



Tax Reform: Next Steps for Your Company

Denise Bode

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Overview

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- **Implications for the Tech Industry**
- **Temporary Tax Reform: Sunset Provisions & Extenders, Should I Be Concerned?**
- **Is Tax Reform Really Over Yet?**
- **Other Significant Federal Policy Considerations**

Tax Reform: What Happened.

Congress Chose The Partisan Path to Tax Reform

Because they chose a process that allowed for a simple majority, the Tax Cuts and Jobs Act was debated, written, passed, sent to conference, rewritten, passed again, and sent to President Trump's desk ***in just 48 days of legislative work***, a record for such a major bill. President Trump signed it two days later. Compare this to 1986 Tax Reform which took 323 days, 10 months and 19 days until President Reagan signed.

Congress Budget Reconciliation—Allows Senate passage with simple Majority

- Allows limited debate
- Subject to the Byrd Rule—deficit neutral in window, needs to relate to budget
- Because of 10 yr. budget window, portions of the tax reform bill were given expiration or "sunset" dates to keep the revenue loss to the \$1.5 trillion budget loss amount set by Congress.

Implications for the Tech Industry

Congress Tax Reform Changes to Consider:

- **Corporate Tax Rate at 21%***
- **Pass Thru Entity Tax Rate at 20%**
- **Research and Development deduction (R&D)**
- **Full expensing**
- **Net Operating loss deduction**
- **Interest Deductibility***
- **Repatriation & territorial system***
- **Employee Fringe Benefits Reduced**

*Provisions highlighted by S&P to impact credit

Implications for the Tech Industry

Congress Standard & Poor's forecasts a negative credit impact for the tech sector, despite expected cash flows.

- They forecast the technology industry's overall credit profile will weaken modestly over time due to the likelihood of issuers' more aggressive financial policies upon repatriation of foreign cash.
- Issuers susceptible to ratings actions include **companies**:
 - With both **high cash** and **debt balances** but choose to use substantial portions of now-accessible foreign cash for shareholder returns, which could harm credit metrics given the S&P methodology of netting of surplus cash against debt.
 - With **share prices** that have **underperformed** those of their peers, leading to pressures on management to return excessive amounts of foreign cash to shareholders or undertake risky acquisitions.
 - With **high leverage**, because prospects for **reduced interest deductibility** could reduce free operating cash flow (FOCF), which is considered an important differentiator between ratings at the low end of the rating scale.



Temporary Tax Reform: Sunset Provisions & Extenders, *Should I Be Concerned?*

Congress History of Expiring Tax Provisions to Meet Budget

- Bush tax cuts were passed on a temporary basis in **2001 and 2003**
- **End of 2010**, Congress extended the Bush tax cuts for two years
- **Beginning of 2013**, Congress passed the American Taxpayer Relief Act of 2012 which made 82% of Bush tax cuts into permanent law
- **In 2015**, Senate Finance Committee put together a bipartisan tax extenders package, but emphasized that they need to end the “stop and go” approach to tax policy through extenders and focus on tax reform!
- But in **2017**, Tax Cuts and Jobs Act did not address all these temporary provisions, it **increased** the number of expiring provisions in the tax code from 58 to over 80. They "kicked the can down the road" again to limit revenue loss and applied sunset dates to some of the easiest parts of tax code to extend or make permanent later, like individual tax cuts.

Sunset Provisions & Extenders

Congress Major Scheduled Changes in Federal Tax Law

- **Research and Development:** Businesses will be required to deduct research and experimentation costs over five years, rather than immediately
 - End of 2021
- **Interest Deductibility:** The deduction for business net interest expense will be limited to 30% of EBIT, rather than 30% of EBITDA
 - End of 2021
- **Full expensing:** for short-life business investments will begin phasing out
 - End of 2022
- The newly created **pass-through deduction (199A)** will expire
 - End of 2025

Sunset Provisions & Extenders

Should I be concerned?

For example:

- **R&D**
 - **Now:** Not only allowed to deduct research expenses immediately, but able to claim sizable research and experimentation credit
 - **After 2021:** Required to deduct research and experimentation costs over five years, will increase the cost of investment in research in the U.S.
- **However:**
 - Congress has historically always allowed companies to deduct immediately
 - This sunset date of 2021 helped make the bill deficit neutral
 - We believe they will extend this provision

Is Tax Reform Really Over Yet?

- The lightning-fast speed of tax reform resulted in a number of ambiguities and uncertainties in the final bill.
- Congress is considering modifications to Tax Reform to correct unintended consequence through **technical corrections** and tax extenders for issues left out of tax reform. But Democrats may resist since they were left out of first bill. Mid-term elections may also create disrupt timing of this effort.
- IRS and Treasury Department will continue issuing guidance.
- A General Explanation of the Tax Cut and Jobs Act (“Act”) will be written by the Joint Committee on Taxation, which in addition to providing an explanation of the Act, also provides an official interpretation of the bill. Called the Blue Book, may not be out until the end of the year.
- The President and Ways and Means Chairman are talking about a 2nd tax bill to make temporary provisions, particularly the individual tax cuts, permanent.

Other Significant 2018 Federal Policy Considerations

Congress Trade Actions By the Administration Will Impact Business Climate

- **NAFTA 2.0**—Negotiations must be concluded by May 1 for ratification by this Congress.
- **Section 232 Trade Action on Steel and Aluminum Imports**—Direct impacts and Retaliation.
- **Korean/US Free Trade Agreement** Being Renegotiated.
- **Section 301 Trade Action against China**—looking at China’s laws, policies, practices, or actions that force American companies to transfer valuable technology to compete in the market or otherwise fail to adequately protect intellectual property rights. United States can threaten unilateral trade action against China to reform any practices USTR determines have unfairly hurt American companies.

Congress Regulatory Reforms By the Administration

- Ongoing for the next two years—WOTUS, Clean Power Plan, reforms to shrink the permitting process from average of 10 years to no more than 2 years, CFBP regulatory reforms, and more

I think we can all agree...



“You know, the idea of taxation with representation doesn’t appeal to me very much, either.”



Denise Bode

Partner

dabode@michaelbeststrategies.com

T. 262.844.2428