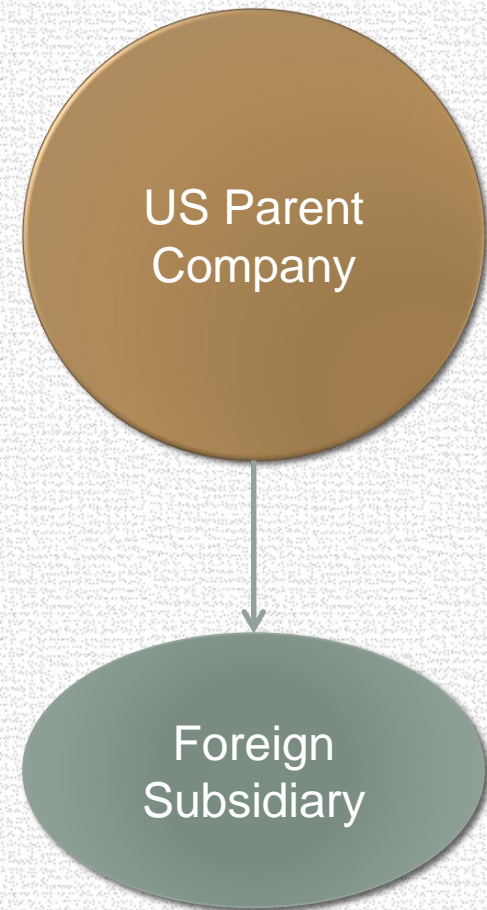


INTERNATIONAL TAX REFORM

By: Travis Gohman

Key Terms

- Deferral
 - Time delay
- Repatriate
 - Send revenue back up
- Dividend
 - Payment form
- Undistributed foreign earnings
 - Non-repatriated cash



Relevance

Current Problem

- Highest corporate tax rate



- Abuse of system
- Less tax revenue



- U.S. economy suffers

Audience

- U.S. policy-makers
- U.S. corporations with international operations
- International tax planners

Goals of Reform

1. Reduce incentive to shift profits overseas
2. Increase competitiveness of domestic US corporations
3. Increase US tax revenue

RESEARCH QUESTION

How will the repeal of the deferral system of international taxation financially affect the U.S. government in terms of tax revenue?

Existing Research

- General consensus: lower corporate tax rate to 25%
- Current proposals
 - Baucus
 - Minimum tax going forward: 15% or 20%
 - 20% one-time tax
 - All credits & deductions allowed
 - Camp
 - Exclude 95% of dividends (1.25% future tax)
 - 8.75% one-time tax
 - Eliminate credits & deductions

Research Process

- Sampled Fortune 500 companies
 - Initial sample
 - Revised sample
- Examined 10-k's
 - Income tax footnote
- Projected sample total to population
- Analyzed the effects of the Baucus and Camp proposals
 - One-time
 - Future rates

Sample Data

	<u>Top 25</u>	<u>Lower 475</u>
2013 undistributed earnings of sample	\$499.9 billion	\$73.8 billion
Current year additions	65.8	5.8
Sample average	19.9	2.9
Population Projection	1,902	
CY Projection	182.5	

Proposal Differences

- Recall:
 - Baucus: 15-20%, 20%, credits/deductions
 - Camp: 1.25%, 8.75%, no credits/deductions
- Tax reconciliation:

\$182,500.6	<u>15%</u>	<u>20%</u>	<u>25%</u>
Pretax	214,706.59	228,125.75	243,334.13
Tax @ 35%	75,147.31	79,844.01	85,166.95
Foreign tax	32,205.99	45,625.15	60,833.53
Benefit	<u>42,941.32</u>	<u>34,218.86</u>	<u>24,333.41</u>

Analysis of Proposals

Baucus

20% 1-time	380,413.64
15% FTR	(67,131.82)
20% FTR	23,775.85
25% FTR	126,804.55
15% Plan	27,375.09
15%	(15,566.23)
20%	(6,843.77)
25%	3,041.68
20% Plan	36,500.12
15%	(6,441.20)
20%	2,281.26
25%	12,166.71

Camp

8.75% 1-time	166,430.97
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1.25% Plan	2,281.26
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Key Findings

- Proposals succeed in generating significant tax revenue
- Camp proposal is the safer bet
- Baucus proposal:
 - Effective for corps with higher int'l tax rates

Limitations & Further Research

- Bigger sample size
 - Research entire fortune 500 population
 - Assumed same foreign tax rates for all corps
 - Proposal rates not final
- Assume different U.S. rates
 - Analyze company-by-company rates
 - Future of tax credits and deductions
 - Financial vs. competitive

THANK YOU!

Questions?