Pinpoint
POLICY INSTITUTE

TAX REFORM 2025

The Economic Benefits of the Foreign-Derived Intangible Income (FDII) Deduction

June 2025

HIGHLIGHTS

- The Foreign-Derived Intangible Income (FDII) deduction is a key reform of the Tax Cuts and Jobs Act (TCJA) that incentivizes the location of intellectual property (IP) in the U.S.
- IP is highly mobile and sensitive to tax policy, which is why many U.S. trading partners established tax policies that provided preferential rates for income derived from IP.
- The evidence to data makes clear that U.S. firms have responded significantly to this policy and reshored IP from abroad.
- This investment has been shown to likewise boost R&D and other economic activity, and in the U.S. many firms have credited FDII for incentivizing additional investment and employment growth.
- Available data also makes clear that these benefits accrue to U.S. firms of all sizes, geographies and industries.

INTRODUCTION

The Foreign-Derived Intangible Income (FDII) deduction is a provision of the 2017 Tax Cuts and Jobs Act (TCJA) designed to encourage U.S. companies to export goods and services tied to domestic intangible assets.[1] FDII is designed to grant a lower tax rate (roughly 13.125 percent, versus the normal 21 percent) on qualifying income from U.S.-held intellectual property (IP) that is sold or licensed abroad. By taxing export-related intangible income at this reduced rate, Congress sought to stimulate U.S. exports, incentivize companies to locate valuable IP (such as patents, trademarks, and copyrights) in the United States, and mitigate the incentive to shift the income derived from highly mobile IP to low-tax jurisdictions. FDII was introduced alongside measures like Global Intangible Low-Taxed Income (GILTI) and the Base Erosion Anti-Abuse Tax (BEAT) as part of a broader overhaul of international tax rules, aiming to make the U.S. corporate tax system more competitive globally. While part of an overall reform that materially improved the competitiveness of the U.S. tax system, available evidence indicates that FDII incentivizes domestic investment and R&D, fosters export-driven growth, and mitigates the incentive to shift mobile assets to lower tax jurisdictions. As Congress embarks on the difficult task of tax reform, policymakers should preserve this key element of the TCJA's.

1) https://taxnews.ey.com/news/2025-1143-us-house-approves-tax-reconciliation-bill-with-minor-rate-changes-in-international-tax-provisions

ECONOMIC RATIONALE FOR FDII

Prior to the TCJA, the U.S. taxed corporate profits at a high 35 percent rate a part of a hybrid worldwide tax system, which encouraged many multinationals to move their intangibles offshore to benefit from lower foreign tax rates or special IP regimes abroad.[2] Numerous countries have long used "patent box" or IP box regimes that tax income from intellectual property at preferential rates (for example, 4.5 percent in Hungary and as low as 3.75 percent in Ireland).[3] This put U.S. firms at a competitive disadvantage and contributed to the well-documented outmigration of intangible assets developed in America but held in jurisdictions like Ireland, the Netherlands, or Bermuda for tax reasons. The FDII deduction was crafted against this backdrop of international tax competition and erosion of the U.S. tax base. As a tool to reward companies for keeping IP and related economic activity stateside, it represents the U.S.'s answer to foreign patent boxes.

FDII directly targets an inescapable reality of international tax competition in a modern global economy. Some of the most profitable assets held by firms can be located with relative ease – certainly more so than workers or physical plant.

Unlike labor and tangible assets, intellectual property is highly mobile and can be relocated by simply transferring legal ownership or shifting where IP royalties are booked. Before 2017, it was common for U.S.-developed IP (for instance, software code, pharmaceutical patents, or trademarks) to end up owned by subsidiaries in tax havens, where the resulting profits would face minimal taxes.[4]

The TCJA introduced a dual mechanism to combat this: a "stick" in the form of GILTI, which ensures a minimum U.S. tax on overseas intangible income, and a "carrot" in the form of FDII, which rewards firms for bringing or keeping intangible income in the U.S. The logic is to reduce or eliminate the tax incentive to offshore IP, and ideally, incentive its reshoring. GILTI works by applying a minimum tax to foreign earnings, which mitigates the tax benefits of locating the IP in low or lower tax jurisdiction. FDII, conversely, incentivizes the locations of IP in the U.S. through a reduced rate on foreign sales or exports attributed to that intangible property. Together, these policies are designed to push back against the draw of low-tax jurisdiction, and improve the investment climate in the U.S. Combined, GILTI+FDII made the U.S. a more attractive location for intangible investment compared to pre-TCJA law or purely offshore options.[5] This suggests FDII is effectively reducing the profit-shifting incentive and encouraging the repatriation of mobile income.

