Tax reform impact analyses

KPMG’s enabling technology tools

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The new U.S. tax law enacted in December 2017 (the 2017 Tax Act) is a game changer for many businesses. The far-reaching law includes some $5.5 trillion in tax cuts, $4 trillion-plus in tax increases, and an overhaul of how many businesses, especially multinationals, will be taxed. Businesses are now sorting through the new law—reviewing changes to reporting and compliance requirements, reevaluating business structures, and addressing effective dates for the new rules that vary.

And this effort is likely to continue over the coming months, perhaps years, as technical corrections to the law are issued by Congress and regulations and guidance on implementation are released by the U.S. Treasury and the Internal Revenue Service. In addition, state and local jurisdictions will likely respond with legislation and various versions of their own tax reform.

Businesses are finding the 2017 Tax Act too complex to simply intuit answers or to expect cookie-cutter approaches to questions about the new law. Instead, they are undertaking detailed modeling exercises to understand the impacts and opportunities of tax reform for their business.

To assist clients with analyzing how the 2017 Tax Act potentially affects their business, KPMG LLP (KPMG) has developed a suite of enabling technology tools that span many types of entities and taxes.

KPMG can help

KPMG's robust tax reform enabling tools can help:

- — Calculate the effects of tax reform for quarterly tax provision purposes
- — Calculate the impact of the new law's domestic and international tax provisions, illustrating the potential impact on new tax planning approaches
- — Allow for flexible analyses that are adaptable to client-specific facts and circumstances
- — Evaluate the consequences of converting from one entity type to another—for example, from S corporation or partnership to C corporation status
- — For partnerships and S corporation partners/shareholders, evaluate the potential impacts of, for example, interest expense limitations, the 20-percent qualified business deduction, and full expensing of capital expenditures
- — Evaluate the impact of individual tax reform on global mobility program costs and policies
- — Evaluate the state and local tax implications of the new law on C corporations, S corporations, pass-through entities, and individuals
- — Integrate with other KPMG technology enabling tools in related areas (see select list of KPMG's tax reform and related enabling tools on page 4).

Highlights of the sweeping new tax law

The new tax law affects the taxation of domestic and multinational corporations and pass-through entities such as partnerships and S corporations, as well as individuals and other entities, such as tax-exempt organizations and trusts.

2017 Tax Act

Individuals
- — Rates and brackets
- — Standard deduction
- — Itemized deductions
- — Estate tax

Pass-throughs
- — New 20% deduction regime
- — Losses limited
- — Carried interest rule
- — Interest limitation

Corporations
- — Rate reduction
- — Expensing
- — Net operating loss (NOL) limitation
- — Interest limitation
- — Corporate alternative minimum tax (AMT) repeal

International
- — Participation exemption system
- — Global intagible low-tax income (GILTI)
- — Foreign dividend intagible income (FDII)
- — Base erosion and anti-avoidance tax (BEAT)
- — Foreign tax credit (FTC) limitation/utilization

Overall approach

KPMG's tax reform tools are intuitive, and each uses a similar five-step approach to help clients analyze the impact of the new law:

1 **Input data** using U.S. federal income tax return and/or or financial statement information as common starting points plus additional information needed to address new tax law provisions such as entity structure mapping

2 **Determine assumptions** concerning financial projections and growth rates and, if applicable, known or potential operating model changes

3 **Calculate tax effect** of tax reform provisions

4 **Analyze**, review, and iterate **key inputs for responsive planning and operating model changes**, and evaluate results of scenario planning

5 **Generate reports and visualize potential impact** for presentation, highlighting potential impact of tax reform scenarios and possible responses with planning and operating model changes.

