International tax reform analyzer

Modeling the potential impact of tax reform and the CARES Act
The U.S. tax law enacted in December 2017 (the 2017 Tax Act) was a game changer for many businesses—especially for multinational organizations as new tax concepts were layered on the existing tax system and had a significant impact on an organization’s global effective tax rate (ETR) and cross-border tax planning. The landscape became even further complicated with the passage of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) in March 2020.

Even the most experienced international tax practitioners can become mired in the complexity when evaluating the potential impact of these rules on a company’s global operations.

The KPMG international tax reform analyzer can help.

KPMG LLP’s (KPMG) international tax reform analyzer (ITRA) is an Excel-based tool that allows for extensive modeling of international tax rules, including those introduced by the 2017 Tax Act, the 2020 CARES Act, and prior existing provisions. ITRA can help you gain increased visibility into your global tax profile, identify the key drivers of your global ETR, and assess what planning can be considered to potentially improve your tax position.

The key features of ITRA include:

— Powerful modeling capabilities with the ability to handle modeling for tax provision, tax compliance, and tax planning use cases all in the same model

— Scalability that can accommodate both “back-of-the-envelope” and in-depth calculations

— Extensive scenario planning ability that can help align tax planning with business goals and objectives

— High-impact outputs to help visualize and compare planning opportunities, perform cost-benefit analyses, and effectively communicate with stakeholders

— Regular updates reflecting the latest tax technical guidance from the U.S. Department of the Treasury and the Internal Revenue Service.
Post-tax reform rules are highly interdependent. The significant interaction among various post-tax reform rules requires detailed modeling at both the controlled foreign corporation (CFC) and U.S. shareholder levels to help determine the potential global tax impact of tax reform on tax planning.

The CARES Act has only added to this complexity. The CARES Act included provisions that repeal or interact with aspects of the 2017 Tax Act and pre-reform tax years. Modeling now needs to accommodate this new complexity.

Existing tax reform rules

**CARES Act integration**

Holistic tax planning

Five-year NOL carryback

Elimination of the 80% NOL carryover limitation for 2018–2020

Section 163(j) limitation percentage increase

2019 ATI usage election
ITRA can handle multiple use cases.
ITRA can be used to model calculations for quarterly tax provisions and for the year-end compliance process. It can also accommodate the modeling of any number of planning scenarios for up to 20 years using percentage growth rates or actual projections, including loss projections and related net operating loss (NOL) carryback scenarios.

ITRA is scalable.
Depending on the objectives, ITRA can be used for high-level directional analyses to, for example, check a company’s high-level global intangible low-taxed income (GILTI) calculation. Or, ITRA can be used to model detailed base case and scenario planning, using refined financial data by legal entity, including the allocation and apportionment of expenses to groupings of income at both the foreign entity and U.S. shareholder levels.

ITRA can model multiple scenarios.
ITRA can be used to model multiple scenarios within the same base model and see results side by side immediately. These scenarios include acquisitions, dispositions, supply chain planning (e.g., the movement of intellectual property from offshore to the United States), loss carryback planning, changes to the mix of GILTI inclusions versus subpart F inclusions, foreign tax credit (FTC) limitation planning, and legal entity and debt restructuring planning, among others.

ITRA produces high-impact outputs.
ITRA outputs include (1) visuals generated by Power Business Intelligence that highlight key drivers of the base case global tax profile and the potential impact of proactive planning scenarios and can be used in discussions with tax, finance, and C-suite stakeholders and (2) Excel reports—organized by key tax reform provision and structured to take a user through ITRA inputs, tax rule calculation flows, and resulting numerical outputs. In addition, ITRA’s tax compliance connector (Connector) is able to produce reports that mirror IRS tax forms and interface directly with Corptax and Thomson Reuters ONESOURCE Income Tax and GoSystem Tax RS tax compliance software. More information about this functionality is provided on page 10.

ITRA links to other KPMG technology.
ITRA is a cross-functional tool that connects with other KPMG tax tools, including ITRA’s previously taxed earnings and profits (PTEP) module and the state and local tax reform tool (SALT reform tool). More information about these tools is provided on pages 8 and 11. As a result, a broader picture of the potential impact of tax reform can be achieved.
ITRA's scope

ITRA’s functionality encompasses calculations at both the foreign entity and the U.S. shareholder levels, including the ability to help analyze how the impact of various tax focus areas may affect your global ETR—in both dollar and rate terms—and concisely summarizes the total potential impact of the 2017 Tax Act and the CARES Act.

