FACTCOALITION
Financial Accountability & Corporate Transparency

Policy Brief: Dissecting Congress's $170b Tax Cut for U.S. Multinational Corporations

An Overview of the International Corporate Provisions in the 2025 Tax Reform

The 2025 budget reconciliation bill makes numerous changes to the tax treatment of American corporations' foreign profits (GILTI) and export income (FDII)[1], as detailed below. **Taken altogether, these changes amount to a substantial tax cut for America's largest corporations, costing nearly $170 billion in public revenues over the coming decade.** All of the changes discussed below are permanent, and almost all take effect in 2026.

The changes include a few minor improvements upon our America-last tax code, but they are overshadowed by larger changes that put corporations first, rather than the public interest. **Overall, the 2025 tax law is an enormous missed opportunity to enact commonsense, revenue-raising international tax reforms and end tax incentives for offshoring.**

Reforms still needed include measures to:

- Close the gap between the domestic corporate rate and the rate for foreign income;
- Apply the U.S. minimum tax on foreign profits to each country individually, rather than collectively, reducing opportunities for corporations to abuse tax havens;
- Close a glaring loophole that allows corporations to receive a tax break for outsourcing production to low-tax countries, and then selling those products back to American consumers;
- Tighten anti-base erosion rules by aligning with global standards; and
- Repeal wasteful tax breaks for already-profitable companies, including the FDII export subsidy.

Failing to implement these reforms leaves hundreds of billions in revenue on the table, makes American manufacturing susceptible to further offshoring and erosion, and further consolidates market power into the hands of only a few massive multinational corporations.

[1] The removal of the QBAI offshoring incentives from the GILTI and FDII calculations makes these acronyms obsolete, as they no longer contain a proxy for the return to tangible assets, and can therefore no longer claim to only affect the tax treatment of intangible income. As such, H.R.1 officially renames GILTI to "net CFC tested income (NCTI)" and FDII to "foreign-derived deduction-eligible income (FDDEI)". For clarity, this brief will continue to use the historical names for these regimes.

Tens of Billions of Dollars in New Tax Cuts on Corporate Foreign Profits

Provision: Modification and permanent extension of the tax rate on foreign profits (GILTI)
Revenue impact: Costs $87 billion[2]

The 2017 tax law created new tax incentives for American corporations to move jobs and profits offshore by establishing a reduced tax rate for their foreign income, set at half the domestic corporate tax rate. This discount was achieved through the Global Intangible Low-Taxed Income (GILTI) regime, which established a 10.5 percent minimum tax on certain foreign profits of U.S. corporations.

Establishing a minimum tax on foreign profits is itself a good policy that was groundbreaking at the time, and has subsequently inspired other countries to follow suit. Unfortunately, the large disparity between the GILTI rate and the domestic corporate tax rate incentivizes large corporations to shift their domestic income abroad or, even worse, to pack up domestic production and ship it overseas. Reversing this incentive is politically popular, with 87 percent of respondents in recent nationwide polling agreeing that "The U.S. tax code should support U.S. manufacturing and jobs, rather than rewarding big American companies that ship operations overseas."

The 2025 tax law slightly reduces the gap between the domestic and foreign corporate rates by increasing the GILTI minimum rate from 10.5 to 12.6 percent. However, the new 12.6 percent minimum rate is still lower than the 13.125 percent rate that was scheduled to come into effect in 2026, absent congressional action. The new GILTI rate is slightly closer to, but still below, the globally agreed 15 percent minimum rate negotiated by the OECD's inclusive framework (also known as Pillar Two). It is also substantially below the 21 percent domestic rate. **Congress has missed a vital opportunity to end the main incentive for offshoring in our tax code** by equalizing the tax rates paid on domestic and foreign income.

Beyond the tax rate simply being too low, GILTI's effectiveness in addressing profit-shifting also suffers from the fact that companies are taxed on all of their global income together, rather than separately for each jurisdiction. This means that taxes paid in high-tax countries (like Germany, Japan, and other large market economies) can offset and reduce GILTI liability in tax havens (like Ireland and Singapore). In this way, the blended GILTI rate continues to reward corporate profit-shifting to tax havens. Plans to improve GILTI and stop this "global blending" of high and low-taxed profits have been proposed, including in the FACT-endorsed No Tax Breaks for Outsourcing Act. The 2025 tax law fails to address this deficiency.

[2] Net with changes to the FDII rate.

Provision: Elimination of offshoring incentive for factories and equipment (QBAI)
Revenue impact: Costs $6.6 billion[3]

The GILTI regime was envisioned as a backstop to the international tax provisions of the 2017 tax reform, which largely moved the U.S. from a worldwide to a "territorial" system of corporate taxation – in other words, ending the previous deferred U.S. taxation on the foreign profits of American corporations. GILTI was formulated as a guardrail against shifting of U.S. profits to tax havens. Rather than a broad minimum tax on global profits, GILTI was more narrowly targeted on income from intangible assets like intellectual property – assets that can be moved to tax havens easily without necessarily affecting where real-world, tangible assets like factories are located or how supply chains are operated.

