



WHAT'S AT STAKE: INTERNATIONAL TAX



› How did the U.S. tax manufacturers' income earned abroad prior to tax reform?

Prior to tax reform, the United States had a worldwide tax system, meaning that businesses' profits earned abroad were subject to the U.S. corporate income tax when repatriated to the United States. Companies faced a 35% U.S. corporate tax rate here at home—the highest in the OECD and the third highest in the entire world—incentivizing them to avoid repatriating earnings.

› How did tax reform change the tax treatment of income earned abroad?

Tax reform replaced the worldwide system with a modified form of a territorial tax system, which mostly excludes from U.S. taxation any income earned abroad. Tax reform's international tax provisions work together to incentivize businesses to locate their operations and produce goods in the U.S.

- **Corporate Rate:** The more competitive 21% corporate tax rate makes the U.S. a more attractive home for manufacturing investment.
- **FDII:** The deduction for foreign-derived Intangible income reduces taxes for companies that locate job-creating, export-producing intellectual property in the U.S.
- **GILTI:** The global intangible low-taxed income regime imposes a U.S. minimum tax on income earned abroad in low-tax jurisdictions.
- **BEAT:** The base erosion and anti-abuse tax applies to certain payments that shift profits abroad.

Collectively, these provisions—two “carrots” and two “sticks”—sustain tax reform's territorial tax system, which enhances America's competitiveness and supports manufacturers' efforts to create jobs and grow investment here in the United States.

FDII

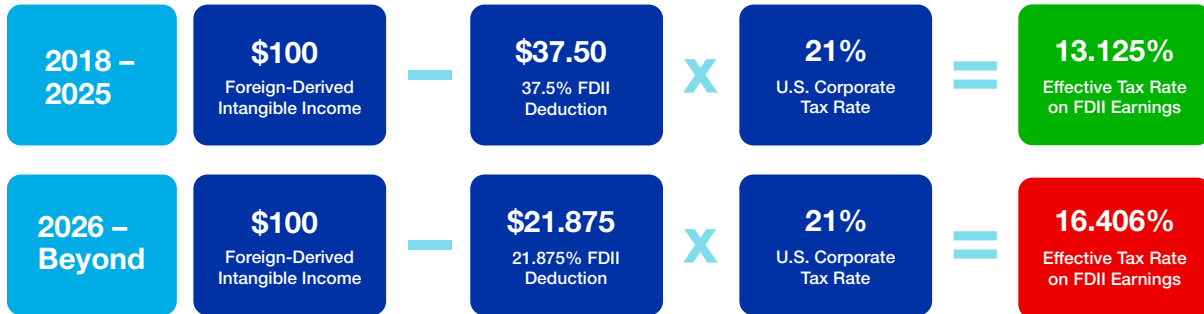
› How does the FDII deduction work?

A company's foreign-derived intangible income—its FDII—is generated by exporting products that are based on U.S.-located IP. Businesses can deduct 37.5% of their FDII, resulting in an effective tax rate of 13.125% for those earnings. This creates an incentive for companies to locate IP in the United States and helps manufacturers invest in job-creating R&D and production here at home.



➤ How will the FDII deduction change at the end of 2025?

The FDII deduction is scheduled to shrink to 21.875%, resulting in an effective tax rate of 16.406% on companies' earnings associated with U.S. IP. This tax increase will make it harder for manufacturers to expand sales into foreign markets and base their high-value operations like R&D and advanced manufacturing here in the U.S.



GILTI

➤ How does the tax on GILTI work?

The global intangible low-taxed income regime—also known as GILTI—imposes a minimum level of U.S. tax on foreign income earned in low tax jurisdictions.

The GILTI calculation begins with a 50% deduction. The remaining 50% of a company's GILTI is subject to the 21% U.S. corporate tax rate, except that companies can claim a foreign tax credit for 80% of any foreign taxes paid on that income. Applying the deduction and foreign tax credit in combination results in some degree of additional U.S. taxation for foreign income taxed at a rate below 13.125%—with a minimum level of tax (combining foreign taxes and the U.S. GILTI tax) of 10.5%.

