



TAX POLICY CENTER
URBAN INSTITUTE & BROOKINGS INSTITUTION

HOW DOES THE ONE BIG BEAUTIFUL BILL ACT CHANGE US INTERNATIONAL TAXATION?

Thomas Brosy

February 12, 2026

CONTENTS

Acknowledgments	iii
Executive Summary	iv
How Does the One Big Beautiful Bill Act Reform US International Taxation?	1
Summary of OBBBA’s International Tax and Investment Reforms	4
The Tax Burden of New Domestic Investments	6
The Taxation of Foreign Investments	9
Conclusion	13
Appendix	15
Summary of OBBBA’s International Tax Reform	15
The Taxation of Domestic Investments	15
The Taxation of Foreign Investments	17
Notes	28
References	29
About the Author	30

ACKNOWLEDGMENTS

This research was funded by Arnold Ventures, the Peter G. Peterson Foundation, and an anonymous funder. We are grateful to them and to all our funders, who make it possible for the Urban-Brookings Tax Policy Center to advance its mission.

The views expressed are those of the authors and should not be attributed to the Urban Institute, the Brookings Institution, their trustees, or their funders. Funders do not determine research findings or the insights and recommendations of Tax Policy Center experts. More information on the Tax Policy Center’s funding principles is available [here](#). More information on the Urban Institute’s funding principles is available [here](#). I thank Reuven Avi-Yonah, Elena Patel, Joe Rosenberg, and Tracy Gordon for their feedback and comments.

EXECUTIVE SUMMARY

This report evaluates the international tax provisions of the 2025 One Big Beautiful Bill Act (OBBBA) and their effects on US and foreign multinationals. Using the Tax Policy Center’s Investment and International Capital Models, this analysis evaluates how the new net controlled foreign corporations tested income (NCTI) regime, the revised foreign-derived deduction eligible income (FDDEI) regime, and other changes impacting businesses alter incentives for domestic and foreign investment. The reforms substantially reduce marginal tax burdens on new domestic tangible (equipment and structures) and export-oriented investments, especially through permanent expensing and a broader export preference. For foreign investments, the higher NCTI rate, base broadening, and expanded foreign tax credits have mixed effects: average tax burdens change little for firms operating in high-tax jurisdictions but rise for those with income or assets in low-tax countries. Repealing the tangible-asset deduction removes a key distortion that previously encouraged marginal foreign investment in tangible assets. Remaining complexity, policy uncertainty, and persistent profit-shifting incentives, however, may limit some of the reform’s effectiveness.

HOW DOES THE ONE BIG BEAUTIFUL BILL ACT REFORM US INTERNATIONAL TAXATION?

The 2025 One Big Beautiful Bill Act (OBBBA) was the most comprehensive tax legislation passed since the 2017 Tax Cuts and Jobs Act (TCJA). It permanently extended a broad swath of temporary individual and business tax cuts that had been introduced by the TCJA. Along with renewing and expanding incentives for domestic investment, the OBBBA also modified the US international tax system in key ways. Lawmakers sought to reduce the cost of capital for domestic firms to encourage domestic investment and production, particularly in manufacturing and export-oriented industries. At the same time, they modified the taxation of foreign income to repeal incentives for US multinationals to increase foreign investments Specifically:

- The **net controlled foreign corporation tested income (NCTI)** regime replaces the global intangible low-taxed income (GILTI) regime to tax the foreign earnings of US multinationals. Unlike GILTI, NCTI applies to all foreign income with no deduction for tangible assets, and raises the statutory rate to 12.6 percent from 10.5 percent, although lower than TCJA's previously scheduled increase to 13.125 percent. NCTI also expands the creditability of foreign taxes, at 90 percent of deemed foreign taxes paid, compared with 80 percent under prior law.
- Domestically, the **foreign-derived deduction eligible income (FDDEI)** replaces the foreign-derived intangible income (FDII) regime. Unlike FDII, which targeted domestic intangible export-related income—for example, the royalties of using US intellectual property abroad—the new FDDEI applies to all export-related income at a preferential 14 percent rate, up from 13.125 percent, but lower than the scheduled increase to 16.4 percent.
- The **base-erosion and anti-abuse tax (BEAT)** regime, which imposes a minimum tax on large domestic and foreign corporations operating in the US that make payments to foreign affiliates, remains unchanged. The law imposes a new permanent rate of 10.5 percent, up from 10 percent but lower than the scheduled increase to 12.5 percent.

Domestically, full expensing for equipment and R&E expenditures was made permanent, and temporary expensing was extended to qualified production properties (mostly new manufacturing structures).

Using the Tax Policy Center's Investment and Capital models¹, this paper evaluates the new rules and their implications for US and foreign multinationals. It confirms that, taken together, OBBBA's reforms sharply reduce the effective marginal tax rate on new domestic projects, especially in manufacturing.

For export-oriented investment, the new FDDEI regime—which is largely an export subsidy—reduces both the average and marginal effective tax rates on new investments. The marginal tax rates on tangible assets will go down to about 7 percent in 2026, from 10 percent before; the average tax burden will fall to 12.5 percent from 14.5 percent. Overall, the new law provides significant tax reductions for capital-intensive, export-driven domestic investment.

In terms of its impact on current foreign tax liability, the new NCTI regime is a mixed picture for US multinationals:

- **Relative to the scheduled 2026 GILTI regime under prior law:** Most multinationals will pay lower US taxes under NCTI, despite the broader base. This is especially true for firms with tangible assets in high-tax countries but that report a meaningful share of profits in low-tax jurisdictions. The new permanent rate is lower than the rate that would have taken effect in 2026, and foreign tax credit rules are more generous.
- **Relative to the 2025 regime:** Firms with most operations in high-tax jurisdictions will generally see little change—and in some cases a reduction—in their US minimum tax liability. Expanded foreign tax creditability often outweighs the broader base and higher minimum tax rate. By contrast, firms that report a large share of income or hold substantial tangible assets in low-tax jurisdictions are more likely to face higher residual US taxes.

The reforms also alter incentives for *new foreign investment*, which requires examining average and marginal effective tax rates. Drawing on TPC’s international capital model, the NCTI regime meaningfully alters incentives for new foreign investment:

- **Higher benefits for high-tax, low-shifting profiles:** Firms that invest in tangible assets in high-tax countries, shift little new profit, and can fully use the additional foreign tax credits generated by their investments generally experience stable or lower average tax burdens. For these firms, the increase in foreign tax credits can exceed the rise in minimum tax liability.
- **Heavier shifters face modest increases:** Firms that shift a large share of new profits typically generate fewer foreign tax credits and therefore see higher average effective tax rates on new tangible investments—often by a few percentage points. But for firms that shift only moderately (around one-quarter of income), the net effect tends to be small.
- **Elimination of the tangible-asset deduction removes a major distortion:** Under GILTI, holding additional tangible assets abroad reduced US liability without increasing foreign tax, creating negative effective marginal tax rates and effectively subsidizing offshore investment. Under NCTI, that distortion disappears and marginal tax rates on new tangible assets rise sharply—from negative values under GILTI to modest but positive rates (often by low single digits, but in some cases by over 30 percentage points, depending on the jurisdiction and profit-shifting assumptions).

The Joint Committee on Taxation estimates that OBBBA’s international provisions will reduce federal revenues by about \$170 billion over 10 years. Roughly half the cost stems from permanently setting NCTI and FDDEI rates below the levels previously scheduled under TCJA, while another large component reflects more generous foreign tax credits. Revenues from eliminating the GILTI foreign tangible asset deduction mostly offsets the cost of broadening the tax base for the FDII regime. Maintaining the BEAT at a permanent 10.5 percent rate also reduces revenues, though these losses are partly offset by tighter limits on business interest deductions and a handful of technical changes.

In broad terms, the OBBBA moves away from an international tax regime that targets income from intangibles and implements new statutory rates higher than prior rates, but lower than scheduled 2026 rates under the TCJA. Until 2017,

the US operated a largely worldwide system, taxing foreign income but only upon repatriation. The TCJA shifted the system toward territoriality by exempting most foreign dividends and introducing a minimum tax aimed at low-taxed intangible income, in part to limit incentives for multinationals to engage in profit shifting. However, by broadening the base and increasing the use of foreign tax credits, the OBBBA also moved elements of the system back toward a worldwide approach—albeit one with preferential rates for certain categories of income.²

In practice, the OBBBA shifts relative incentives: new domestic investments, particularly in export-oriented manufacturing benefit from significantly lower effective tax burdens, while new foreign tangible investments—especially in low-tax jurisdictions—face higher marginal costs.

Yet the law leaves major challenges unaddressed. US multinationals still confront a highly complex system layered with the corporate alternative minimum tax (CAMT), some Pillar 2 rules³, foreign digital services taxes, and the domestic BEAT. Administrative complexity can be very costly for businesses.⁴ In addition, those policies use different tax bases and rules, creating uncertainty about how future income will be taxed. Second, the TCJA intended to respond to evidence of widespread and increasing profit-shifting behavior by changing the incentive structure for large multinationals. The GILTI targeted intangible income because it is more likely to be shifted and face lower taxes, while the FDII offered a preferential rate on foreign-earned domestic intangible income to incentivize US companies to onshore intellectual property. On the other hand, Clausing (2024) highlights that the global pooling design of GILTI incentivized corporations to invest abroad and report income in both low-tax and high-tax countries. While there is evidence that some large US multinationals repatriated intellectual property (IP), US multinationals continued to report disproportionate amounts of income in low-tax jurisdictions: a study found that US companies still reported nearly half of their foreign income in tax havens in 2020.⁵ Aggressive forms of profit shifting lower corporate tax revenues and increase the perception that the tax system is unfair and favors large corporations.

A future bargain could aim to reduce administrative complexity, further curb profit shifting, and raise revenue while sustaining strong incentives for US investment and growth.

SUMMARY OF OBBBA'S INTERNATIONAL TAX AND INVESTMENT REFORMS

Table 1 summarizes the key changes to the GILTI and FDII regimes.

TABLE 1

Summary of Key Changes to GILTI and FDII Regimes

Feature	Prior Law: GILTI/FDII Regimes	New Law: NCTI/FDDEI Regimes	Implications
Taxation of foreign income for US multinationals			
<i>Applicable</i>	Until Dec. 31 2025	Beginning Jan. 1 2026	
<i>Base definition</i>	Targets foreign intangible income.	All foreign income	The NCTI expands the base; this changes the tax burden and incentives on foreign tangible investments
<i>Base exclusion</i>	10 percent of foreign tangible assets.	No exclusion for tangible assets	
<i>Effective rate</i>	10.5 percent and was scheduled to increase to 13.125 percent in 2026	12.4 percent	The NCTI increases the minimum US tax rate from its 2025 level, but below what it would have been in 2026 under prior law
<i>Foreign tax credits limitations</i>	80 percent of deemed foreign taxes paid can be used as foreign tax credits	90 percent	Changes to foreign tax credits rules allows US multinationals to claim larger foreign tax credits
<i>Foreign tax credits rules</i>	Requires allocating domestic R&D and interest costs against foreign income	No allocation rule for domestic R&D and interest costs	
<i>Computation</i>	Tax liability is computed on the aggregated income across all CFCs of US shareholders	Tax liability is computed on the aggregated income across all CFCs of US shareholders	There is no change, blending is still allowed
Taxation of export-derived domestic income			
<i>Applicable</i>	Until Dec. 31 2025	Beginning Jan. 1 2026	
<i>Base definition</i>	Targets export-derived domestic intangible income	Targets all export-derived domestic income	The FDDEI expands the tax base and acts as a more traditional export subsidy
<i>Base exclusion</i>	10 percent of domestic tangible assets	No exclusion for domestic tangible assets	
<i>Effective rate</i>	13.125 percent and was scheduled to increase to 16.4 percent in 2026	14 percent	The FDDEI acts as an export subsidy by taxing foreign exports at a rate below 21 percent.
<i>Treatment of R&D and interest costs</i>	Interest and R&E expenses must be allocated to income that benefits from the preferential rate	No R&D and interest expense allocation	A higher share of income will benefit from the preferential rate for corporations with interest and R&E expenses

Source: Author's analysis of TJCA and OBBBA.

