping tax reform legislation since 1986. The Tax Cuts and Jobs Act, also known as H.R. 1, amends the Internal Revenue Code to reduce tax rates, credits and modify policies.

H.R. 1, generally is effective for tax years beginning after December 31, 2017. Many of the provisions of the bill are effective through December 31, 2025 and after that date, with notable exceptions, the rules revert back to existing law.

The law provides sweeping changes to the way entities are taxed with the greatest effect being the reduction of the corporate tax rate to 21% from the existing graduated rate structure with a top rate of 35%. Pass-through entities, such as S-corporations, partnerships and single member LLC's will also be impacted by the legislation. The new tax regime will compel most business owners of privately held companies to re-examine their ownership and operational structures. This internal review should be done to make certain these entities are operating in the most tax efficient structure.

In addition to dramatically lowering the corporate tax rate, the law attempts to stimulate the economy and create greater employment through expanding and modifying the way we depreciate/expense capital acquisitions. Under the law there is a new 100% expensing deduction for certain business assets. H.R. 1 also modifies the way business entities determine deductible business interest. These modifications could change the way many merger and acquisition ("M&A") transactions are structured.

The changes in the area of individual taxation are significant as well. The highest individual tax rate has been reduced from 39.6% to 37% and the estate tax exemption has nearly doubled to $11.2 million per each U.S. individual. There are also special limitations imposed with respect to state and local income and real property tax deductions. This major modification has led many states and individuals residing in those high tax states to explore different ways to reduce the impact of their new "tax hit".

The changes to the area of international tax is also meaningful. The changes will require U.S. tax persons operating internationally to re-examine their domestic and international business strategies and operations. The Act dramatically changes U.S. tax rules attempting to shift to a "territorial" tax system. The law mandates a deemed repatriation of historical foreign accumulated profits of U.S. shareholders. The deemed repatriation will be taxed at reduced rates and the associated tax can be deferred for up to eight years. The provision is estimated to lead to the repatriation of trillions in accumulated earnings held off shore by U.S. multinationals.

As briefly outlined above, H.R. 1 has a significant impact on the taxation of corporations, pass-through entities and individuals. The following analysis is a high level overview of the broad changes within the Act. We encourage you to review these changes and connect with your financial and tax advisors as to determine next steps you and your business should be considering.

KEY INDIVIDUAL PROVISIONS

OBSERVATIONS

The individual tax brackets have been reduced and widened while certain itemized deductions are being eliminated or capped. As such, efforts should be made to "bunch" deductions into tax periods to maximize the associated tax benefit.

Additionally, estates and trusts are taxed at the highest income tax rate at a lower income threshold than individuals. The 3.8% Medicare surtax is also incurred at a lower income threshold. Therefore, it may make sense to distribute income from the trust to the beneficiaries to be taxed at the beneficiaries' lower income tax rates. Estate, gift and generation-skipping transfer (GST) exemptions will likely increase annually due to the inflation adjustment. Taxpayers should review their estate plan on a regular basis to determine how best to utilize the annual gift exclusion ($15,000 in 2018) and any additional estate, gift or GST exemption.

2018 PRE-H.R. 1 LAW

- Maximum tax rate is 39.6%
- Tax brackets for single and married are below:

TAXABLE INCOME

RATE	SINGLE	MARRIED
10%	$0 - $9,525	$0 - $19,050
15%	$9,526 - $38,700	$19,051 - $77,400
25%	$38,701 - $93,700	$77,401 - $156,150
28%	$93,701 - $195,450	$156,151 - $237,950
33%	$195,451 - $424,950	$237,951 - $424,950
35%	$424,951 - $426,700	$424,951 - $480,050
39.6%	Over $426,700	Over $480,050

POST DECEMBER 31ST, 2017 CHANGES

- Maximum tax rate is 37%
- Rates associated with specific income brackets are designated below:

TAXABLE INCOME

RATE	SINGLE	MARRIED
10%	$0 - $9,525	$0 - $19,050
12%	$9,526 - $38,700	$19,051 - $77,400
22%	$38,701 - $82,500	$77,401 - $165,000
24%	$82,501 - $157,500	$165,001 - $315,000
32%	$157,501 - $200,000	$315,001 -$400,000
35%	$200,001 - $500,000	$400,001 - $600,000
37%	Over $500,000	Over $600,000

Other tax rates and brackets are applicable to head of household and married filing separate individuals.

