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SENATE TAX REFORM PROPOSAL – INTERNATIONAL

The following chart sets forth some of the international tax provisions in the Senate's version of the Tax Cuts and Jobs Act, as approved by the Senate on December 2, 2017. This chart highlights only some of the key issues and is not intended to address all aspects of the proposed legislation. If you have any questions, please contact your Andersen Tax advisor.

As of December 2, 2017

INTERNATIONAL		
Provision	**Description of Proposed Change**	**Comments**
International – Mandatory Inclusion	One-time mandatory inclusion wherein U.S. shareholders owning at least 10% of certain foreign corporations, generally, would include in income for the foreign corporation's last tax year beginning before 2018, the shareholder's pro rata share of the net post-1986 historical earnings and profits (E&P) of the foreign subsidiary to the extent such E&P has not been previously subject to U.S. tax, determined as of November 9, 2017, or other applicable measurement date as appropriate. Certain foreign E&P deficits would generally reduce the mandatory inclusion. A deduction would be allowed for a portion of the mandatory inclusion in order to affect a reduced tax rate. A deduction would be allowed based on a percentage of the mandatory inclusion amount in order to affect a reduced tax rate. The deduction is 58.6% with respect to the portion of relevant E&P attributable to cash and other liquid assets and 78.6% for the balance of the inclusion amount. For domestic corporations with a marginal tax rate of 35%, the deduction results in a reduced tax rate of 14.5% for E&P invested in cash and other liquid assets and 7.5% for E&P invested in other property. Taxpayers subject to this deemed repatriation could elect to pay the net tax liability in eight installments in the following amounts: installments one through five in an amount equal to 8% of the net tax liability; a sixth installment of 15% of the net tax liability; the seventh, 20% and the eighth, 25%. If an installment is paid on time, it does not incur interest. Coordination rules are provided for foreign tax credits to disallow a portion of foreign taxes relative to the reduced tax rate. An election would be available to opt out of utilizing net operating losses to offset the mandatory inclusion. Rules will also be provided to coordinate the interaction of existing net operating losses, overall domestic losses, and foreign tax credit carry-forward rules with the required income inclusions. A special rule would permit deferral of the transition net tax liability pursuant to an election for shareholders of a U.S. shareholder that is an S corporation until a triggering event occurs. Other special rules apply. The proposal directs IRS to prescribe regulations to prevent the avoidance of the purposes of the provision, including through a reduction in E&P through changes in entity classification, changes in accounting methods, or otherwise.	The mandatory inclusion applies to all U.S. persons (including individuals) meeting the applicable conditions whether or not eligible for the new participation exemption system. Corporate financial statement issuers will need to determine the tax liability associated with mandatory deemed repatriation in the year of enactment for ASC 740 purposes. The details for determining the tax are complex and will require updated calculations of several attributes. The proposal includes several rules intended to prevent taxpayers from engaging in certain planning to reduce E&P subject to the mandatory deemed repatriation inclusion. Nonetheless, affected taxpayers should begin evaluating their position under this proposal immediately in order to assess the impact and understand their options. The revised rates of tax on cash (14.5%) and non-cash (7.5%) are slightly higher than the rates in the House bill of 14% and 7%, respectively. Taxpayers other than domestic corporations with a marginal 35% tax rate would be subject to different net tax rates on the mandatory deemed inclusion amount.