Notes: FDII = foreign-derived intangible income; GILTI = global intangible low-taxed income; NCTI = net controlled foreign corporation tested income; FDDEI = foreign-derived deduction eligible income. The OBBBA also implemented a new rule on inventory sourcing. Starting in 2026, up to 50 percent of income from inventory of US-proceed goods sold abroad can be treated as foreign source for determining foreign tax credits. The OBBBA also excludes gains from selling intellectual property from the FDDEI regime, and do not benefit multinationals from the reduced tax rate.

The 2025 reconciliation law also makes some small modifications to the BEAT. Starting in 2026, the permanent 10.5 percent rate will be modestly higher than the previous 10 percent, but lower than the scheduled increase to 12.5 percent under prior law. In addition, the reconciliation law preserves the usability of key tax credits—such as R&E credits—that would otherwise have been disallowed, reducing potential disadvantages for affected taxpayers. The law also introduces a few other technical changes related to ownership rules (see the appendix) and tightens interest deductibility rules for domestic multinationals.

It is also worth mentioning broader tax changes that impact investment incentives for all corporations, including multinationals. For example, the OBBBA restores the more generous, pre-2022 interest deduction limits for all taxpayers, partially offsetting the stricter multinational provisions. The law also makes full expensing for equipment and R&E permanent, as well as temporarily allowing full expensing of new manufacturing structures. Those provisions broadly lower the tax burden on most new domestic investments, including domestic exporters and multinationals.

Which Corporations Benefit from the International Tax Changes?

For domestic corporations, beginning in 2026, the new FDDEI regime is generally more favorable than the FDII regime. Although the permanent rate effective in 2026 is slightly higher than the 2025 rate, most corporations will still see lower tax liabilities because more categories of foreign-sourced income now qualify for the preferential rate. Compared with the previously scheduled increase in the FDII rate under prior (TCJA) law, the new regime is even more favorable.

For US multinationals, the NCTI reforms have mixed effects: expanded foreign tax credits often offset the broader base and higher minimum tax rate, leaving many firms—especially those operating mainly in high-tax jurisdictions—with little change or even a slight reduction in net liability. By contrast, firms with substantial income in low-tax countries or heavy profit shifting face higher residual US taxes, since they generate fewer additional foreign tax credits and benefit less from the repeal of the tangible-asset deduction.

Fiscal Impact

The Joint Committee on Taxation projects the international provisions will reduce revenue by about \$170 billion over 10 years (beginning in 2026, see table 1). The biggest drivers are the lower permanent rates under NCTI and FDDEI (\$90 billion) and more generous foreign tax credits (\$60 billion). The continuation of BEAT at a 10.5 percent rate adds another \$30 billion in costs. Offsetting this, repealing tangible-asset deductions recoups much of the revenue loss, while tightened interest-deduction limits raise \$22 billion. The revenue increase from repealing the GILTI tangible asset deductions offsets most of the cost of repealing the tangible asset deduction in the FDII regime (net cost \$7 billion). Tightened multinational business interest deduction raises \$22 billion (see appendix).

TABLE 2

Revenue Impact Summary of OBBBA's International Tax Provisions

Asset category	Effective date	Permanent	10-year cost (2025–34)
New rules for calculating foreign tax credits (FTCs)	Dec 31 2025	Yes	-60.8
New applicable rate for FDDEI (14 percent) and NCTI (12.6 percent) regimes	Dec 31 2025	Yes	-86.9
Repeal the qualified business asset income deduction (10 percent of tangible assets) from FDDEI and NCTI calculations	Dec 31 2025	Yes	-6.6
Revise the calculation of deduction eligible income for the FDDEI regime	Dec 31 2025	Yes	-7.6
Increase BEAT rate to 10.5 percent and strikes upcoming modifications	Dec 31 2025	Yes	-30.6
New rules affecting business interest limitations	Dec 31 2025	Yes	21.7
Other changes	Dec 31 2025	Yes	4.0
Total			-166.8

Source: Original 10-year estimates from Joint Committee on Taxation (JCT). See JCX-35-25, JCT, July 1, 2025, <https://www.jct.gov/publications/2025/jcx-35-25/>.

Notes: BEAT = base-erosion and anti-abuse tax; FDDEI = foreign-derived deduction eligible income; NCTI = net controlled foreign corporation tested income. Estimates are in billion USD.

THE TAX BURDEN OF NEW DOMESTIC INVESTMENTS

A core policy goal of OBBBA's backers was to incentivize more domestic production and manufacturing by both US and foreign firms. This section outlines how the combination of key business tax provisions and new international tax rules affect the tax burden on new domestic investments for US and foreign corporations. Note that although the lens of this analysis is for US multinationals, this section is relevant for all domestic investments. The Tax Policy Center's Investment and Capital models show the effective average and marginal tax rates at the corporate level on new domestic investments, producing for domestic or export markets, and teasing out the impact of expensing provisions and the new FDDEI regime.

The effective marginal tax rate (EMTR) shows how taxes affect investment decisions that just break even. It is most relevant to evaluate these incremental investment decisions. In contrast, the effective average tax rate (EATR) captures the average tax burden on new profitable investments. It is useful for location decision and large-scale lumpy projects (e.g., whether to build a new factory in the US or abroad).

Because of the interactions between international and other business tax provisions of the OBBBA, it is important to evaluate how effective tax rates on new investments are impacted by various provisions. A natural point of comparison is looking at effective rates across years. International tax provisions are effective in 2026, while other broader provisions are typically effective in 2025. The EMTR on tangible assets declined in 2025, reflecting the new expensing provisions introduced by the reconciliation law. For example, the new law reduces the EMTR on eligible qualified production property (subsequently referred to as "factories") by over 20 percentage points.

Because the FDII regime excludes normal returns, it has had little effect at the margin, whereas starting 2026, the new FDDEI regime applies to all returns and can have a meaningful marginal impact. For example, the effective marginal tax rates on structures other than factories is 9.8 percent in 2026 for export-derived income, compared with 15 percent for domestic-derived income. On the other hand, when expensing is available, the statutory tax rate is theoretically irrelevant for marginal decisions: the present value of deductions is equal to the cost of the investment, and the firm-level EMTR is simply zero. In that case, the preferential FDDEI regime adds no marginal benefits for equipment or factories that benefit from expensing.

Overall, I estimate that OBBBA lowers the EMTR on tangible assets by 4 percentage points, on average, for domestic-derived income, reflecting the impact of expensing, and by 7.4 percentage points for export-derived income, reflecting the combination of expensing and the new preferential FDDEI regime.

Expensing is most powerful at the margin and its effect on the tax burden of larger, profitable projects is noticeable but smaller. Between 2024 and 2025, I estimate that full expensing of equipment and factories lowered the EATR for tangible assets by 0.8 percentage points, by about 1 percentage points for equipment, and by over 4 percentage points for factories, on average (expensing is much more valuable for longer-lived assets, like structures). The FDII regime already provided some tax benefit for export-derived income from tangible investments above a normal return, but the new FDDEI regime further reduces the average tax burden on new tangible assets and factories in 2026, with an additional reduction of about 2 percentage points, on average.

To put these numbers into context, in 2024, intellectual property made up about 43 percent of private fixed nonresidential investment, the largest category. Equipment and structures made up about 37 percent and 20 percent of nonresidential private investment, respectively. I estimate that factories made up about a quarter of new structures, or roughly 5 percent of total investment.⁶ Thus, over 40 percent of new investment in the US could benefit from expensing provisions in 2025. Based on IRS Statistics of Income data, I estimate that FDDEI likely makes up between 15 and 20 percent of taxable income for C corporations so a roughly similar share of investment should benefit from the new regime.⁷ The benefits of the preferential regime are large, but highly concentrated: in 2021, over 80 percent of FDII deductions were claimed by firms in the manufacturing and information sectors. Since these industries are also more likely to invest in assets that benefit from expensing, this reinforces the notion that FDDEI is unlikely to have a major impact on marginal effective rates.

Taken together, the expensing provisions significantly reduce marginal tax burdens, while the FDDEI regime lowers average tax burdens on profitable new investments. These policies lower effective taxation for new capital investment and manufacturing, particularly in export-oriented industries.

TABLE 3

Summary OBBBA's Impact on the Tax Burden of New Domestic Investments

For equity-financed investments by C corporations

Asset type	Taxable income	Baseline EATR 2024	With expensing provisions 2025	With new FDDEI regime 2026	Change w/ expensing	Change w/ FDDEI	Change 2026–34
EMTR							
<i>All tangibles</i>	Non-export	14.3%	10.3%	10.3%	-4.0%	0.0%	-4.0%
<i>All tangibles</i>	Export-derived	13.9%	10.2%	6.6%	-3.7%	-3.6%	-7.4%
<i>Equipment</i>	Non-export	7.6%	1.4%	1.4%	-6.2%	0.0%	-6.2%
<i>Equipment</i>	Export-derived	6.2%	0.9%	0.8%	-5.3%	0.0%	-5.3%
<i>Factories</i>	Non-export	22.9%	1.5%	1.5%	-21.4%	0.0%	-21.4%
<i>Factories</i>	Export-derived	24.6%	1.7%	0.9%	-22.8%	-0.8%	-23.7%
Other structures	Non-export	16.4%	15.0%	15.0%	-1.4%	0.0%	-1.4%
Other structures	Export-derived	18.5%	16.9%	9.8%	-1.6%	-7.1%	-8.7%
EATR							
<i>All tangibles</i>	Non-export	19.5%	18.7%	18.7%	-0.8%	0.0%	-0.8%
<i>All tangibles</i>	Export-derived	15.1%	14.5%	12.5%	-0.6%	-2.0%	-2.6%
<i>Equipment</i>	Non-export	18.2%	17.1%	17.1%	-1.1%	0.0%	-1.1%
<i>Equipment</i>	Export-derived	13.4%	12.6%	11.4%	-0.8%	-1.2%	-2.0%
<i>Factories</i>	Non-export	21.5%	17.1%	17.1%	-4.4%	0.0%	-4.4%
<i>Factories</i>	Export-derived	16.9%	13.5%	11.4%	-3.4%	-2.1%	-5.5%
Other structures	Non-export	19.9%	19.6%	19.6%	-0.3%	0.0%	-0.3%
Other structures	Export-derived	15.7%	15.5%	11.4%	-0.2%	-4.1%	-4.3%

Sources: Estimates from the Tax Policy Center's International and Investment Capital Model.

Notes: EATR = effective average tax rate; EMTR = effective marginal tax rate; FDII = foreign-derived intangible income; FDDEI = foreign-derived deduction eligible income. The analysis estimates corporate-level effective average and marginal tax rate. A similar table for debt-financed investment is presented in the appendix. The analysis uses the distribution of assets from the Bureau of Economic Analysis to estimate the average impact on tangible goods. Factories include all structures that benefit from the new expensing policy for manufacturing structures introduced with OBBBA. Other structures category is based on Bureau of Economic Analysis definition of structures and includes assets with shorter depreciation such as improvements, utility structures, etc. Export-derived effective rates assume that all income generated from the new investment is foreign-derived.

While the domestic provisions of OBBBA—such as permanent expensing and the expanded FDDEI regime—shape incentives for investment within the US, the law's international provisions affect how US multinationals allocate investment and income across countries. Understanding these cross-border effects is essential because changes in foreign minimum taxes, creditability rules, and profit-shifting incentives can alter the relative attractiveness of locating new tangible assets or booking income abroad. I therefore turn next to the international side of the reform and evaluate how the new NCTI regime affects average and marginal tax burdens on foreign investment, as well as its implications for profit shifting.

