

## 2018 Repatriated Earnings

### **Federal Law Requires the Payment of a Transition Tax on Foreign Earnings as if the Earnings Had Been Repatriated to the United States**

The federal Tax Cuts and Jobs Act amended Section 965 of the Internal Revenue Code. The amendment requires certain United States shareholders to pay a transition tax on the untaxed foreign earnings of certain specified foreign corporations as if those earnings had been repatriated to the United States. For federal income tax purposes, these deemed repatriated ("repatriated") earnings, net of the corresponding federal deductions, are subject to a transition tax for the 2018 tax year.

### **Excise Tax Adjustments for Income Relating to Deemed Repatriated Earnings**

The starting point for determining the income subject to excise tax is federal taxable income. For tax periods beginning on or after January 1, 2018, Public Chapter 306 establishes adjustments to net earnings for taxpayers that include repatriated earnings under Section 965(a) in their federal income tax return.

For the 2018 tax year, taxpayers with repatriated earnings in their federal taxable income will make two adjustments to net earnings subject to excise tax. One will reverse out any repatriated earnings included in federal taxable income and the second will add back an amount equal to five percent of the repatriated earnings.

Repatriated earnings and the required adjustments should be reported as follows:

### Corporations and Other Entities Filing Federal Form 1120

Corporations will report repatriated earnings on Federal Form 1120, Line 28 and on excise tax Schedule J4, Line 1.

### S Corporations Filing Federal Form 1120-S

Tennessee law requires an S corporation to calculate its net earnings as though it had not made the Subchapter S election. Repatriated earnings from Federal Form 1120-S, Schedule K will be reported on Schedule J3, Line 2.

### Partnerships and Other Entities Filing Federal Form 1065

Partnerships will report repatriated earnings on Federal Form 1065, Schedule K and on excise tax Schedule J1, Line 2.

### State Adjustments for All Entities

Taxpayers filing FAE170 will subtract repatriated earnings on Schedule J, Line 18 and add back five percent of that amount on Line 4. Taxpayers filing FAE174 will subtract repatriated earnings on Schedule J, Line 22 and add back five percent of that amount on Line 7.

### **Summary**

For the 2018 tax year, taxpayers with repatriated earnings in their federal taxable income will make adjustments on their excise tax return that have the net result of including five percent of repatriated earnings in the excise tax base.

Repatriated earnings should be excluded from the apportionment ratio and should not be deducted as dividends. Also, no Section 965(c) deduction can be taken for repatriated earnings.

### **For More Information**

Visit [www.tn.gov/revenue](http://www.tn.gov/revenue). Click on Revenue Help to search for answers or to submit an information request to one of our agents.

### **References**

Tenn. Code Ann. §§ 67-4-2006(a)-(b); TENN. COMP. R. & REGS. 1320-06-01-.42; Public Chapter 306, P.L. No. 115-97