Many peer economies have implemented patent boxes or similar incentives, recognizing that innovation-driven profits are crucial to attract and retain. The UK's patent box, for example, taxes qualifying IP income at 10 percent, and numerous EU countries (the Netherlands, Belgium, Luxembourg, etc.) have single-digit effective rates for IP. These regimes are intended to encourage

2)https://www.finance.senate.gov/imo/media/doc/finance_committee_section-by-section_title_vii3.pdf
3) https://taxfoundation.org/data/all/eu/patent-box-regimes-europe-2024/

companies to conduct R&D locally and hold their IP within those countries.[6]

The significant reform of the U.S. international tax system as part of the TCJA was in part a response to the proliferation of these policies. By offering a lower rate on export-related IP income (and in combination with other tax provisions) FDII helps neutralize the allure of foreign patent boxes. This is especially important in a globalized economy where capital is fluid. Failing to provide such incentives could result in not only lost tax revenue but also lost innovation ecosystems.

THE CRUCIAL ROLE OF INTANGIBLE ASSETS IN MODERN GROWTH

Underpinning FDII is the recognition that in today's economy, intangible assets are a key driver of growth and national competitive advantage. In 1975, only 17 percent of the market value of S&P 500 firms was attributable to intangible assets; by 2020, intangibles accounted for roughly 90 percent of S&P 500 market value.[7] Innovations in technology, software, biotech, and brands fuel corporate value far more than physical plants or machinery. These knowledge-based assets create high-paying jobs, productivity gains, and export opportunities. By incentivizing companies to keep these intangibles (and the high-value functions related to them, like R&D and product design) in the U.S., FDII helps ensure that downstream benefits such as skilled employment, related manufacturing, and innovation spillovers accrue domestically.

Empirical studies show that firms tend to co-locate R&D activity with ownership of IP to satisfy requirements of foreign IP regimes and to maximize synergies.[8] Thus, when a U.S. company decides to house its patents in the U.S. under FDII, it is more likely to conduct the associated research at U.S. labs and potentially produce the resulting goods in U.S. factories. In essence, FDII is designed to anchor value chains at home. In a global economy, there will remain sound business reasons for investing overseas to include R&D activity. However, FDII is designed to mitigate the tax rationale for doing so. Likewise, in face of foreign patent box regimes, such a policy is essential to preserving the U.S. innovation base.

EMPIRICAL EVIDENCE OF FDII'S SUCCESS

There is clear evidence that firms are incentivized to locate more profitable activity in the U.S., and as has been noted, this tends to increase R&D and related activity. According to the Joint Committee on Taxation (JCT), U.S. firms increased their use of FDII by 30 percent over 2018-2022.[9] A recent Tax Notes analysis found that a sample of U.S. firms representing 160 companies responsible for 61 percent of S&P U.S. pretax earnings were significantly incentivized to relocate profitable activity to the U.S. Over the period 2017-2022, these firms increased their domestic share of earnings by nearly 10 percent.[10] One important data point reflects a significant change in the direction of royalty payments, which are typically associated with IP. The Irish Department of

4) https://taxfoundation.org/blog/intellectual-property-ip-tax-gilti-fdii/
5) https://www.aei.org/research-products/journal-publication/the-impact-of-gilti-and-fdii-on-the-investment-location-choice-of-us-multinationals/
6) https://www.americanactionforum.org/research/key-elements-of-a-potential-u-s-patent-box/
7) https://fortune.com/2021/01/25/we-are-all-tech-companies-now-ceo-daily/

Finance published a report on outbound royalty payments. Irish payments to the United States for intellectual property surged from around €2 billion per quarter to nearly €24 billion by late 2020. This shift reflects not an increase in total payments, but a redirection of flows from offshore jurisdictions such as Bermuda and the Cayman Islands to the U.S. [11]

Corporate disclosures show a rapidly growing uptake of FDII incentives by major firms. In 2019 (the first full year under TCJA), the aggregate FDII tax deduction reported by a sample of large U.S. companies translated into about $4.9 billion in tax savings. By 2022, that annual tax benefit had tripled to approximately $14.3 billion.[12] Put differently, U.S. multinationals were able to reinvest an extra $14 billion of their 2022 earnings at home rather than remitting it in taxes – a direct result of the FDII rate cut. Notably, this surge in FDII benefits outpaced the growth of corporate profits. For example, in fiscal year 2022, total FDII benefits for companies analyzed rose 22 percent even as before-tax profits for those firms declined by 21 percent, indicating that companies increasingly optimized and expanded their use of FDII despite profit headwinds.

