How OBBBA is changing the game for multinationals

Transcript

DAVID SITES 0:00

Welcome and thanks for tuning in to the D.C. Dispatch. I'm David Sites, National Managing Principal of Grant Thornton's Washington National Tax Office. The D.C. Dispatch provides quick insights on how developments coming out of Washington, D.C. could impact your business through topical discussions with thought leaders across our global network. We uncover opportunities and expose risks so that business leaders can thrive in this dynamic environment.

Today, we're going global. The passage of the Big Beautiful Bill Act on July 4th marked a significant win for businesses, if not for Republican candidates. Yet today, the international tax landscape continues to undergo significant changes, leaving taxpayers reassessing tax strategies to ensure global efficiency is maintained.

GILTI and FDII were ushered out under the OBBBA in favor of NCTI and FDDEI. The global minimum tax position has shifted as the G7 and Trump administration agreed to a path forward on Pillar 2. And significant changes in the so-called “Big Three” business provisions are causing international tax outcomes, which might not be evident at first.

Joining me today to unpack these issues is a fantastic guest. I have Cory Perry. Cory's an international tax principal in Grant Thornton's Washington National Tax Office. He's also chair of the AICPA's International Tax Technical Resource Panel, Chair of the AICPA's OECD Task Force. Cory's our go-to resource for all Pillar 2 matters and a frequently published author on A wide variety of international tax matters.

Welcome, Cory. Happy to have you on the podcast.

CORY PERRY 1:37

Thanks for having me.

DAVID SITES 1:39

So for the benefit of the listeners, people should know that Cory and I have worked together

for well, well over 15 years, I think at this point, Cory, and probably daily for the last decade, so.

CORY PERRY 1:51
OK. I've lost count. That's how many.

DAVID SITES 1:53
Oh, this, this podcast is a long time coming and there's a ton in this bill that we could talk about. There's a lot just on the international front. But I want to, I want to stay focused first on the two areas to kick off and I want to talk about the changes to the FDII and the GILTI regime. So I know there's some really important stuff in here for taxpayers, so tell us what changed and why it's important to multinationals.

CORY PERRY 2:19
Yeah, absolutely. I think that's a perfect place to start. Most of the changes, I would say, were corrections or tweaks around the edges. But the changes to FDI and GILTI were really the headline items of this tax reform package. FDII became "foreign derived deduction eligible income" or I might refer to as FDDEI, and GILTI, global intangible low tax income, became "net CFC tested income." They were rebranded as part of some of the changes that were made. So what are some of those changes? Well, we had the deduction percentages, that's the Section 250 deduction, right, that lowers the allows for a lower effective tax rate on eligible income by imputing this this deduction, it lowered the deduction to 33.34% for FDDEI and 40% for net CFC tested income. So that is unfavorable, right? The deduction goes down, but the mechanics are simplified, and as we'll talk about, some of those changes to the mechanics not just provided simplification but significantly improved outcomes for many taxpayers.
The first and probably the most significant is QBAI. Some of you may be familiar with QBAI, "qualified business asset investment." That was eliminated. And what that was, just to level set, it allowed for a 10% amount that was excluded on tangible assets. And going back to 2017 and the Tax Cuts and Jobs Act, they were trying to isolate that intangible income, right. That's why it was called FDII and GILTI. Well, they've removed that isolation piece and the isolation piece that they included in that bill was a 10% return, somewhat arbitrary, but 10% return on your assets.

DAVID SITES 4:02

So, so Cory, in the context of removing that QBAI requirement, that QBAI requirement was obviously beneficial To taxpayers in the GILTI context because it lowered their taxable income inclusion, and it kind of hurt taxpayers in the FDII context, right, because it lowered the amount of income that potentially qualified as qualifying income, giving rise to a deduction. Is that the way to think about it?