THE TAXATION OF FOREIGN INVESTMENTS

To evaluate the impact of the reconciliation law on foreign investments, I use the Tax Policy Center’s International Investment and Capital Model.⁸ The simulations incorporate three major changes: more generous foreign tax credits, the repeal of the QBAI deduction, and a higher statutory rate on foreign income.⁹

Impact on Existing Tax Liability

For many US multinationals, the reconciliation law's international changes are likely to have a small positive effect—or may even reduce—overall tax liabilities on foreign income. Expanded foreign tax credits often offset the broader base created by repealing the 10 percent tangible-asset deduction. Under GILTI, foreign tax credits can be used only against GILTI income and are subject to a haircut (20 percent today, falling to 10 percent in 2026). Eliminating the tangible-asset deduction therefore expands creditability as well as the base, so some firms may see lower net liability even if their gross minimum tax liability rises. A simple numerical example is provided in the appendix. Relative to 2026, the new permanent NCTI rate—below the rate previously scheduled—further offsets base broadening.

The impact of NCTI on residual US tax liability depends on a firm’s foreign tax profile and the extent of profit shifting. Broadly, it is useful to consider the impact on three categories of multinationals:

1. **Primarily high-tax investors with little profit shifting: No change or slightly lower taxes.**

These firms typically face little or no additional US minimum tax because the increase in foreign tax credits (FTCs) generally offsets the broader base and higher rate. Many can also elect the “high-tax exemption,” which further simplifies compliance and eliminates residual US tax.

2. **High-tax investors with modest profit shifting: Slightly higher taxes.**

Firms with most real activity in high-tax jurisdictions but some shifted income may face a small increase in US minimum tax. Base broadening and the higher NCTI rate increase liability, although the expanded FTCs offset part—but not all—of the effect.

3. **Low-tax investors or high profit shifters: Higher taxes.**

Firms holding substantial assets or reporting significant income in low-tax jurisdictions generally face higher US residual tax. Because they pay little foreign tax, they gain far less from the expanded FTCs and therefore experience a larger increase in their NCTI liability.

Relative to the scheduled 3 percentage point increase in the GILTI rate under prior law, category 1 firms would see similar or lower tax burdens under either system, but most firms in categories 2 and 3 would face lower taxes under NCTI than they would have under the higher GILTI rate scheduled for 2026.

Finally, these estimates do not incorporate changes to expense allocation. Because domestic R&D and interest are no longer allocated against foreign income, multinationals with large R&D budgets or significant borrowing costs are likely to benefit more under the new rules.

Effective Average and Marginal Tax Rates on New Investments

While taxation of past investments matters for firms' cash flows, it does not necessarily capture how the new law alters incentives for future investment. Next, I assess how the reforms alter the tax burden on new marginal and profitable investments. I estimate effective average and marginal tax rates assuming that a quarter of foreign profit is shifted to low-tax jurisdiction (for discussion and estimates of the share of profit shifted and the impact on tax burdens, see Brosy 2025; Clausing 2020; Garcia-Bernardo, Janský and Zucman 2022). I also discuss the impact of the reform on effective average and marginal tax rates (EATRs and EMTRs) assuming either no profit shifting or that a fraction of profit is shifted (25 or 50 percent). Table 4 reports weighted average EATRs and EMTRs using the distribution of US multinational capital expenditures across foreign countries between 2018 and 2022.¹⁰ This analysis classifies multinationals into two distinct categories:

- **Multinationals without a residual GILTI liability before the investment.** A new investment generates both additional US minimum tax and new foreign taxes (and therefore new foreign tax credits). If the additional foreign tax credits are smaller than the incremental US liability, the firm pays more US tax. If the credits exceed the new minimum tax liability, the investment produces unused excess credits. Thus, firms that initially owe no US tax may accumulate **unused excess foreign tax credits from new investments**.
- **Multinationals with a residual GILTI liability before the investment.** For these firms, new foreign tax credits can be used to offset *existing* GILTI liability. When the incremental foreign tax credits exceed the incremental minimum tax liability, the investment is most tax-advantaged because **all new credits can be used immediately**.

For firms with no residual US liability before the investment (“*unused excess foreign tax credits allowed*” in Table 3), the reform has little effect on EATRs unless a substantial share of new income is shifted to low-tax jurisdictions. When half or more of new income is booked in low-tax countries, average tax burdens rise. By contrast, firms that begin with residual US liability—who can fully apply new foreign tax credits generated by the investment (“*all foreign tax credits used*” in table 4)—typically experience smaller increases in EATRs because the expansion of creditability more than offsets the additional minimum tax. In some cases (when no new profit is shifted), the increase in creditability is large enough to reduce the effective burden relative to the GILTI regime. As more profit is shifted, the distinction between firms with and without initial US liability narrows, because low-taxed income generates fewer new foreign taxes and thus fewer credits relative to the added minimum tax.

The effects on EMTRs under NCTI are even more striking. Critics of GILTI long argued that the QBAI deduction encouraged foreign investment by allowing firms to reduce US liability through expanding their foreign tangible asset base. In practice, this produced very low—and in some cases negative—EMTRs, especially when profits were shifted. Prior work (e.g., Brosy 2025) shows how the interaction of the tangible-asset deduction and limited creditability created strong incentives to overinvest abroad.

Consider a multinational with a subsidiary in a zero-tax jurisdiction where it shifts profit and reports positive income. Under GILTI, a marginal investment in tangible assets generates no additional foreign tax but reduces the firm's GILTI

liability; the result is a negative marginal effective tax rate. Similarly, consider a multinational with residual GILTI liability that invests in tangible assets through a subsidiary in a high-tax country. It will be able to use all its new foreign tax credits *and* the deduction for tangible assets to lower its GILTI.

By repealing the deduction for tangible assets, the NCTI regime largely eliminates this mechanism, raising marginal effective rates on tangible investments, particularly when the return to those investments is low-taxed. Appendix tables A.4 to A.6 present EMTRs and EATRs under the GILTI regime and under NCTI with various levels of profit shifting. EMTRs under GILTI were often negative, sometimes less than -10 percent. Under NCTI, most EMTRs are above 10 percent.

TABLE 4
Country-by-Country Impact of NCTI on EMTRs and EATRs

Change in effective tax rates relative to 2025 GILTI regime (percentage points)

Tax Rate	Amount of Profit Shifted		
	0 percent	25 percent	50 percent
EMTR			
<i>Unused excess foreign tax credits allowed</i>	1.7%	8.1%	24.0%
<i>All foreign tax credits used</i>	15.8%	25.4%	32.0%
EATR			
<i>Unused excess foreign tax credits allowed</i>	0.1%	1.1%	4.5%
<i>All foreign tax credits used</i>	-2.1%	1.5%	4.8%

Source: Author’s calculations.

Notes: EATR = effective average tax rate; EMTR = effective marginal tax rate; GILTI = global intangible low-taxed income; NCTI = Net controlled foreign corporations tested income. Impact of NCTI regime relative to GILTI regime (10.5 percent tax rate). The presented estimates capture the average change in EATR and EMTR across all foreign investments weighted by the average share of foreign capital expenditures across foreign countries between 2018 and 2022.

Country-by-Country Impact of the NCTI Regime on EATRs and EMTRs

Figure 1 shows how the NCTI regime changes effective average tax rates (EATRs) relative to the GILTI rules. The blue bars reflect cases where foreign tax credits generated by a new investment can be applied only against that investment’s US liability—meaning the firm has no prior GILTI or NCTI liability. The red bars reflect cases where all excess credits can be used, assuming the firm has existing US minimum tax liability.

The basic pattern is consistent across jurisdictions. For a given investment, the *increase* in US minimum tax liability is similar across countries; the *variation* comes from how foreign tax systems determine the amount of new foreign tax credits. In higher-tax jurisdictions—such as Australia, Mexico, Germany, Spain, or Japan—or in countries with less generous depreciation rules, additional credits typically offset the higher US liability, producing little to no change in the overall burden. By contrast, low-tax jurisdictions such as Bermuda, Ireland, and Singapore, or countries with generous depreciation allowances like Canada and the UK, generate fewer additional credits. In those cases, the rise in US liability exceeds the increase in credits, raising the tax burden. Firms that already owe US minimum tax face larger increases because they can fully use the new credits, while firms with no prior liability frequently leave some credits unused.

The pattern is sharper for EMTRs. The higher NCTI rate raises marginal burdens slightly, and expanded creditability (allowing 90 percent of foreign taxes to be credited) offsets part of that increase. The dominant factor, however, is the repeal of the QBAI deduction: under GILTI, the QBAI deduction reduced a firm’s US liability as it held more tangible assets offshore, often producing very low—or negative—marginal tax rates. Under NCTI, this distortion disappears, and marginal rates rise substantially, especially for firms with existing US liability or those that shift significant shares of new income to low-tax jurisdictions. By contrast, firms investing in high-tax countries, shifting little or no profit, and without residual US liability see minimal changes. Appendix figures A.2 and A.4 show how these effects vary with assumptions about profit shifting, and appendix tables A.4–A.6 report EMTRs and EATRs by country and profit-shifting level.

The NCTI Regime and Profit-Shifting

One goal of the TCJA’s international tax provisions was to curb profit shifting through a minimum tax on foreign intangible income (GILTI)—which is easy to shift and often taxed at low rates—while encouraging the onshoring of intellectual property through FDI and addressing base erosion through BEAT, which imposes a minimum tax on deductible payments to foreign affiliates. In practice, however, GILTI applies on a *global pooled* basis, and its relatively low effective rate—well below statutory rates in most jurisdictions—means that only the most aggressive profit-shifting strategies face meaningful US residual tax. As a result, companies continued to shift profits across affiliates to minimize foreign taxes while facing little or no US minimum tax. The NCTI regime modestly reduces these incentives. The higher minimum tax rate (12.4 percent) increases the US tax burden on all foreign income, including shifted income. Base broadening has a similar effect for multinationals that pay relatively low foreign taxes, while expanded foreign tax creditability reduces the burden on income reported in high-tax jurisdictions. Still, *global pooling remains the central feature shaping profit-shifting incentives*. Compared with a country-by-country minimum tax or a high-tax exclusion applied on a jurisdictional basis, NCTI leaves profit-shifting incentives largely intact, and the overall reduction in shifting incentives is likely to be modest.