ALTERNATIVE MINIMUM TAX ("AMT")	• Exemption amounts of $86,200 (married) and $55,400 (single) which begin phasing out at $164,100 (married) and $123,100 (single) of Alternative Minimum Taxable Income ("AMTI")	• Exemption amounts increased to $109,400 (married) and $70,300 (single) which begins phasing out at $1,000,000 (married) and $500,000 (single) of AMTI
INDIVIDUAL STANDARD DEDUCTION	• Standard deduction is $13,000 (married) and $6,500 (single)	• Standard deduction nearly doubled to $24,000 (married) and $12,000 (single)
PERSONAL EXEMPTION	• Personal exemption of $4,150 which begins phasing out at $320,000 (married) and $266,700 (single)	• Personal exemptions repealed at all income levels
CAPITAL GAIN/ QUALIFIED DIVIDEND RATE	• Maximum tax rate on long-term capital gains and qualified dividend income, (excluding Net Investment Income Tax ("NIIT"), is 20%	• Unchanged
AFFORDABLE CARE ACT ("ACA") INDIVIDUAL MANDATE	• ACA, also known as Obamacare, requires nonexempt individuals and any of their non-exempt dependents to have essential minimum coverage throughout the year • A shared responsibility payment (penalty) may be imposed on the taxpayer	• The shared responsi-bility payment is eliminated after December 31, 2018
CAPITAL GAIN EXCLUSION FOR PRIMARY RESIDENCE	• Allows individuals to exclude gain of up to $500,000 (married) or $250,000 (single) from the sale of a primary residence that is used in 2 out of the previous 5 years	• Unchanged

SECTION 529 PLANS	• Distributions may be used for expenses relating to higher (post-secondary) education	• Distributions from 529 plans of up to $10,000/ year per student may also be used for tuition in connection with enrollment or attendance at an elementary or secondary public, private, or religious school
PASS-THROUGH DEDUCTION	• Income received from partnerships, S corporations, or sole proprietorships is taxed on the owner's individual tax returns	• Subject to limitations, there is a 20% deduction for qualified business income from partnerships, S corporations, or sole proprietorships
EXCESS BUSINESS LOSS DISALLOWANCE	• Limits the deductibility of excess farm losses where subsidies are received	• Temporarily suspends the limitations on farm losses, but expands the limitation of excess business losses to all businesses. • Generally, after the application of the passive loss rules, tax-payers other than C corporations will be limited on the amount of losses they will be able to deduct to $250,000 ($500,000 on a joint return). • Any losses in excess of the thresholds will be carried forward to the subsequent year as a net operating loss
GIFT/ESTATE/ GENERATION-SKIPPING TRANSFER ("GST") TAX EXEMPTION	• Estate, gift and GST tax exemptions are $5.6 million attributable to each U.S. individual	• Doubles the estate, gift and GST tax exemptions to $11.2 million per each U.S. individual
CHILD TAX CREDIT	• $1,000/qualified child • Phase-out of credit begins at $75,000 (single) and $110,000 (married)	• Increases to $2,000/ qualified child, with $1,400 of it being refundable • Phase-out of credit begins at $200,000 (single) and $400,000 (married)

ALIMONY	• Payments qualifying as alimony are deductible by the payor while the recipient is taxable on the amounts received	• For divorce decrees entered into after December 31, 2018, alimony is neither deductible by the payor nor taxable to the recipient
MISCELLANEOUS ITEMIZED DEDUCTIONS	• Miscellaneous itemized deductions, such as employee business expenses, investment expenses and tax preparation fees, in excess of 2% of adjusted gross income ("AGI") are deductible	• No deduction allowed
STATE AND LOCAL TAXES	• Amounts paid for state income taxes (or alternatively sales taxes) and real and personal property taxes are deductible as an itemized deduction	• Deduction for state and local taxes is capped at $10,000. Any amounts in excess of $10,000 are not deductible
MEDICAL EXPENSE DEDUCTION	• Allowed to extent medical expenses exceed 10% of AGI	• Floor reduced to 7.5% of AGI for tax years 2017 and 2018 • After 2018 the floor is restored to 10% of AGI