CORY PERRY 4:48

Yeah, absolutely. The way I describe it is for GILTI, it effectively expanded the base, right? Because you got that exclusionary piece that pulled income out that was subject to U.S. tax. So, by removing QBAI, you've expanded the base. It's now really all taxable income, not reduced for an excluded piece. And for the FDDEI piece,
it is increasing the base effectively that's eligible for the deduction. So previously there was a smaller amount of income because the amount of income was reduced by this QBAI piece that was eligible for the deduction. So very favorable for the FDDEI side. You have a larger amount of income that's eligible for this deduction, very unfavorable for the GILTI side because it broadens your base that's subject to tax.
On the expense apportionment side, we also had some very notable changes. Interest and R&D expense are no longer allocated to either FDII or GILTI. Those were significantly limiting factors. In terms of FDII, it reduced again your eligible income. So your income was reduced not only by that QBAI piece, but also by interest expense and your R&D. And some companies have lots of interest in R&D spending, right? That's a commonly large item for a lot of multinationals.
On the GILTI side, it reduced your foreign tax credit by reducing your income that was eligible. So you could be in a situation where you might earn $100 of GILTI, but you'd have to reduce some piece of that when calculating the amount of eligible foreign tax credit and that would lead to double taxation in some instances. So, very favorable change here.
And with respect to GILTI, they also made some changes to the language and effectively said that only directly allocable deductions, excluding interest in R&D, are attributable to your net CFC tested income. So, there's some uncertainty in exactly what that means. I think we'll see with some regulations, but broadly favorable, right, because it's likely to mean less deductions will be allocable and will burden your foreign source income. There's still a taxable income limitation. We'll discuss that more later, but when determining the amount of income eligible for the foreign tax credit or eligible for this deduction, R&D and interest are no longer allocable.

DAVID SITES 6:34

So they also made the foreign tax credit better, correct? Because it used to be that you got a haircut of 20%. And what did the Big Beautiful Bill Act do to the foreign tax credits?

CORY PERRY 6:45

Yeah, that's right. So, they were aiming to adjust the overall effective rate. Many of you might realize or know that the rate was (13. 2% or 13.3%) or 13 1/3%, effectively.

DAVID SITES 6:59

13.125(%)

CORY PERRY 7:00

There we go, 13.125. That has now been changed where the effective rate is 14%. So for FDDEI they did that with a 33.34% deduction for GILTI. That was a combination of a 20% foreign tax credit haircut and a 50% (Section) 250 deduction. To get to that 14(%), now they have a 40% 250 deduction and a 10% haircut. So more foreign tax credits are broadly available. You used to have to limit 20% of all of your, what we call “deem paid credits,” but effectively the credits that your foreign CFCs have paid that come up with your inclusion. Now that limitation is only 10.

However, the flip side to that is they expanded that limitation to both direct and indirect. Previously – and it was thought to perhaps be an oversight – but direct credits were not impacted, direct credits being withholding taxes and taxes that the U.S. shareholder pays directly were not impacted by this limitation. It pulls in those credits but then reduces the haircut to 10%. So, across board, for most taxpayers that's going to be favorable, but you have that element where it's going to pull in direct credits.

DAVID SITES 8:09

So obviously, you know, lots of favorable stuff in here. So, if I'm thinking through this, you have GILTI income, you get the 40% deduction, you don't have a lot of expense apportionment against it. And then 90% of your credits associated with that income will be available to offset. And that's how you kind of get to this math where if I have a 14% effective rate. I shouldn't have any incremental U.S. tax, right?

CORY PERRY 8:32

Yeah, no residual U.S. tax once you hit that 14%.

DAVID SITES 8:35

No, no. Yeah. So, so who, who are you seeing impacted by this and where do you see kind of opportunities arising?

CORY PERRY 8:43

Yeah. So, starting with GILTI, I would say the impact is going to be dependent on the makeup of the taxpayer. So asset-heavy CFCs are going to lose that QBAI exclusion. So, think manufacturing for example. If they had large plant and large heavy equipment, they would have had a 10% return that would be excluded from the base. That's no longer the case. So that income will now be swept up into this … the U.S. broader base, as I described it.