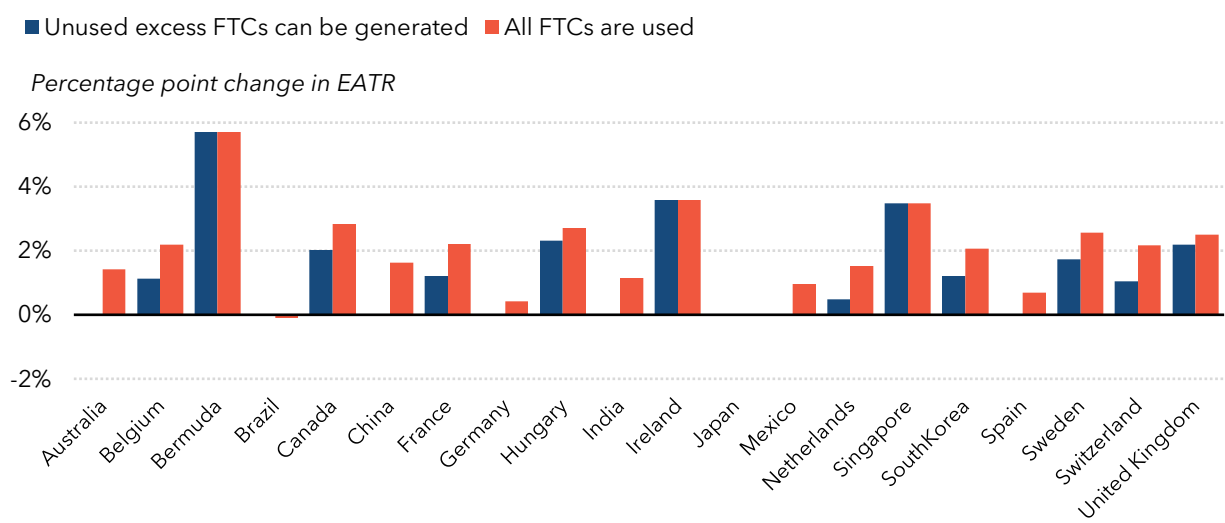
FIGURE 1

Foreign Investment Incentives under NCTI: Country Variation

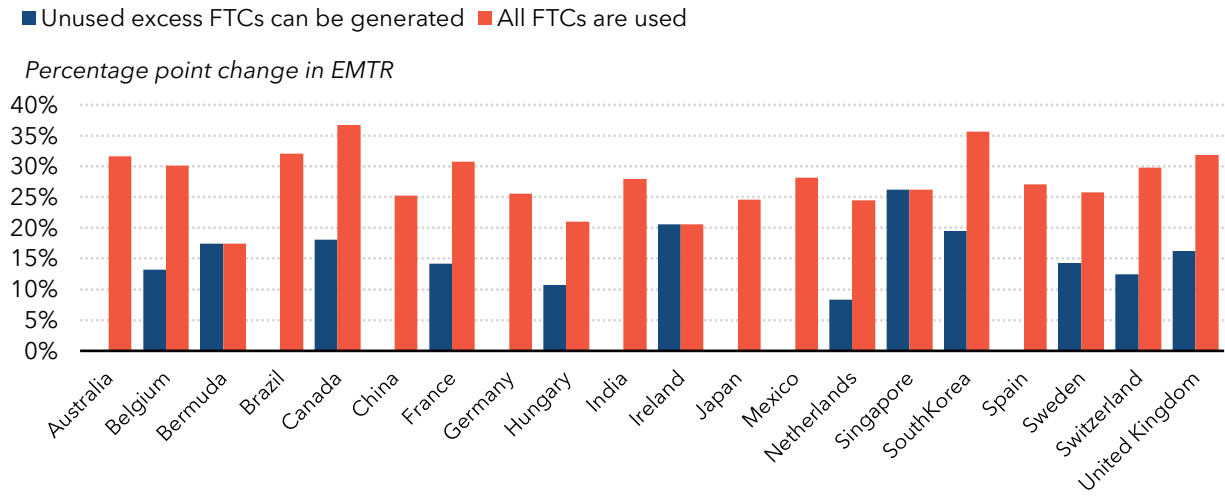
Relative to 2025 GILTI regime

EATR, 25 percent of new income shifted





EMTR, 25 percent of new income shifted



Source: Author's calculations.

Notes: EATR = effective average tax rate; EMTR = effective marginal tax rate; FTC = foreign tax credit; GILTI = global intangible low-taxed income; NCTI = net controlled foreign corporations tested income. The EATRs are a composite of tangible assets, with 50 percent structures and 50 percent equipment. The graph shows the impact of the new NCTI regime which will take into effect in 2026 relative to the GILTI regime (10.5 percent rate). The estimates assume that a quarter of income generated by new investments is shifted to a low-tax jurisdiction. Blue bars indicate investments for multinationals with no US minimum tax liability and red bars indicate investments where new excess foreign tax credits generated can be applied against previous GILTI or NCTI liability.

CONCLUSION

The international tax reforms in the OBBBA shift tax incentives consistent with several of the overarching goals outlined by lawmakers. First, they reduce the marginal and average tax burden on new domestic investments, particularly in manufacturing and for export-oriented production. The restoration of full expensing for equipment and the introduction of expensing for factories sharply reduce the marginal cost of capital. Meanwhile, the new FDDEI regime lowers the marginal burden on tangible investments that do not benefit from expensing and reduces taxes on export-derived income.

Second, the reform increases the marginal tax burden on foreign investments, especially for multinationals with significant operations in low-tax jurisdictions. Although the higher NCTI rate and the repeal of the tangible-asset deduction broaden the minimum tax base, more generous foreign tax credits largely offset these changes for large, profitable foreign projects. At the margin, however, the repeal of the QBAI deduction eliminates the subsidy for accumulating tangible assets abroad. Under GILTI, some firms faced negative EMTRs on foreign investment because additional tangible assets reduced their US liability; the new rules largely eliminate that mechanism.

Third, taken together, these changes make domestic investment more attractive relative to foreign investment. Average EMTRs on domestic tangible assets fall from 14 to 10 percent—and to about 7 percent for export-related income—while average EATRs fall by roughly one percentage point for domestic income and 2.5 percentage points for export-derived income. By comparison, EATRs for most foreign investments change little or increase modestly, and EMTRs for foreign tangible investments often rise by 10 percentage points or more, except for firms investing in high-tax jurisdictions with little profit shifting.

Still, important issues remain unresolved. US multinationals continue to navigate an exceptionally complex system, now layered with the corporate alternative minimum tax, the domestic BEAT, partial exposure—following the recent exemption of US multinationals—to some pillar 2 rules, and the growing use of digital services taxes that disproportionately affect US firms. Although the TCJA’s BEAT and GILTI provisions were intended to curb the shifting of profits into tax havens, evidence shows that nearly half of US multinationals’ foreign income was still reported in low-tax jurisdictions by 2022, and the OBBBA does little to change this. Despite initial proposals to overhaul the BEAT, the final legislation largely preserves the existing structure, and although NCTI raises the rate, broadens the base, and expands foreign tax creditability, the regime retains global pooling—leaving the strongest profit-shifting incentive largely intact.¹¹

Profit shifting has mixed implications: it may increase cash flow and shareholder returns, but it also undermines revenue collection and erodes confidence in the tax system. A more comprehensive reform could reduce administrative burdens, strengthen anti-profit-shifting rules, raise additional revenue, and maintain strong domestic investment incentives—for example, by trading the corporate AMT for a higher statutory rate paired with country-by-country minimum tax liability or a mandatory high-tax exclusion.¹²

SUMMARY OF OBBBA'S INTERNATIONAL TAX REFORM

This section outlines the reconciliation law's other smaller policy changes impacting US and foreign multinational corporations and presents details on the fiscal costs of OBBBA's international tax reforms.

OBBBA's Other Policy Changes Impacting Multinational Corporations

1. The Base Erosion and Anti-Abuse Tax (BEAT) remains in place with limited modifications.
 - a. **The applicable tax rate is set permanently to 10.5 percent.** This is higher than the previous 10 percent rate, but lower than the scheduled increase to 12.5 percent in 2026 under TCJA.
 - b. **Taxpayers may continue to use credits like the R&E and clean energy tax credits to offset BEAT liability.** Under TCJA, the use of these tax credits would have been disallowed beginning in 2026.
2. Other changes
 - a. **Interest limitations.** Beginning in 2026, US multinationals must exclude NCTI and Subpart F income when calculating adjusted taxable income for section 163(j) interest limitations. The law also specifies that capitalized interest is subject to these limits, reducing the amount of non-capitalized interest that can be deducted.
 - b. **Look-thru rules for related CFCs.** The permanent extension of look-through rules allows controlled foreign corporations (CFCs) to continue excluding certain payments (such as dividends or interest) from related CFCs from Subpart F income.
 - c. **Pro rata share rules.** Adjustments were made to clarify how pro rata ownership is determined.
 - d. **New downward attribution rules to determine CFC status.**

THE TAXATION OF DOMESTIC INVESTMENTS

This section presents the modeling methodology and additional results on the impact of OBBBA's on the taxation of domestic investments.

Modeling Expensing and the New FDDEI Regime

We use the methodology developed for the Tax Policy Center's Investment and Capital models by Brody and Matheson (2024), based on Devereux and Griffith (1998, 2003), where the effective average marginal tax rates are calculated as:

$$EMTR = \frac{\tilde{p} - r}{\tilde{p}} \quad ; \quad EATR = \frac{(R^* - R)}{\left[\frac{p}{(1+r)} \right]}$$

where \tilde{p} is the cost of capital, r the real interest rate, R^* is the present value of pretax income,¹³ R is the present value of after-tax income, and the denominator $\frac{p}{(1+r)}$ is the present value of total pretax capital income.¹⁴ We assume a pretax profit rate, p , of 20 percent. The new FDEEI regime can be simply estimated as the standard regime on domestic income, with a preferential rate.

$$R^{FDEEI} = -\alpha(1 - A^{FDDEI}) + \frac{\alpha(1 + \pi)}{1 + \beta} \{(p + \delta)(1 - \tau^{FDII}) + (1 - \delta)(1 - A^{FDDEI} - ITC)\} + F^{FDDEI}$$

where A^{FDDEI} and is the present tax value of cost recovery depreciation allowances calculated using τ^{FDDEI} , with expensing, $A = 1$; F^{FDDEI} captures the financing costs; β is the corporate discount rate, which equals the nominal interest rate i multiplied by 1 , minus the investor-level tax on interest income: $\beta = i(1 - \tau^{int})$. The parameter α reflects the after-tax relative value to investors of dividends and capital gains: $\alpha = \frac{1 - \tau^{div}}{1 - \tau^{CG}}$; π is the inflation rate, and δ the rate of economic depreciation. The cost of capital is simply

$$\tilde{p}^{FDDEI} = \left[\frac{1 - A^{FDDEI}}{(1 - \tau^{FDDEI})(1 + \pi)} \right] \{ \beta + \delta(1 + \pi) + \pi \} - \frac{F^{FDDEI}(1 + \beta)}{\alpha(1 - \tau^{FDDEI})(1 + \pi)} - \delta$$

Additional Results for Debt-Financed Investments

TABLE A.1

Summary of OBBBA’s Impact on the Tax Burden of New Domestic Investments

For debt-financed investments by C Corporations

Asset type	Taxable income	Baseline EATR 2024	With expensing provisions 2025	With new FDDEI regime 2026	Delta expensing	Delta FDII	Delta 2026-24
EMTR							
All tangibles	Non-export	14.3%	10.3%	10.3%	-4.0%	0.0%	-4.0%
All tangibles	Export-derived	13.9%	10.2%	6.6%	-3.7%	-3.6%	-7.4%
Equipment	Non-export	7.6%	1.4%	1.4%	-6.2%	0.0%	-6.2%
Equipment	Export-derived	6.2%	0.9%	0.8%	-5.3%	0.0%	-5.3%
Factories	Non-export	22.9%	1.5%	1.5%	-21.4%	0.0%	-21.4%
Factories	Export-derived	24.6%	1.7%	0.9%	-22.8%	-0.8%	-23.7%
EATR							
All tangibles	Non-export	19.5%	18.7%	18.7%	-0.8%	0.0%	-0.8%
All tangibles	Export-derived	15.1%	14.5%	12.5%	-0.6%	-2.0%	-2.6%
Equipment	Non-export	18.2%	17.1%	17.1%	-1.1%	0.0%	-1.1%
Equipment	Export-derived	13.4%	12.6%	11.4%	-0.8%	-1.2%	-2.0%
Factories	Non-export	21.5%	17.1%	17.1%	-4.4%	0.0%	-4.4%
Factories	Export-derived	16.9%	13.5%	11.4%	-3.4%	-2.1%	-5.5%

Source: Authors’ analysis of stakeholder interviews. Estimates from the Tax Policy Center’s International and Investment Capital Model.

Notes: EATR = effective average tax rate; EMTR = effective marginal tax rate; FDII = foreign-derived intangible income; FDDEI = foreign-derived deduction eligible income. I estimate corporate-level effective average and marginal tax rate. We assume a profit rate of 20 percent. Average effective capital gains and dividend tax rates come from TPC’s microsimulation model. Other parameters (inflation, interest rate, etc.) come from the “Cost of Capital Model,” Congressional Budget Office [GitHub Repository], accessed December 5, 2025, <https://github.com/US-CBO/captax>.

THE TAXATION OF FOREIGN INVESTMENTS

This section presents additional results on the impact of OBBBA's on the taxation of foreign investments.

Impact of Existing Investments

Consider a US multinational with two foreign subsidiaries.

- **Subsidiary 1 (low-tax country)** reports \$1,000 in income, no tangible assets, and pays \$50 in foreign taxes. Under the GILTI regime, its residual liability is \$65 ($10.5\% \times \$1,000 - 80\% \times \50).
- **Subsidiary 2 (high-tax country)** reports \$1,000 in income, \$5,000 in tangible assets (implying a \$500 QBAI deduction), and pays \$200 in foreign taxes. Its GILTI liability is $10.5\% \times \$500 = \52.5 , offset by \$80 in foreign tax credits ($50\% \times \$200 - 20\%$ haircut), leaving a residual liability of zero and \$27.5 in excess credits.

