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)

<table>
<thead>
<tr>
<th>Provision</th>
<th>2023</th>
<th>2024</th>
<th>2025</th>
<th>2026</th>
<th>2027</th>
<th>2028</th>
<th>2029</th>
<th>2030</th>
<th>2031</th>
<th>2032</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Flat 15% GILTI rate</td>
<td>8.8</td>
<td>10.8</td>
<td>11.5</td>
<td>4.0</td>
<td>2.9</td>
<td>3.0</td>
<td>3.1</td>
<td>3.1</td>
<td>3.2</td>
<td>3.4</td>
<td>53.7</td>
</tr>
<tr>
<td>Country-by-country top-up tax</td>
<td>1.2</td>
<td>1.2</td>
<td>1.3</td>
<td>1.3</td>
<td>1.4</td>
<td>1.4</td>
<td>1.4</td>
<td>1.5</td>
<td>1.5</td>
<td>1.5</td>
<td>13.6</td>
</tr>
<tr>
<td>Substance carve-outs</td>
<td>-0.2</td>
<td>-0.3</td>
<td>-0.2</td>
<td>-0.2</td>
<td>-0.1</td>
<td>-0.1</td>
<td>0.1</td>
<td>0.2</td>
<td>0.3</td>
<td>0.5</td>
<td>0.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>9.8</td>
<td>11.7</td>
<td>12.5</td>
<td>5.1</td>
<td>4.1</td>
<td>4.3</td>
<td>4.6</td>
<td>4.8</td>
<td>5.1</td>
<td>5.4</td>
<td>67.4</td>
</tr>
</tbody>
</table>
### Alternate Revenue Results ($B)

<table>
<thead>
<tr>
<th>Version of Pillar Two</th>
<th>Total, 2023-2032</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top-up approach, October version</td>
<td>67.4</td>
</tr>
<tr>
<td>Credit approach, October version</td>
<td>70.5</td>
</tr>
<tr>
<td>Top-up approach, July version</td>
<td>70.2</td>
</tr>
<tr>
<td>Credit approach, July version</td>
<td>74.2</td>
</tr>
</tbody>
</table>
Effective Tax Rates on CFC Profits (2023)

<table>
<thead>
<tr>
<th>ETR measured on</th>
<th>Current law</th>
<th>Pillar Two</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>All CFC profits</td>
<td>16.8</td>
<td>17.2</td>
<td>0.4</td>
</tr>
<tr>
<td>Prorated CFC profits</td>
<td>19.3</td>
<td>19.8</td>
<td>0.5</td>
</tr>
<tr>
<td>CFC profits ex. RPDs</td>
<td>23.8</td>
<td>24.2</td>
<td>0.4</td>
</tr>
</tbody>
</table>
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

<table>
<thead>
<tr>
<th>Profit shifting response</th>
<th>10-year revenue change</th>
<th>Effect of profit shifting</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>62.0</td>
<td>-</td>
</tr>
<tr>
<td>0.8 semi-elasticity</td>
<td>67.4</td>
<td>+5.4</td>
</tr>
<tr>
<td>Dowd-Landefeld-Moore responses</td>
<td>75.0</td>
<td>+13.0</td>
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</tbody>
</table>
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.