Foreign-Derived Intangible Income

What is the Foreign-Derived Intangible Income Deduction (FDII)?

The FDII was introduced in the Tax Cuts and Job Acts in 2017. It is an incentive for U.S. C-corporations to generate revenue from serving foreign markets and applies a preferential tax rate to eligible income.

How to calculate the FDII Deduction:

$$\textbf{FDII Deduction} = \frac{\textit{Deemed Intangible Income (DII)}}{\text{DEI - 10\% return on U.S. assets}} \times \frac{\dfrac{\text{Foreign Derived Deduction Eligible Income (FDDEI)}}{\text{U.S. Export Income - Allocated U.S. Deductions}}}{\dfrac{\text{Deduction Eligible Income (DEI)}}{\text{U.S. Gross Income - U.S. Deductions}}} \times 37.5\%$$

What kind of income qualifies?

- Don’t let the name fool you! Eligible income need not be generated from intangible assets.
- This deduction is applicable to sales of most products or services, wherein the buyer is foreign.
- More specifically, the sale must meet 2 conditions:
  - » The sale must be to a foreign buyer
  - » The product or service must be used outside of the U.S.

The Benefits of Taking Advantage of the FDII

- FDII represents a 37.5% deduction against taxable income.
- For U.S. exporters, this essentially brings the Effective Tax Rate (ETR) down to 13.125% on foreign sales of products, royalties, and services.
- For those already applying for the R&D tax credit, **a significant portion** of the FDII application process and **data gathering** is identical to the R&D application process, making it much easier to qualify and **apply for this deduction and save both on the research credit claim as well as on the FDII deduction.**

How Anchin Can Help

- Proving that you are eligible for the FDII is more difficult than it may seem.
  - » Deep understanding of many complex technical nuances is necessary in order to yield the largest allowable benefit.
  - » FDII eligibility and filing may intersect with numerous areas of tax law.
  - » Properly documenting additional data and making changes to contract language and invoices at the point of sale can be extremely cumbersome.
- Anchin's team is experienced in the calculation of tax incentives and deductions, documentation of qualification for tax incentives and deductions, and support throughout an IRS or state audit

Your To-Do List

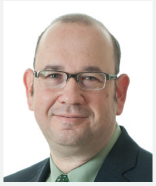
1. Check to see if you are eligible for the deduction.

2. Ensure that you are prepared for an audit and have the required documentation.

3. Evaluate your operating/sales structure to see if there are additional benefits that can be obtained by routing transactions differently.

4. Build templates to document and quantify the relevant data and information in a proactive fashion.

Contact Anchin Today!



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