

Foreign-Derived Deduction Eligible Income

What is the Foreign-Derived Deduction Eligible Income (FDDEI)?

Under the 2025 One Big Beautiful Bill Act (OBBBA), the Foreign-Derived Intangible Income (FDII) deduction is replaced with the new Foreign-Derived Deduction Eligible Income (FDDEI) regime for tax years beginning after December 31, 2025. 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 FDDEI Deduction:

$$\frac{\text{Deemed Intangible Income (DII)}}{\text{DEI - 10\% return on U.S. assets}} \times \frac{\text{Foreign Derived Deduction Eligible Income (FDDEI)}}{\text{U.S. Export Income - Allocated U.S. Deductions}} \times 33.34\%$$
$$\frac{\text{DEI - 10\% return on U.S. assets}}{\text{Deduction Eligible Income (DEI)}} \times \frac{\text{U.S. Gross Income - U.S. Deductions}}{\text{U.S. Gross Income - U.S. Deductions}} \times 33.34\%$$

What kind of income qualifies?

- Required income doesn't need to 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 FDDEI

- FDDEI represents a 33.34% deduction against taxable income.
- For U.S. exporters, this essentially brings the Effective Tax Rate (ETR) down to about 14% on foreign sales of products, royalties, and services.
- For those already applying for the R&D tax credit, **a significant portion** of the FDDEI 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 FDDEI deduction.**

How Anchin Can Help

- Proving that you are eligible for the FDDEI is more difficult than it may seem.
 - » Deep understanding of many complex technical nuances is necessary in order to yield the largest allowable benefit.
 - » FDDEI 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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