

1 **TITLE _____—MODIFICATIONS OF**
2 **RULES RELATING TO THE**
3 **TAXATION OF GLOBAL IN-**
4 **COME**

5 **SEC. ____ 01. MODIFICATIONS RELATING TO NET CFC TEST-**
6 **ED INCOME.**

7 (a) CURRENT YEAR INCLUSION OF NET CFC TEST-
8 ED INCOME.—

9 (1) IN GENERAL.—Section 951A(a) of the In-
10 ternal Revenue Code of 1986 is amended by striking
11 “global intangible low-taxed income” and inserting
12 “net CFC tested income”.

13 (2) REPEAL OF TAX-FREE DEEMED RETURN ON
14 FOREIGN INVESTMENTS.—Section 951A of such
15 Code is amended by striking subsections (b) and (d)
16 and by redesignating subsections (c), (e), and (f) as
17 subsections (b), (c), and (d), respectively.

18 (3) CONFORMING AMENDMENTS.—

19 (A)(i) Section 250 of such Code, as
20 amended by section ____04, is amended by
21 striking “global intangible low-taxed income” in
22 subsection (b)(3)(A)(i)(II) and inserting “net
23 CFC tested income”.

2

1 (ii) The heading for section 250 of such
2 Code is amended by striking “**GLOBAL INTAN-**
3 **GIBLE LOW-TAXED INCOME**” and inserting
4 “**NET CFC TESTED INCOME**”.

5 (iii) The item relating to section 250 in the
6 table of sections for part VIII of subchapter B
7 of chapter 1 of such Code is amended by strik-
8 ing “global intangible low-taxed income” and
9 inserting “net CFC tested income”.

10 (B) Section 951A(c)(1) of such Code, as
11 redesignated by paragraph (2), is amended by
12 striking “subsections (b), (c)(1)(A), and
13 (c)(1)(B)” and inserting “subsections (b)(1)(A)
14 and (b)(1)(B)”.

15 (C) Section 951A(d) of such Code, as re-
16 designated by paragraph (2), is amended—

17 (i) by striking “global intangible low-
18 taxed income” each place it appears and
19 inserting “net CFC tested income”, and

20 (ii) by striking “subsection (c)(1)(A)”
21 in paragraph (2)(B)(ii) thereof and insert-
22 ing “subsection (b)(1)(A)”.

23 (D)(i) The heading for section 951A of
24 such Code is amended by striking “**GLOBAL**
25 **INTANGIBLE LOW-TAXED INCOME IN-**

1 **CLUDED”** and inserting **“COUNTRY-BY-**
2 **COUNTRY GLOBAL INCLUSION OF LOW-TAX**
3 **INCOME”**.

4 (ii) The item relating to section 951A in
5 the table of sections for subpart F of part III
6 of subchapter N of chapter 1 of such Code is
7 amended by striking “global intangible low-
8 taxed income included” and inserting “country-
9 by-country global inclusion of low-tax income”.

10 (b) **NET CFC TESTED INCOME DETERMINED WITH-**
11 **OUT REGARD TO HIGH-TAX TESTED INCOME.—**

12 (1) **EXCLUSION.—**Section 951A(b)(2)(A)(i) of
13 the Internal Revenue Code of 1986, as redesignated
14 by section __01(a)(2), is amended by striking “and”
15 at the end of subclause (IV), by striking “over” at
16 the end of subclause (V) and inserting “and”, and
17 by inserting after subclause (V) the following new
18 subclause:

19 “(VI) any high-tax tested income
20 (as defined in subsection (e)), over”.

21 (2) **HIGH-TAX TESTED INCOME DEFINED.—**Sec-
22 tion 951A of such Code, as amended by subsection
23 (a), is amended by inserting after subsection (d) the
24 following new subsection:

4

1 “(e) HIGH-TAX TESTED INCOME.—For purposes of
2 this section—

3 “(1) IN GENERAL.—The term ‘high-tax tested
4 income’ means, with respect to any controlled for-
5 eign corporation for any taxable year of such cor-
6 poration, any income which—

7 “(A) is tested income of such corporation
8 (determined without regard to subsection
9 (b)(2)(A)(i)(VI)), and

10 “(B) is subject to an effective rate of in-
11 come tax imposed by a foreign country greater
12 than the applicable percentage of the maximum
13 rate specified in section 11 for taxable years be-
14 ginning in the calendar year in which the tax-
15 able year of such corporation begins.

