PENN WHARTON UNIVERSITY of PENNSYLVANIA **Budget Model**

Limit GILTI Benefits to Foreign-Derived Income (No Round-Tripping)

Published on December 20, 2024
https://budgetmodel.wharton.upenn.edu/estimates/2024/12/20/limit-gilti-benefits-no-round-tripping

Summary: Under current law, shareholders in a Controlled Foreign Corporation (CFC) can deduct 50 percent of their Global Intangible Low-Taxed Income (GILTI) from taxable income.* This deduction results in GILTI being taxed at a lower effective tax rate than other income. The reduced rate on GILTI means that multinationals serving the U.S. market may have an incentive to route their activities through a CFC, a practice referred to as "round-tripping." Profits from sales to the U.S. by a CFC could be treated as GILTI and taxed at the lower rate. If those same profits were earned directly by the domestic corporation, they would be taxed at the full 21 percent statutory rate.

This proposal would limit the deduction to GILTI derived from serving foreign markets. GILTI derived from serving the U.S. market would not be eligible for the deduction and would be taxed at the statutory rate of 21 percent. Income is identified as either foreign-derived or U.S.-derived following the same definitions used under current law to determine Foreign-Derived Intangible Income (FDII): foreign-derived income is any income from the sale of property to a non-U.S. person for foreign use, or from the provision of services to persons outside the U.S.
* 37.5 percent for taxable years beginning after 12/31/2025.

Contents

Table 1. Estimated Revenue Effects, Fiscal Years 2026-2035

Budget Model

Table 1. Estimated Revenue Effects, Fiscal Years 2026-2035
Change in revenues from TCJA extension baseline, billions of dollars

2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	Total, 2026 - 2035
5.4	6.5	6.4	6.5	6.6	7.2	7.2	7.6	7.8	8.1	69.3

Note: Estimate is relative to a Tax Cuts and Jobs Act (TCJA) extension baseline* in which all expiring provisions of the TCJA are made permanent after 2025.
* https://budgetmodel.wharton.upenn.edu/issues/2024/5/22/effects-of-permanently-extending-tcja-expiring-provisions