Specifically, ITRA can help analyze the potential impact of a corporation’s base case global tax profile across such areas as:

- Foreign tax planning and rate differential
- GILTI inclusion
- GILTI IRC section 250 deduction
- Subpart F inclusion
- FTC utilization
- Foreign-derived intangible income (FDII) IRC section 250 deduction
- IRC section 163(j) limitation, including the CARES Act’s limitation change/election from 30 percent to 50 percent in 2019 and 2020 for U.S. entities and CFCs, and the ability to elect to have 2019 section 163(j) adjusted tax income (ATI) be applied as 2020 ATI at U.S. entity and CFC levels
- Treatment of NOLs under the CARES Act, including the elimination of 80 percent of total income limitation on post-tax reform NOLs in 2018–2020 and NOL carryback to 2013–2019
- Base erosion anti-abuse tax (BEAT)
- Other permanent items.

In addition, ITRA can help analyze the potential impact of various scenarios, including, among others:

- GILTI/proactive subpart F
- FTC planning
- High-tax exception analysis
- FDII planning
- BEAT planning
- 163(j) planning
- Acquisition scenarios
- Disposition scenarios
- Intellectual property restructuring scenarios
- Entity/loan restructuring scenarios
- Local country tax planning.
Revised base case modeling overview

ITRA scenario modeling can assist taxpayers in reestablishing the post-COVID-19 base case in light of changes enacted in the CARES Act.

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Estimated global ETR reconciliation—Example visualization

This sample ETR bridge chart—an output from ITRA—starts on the far left with global earnings subject to the new 21 percent corporate tax rate and then highlights the potential impact of selected items (e.g., the foreign tax rate differential and the potential impact of GILTI, FDII, BEAT, 163(j), and other cash tax or rate reconciling items) to come to the resulting global ETR on the far right of the chart.

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Results can be reviewed immediately in the same file and differences compared.

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U.S. results

Quickly revise growth rates and enter loss projections

Foreign results

Estimated U.S. Global Rate Reconciliation

<table>
<thead>
<tr>
<th>Description</th>
<th>2019 Results</th>
<th>% Rate Rec</th>
<th>2020 Projections</th>
<th>% Rate Rec</th>
<th>Difference</th>
<th>% Rate Rec</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consolidated Book Income/(Loss)</td>
<td>417,625,777</td>
<td>21.0%</td>
<td>(78,338,327)</td>
<td>0.0%</td>
<td></td>
<td>0.0%</td>
</tr>
<tr>
<td>U.S. Statutory Tax Rate</td>
<td>87,701,413</td>
<td>21.0%</td>
<td>(16,451,049)</td>
<td>0.0%</td>
<td>(104,152,462)</td>
<td>0.0%</td>
</tr>
<tr>
<td>Income Tax at Statutory Rate</td>
<td>443,211</td>
<td>0.1%</td>
<td>243,766</td>
<td>-3.3%</td>
<td>(199,445)</td>
<td>-0.4%</td>
</tr>
<tr>
<td>Foreign Branch Tax Impact</td>
<td>4,429,408</td>
<td>1.1%</td>
<td>1,290,957</td>
<td>-1.6%</td>
<td>(3,138,451)</td>
<td>-2.7%</td>
</tr>
<tr>
<td>Foreign Corp Tax Impact</td>
<td>-0.0%</td>
<td>-0.0%</td>
<td>-0.0%</td>
<td>-0.0%</td>
<td>-0.0%</td>
<td>-0.0%</td>
</tr>
<tr>
<td>BEAT Impact</td>
<td>-0.0%</td>
<td>-0.0%</td>
<td>-0.0%</td>
<td>-0.0%</td>
<td>-0.0%</td>
<td>-0.0%</td>
</tr>
<tr>
<td>FDII 250 Deduction</td>
<td>35,865,865</td>
<td>8.6%</td>
<td>19,789,997</td>
<td>-25.3%</td>
<td>(16,095,868)</td>
<td>-33.9%</td>
</tr>
<tr>
<td>GILTI Inclusion</td>
<td>(24,290,064)</td>
<td>-5.8%</td>
<td>(2,836,814)</td>
<td>3.6%</td>
<td>21,453,249</td>
<td>9.4%</td>
</tr>
<tr>
<td>GILTI 250 Deduction</td>
<td>12,694,262</td>
<td>3.0%</td>
<td>5,408,368</td>
<td>-6.9%</td>
<td>(7,285,894)</td>
<td>-9.9%</td>
</tr>
<tr>
<td>GILTI 78 Gross Up</td>
<td>(16,474,833)</td>
<td>-3.9%</td>
<td>-0.0%</td>
<td>-0.0%</td>
<td>16,474,833</td>
<td>3.9%</td>
</tr>
<tr>
<td>GILTI FTCs</td>
<td>1,461,857</td>
<td>0.4%</td>
<td>1,048,406</td>
<td>-1.3%</td>
<td>(413,451)</td>
<td>-1.7%</td>
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<tr>
<td>Subpart F Inclusion</td>
<td>363,364</td>
<td>0.1%</td>
<td>161,621</td>
<td>-0.2%</td>
<td>(191,744)</td>
<td>-0.3%</td>
</tr>
<tr>
<td>Subpart F 78 Gross Up</td>
<td>(1,147,752)</td>
<td>-0.3%</td>
<td>-0.0%</td>
<td>-0.0%</td>
<td>1,147,752</td>
<td>0.3%</td>
</tr>
<tr>
<td>Passive Limitation FTCs</td>
<td>-0.0%</td>
<td>-0.0%</td>
<td>-0.0%</td>
<td>-0.0%</td>
<td>-0.0%</td>
<td>-0.0%</td>
</tr>
<tr>
<td>General Limitation FTCs</td>
<td>(443,211)</td>
<td>-0.1%</td>
<td>-0.0%</td>
<td>-0.0%</td>
<td>443,211</td>
<td>0.1%</td>
</tr>
<tr>
<td>Other Credits</td>
<td>-0.0%</td>
<td>-0.0%</td>
<td>-0.0%</td>
<td>-0.0%</td>
<td>-0.0%</td>
<td>-0.0%</td>
</tr>
<tr>
<td>Foreign Branch FTCs</td>
<td>(5,465,515)</td>
<td>-1.3%</td>
<td>(6,012,066)</td>
<td>7.7%</td>
<td>(546,551)</td>
<td>9.0%</td>
</tr>
<tr>
<td>Total Permanent Differences</td>
<td>(95,148,006)</td>
<td>22.8%</td>
<td>2,643,186</td>
<td>-3.4%</td>
<td>(92,504,820)</td>
<td>-26.2%</td>
</tr>
<tr>
<td>Global Income Tax Exp</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Example of Excel output