However, the relief interest and R&D expense for foreign-source income with the reduced foreign tax credit that we discussed makes the foreign tax credit, for many taxpayers, much more usable and accessible. So, any company with heavily, heavy leverage, right? We see that common in a lot of portfolio equity portcos, for example, leverage might be introduced and that could hinder or prevent foreign tax credits. As well as the tech industry, which is heavy in R&D spend, might tend to benefit from some of these changes.

So, we say we, I would say broadly we have two different systems now, right, and taxpayers that were favored under one may not necessarily be favored on the other. Or vice versa, right? You might be better off under the OBBBA than you were under the prior system. It really depends on your circumstance. With the higher top line rate, maybe for certain taxpayers that had really low or no tax, outcomes in the foreign jurisdictions and no tangible assets to speak of, they might have a slightly higher effective rate.

But I think most taxpayers across the board are going to have interest expense. They're going to have foreign tax credits. They probably had some leakage there and are likely to potentially see some benefit here. And I'll also say that the QBAI benefit being gone is a detriment, but it was based on adjusted basis in assets and you often found in practice that those could be quite small. If a plant was put in service 20 years ago, it might have very little value left at this point. So you really didn't …

DAVID SITES 10:51

Right. I suspect there's people with high adjusted basis, there's people with low adjusted

basis and it's going to be fact-specific. So OK, I want to, I want to shift gears and I want to move over to FDDEI. I know there were some changes in that area. And could you walk us through where you're seeing opportunities kind of arise? And by the way, before we move on, I just want to point out for the listeners, both the changes to the GILTI system and the FDII system are effective for calendar year taxpayers for years beginning after Dec. 31st, 2025, correct?

CORY PERRY 11:27
That's right. Yep. Prospective for next year for calendar taxpayers.

DAVID SITES 11:30
And we'll talk about in a little bit why that might present some opportunities. But let's go back and talk about FDII and the changes there and where you see benefit.

CORY PERRY 11:38
Yeah, absolutely. So, it might help just to step back a little bit and discuss about the qualifications for FDII more generally. So, really what the foreign derived intangible income, now FDDEI, is intended to do is incentivize U.S. companies with activities in the U.S. to serve foreign markets. And that very broadly, broadly speaking in generalizations, that means you have a sale, a license, a rent, some type of income generally that's benefiting a foreign market. There's some complex rules that determine qualification and the different types of transactions impact that. But broadly, I like to think of it as if you're serving a foreign market, like you're selling a good to a foreign person or you're providing services for the benefit of a foreign person or a foreign activity, you can be eligible. And it's more than just an export incentive, right, where you're selling widgets. it captures really broadly a lot of different categories of income.
So, so with that in mind, we have these changes and the a types of income do not change, but the calculation of the benefit changes and I believe there were a lot of companies that might have not benefited or benefited immaterially and never really pursued the deduction and that might change now in some instances.
It previously heavily favored software and service companies just because of the mechanics of the calculation, like we talked about. Low QBAI, so they didn't get the QBAI penalty focused on at least ostensibly on intangible income and it was easier to qualify certain transactions in that interest or industry.

I would say largely now it's industry agnostic. It really doesn't favor a specific industry like it used to, because R&D is not hindering, their QBAI penalty is gone, interest is not hindering the calculation. So again, it's much more broadly available.
There are some winners, in a way. Manufacturers, for example, historically asset intensive industries, right? They were previously penalized under the TCJA system, and that penalty's been removed. Highly leveraged companies, portcos report portfolio for private equity rather, obviously going to see some significant benefits. And even those companies that were previously favored like software companies, they might have had heavy R&D spend. So, with that removed, they're going to be perhaps even more better off.
So again, these groups, companies out there that couldn't benefit under the old system because of QBAI or because of some expense apportionment-related matter should really now revisit this because those limitations are gone.