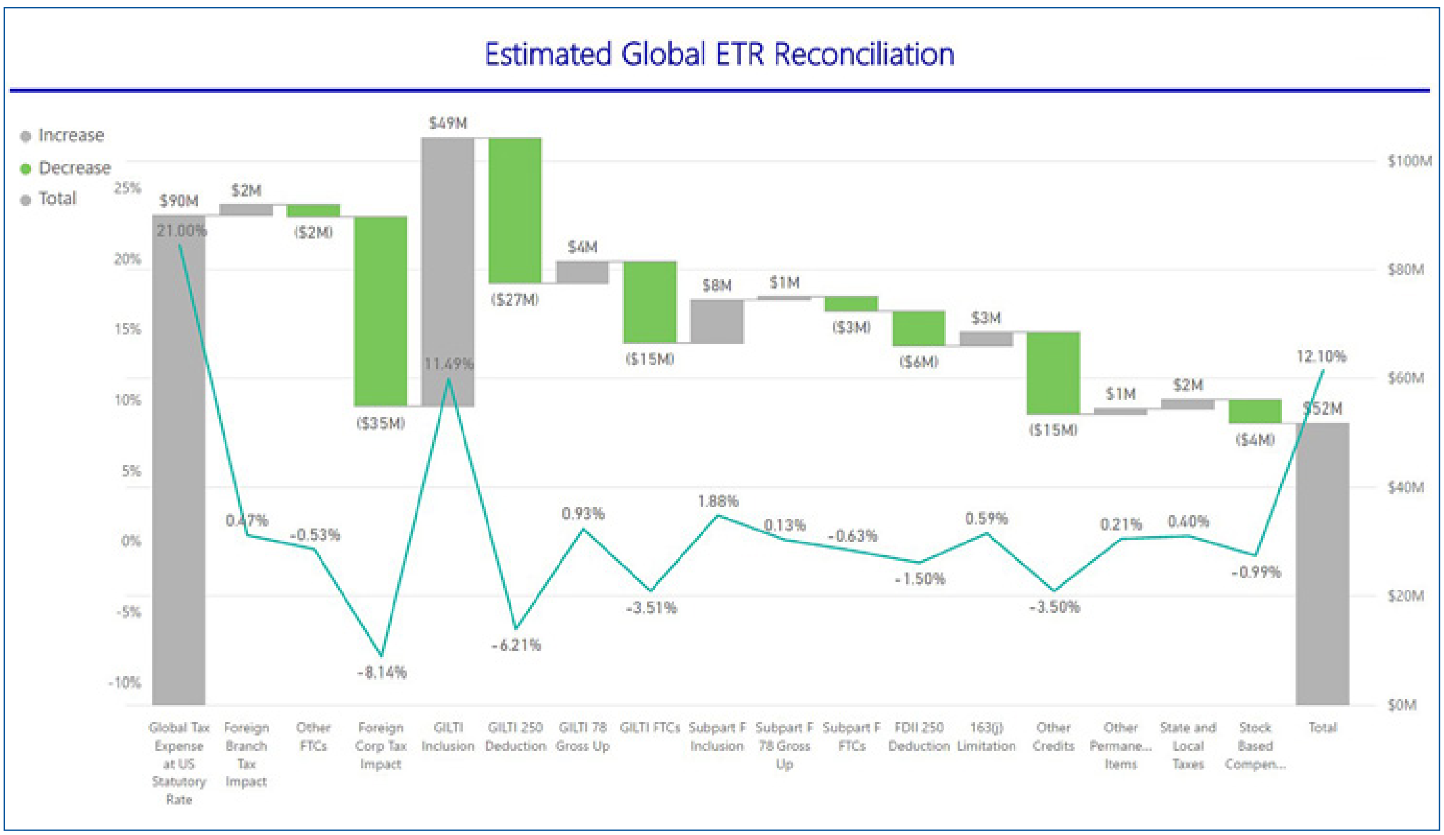
KPMG's suite of tax reform tools

— International tax reform analyzer
— Partnership tax reform analyzer
— Domestic corporate tax reform analyzer
— Mandatory repatriation analyzer
— Historical earnings and profits analyzer
— S corporation to C corporation conversion analyzer
— State and local tax reform analyzer for modeling the impact of federal tax reform
— KPMG PartnerTrack
— KPMG LINK Cost Projector for evaluating the costs of international assignments

Sample outputs

KPMG's tax reform tools provide graphical outputs that highlight key results. These outputs can be helpful in presenting impact analyses to key stakeholders and aid in driving discussions and decision making.

Sample 1 – The impact of U.S. tax reform on a company's global effective tax rate may be compared by major provision to isolate impact in KPMG's international tax reform analyzer.



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Sample 2 – The output from KPMG's domestic corporate tax reform analyzer can be captured in sample federal tax forms to track income and deduction classes, credit usage, total tax, and tax attributes.

Form **1120**	**U.S. Corporation Income Tax Return**				**2018**
Line Item	**Description**		**2018 – Pre-Tax Reform**	**2018 – Tax Reform Scenario 1**	**2018 – Tax Reform Scenario 2**
1a	Gross receipts or sales	**1a**	472.5	472.5	472.5
b	Sales returns and allowances	**1b**	5.3	5.3	5.3
c	Balance. Subtract line 1b from line 1a	**1c**	467.2	467.2	467.2
2	Cost of goods sold (attach Form 1125-A)	**2**	236.9	236.9	236.9
3	Gross profit. Subtract line 2 from line 1c	**3**	230.3	230.3	230.3
4	Dividends	**4**	6.0	1.0	2.0
5	Interest	**5**	3.0	3.0	3.0
6	Gross rents	**6**	–	–	–
7	Gross royalties	**7**	4.0	4.0	4.0
8	Capital grain net income (attach Schedule D (Form 1120))	**8**	1.0	1.0	1.0
9	Net gain or (loss) from Form 4797, Part II, line 17 (attach Form 4797)	**9**	–	–	–
10	Other income (see instructions—attach statement)	**10**	41.0	76.2	105.8
11	**Total income.** Add lines 3 through 10	**11**	285.3	315.5	346.1

Sample 3 – KPMG's partnership tax reform analyzer can show up to 10 years of calculation and analysis reflecting the impact of the new tax law in Schedule K and Schedule K-1 format.

		12/31/2018
		Tax Reform Total
	Schedule K Summary – All trades or businesses	
1	Ordinary business income (loss)	(4,010,000)
	Business interest expense	–
	Business interest income	–
	Depreciation-assets placed in service pre-2018	–
	Depreciation-assets placed in service post-2017	–
	Amortization	–
	W-2 wages	(710,000)
	Other ordinary income (deductions)	(3,300,000)
2	Net rental real estate income (loss)	–
	Business Interest expense	–
	Depreciation-assets placed in service pre-2018	–
	Depreciation-assets placed in service post-2017	–
	Amortization	–

Contact us

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