The following is an example of an Excel report output from ITRA. In this case, the report walks through a section 163(j) calculation from key inputs to tax rule calculation flows and ends with calculated amounts.

<table>
<thead>
<tr>
<th>Client ABC</th>
<th>Scenario: Base Case</th>
<th>Year: 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Summary of 163j</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Business Interest Expense</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Related Interest Expense</td>
<td>Entity Inputs</td>
<td>109,037</td>
</tr>
<tr>
<td>Unrelated Interest Expense</td>
<td>Entity Inputs</td>
<td>193,240,641</td>
</tr>
<tr>
<td>Total Interest Expense</td>
<td></td>
<td>193,349,678</td>
</tr>
<tr>
<td>Non-business Interest Expense</td>
<td>Other Inputs</td>
<td>-</td>
</tr>
<tr>
<td>Non-deductible / deferred Interest Expense</td>
<td>Other Inputs</td>
<td>-</td>
</tr>
<tr>
<td>Section 163(j) Interest carryover</td>
<td>Other Inputs</td>
<td>-</td>
</tr>
<tr>
<td><strong>Business Interest Expense</strong></td>
<td></td>
<td>193,349,678</td>
</tr>
<tr>
<td><strong>Business Interest Income</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Related Interest Income</td>
<td>Entity Inputs</td>
<td>471,009</td>
</tr>
<tr>
<td>Unrelated Interest Income</td>
<td>Entity Inputs</td>
<td>12,840,072</td>
</tr>
<tr>
<td>Total Interest Income</td>
<td></td>
<td>13,311,081</td>
</tr>
<tr>
<td>Non-business Interest Income</td>
<td>Other Inputs</td>
<td>-</td>
</tr>
<tr>
<td>Tax-exempt business Interest Income</td>
<td>Other Inputs</td>
<td>-</td>
</tr>
<tr>
<td><strong>Business Interest Income</strong></td>
<td></td>
<td>13,311,081</td>
</tr>
<tr>
<td><strong>163(j) Limitation</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxable Income</td>
<td>TI</td>
<td>351,758,318</td>
</tr>
<tr>
<td>Taxable Income Adjustments:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lower tier excess taxable income</td>
<td>Other Inputs</td>
<td>-</td>
</tr>
<tr>
<td>Total Interest Income</td>
<td>Above</td>
<td>(13,311,081)</td>
</tr>
<tr>
<td>Total Interest Expense</td>
<td>Above</td>
<td>193,349,678</td>
</tr>
<tr>
<td>Non-business Gain / (Loss)</td>
<td>Other Inputs</td>
<td>-</td>
</tr>
<tr>
<td>Non-business Income / (Deductions)</td>
<td>Other Inputs</td>
<td>-</td>
</tr>
<tr>
<td>NOL Deduction</td>
<td>TI</td>
<td>500,000</td>
</tr>
<tr>
<td>Depreciation Expense</td>
<td>Entity Inputs</td>
<td>14,500,775</td>
</tr>
<tr>
<td>Amortization Expense</td>
<td>Entity Inputs</td>
<td>5,484,779</td>
</tr>
<tr>
<td>Depletion Expense</td>
<td>Other Inputs</td>
<td>-</td>
</tr>
<tr>
<td>20% Passthrough Deduction</td>
<td>Other Inputs</td>
<td>-</td>
</tr>
<tr>
<td>Other</td>
<td>Other Inputs</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Above</td>
<td>652,282,469</td>
</tr>
<tr>
<td>Adjusted Taxable Income</td>
<td>Calc</td>
<td>165,684,741</td>
</tr>
</tbody>
</table>