16 “(2) APPLICABLE PERCENTAGE.—The applica-
17 ble percentage with respect to any taxable year is
18 the excess (if any) of—

19 “(A) 100 percent, over

20 “(B) the percentage in effect for such tax-
21 able year for purposes of determining the de-
22 duction under section 250(a)(1) with respect to
23 net CFC tested income amounts.

24 “(3) DETERMINATION OF EFFECTIVE RATE OF
25 INCOME TAX.—For purposes of this subsection—

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1 “(A) RULES FOR COMPUTING EFFECTIVE
2 RATE.—The effective rate of income tax shall
3 be computed—

4 “(i) separately for each tested unit of
5 the controlled foreign corporation, and

6 “(ii) by only taking into account [80-
7 100] percent of the foreign income taxes
8 (within the meaning of section
9 904(d)(2)(F)) which are properly attrib-
10 utable to amounts taken into account in
11 determining tested income or loss under
12 subsection (b)(2).

13 “(B) TESTED UNIT.—The term ‘tested
14 unit’ means, with respect to any controlled for-
15 eign corporation—

16 “(i) the controlled foreign corporation,

17 “(ii) an interest held directly or indi-
18 rectly by the controlled foreign corporation
19 in a pass-through entity if—

20 “(I) such entity is a tax resident
21 of a foreign country, or

22 “(II) such entity is not described
23 in subclause (I) but is treated as a
24 corporation (or other entity which is
25 not fiscally transparent) under the tax

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1 law of the foreign country in which
2 the controlled foreign corporation is a
3 tax resident, and

4 “(iii) any branch (or portion there-
5 of)—

6 “(I) the activities of which are
7 carried on directly or indirectly by the
8 controlled foreign corporation, and

9 “(II) which gives rise to a tax-
10 able presence under the tax law of the
11 foreign country in which the branch is
12 located.

13 “(C) AGGREGATION OF TESTED UNITS IN
14 A SINGLE FOREIGN COUNTRY.—

15 “(i) IN GENERAL.—All tested units of
16 a controlled foreign corporation (including
17 such corporation) which are tax residents
18 of (or, as provided by the Secretary, lo-
19 cated in) the same foreign country shall be
20 treated as a single tested unit.

21 “(ii) AGGREGATION OF MEMBERS OF
22 SAME EXPANDED AFFILIATED GROUP.—If
23 2 or more controlled foreign corporations
24 are members of the same expanded affili-
25 ated group (as defined in section

1 1471(e)(2)), all tested units of such cor-
2 porations (including such corporations)
3 which are tax residents of (or, as provided
4 by the Secretary, located in) the same for-
5 eign country shall be treated as a single
6 tested unit. The preceding sentence shall
7 not apply for purposes of applying this sec-
8 tion to a United States shareholder that is
9 not a member of such expanded affiliated
10 group.

11 “(D) ITEMS ALLOCATED TO ONLY ONE
12 TESTED UNIT.—Except as otherwise provided
13 by the Secretary, for purposes of determining
14 the effective rate of income tax under this para-
15 graph—

16 “(i) no item shall be attributable or
17 otherwise allocable to more than one tested
18 unit of the taxpayer, and

19 “(ii) to the extent an item may, with-
20 out regard to clause (i), be properly attrib-
21 utable or otherwise allocable to more than
22 one tested unit, such item shall be treated
23 as properly attributable or otherwise allo-
24 cable to the lowest-tier tested unit of the

1 taxpayer to which such item may be prop-
2 erly attributable or otherwise allocable.

3 “(E) DEFINITIONS.—For purposes of this
4 paragraph, the terms ‘branch’, ‘fiscally trans-
5 parent’, ‘tax law’, and ‘tax resident’ have the
6 same meaning as when used for purposes of
7 section 267A.

