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Key International Tax Provisions Under the One Big Beautiful Bill Act

July 21, 2025

On July 4, 2025, the One Big Beautiful Bill Act (OBBBA) was signed into law. It is a landmark piece of legislation that introduces several important changes to the US international tax regime. This alert provides an overview of certain international tax provisions included in the OBBBA and outlines some of the implications for US taxpayers with foreign operations.

Modification of CFC rules

One of the most notable international tax changes under the OBBBA is modification of the downward attribution rules that determine whether a foreign corporation is treated as a controlled foreign corporation (CFC). CFC status is generally dependent on whether US shareholders, each owning at least 10% of the corporation's value or voting power, collectively own more than 50% of the corporation's value or voting power. If a corporation is a CFC, certain of its 10% US shareholders (referred to as inclusion shareholders) generally must include in income their pro rata share of the CFC's global intangible low-taxed income (GILTI) and a category of income referred to as subpart F income (collectively, CFC inclusions).

Under longstanding attribution rules, a person can be treated as owning shares actually owned by a related person for purposes of determining CFC status and, in some cases, status as an inclusion shareholder. Historically, US tax law did not allow "downward attribution" of stock from a foreign parent corporation to a US subsidiary. The prohibition on downward attribution was changed by the Tax Cuts and Jobs Act (TCJA) in 2017, such that a US subsidiary in a foreign-parented group was treated as constructively owning stock in certain foreign subsidiaries of the group, potentially causing them to be treated as CFCs (even though the foreign parent was not a CFC). As a result of this classification, 10% US shareholders of the foreign parent would be treated as inclusion shareholders of those foreign subsidiaries, required to include in income their share of GILTI and subpart F income of the foreign subsidiaries.

The OBBBA largely restores the pre-TCJA prohibition on downward attribution, but introduces a more targeted regime that applies CFC-like inclusions to a newly defined class of US shareholders, referred to as foreign-controlled US shareholders. Foreign-controlled US shareholders are US shareholders who own (by voting power or value and after applying downward attribution) more than 50% of a foreign corporation other than a CFC (such foreign corporation is referred to as a "foreign-controlled foreign corporation"). Foreign-controlled US shareholders are required to include their pro rata share of such foreign-controlled foreign corporation's GILTI and subpart F income. This significantly narrows the scope of inclusion shareholders who must include their pro rata share of a CFC's GILTI and subpart F income due to downward attribution.

In addition, the OBBBA expands the scope of inclusion shareholders. Under current law, only those holding shares in a CFC on the last day of the CFC's taxable year in which it is a CFC were required to include in income their pro rata share of the CFC's GILTI and subpart F income. For example, if a 10% US shareholder that would otherwise be an inclusion shareholder sold its stock of a CFC to another US person during the year, only the transferee would be an inclusion shareholder and would be required to pick up CFC inclusions for the entire year (no matter how long it actually held the CFC stock).

Under the OBBBA, for taxable years of foreign corporations beginning after December 31, 2025, any 10% US shareholder who owns shares in a CFC at any point during the taxable year will generally be an inclusion shareholder, required to include in income its pro rata share of the CFC's GILTI and subpart F income. However, this change does not apply to all types of income of a CFC that must be included in the income of inclusion shareholders; inclusions with respect to investments in US property will continue to be included only by those inclusion shareholders holding shares in the CFC on the last day of the CFC's taxable year.

The OBBBA also permanently extends a CFC look-through rule for related-party payments. Previously set to expire for taxable years beginning after December 31, 2025, this rule allows a CFC's "foreign personal holding company income," which is a subcategory of subpart F income that includes dividends, interest, rents and royalties received by a CFC from a related CFC, to be excluded from subpart F income if it is attributable or properly allocable to active income of the related payor CFC that is neither subpart F income nor income that is effectively connected with the conduct of a US trade or business (effectively connected income or ECI). By making this rule permanent, the OBBBA provides long-term certainty for taxpayers engaged in cross-border intercompany transactions.

