Foreign-derived intangible income

- Favorable tax treatment to encourage companies to stay in the U.S.
- U.S. corporations can deduct 37.5% of foreign-derived intangible income
- Results in 13.125% effective tax rate on the income
- Great incentive for C Corporations that:
    - Receive income from non-U.S. persons/businesses
    - Highly profitable businesses that do not require significant amounts of physical assets to produce income

Two Components

1. Foreign-derived
    - Income received by a U.S. corporation from a foreign person
        - Property sold to any non-U.S. person, for foreign use
            - Includes leases, license, exchanges, or other dispositions
    - Services provided to any person, or with respect to property, not located within the United States

2. Intangible income
    - Doesn't have to be true "intangible income"
    - Based on depreciable assets held by the U.S. corporation
    - Income is considered <u>tangible</u> up to 10% of business asset investment:

Depreciable assets	$150,000
Less: Accumulated depreciation	$25,000
Business asset investment	$125,000
Tangible rate of return	$10%
Tangible income return	**$12,500**

- Any income that exceeds $12,500 is deemed intangible, and eligible for the deduction
- The less tangible assets the business has, the more income is considered intangible and can qualify for the deduction

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