U.S. Tax Reform
Key Issues for Maquiladoras

ryan.com

Ryan®

Background on Tax Reform Provisions

- **Key provisions of the U.S. Tax Reform include:**
  - **Complete overhaul of the corporate income tax system by:**
    - » Lowering the corporate tax rate to 21%;
    - » Allowing for the immediate expensing of certain new investments;
    - » Limiting the corporate net interest expense deduction;
    - » Limiting NOL utilization; and
  - **Key International Tax Proposals:**
    - » Conversion from worldwide tax system to a modified territorial tax system;
    - » 100% exemption for dividends from foreign subsidiaries;
    - » A One-Time Tax on undistributed foreign earnings; and
    - » Inclusion of certain anti-base erosion measures.

Post-Reform Key Issues to Consider

IRC 965 Transition Toll Tax

- All U.S. Multinationals are subject to a toll charge on undistributed earnings of a specified foreign corporation.
- Foreign tax credits are a dollar for dollar offset against a taxpayers U.S. tax liability. Pre-reform, the statute to utilize a foreign tax credit was 10 years. Post reform, indirect tax credits are no longer creditable.
- Importance of foreign tax credit review and seeking opportunities to utilize these credits before they expire.

Post-Reform Key Issues to Consider

Global Intangible Low Taxed Income

- The Global Intangible Low Taxed Income ("GILTI") rules are a corporate anti-abuse rule that subjects the income of a CFC in excess of a **10% return on assets** to immediate US corporate tax at 10.5%.
- This 10.5% tax would be in lieu of the ordinary 21% U.S. corporate tax.
- In general, these new rules should not impact Maquilas as the GILTI rules do not apply to foreign income taxed at 14% or higher.

Transfer Pricing Adjustments?

- The new tax rates from Tax Reform mean that income earned in Mexico will be taxed at a higher rate than in the United States for the first time in many years.
- Should the profit level in Mexico be reconsidered?

Post-Reform Issues to Consider

Foreign-Derived Intangible Income Deduction

- This deduction is available to U.S. Corporations on income from property sold to a non-U.S. person for foreign use, or services provided to any person not located in the U.S.
- Under these rules, the effective tax rate in the U.S will be reduced from 21% to 13.125%%.

Pass-Through Deduction

- This deduction is available for businesses operating through an LLC's, S-Corporation's, Sole Proprietorship or Partnership.
- Qualifying income earned through the pass-through entity is granted up to a 20% deduction on its income, reducing the effective tax rate from 37% to 29.6%.