Modification of GILTI and FDII rules

The OBBBA renames and reforms the GILTI rules and the foreign-derived intangible income (FDII) rules. GILTI is now referred to as net CFC tested income (NCTI), and FDII is now referred to as foreign-derived deduction eligible income (FDDEI). The name changes generally reflect a shift away from a previous focus on intangible income, reflected in the qualified business asset investment (QBAI) deduction described below.

Under current GILTI rules, an inclusion shareholder of a CFC is taxed on its pro rata share of the CFC's GILTI. GILTI generally means income (other than subpart F income, ECI and certain other items otherwise required to be included in income by a CFC or its inclusion shareholders), minus a deemed 10% return on QBAI, which broadly means certain tangible property. The theory was that any income in excess of this return on QBAI was deemed to be attributable to intangibles. US corporations are entitled to deduct 50% of GILTI that is subject to the standard 21% US federal corporate income tax rate, which results in an effective tax rate of 10.5% on GILTI. For taxable years beginning after December 31, 2025, the GILTI deduction was originally scheduled to be reduced to 37.5%, which would have increased the effective tax rate on GILTI to 13.125%.

The OBBBA eliminates the QBAI reduction and permanently sets the GILTI (now NCTI) deduction at 40%, resulting in an effective tax rate of 12.6% on NCTI if foreign tax credits are not taken into account. The OBBBA also increases the percentage of foreign taxes paid or accrued on NCTI that may be eligible for foreign tax credits from 80% to 90%. Accordingly, if the foreign tax on NCTI is fully creditable, no additional US corporate income tax on NCTI should apply, provided that the foreign tax rate imposed on the CFC's income is at least 14%. These changes potentially increase the tax burden for many taxpayers.

Under current FDII rules, a US corporation may be entitled to a 37.5% deduction with respect to its FDII, which, when applied to income subject to the standard 21% US federal corporate income tax rate, results in an effective tax rate of 13.125% on FDII. FDII generally includes income from property sold by a US corporation to a foreign person for foreign use and services provided by a US corporation to a person, or with respect to property, not located in the United States, minus a deemed 10% return on QBAI. For taxable years beginning after December 31, 2025, the FDII deduction was originally scheduled to be reduced to 21.875%, which would have increased the effective tax rate on FDII to 16.406%. Instead, the OBBBA permanently sets the FDII (now FDDEI) deduction at 33.34%, resulting in an effective rate of 14% on FDDEI. As with NCTI, the QBAI reduction is eliminated, streamlining the computation and aligning the effective tax rate for FDDEI with that of NCTI.

Adjustments to BEAT and foreign tax credit rules

The OBBBA also modifies the base erosion and anti-abuse tax (BEAT). Under current law, the BEAT is a 10% corporate minimum tax that applies to large US corporations (generally those with average annual gross receipts of at least $500 million) that make deductible payments to foreign related parties in an amount above a certain threshold. The BEAT, originally scheduled to increase to 12.5% for taxable years beginning after December 31, 2025, will instead be permanently set at 10.5% under the OBBBA.

In addition to the change to the NCTI foreign tax credits discussed above, the OBBBA makes other modifications to the foreign tax credit regime. For purposes of calculating the NCTI foreign tax credit limitation, the OBBBA excludes interest expense and research and experimental expenses from allocation to NCTI, and limits deductions to those that are directly allocable to NCTI. For purposes of calculating the foreign tax credit limitation generally, the OBBBA allows US-produced inventory sold through a foreign office to be treated as partially foreign-source income (up to 50% of the taxable income from such sale). These changes will apply to taxable years beginning after December 31, 2025.

What was left out: The 'revenge tax'

Notably, the final version of the OBBBA omits the controversial Section 899, also known as the "revenge tax," which would have increased tax rates on individuals and business entities resident in – and governments of – "discriminatory foreign countries." This provision was removed by the Senate following an agreement between the US Treasury and the G7. For more information on the proposed Section 899, please **refer to our June 2025 client alert**.

If you have any questions about how the OBBBA may affect your international business operations, please contact a member of the Cooley tax team.

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