8 “(F) REGULATIONS.—The Secretary shall
9 issue such regulations as are necessary to carry
10 out the purposes of this paragraph, including
11 regulations providing for the proper treatment
12 of—

13 “(i) tiered entities, hybrid entities, re-
14 verse hybrid entities, and disregarded enti-
15 ties,

16 “(ii) disregarded amounts (including
17 payments, transfers, or distributions), and

18 “(iii) branches which do not give rise
19 to a taxable presence under the tax law of
20 the foreign country in which any such
21 branch is located.

22 “(4) TREATMENT OF TESTED UNITS WITH
23 LOSSES.—

24 “(A) IN GENERAL.—If there is a tested
25 loss (as determined under subparagraph (B))

1 for any tested unit for any taxable year, the in-
2 come of such tested unit taken into account in
3 determining such tested loss under subpara-
4 graph (B) shall be treated as income which is
5 high-tax tested income.

6 “(B) TESTED LOSS.—For purposes of this
7 paragraph, the term ‘tested loss’ means, with
8 respect to any tested unit for any taxable year
9 of the controlled foreign corporation, the excess
10 (if any) of the amounts described in subsection
11 (b)(2)(A)(ii) with respect to such tested unit
12 over the amounts described in subsection
13 (b)(2)(A)(i) (determined without regard to sub-
14 clause (VI) thereof) with respect to such tested
15 unit.

16 “(5) DISALLOWANCE OF FOREIGN TAX CREDIT,
17 ETC.—

18 “(A) IN GENERAL.—No credit shall be al-
19 lowed under section 901 for any taxes paid or
20 accrued (or treated as paid or accrued) with re-
21 spect to any high-tax tested income of a tested
22 unit.

23 “(B) DENIAL OF DEDUCTION.—No deduc-
24 tion shall be allowed under this chapter for any
25 tax for which credit is not allowable under sec-

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1 tion 901 by reason of subparagraph (A) (deter-
2 mined by treating the taxpayer as having elect-
3 ed the benefits of subpart A of part III of sub-
4 chapter N).”.

5 (3) TIMING ISSUES IN GILTI.—**[TO BE DE-**
6 **TERMINED]**

7 (c) MODIFICATIONS OF DEEMED PAID CREDIT FOR
8 TAXES ATTRIBUTABLE TO TESTED INCOME.—

9 (1) IN GENERAL.—Section 960(d) of such Code
10 is amended to read as follows:

11 “(d) DEEMED PAID CREDIT FOR TAXES ATTRIB-
12 UTABLE TO TESTED INCOME AND LOSS.—

13 “(1) IN GENERAL.—For purposes of subpart A
14 of this part, if any amount is includible in the gross
15 income of a domestic corporation under section
16 951A, such domestic corporation shall be deemed to
17 have paid foreign income taxes equal to **[80-100]**
18 percent of the aggregate tested foreign income taxes
19 paid or accrued by controlled foreign corporations.

20 “(2) TESTED FOREIGN INCOME TAXES.—For
21 purposes of paragraph (1), the term ‘tested foreign
22 income taxes’ means, with respect to any domestic
23 corporation which is a United States shareholder of
24 a controlled foreign corporation, such shareholder’s

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1 pro rata share (as determined under section
2 951A(e)(1)) of—

3 “(A) the foreign income taxes (within the
4 meaning of section 904(d)(2)(F)) which are
5 properly attributable to amounts taken into ac-
6 count in determining tested income or tested
7 loss under section 951A(b)(2), and

8 “(B) solely to the extent provided in regu-
9 lations prescribed by the Secretary, the foreign
10 income taxes (as so defined) paid or accrued by
11 a foreign corporation (other than such con-
12 trolled foreign corporation) which owns, directly
13 or indirectly, 80 percent or more (by vote or
14 value) of the stock in such domestic corporation
15 but only if—

16 “(i) such foreign income taxes are
17 properly attributable to amounts of such
18 controlled foreign corporation taken into
19 account in determining tested income or
20 tested loss under section 951A(b)(2), and

21 “(ii) no credit is allowed, in whole or
22 in part, for such foreign taxes in any for-
23 eign jurisdiction”.