These values can be toggled to reflect CARES Act limitation changes.
ITRA’s PTEP module

The PTEP module is an Excel-based complement to ITRA. The module is designed to address the complex rules associated with distributions and tracking PTEP. It applies the new distribution ordering rules on 10 potential annual layers of PTEP for four categories of income, calculating the applicable withholding tax, section 986(c) foreign currency exchange gain/loss, section 960(b) FTCs, basis adjustments, section 965 exclusion ratios, and section 245(e) adjustments.

The PTEP module is designed to assist in the following areas:

— **Planning**: Allows for the modeling of various potential distributions and their associated potential costs to help identify tax-efficient ways to repatriate cash

— **Provision**: Depending on ASC 740 assertions, enables analysis of PTEP movement and associated potential tax implications

— **Compliance**: Serves as a detailed and transparent check against any high-level compliance or “black box” calculation

— **Treasury hedging against foreign exchange risk**: As the potential section 986(c) gain/loss is now much more material for many companies, allows for quick and regular determination of this value and for potential hedging against it

— **M&A and spin-offs**: Calculates section 1248 and section 964(e) and basis adjustments for due diligence

— **Tax compliance**: Creates a Schedule J output report by entity to help teams complete compliance tasks and understand current-year additions/subtractions to the relevant baskets of PTEP; see following example.
Overview of PTEP analysis
This schematic provides a high-level overview of the PTEP module’s calculation flows—from key inputs and ITRA integration to potential tax impact from a distribution—taking into account the various rules.

- Determine creditable foreign tax
- US Parent
- Takes into account withholding tax (WHT) implications (e.g., section 965 haircuts)
- Runs complex distribution ordering rules on 10 annual layers of PTEP for four categories of income
- Identifies and tracks available PTEP balances
- Calculate section 986(c) foreign exchange gain/loss
- ITRA’s PTEP module allows users to quickly model multiple distribution scenarios (e.g., involving separate chains of ownership) to understand the potential tax implications of repatriation.
ITRA’s Connector

The Connector interfaces directly with third-party corporate income tax compliance tools, such as Corptax and Thomson Reuters ONESOURCE Income Tax and GoSystem Tax RS tax compliance software. For the upcoming compliance season, without this additional support, multinational companies may experience gaps and inefficiencies in connecting their international tax calculations to completed tax forms—potentially creating more work and the possibility for errors.

The Connector enables KPMG engagement teams and web-enabled desktop clients to create output reports that mirror certain IRS international tax forms and can be linked to third-party e-filing platforms for efficient and accurate international tax filing. Using an established template, KPMG professionals can assist in bridging data from client ERP systems into ITRA efficiently.

*Automated upload capability is dependent on availability of ONESOURCE Workpapers and Corptax Office.
States and local jurisdictions have responded to federal tax reform with legislation and various versions of their own tax reform. An add-on to ITRA, the SALT reform tool uses the results from ITRAs international tax engine to calculate state modifications for combined and separate reporting. It helps to measure the potential state and local income tax impact of tax reform by estimating and evaluating various significant provisions of tax reform.

**KPMG SALT reform tool**

The SALT reform tool uses the results from ITRAs international tax engine to calculate state modifications for combined and separate reporting.

**Calculates state modifications for:**
- Section 965
- GILTI
- FDII
- Section 163(j)
- Section 250 deduction
- Bonus depreciation or 100 percent expensing

**Considers state conformity to Internal Revenue Code**

**Handles combined and separate reporting**

**ITRA benefits**

- ITRA is Excel-based, transparent, and not a “black box.”
- Clients can obtain personal desktop access to their Excel version of ITRA. (This capability is not available to KPMG SEC Audit clients.)
- ITRA has been used on hundreds of large clients from the Fortune 10 to the Fortune 1000.
- ITRA is a holistic and flexible Excel model that can be used for tax consulting, provision, and compliance.
- Regulations, other tax law changes, and enhanced functionality are added continually and on a timely basis.
- PTEP and other key attributes can be tracked via the PTEP module.
- ITRA links to the SALT reform tool.
- Detailed, step-by-step ITRA output reports by key tax rule (e.g., FDII, GILTI, section 163(j), BEAT, and section 861 expense allocation and apportionment) are included.
- ITRA’s Connector includes output reports that mirror certain IRS tax forms.
- ITRA outputs can “automatically” link to third-party corporate income tax compliance software for efficient form population and e-filing.
Contact us

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