Kellie Becker: Welcome to Tax Talk. I'm Kellie Becker, partner with our International Tax Group. I'm here today with Randy Janiczek, a partner in our International Tax Group as well and today we're talking about the tax reform.

Specifically, some international items that may impact your year on tax planning. I thought I'd get it started with just talking about what we call inbound OM companies. Those are companies that are U.S., that are owned from a foreign perspective. So, they have foreign ownership somewhere up the chain. And, those companies can take advantage of accelerating some deductions into 17 versus 18. Specifically, if you're making payments to a foreign related party for royalties or interest or other similar items.

Those items generally are not deductible until paid. So, if you can accelerate those deductions in 17, you can get that tax benefit at the 34 percent or 35 percent rate, versus in 18 when the corporate rates going to go down to 21 percent.

Also, there's a couple other things changing in 2018 that you might want to accelerate some of those also deductions into 17. For example, interest expense. So, starting in 2018 there's going to be an additional restriction on deductibility of interest expense, which is about 30 percent on modifiable taxable income if you think of a EBITDA times 30 percent for tax purposes., versus in 2017 you might be able to deduct all those interest expense unless you have some type of interest stripping rules on about 50 percent of EBITDA.

So, those are a couple things that you might want to consider in an inbound context. Randy, do you have anything else to add on that?

Randy Janiczek: Yeah, thanks Kellie. One of the new features of tax reform is going to be here in 2018. It is something that people are referring to as an inbound alternative minimum tax, where U.S. inbound companies will have to recompute their tax base not allowing certain deductions to foreign related parties. And, they will apply to reduce tax rate to that modified tax base. So, that would really disallow almost all foreign related party deductions other than cost to goods sold.

So, anything that we can move into 2017 and helps mitigate the impact of that tax in 2018. Once that tax actually does come into play in 2018, we may want to consider whether or not we can shift some of those costs such as royalties or management fees and embed them into cost to goods sold. To avoid again, the application of this inbound alternative minimum tax.

Kellie Becker: So, Randy now that we talked a little but about how inbound corporations, let's talk about what we call outbound corporations. So, those are U.S. headquartered companies that have foreign subsidiaries around the world. And, there is a couple things that we could take advantage of or consider doing before year end. Can you touch on a couple of those?

Randy Janiczek: Yeah, absolutely. So, some of the effective dates in the tax reform bill are retroactive back to November, so there's not a lot of flexibility. But, there are a couple areas where we may be able to take advantage of some of the tax provisions here.

One, if you're considering paying a dividend, you may want to accelerate that dividend into 2017. The reason being, when we hit the transition tax it's going to be implemented as of December 31st, 2017. If we pay a dividend shortly after that, then those earnings have already been taxed just part of the transition. The withholding tax on that dividend distribution would not be eligible for a foreign tax credit. So, if we want to get credit for those withholding taxes, we want to push those dividends into 2017.

Additionally, if you're an S corporation operating outside of the United States through a CFC structure and you're contemplating a sale of any of those CFCs. You may want to consider delaying that until 2018. There's some technical intricacies there, but basically you could end up with a basis step up at a reduced tax rate than if you just sold the CFC stock directly.

Kellie Becker: Thanks Randy! I think the only other thing that we're talking to clients about is if you are operating currently through what we call, "Branch structure." So, you have a foreign entity, but you've elected to treat it as a disregarded entity so, the income is flowing through or expenses are flowing through directly to the U.S. That you might want to look at incorporating them to take advantage of the new tax legislation. But, those are things that you can do right after year end. You have about two and a half months after year end to make those decisions.

So, that's it for this episode of Tax Talk. You can look for future episodes at plantemoran.com. Thanks for listening.