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SENATE TAX REFORM PROPOSAL – INTERNATIONAL

INTERNATIONAL		
Provision	**Description of Proposed Change**	**Comments**
International – Mandatory Inclusion Recapture Rule for Expatriated Entities	The benefits of the deduction against the mandatory inclusion would be denied and a 35% tax is imposed without eligibility for a foreign tax credit if a U.S. shareholder becomes an expatriated entity within the meaning of Sec. 7874(a)(2) at any point within the ten-year period following enactment of the proposal.	The anti-inversion rules and related regulations are extremely complex and can apply to certain acquisitions and restructuring transactions in unexpected ways. Under this proposal, these rules would continue to be relevant to analyze with respect to certain corporate transactions given the onerous consequences of the recapture rule.
International – Participation Exemption System	An exemption for certain foreign income is provided by means of a 100% deduction for the foreign-source portion of dividends paid by certain foreign corporations to a U.S. shareholder that is a domestic corporation, owns 10% or more of the foreign corporation, and satisfies certain other conditions, such as a one-year holding period (the dividends-received deduction or DRD). No foreign tax credit or deduction is allowed for any taxes paid or accrued with respect to a dividend that qualifies for the DRD. The DRD is not available for any dividend received by a U.S. shareholder from a controlled foreign corporation (CFC) if the dividend is a hybrid dividend. A hybrid dividend is a dividend for which the DRD would otherwise be allowed for which the paying CFC received a deduction or other tax benefit from taxes imposed by a foreign country. Hybrid dividends received by CFCs from certain other CFCs would be treated as subpart F income with respect to the recipient CFC. No foreign tax credit or deduction would be allowed with respect to either type of income inclusion arising from hybrid dividends. The proposal is effective for taxable years of foreign corporations beginning after December 31, 2017 and for taxable years of U.S. shareholders in which or with which such taxable years of foreign corporations end.	The participation exemption takes the form of a dividends-received deduction (DRD) and would be available only for domestic C corporations meeting certain criteria with respect to the foreign portion of qualifying dividends received from certain foreign corporations. Investments in the form of hybrid instruments within the group should be evaluated to determine whether DRDs would be disallowed or additional subpart F income would arise under the new provisions.
International – Repeal of Sec. 956 for Domestic Corporations	The requirement in subpart F that U.S. shareholders recognize income when earnings are repatriated in the form of increases in investment by a CFC in U.S. property would be amended to provide an exception for domestic corporations that are U.S. shareholders in the CFC either directly or through a domestic partnership. The proposal would be effective for taxable years of CFCs beginning after December 31, 2017, and for taxable years of U.S. shareholders in which or with which such taxable years of the foreign corporations end.	For domestic C corporations, the participation exemption system would be extended to apply to certain investments in U.S. property by CFCs. Other provisions within subpart F would remain applicable. Sec. 956 would remain applicable to all other taxpayers who are U.S. shareholders of a CFC, including individuals and S corporations.

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Provision	**Description of Proposed Change**	**Comments**
International – Special Rules for Sales of Certain Foreign Corporations	Solely for the purpose of determining a loss, a domestic corporate shareholder's adjusted basis in the stock of an applicable foreign corporation would be reduced by an amount for which the DRD was allowed. Sales of foreign corporation stock by a domestic corporation held for one year or more treated as a dividend for purposes of Sec. 1248 would be treated as a dividend for purposes of the DRD. Gain from the sale of certain lower-tier foreign corporations treated as a dividend under Sec. 964(e) would result in deemed subpart F income for which a deduction would be available under certain conditions. The proposal relating to reduction of basis in certain foreign stock for the purposes of determining a loss would be effective for dividends received in taxable years beginning after December 31, 2017.	These rules provide relief in certain cases, but could create traps for the unwary in other instances. For instance, the long standing rule of exempting certain CFC gains from foreign personal holding company income treatment via Sec. 964(e) would be repealed under this provision with a corresponding participation exemption at the U.S. shareholder level applying only if the requirements of new Sec. 245A are otherwise satisfied—e.g., including a holding period requirement.
International – Basis Adjustments and Loss Recapture	If a domestic corporation transfers substantially all of the assets of a foreign branch to certain foreign subsidiaries, the domestic corporation would be required to include in income the amount of any post-2017 losses that were incurred by the branch, subject to certain limitations and special rules. The amount of loss included in the gross income of the taxpayer under the proposed rule for any taxable year cannot exceed the amount allowed as a deduction under the new DRD with any excess carried forward. Amounts included in gross income by reason of the proposal would be treated as derived from sources within the U.S. The active trade or business exception for outbound transfers under Sec. 367(a)(3) would be repealed. The proposal would be effective for transfers after December 31, 2017.	Taxpayers eligible for the DRD for foreign source dividends would likely consider restructuring foreign operations conducted in branch form. Domestic corporations that wish to incorporate foreign branch operations (including via check-the-box elections for foreign disregarded entities) will need to consider the effect of this and other already existing loss recapture rules. The provision would also repeal a key exception to gain recognition for certain outbound transfers, potentially increasing the tax cost of incorporating foreign branches in certain cases.

