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# Changes To International Tax Provisions in P.L. 119-21, the FY2025 Reconciliation Law

P.L. 119-21, the FY2025 reconciliation law commonly known as the One Big Beautiful Bill Act, makes several changes to existing elements of the international tax system. For an overview of the existing system, see CRS Report R45186, *Issues in International Corporate Taxation: The 2017 Revision (P.L. 115-97)*, by Jane G. Gravelle and Donald J. Marples. These changes are effective for tax years beginning after December 31, 2025, except for the deferral of the taxable year, which is effective after November 30, 2025.

## GILTI and FDII

The 2017 tax revision (P.L. 115-97) changed the basic international tax regime, which previously taxed income of U.S.-controlled foreign corporations (CFCs) only when dividends were paid to U.S. shareholders. A CFC is a foreign corporation at least 50% owned by U.S. shareholders, with each shareholder owning at least 10%. The revision eliminated the tax on dividends and imposed a minimum tax on global intangible low-taxed income (GILTI) of CFCs, after allowing a deduction for 10% of tangible assets and 50% of the remainder. A deduction is also allowed for foreign-derived intangible income (FDII) after allowing a deduction for 10% of tangible assets and 37.5% of the remainder, designed to roughly equalize the treatment of intangible assets earning foreign-source income whether held abroad or in the United States. These deduction amounts for the remainder were scheduled to fall to 37.5% for GILTI and 21.875% for FDII after 2025. With the current 21% corporate tax rate, these deductions result in a rate of 10.5% (13.125% after 2025) for GILTI and 13.125% (16.4% after 2025) for FDII. The combined GILTI and FDII deductions are limited to taxable income, and any unused deduction cannot be carried back or forward.

A credit for 80% of foreign taxes paid can be taken to offset U.S. taxes on GILTI income, limited to the amount of U.S. taxes paid. This limit is based on worldwide income so that taxes in one country in excess of U.S. tax can be used to offset U.S. taxes in low-tax countries. The limit is determined by a measure of foreign-source income that includes allocation of indirect costs (such as interest) as well as direct costs.

P.L. 119-21 makes several permanent changes to these provisions. It reduces the 50% deduction for GILTI to 40% and the 37.5% deduction for FDII to 33.34% and makes these deductions permanent. These deductions would create permanent rates of 12.6% for GILTI and 14% for FDII. It also eliminates the 10% deduction for tangible assets, which increases the scope of GILTI and FDII to income from tangible investments.

The law makes changes to the calculation of the foreign tax credit that will increase credits for GILTI income. It increases the share of taxes that can be credited to 90%. It also makes the base for determining U.S. taxes on foreign-source income larger by no longer reducing this income by indirect costs.

The size of the FDII deduction depends on deduction-eligible income. The law disallows the deduction for indirect costs and excludes income from the sale of property. Together, these make the FDII deduction larger.

## Base Erosion Tax

After enactment of the 2017 tax revision, the base erosion and anti-abuse tax (BEAT) provided for an alternative calculation of tax by adding certain payments to related foreign parties (such as interest and royalties) to income and taxing this income at 10%. Payments for the cost of goods sold are not included. BEAT does not allow tax credits, including the foreign tax credit, except for a temporary allowance of the research credit along with 80% of the low-income housing credit and two energy credits. After 2025, the BEAT rate was scheduled to rise to 12.5% and no credits would have been allowed. BEAT applies to firms with base erosion payments equal to or greater than 3% of total deduction, with a lower rate of 2% applying to certain financial firms.

P.L. 119-21 largely extends the current-policy treatment of BEAT. It increases the 10% rate to 10.5% and makes this rate and current treatment of credits permanent.

## Sourcing Income of Inventory Produced in the United States (Title Passage Rule)

Prior to the enactment of the 2017 tax revision, the *title passage rule* allowed half of the income from property held as inventory to be apportioned abroad if the title passed abroad where the firm had an office or fixed place of business. The 2017 revision required the income to be apportioned between U.S. and foreign sources based on where the production occurs. The credit for foreign taxes paid is limited to the U.S. tax that would be due on foreign-source income, and this change reduced the foreign tax credit and eliminated what was effectively an export subsidy.

P.L. 119-21 restores prior law and provides that 50% of income will be allocated to the foreign-source income. This change can increase the foreign tax credit for firms subject to the limit on foreign tax credits and reduce the effective tax rate on income from exports.