DAVID SITES 14:15
Yeah. And Cory, it's a permanent benefit, right? So, for companies that watch their effective tax rate, this would show up in the effective tax rate. And it's a type of benefit where, if you have the type of income, you claim the benefit, it doesn't come at the expense of kind of a future recapture or anything like that. It's a really just a deduction kind of materializes, right, that you never have on the books for tax out of nowhere. So, significant benefit and I think you're right. I mean, I've talked to a number of companies that had heavy debt loads or heavy R&D loads, which kind of wiped out a lot of the benefit before. And as they re-evaluate this, there's much more opportunity on the on the horizon for one.

CORY PERRY 14:54
Yeah, absolutely. A great example of that is, you know, I was looking at the transportation industry and they have generally large amount of assets on the books, huge CapEx spends, a lot of that was debt finance, a lot of interest charges to finance those purchases. So they found companies in that industry found it really hard to benefit because they had all of those limiting factors right that we talked about. But with the removal of those, no limitation for QBAI, you know they might have a billion dollars of fixed assets on the books, in that instance, that piece is gone, no longer the interest charge limiting them. It can really have a significant impact where companies that might have ruled it out previously may now have a huge benefit.
And one of the interesting dynamics that we're seeing is that even though that deduction rate that we talked about went down on paper, the removal of QBAI, the elimination of

expense apportionment, actually expands the amount of income eligible for the credit significantly. And for many taxpayers, that means the deduction is multiples higher than it was under the old rules just because of the computational changes, even though the bottom line deduction rate actually went down.

DAVID SITES 16:04
Right, right. So, we're sitting here, we're four months roughly, as we record this, from the end of the year. And I mentioned the effective dates for calendar-year taxpayers being essentially Jan. 1, 2026. So, there's a real opportunity, I think, from hearing from you for taxpayers to think about the differences in the system. One system is going to apply for the 2025 tax filing. Another system is going to apply for 2026. So, there's some opportunities there for taxpayers, right?

CORY PERRY 16:34
Absolutely, yeah. There is a one-time opportunity to perhaps tip the scales in favor of one system or the other, or move income back and forth between the two systems effectively. So, it's really important that companies model their outcomes and compare what their outcome would be under both the current system in 2025 and 2024, the TCjA system, and also under the OBBBA system in 2026. And again, there is this one-time opportunity where you might be able to move a deduction from this year to next year or move income back and forth.
And it's not as simple as normal rate change planning. As you know, normally we think about rate change planning as comes up all the time. When the rate goes up or the rate goes down, we want to pull certain levers and move income forward or backwards depending on which direction that rate is going. But it's a bit more complex in this situation because, as I said, the mainline rate's not really driving the benefit here for many taxpayers. It's all these other ancillary impacts. And that's going to be taxpayer-specific.
So, some taxpayers, because the rate, the mainline rate is lower, they might actually be better off having a little bit more income in TCJA for FDII, for example. I think that's going to be the minority, but there will be some taxpayers in that fact pattern, whereas probably the majority will be better off under the OBBBA system. So there's some opportunities here to push income forward into that system.
And this is through … we've been working closely with our methods colleagues. There's a lot of methods and elections and other opportunities to capitalize, and things of that nature, to move income in and out of 2025 versus 2026. The timing is important, though, and you mentioned that some of these opportunities need to be done before the end of 2025. They

required effectively to get probably the best benefit in certain instances is that certain changes will need to be implemented before the end of 2025. And obviously doing some types of these plannings, it's not as easy as just filing an election. Sometimes certain things need to be done, and that takes time to implement, right? So given where we are in the year, you might want to start thinking about that sooner than later.

DAVID SITES 18:53

Yeah, absolutely. So, finish your tax returns, if you haven't done that yet, get those done. And immediately, I think, or maybe at the same time, turn yourself to planning for what 2025 is going to look like. And we'll talk a little bit about the bigger picture for 2025 because of some of the other changes.

