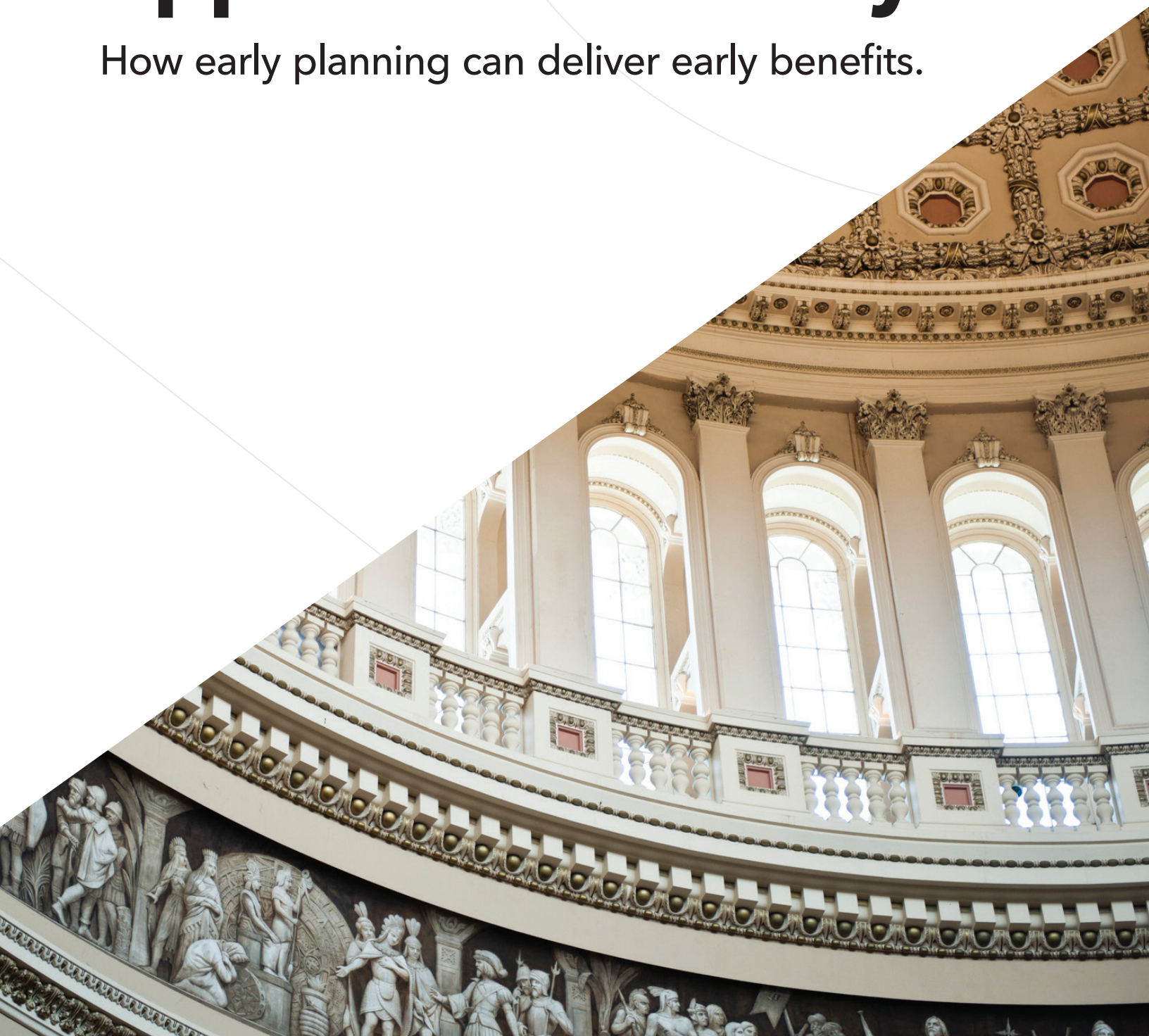
White Paper

Bloomberg BNA

Tips for cashing in on tax reform opportunities today.