Because of blending rules, the company can apply the \$27.5 of excess credits from the high-tax country against the \$65 owed in the low-tax country. Its final net GILTI liability is \$37.5. Under the new NCTI regime

- the low-tax subsidiary owes \$81 ($12.6\% \times \$1,000 - 90\% \times \50), and
- the high-tax subsidiary owes nothing but generates \$54 in excess credits ($12.6\% \times \$1,000 - 90\% \times \200).

The multinational offsets part of its low-tax liability with these credits, leaving a net NCTI liability of \$27, or \$10.5 lower than under the GILTI regime. Compared with the higher GILTI rate scheduled for 2026 (13.125%), the cut would be even larger.

Now suppose instead the company splits its \$5,000 in tangible assets evenly, with \$2,500 in the high-tax subsidiary and \$2,500 in the low-tax subsidiary.¹⁵ In this case, the firm would pay \$19.5 more under NCTI than under the 2025 GILTI regime. But compared to the scheduled 2026 GILTI rate, it would still see a net tax cut.

These examples show that some US multinationals could pay less tax under NCTI than under the 2025 GILTI rules, even when reporting half their income in a low-tax country. Whether a company pays more or less depends on three factors:

1. How much tangible capital it holds abroad.
2. Where those assets are located (high- vs. low-tax countries).
3. Where it reports its income.

Table A.2 summarizes the results. In general, firms declaring most income in high-tax countries see no change, while those with more income and assets in low-tax countries face higher liabilities. Compared with prior law, most multinationals pay more. But compared with the 2026 scheduled GILTI rate, most will pay less, and those with assets concentrated in high-tax countries see the smallest increases.

TABLE A.2

Effect of NCTI on US Multinationals by Share of Assets and Income in High- vs. Low-Tax Countries

By share of tangible assets and income reported in high-tax and low-tax countries

Share of income in low-tax countries	Assets in low-tax: 5%	Assets in low-tax: 50%	Assets in low-tax: 95%
Relative to 2025 GILTI Regime			
5%	Little change	Little change	Little change
50%	Higher US taxes	Higher US taxes	Much higher US taxes
95%	Higher US taxes	Much higher US taxes	Much higher US taxes
Relative to new NCTI regime to 2026 GILTI regime (13.125% rate)			
5%	Little change	Little change	Little change
50%	Much lower US taxes	Much lower US taxes	Lower US taxes
95%	Much lower US taxes	Lower US taxes	Lower US taxes

Source: Tax simulations from the author. We assume total foreign income is \$5,000 and total foreign tangible assets are \$5,000. Tax rate in high tax country is 20 percent and 5 percent in low-tax countries.

Notes: GILTI = global intangible low-taxed income; NCTI = net controlled foreign corporations tested income. From SOI statistics Form 8892, total amount of deduction for tangible assets is about 9 percent of total GILTI income. That implies total foreign tangible assets for which the qualified business asset investment can be claimed at around 90 percent of total GILTI income in 2021. Much lower US taxes implies a tax decrease of less than -\$50 (or 10 percent of foreign income). Lower US taxes imply a tax increase between \$0 and -\$50. From SOI statistics Form 8892, total amount of deduction for tangible assets is about 9 percent of total GILTI income. That implies total foreign tangible assets for which the qualified business asset investment can be claimed at around 90 percent of total GILTI income in 2021. Much higher US taxes implies a tax increase of over \$50 (or 10 percent of foreign income). Higher US taxes imply a tax increase between \$0 and \$50. Much lower US taxes implies a tax decrease of less than -\$50 (or 10 percent of foreign income). Lower US taxes imply a tax increase between \$0 and -\$50.

Modeling the New NCTI Regime

We revise TPC’s modeling of outbound effective rates following Brody (2024, 2025), which is also based on Devereux and Griffith (1998, 2003). The minimum present value of income (which translates to the higher effective average and marginal tax rates) under the NCTI regime and under the foreign tax regime determines the final tax burden on the investment.

Assuming no residual NCTI liability before the investment, if the investment triggers a residual NCTI liability, R^{NCTI} applies, and when the investment does not trigger a residual GILTI liability, $R^{FOREIGN}$ applies.

$$R^{US\ MNE} = \min [R^{NCTI}, R^{FOREIGN}]$$

This is also the relevant measure of the net present value of income for results “unused foreign tax credits allowed”. In this instance, the effective rate is determined by the highest tax liability of foreign taxes and NCTI liability, which maps into the minimum of R^{NCTI} and $R^{FOREIGN}$. The foreign and NCTI present value of income are:

$$R^{FOREIGN} = -\frac{r + \delta}{1 + r}(1 - A^F) + \frac{p + \delta}{1 + r}(1 - \tau^F) + F^F$$

$$R^{NCTI} = -\frac{r + \delta}{1 + r}(1 - \tilde{A}) + \frac{p + \delta}{1 + r}(1 - (1 - 0.9)\tau^F - \tau^{NCTI}) + \tilde{F},$$

Where the value of interest expenses is $\tilde{F} = \hat{F}^N + F^F(1 - 0.9)$ and the tax present value of depreciation allowance for net foreign taxes and NCTI is $\tilde{A} = \hat{A}^{NCTI} + A^F(1 - 0.9)$. Other parameters are similar to those presented in modeling FDDEI. If the corporation had NCTI liability prior to the investment and call used all foreign tax credits, then the relevant net present value of income is R^{NCTI} . When introducing profit shifting, the net present value of income is the combination of income received in the country of investment (high-tax country for exposition) and the country where income is shifted (low-tax country).

$$R^{HT} = \min \left[-\frac{r + \delta}{1 + r}(1 - \tilde{A}) + (1 - \zeta) \left(\frac{p + \delta}{1 + r}(1 - (1 - 0.9)\tau^{HT} - \tau^{GILTI}) \right) + \tilde{F}; -\frac{r + \delta}{1 + r}(1 - A^{HT}) \right. \\ \left. + (1 - \zeta) \frac{p + \delta}{1 + r}(1 - \tau^{HT}) + F^{HT} \right] - \frac{\eta}{1 + r}$$

$$R^{LT} = \zeta \left(\frac{p + \delta}{1 + r}(1 - 0.2\tau^{LT} - \tau^{GILTI}) \right)$$

Where the composite tax rate is $1 - \tilde{\tau} = \zeta(1 - \tau^{LT}) + (1 - \zeta)(1 - \tau^{HT})$, a combination of the rate in the high tax country (τ^{HT}), the rate in the low-tax country (τ^{LT}), and the share of new income shifted (ζ); the fraction of allowed FTCs in the high tax country is 0.9 and shifting costs are captured by η . The tax treatment of financing costs under NCTI and in the country of investment are captured by $F^N + (1 - 0.9)F^{HT}$.

Effective Average and Marginal Tax Rates on New Investments

TABLE A.3

Country-by-Country Impact of NCTI on EATRs and EMTRs

Change in effective tax rates relative to TCJA's scheduled 2026 GILTI regime (percentage points)

Tax Rate	Amount of Profit Shifted			
	0 percent	25 percent	50 percent	100 percent
EMTR				
Unused excess foreign tax credits allowed	0.0%	0.8%	3.5%	5.6%
All foreign tax credits used	-3.4%	0.2%	3.6%	5.6%
EATR				
Unused excess foreign tax credits allowed	2.8%	9.2%	30.3%	37.6%
All foreign tax credits used	20.3%	31.3%	38.8%	37.6%

Source: Author's analysis.

Notes: EATR = effective average tax rate. EMTR = effective marginal tax rate; GILTI = global intangible low-taxed income; NCTI = Net controlled foreign corporations tested income. Impact of NCTI regime relative to pre-OBBBAGILTI regime (10.5 percent tax rate). The presented estimates capture the average change in EATR and EMTR across all foreign investments weighted by the average share of foreign capital expenditures across foreign countries between 2018 and 2022.

Country-by-Country Impact of the NCTI Regime on EATRs and EMTRs

Tables A.4, A.5, and A.6 present the EMTRs and EATRs for investments in tangible assets under the 2025 GILTI regime and the 2026 NCTI regime, when none of the new income is shifted (table A5), 25 percent of new income is shifted (table A6), or 50 percent of the new income is shifted (table A7). Tangible asset is a composite made of about 50 percent equipment and 50 percent structures. See Brosy (2024) for detailed explanations on how the effective and marginal tax rates on new foreign investments are modeled. I present the effective tax rate when either all excess foreign tax credits are unused (“excess foreign tax credits allowed”) or when all excess foreign tax credits are used (“all foreign tax credits used”).

TABLE A.4

Country-by-Country Impact of NCTI on EATRs and EMTRs, No Profit Shifting

Tangible assets, equity financed

Country	EMTRs				EATRs			
	Pre-OBDBA regime (2025)		OBDBA (2026)		Pre-OBDBA regime (2025)		OBDBA (2026)	
	All FTCs used	Excess FTCs allowed	All FTCs used	Excess FTCs allowed	All FTCs used	Excess FTCs allowed	All FTCs used	Excess FTCs allowed
Argentina	38.9%	5.2%	38.9%	16.2%	36.6%	21.4%	36.6%	16.1%
Australia	24.6%	-3.3%	24.6%	14.5%	28.2%	18.0%	28.2%	15.3%
Austria	19.3%	-2.6%	19.3%	14.1%	22.6%	16.0%	22.6%	14.7%
Belgium	18.5%	-4.7%	18.5%	14.0%	23.4%	16.1%	23.4%	14.8%
Bermuda	-5.3%	-5.3%	12.1%	12.1%	6.8%	6.8%	12.5%	12.5%
Brazil	38.1%	1.1%	38.1%	16.0%	37.7%	21.5%	37.7%	16.2%
Bulgaria	-4.7%	-4.7%	12.8%	12.8%	10.5%	10.5%	13.4%	13.4%
Canada	11.0%	-10.3%	11.0%	11.0%	21.9%	15.4%	21.9%	14.7%
Cayman Islands	-5.3%	-5.3%	12.1%	12.1%	6.8%	6.8%	12.5%	12.5%
Chile	33.9%	6.1%	33.9%	15.7%	29.6%	18.8%	29.6%	15.4%
China	24.5%	-0.4%	24.5%	14.6%	24.8%	16.8%	24.8%	15.0%
Colombia	38.5%	4.7%	38.5%	16.1%	36.4%	21.3%	36.4%	16.1%
Croatia	6.0%	-8.7%	6.0%	12.8%	14.8%	12.7%	14.8%	14.0%
Czech Republic	13.4%	-4.3%	13.4%	13.5%	17.4%	13.8%	17.4%	14.2%
Denmark	20.0%	-1.2%	20.0%	14.1%	21.4%	15.5%	21.4%	14.6%
Estonia	45.5%	19.4%	45.5%	18.0%	32.4%	20.3%	32.4%	15.7%
Finland	11.8%	-5.7%	11.8%	13.3%	17.7%	14.0%	17.7%	14.2%
France	18.2%	-5.1%	18.2%	13.9%	23.5%	16.2%	23.5%	14.8%
Germany	33.0%	2.7%	33.0%	15.5%	31.7%	19.5%	31.7%	15.6%
Greece	22.5%	0.1%	22.5%	14.4%	22.2%	15.8%	22.2%	14.7%
Hong Kong	8.6%	-6.1%	8.6%	13.0%	14.3%	12.6%	14.3%	13.9%
Hungary	16.7%	-0.8%	16.7%	13.8%	16.9%	13.8%	16.9%	14.2%
Iceland	13.9%	-4.7%	13.9%	13.5%	18.2%	14.1%	18.2%	14.3%
India	28.4%	-0.5%	28.4%	15.0%	28.8%	18.2%	28.8%	15.4%
Indonesia	27.3%	1.6%	27.3%	14.9%	25.8%	17.2%	25.8%	15.1%
Ireland	11.5%	-2.6%	13.3%	13.3%	12.2%	11.8%	13.7%	13.7%