24 (2) GROSS UP FOR DEEMED PAID TAXES.—Sec-
25 tion 78 of such Code is amended—

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1 (A) by striking “(determined without re-
2 gard to the phrase ‘80 percent of’ in subsection
3 (d)(1))”, and

4 (B) by adding at the end the following new
5 sentence: “For purposes of this section, the
6 amount of taxes deemed paid under subsections
7 (a), (b), and (d) of section 960 shall be deter-
8 mined without regard to the percentage limita-
9 tions under such subsections and the amount of
10 taxes deemed paid under section 960(d) shall be
11 determined without regard to foreign taxes de-
12 scribed in paragraph (2)(B) thereof.”

13 (d) REPORTING REQUIREMENTS.—Section
14 6038(a)(1) of the Internal Revenue Code of 1986 is
15 amended by striking “and” at the end of subparagraph
16 (D), by striking the period at the end of subparagraph
17 (E) and inserting “, and”, and by inserting after subpara-
18 graph (E) the following:

19 “(F) in the case of each tested unit (as de-
20 fined in section 951A(e)(3)(B) and determined
21 after application of section 951A(e)(3)(C)) of a
22 controlled foreign corporation—

23 “(i) the amount of gross income and
24 deductions (including taxes) which are

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1 properly attributable to the tested unit
2 under section 951A(c)(2), and
3 “(ii) the effective rate of income tax
4 computed for purposes of section
5 951A(e).”.

6 (e) EFFECTIVE DATE.—The amendments made by
7 this section shall apply to taxable years of foreign corpora-
8 tions beginning after the date of the enactment of this
9 Act, and to taxable years of United States shareholders
10 in which or with which such taxable years of foreign cor-
11 porations end.

12 **SEC. ____ 02. MODIFICATIONS TO SUBPART F INCOME.**

13 (a) APPLICATION OF FOREIGN TAX CREDITS.—

14 (1) IN GENERAL.—Section 960(a) of the Inter-
15 nal Revenue Code of 1986 is amended by striking
16 “such domestic corporation shall be deemed to have
17 paid so much of such foreign corporation’s foreign
18 income taxes as are properly attributable to such
19 item of income” and inserting “such domestic cor-
20 poration shall be deemed to have paid **[80-100]** per-
21 cent of so much of such foreign corporation’s foreign
22 income taxes as are properly attributable to amounts
23 taken into account in determining whether such item
24 of income is included in gross income under such
25 section”.

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1 (2) PREVIOUSLY TAXED EARNINGS AND PROF-
2 ITS.—Section 960(b) of such Code is amended—

3 (A) in paragraph (1), by inserting “**【80-**
4 **100】** percent of” after “deemed to have paid”,

5 (B) in paragraph (2), by inserting “**【80-**
6 **100】** percent of” after “deemed to have paid”,

7 and

8 (C) by adding at the end the following new
9 paragraph:

10 “(3) PERCENTAGE LIMITATIONS DIS-
11 REGARDED.—For purposes of applying paragraphs
12 (1)(B) and (2)(B), the amount of taxes deemed paid
13 with respect to any amount for the taxable year or
14 any prior taxable year shall be the amount deter-
15 mined before the application of any percentage limi-
16 tation under this subsection or subsection (a).”.

17 (3) FOREIGN TAX CREDIT IN YEAR OF RECEIPT
18 OF PREVIOUSLY TAXED EARNINGS AND PROFITS.—
19 Section 960(c)(1) of such Code is amended—

20 (A) by striking “the amount of such taxes
21 paid” and inserting “**【80-100】** percent of the
22 amount of such taxes paid”, and

23 (B) by adding at the end the following new
24 sentence: “For purposes of the preceding sen-
25 tence, the amount of taxes deemed paid shall be

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1 the amount determined before the application of
2 any percentage limitation under subsection (a)
3 or (b).”