MORTGAGE INTEREST	• Individuals are generally allowed an itemized deduction for interest on:
	  • Acquisition indebtedness of up to $1,000,000 for two residences (limit applies on a combined basis)
	  • Home Equity Line of Credit ("HELOC") up to $100,000
		• Individuals are generally allowed an itemized deduction for interest on acquisition indebtedness of up to $750,000 for two residences (limit applies on a combined basis)
		• Limitation on interest for Pre 12/16/17 mortgages and new purchase money mortgages if the purchase contract is dated before 12/16/17 and other conditions are met remains at $1,000,000
		• Interest on a HELOC is no longer deductible

CHARITABLE DEDUCTIONS	• Cash gifts to public charities are deductible up to 50% of the taxpayer's AGI • 80% of value spent on university athletic seating rights can be deducted	• Cash gifts to public charities are deductible up to 60% of the taxpayer's AGI • 80% deduction for university athletic seating rights is repealed
PHASE OUT OF ITEMIZED DEDUCTION ("PEASE LIMITATION")	• Total itemized deductions are reduced to the extent the taxpayer has adjusted gross income in excess of $313,800 (married) or $156,900 (single)	• No reduction in itemized deductions

KEY BUSINESS PROVISIONS

OBSERVATIONS

Similar to individuals, corporations are now incentivized to utilize tax planning to maximize tax deductions and take advantage of the new 21% flat tax rate. This reduced U.S. corporate tax rate makes operating within the United States more competitive with other countries. Additionally, the new law lowers the 80% and 70% dividends received deduction to 65% and 50%, respectively.

Owners of closely-held businesses should make an analysis of their current entity structure to determine if a different structure would be more applicable for tax purposes. The new cost recovery provisions may also result in more corporate M&A transactions being structured as asset acquisitions instead of stock acquisitions.

	2018 PRE-H.R. 1 LAW	POST DECEMBER 31ST, 2017 CHANGES
CORPORATE TAX RATES	• Graduated tax rates ranging from 15% to a maximum tax rate of 35%	• Flat rate of 21% for Corporations
ALTERNATIVE MINIMUM TAX ("AMT")	• Corporate AMT is 20% with an exemption amount up to $40,000 • Exemption amount phases out starting at $150,000 of alternative minimum taxable income	• Corporate AMT is repealed • Corporations with Minimum Tax Credit Carryforward ("MTC") will be allowed to utilize the MTC against their regular tax liability with a percentage of the excess MTC, if any, refundable each year through 2021
DIVIDENDS-RECEIVED DEDUCTION ("DRD")	• Corporations that receive dividends from another corporation are entitled to a deduction for dividends received • The DRD is 100% if an entity is 80% or more owned, 80% if at least 20% owned, or otherwise 70%	• The 80% DRD has been modified to 65% and the 70% DRD is modified to 50%

CASH METHOD OF ACCOUNTING	• Several limitations exist on the use of the cash method of accounting • Taxpayers are generally required to account for purchases and sales using the accrual method is the taxpayer must use an inventory method with respect to those purchases and sales • Taxpayers satisfying a no-more-than $1 million in gross receipts test can choose to not use both, the inventory and accrual methods • Certain taxpayers satisfying a no-more-than $10 million in gross receipts test can choose not to use either or both of the inventory and accrual methods	• The Act expands the amounts of taxpayers that may use the cash method of accounting • A C corporation must meet the gross receipts test for the current tax year, rather than considering all prior years • The gross-receipts test is satisfied for the current year if the average annual gross receipts are under the prescribed dollar limit for the three prior tax periods. The gross-receipts tests is satisfied if during the three year testing period, average annual gross receipts do not exceed a more liberalized $25 million
MAINTENANCE OF INVENTORY	• Generally requires taxpayers to maintain an inventory method if the use of inventories is necessary to clearly reflect income. There are a number of exceptions, including for taxpayers with gross receipts under $1 million and certain taxpayers with average gross receipts under $10 million	• Provides an exemption for maintaining inventory for taxpayers with average annual gross receipts of $25 million or less. Taxpayers meeting this exemption will be treated as clearly reflecting income if their treatment of inventory is either as non-incidental supplies or it conforms to the treatment of the inventory in their applicable financial statement (if no applicable financial statement then their books and records)

