Tax Update

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Contents

- Tax legislative Update
- Tax Automation and Modeling for Uncertainty
  - Scenario Modeling
  - Best Practices
  - Data constraints
- Other Hot Topics

Tax Legislation Update

- Inflation Reduction Act
  - Corporate Alternative Minimum Tax
  - 1% excise tax on stock buybacks
- International / Pillar II considerations
  - Who will be impacted most?

Book Alternative Minimum Tax

- New minimum tax of 15% on all U.S. corporations earning more than $1 Billion a year in profits. The minimum tax would be assessed on “book” income reported to shareholders, rather than on profits reported to the IRS.
- Corporate AMT is owed to the extent its “tentative minimum tax” exceeds its regular U.S. federal income tax liability (including the BEAT), prior to taking into consideration general business credits under section 38.
- Corporations will be allowed to claim a credit for Corporate AMT paid against regular tax in future years, but the credit could not reduce that future year’s tax liability below the computed Corporate AMT for that year.
  - Companies will record a DTA for the Credits and will likewise need to value them for financial statement purposes
- Estimated to raise $222 Billion over 10 years.

Book Alternative Minimum Tax

- It is unclear what book, or “applicable financial statement” income would be for an insurance company – GAAP, STAT, something else?
  - If a company doesn’t prepare GAAP financials, can they use STAT? What if they don’t have consolidated STAT?
  - Will “book” be the same across the insurance industry – fairness & timing considerations

- Other Uncertainties around the book alternative minimum tax
  - Tax Sharing Agreement Implications
  - How to effectuate across multiple tax filing groups, including newly acquired groups
  - How are the GAAP Consolidation rules versus the Tax Consolidation rules for CFCs reconciled
  - Others, including but not limited to NOLs and Credits, Partnership income, character issues

- Clarification of what “book” means and other uncertainties is dependent on Treasury and the IRS to issue guidance.

1% excise tax on stock buybacks

- A nondeductible 1% excise tax on corporate stock repurchases (as new Sec. 4501), effective for stock buybacks after Dec. 31, 2022.
- Expected to raise $73 Billion in revenue.
- A company buys back its own stock when it wants to boost its stock price, by reducing the number of outstanding shares on the market.
- Buyback are an alternative to the traditional route of distributing cash to shareholders in the form of dividends. Buybacks can inflate the value of executives' shareholdings.
- Estimated to raise $125 Billion in revenue over 10 years.
- Appears to have been brokered in lieu of provisions on carried interest.

International / Pillar II

- The OECD has released rules on a global minimum tax at 15% for large multinationals; the EU followed up with a directive to implement the same rules across the EU with expected effective dates in 2024.
- To protect their tax bases from being “taken” by other countries, most countries are expected to enact domestic minimum taxes to ensure subsidiaries do not drop below a 15% ETR under OECD rule.
- The US has not yet adopted the qualified IIR and it is unclear if the Book Alternative Minimum Tax will qualify. Multinational Companies could still be subject to the IIRs of other countries, not all of which will be identical since implementing legislation will vary.
- Who will be impacted most?
    - Financially – depends on the company’s footprint.
    - Compliance Burden – everyone with global operations.

Tax Automation and Modeling for Uncertainty

- Scenario Modeling
  - Potential Tax Impacts of the Mid-term elections
  - Rate Changes
  - Book Alternative Minimum Tax
  - International / Pillar II
  - Valuation Allowance / DTA Admissibility
  - M&A Impacts
  - Inflationary Impacts and Planning