Country	EMTRs				EATRs			
	Pre-OBBBA regime (2025)		OBBBA (2026)		Pre-OBBBA regime (2025)		OBBBA (2026)	
	All FTCs used	Excess FTCs allowed	All FTCs used	Excess FTCs allowed	All FTCs used	Excess FTCs allowed	All FTCs used	Excess FTCs allowed
Israel	19.0%	-2.3%	19.0%	14.0%	21.8%	15.7%	21.8%	14.6%
Italy	18.9%	-5.3%	18.9%	14.0%	24.2%	16.4%	24.2%	14.9%
Japan	32.9%	3.4%	32.9%	15.5%	31.5%	19.5%	31.5%	15.6%
Jersey	-5.3%	-5.3%	12.1%	12.1%	6.8%	6.8%	12.5%	12.5%
Lithuania	6.0%	-7.4%	12.8%	12.8%	12.6%	11.8%	13.7%	13.7%
Luxembourg	17.8%	-5.2%	17.8%	13.9%	23.5%	16.2%	23.5%	14.8%
Mexico	29.5%	-0.1%	29.5%	15.1%	29.8%	18.6%	29.8%	15.5%
Netherlands	24.3%	0.2%	24.3%	14.6%	24.8%	16.9%	24.8%	14.9%
New Zealand	35.5%	8.1%	35.5%	15.9%	30.9%	19.6%	30.9%	15.6%
Norway	22.1%	0.2%	22.1%	14.4%	22.0%	15.8%	22.0%	14.7%
Poland	21.1%	1.0%	21.1%	14.3%	19.7%	14.9%	19.7%	14.4%
Portugal	16.7%	-5.2%	16.7%	13.8%	22.1%	15.7%	22.1%	14.7%
Romania	12.9%	-2.8%	12.9%	13.4%	15.1%	13.1%	15.1%	14.0%
Russia	14.7%	-4.0%	14.7%	13.6%	18.5%	14.3%	18.5%	14.3%
Saudi Arabia	19.0%	-1.0%	19.0%	14.0%	19.7%	14.8%	19.7%	14.4%
Serbia	35.4%	13.2%	35.4%	16.3%	22.9%	16.4%	22.9%	14.8%
Singapore	9.1%	-6.0%	9.1%	13.1%	14.8%	12.8%	14.8%	14.0%
Slovakia	18.4%	-2.2%	18.4%	14.0%	20.2%	15.0%	20.2%	14.5%
Slovenia	15.6%	-2.6%	15.6%	13.7%	18.0%	14.2%	18.0%	14.3%
South Africa	17.5%	-7.0%	17.5%	13.9%	24.8%	16.7%	24.8%	15.0%
South Korea	18.2%	-7.3%	18.2%	13.9%	25.8%	17.0%	25.8%	15.1%
Spain	30.7%	1.2%	30.7%	15.2%	30.6%	19.1%	30.6%	15.5%
Sweden	16.5%	-3.2%	16.5%	13.8%	19.6%	14.8%	19.6%	14.4%
Switzerland	18.7%	-4.5%	18.7%	14.0%	23.3%	16.1%	23.3%	14.8%
Turkey	20.1%	-2.9%	20.1%	14.1%	23.5%	16.3%	23.5%	14.8%
Ukraine	12.7%	-4.3%	12.7%	13.4%	16.5%	13.5%	16.5%	14.1%
United Kingdom	13.8%	-6.6%	13.8%	13.5%	21.8%	15.6%	21.8%	14.6%

Source: Author's calculations.

Notes: EATR = effective average tax rate; EMTR = effective marginal tax rate; FTC = foreign tax credit; GILTI = global intangible low-taxed income; NCTI = net controlled foreign corporations tested income. NCTI regime relative to pre-OBBBA GILTI regime (10.5 percent tax rate).

TABLE A.5

Country-by-Country Impact of NCTI on EATRs and EMTRs, 25 Percent Profits Shifted

Tangible assets, equity financed

Country	EMTRs				EATRs			
	Pre-OBBBA regime (2025)		OBBBA (2026)		Pre-OBBBA regime (2025)		OBBBA (2026)	
	All FTCs used	Excess FTCs allowed	All FTCs used	Excess FTCs allowed	All FTCs used	Excess FTCs allowed	All FTCs used	Excess FTCs allowed
Argentina	16.2%	-11.7%	16.2%	13.7%	23.3%	15.2%	23.3%	14.8%
Australia	-0.6%	-19.3%	-0.6%	12.4%	16.8%	12.7%	16.8%	14.1%
Austria	-0.5%	-14.6%	12.3%	12.3%	13.4%	11.7%	15.0%	13.8%
Belgium	-3.7%	-18.0%	9.6%	12.1%	13.6%	11.7%	14.8%	13.8%
Bermuda	-5.3%	-5.3%	12.1%	12.1%	6.8%	6.8%	12.5%	12.5%
Brazil	11.6%	-18.8%	11.6%	13.3%	23.4%	14.9%	23.4%	14.8%
Bulgaria	-9.2%	-9.2%	12.1%	12.1%	8.7%	8.7%	13.0%	13.0%
Canada	-11.5%	-25.3%	6.6%	11.4%	12.2%	10.8%	14.2%	13.7%
Cayman Islands	-5.3%	-5.3%	12.1%	12.1%	6.8%	6.8%	12.5%	12.5%
Chile	17.1%	-5.7%	17.1%	13.9%	19.3%	14.1%	19.3%	14.4%
China	5.7%	-12.4%	5.7%	12.8%	15.3%	12.4%	15.3%	14.0%
Colombia	15.5%	-12.4%	15.5%	13.7%	23.1%	15.1%	23.1%	14.8%
Croatia	-18.0%	-18.0%	11.5%	11.5%	9.5%	9.5%	13.3%	13.3%
Czech Republic	-3.5%	-13.6%	12.1%	12.1%	10.8%	10.5%	13.5%	13.5%
Denmark	2.8%	-11.7%	11.7%	12.6%	13.0%	11.6%	14.3%	13.8%
Estonia	37.0%	12.6%	37.0%	16.6%	24.3%	16.6%	24.3%	14.9%
Finland	-4.6%	-15.8%	11.9%	11.9%	11.0%	10.4%	13.5%	13.5%
France	-4.7%	-18.8%	9.5%	12.1%	13.6%	11.6%	14.8%	13.8%
Germany	11.4%	-12.3%	11.4%	13.3%	19.9%	14.0%	19.9%	14.5%
Greece	6.2%	-10.1%	10.7%	12.8%	13.8%	11.9%	14.1%	13.8%
Hong Kong	-14.2%	-14.2%	11.9%	11.9%	9.7%	9.7%	13.3%	13.3%
Hungary	1.9%	-8.4%	12.6%	12.6%	11.2%	10.8%	13.5%	13.5%
Iceland	-4.4%	-14.6%	12.1%	12.1%	11.0%	10.6%	13.5%	13.5%
India	6.7%	-15.0%	6.7%	12.9%	17.7%	13.1%	17.7%	14.2%
Indonesia	9.8%	-10.0%	9.8%	13.2%	16.3%	12.8%	16.3%	14.1%
Ireland	-8.2%	-8.2%	12.4%	12.4%	9.6%	9.6%	13.2%	13.2%
Israel	0.2%	-13.6%	11.8%	12.4%	13.0%	11.6%	14.6%	13.8%
Italy	-4.7%	-19.5%	9.1%	12.1%	14.1%	11.7%	15.0%	13.9%
Japan	11.7%	-11.3%	11.7%	13.3%	19.8%	14.1%	19.8%	14.5%
Jersey	-5.3%	-5.3%	12.1%	12.1%	6.8%	6.8%	12.5%	12.5%
Lithuania	-14.9%	-14.9%	11.7%	11.7%	9.2%	9.2%	13.2%	13.2%
Luxembourg	-5.5%	-19.0%	10.8%	12.0%	13.6%	11.6%	15.2%	13.8%
Mexico	7.1%	-15.2%	7.1%	13.0%	18.4%	13.3%	18.4%	14.3%
Netherlands	5.3%	-11.7%	13.7%	12.8%	15.2%	12.5%	15.7%	14.0%
New Zealand	18.4%	-3.9%	18.4%	14.0%	20.2%	14.6%	20.2%	14.5%
Norway	5.7%	-10.0%	12.2%	12.8%	13.6%	11.9%	14.4%	13.8%

Country	EMTRs				EATRs			
	Pre-OBBBA regime (2025)		OBBBA (2026)		Pre-OBBBA regime (2025)		OBBBA (2026)	
	All FTCs used	Excess FTCs allowed	All FTCs used	Excess FTCs allowed	All FTCs used	Excess FTCs allowed	All FTCs used	Excess FTCs allowed
Poland	7.4%	-7.4%	12.9%	12.9%	12.4%	11.5%	13.7%	13.7%
Portugal	-4.9%	-17.9%	9.3%	12.0%	12.8%	11.4%	14.4%	13.7%
Romania	-0.3%	-10.2%	12.3%	12.3%	10.3%	10.2%	13.4%	13.4%
Russia	-3.1%	-13.8%	12.2%	12.2%	11.3%	10.8%	13.6%	13.6%
Saudi Arabia	0.7%	-10.3%	12.6%	12.6%	12.1%	11.3%	13.7%	13.7%
Serbia	28.3%	8.1%	27.7%	15.3%	17.2%	13.8%	17.8%	14.2%
Singapore	-14.4%	-14.4%	11.9%	11.9%	9.8%	9.8%	13.3%	13.3%
Slovakia	1.8%	-12.3%	12.5%	12.5%	12.2%	11.3%	13.7%	13.7%
Slovenia	-0.6%	-11.6%	12.3%	12.3%	11.4%	10.8%	13.5%	13.5%
South Africa	-8.9%	-22.6%	9.7%	11.8%	14.1%	11.7%	15.5%	13.9%
South Korea	-9.6%	-23.9%	9.9%	11.8%	14.7%	11.9%	15.9%	13.9%
Spain	8.2%	-14.1%	8.2%	13.1%	18.9%	13.7%	18.9%	14.4%
Sweden	-2.0%	-13.5%	12.3%	12.3%	11.9%	11.1%	13.6%	13.6%
Switzerland	-3.1%	-17.6%	9.4%	12.2%	13.6%	11.7%	14.7%	13.8%
Turkey	-0.7%	-15.5%	11.5%	12.3%	13.9%	11.9%	15.1%	13.9%
Ukraine	-3.3%	-13.0%	12.1%	12.1%	10.5%	10.3%	13.4%	13.4%
United Kingdom	-4.5%	-20.1%	11.8%	11.7%	13.0%	11.2%	15.2%	13.7%

Source: Author's calculations.

Notes: EATR = effective average tax rate; EMTR = effective marginal tax rate; FTC = foreign tax credit; GILTI = global intangible low-taxed income; NCTI = Net controlled foreign corporations tested income. NCTI regime relative to pre-OBBBA GILTI regime (10.5 percent tax rate).