Several factors contributed to this growth: regulatory clarity in 2019-2020 made it easier for firms to document export income and qualify for FDII. Additionally, beginning in 2022, firms could no longer fully deduct R&D expenses. Under a separate provision of the TCJA, beginning in 2022 firms must begin to amortize R&D expenses over a 5-year period. While misguided, this byproduct of the Senate's "Byrd rule," had an important interaction with FDII. Many firms negatively impacted by this change, were able to compensate to a degree with the FDII provision. Due to the loss of fully expensing of R&D, all else equal firms are left with a higher taxable income against which firms may make greater use of FDII. For instance, Meta (Facebook's parent) noted that while mandatory R&D capitalization raised its cash taxes, it lowered its effective tax rate thanks to a higher FDII deduction – a pattern echoed by companies like Alphabet, Johnson & Johnson, Raytheon, Intel, and Eli.[13]

INCREASED DOMESTIC INVESTMENT AND REPATRIATION OF IP

Within just a few years of FDII's enactment, numerous U.S. firms moved valuable IP back to the United States. Nike, for instance, cited that the FDII benefit "became available… as a result of a restructuring of its intellectual property interests," implying it relocated IP to the U.S. to take advantage of the deduction. Public reports show that Qualcomm (2018), Microsoft (2019 and 2022), Meta (2020), Alphabet (2020), and Nvidia (2022) all transferred certain intellectual property to the U.S. in the post-TCJA period. And these are not one-offs. Companies like Alphabet (Google)

8) Griffith, Rachel, Helen Miller, and M. O'Connell, Ownership of intellectual property and corporate taxation. Journal of Public Economics, Vol. 112, 2014; Dischinger, M., and N. Riedel, Corporate taxes and the location of intangible assets within multinational firms, Journal of Public Economics, Vol. 95, 2011
9) https://www.jct.gov/publications/2023/jcx-35r-23/
10) https://www.aei.org/wp-content/uploads/2024/04/V.-FDII-Benefit.pdf
11) Seamus Coffey, The changing nature of outbound royalties from Ireland and their impact on the taxation of the profits of US multinationals, May 2021, Ireland Department of Finance
12) Sullivan, Martin A. "Latest SEC Filings Show FDII Benefits Continue to Climb." Tax Notes Federal, vol. 179, no. 2, Apr. 10, 2023, pp. 169–181.
10, 2023, pp. 169–181.

ended up reporting dramatically larger FDII tax benefits over time (e.g. Alphabet's FDII benefit climbed from $277 million in 2019 to $3.85 billion in 2022) reflecting the scale of IP profits now being booked in the U.S. rather than abroad. Microsoft similarly saw annual FDII tax savings in the $600–$900 million range in recent years, indicating substantial foreign sales of software and cloud services attributable to U.S.-based technology and IP. [14] These are some of the world's most IP-intensive companies, and their actions suggest FDII was a material consideration in determining where to domicile IP. In the face other more hospitable tax environments, FDII has helped keep the rights to cutting-edge technologies and the taxable income they generate, within the U.S.

Consistent with the relocation of IP to the U.S., many of these firms have expanded U.S. operations. For example, Microsoft Corporation, recently committed to a $3.3 billion investment in Wisconsin to build new data centers and the nation's first manufacturing-focused AI co-innovation lab.[15] The project is creating an estimated 2,300 construction jobs and includes an AI skills initiative for over 100,000 Wisconsin residents – precisely the kind of high-tech economic boost that FDII is meant to catalyze. Intel Corporation, for instance, has leveraged FDII, among other policies, to support keeping its semiconductor R&D and fab investments domestic. Intel's FDII benefits have contributed to its aggressive U.S. buildout of chip fabrication plants and research centers. During a hearing before the U.S. Senate Committee on Finance, Intel's Chief Financial Officer directly credited FDII with supporting these multibillion-dollar investments.[17]

These cases illustrate a pattern: FDII is enabling companies to channel funds into domestic projects – from advanced factories to research labs – that might otherwise have been deployed overseas or idled. Such reinvestments strengthen U.S. industrial capacity and support community economies.