But before I get there, I wanted to ask you kind of a broader question. You know, over the past decade or so, especially kind of following the Tax Cuts and Jobs Act and all the regulations that that came out, the U.S. tax system has really evolved significantly from what it was pre-TCJA. And then the OBBBA changes here just kind of further cement some of those, and even make some of that more favorable potentially to taxpayers. So the U.S. used to be, you know, the jurisdiction to avoid for multinationals. Do you think that all these shifts since TCJA kind of call for a broader rethinking of how companies approach global tax planning and overall kind of jurisdictional strategy? I mean, it seems like we live in a completely new world, right? And a lot of the old stuff doesn't apply. It might be a good time to take a step back, right?

CORY PERRY 20:02

Yeah, I couldn't agree more. I mean, I think for … prior to Tax Cuts and Jobs Act, we had very little shift right since 1986. There have been changes in regulations and tweaks here and there to the rules, but no real major overhauls. And so for many, for many decades, it had remained fairly static and consistent. But since 2017 it's no longer the case. We live in a different world. The rules have been changing very frequently, and they've been getting more and more complex with the addition of Pillar 2, with tariffs now, with OBBBA yet again resetting some of these systems that apply in the U.S. that are favorable in some instances but also create complexity and challenges and need for holistic thinking.

I think that now is the time, really, I think we've sort of reached the point where we're at a situation where we need to make a decision as to how the structure should be set up in the operating model and really rethink some of those old norms that might have been in place for many years, or even those that might have been refreshed a little bit in 2017. We've seen

numerous changes just over the past five to six months, right, that might reset some thinking on global supply chain strategy, for example.
So, location of tangible assets, where debt sits, transfer pricing, I think all this needs to be re-evaluated. And so many things were in flux, but I think we're starting to … some of the dust is settling, so to speak, although there are still some tweaks and changes around tariffs. Largely we see the direction, I think now, that President Trump is going, and we've seen the results of the tax reform bill, at least the first version of it, and we have a pretty good picture of what the next couple of years will look like. So I think now is a real opportune time to take a fresh look at your overall structure.

DAVID SITES 21:58
Yeah. And I would point out real quick for listeners, I mean, the changes under OBBBA are permanent changes, right. So, the GILTI system and the FDII system are permanent. But I would point out that anything in Washington D.C. is only as permanent as maybe the current lawmakers in the current administration. But taxpayers still have better certainty than they had under TCJA. They kind of know what the systems are going to look like and it's probably time to refresh, like you said.
So, I want to, I want to switch gears maybe just a little bit. So obviously, the Big Beautiful Bill had a lot of legislation in it, right? It was much broader than just the international pieces. For example, Section 174 was altered for the treatment of R&D expenses. Section 163J saw some changes with respect to interest deduction. Bonus depreciation was permanently restored at like 100%, which is crazy to think that you know depreciation is just now right off anything that you buy that's with a class life less than 20 years. All of these things kind of interact with the international provisions that that we were talking about. Can you maybe talk about what issues taxpayers might run into or what some of the traps for the unwary might be as all these different provisions start to interact?

CORY PERRY 23:16
Yeah, absolutely. Yeah. So the “big three,” right – the full expensing, the R&D and the 163J, all primarily, (although there's some international elements to it) primarily domestic items, but they can significantly impact both directly and indirectly many of these international tax items that we're talking about.
The biggest issue, and I hinted at this one earlier in the opening section, is the Section 250 deduction is taxable income limited. And the foreign tax credit, also, you have to have foreign source income and there's taxable income limitation aspects there where you can

have income offset by domestic losses, for example.
So you don't necessarily want to accelerate all of those big three items, which are generally all temporary items, and then lose out on this permanent benefit that we've been discussing, the 250 deduction, or the foreign tax credit. In the case of GILTI, there's no carry-forward, so that can be a permanent loss of credits if you're not able to utilize them.
So, you really need to think through not just these international tax changes and the impact on your 250 deduction and whether you'll have a higher potential benefit, but also pull in those big three domestic pieces into your modeling and think about it more broadly. Because if you pull three years, or two years, or however many years worth of deductions into a single year, you might throw your company into a net operating loss position just from a timing perspective, not an overall position. And that can significantly impact or limit some of the benefits we were talking about today. So, we don't want to have large deductions in a single year have detrimental effects on your effective tax rate over, you know, a broader span.
And to avoid that, there are some optionality in the big three. Some of the timing is not … there's some choices you can make there as to how to spread or whether to accelerate, and you need to think through all of those to make sure you don't end up with some unintended consequences like loss of deductions or foreign tax credits that are no longer usable.