In order to target foreign intangible assets, the 2017 tax reform exempted an assumed return to foreign tangible assets from GILTI, generally equal to 10 percent of such assets (known as Qualified Business Asset Investment, or QBAI). In doing so, GILTI rewarded the offshoring of U.S. manufacturing because companies could lower their GILTI liability when they built new factories or invested in production capacity abroad. **In a small win against offshoring, the 2025 law removes this incentive from the GILTI calculation.**

Repealing the QBAI offshoring incentive moves GILTI closer to a true minimum tax on global profits. This is a positive step, as GILTI should never have been limited to targeting income from intangibles in the first place. Shifting profits on paper is easier than moving physical operations, but is no more harmful to the U.S. economy than the offshoring of manufacturing. Our tax code shouldn't reward companies for moving their production facilities, and not merely their intellectual property, to tax havens to avoid U.S. taxes.

Provision: Foreign tax credit changes
Revenue impact: Costs $51 billion

When the U.S. taxes corporations on their foreign income, it allows them a credit for some of the foreign taxes they paid to prevent double taxation.[4] To avoid the potential abuse of foreign tax credits , the tax code includes complex limitations on their use.

The foreign tax credit limitation rules under the GILTI regime are stricter than those for other forms of foreign income, owing to GILTI's unique role as a check on profit-shifting and

[3] Net with equivalent changes to the FDII calculation.
[4] Although the creditability of foreign taxes is significantly more generous than the parallel federal rules on domestic state and local taxes, which only allow a deduction rather than a credit.

low-taxed income. The 2025 law increases the amount of foreign taxes that can be credited from 80 percent (under the 2017 law) to 90 percent. As a result, effective GILTI rates are now between 12.6 and 14 percent (up from 10.5 to 13.125 previously).

If the GILTI rate were equal to the domestic corporate tax rate, there would be no reason not to allow the full value of foreign tax credits. The FACT-endorsed No Tax Breaks for Outsourcing Act eliminates this tax credit "haircut" and increases the GILTI rate to 21 percent. But as long as GILTI remains taxed far below the domestic corporate rate, increasing the amount of creditable foreign taxes is an unnecessary tax cut for big corporations.

The 2025 law also includes another, even costlier change that will allow corporations to credit more foreign taxes against their tax liability under GILTI. Previously, the maximum amount of allowable foreign tax credits had to be reduced by a portion of certain domestic expenses, like interest and research and development costs. The 2025 law relaxes these rules by making it so that only expenses directly tied to foreign income lower the cap on these credits. As a result, companies will be able to claim more foreign tax credits to offset their GILTI taxes.

This seemingly minor change is estimated to cost nearly $30 billion over the next decade. That cost could balloon if interest rates rise in the coming years, as domestic business interest is a major category of expenses that no longer reduces the foreign tax credit cap.

The 2025 law additionally increases the foreign tax credit cap for GILTI purposes by half of the profits derived from the sale of U.S.-made goods through a foreign office. This change costs roughly $6 billion and is somewhat aligned with the Trump administration's goal of increasing domestic manufacturing.

Overall, **these changes will substantially reduce taxes on foreign income for U.S. corporations**, notwithstanding the small step-up in the GILTI minimum rate from 10.5 to 12.6 percent. **Allowing American companies to credit more foreign taxes indirectly subsidizes foreign government spending, in stark contrast with the Trump administration's "America-first" priorities.**

Additional Permanent Tax Cuts on Export Income

Provision: Modification and permanent extension of tax rate on export income (FDII)
Revenue impact: Costs $87 billion[5]

[5] Net with changes to the GILTI rate.

Alongside GILTI, which sought to penalize firms that offshore intellectual property and other highly-mobile assets, the 2017 tax law introduced an onshoring incentive for such assets called the Foreign-Derived Intangible Income (FDII) deduction, which provided a large tax break on income from exporting goods and services using U.S.-domiciled intellectual property. The 2025 tax law allows a small increase in the FDII rate (from 13.125 to 14 percent), but like with GILTI, this increase is smaller than the scheduled step-up to 16.4 percent that would have occurred in 2026 absent congressional action.

FDII was initially projected to bring in revenue, but the assumption that FDII would induce a major profit shift back to the U.S. has proven incorrect. Instead, the main effect of FDII has been to shower tens of billions of dollars in pointless and wasteful tax breaks on a handful of already hyper-profitable companies, particularly in the technology sector. Voters understand this, with recent polling by McLaughlin and Associates showing that 85 percent of likely voters agree that "The U.S. tax code should support innovative small businesses instead of providing billions in subsidies for Big Tech's super-profits."