SPILLOVER EFFECTS ON SMALL AND MEDIUM ENTERPRISES

Given the scope and scale of U.S. multinational firms, it is unsurprising that FDII benefits often accrue to large multinationals. However, there is evidence that the policy has positive downstream effects on smaller firms and local economies. When big companies localize their IP and expand U.S. production, they often rely on domestic supply chains and service providers. And indeed, mid-sized exporters can also claim the deduction. There are important examples of such firms reshoring operations to take advantage of a more favorable tax environment for export profits. For example, a Kentucky-based mid-size manufacturer of industrial fans, moved production jobs from Malaysia back to the U.S., citing improved economics for domestic production and exports. This reshoring created 200+ manufacturing jobs in Lexington, KY, and boosted the company's growth, with average salaries well above regional averages.[18] Likewise, Bobrick Washroom Equipment, a

13) Ibid.
14) Ibid.
15) https://news.microsoft.com/2024/05/08/microsoft-announces-3-3-billion-investment-in-wisconsin-to-spur-artificial-intelligence-innovation-and-economic-growth/
17) https://www.finance.senate.gov/imo/media/doc/47492.pdf
18) https://www.ibnewsmag.com/post/big-ass-fans-now-made-in-the-usa

century-old small manufacturer, consolidated much of its North American production in Jackson, Tennessee, expanding its plant and creating new local jobs.[19] In testimony before the Senate, FDII was directly credited for these investments. [20]

While these firms may not contribute huge FDII tax amounts individually, the deduction helped offset the costs of bringing operations home. The broader point is that FDII-fueled investments by large firms can have multiplier effects – subcontracting to local suppliers, spurring infrastructure upgrades, and fostering clusters of innovation that include startups and SMEs. Microsoft's aforementioned Wisconsin AI lab, for instance, will partner with local manufacturers and educate small business owners on AI applications spreading technology adoption beyond just Microsoft's own needs. Overall, the empirical record to date – spanning corporate tax data, public investment announcements, and case studies – strongly indicates that FDII has succeeded in its primary economic intent. Companies are responding to the incentive: moving intangibles into the U.S., ramping up exports, and expanding domestic R&D and investment activity.

One notable aspect of FDII's benefits is their broad geographic reach across the United States. Because export-oriented industries and intangible assets are dispersed. From Silicon Valley software to Midwest manufacturing, FDII-driven investments are not confined to one region. While these are just a sampling of investments (largely noted above), they reflect significant diversity in scale, sector, and geography.

Unsurprisingly, states with high concentrations of technology and IP-intensive companies have seen especially large FDII uptake. For example, California's Bay Area and Washington State – home to firms like Alphabet/Google, Meta, Apple (in CA) and Microsoft, Amazon (in WA) – benefited as those companies kept multi-billion-dollar patent and software portfolios in the U.S. rather than offshore.[21] Similarly, states like Oregon (where Nike and Intel are major employers) have benefited: Nike's onshoring of its intellectual property led to greater taxable income in Oregon and supported expansion of its Portland-area facilities. Intel's huge fabs in Oregon and new projects in Arizona and Ohio (announced in 2021-2022) align with its strategy of using U.S. locations for cutting-edge production, an approach made more sustainable by FDII's favorable tax treatment for exporting those U.S.-made chips. In the Northeast, the Greater Boston area (Massachusetts) also sees gains. Companies like Raytheon Technologies (RTX) have significant FDII-eligible income from defense and aerospace exports and have kept high-tech manufacturing (e.g. jet engine development) in New England.

A number of FDII-enabled investments are landing in America's mid-west and manufacturing belt. Wisconsin's emergence as an "AI manufacturing hub" due to Microsoft's $3.3B data center and AI lab investment is a prime example. That project in Mount Pleasant, WI, which is located on a site once slated for a foreign manufacturer, underscores how U.S. multinationals are now driving domestic

19) https://www.areadevelopment.com/newsitems/12-19-2024/bobrick-washroom-equipment-jackson-tennessee.shtml
20) https://www.finance.senate.gov/imo/media/doc/47492.pdf
21) Sullivan, Martin A. "Latest SEC Filings Show FDII Benefits Continue to Climb." Tax Notes Federal, vol. 179, no. 2, Apr. 10, 2023, pp. 169–181

development in heartland states.[22] Indiana and Ohio have benefited through companies like Cummins (headquartered in Columbus, IN), which is using FDII incentives to upgrade plants making engines for export, and P&G (with large operations in Ohio and Iowa), which reinvested in its Midwest production lines as noted. Likewise, Intel has a substantial new manufacturing facility under development in Ohio. Michigan and Illinois likewise see indirect benefits: Ford and GM (though not FDII-focused per se) are part of supply chains with FDII-claiming firms (e.g. auto suppliers exporting parts).