LIKE-KIND EXCHANGES	• Allows for the deferral of gain on the disposal of an asset and the replacement asset (whether real property or certain categories of personal property)	• Like-kind exchange provisions are only applicable to the exchange of real property that is not held primarily for sale. The sale of personal property, even replaced with like personal property will be fully taxable • This provision applies to individuals as well
UNIFORM CAPITALIZATION ("UNICAP")	• Rules provide that direct and certain indirect costs allocable to real or tangible personal property produced by a taxpayer must be capitalized into the basis of the property • Under Internal Revenue Code ("IRC") Section 263A, real or personal property acquired for resale requires direct and certain indirect costs allocable to property to be included in inventory • UNICAP rules do not apply to any personal property acquired during any tax year by a taxpayer for resale if the taxpayer's average annual gross receipts for the three preceding years did not exceed $10 million • Small taxpayers are not required to include UNICAP costs in inventory	• Exception for small taxpayers is further expanded by providing that any taxpayer meeting the gross receipts test of IRC Section 448(c) ($25 million in gross receipts), is not required to apply UNICAP for the current tax year • With respect to any taxpayer that is not a corporation or partnership, the gross receipts test will be applied in the same manner as if each trade or business of the taxpayer is a corporation or partnership

SMALL CONSTRUCTON CONTRACTORS	• Taxpayers with construction contracts for the construction or improvement of real property and with average annual gross receipts of $10 million or less were exempt from using the percentage of completion method	• Raises the average gross receipts test to $25 million
SELF-CREATED PROPERTY	• Pursuant to IRC Section 1221, certain assets are not treated as capital assets held by the taxpayer. This includes, but is not limited to, stock in trade of the taxpayer or other property held in inventory, property used in a trade or business, copyrights, a literary, musical, or artistic composition, a letter or memo, as well as accounts or notes receivable acquired in the ordinary course of business	• The Act expands the definition of assets that are not capital assets by treating gain or loss from the disposition of a self-created patent, invention, model or design, or secret formula/process as ordinary income • Preserves an election to treat musical compositions and copyright in musical works as a capital asset
COST RECOVERY	• Additional first-year bonus depreciation is allowed equal to 40% of the adjusted basis of the qualified property, the original use which began with taxpayer	• A 100% first-year deduction for the adjusted basis is allowed for qualified new and used property acquired and placed in service after September 27, 2017 and before January 1, 2023 • Bonus depreciation will be phased out beginning in 2023 through 2026

IRC SECTION 179 EXPENSING	• Taxpayer may, subject to limitations, elect under IRC Section 179 to deduct/expense the cost of qualifying property, rather than recover costs through depreciation deductions • The maximum amount to be expensed is $500,000 and was reduced by cost of qualifying property exceeding $2 million	• The maximum amount a taxpayer may expense is increased to $1 million and the phase-out exemption is increased to $2.5 million • Expands the definition of qualified real property to include all qualified improvements to non-residential real property
INTEREST DEDUCTION	• Interest paid or accrued by a business may be deductible, subject to a number of limitations • Limitations include, but are not limited to, IRC Section 163(j) as it relates to the entity's debt-to-equity ratio and adjusted taxable income	• Every business with average gross receipts exceeding $25 million, is subject to a disallowance of its net interest expense in excess of 30% of the business's adjusted taxable income • Interest that is disallowed is carried forward indefinitely
CARRIED INTEREST DEDUCTION	• A partnership interest received in connection with the performance of services must be held for 1 year in order to qualify for capital gain treatment	• Holding period is increased to three years irrespective of IRC Section 83 and/or any applicable elections • New IRC Section 1061 treats amounts failing the three-year test as short-term capital gains taxed at the ordinary income tax rates
EMPLOYER CREDIT FOR PAID FAMILY AND MEDICAL LEAVE	• Not part of pre-Act tax rules	• Allows a credit for a portion of the wages paid to a qualifying employee while on family and medical leave