TABLE A.6

Country-by-Country Impact of NCTI on EATRs and EMTRs, 50 Percent Profit Shifted

Tangible assets, equity financed

Country	EMTRs				EATRs			
	Pre-OBBBA regime (2025)		OBBBA (2026)		Pre-OBBBA regime (2025)		OBBBA (2026)	
	All FTCs used	Excess FTCs allowed	All FTCs used	Excess FTCs allowed	All FTCs used	Excess FTCs allowed	All FTCs used	Excess FTCs allowed
Argentina	-11.7%	-33.1%	10.3%	11.2%	11.1%	9.1%	14.3%	13.5%
Australia	-6.0%	-18.4%	12.3%	12.3%	8.2%	7.6%	13.0%	13.0%
Austria	-2.4%	-12.9%	12.4%	12.4%	7.9%	7.8%	13.0%	13.0%
Belgium	-16.6%	-16.6%	12.2%	12.2%	7.4%	7.4%	12.9%	12.9%
Bermuda	-5.3%	-5.3%	12.1%	12.1%	6.8%	6.8%	12.5%	12.5%
Brazil	-22.9%	-44.9%	4.6%	10.6%	10.0%	8.3%	13.4%	13.4%
Bulgaria	-8.3%	-8.3%	12.2%	12.2%	7.2%	7.2%	12.7%	12.7%
Canada	-19.2%	-19.2%	11.9%	11.9%	7.0%	7.0%	12.9%	12.9%
Cayman Islands	-5.3%	-5.3%	12.1%	12.1%	6.8%	6.8%	12.5%	12.5%
Chile	-6.3%	-19.6%	11.9%	11.9%	9.9%	9.3%	13.4%	13.4%
China	-26.6%	-26.6%	11.0%	11.0%	8.0%	8.0%	13.0%	13.0%
Colombia	-12.9%	-34.0%	9.6%	11.1%	10.9%	9.0%	14.1%	13.4%
Croatia	-14.5%	-14.5%	11.9%	11.9%	6.9%	6.9%	12.7%	12.7%
Czech Republic	-12.7%	-12.7%	12.2%	12.2%	7.3%	7.3%	12.8%	12.8%
Denmark	-23.7%	-23.7%	11.0%	11.0%	7.8%	7.8%	12.9%	12.9%
Estonia	26.9%	5.1%	26.6%	15.1%	16.2%	12.8%	17.1%	14.1%
Finland	-12.9%	-12.9%	12.2%	12.2%	7.4%	7.4%	12.8%	12.8%
France	-16.8%	-16.8%	12.2%	12.2%	7.4%	7.4%	12.9%	12.9%
Germany	-14.0%	-30.7%	11.1%	11.1%	9.6%	8.6%	13.3%	13.3%
Greece	-21.8%	-21.8%	11.2%	11.2%	8.0%	8.0%	13.0%	13.0%
Hong Kong	-12.1%	-12.1%	12.1%	12.1%	7.2%	7.2%	12.7%	12.7%
Hungary	-17.0%	-17.0%	11.4%	11.4%	7.8%	7.8%	12.9%	12.9%
Iceland	-14.0%	-14.0%	12.1%	12.1%	7.2%	7.2%	12.8%	12.8%
India	-20.0%	-32.7%	10.8%	10.8%	8.2%	8.0%	13.1%	13.1%
Indonesia	-23.7%	-23.7%	11.3%	11.3%	8.4%	8.4%	13.1%	13.1%
Ireland	-14.2%	-14.2%	11.5%	11.5%	7.4%	7.4%	12.7%	12.7%
Israel	-12.7%	-12.7%	12.4%	12.4%	7.7%	7.7%	12.9%	12.9%
Italy	-17.9%	-17.9%	12.1%	12.1%	7.3%	7.3%	12.9%	12.9%
Japan	-11.3%	-29.2%	11.1%	11.1%	10.0%	8.7%	13.3%	13.3%
Jersey	-5.3%	-5.3%	12.1%	12.1%	6.8%	6.8%	12.5%	12.5%
Lithuania	-13.5%	-13.5%	11.9%	11.9%	6.8%	6.8%	12.6%	12.6%
Luxembourg	-5.1%	-15.7%	12.3%	12.3%	7.7%	7.6%	13.0%	13.0%
Mexico	-19.3%	-33.7%	10.8%	10.8%	8.5%	8.0%	13.2%	13.2%
Netherlands	-12.0%	-25.8%	11.0%	11.0%	8.4%	8.1%	13.0%	13.0%
New Zealand	-0.9%	-18.1%	14.7%	12.0%	11.3%	9.7%	14.2%	13.4%
Norway	-21.7%	-21.7%	11.2%	11.2%	8.0%	8.0%	13.0%	13.0%

Country	EMTRs				EATRs			
	Pre-OBBBA regime (2025)		OBBBA (2026)		Pre-OBBBA regime (2025)		OBBBA (2026)	
	All FTCs used	Excess FTCs allowed	All FTCs used	Excess FTCs allowed	All FTCs used	Excess FTCs allowed	All FTCs used	Excess FTCs allowed
Poland	-17.0%	-17.0%	11.6%	11.6%	8.2%	8.2%	13.0%	13.0%
Portugal	-15.9%	-15.9%	12.2%	12.2%	7.4%	7.4%	12.9%	12.9%
Romania	-9.2%	-9.2%	12.4%	12.4%	7.6%	7.6%	12.8%	12.8%
Russia	-13.1%	-13.1%	12.2%	12.2%	7.4%	7.4%	12.8%	12.8%
Saudi Arabia	-20.8%	-20.8%	11.2%	11.2%	7.8%	7.8%	12.9%	12.9%
Serbia	14.2%	2.5%	21.4%	14.3%	12.1%	11.1%	13.9%	13.6%
Singapore	-12.2%	-12.2%	12.1%	12.1%	7.2%	7.2%	12.8%	12.8%
Slovakia	-23.8%	-23.8%	10.9%	10.9%	7.6%	7.6%	12.9%	12.9%
Slovenia	-10.9%	-10.9%	12.4%	12.4%	7.6%	7.6%	12.9%	12.9%
South Africa	-7.5%	-18.4%	12.2%	12.2%	7.6%	7.4%	13.0%	13.0%
South Korea	-7.9%	-19.3%	12.2%	12.2%	7.7%	7.3%	13.0%	13.0%
Spain	-15.7%	-32.8%	10.8%	10.8%	9.3%	8.3%	13.2%	13.2%
Sweden	-12.9%	-12.9%	12.3%	12.3%	7.5%	7.5%	12.9%	12.9%
Switzerland	-16.6%	-16.6%	12.1%	12.1%	7.3%	7.3%	12.9%	12.9%
Turkey	-3.9%	-14.4%	12.3%	12.3%	7.7%	7.7%	13.0%	13.0%
Ukraine	-12.3%	-12.3%	12.2%	12.2%	7.3%	7.3%	12.8%	12.8%
United Kingdom	-2.8%	-13.6%	12.4%	12.4%	8.0%	7.8%	13.0%	13.0%

Source: Author's calculations.

Notes: EATR = effective average tax rate; EMTR = effective marginal tax rate; FTC = foreign tax credit; GILTI = global intangible low-taxed income; NCTI = Net controlled foreign corporations tested income. NCTI regime relative to pre-OBBBA GILTI regime (10.5 percent tax rate).

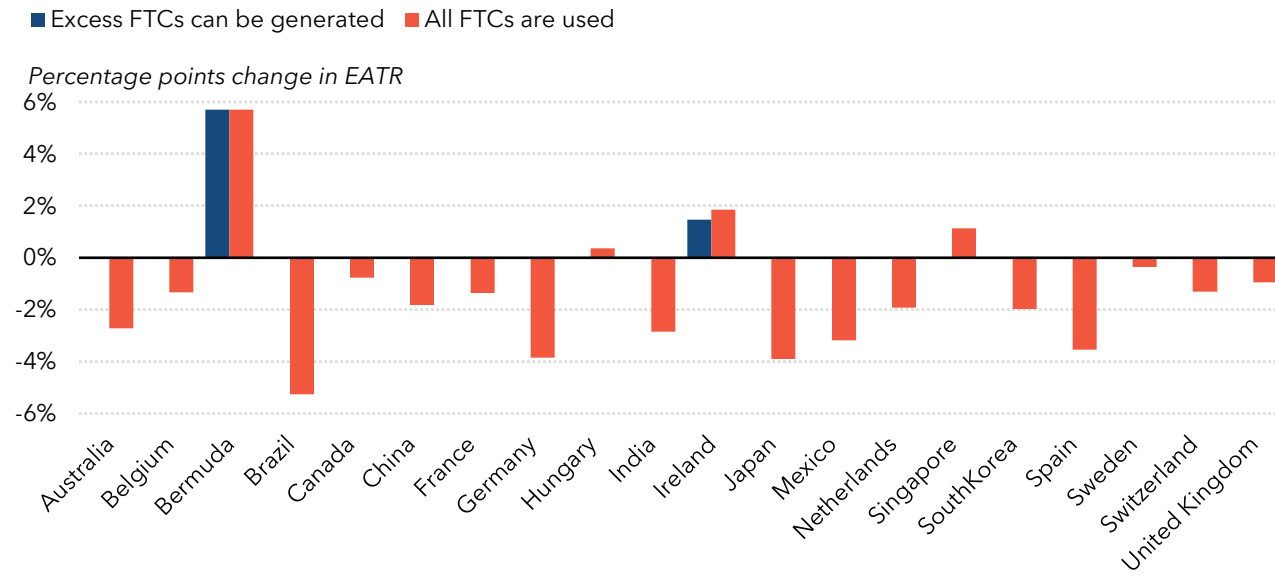
FIGURE A.1



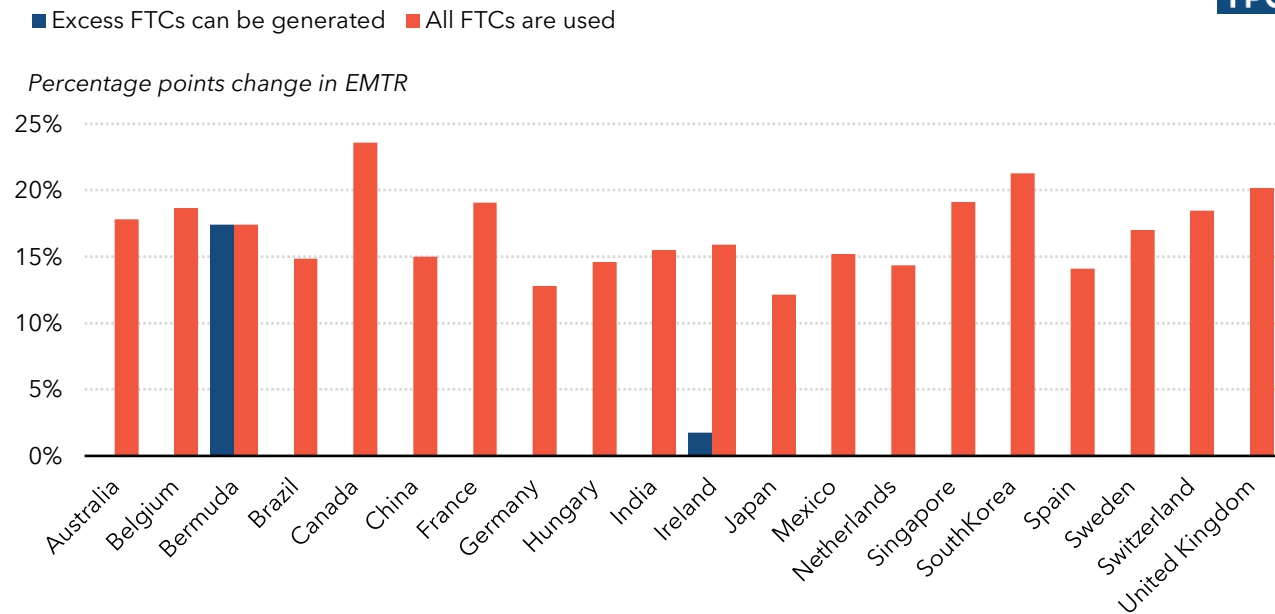
Foreign Investment Incentives under NCTI: Country Variation

Relative to 2025 GILTI regime

EATR, no profit shifting



EMTR, no profit shifting



Source: Author's calculations.

Notes: EATR = effective average tax rate; EMTR = effective marginal tax rate; FTC = foreign tax credit; GILTI = global intangible low-taxed income; NCTI = Net controlled foreign corporations tested income. The EATRs are a composite of tangible assets, with 50 percent structures and 50 percent equipment. The graph shows the impact of the new NCTI regime that will take into effect in 2026 relative to the pre-OBBA GILTI regime (10.5 percent rate). I assume that a quarter of income generated by new investments is shifted to a low-tax jurisdiction. Blue bars indicate investments for multinationals with no US minimum tax liability and red bars indicate investments where new excess foreign tax credits generated can be applied against previous GILTI or NCTI liability.

