



# Dbriefs U

## Supplemental Material

### Deferral of Foreign Earnings — Its Purpose and Proposed Changes

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#### About the Supplemental Material

Each Dbriefs U webcast is accompanied by teaching material including discussion or homework questions, a learning activity, and related resources. Visit the Dbriefs U Faculty Resources Web site to download this material. For access to the site and more information, contact [dbriefsu@deloitte.com](mailto:dbriefsu@deloitte.com).

**To request the solutions for this material, email [dbriefsu@deloitte.com](mailto:dbriefsu@deloitte.com).**

## Discussion/Homework Questions

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Using the Internet, research the current corporate income tax rates for the following countries: France, United States, China.

How does the United States government currently level the tax playing field for U.S. businesses conducting operations in foreign countries?

Explain the difference between the worldwide tax system employed in the United States and a territorial tax system.

Briefly describe President Obama's international tax proposals addressed in the presentation.

## Activity

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### Overview

#### **Case Study: Tax consequences of income from foreign operations**

**Length:** 20-30 minutes

**Type:** Individually or in a group

**Materials:** Activity sheet

**Learning Objectives:** Understand how the income from foreign operations is treated differently for tax purposes for branches and corporations.

**Activity:** Using the facts provided, the student will calculate yearly income taxes to determine whether the U.S. company should operate foreign activities in a branch or corporate form.

## Activity

### **Case Study: Tax consequences of income from foreign operations**

A Corp is a U.S. corporation that operates in several foreign countries. For U.S. tax purposes, A Corp conducts its foreign operations in either branch or corporate form. Recently, A Corp made the decision to expand its foreign operations into several new foreign markets, including Singapore and France. The corporate income tax rate in Singapore is currently 18 percent and the corporate income tax rate in France is currently 33.33 percent (34.43 percent in most circumstances).

The Vice President of Tax has requested that you provide a list of tax considerations for determining whether the Singapore and French operations should be conducted in branch or corporate form, including yearly tax calculations associated with each alternative. The facts to consider are as follows:

The Singapore operations are expected to earn \$500 per year and pay 18 percent corporate income tax on those earnings. The French operations are expected to earn \$1,000 per year and pay 33.33 percent corporate income tax on those earnings.

## Related Resources

**To access these materials, visit [www.deloitte.com/us/dbriefsu](http://www.deloitte.com/us/dbriefsu).**

Approaches to Improve the Competitiveness of the U.S. Business Tax System for the 21<sup>st</sup> Century, Office of Tax Policy, U.S. Department of the Treasury (December 20, 2007)

Reforming the U.S. Corporate Tax System to Increase Tax Competitiveness, Chairman Jim Saxton (R-NJ), Joint Economic Committee, U.S. Congress (May 2005)

General Explanations of the Administration's Fiscal Year 2010 Revenue Proposals (pp. 28 – 39), U.S. Department of the Treasury (May 2009)

## Webcast Poll Questions

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### Question

**The U.S. corporate tax rate is one of the highest tax rates in the world.**

- True
- False

### Question

**In the context of this discussion, which of the following describes “deferral”?**

- A system of U.S. taxation in which a U.S. corporation is not taxed on business income of its foreign subsidiaries until repatriated to the U.S. shareholder
- A leave of absence from a college course for a specified period of time
- A system in which taxation is limited to income from sources within the country’s boundaries, no matter who derives the income

### Question

**Which of the following changes to deferral are included in President Obama and Treasury’s 2010 budget proposal?**

- Eliminate deductibility of certain foreign expenses to the extent the expenses relate to unrepatriated foreign earnings
- Repeal deferral of all foreign earnings subject to current U.S. taxation
- All of the above
- None of the above

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