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SENATE TAX REFORM PROPOSAL – INTERNATIONAL

INTERNATIONAL		
Provision	**Description of Proposed Change**	**Comments**
International – Global Intangible Low Taxed Income	Under the proposal, a U.S. shareholder of any CFC must include in gross income for a taxable year its global intangible low-taxed income (GILTI) in a manner generally similar to inclusions of subpart F income. GILTI means, with respect to any U.S. shareholder for the shareholder's taxable year, the excess (if any) of the shareholder's net CFC tested income over the shareholder's net deemed tangible income return. The shareholder's net deemed tangible income return is an amount equal to 10% of the aggregate of the shareholder's pro rata share of the qualified business asset investment (QBAI) of each CFC with respect to which it is a U.S. shareholder. For any amount of GILTI included in the gross income of a domestic corporation, the corporation would be deemed to have paid foreign income taxes equal to 80% of the product of the corporation's inclusion percentage multiplied by the aggregate tested foreign income taxes paid or accrued, with respect to tested income, by each CFC with respect to which the domestic corporation is a U.S. shareholder. Rules would apply for the definition and determination of tested income, tested loss, QBAI, allocation of GILTI to CFCs, coordination with subpart F, and deemed-paid foreign tax credits. A separate foreign tax credit basket would be established for GILTI. No carryovers or carrybacks of excess taxes would be allowed for taxes paid or accrued with respect to amounts includible in income under new Sec. 951A. The proposal would be effective for taxable years of foreign corporations beginning after December 31, 2017, and for taxable years of U.S. shareholders in which or with which such taxable years of foreign corporations end.	This rule would subject a U.S. shareholder to a minimum tax on the combined income of its CFCs above a deemed routine return on qualified business asset investment. The rules for implementing this proposal will be complex. Affected taxpayers will find it necessary to maintain annual attribute computations under U.S. federal tax principles for all relevant foreign corporations in order to support the required computations. This provision would be especially onerous for U.S. shareholders of CFCs other than domestic corporations. This is because such taxpayers would not be permitted to claim an indirect foreign tax credit under Sec. 960, nor would they be eligible for the 50% deduction of the GILTI amount proposed for U.S. shareholders of CFCs that are domestic corporations.
International – Deduction for Foreign-Derived Intangible Income	In the case of a domestic corporation, the proposal would allow a deduction equal to the lesser of (1) 37.5% of the sum of its foreign-derived intangible income plus 50% of the amount of GILTI that is included in its gross income, or (2) its taxable income, determined without regard to the proposal. The foreign-derived intangible income of any domestic corporation would be the amount which bears the same ratio to the corporation's deemed intangible income as its foreign-derived deduction eligible income bears to its deduction eligible income. The deduction percentage would be reduced from 37.5% to 21.875% for foreign-derived intangible income and from 50% to 37.5% for GILTI inclusions for taxable years beginning after December 31, 2025. The Secretary would be authorized to prescribe regulations or other guidance as may be necessary or appropriate to carry out the proposal. The proposal would be effective for taxable years beginning after December 31, 2017.	This proposal targets a reduced tax rate of 12.5% for domestic corporations with respect to the GILTI inclusion, as well as for certain export sales and services performed for non-U.S. persons. The rules for determination of the deduction will be complex. The deduction would only apply to domestic corporations, and would not be available for individuals or S corporations.

