

KEMET CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements (Continued)

Differences between the provision for income taxes on earnings from continuing operations and the amount computed using the U.S. Federal statutory income tax rate are as follows (amounts in thousands):

	Fiscal Years Ended March 31,		
	2019	2018	2017
Amount computed using the statutory rate ⁽¹⁾	\$ 35,791	\$ 59,162	\$ 3,722
Change in U.S. valuation allowance	(67,761)	(66,948)	(7,080)
Unremitted earnings of foreign subsidiaries	—	—	2,127
Effect of prior year adjustments ⁽²⁾	2,450	(1,337)	1,789
IRC section 162(m) limitation ⁽³⁾	4,553	—	—
Expired foreign tax credits	—	407	4,766
Taxable foreign source income	3,502	22,238	1,835
(Put)/call option valuation impact	—	—	(3,745)
Non-taxable gain from bargain purchase	—	(41,292)	—
Deduction related to APA settlement	(2,309)	—	—
Tax-deductible equity compensation	(4,215)	(5,699)	(44)
Other non-deductible expenses	(44)	220	(893)
Differences due to U.S. tax law changes ⁽⁴⁾	—	50,420	—
State income taxes, net of federal taxes ⁽⁵⁾	(695)	(3,325)	(35)
Change in foreign operations tax exposure reserves	132	1,059	108
Foreign tax rate differential	6,501	(400)	587
Change in foreign tax law	(1,956)	251	144
Change in foreign operations valuation allowance ⁽⁶⁾	(41,133)	(6,676)	983
Nondeductible expenses related to antitrust litigation	14,360	488	—
Other effect of foreign operations	11,364	564	30
Provision for income tax expense (benefit)	<u>\$ (39,460)</u>	<u>\$ 9,132</u>	<u>\$ 4,294</u>

⁽¹⁾ The statutory income tax rate for the fiscal year ended March 31, 2017 is 35%. The Tax Cuts and Jobs Act enacted on December 22, 2017 reduced the U.S. federal corporate tax rate from 35% to 21%, effective January 1, 2018. Based on the fiscal year of the Company ending on March 31, the statutory income tax rate for the fiscal year ended March 31, 2018 is a blended rate of 31.6% based on the number of days in the fiscal year before January 1, 2018 and the number of days in the fiscal after December 31, 2017. The statutory income tax rate for the fiscal year ended March 31, 2019 is 21%.

⁽²⁾ The effect of prior year adjustments was offset by a full valuation allowance resulting in no impact on the provision for income taxes.

⁽³⁾ Fiscal year ended March 31, 2019 difference consist of \$1.5 million related to the expansion of the Sec. 162(m) limitation due to tax law changes.

⁽⁴⁾ Fiscal year end March 31, 2018 differences due to tax law changes consists of \$4.8 million related to foreign earnings and \$45.6 million related to tax rate adjustment. \$45.6 million related to tax rate adjustment is the gross deferred rate change, which is offset by valuation allowance adjustment, resulting in a net benefit of \$0.8 million.

⁽⁵⁾ Fiscal year ended March 31, 2018 difference consists mainly of \$3.7 million related to the revaluation of state net operating loss carryforwards as a result of the change in the federal tax rate.

⁽⁶⁾ The change in foreign operations valuation allowance excludes other comprehensive income and currency translation adjustments of \$3.8 million, \$(3.4) million, and \$0.9 million for fiscal years ended 2019, 2018 and 2017, respectively, which has no impact on the provision for income taxes.

The foreign jurisdictions having the greatest effect on the provision for income taxes are China and Mexico. The statutory tax rates for China and Mexico are 25% and 30%, respectively. The combined provision for income taxes for China and Mexico for fiscal years ended 2019, 2018 and 2017 is \$5.7 million, \$3.8 million, and \$3.1 million, respectively.