DAVID SITES 25:15
Yeah. So, it might make sense, what I heard you say, was to have more taxable income or less losses by forgoing something. So, for example, you can forgo bonus depreciation on certain class lives. You can elect, I think, class life by class life, whether to take bonus depreciation. And I think that we've seen this come up a ton, especially for taxpayers that have significant GILTI inclusions with ample foreign tax credits to offset those GILTI inclusions. Yeah, I think a trap for the unwary might be trading a temporary difference to cover up that in GILTI inclusion. That might not be the most beneficial thing to do when you look out over an extended time frame.

CORY PERRY 25:52
Yeah, absolutely.

DAVID SITES 25:53
So there's similar interactions with other provisions, and I think it's worth just maybe talking about 163J and maybe BEAT for a little bit. I know 163J, on the domestic side, made some

pretty big changes with respect to how adjusted taxable income or kind of the base for how much interest you can deduct is calculated. Talk a little bit about that and what to look out for there.

CORY PERRY 26:17

Yeah. So we've returned to EBITDA. It was for the past several years, it was EBIT or "earnings before interest and taxes." Now "depreciation and amortization" has been added back after 2024. And that's a favorable change that goes back to the big three we're talking about. But there was an additional change that was included in there that may be unfavorable to multinationals. And this one's a little bit of a sleeper, hasn't got as much attention, I don't think, because it's been overshadowed by many of the other changes. But 163J now excludes, from the limitation calculation, the deemed inclusions from CFCs, so Subpart F and now a net CFC tested income.

And what I mean by that, just stepping back a little bit, is the way the calculation works is you calculate adjusted taxable income, that's generally your EBITDA with certain adjustments to that. Previously, the calculation would exclude Subpart F and net CFC tested income under the previous version of regulations, but you could make an election at the CFC level that would allow you to increase your ATI by some of a(n) attribute that was created up to and limited at whatever you're deemed inclusions were under Subpart F and net CFC tested income.

So said differently, you could effectively tap into your foreign subsidiaries' earnings to increase your U.S. adjusted taxable income and allow it to free up interest deductions. That is gone. You can no longer use your foreign earnings to increase your interest limitation in the United States.

So for many purely domestic corporations, obviously not a big impact. But many multinationals, U..S multinationals, relied pretty heavily on that adjustment and it could have been, in many cases was, a very material adjustment to their ATI pulling up all those foreign earnings and increasing their adjusted taxable income.

So, that one is definitely a significant shift and something that those that were relying on that for interest deductions will need to rethink. You know you have the benefit of the EBITDA, but is that offset partially or maybe entirely by this other change to exclude these deemed inclusions from CFCs?

DAVID SITES 28:27

Yeah. And it's interesting because it's Subpart F, right, and old GILTI inclusions or NCTI

inclusions now. So, that stuff kind of gets lost if you have interest capacity down there, it calls into question intercompany financing strategies and whether you want to loan money or contribute money down as capital and I suppose it also calls into question just your overall choice of operating between a foreign corporation and a foreign branch, where you might get a slightly different answer on your taxable income base. So, lots of things to think about there. I think you're right, it is a sleeper provision and it's one that we have to look out for.