GILTI Calculation: Step 1



GILTI Calculation: Step 2

Foreign Tax Paid	Allowable Foreign Tax Credit %	Foreign Tax Credit Amount
\$0	80%	\$0
\$10	80%	\$8
\$13.125	80%	\$10.50
\$16.406	80%	\$13.125

GILTI Calculation: Step 3

U.S. Tax Obligations Before Foreign Tax Credits (Step 1)	Foreign Tax Credit Amount (Step 2)	GILTI Tax Owed
\$10.50	\$0	\$10.50
\$10.50	\$8	\$2.50
\$10.50	\$10.50	\$0
\$10.50	\$13.125	\$0

➤ How will the tax on GILTI change at the end of 2025?

The deduction that begins the GILTI calculation will be reduced to 37.5%, increasing the amount of foreign income subject to U.S. taxation. This will result in a higher minimum GILTI rate of 13.125%, applicable to companies with a foreign effective tax rate below 16.406%.

Tax reform struck a balance with the reduced corporate rate and the FDII deduction on one side and the GILTI regime and BEAT tax on the other. Increasing companies' GILTI or BEAT obligations while reducing their FDII deductions will upset this balance, making it more costly and difficult for companies to operate here in the U.S.

GILTI Calculation: Step 3 (Beginning in 2026)

U.S. Tax Obligations Before Foreign Tax Credits (Step 1)	Foreign Tax Credit Amount (Step 2)	GILTI Tax Owed
\$13.125	\$0	\$13.125
\$13.125	\$8	\$5.125
\$13.125	\$10.50	\$3.125
\$13.125	\$13.125	\$0

$\$100 \text{ GILTI}$
 $- \$37.50 \text{ GILTI Deduction}$
 $\times 21\% \text{ U.S. Corporate Rate}$
 $= \$13.125$

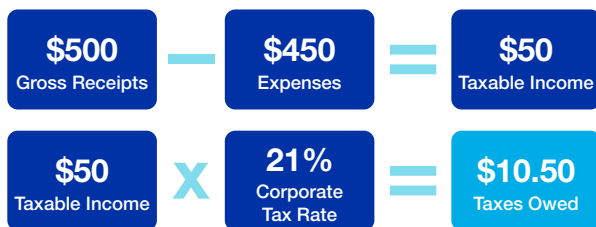
BEAT

➤ How does the BEAT work?

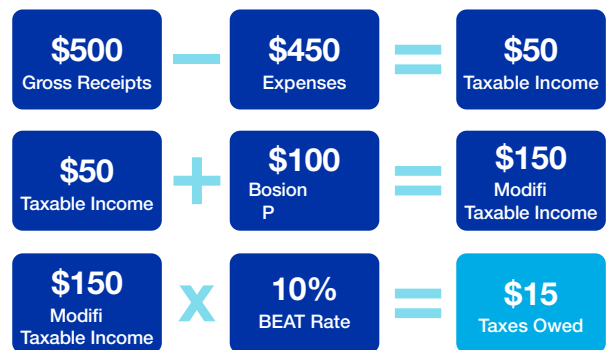
The base erosion and anti-abuse tax—the BEAT—imposes a surtax on certain “base erosion payments,” including royalties, interest, rent and services, made by a U.S. company to a related foreign corporation.

The BEAT applies a 10% tax to a company’s “modified taxable income,” which is calculated by adding back any base erosion payments (which otherwise would be deductible) to a company’s taxable income.

Tax Owed, without BEAT



Tax Owed, with BEAT



➤ How will the BEAT change at the end of 2025?

The BEAT rate will increase to 12.5%. While the BEAT is designed to target so-called “base erosion” payments, many such transactions are made in a company’s ordinary course of business—not to avoid U.S. taxation. An increased BEAT rate would subject more of these payments to additional taxation, increasing the costs of doing business for manufacturers operating around the world.



What should Congress do to protect globally engaged manufacturers from tax increases?

In addition to protecting the 21% corporate tax rate, Congress should preserve tax reform's international tax reforms and prevent tax obligations from increasing on manufacturers whose success bolsters America's competitiveness on the world stage. Specifically, Congress should:

- Preserve the 37.5% FDII deduction;
- Prevent an increase in the minimum GILTI rate; and
- Prevent the BEAT rate from increasing.

Congress also should avoid additional changes to the international tax system, including to FDII, GILTI and BEAT, that would increase taxes, grow compliance burdens or undermine America's competitiveness.