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INTERNATIONAL		
Provision	**Description of Proposed Change**	**Comments**
International – Certain Transfers of Intangible Property	The proposal would reduce corporate gain otherwise recognized with respect to transfers of certain intangible property from a CFC to its U.S. shareholder by treating the value of such property as not exceeding the adjusted basis of such property immediately before such distribution. The proposal is effective for taxable years of foreign corporations beginning after December 31, 2017, and for taxable years of U.S. shareholders in which or with which such taxable years of foreign corporations end.	This proposal may mitigate certain tax consequences for domestic corporations that repatriate certain intangible property before the last day of the third taxable year of CFCs beginning after December 31, 2017.
International – Modification of U.S. Shareholder Definition	This proposal would expand the definition of U.S. shareholder under subpart F to include any U.S. person who owns 10% or more of the total value of shares of all classes of stock of a foreign corporation. This provision would apply to taxable years of foreign corporations beginning after December 31, 2017, and to taxable years of United States shareholders with or within which such taxable years of foreign corporations end.	Currently, U.S. shareholder status is determined solely by reference to voting stock. This proposal would increase the incidence of foreign corporations qualifying as CFCs, as well as certain investors qualifying as U.S. shareholders and, thus, having exposure to income inclusions under subpart F.
International – Subpart F (Foreign Base Company Oil Related Income)	The imposition of current U.S. tax on foreign base company oil related income would be repealed. The provision would be effective for tax years of foreign corporations beginning after December 31, 2017, and for tax years of U.S. shareholders in which or with which such tax years of foreign subsidiaries end.	
International – Subpart F (De Minimis)	The $1 million gross income de minimis threshold for subpart F income would be adjusted for inflation. The provision would be effective for tax years of foreign corporations beginning after December 31, 2017, and for tax years of U.S. shareholders in which or with which such tax years of foreign subsidiaries end.	Notwithstanding the proposed transition to an exemption system, the primary categories of subpart F income would be retained. Thus, rules such as this will continue to have relevance.
International – Repeal of Inclusion for Withdrawal from Qualified Investment	The proposal would repeal Sec. 955. As a result, a U.S. shareholder in a CFC that invested its previously excluded subpart F income in qualified foreign base company shipping operations is no longer required to include in income a pro rata share of the previously excluded subpart F income when the CFC decreases such investments. The proposal would be effective for taxable years of foreign corporations beginning after December 31, 2017, and to taxable years of U.S. shareholders within which or with which such taxable years of foreign corporations end.	
International – Subpart F (Look-Through Rule Made Permanent)	The look-through rule under Sec. 954(c)(6) would be made permanent. The provision would apply to taxable years of foreign corporations beginning after December 31, 2017, and to taxable years of U.S. shareholders in which or with which such taxable years of foreign corporations end.	The look-through exception has previously been temporary and subject to extension since its enactment.

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Provision	**Description of Proposed Change**	**Comments**
International – Subpart F (Modification of Stock Attribution Rules to Determine CFC Status)	The limitation under Sec. 958(b)(4) on downward attribution of stock to partnerships, estates, trusts, and corporations from foreign persons would be eliminated. The provision would be effective for the last taxable year of foreign corporations beginning before January 1, 2018 and all subsequent years, and for tax years of U.S. shareholders in which or with which such tax years of foreign subsidiaries end.	This provision would result in an increase in foreign corporations treated as CFCs, as well as an increase in CFCs being treated as related, thus increasing exposure to subpart F income by certain U.S. shareholders that own direct or indirect interests in certain foreign subsidiaries. Based on the effective date, this provision would apply to determine stock ownership for purposes of the mandatory deemed repatriation provision.
International – Subpart F (Elimination of 30-Day Rule)	A U.S. shareholder would be subject to current U.S. tax on the CFC's subpart F income even if the U.S. shareholder does not own stock in the CFC for an uninterrupted period of 30 days or more during the year. The provision would be effective for tax years of foreign corporations beginning after December 31, 2017, and for tax years of U.S. shareholders in which or with which such tax years of foreign subsidiaries end.	This provision may result in increased incidence of inclusions under subpart F for all types of U.S. shareholders in certain circumstances.
International – Limitation on Deduction of Interest	Base erosion that results from excessive and disproportionate borrowing in the U.S. would be addressed by limiting the deductibility of interest paid or accrued by U.S. corporations that are members of a worldwide affiliated group (as defined). For any domestic corporation that is a member of a worldwide affiliated group, the proposal would reduce the deduction for interest paid or accrued by the corporation by the product of the net interest expense of the domestic corporation multiplied by the debt-to-equity differential percentage of the worldwide affiliated group. A worldwide affiliated group means a group consisting of the includible members of an affiliated group, as defined in Sec. 1504(a), determined by substituting 'more than 50 percent' for 'at least 80 percent' each place it appears in such section, and by including certain insurance companies, foreign corporations, and corporations with respect to which an election under Sec. 936 is in effect. The debt-to-equity differential percentage would be based on the indebtedness of U.S. members of the group relative to 110% of the overall group debt-to-equity ratio. Net interest expense means the excess (if any) of: (1) interest paid or accrued by the taxpayer during the taxable year, over (2) the amount of interest includible in the gross income of the taxpayer for the taxable year. Special rules and definitions apply. The 110% threshold used in determining excess indebtedness would be phased in from 2018 to 2021, at 130% in 2018, 125% in 2019, 120% in 202 and 115% in 2021. The proposal would be effective for taxable years beginning after December 31, 2017.	While giving some regulatory authority to IRS, the provision appears to determine the applicable debt-to-equity ratios based on the adjusted tax basis of assets, rather than based on fair market value. This could result in greater limitations for groups that have recently acquired foreign assets with higher stepped up tax bases relative to legacy domestic assets. Taken together with the 30% limitation under new Sec. 163(j), many multinational groups may consider restructuring their financing arrangements in light of these limitations. If enacted, this rule may obviate the need for portions of the controversial Sec. 385 debt/equity regulations issued in 2016 as referenced in the Treasury Department's October 2, 2017 report under Executive Order 13789.