FIGURE A.2



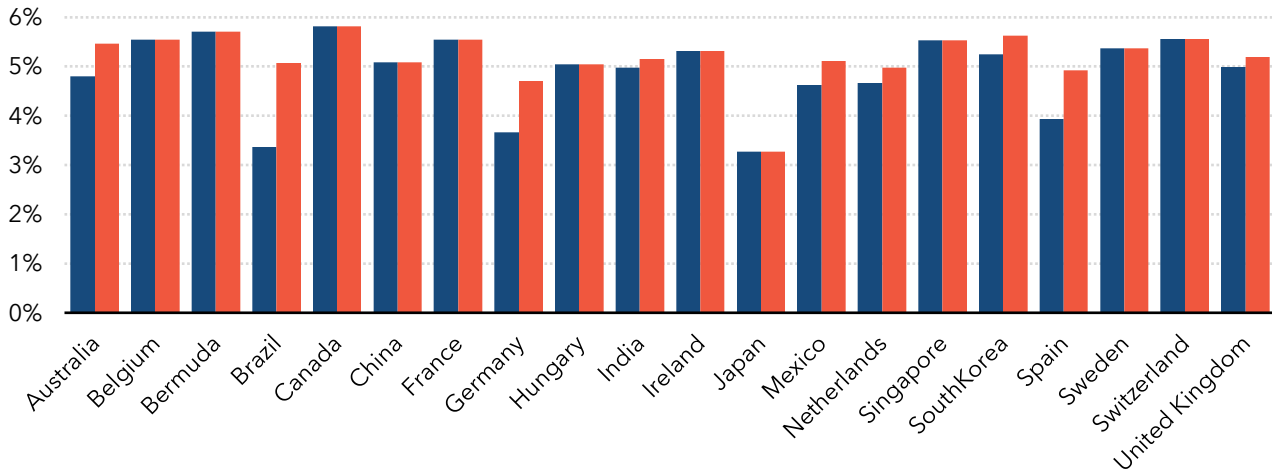
Foreign Investment Incentives under NCTI: Country Variation

Relative to 2025 GILTI regime

EATR, 50 percent of profit shifted

■ Excess FTCs can be generated ■ All FTCs are used

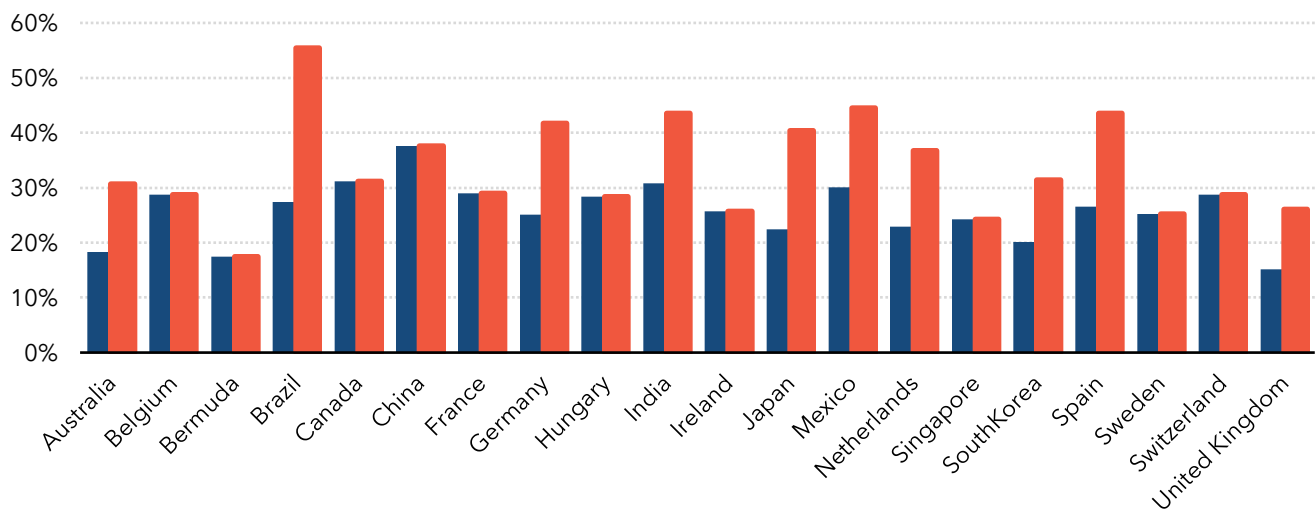
Percentage points change in EATR



EMTR, 50 percent of profit shifted

■ Excess FTCs can be generated ■ All FTCs are used

Percentage points change in EMTR



Source: Author's calculations.

Notes: EATR = effective average tax rate; EMTR = effective marginal tax rate; FTC = foreign tax credit; GILTI = global intangible low-taxed income; NCTI = Net controlled foreign corporations tested income. The EATRs are a composite of tangible assets, with 50 percent structures and 50 percent equipment. The graph shows the impact of the new NCTI regime which will take into effect in 2026 relative to the pre-OBDDA GILTI regime (10.5 percent rate). I assume that a quarter of income generated by new investments is shifted to a low-tax jurisdiction. Blue bars indicate investments for multinationals with no US minimum tax liability and red bars indicate investments where new excess foreign tax credits generated can be applied against previous GILTI or NCTI liability.

NOTES

- ¹ The code and data used in the model is available upon request. See Matheson (2021) for a description of the original model on cross-investment taxation, Brosy and Thornton (2024) discuss the integration of intangibles, including the FDI regime. See Brosy (2024) for details on how the models calculates EATRs and EMTRs on foreign outbound investment by US multinationals, and Brosy (2025) on how the model can integrate international tax reforms. Note that the model can integrate expense allocation for R&D and interest costs, and how much average and effective marginal tax rates would change for a particular firm. However, for simplicity and tractability I do not model how new expense allocation impacts the effective rates in this paper.
- ² For a discussion of the extent to which the US international tax system has been worldwide or territorial, and how it has evolved over time, see Avi-Yonah (forthcoming), “*The End of Territoriality*,” *International Tax Journal*.
- ³ On January 6, 2026, the United States reached an agreement with more than 145 countries participating in the Inclusive Framework. Under this agreement, US-parented multinational enterprises and their subsidiaries are effectively exempt from the income inclusion rule (IIR) and the undertaxed payments rule (UTPR) beginning in fiscal year 2026. These firms remain subject, however, to the qualified domestic minimum top-up tax (QDMTT). The agreement establishes a “side-by-side” safe harbor under which companies are exempt from the IIR and UTPR in jurisdictions that (1) maintain eligible domestic and worldwide minimum tax regimes, (2) provide foreign tax credits for paid foreign QDMTTs, consistent with the treatment of other creditable foreign taxes, and (3) have enacted these provisions prior to the fiscal year in which the safe harbor applies. At present, only the United States qualifies for this safe harbor. Eligibility is based on the interaction of the net corporate tax increase (NCTI) regime and the corporate alternative minimum tax (CAMT). If either the NCTI or CAMT were substantially modified or phased out, US eligibility for the safe harbor would become uncertain.
- ⁴ See Zwick, Eric. 2021. “The Costs of Corporate Tax Complexity.” *American Economic Journal: Economic Policy* 13 (2): 467–500.
- ⁵ For example, Garcia-Bernardo, Janský & Zucman (2022) find that the share of profits booked abroad by US multinationals fell by 3-5 percentage points after the TCJA, largely due to the repatriation of IP. However, the share of foreign profits US multinationals report in tax havens remained stable between 2015 and 2020, around 50 percent.
- ⁶ See Table 5.3.6. Real Private Fixed Investment by Type, Chained Dollars from the Bureau of Economic Analysis.
- ⁷ See IRS SOI International Tax Studies, Table 2, Form 8993, <https://www.irs.gov/statistics/soi-tax-stats-international-tcja-studies>.
- ⁸ See endnote 1.
- ⁹ I can include expense allocation in the model and how much average and effective marginal tax rates would change for a particular firm. However, for simplicity and tractability I do not model how new expense allocation impacts the effective rates in this paper.
- ¹⁰ If US multinationals report 10 percent of foreign capital expenditures in the United Kingdom, the country gets a 10 percent weight in the reported average.
- ¹¹ Pillar 2’s may further constrain profit shifting, but rigorous empirical evaluation will be necessary to determine its effects.
- ¹² For a discussion of the impact of a mandatory high tax exclusion, see Pomerleau, Kyle, *A Mandatory High Tax Exclusion for GILTI* (AEI Economic Policy Working Paper Series, 2025), <https://www.aei.org/research-products/working-paper/a-mandatory-high-tax-exclusion-for-gilti/>.
- ¹³ $R^* = (p - r) / (1 + r)$
- ¹⁴ An intuitive way to grasp the value of the EATR is as a weighted average of the EMTR and the statutory tax rate. The less profitable an investment (that is, the lower the value of \tilde{p}), the closer the EATR gets to the EMTR, and the more profitable an investment, the closer the EATR gets to the statutory tax rate. See equation (9) in Matheson (2021).
- ¹⁵ IRS SOI data from 2021 on form 8092—the latest publicly available—suggests that the amount of QBAI reported by US multinationals was about \$60 billion, roughly 10 percent of the \$600 billion in reported GILTI. This analysis used these data to illustrate an example where the amount of GILTI income is roughly equivalent to the amount of depreciable tangible foreign assets.

REFERENCES

- Avi-Yonah, Reuven. 2026. "The End of Territoriality?" *The International Tax Journal*. Forthcoming.
- Brosy, Thomas. 2024. "[Modeling the Taxation of US Foreign Investment through the International Investment and Capital Model.](#)" Washington, DC: Urban-Brookings Tax Policy Center.
- Brosy, Thomas, and Thornton Matheson. 2024. "[Incorporating Intangibles into TPC Effective Tax Rate Models.](#)" Washington, DC: Tax Policy Center.
- Brosy, Thomas. 2025. "[The TCJA's Impact on Foreign Investment Tax Incentives.](#)" Washington, DC: Urban-Brookings Tax Policy Center.
- Brosy, Thomas. 2025. "[How Pillar 2 and International Tax Reforms Affect US Multinational Taxes.](#)" Washington, DC: Urban-Brookings Tax Policy Center.
- Clausing, Kimberly A. 2020. "Profit Shifting Before and After the Tax Cuts and Jobs Act." *National Tax Journal* 73 (4): 1233–66.
- Devereux, Michael P., and Rachel Griffith. 1998. "The Taxation of Discrete Investment Choices." Working Paper W98/16. London: Institute for Fiscal Studies.
- . 2003. "Evaluating Tax Policy for Location Decisions." *International Tax and Public Finance* 10 (2): 107–26.
- Garcia-Bernardo, Javier, Petr Janský, and Gabriel Zucman. 2022. "[Did the Tax Cuts and Jobs Act Reduce Profit Shifting by US Multinational Companies?](#)" NBER Working Paper 30086. Cambridge, MA: National Bureau of Economic Research.
- Matheson, Thornton. 2021. "[Tax Policy Center International Investment and Capital Model: Corporate Income Tax Project Technical Brief.](#)" Washington, DC: Urban-Brookings Tax Policy Center.
- Pomerleau, Kyle. 2025. "[A Mandatory High Tax Exclusion for GILTI.](#)" AEI Economic Policy Working Paper Series.
- Zwick, Eric. 2021. "The Costs of Corporate Tax Complexity." *American Economic Journal: Economic Policy* 13 (2): 467–500.

ABOUT THE AUTHOR

Thomas Brosy is a senior research associate at the Urban-Brookings Tax Policy Center. He studies and evaluates business and international taxation, as well as state and local taxes. His research and writing have covered the impact of state taxation on business dynamism, bonus depreciation, Pillar 1 and 2, book minimum tax, buyback excise tax, the relationship between property values and property taxes, commercial property taxes, taxation of cryptocurrency, and federal business and international US tax reforms. Brosy holds a PhD in economics from the University of Michigan, an MS in economics from the University College London, and a BS in economics from the University of Lausanne—Switzerland.



The Tax Policy Center is a joint venture of the
Urban Institute and Brookings Institution.



BROOKINGS

For more information, visit taxpolicycenter.org
or email info@taxpolicycenter.org