RESEARCH & EXPERIMENTAL EXPENDITURES ("R&E")	• Taxpayer can elect to currently deduct the amount of certain R&E expenditures paid or incurred in connection with a trade or business • In lieu of a current deduction, taxpayer can capitalize R&E expenditures and amortize the expenditure ratably over the useful life of the research, but not less than 60 months • No deduction is allowable for expenditures related to the acquisition or improvement of land or of depreciable property used in connection with any R&E	• All specified R&E expenditures starting after 2021 are to be capitalized and amortized over 5 years • A 15 year period will apply in the event of any specified R&E expenditures attributable to foreign research • For amounts paid or incurred after 2021, specified R&E expenditures includes research and experimental expenditures which are paid or incurred by the taxpayer in connection with the taxpayer's trade or business • R&E expenditures will not include any expenditures for land or for depreciable or depletable property used in connection the R&E, but will include depreciation and depletion allowances of the property • Amounts paid or incurred in connection with the development of any software will be treated as an R&E expenditure
DOMESTIC PRODUCTION ACTIVITIES DEDUCTION ("DPAD")	• Taxpayer can claim a DPAD under IRC Section 199, generally equal to 9% of the lessor of the taxpayer's qualified production activities income or the taxpayer's taxable income for the tax year • The deduction is limited to 50% of the W-2 wages paid by the taxpayer during the calendar year	• DPAD is repealed

S CORPORATION CONVERSION TO A C CORPORATION

- IRC Section 481 prescribes rules to be followed in computing taxable income when changing accounting methods in order to prevent items of income or expense from being duplicated or omitted
- IRS guidance indicates that net adjustments decreasing taxable income are generally taken into account entirely in the year of change, and net adjustments that increase taxable income generally are taken into account ratably during the four-taxable-year period beginning with the year of change
- The one year period after the corporation's S election termination is called the post-termination transition period ("PTTP")
- Distributions of money made by a former S corporation in the PTTP reduce the adjusted basis of stock to the extent that the amount distributed doesn't exceed the amount of the accumulated adjustments account ("AAA")
- These are non-taxable distributions, rather than normal C corporation distributions

- The Act extends the time frame for taking into account adjustments under IRC Section 481 that are attributable to the revocation of S corporation elections of an eligible terminated S corporation to six years (instead of four years)
- If an eligible terminated S corporation makes a cash distribution after PTTP, the AAA is allocated to the distribution, and the distribution is chargeable to accumulated earnings and profits, in the same ratio as the amount that the AAA bears to the amount of such accumulated earnings and profits ("E&P")

MEALS & ENTERTAINMENT EXPENSE ("M&E")	• No deduction is allowed for ordinary and necessary expenses for an activity considered to be entertainment, amusement, or recreation, unless the taxpayer establishes that the expense is directly related to or associated with the active conduct of the taxpayer's trade or business or income-producing activity • The deduction allowed for entertainment expenses is limited to 50% of the otherwise deductible amount of the expense	• Under the Act, no deduction is allowed for any activities considered to be entertainment, amusement, or recreation, even if directly related to or associated with the active conduct of the taxpayer's trade or business • Additionally, no deduction is allowed for membership dues for any club organized for business, pleasure, recreation, or other social purposes • Expenses relating to facilities used in the above mentioned activities is also not deductible • Expands the 50% limitation on deductibility of food and beverages to employer-operated eating facilitiest
NET OPERATING LOSSES ("NOL")	• An NOL can be carried back two years and carried forward 20 years to offset future taxable income	• The two-year carryback is repealed with the exception of losses incurred in the trade or business of farming • Post December 31, 2017 NOLs can be carried forward indefinitely but are limited to 80% of taxable income • No changes to existing law for property and casualty insurance companies • This provision applies to individuals as well