The enormous revenue loss to the U.S. Treasury is not worth the reshoring benefits that FDII was promised to bring, and which have largely failed to materialize. Rather than expand FDII, Congress should repeal it.

Provision: Changes to the calculation of foreign-derived income
Revenue impact: Costs $7.6 billion

FDII is now expanded beyond intangibles to also apply to other rent and royalty-generating assets without considering QBAI, mirroring changes made to GILTI described above. Effectively, FDII has now become a straightforward export subsidy, rather than an incentive to reshore intangible assets or promote domestic research. As a result, FDII now even more blatantly violates international trade law. FDII expansion also contradicts an international commitment made by the U.S. government to abolish FDII as a "harmful tax practice."

While these changes to FDII will increase the provision's scope and revenue cost, the 2025 law also includes one small improvement – closing a loophole that allows companies to benefit from the FDII deduction when they sell their domestic intellectual property to an offshore entity, in contravention of the measure's original policy intent.

A Missed Opportunity to Stop Base Erosion

Provision: Base erosion tax rate and calculation changes (BEAT)
Revenue impact: Costs $30.5 billion

The third major international tax regime introduced in 2017 was the Base Erosion Anti-Abuse Tax (BEAT), an alternative minimum tax primarily targeting foreign companies that strip earnings out of their U.S. subsidiaries through excessive interest or other base erosion payments. Since its enactment, BEAT has been a notorious underperformer – the tax is too easy to plan around, and as such, has raised much less in revenue than initially projected (averaging around $2 billion per year, far below the initial JCT estimate of $150 billion over ten years).

The final version of the 2025 law eschews more radical reforms to BEAT contemplated in an early Senate draft, instead only slightly increasing the BEAT rate from 10 to 10.5 percent, below the scheduled step-up to 12.5 percent that would have otherwise happened. Likewise, the final version prevents the scheduled tightening of the BEAT calculation (which would have resulted in far higher effective tax rates under BEAT) that would have otherwise taken effect in 2026.

Without substantial revisions, BEAT will continue to raise far less revenue than originally projected. While the intention behind BEAT was praiseworthy, the tax has flaws that require more fundamental reforms. FACT has previously endorsed replacing BEAT with an Undertaxed Profits Rule (UTPR), versions of which have been adopted by dozens of countries around the globe. Like BEAT, the UTPR combats earnings-stripping by foreign-headquartered companies doing business in the U.S., but it applies to a potentially much wider base of companies, is harder to avoid, and is in line with global standards. The U.S. would be better off if it replaced BEAT with the UTPR.

A Mixed Bag of Loophole Reforms

Provision: Look-through rule extension
Revenue impact: Costs $9.7 billion

The 2025 tax law permanently extends the "look-through" rule – a long-standing (though originally intended to be temporary) provision of the tax code that **allows multinational corporations to effectively hide certain intra-company transactions** from the Internal Revenue Service (IRS).

Originally intended as a simplification measure, the look-through rule has ultimately proven to be a tool for aggressive tax planning. There is no reasonable policy justification for it, and it should be repealed.

Provisions: Business interest limitation changes
Revenue impact: Raises $22 billion[6]

The 2025 tax law restores the more generous pre-2022 business interest deductibility as part of its general business tax reforms, a boon for private equity investors owning heavily-indebted portfolio companies. This is a bad policy that costs significant revenue, creates tax incentives for excessive debt financing, and can enable schemes that allow companies to artificially shift their domestic profits into tax havens by loading up their U.S. branches with debt.

The 2025 law recoups some of the revenue lost by these changes by limiting interest deductions for firms engaged in earnings-stripping out of the U.S., or that otherwise have large volumes of foreign income. Specifically, the 2025 law excludes most foreign income from the calculation of a given company's business interest limitation, along with other changes that will tighten interest deductibility for affected companies.

Half-Measures Eschew Real Reform

While the 2025 tax law's international tax provisions have been labelled "America-first", in reality, most of the changes will lower the effective tax rates multinationals pay on foreign income, and therefore further incentivize the continued movement of investment and income abroad.

Small half-steps forward, such as the elimination of the QBAI offshoring incentive, are no replacement for true international tax reform, like the FACT-endorsed No Tax Breaks for Outsourcing Act. Such reform would completely remove incentives for U.S. multinationals to offshore jobs and profits, while raising hundreds of billions in new revenue.

For more information on FACT's international tax policy recommendations, see the following publications:

- Fairness, Transparency, and Enforcement: FACT's Principles for Taxing U.S. Multinational Corporations After 2025
- FACT Coalition Calls on Congress to End "America-Last" Tax Policies
- Bloomberg: 'America Last' Corporate Tax Policies Can End With This Congress
- Step One to Saving Domestic Manufacturing? Stop Giving Tax Breaks for Offshoring
- FACT Sheet: Congress Should Repeal a Wasteful Tax Break for Big Tech

[6] International changes only, see sections 70341 and 70342 of H.R.1.