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Provision	**Description of Proposed Change**	**Comments**
International – Base Erosion and Anti-Abuse Minimum Tax	This provision would require U.S. corporate taxpayers with annual gross receipts in excess of $500 million and certain deductible foreign related-party payments to pay additional corporate tax, in certain circumstances. The base erosion minimum tax would be imposed if 10% of the modified taxable income (generally, taxable income plus certain deductible foreign related-party payments) of the U.S. corporation exceeds the U.S. corporation's regular tax liability for the year as determined with certain adjustments. A rate of 12.5% would be substituted for 10% for taxable years beginning after December 31, 2025. The minimum tax rates would be increased by 1% for members of an affiliated group which includes a bank as defined in Sec. 581 or a registered securities dealer under Sec. 15(a) of the Securities Exchange Act of 1934. Deductible foreign related-party payments do not include cost of goods sold unless paid to certain expatriated or related entities or amounts paid or incurred for certain services if those services meet the requirement for the services cost method under Sec. 482 and if such amount is the total services cost with no markup. U.S. corporations with foreign related-party payments of less than 4% of their total expenses would not be subject to the tax. The provision would allow for a reduction of liability for this anti-abuse tax for a certain percentage of the U.S. corporation's net operating loss carryforwards and its research and development tax credits. Various other special rules and definitions apply. The proposal would also introduce additional reporting requirements under Sec. 6038A and increased penalties for failure to comply. The proposal would apply to base erosion payments paid or accrued in taxable years beginning after December 31, 2017.	Applicable taxpayers as defined in the provision should evaluate their exposure to the base erosion minimum tax. Complex calculations may be required on an annual basis for taxpayers that could be within the purview of the rules.
International – Limitation Related to Certain Intangible Property Transfers	Under the proposal, workforce in place, goodwill (both foreign and domestic), and going concern value are intangible property within the meaning of Sec. 936(h)(3)(B), as is the residual category of "any similar item" the value of which is not attributable to tangible property or the services of an individual. The proposal also clarifies the authority of the Commissioner to specify the method to be used to determine the value of intangible property, both with respect to outbound restructurings of U.S. operations and to intercompany pricing allocations, explicitly permitting the valuation of intangible property on an aggregate basis in the case of certain transfers of multiple intangible properties in one or more related transactions. The proposal also codifies the realistic alternative principle with respect to intangible property. The proposal would apply to transfers in taxable years beginning after December 31, 2017. No inference is intended with respect to application of Sec. 936(h)(3)(B) or the authority of the Secretary to provide by regulation for such application on or before the date of enactment.	This proposal addresses long-standing controversial issues in transfer pricing, especially with respect to outbound transfers of intangible property. If enacted, this proposal would effectively empower IRS to assign higher value to intangibles developed by US taxpayers prior to the commencement of an outbound transfer (i.e., pre-existing intangibles). IRS had been denied such authority in recent high profile transfer pricing cases, including *Veritas* and *Amazon*.