How early planning can deliver early benefits.



Introduction

For the first time in a long time the stars are aligning for comprehensive corporate tax reform.

The President has outlined bold measures to slash corporate tax rates from 35% to 20%. Light on details but heavy on impact, the proposal is sparking new hope but also uncertainty for CFOs.

The proposed measures could force companies to make big adjustments to their income statements and balance sheets.

How big? Consider a company like Apple with deferred tax assets (DTAs) of $4.318 billion. Cutting the corporate tax to 20% from 35% would reduce its DTAs by $647.7 million. Think about it. Apple's tax expense would go up by $647.7 million while its income and earnings per share would go down by the same staggering amount.

With an impact like that tax reform has the potential to keep tax professionals awake at night as they devise creative, new ways to monetize their deferred tax assets and liabilities.

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The President's proposal could create one–time depreciation opportunities in the millions or billions of dollars. It could also cause significant hits to income statements. It could even trigger trickle down effects at the state level as governors scramble to protect their tax base.

With so many possibilities and so little clarity, CFOs and tax department leaders need to be smart, proactive and prepared to minimize reporting risk and maximize opportunities while they last.

Though there is much uncertainty about the potential tax changes and when these changes will become law, timing is everything. Waiting until tax reform measures become law could be too late.

Cashing in Amid Uncertainty

With so much at stake, companies need to consider the impact of reform on financial reporting now. They need to anticipate changes with as much foresight as insight to effectively manage their tax cash before measures are enacted.

The cost of inaction is high. Tax benefits that are here today may be gone tomorrow once tax reform becomes law. Lost opportunities in the form of lost earnings and income can also mean lost confidence from boards of directors and shareholders.

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But how do you analyze and monetize the impact of tax reform when there are more questions than answers? How do you protect your bottom line and business with so much political volatility?

Tips for cashing in on tax reform opportunities today.

Start with a proactive strategy that optimizes your reporting even in the face of uncertainty. Focus on these critical reporting goals:

Staying ahead of tax reform. Model and analyze the potential impact on your reporting by creating and comparing various what–if scenarios.

Optimizing your cash tax now. Make strategic decisions today to take advantage of current tax law before tax reform takes effect.

Mitigating your financial statement risk. Reduce the added risk of tax reform on financial statements by strengthening your internal tax and accounting controls.

Achieving these goals is easier said than done, but there are three effective steps you can take to ensure you do.

First, plan for all tax reform possibilities. Second, model all the scenarios. Third, take a holistic approach to assessing reform's impact on your financial reporting.

Follow these steps and your company will come out ahead no matter what reform measures are signed into law. More importantly, you will be able to see all the opportunities that tax reform offers while you can still take advantage of them.

Planning for All Possibilities

While headlines have focused on cutting the current 35% rate to 20%, there are many aspects of proposed tax reform that could have a major impact on your financial reporting. Here's what you should start planning for:

Opportunities for one–time income statement savings. With the lower tax rate, you could actually reap a one–time savings windfall if you have significant deferred tax liabilities (DTLs). The key is accelerating your bonus depreciation before the tax cut is enacted. Doing so will minimize your cash tax now, and give your EPS a boost when you write down the DTL. At the same time, you could also take some income statement hits if you have significant deferred tax assets. How can you best monetize your DTLs today?

Limits on deductions. Reform measures call for full expensing for certain fixed assets and limits on deductions for interest expense and net operating loss carryforwards. What will be the impact on your current and deferred taxes?

Good news and bad news for international operations. Reform measures also call for a 100% exemption for dividends from foreign subsidiaries. However, they also call for a border tax on U.S. imports and a toll tax to repatriate foreign earnings. What will be the optimal reporting strategy for your international operations and domestic operations that rely on international components or products?