EXCESSIVE EMPLOYEE REMUNERATION UNDER IRC SECTION 162(M)

- A deduction for compensation paid or accrued with respect to a covered employee of a publicly traded corporation is limited to no more than $1 million per year
- Exceptions apply for commissions, performance based remuneration, payments to a tax-qualified retirement plan, and amounts excludable from the executive's gross income

- The exception to the $1 million deduction limitation for commissions and performance-based compensation is repealed
- A "covered employee" is redefined to include the principal executive officer, the principal financial officer, and the three other highest compensated officers for the taxable year (other than the principal officer and principal financial officer) whose compensation must be reported under the Exchange Act
- A covered employee with respect to any year after December 31, 2016 will remain a covered employee for all future years

KEY INTERNATIONAL PROVISIONS

OBSERVATIONS

The new law substantially eliminates most, if not all, elements of deferred taxation of foreign income within a U.S. multinational group, while discarding indirect foreign taxes paid by 10% corporate shareholders. The provisions within H.R. 1 shifts the taxation of foreign operations towards a territorial tax system. However, the new law retains and expands on the current Subpart F provisions to provide full and immediate taxation on certain classes of income, including items captured by current law, as well as subjecting taxpayers to a new class of income ("global intangible low-taxed income") to immediate taxation at a reduced rate.

The transition from the former deferral regime to the new rules includes a deemed repatriation of existing untaxed earnings of "specified foreign corporations" at a reduced rate that depends upon the extent to which the earnings are matched by cash held offshore. The new law also contains provisions intended to curtail base erosion. Deductions are disallowed for transactions involving related parties and hybrid instruments or transactions. The rules are complex and require careful planning to minimize the impact of the changes.

	2018 PRE-H.R. 1 LAW	POST DECEMBER 31ST, 2017 CHANGES
PARTICIPATION EXEMPTION	• Not part of pre-Act tax rules • U.S. citizens, resident individuals, and domestic corporations are generally taxed on all income, whether earned in the U.S. or abroad ("worldwide system of taxation") • Generally, foreign income earned by a foreign subsidiary of a U.S. person is not subject to U.S. tax until the income is distributed as a dividend to the U.S. person	• The Act provides for an exemption to certain types of foreign income • The exemption is provided for by means of a 100% deduction for the "foreign-source portion" of dividends received from a "specified 10% owned foreign corporation" • No foreign tax credit or deduction is allowed for any taxes paid or accrued with respect to an excluded dividend
EXPANSION OF DEFINITION OF U.S. SHAREHOLDER	• A U.S. shareholder of a CFC is a U.S. person who owns 10% or more of the total combined voting power of all classes of stock entitled to vote of the foreign corporation	• The definition of U.S. shareholder is expanded to also include any U.S. person who owns 10% or more of the total value of shares of all classes of stock in a foreign corporation

DEEMED REPATRIATION	• Not part of pre-Act tax rules • Several one-time "holidays" have been allowed in the past for a reduced tax rate on offshore amounts repatriated to the U.S.	• U.S. shareholders owning at least 10% of a foreign subsidiary must include in income, for the subsidiary's last tax year beginning before 2018, the shareholder's pro rata share of the accumulated post 1986 historical E&P of the foreign subsidiary to the extent such E&P has not been previously subject to tax • The portion of the E&P compromising cash or cash equivalents is taxed at a reduced rate of 15.5%, while any remaining E&P is taxed at a reduced rate of 8%. Individuals are taxed at a slightly higher rate of 17.53% on cash or cash equivalents, and 9.05% on the remaining E&P • U.S. shareholder may elect to pay tax liability over a period of 8 years
ELIMINATION OF 30-DAY MINIMUM HOLDING PERIOD FOR A CFC	• A U.S. parent of a CFC is subject to current U.S. tax on its pro rata share of the CFC's Subpart F income, but only if the U.S. parent owns stock in the foreign subsidiary for an uninterrupted period of 30 days or more during the year	• A U.S. parent is subject to current U.S. tax on a CFC's Subpart F income, irrespective of the length of ownership