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INTERNATIONAL		
Provision	**Description of Proposed Change**	**Comments**
International – Hybrid Payments	The proposal would deny a deduction for any disqualified related-party amount paid or accrued pursuant to a hybrid transaction or by, or to, a hybrid entity. A disqualified related-party amount is any interest or royalty paid or accrued to a related party to the extent that: (1) there is no corresponding inclusion to the related party under the tax law of the country of which such related party is a resident for tax purposes, or (2) such related party is allowed a deduction with respect to such amount under the tax law of such country. Various special rules and definitions apply. The proposal would be effective for taxable years beginning after December 31, 2017.	This provision addresses certain arrangements addressed by the Organization for Economic Cooperation and Development's (OECD) study on base erosion and profit shifting. If enacted, multinational groups will need to evaluate their cross-border supply chain and financing structures to determine whether deductions for related-party interest or royalties would be disallowed under the new law.
International – Repeal of DISC Regime was Removed from Senate Proposal		The proposed to repeal the DISC regime was removed from the Senate bill that passed the full Senate. Notwithstanding that the DISC regime may remain in place, the benefits of using a DISC may be significantly curtailed in certain situations as a result of the reduced corporate tax rate, deduction for foreign derived intangible income, and deduction for certain pass-through income.
International – Disallowance of Reduced Dividend Rate for Expatriated Corporations	An individual shareholder who receives a dividend from a corporation that is a surrogate foreign corporation as defined in Sec. 7874(a)(2)(B) (that is, a U.S. corporation that inverts to become a foreign corporation, other than a foreign corporation that is treated as a domestic corporation under Sec. 7874(b)) would not be entitled to the lower rates on qualified dividend income provided in Sec. 1(h). The proposal would be effective for dividends paid in taxable years beginning after December 31, 2017.	When applicable conditions are satisfied, foreign corporations that acquire (or have acquired) certain domestic businesses or assets in transactions subject to the U.S. anti-inversion rules may not be eligible to pay dividends subject to the reduced long-term capital gains rates. This could affect individuals owning stock in such foreign corporations, including via partnerships or S corporations. Taxpayers should evaluate whether they own stock in any such foreign corporations.
International – Foreign Tax Credits	The proposal would repeal the deemed-paid credit with respect to dividends received by a domestic corporation that owns 10% or more of the voting stock of a foreign corporation. A deemed-paid credit would be provided with respect to any income inclusion under subpart F. The deemed-paid credit would be limited to the amount of foreign income taxes properly attributable to the subpart F inclusion. The proposal would be effective for taxable years of foreign corporation beginning after December 31, 2017, and for taxable years of U.S. shareholders in which or with which such taxable years of foreign corporations end.	After transition to the proposed exemption system, foreign tax pools of foreign subsidiaries of domestic corporations would generally no longer be relevant as indirect credits would only be permitted in the case of income inclusions under subpart F on a current year basis.