4 (b) TREATMENT OF HIGH-TAXED INCOME.—

5 (1) IN GENERAL.—Section 954(b)(4) of the In-
6 ternal Revenue Code of 1986 is amended—

7 (A) by striking “For purposes of” and in-
8 serting the following:

9 “(A) IN GENERAL.—For purposes of”,

10 (B) by striking “if the taxpayer establishes
11 to the satisfaction of the Secretary that such in-
12 come was subject to an effective rate of income
13 tax imposed by a foreign country greater than
14 90 percent of the maximum rate of tax specified
15 in section 11” and inserting “which is subject
16 to an effective rate of income tax imposed by a
17 foreign country (determined under the rules of
18 subparagraph (B)) greater than the maximum
19 rate specified in section 11 for taxable years be-
20 ginning in the calendar year in which the tax-
21 able year of such corporation begins”, and

22 (C) by adding at the end the following new
23 subparagraphs:

24 “(B) RULES FOR COMPUTING EFFECTIVE
25 RATE.—For purposes of this paragraph—

16

1 “(i) IN GENERAL.—Except as pro-
2 vided in clause (ii), the effective rate of in-
3 come tax shall be determined under rules
4 similar to the rules of section 951A(e)(3).

5 “(ii) SEPARATE COMPUTATION FOR
6 GENERAL AND PASSIVE INCOME.—The ef-
7 fective rate of income tax shall be com-
8 puted separately for general category in-
9 come (as defined in section 904(d)(2)(A))
10 and passive category income (as so de-
11 fined) of a tested unit.

12 “(C) TREATMENT OF TESTED UNITS WITH
13 LOSSES.—

14 “(i) IN GENERAL.—If any tested unit
15 (as defined in section 951(A)(e)(3)) is a
16 loss unit for any taxable year, the income
17 of such tested unit taken into account
18 under clause (ii) in determining whether
19 such tested unit is a loss unit shall be
20 treated as income excluded from insurance
21 income or foreign base company income
22 under this paragraph.

23 “(ii) LOSS UNIT.—For purposes of
24 this subparagraph, the term ‘loss unit’
25 means, with respect to any insurance in-

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1 come or foreign base company income of a
2 tested unit (as so defined), the excess (if
3 any) of—

4 “(I) the deductions allocable to
5 such income under this subpart, over

6 “(II) the amount of such income
7 (determined before taking into ac-
8 count any deduction allocable to such
9 income under this subpart).

10 “(D) DISALLOWANCE OF FOREIGN TAX
11 CREDIT, ETC.—

12 “(i) IN GENERAL.—No credit shall be
13 allowed under section 901 for any taxes
14 paid or accrued (or treated as paid or ac-
15 crued) with respect to any income of a
16 tested unit excluded from insurance income
17 or foreign base company income under this
18 paragraph.

19 “(ii) DENIAL OF DEDUCTION.—No de-
20 duction shall be allowed under this chapter
21 for any tax for which credit is not allow-
22 able under section 901 by reason of clause
23 (i) (determined by treating the taxpayer as
24 having elected the benefits of subpart A of
25 part III of subchapter N).”.

1 (c) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to taxable years of foreign corpora-
3 tions beginning after the date of the enactment of this
4 Act, and to taxable years of United States shareholders
5 in which or with which such taxable years of foreign cor-
6 porations end.

7 **SEC. ____ 03. EXCLUSION OF HIGH TAXED INCOME OF FOR-**
8 **EIGN BRANCHES.**

9 (a) IN GENERAL.—

10 (1) EXCLUSION.—Part III of subchapter B of
11 chapter 1 of the Internal Revenue Code of 1986 is
12 amended by inserting after section 139I the fol-
13 lowing new section:

14 **“SEC. 139J. HIGH-TAX FOREIGN BRANCH INCOME.**

15 “(a) IN GENERAL.—Gross income shall not include
16 any high-tax foreign branch income.

17 “(b) HIGH-TAX FOREIGN BRANCH INCOME.—For
18 purposes of this section—

19 “(1) IN GENERAL.—The term ‘high-tax foreign
20 branch income’ means, with respect to any foreign
21 branch, the branch’s gross income which is subject
22 to an effective rate of income tax imposed by a for-
23 eign country or possession of the United States (de-
24 termined under the rules of paragraph (2)) greater
25 than the maximum rate specified in section 11 (sec-

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1 tion 1 in the case of a taxpayer other than a cor-
2 poration) for the taxable year.

