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 tangible up to 10% of business asset investment:

<table>
<thead>
<tr>
<th>Depreciable assets</th>
<th>$150,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less: Accumulated depreciation</td>
<td>$25,000</td>
</tr>
<tr>
<td>Business asset investment</td>
<td>$125,000</td>
</tr>
<tr>
<td>Tangible rate of return</td>
<td>$10%</td>
</tr>
<tr>
<td><strong>Tangible income return</strong></td>
<td><strong>$12,500</strong></td>
</tr>
</tbody>
</table>

- 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