How U.S. International Tax Policy Affects U.S. Investment and Jobs

American Chemistry Council

Background

Some policymakers have proposed several changes to the international tax system. The plan would increase the rate of the Global Intangible Low-Taxed Income (GILTI) minimum tax to 21%, eliminate the exception for qualified business asset investment (QBAI), and require that GILTI be computed on a country-by-country (CBC) basis. GILTI is a unique tax affecting U.S. companies and imposing costs that make them less competitive versus foreign companies and inhibit domestic employment. Doubling the rate would compound the problem. **Costs to the U.S. chemical industry would be about $1.37 billion per year.**

GILTI Rate Hike

Some policymakers have proposed doubling the GILTI rate from 10.5% to 21%. This change would have the effect of shrinking U.S. investment and jobs linked to profits earned overseas. Higher tax bills will erode American companies' competitiveness versus foreign companies. GILTI represents an extra layer of taxation that foreign companies are not subject to.

QBAI

Qualified Business Asset Income (QBAI) is depreciable tangible property used in trade or business. Under current law, GILTI taxes income in excess of 10% of QBAI. The plan would eliminate the 10% deduction for QBAI, which would increase GILTI and the amount of tax due, further eroding U.S. competitiveness.

Congress should retain QBAI and the current structure and rates for GILTI. Failure to do so will make the U.S. uncompetitive in the bid for manufacturing investment dollars and resulting economic benefits. The movement to a full inclusion system without deferral would make it more difficult for U.S. multinational enterprises to compete abroad for market share.

What is GILTI?

GILTI was enacted as part of the Tax Cuts and Jobs Act. It aims to prevent tax base erosion from the transfer of intangible, income-producing assets (e.g., patents) to subsidiaries in low-taxed countries. While intended to target lowtaxed income, GILTI's interaction with existing law results in an increased burden on foreign earnings that already face high levels of taxation. Lawmakers should ensure that the design of GILTI matches its purpose of creating a minimum level of taxation rather than using it to return to the uncompetitive worldwide system. ACC opposes changes that would amplify the tax burden or administrative complexity of GILTI.

CBC GILTI

Congress should not change GILTI to a CBC system, which would be difficult and costly to implement and could further disadvantage manufacturers such as chemistry companies. A controlled foreign corporation should be allowed to carry forward tested losses and foreign credits. Otherwise, U.S. businesses will be disadvantaged overseas in pricing in a foreign market. GILTI is imposed only by the U.S. and hinders domestic employment linked to exports, R&D, and support for overseas operations.

FDII

Some policymakers have proposed eliminating the deduction for foreign-derived intangible income (FDII), a change that would cost the U.S. chemical industry about $530 million per year. We urge Congress to retain and strengthen FDII to encourage businesses to export products from the United States. ACC members benefit from FDII, which replaced the domestic production deduction (former section 199) as an incentive to manufacture in the United States for export. FDII supports U.S. manufacturing and jobs.