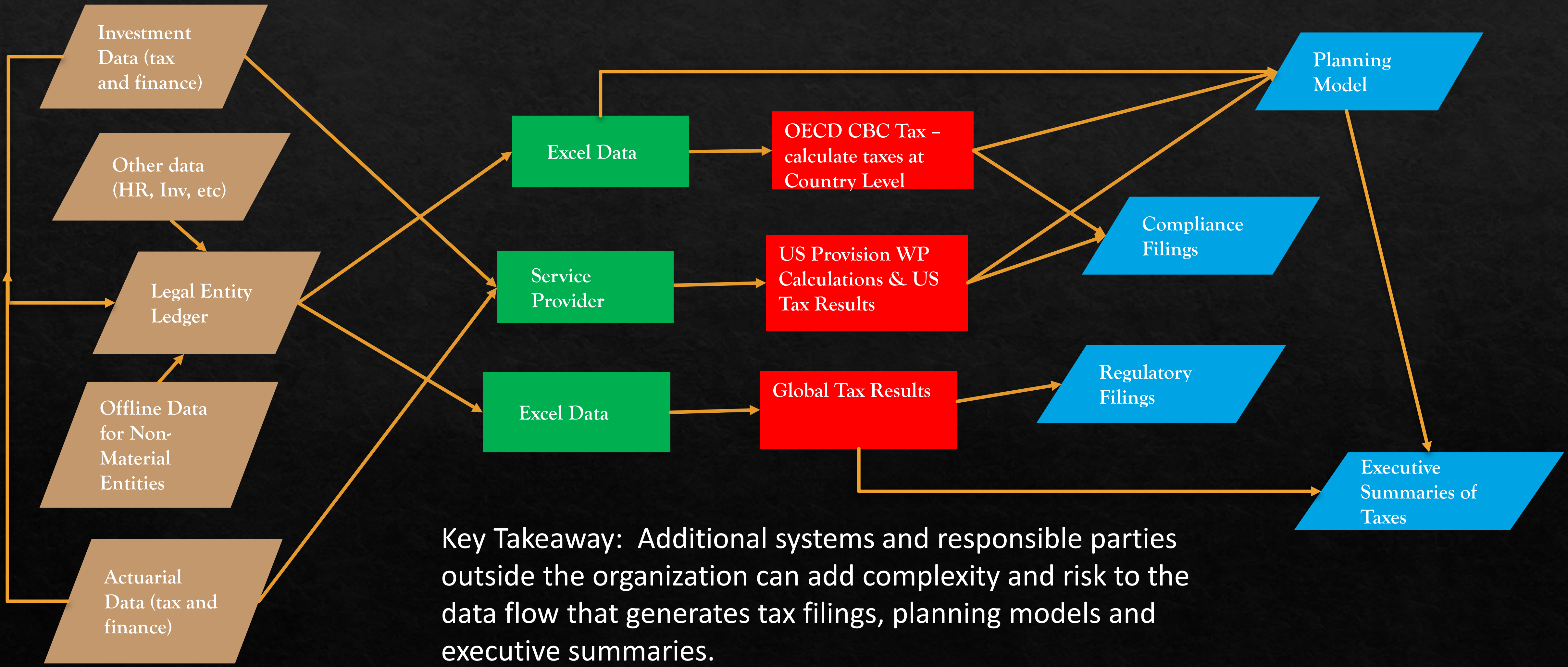
Tax Automation and Modeling for Uncertainty

- Best Practices
  - Automation
    - RPA, Tax Software, Investment Systems, Actuarial Systems, etc.
  - Flexibility
    - Type of Scenario Modeling
    - Time to Update
    - Toggle Functionality
  - Scalability
    - C-Suite Discussions to complex tax calculations