Trickledown effects on state taxes. Expect many states to counter federal tax reform with their own strategies to protect their tax base. Stricter state apportionment rules, higher state tax rates, reduced state tax credits, and limits on net operating losses all could be possible fallout. How will your state tax planning mesh with your federal planning for tax reform?

Nothing is certain. Everything is possible. So how do you plan with so many variables? How do you prepare for so many potential outcomes with so much impact to your bottom line?

By "gaming out" all the reform scenarios with the right modeling tools. By actually seeing the impact on your current and future tax position beforehand.

Modeling All the Scenarios

The surest way to know the impact of reform on your reporting is to actually model scenarios to quantify the outcomes.

Critical tools for "what–if" analysis, scenario building, and forecasting will help you make smarter strategic decisions while reducing the complexity and risk in your tax management. They will help you uncover the impact of reform on your deferred tax assets and liabilities now and in the future.

Above all, by modeling scenarios you will see opportunities you might otherwise miss.

For example, where are the best opportunities to cash in on the new 20% rate? Should you accelerate depreciation at 35% today or risk losing out at the 20% rate tomorrow? Should you bring offshore funds back at the proposed 10% repatriation tax? What's the best DTA strategy to utilize your net operating loss and decrease tax expense?

By modeling scenarios you will see opportunities you might otherwise miss.

The right modeling software tools will not only guide you to the best decisions, but also when to make them. By modeling all the scenarios you will be able to make faster and more informed reporting decisions while time is still on your side.

What to Look For in Modeling Tools

To fully optimize your reporting for tax reform there are important considerations to keep in mind. Your modeling software should:

- Make it easy to do "what if" analysis for even the most complex scenarios. You should be able to see the impact of reform measures on your deferred tax assets and liabilities with a few clicks.
- Automatically reflect the latest tax laws so you can accurately compare reform scenarios to make the best cash tax decisions.
- Perform fast, accurate tax calculations to determine your deferred tax assets and liabilities today and tomorrow to strengthen the integrity of your financial statements.
- Be part of an integrated corporate tax planning system. To know the full impact of tax reform, you need to know the effect across your entire reporting spectrum. Not merely a piece of it.

Taking A Holistic Approach

Nothing happens in a vacuum. All the chapters in your reporting story are connected. To get the complete view of tax reform's impact you need to look at your entire reporting process.

Examine all the scenarios across multiple disciplines, such as fixed assets and net operating losses, considering both state and federal taxes.

What's the impact to your deferred tax assets and deferred tax liabilities? What's the interplay of tax law changes and tax credits? There are many moving pieces from Section 199, FTC, GBC, AMT and AMT credits to consider.

And how will reform impact you on the state level? What will be the effect on your deferred tax assets from net operating losses, deferred tax liabilities from depreciation, and deferred tax assets from various credits?

Playing out all the scenarios across your full reporting spectrum is a big challenge. With so many moving parts, you will need an integrated corporate tax planning system to accurately plan and strategize. An integrated system will let you take a holistic approach to see how different tax reform measures impact all your reporting pieces such as your cash tax, balance sheet, income statement and earnings per share.

Benefiting From Foresight

Tax reform as proposed presents both opportunities and risks especially with your deferred tax assets and liabilities.

Smart CFOs and tax department leaders who start analyzing and monetizing the impact now will be in the strongest position to advise their companies on both.

By using a corporate tax planning system to model scenarios, maximize tax cash now, and see the whole reporting picture, they will cash in on the opportunities of tax reform today and avoid its risks tomorrow.

> ***A tax rate reduction can have a negative impact on financial statements for companies in net DTA positions. Deferred tax assets booked at the 35% rate will be written down, with the effect coming through on the income statement as abnormally high tax expense. But you can avoid this pitfall by accelerating the use of your existing DTAs and minimizing the creation of new DTAs. Don't let your unused NOLs just sit there!***

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