In the interest of time, I'm going to turn and shift. So in June, right before OBBBA was passed, the G7 announced a political understanding had been reached to create a side-by-side system for Pillar 2, under which U.S.-parented groups would be exempt from the so-called Income Inclusion Rule and the Undertaxed Profits Rule, or the UTPR. And I think that there were, obviously, there's a lot in the background. We don't have enough time, this could be a podcast by itself. But there was a provision under Section 899, which would have been a kind of a revenge or a retaliatory tax against jurisdictions, you know, in addition … in response to this G7 agreement that was ostensibly reached, 899 was dropped. Now what's interesting is the G7 agreement – you've written on this very well, like laid it out very clearly – the G7 agreement's not legally binding and several countries have adopted Pillar 2 legislation.

And so we're in this situation where there's some agreement out there. We don't know what it means. It's not legally binding. And a lot of U.S. taxpayers kind of have their hands up in the air and say, "What do we need to do going forward?" So tell me a little bit about, you know, what you're hearing and what you're recommending to taxpayers on this Pillar 2 situation.

CORY PERRY 30:23

Yeah, it's a very interesting evolving situation, I'll say. And as you said, the G7 agreement, it's really more of an agreement in spirit that they've reached where they want … they're going to strive towards a common outcome here … to recognize GILTI as a side-by-side system. And it's a little unclear, and we can talk a little bit about that, on what that means.

But I'll point out the G7 is just that seven, I mean, seven largest economies, but nevertheless the OECD framework has 140 members and there's a number of participants … the Pillar 2 framework has 140. And there's a number of participants that all need to broadly agree, generally speaking, on these changes. So that's going on right now. There's negotiations. I think they're targeting the end of the year, although I believe even some Treasury statement had cast some doubt on whether that is a realistic deadline that they can achieve,

But in short order, if not by the end of the year in Q1, hopefully we'll have some guidance on what this side-by-side system means. There's no formal agreement, as I said. There's some speculation. I think what the U.S. is hoping to achieve here is some sort of safe harbor that would effectively recognize the robust, robust U.S. system that we have, right, with all the controls in place, its own version of a global minimum tax, its base erosion preventions in terms of BEAT and CAMT and just the overall robustness of the U.S. tax system is satisfactory enough that it prevents the policy concerns that Pillar 2 has … Pillar 2 coming online.

So if we're to get what we're hoping for, I think what the U.S. government is negotiating for, I should say it would be a safe harbor that would exclude U.S. multinationals from some of the top-ups taxes and deem those to be zero.

But we don't have an agreement right now. We don't have any formal agreement. We don't even have a draft of an agreement. And what we do have is many, many, many jurisdictions that have legislated the current interpretation and the current Pillar 2 laws into effect. And so taxpayers are left in this uncomfortable position, right? There (are) some changes coming. We don't know how broad they'll be or what exactly they'll do. Will they extend the QDMTTs or will it just be turning off an income inclusion regimes and holding company subsidiaries – like how broad that relief will be? And meanwhile, compliance deadlines are continuing to come and go. Belgium, for example, the first QDMTT return is due in November. More than a half dozen notifications are already required in a number of jurisdictions, and 2024 is obviously already in the books and many countries can't even retroactively change tax law. It's unconstitutional for them to go back and rewrite tax law in many of these, in some of these foreign jurisdictions.

So with the first global information return being due in 2026, June of 2026 for 2024, I think taxpayers need to continue to move forward with their compliance efforts. They need to be ready to file that 2024 return consistent with current law. HMRC out of the UK, for example, have said just that they don't expect any changes for 2024 and they're expecting Globe Information returns and QDMTT returns to be filed consistent with enacted law. Which is not surprising, right?

So for 2024, I would expect everything to move forward as it's currently in effect. Now we could see some retroactive changes, but for financial statement port … filing purposes, we don't have any enacted law. So, we have to work based on law that's enacted and obviously there's compliance and penalties and everything else that's already on the books.