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INTERNATIONAL		
Provision	**Description of Proposed Change**	**Comments**
International – Foreign Tax Credit Basket for Foreign Branches	The proposal would require foreign branch income to be allocated to a specific foreign tax credit basket. Foreign branch income is the business profits of a U.S. person that are attributable to one or more qualified business units (QBUs) in one or more foreign countries. Under this proposal, business profits of a QBU would be determined under rules established by the Secretary. Business profits of a QBU would not, however, include any income that is passive category income. The proposal would be effective for taxable years beginning after December 31, 2017.	Under this proposal, a separate foreign tax credit computation would be required with respect to affected QBUs. This would limit the ability to "cross-credit" foreign taxes from branch operations with other foreign source income, and vice versa.
International – Worldwide Interest Allocation	Current law allows corporations a deduction for interest to be apportioned based on the ratio of the corporation's foreign or domestic assets (as applicable) to its worldwide assets. Generally speaking, the rules of apportioning the deductions among affiliated groups exclude foreign corporations. These rules were modified by legislation in 2004 to permit a U.S.-affiliated group to apportion the interest expense of the members of the U.S.-affiliated group on a worldwide-group basis (that is, as if all domestic and foreign affiliates are a single corporation). But, the modification has been delayed by statute until 2021. This proposal would accelerate the effective date of the worldwide interest allocation rules to apply to taxable years beginning after December 31, 2017, rather than to taxable years beginning after December 31, 2020. The proposal would be effective for taxable years beginning after December 31, 2017.	This provision would be relevant for domestic corporations that own certain interests in foreign corporations when claiming a foreign tax credit.
International - Sourcing	Income from the sale of inventory property produced within and sold outside the U.S. (or vice versa) would be allocated and apportioned between sources within and outside the U.S. solely on the basis of the production activities with respect to the inventory. The provision would be effective for tax years beginning after December 31, 2017.	
International – Sourcing Involving Possessions	The proposal modifies the sourcing rule in Sec. 937(b)(2) by modifying the U.S. income limitation to exclude only U.S. source (or effectively connected) income attributable to a U.S. office or fixed place of business. The proposal also modifies Sec. 865(j)(3) by providing that capital gains income earned by a U.S. Virgin Islands resident shall be deemed to constitute U.S. Virgin Islands source income regardless of the tax rate imposed by the U.S. Virgin Islands government. The proposal is effective for taxable years beginning after December 31, 2018.	
International – Sourcing Involving Certain Passenger Aircraft was Removed from Senate Proposal		The proposal regarding certain passenger aircraft operated by a foreign corporation was removed from the Senate bill that passed the full Senate.
International – FMV Method of Interest Apportionment	The proposal prohibits members of a U.S. affiliated group from allocating interest expense on the basis of the fair market value (FMV) of assets for purposes of Sec. 864(e). Instead, the members must allocate interest expense based on the adjusted tax basis of assets. The proposal would be effective for taxable years beginning after December 31, 2017.	

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Provision	**Description of Proposed Change**	**Comments**
International – Sale or Exchange of Partnership Interests by Foreign Partners	Under the proposal, gain or loss from the sale or exchange of a partnership interest would be effectively connected with a U.S. trade or business to the extent that the transferor would have had effectively connected gain or loss had the partnership sold all of its assets at fair market value as of the date of the sale or exchange. The proposal would require that any gain or loss from the hypothetical asset sale by the partnership be allocated to interests in the partnership in the same manner as nonseparately stated income and loss. The proposal would also require the transferee of a partnership interest to withhold 10% of the amount realized on the sale or exchange of a partnership interest unless the transferor certifies that the transferor is not a nonresident alien individual or foreign corporation. If the transferee fails to withhold the correct amount, the partnership would be required to deduct and withhold from distributions to the transferee partner an amount equal to the amount the transferee failed to withhold. The proposal provides the Secretary of the Treasury with specific regulatory authority to address coordination with the nonrecognition provisions of the Internal Revenue Code. The proposal would be effective for sales and exchanges after December 31, 2017.	This proposal would overturn the result of a recent Tax Court case (*Grecian Magnesite Mining v. Commissioner*, 149 T.C. No. 3 (July 13, 2017)) wherein the court declined to follow a controversial 1991 revenue ruling (Rev. Rul. 91-32, 1991-1 C.B. 107). The proposal would also introduce a new withholding tax that would need to be considered when acquiring a partnership interest from a foreign partner.
International – Passenger Cruise Gross Income was Removed from Senate Proposal		The proposal with respect to passenger cruise gross income was removed from the Senate bill that passed the full Senate.
International - PFICs	Under the proposal, the passive foreign investment company (PFIC) exception for insurance companies would be amended to apply only if the foreign corporation would be taxed as an insurance company were it a U.S. corporation and if loss and loss adjustment expenses, unearned premiums, and certain reserves constitute more than 25% of the foreign corporation's total assets (or 10% if the corporation is predominantly engaged in an insurance business and the reason for the percentage falling below 25% is solely due to temporary circumstances). The proposal would apply to taxable years beginning after December 31, 2017.	