3 “(2) RULES FOR COMPUTING EFFECTIVE
4 RATE.—For purposes of this subsection, the effective
5 rate of income tax shall be computed—

6 “(A) separately for each foreign branch of
7 the taxpayer,

8 “(B) on the amount of net income of the
9 foreign branch equal to the excess of—

10 “(i) the aggregate amount of gross in-
11 come of the branch, over

12 “(ii) deductions (other than taxes)
13 properly allocable to such income (under
14 regulations prescribed by the Secretary),
15 and

16 “(C) by only taking into account **【80-100】**
17 percent of the foreign income taxes (within the
18 meaning of section 904(d)(2)(F)) properly at-
19 tributable to net income described in subpara-
20 graph (C).

21 “(3) AGGREGATION OF BRANCHES IN A SINGLE
22 FOREIGN COUNTRY.—For purposes of this sub-
23 section—

24 “(A) IN GENERAL.—All branches of a tax-
25 payer which are tax residents of (or, as pro-

1 vided by the Secretary, located in) the same for-
2 eign country shall be treated as a single foreign
3 branch.

4 “(B) AGGREGATION OF MEMBERS OF SAME
5 EXPANDED AFFILIATED GROUP.—If 2 or more
6 corporations are members of the same expanded
7 affiliated group (as defined in section
8 1471(e)(2)), all branches of such corporations
9 (including such corporations) which are tax
10 residents of (or, as provided by the Secretary,
11 located in) the same foreign country shall be
12 treated as a single branch.

13 “(4) DISALLOWANCE OF FOREIGN TAX CREDIT,
14 ETC.—

15 “(A) IN GENERAL.—No credit shall be al-
16 lowed under section 901 for any taxes paid or
17 accrued (or treated as paid or accrued) with re-
18 spect to any high-tax foreign branch income of
19 a foreign branch.

20 “(B) DENIAL OF DEDUCTION.—No deduc-
21 tion shall be allowed under this chapter for any
22 tax for which credit is not allowable under sec-
23 tion 901 by reason of subparagraph (A) (deter-
24 mined by treating the taxpayer as having elect-

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1 ed the benefits of subpart A of part III of sub-
2 chapter N).

3 “(5) DEFINITIONS.—For purposes of this sub-
4 section—

5 “(A) FOREIGN BRANCH.—The term ‘for-
6 eign branch’ means any branch (or portion
7 thereof)—

8 “(i) the activities of which are carried
9 on directly or indirectly by the taxpayer,

10 “(ii) which is not a tested unit (as de-
11 fined in section 951A(e)(3)) of a controlled
12 foreign corporation of the taxpayer, and

13 “(iii) which gives rise to a taxable
14 presence under the tax law of the foreign
15 country in which the branch is located.

16 “(B) OTHER TERMS.—The terms ‘branch’,
17 ‘tax law’, and ‘tax resident’ have the same
18 meaning as when used for purposes of section
19 267A.

20 “(c) REGULATIONS.—The Secretary shall issue such
21 regulations as are necessary to carry out the purposes of
22 this section, including regulations providing for the proper
23 treatment of—

24 “(1) disregarded amounts (including payments,
25 transfers, or distributions), and

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1 “(2) branches which do not give rise to a tax-
2 able presence under the tax law of the foreign coun-
3 try in which any such branch is located.”.

4 (2) CONFORMING AMENDMENTS.—

5 (A) Section 904(d)(2)(J) is amended—

6 (i) by striking “qualified business
7 units (as defined in section 989(a)) in 1 or
8 more foreign countries” and inserting “for-
9 eign branches described in section 139J”,
10 and

11 (ii) by striking “qualified business
12 unit” and inserting “foreign branch”.

13 (B) The table of section of part III of sub-
14 chapter B of chapter 1 is amended by inserting
15 after the item relating to section 139I the fol-
16 lowing new item:

“Sec. 139J. High-tax foreign branch income.”.