The FDII-driven reshoring trend has particularly favored the South, which has a robust manufacturing sector. Kentucky saw a key local manufacturer bring jobs back to Lexington, creating over 200 jobs and ramping up exports of its American-made fan systems.[23] Bobrick's Jackson plant expansion benefited Tennessee for restroom equipment, building on the state's push to grow advanced manufacturing. In Texas, a state with both tech and industrial strengths, companies such as Texas Instruments and Cisco have significant FDII-qualified export revenue (TI's FDII benefit was $702 million in 2022), and both have reinvested heavily in their Texas semiconductor and hardware operations.[24]

A subtler geographic impact of FDII is its contribution to reshoring supply chains, which enhances economic stability across regions. By encouraging U.S. production for export, FDII helps shorten supply chains and bring critical parts of production back to the U.S. in an efficient fashion. States like Ohio, Pennsylvania, and South Carolina have seen a rise in announcements of new factories or expansions tied to companies deciding to serve global customers from America. For example, appliance and heavy equipment makers in these states can use FDII to lower the tax cost of exporting their U.S.-built products, making domestic production more competitive with foreign plants. One report found reports record-high manufacturing job announcements in 2022-2023, particularly in the South and Midwest and tax incentives like FDII are among the policy supports enabling this.[25]

ADDITIONAL POLICY CONSIDERATIONS

In the current global investment climate, retaining and ideally reverting FDII to its original rate is essential to preserving the U.S. as the destination of choice for IP. The U.S. is home to the largest most globally significant firms on the planet. These firms are also major drivers of the U.S. economy: they invest heavily in R&D, employ tens of thousands domestically, and support extensive supplier networks. For some critics, this is a bug, not a feature of the U.S. economy. While it is true that major U.S. firms benefit from FDII, the "benefit," directly accrues to the U.S. These firms responded to this policy and observably reshored assets to the U.S. While many tax and business considerations animate investment decisions, in many instances, U.S. firms' reshoring was directly the result the of FDII. The wave of IP onshoring directly coincided with FDII's introduction. These firms had operated for years with major IP

22) https://www.wpr.org/news/president-joe-biden-investment-microsoft-ai-datacenter-mount-pleasant
23) https://www.finance.senate.gov/imo/media/doc/47492.pdf

offshore under the old tax system; the sudden reversal post-TCJA indicates FDII was a motivating factor. Nike's decision to restructure IP specifically to avail FDII benefits is a concrete example of behavioral change.

Critics of FDII also do not grapple meaningfully with the implications of FDII's absence. Repealing FDII, as the Biden administration proposed, would swing the pendulum back, making the U.S. significantly less attractive for holding IP. This would contemplate the reversal of the trend observed by Ireland, which saw IP income flowing out of tax havens to the U.S.

The Tax Foundation estimated that under the Biden administration's proposal (including other significant changes) a U.S. company would have faced a significantly higher tax on IP income at home (28 percent) than abroad (potentially ~21 percent in a foreign hub), creating a fresh incentive to offshore intangible assets, taking associated R&D and manufacturing along with it.[26]

CONCLUSION: THE CASE FOR RETAINING FDII

FDII has proven to be a valuable component of the U.S. overhaul of the international tax system. There is clear evidence that the policy has animated firm behavior to the benefit of the U.S. economy and tax base. Evidence from soaring usage of the deduction to real-world examples of investment and job creation, supports the view that FDII is achieving its core aims. By lowering the effective tax rate on export-derived intangible income, FDII has encouraged companies to retain and reshore high-value IP in the United States. It has fostered U.S. innovation by ensuring that the rewards of research (the IP profits) face globally competitive tax rates when earned in America, thereby deterring the offshoring of breakthrough technologies. It also has spurred export-driven growth for firms large and small, and across the United States. Policymakers should recognize these benefits and seek to build on them by making FDII permanent and stable. The looming reduction of the FDII deduction after 2025 injects uncertainty. Making the current FDII provisions permanent would solidify the U.S.'s commitment to incentivizing innovation. At a time of significant uncertainty and intense global competition, the U.S. must ensure it maintains a tax code that encourages U.S. investment and innovation. The evidence is clear that FDII is essential to that effort.provisions permanent would solidify the U.S.'s commitment to incentivizing innovation.

4) Sullivan, Martin A. "Latest SEC Filings Show FDII Benefits Continue to Climb." Tax Notes Federal, vol. 179, no. 2, Apr. 10, 2023, pp. 169–181
25) https://www.amtonline.org/article/reshoring-initiative-annual-report-287-000-jobs-announced
26) https://taxfoundation.org/blog/intellectual-property-ip-tax-gilti-fdii

Pinpoint Policy Institute is a nonpartisan, nonprofit educational organization dedicated topromoting and defending the essential pillars of American perity.

For more information about this document, please contact Pinpoint Policy Institute:

Pinpoint Policy Institute
info@pinpointpolicyinstitute.org
https://pinpointpolicyinstitute.org/