GLOBAL INTANGIBLE LOW-TAXED INCOME (“GILTI”)	• Not part of pre-Act tax rules • Several anti-deferral regimes currently exist with respect to foreign income earned by a foreign corporation, such as the Subpart F provisions	• An extension of the existing Subpart F regime, a U.S. shareholder of a foreign corporation is required to include in gross income for a taxable year, any GILTI income, subject to a 50% deduction as well as a reduced foreign tax credit at a rate of 80% • GILTI income is generally the amount of net income in a foreign subsidiary that exceeds a 10% return on certain business assets calculated on an annual basis • The effective U.S. tax rate on GILTI income is 10.5% because of the 50% deduction, assuming no foreign tax credits are available
INDIRECT FOREIGN TAX CREDITS UNDER IRC SECTION 902	• A U.S. corporation that owned 10% of the voting stock of a foreign corporation is allowed a deemed-paid credit for income taxes paid by the foreign corporation. The U.S. corporation is treated as having paid such foreign tax when the income on which the foreign tax was paid was distributed to the shareholder as a dividend	• No foreign tax credit or deduction is allowed for any taxes (including withholding taxes) paid or accrued with respect to any dividend to which the deduction for the foreign-source dividends is allowed • A foreign tax credit is allowed for any Subpart F income that is currently included in the income of the U.S. shareholder

FOREIGN-DERIVED INTANGIBLE INCOME ("FDII")	• Not part of pre-Act tax rules	• FDII is designed to reward U.S. corporations who provide sales or services to foreign parties • A U.S. corporation is allowed a deduction in the amount equal to 37.5% of its FDII income, resulting in an effective tax rate of 13.125% (for tax years before 2026). Generally, FDII is the amount that exceeds a 10% return on certain assets, calculated on an annual basis
MODIFICATION TO CONTROLLED FOREIGN CORPORATION ("CFC") ATTRIBUTION RULES	• A U.S. parent of a CFC is subject to current U.S. tax on its pro rata share of the CFC's Subpart F income • A foreign subsidiary is a CFC if it is more than 50% owned by one or more U.S. persons, each owning at least 10% of the foreign subsidiary (directly, indirectly, and/or constructively)	• Constructive ownership rules have been amended so that certain stock of a foreign corporation owned by a foreign person is attributed to a related U.S. person for purposes of determining whether the related U.S. person is a U.S. shareholder of the foreign corporation and, therefore, whether the foreign corporation is a CFC
BASE EROSION ANTI-ABUSE TAX ("BEAT")	• Not part of pre-Act tax rules • Tax system creates incentives for multinational companies to shift income away from the U.S. to lower-tax jurisdictions and to defer the repatriation of foreign source earnings • "Base Erosion" refers to the tax reduction strategies employed to exploit differences between tax laws of different countries to minimize or eliminate taxes	• Taxpayers with average annual gross receipts of at least $500 million and at least 3% of its deductions are paid to a foreign related party, are subject to BEAT which is imposed on a modified tax base which excludes payments to the foreign subsidiary • The BEAT tax rate is 5% in the first year, 10% through 2025, and 12.5% after 2025

	Pre-Act	The Act
ANTI-HYBRID RULE	• Not part of pre-Act tax rules • There is no explicit disallowance of a deduction for any disqualified related party amount paid or accrued under a hybrid transaction or by, or to, a hybrid entity	• The Act denies certain deductions for disqualified related party payments or accrued amounts pursuant to a hybrid transaction, or to, a hybrid entity • The disqualified amount is any interest or royalty paid or accrued to a related party to the extent that there is no inclusion to the related party, or such related party is allowed a deduction with respect to such amount under the tax law of such country

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