17 (b) APPLICATION OF FOREIGN TAX CREDIT TO FOR-
18 EIGN BRANCHES.—Section 901 of the Internal Revenue
19 Code of 1986 is amended by redesignating subsection (n)
20 as subsection (o) and by inserting after subsection (m) the
21 following new subsection:

22 “(n) SPECIAL RULES FOR FOREIGN BRANCHES.—
23 Notwithstanding any other provision of this part—

24 “(1) IN GENERAL.—In the case of any foreign
25 income taxes (within the meaning of section

23

1 904(d)(2)(F)) paid or accrued during the taxable
2 year with respect to foreign branch income (as de-
3 fined in section 904(d))—

4 “(A) in the case of a loss branch, no credit
5 shall be allowed with respect to such taxes
6 under subsection (a), and

7 “(B) in the case of any other branch, the
8 amount of such taxes which would (but for this
9 subsection) be allowed under subsection (a)
10 shall be reduced by **【0-20】** percent of such
11 amount (determined without regard to this sub-
12 section).

13 “(2) LOSS BRANCH.—For purposes of this sub-
14 section—

15 “(A) IN GENERAL.—The term ‘loss
16 branch’ means any foreign branch for which de-
17 ductions (other than taxes) properly allocable
18 (under regulations prescribed by the Secretary)
19 to the gross income of such branch exceed the
20 amount of such gross income.

21 “(B) AGGREGATION RULES.—Rules similar
22 to the rules of section 139J(b)(3) shall apply.”.

23 (c) EFFECTIVE DATE.—The amendments made by
24 this section shall apply to taxable years beginning after
25 the date of the enactment of this Act.

1 **SEC. ____04. ALLOCATION OF RESEARCH AND EXPERI-**
2 **MENTAL AND STEWARDSHIP EXPENSES.**

3 (a) IN GENERAL.—Section 904(b) of the Internal
4 Revenue Code of 1986 is amended by adding at the end
5 the following new paragraph:

6 “(5) RESEARCH AND DEVELOPMENT AND
7 STEWARDSHIP EXPENSES.—

8 “(A) IN GENERAL.—For purposes of this
9 section, in determining taxable income—

10 “(i) expenditures for qualified re-
11 search and experimental expenditures
12 which are conducted within the United
13 States shall be allocated only to income
14 from sources within the United States, and

15 “(ii) expenditures for stewardship
16 functions (within the meaning of section
17 861) which are conducted within the
18 United States shall be allocated only to in-
19 come from sources within the United
20 States.

21 “(B) QUALIFIED RESEARCH AND EXPERI-
22 MENTAL EXPENDITURES.—

23 “(i) IN GENERAL.—The term ‘quali-
24 fied research and experimental expendi-
25 tures’ means research and experimental ex-
26 penditures which are taken into account in

25

1 determining a taxpayer's specified research
2 or experimental expenditures for purposes
3 of section 174.

4 “(ii) SPECIAL RULES.—For purposes
5 of this paragraph—

6 “(I) rules similar to the rules of
7 subsection (c)(1) of section 174 shall
8 apply, and

9 “(II) any qualified research and
10 experimental expenditures shall be
11 taken into account under this para-
12 graph for the taxable year for which
13 such expenditures are allowed as a de-
14 duction under section 174.”.

15 (b) EFFECTIVE DATE.—

16 (1) IN GENERAL.—The amendment made by
17 this section shall apply to taxable years beginning
18 after the date of the enactment of this Act.

19 (2) TRANSITION RULE.—For purposes of apply-
20 ing section 904(b)(5) of the Internal Revenue Code
21 of 1986 (as added by this section) to amounts paid
22 or incurred in taxable years beginning after the date
23 of the enactment of this Act and before January 1,
24 2022, the term “qualified research and experimental

1 expenditures” shall have the meaning given to such
2 term by section 864(g)(2) of such Code.

3 **SEC. ____ 05. MODIFICATIONS TO DEDUCTIONS FOR FOR-**
4 **EIGN-DERIVED INNOVATION INCOME AND**
5 **NET CFC TESTED INCOME.**

6 (a) IN GENERAL.—Subsection (a) of section 250 of
7 the Internal Revenue Code of 1986 is amended to read
8 as follows:

9 “(a) ALLOWANCE OF DEDUCTION.—

10 “(1) IN GENERAL.—In the case of a domestic
11 corporation for any taxable year, there shall be al-
12 lowed as a deduction an amount equal to **[X per-**
13 **cent]** of the sum of—

14 “(A) the foreign-derived innovation income
15 of such domestic corporation for such taxable
16 year,

17 “(B) the net CFC tested income amount
18 (if any) which is included in the gross income
19 of such domestic corporation under section
20 951A for such taxable year, plus

21 “(C) the amount treated as a dividend re-
22 ceived by such corporation under section 78
23 which is attributable to the amount described in
24 subparagraph (B).