## Look-Thru Rule

Income easily subject to shifting, such as interest, is subject to Subpart F of the income tax, which taxes such income currently at full rates. Related regulations (commonly known as check-the-box) allow firms to disregard related parties (that is, act as if they do not exist separately), potentially allowing them to shift income from high-tax to low-tax subsidiaries without triggering Subpart F. Look-through rules codify and expand this ability to shift income. Temporary look-through rules were originally enacted in the Tax Increase Prevention and Reconciliation Act of 2005 (P.L. 109-222), for 2006 through 2008, and subsequently extended, most recently through 2025 in the Consolidated Appropriations Act, 2021 (P.L. 116-260). P.L. 119-21 makes them permanent. See CRS In Focus IF11392, *H.R. 1865 and the Look-Through Treatment of Payments Between Related Controlled Foreign Corporations*, by Jane G. Gravelle.

## Downward Attribution

The ownership rules for purposes of determining 10% U.S. shareholders, and thus whether a corporation is a CFC, were expanded in the 2017 tax revision. Specifically, the law treated stock owned by a foreign person as attributable to a U.S. entity owned by the foreign person ("downward attribution"). As a result, stock owned by a foreign person may generally be attributed to (1) a U.S. corporation, 10% of the value of the stock of which is owned, directly or indirectly, by the foreign person; (2) a U.S. partnership in which the foreign person is a partner; and (3) certain U.S. trusts if the foreign person is a beneficiary or, in certain circumstances, a grantor or a substantial owner.

The downward attribution rule was originally conceived to deal with *inversions*, where a U.S. firm merges with a foreign firm that becomes the parent. Without downward attribution, a subsidiary of the original U.S. parent could lose CFC status if it sold enough stock to the new foreign parent so the U.S. parent no longer had majority ownership. With downward attribution, the ownership of stock by the new foreign parent in the CFC is attributed to the U.S. parent, so that the subsidiary continues its CFC status, making it subject to any tax rules that apply to CFCs (such as Subpart F or GILTI).

Under the 2017 revision, foreign parents with a U.S. subsidiary where U.S. persons have a 10% interest could cause attribution of ownership that created CFC status for foreign corporations not previously subject to that treatment. P.L. 119-21 restores those attribution rules. However, it introduces a new provision, Section 951B, which would apply downward attribution rules to the foreign-controlled subsidiary of a foreign-controlled foreign corporation; the subsidiary would be treated as a U.S. person with related corporations potentially subject to CFC status.

## Pro Rata Shares

A U.S. shareholder determines the share of a CFC Subpart F or GILTI income that must be reported based on ownership on the last day of the tax year. P.L. 119-21 requires all shareholders to report shares of income for the portion of time they owned shares.

## Deferral of Taxable Year

A provision in P.L. 119-21 would eliminate a rule that allowed a CFC to choose a taxable year one month earlier than its majority U.S. shareholder.

## Revenue Effects

The Joint Committee on Taxation provided estimates using a current-law baseline and also a current-policy baseline. The current-law baseline estimates the change in revenue compared to the law that would have been in place, while the current-policy baseline estimates the change compared to the laws in place in 2025.

Under the current-law baseline, the reductions in the basic GILTI and FDII deductions are estimated to reduce revenue by $86.9 billion over FY2025-FY2034, while under the current-policy baseline, those changes would increase revenue by $55 billion. The elimination of the deemed deduction for tangible income is estimated to reduce revenue over that period by $6.6 billion in both baselines. These estimates are made after incorporating the foreign tax credit changes.

The increases in the foreign tax credit are estimated to reduce revenues by $29.7 billion from the elimination of indirect cost allocation, $24.7 billion from the increase in the taxes allowed from 80% to 90% of taxes paid, and $6.4 billion from the sourcing of inventory change in both baselines. These estimates are determined before accounting for changes in the effective tax rates and the elimination of the tangible deduction.

The changes in FDII-eligible income are estimated to reduce revenues by $7.6 billion in both baselines.

The changes in BEAT are estimated to reduce revenues by $30.6 billion under the current-law baseline and increase revenues by $2 billion under the current-policy baseline.

The look-through rules are estimated to cost $9.7 billion, and downward attribution is estimated to cost $3.4 billion. The pro rata provision is estimated to gain $16.3 billion and the taxable year deferral $0.8 billion. These estimates are the same for both baselines.

Overall, the international provisions cost $188.6 billion using the current-law baseline and $14.1 billion using the current-policy baseline.

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