Tax Automation and Modeling for Uncertainty

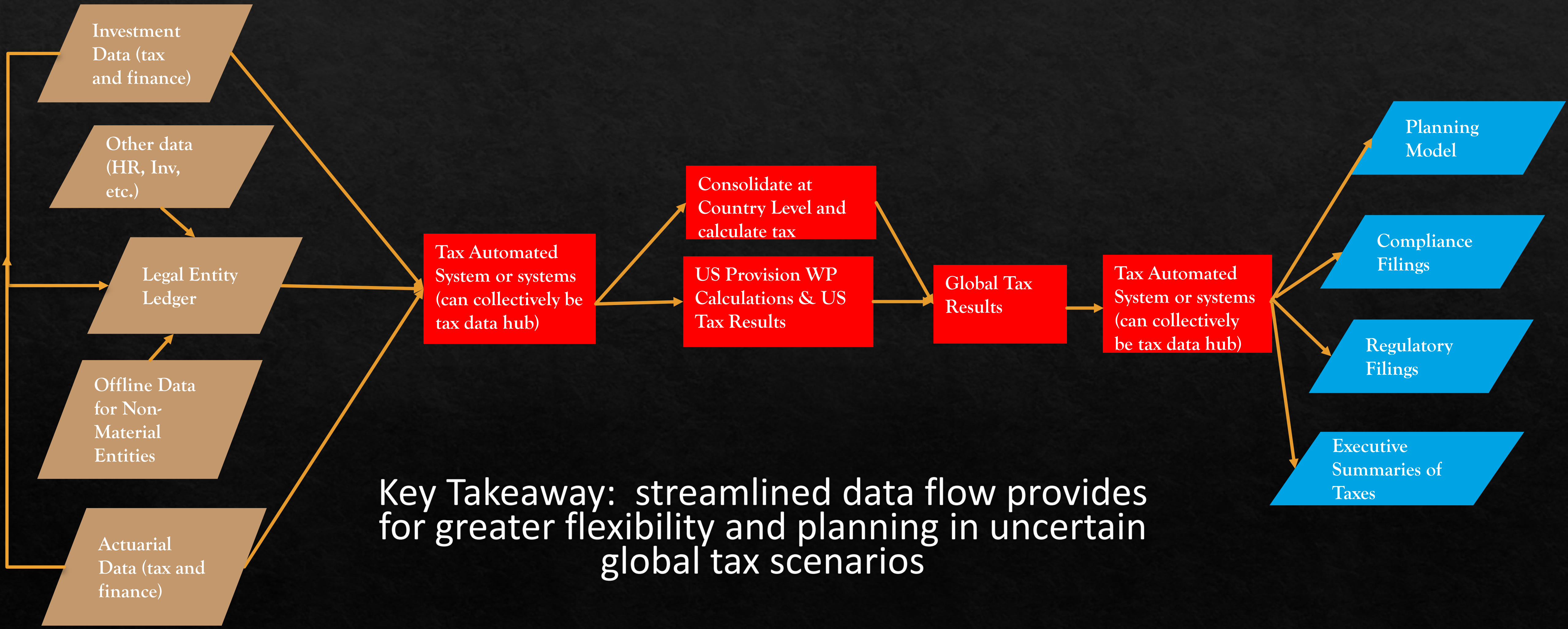
- Data Constraints
  - Book
    - GAAP, STAT, IFRS or Hybrid
      - Is it available?
  - Adjustments
    - No matter the Book starting point there are many adjustments, additions and exclusions – including data that may not typically be collected, low materiality thresholds and available elections at several stages.

Tax Automation and Modeling for Uncertainty – Disjointed Data Process



Key Takeaway: Additional systems and responsible parties outside the organization can add complexity and risk to the data flow that generates tax filings, planning models and executive summaries.

Tax Automation and Modeling for Uncertainty – Ideal Flow for modeling via Data Hub/Lake



Key Takeaway: streamlined data flow provides for greater flexibility and planning in uncertain global tax scenarios

Other Hot Topics

- Inflationary Environment
  - Hold to Maturity
- Normalization of CATs
- Mid-term Elections
  - Are the changes here to stay?
    - Hard to predict
  - Rate Changes
    - US – seems likely that the Republicans and Democrats continue to disagree on the appropriate corporate tax rate, as such companies need to continue to closely monitor the potential impact of changing rates.
    - Abroad – will Pillar II encourage jurisdictions like Ireland to top out their tax rate at 15 percent?