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Pillar Two and U.S. Multinationals

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Multinational Tax Model

Structure:

- Set of 3,456 CFCs across 72 industries and 48 countries
- 40 representative MNEs across industries

Data (2014):

- IRS SOI tables on Controlled Foreign Corporations
- IRS SOI tables on Corporate Foreign Tax Credits
- BEA tables on majority-owned foreign affiliates
- BEA tables on U.S. parent companies

Multinational Tax Model

Calculations:

- CFCs: Foreign taxes, contributions to parent tax items
- Parent MNEs' various sources of income
- Interest expense and FDII deductions
- Calculate parent taxable income
- Indirect expense allocation
- Foreign tax credits
- Profit-shifting and debt responses

Main results:

- Federal CIT liabilities of U.S. multinationals
- Federal CIT liabilities attributable to CFCs of U.S. multinationals

Pillar Two Provisions Modeled

Based on October 2021 statement

- 15% GILTI rate, remove GILTI FTC haircut
- Country-by-country GILTI calculations, as a top-up tax
    - Alternative: Inclusion & credit approach
- Use OECD substance carve-outs
    - 8% of tangible assets, decreasing over 10 years to 5%
    - 10% of payroll, decreasing over 10 years to 5%

Revenue Results by Provision ($B)

Provision	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Total
Flat 15% GILTI rate	8.8	10.8	11.5	4.0	2.9	3.0	3.1	3.1	3.2	3.4	53.7
Country-by-country top-up tax	1.2	1.2	1.3	1.3	1.4	1.4	1.4	1.5	1.5	1.5	13.6
Substance carve-outs	-0.2	-0.3	-0.2	-0.2	-0.1	-0.1	0.1	0.2	0.3	0.5	0.0
Total	9.8	11.7	12.5	5.1	4.1	4.3	4.6	4.8	5.1	5.4	67.4

Alternate Revenue Results ($B)

Version of Pillar Two	Total, 2023-2032
Top-up approach, October version	67.4
Credit approach, October version	70.5
Top-up approach, July version	70.2
Credit approach, July version	74.2

Effective Tax Rates on CFC Profits (2023)

ETR measured on	Current law	Pillar Two	Change
All CFC profits	16.8	17.2	0.4
Prorated CFC profits	19.3	19.8	0.5
CFC profits ex. RPDs	23.8	24.2	0.4

Affected Industries

Largest ETR increases:

- Nonmetallic mineral product manufacturing (7.6pp)
- Transportation and warehousing (4.3pp)
- Computer and electronic product manufacturing (3.1pp)

Largest ETR decreases:

- Machinery manufacturing (-3.6pp)
- Motion picture and sound recording (-3.5pp)
- Fabricated metal product manufacturing (-2.1pp)

Tech industries:

- Computer and electronic product manufacturing (3.1pp)
- Pharmaceutical manufacturing (1.0pp)
- Electrical equipment, appliance and component manufacturing (0.7pp)
- Information other than recording and publishing (0.0pp)

Profit Shifting Effects

Profit shifting response	10-year revenue change	Effect of profit shifting
None	62.0	-
0.8 semi-elasticity	67.4	+5.4
Dowd-Landefeld-Moore responses	75.0	+13.0

Conclusions

- Pillar Two would raise taxes on the foreign profits of U.S. multinationals.
  - Most of the revenue comes from the higher statutory rate.
- Raise the ETRs on CFC profits by ~0.4pp.
- Reduce profit shifting by U.S. multinationals.