So taxpayers should continue to move forward. Practically speaking, though, there are maybe some things they could tweak a little bit in their approach. Maybe they rethink some of their capital spend and their investment in certain large projects like software and ERP

system implementation or changes until some of this dust settles. Maybe full outsource, right, for a year? Then we see what some of those safe harbors look like. And then you go through the exercise of determining whether that CapEx spend on some of those more larger and ambitious projects is a worthwhile endeavor or whether the safe harbors eliminate some of the filing and compliance concerns that U.S. multinationals are facing to the extent that no longer that spend is needed. So a lot of uncertainty, David. I could go on, but I'll stop there.

DAVID SITES 35:07

No, it's a fascinating area and it's been a fascinating area for a decade. And so I think what I heard you say is maybe don't go out and build a mansion yet to deal with Pillar 2, maybe rent for a year until you find out what exactly is going on with the project and then you can make some more long-term plans. Is that kind of what I heard?

CORY PERRY 35:24

OK. A good analogy – if you're only in the area, if you're not sure if it's changing, maybe just rent temporarily..

DAVID SITES 35:29

Yeah, I'm not sure you want to stay in the area. Yeah, I got it. So, all right. So our time is coming to a close and, like I said, that we could go on forever. This has been great. So I'd like to ask one final question. So, you're someone keenly focused kind of on the international tax space. What's one, I usually ask, D.C. regulatory or political signal … I'll expand it for you … what's one global regulatory or political signal that you'll be watching closely between now and the end of 2025?

CORY PERRY 36:01

Yeah, I mean, I think the regulations coming out of the OBBBA in the international space are fairly mild compared to those in the TCJA where we had complete system rewrites, I'll say.

DAVID SITES 36:11

Assuming we get regulations with the state of the IRS and the Treasury, correct?

CORY PERRY 36:17

That is very fair. Assuming we do get formal regulatory guidance on some of these

provisions. But there's just not as much of an ask, right? We don't have a whole new GILTI system. If anything, we have removal of pieces of regulations in some context as opposed to complete rewrites. So, I don't know as though the bigger item is there. I mean I think it's just tying back to our last item. It's the OECD administrative guidance on what this change looks like for the U.S. multinationals. Even following the OBBBA enactment, one of the bigger questions and more frequent questions I've had is what does this mean from a Pillar 2 perspective, particularly the agreement that came on the heels of the tax reform. So, that's what I'm going to be looking out for. There's … it's really unclear as to, again as I said, what this guidance is going to look like. There's already been some leaks that there's some countries that are concerned that this could undermine the broader Pillar 2 framework. And this guidance is going to be critical for U.S. multinationals.

But it's a tough, it's a tough ask, right? Negotiators have to really thread a needle here. It has to be something countries can quickly implement. So it can't be drastic changes in law. It has to be some sort of easily implementable safe harbor. It has to appease the U.S., which has been a challenging exercise lately. I don't think anyone would disagree with that.

It also has to do the least amount of damage on the integrity of the overall system, right? There's a real concern here that if we give a carve-out for the United States, what does that mean? Is China going to want to carve-out? Is India going to want to carve-out? Are other countries going to start requiring similar carve-outs?

And these politicians needed to do this while avoiding political fallout in their local jurisdictions, right? Some of this, I think, is seen politically in other jurisdictions as tax cuts to large multinationals if we're removing or significantly limiting this system that they implemented that was supposed to curb low-taxed income in terms of multinationals.

So it's really no easy task, right? They have to maintain their base, they have to appease the United States, and they have to implement a system that will achieve many different stakeholders. And I think that's the important development to watch over the next few months.

DAVID SITES 38:30

Yeah. And they have to do it all in a pretty dynamic global trade environment where there's a lot of other negotiations going on, on a lot of other different things. And so it will be indeed interesting to watch.

So, Cory, huge thank you for your insights. I appreciate you spending time with us and thank you to all the listeners who joined. If you have any questions or want to learn more about how your multinational business might be impacted by D.C. policy developments or

global tax policy developments, please feel free to visit Granthornton.com and get in touch with one of our professionals. And be sure to follow the D.C. Dispatch for timely updates on tax and regulatory developments that matter. Until next time, I'm David Sites. Thanks for listening.