27

1 “(2) LIMITATION BASED ON TAXABLE IN-
2 COME.—If, for any taxable year—

3 “(A) the sum of the amounts otherwise
4 taken into account by the domestic corporation
5 under paragraph (1), exceeds

6 “(B) the taxable income of the domestic
7 corporation (determined without regard to this
8 section),

9 then each of the amounts in subparagraphs (A), (B),
10 and (C) of paragraph (1) shall be reduced by the
11 amount which bears the same ratio to such excess
12 as the amount described in such subparagraph bears
13 to the sum described in subparagraph (A).”.

14 (b) DEDUCTION FOR FOREIGN-DERIVED INNOVATION
15 INCOME.—

16 (1) IN GENERAL.—Section 250(b)(1) of the In-
17 ternal Revenue Code of 1986 is amended by striking
18 “foreign-derived intangible income” and inserting
19 “foreign-derived innovation income”.

20 (2) DETERMINATION OF FOREIGN-DERIVED IN-
21 NOVATION INCOME.—

22 (A) IN GENERAL.—Section 250(b)(1) of
23 such Code is amended by striking “deemed in-
24 tangible income” and inserting “domestic inno-
25 vation income”.

1 (B) DOMESTIC INNOVATION INCOME.—
2 Paragraph (2) of section 250(b) of such Code
3 is amended to read as follows:

4 “(2) DOMESTIC INNOVATION INCOME.—For
5 purposes of this subsection, the term ‘domestic inno-
6 vation income’ means, with respect to any domestic
7 corporation, the lesser of—

8 “(A) the deduction eligible income of the
9 domestic corporation, or

10 “(B) the sum of—

11 “(i) **【X percent of】** the qualified re-
12 search and experimental expenditures (as
13 defined in section 904(b)(5)) of the domes-
14 tic corporation which are attributable to
15 activities conducted in the United States,
16 plus

17 “(ii) **【X percent of】** the qualified
18 training expenditures of the domestic cor-
19 poration which are attributable to activities
20 conducted in the United States.”.

21 (C) QUALIFIED TRAINING EXPENDI-
22 TURES.—Section 250(b) is amended by adding
23 at the end the following new paragraph:

24 “(6) QUALIFIED TRAINING EXPENDITURES.—

29

1 “(A) IN GENERAL.—The term ‘qualified
2 training expenditures’ means any expenditures
3 for the qualified training of any non-highly
4 compensated employee. Such term shall not in-
5 clude any amounts paid for meals, lodging,
6 transportation, or other services incidental to
7 such qualified training.

8 “(B) QUALIFIED TRAINING.—For purposes
9 of subparagraph (A), the term ‘qualified train-
10 ing’ means training which results in the attain-
11 ment of a recognized postsecondary credential
12 and which is provided through—

13 “(i) an apprenticeship program reg-
14 istered under the Act of August 16, 1937
15 (commonly known as the ‘National Ap-
16 prenticeship Act’; 50 Stat. 664, chapter
17 663; 29 U.S.C. 50 et seq.);

18 “(ii)(I) a program of training services
19 which is listed under section 122(d) of the
20 Workforce Innovation and Opportunity Act
21 (29 U.S.C. 3152(d)), or

22 “(II) an apprenticeship program
23 which is registered or approved by a recog-
24 nized State apprenticeship agency (which
25 uses a State apprenticeship council) in ac-

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1 cordance with section 1 of the Act referred
2 to in clause (i),

3 “(iii) a program which is conducted
4 by an area career and technical education
5 school, a community college, or a labor or-
6 ganization, or

7 “(iv) a program which is sponsored
8 and administered by an employer, industry
9 trade association, industry or sector part-
10 nership, or labor organization.

11 “(C) TERMS RELATED TO QUALIFIED
12 TRAINING.—For purposes of subparagraph
13 (B)—

14 “(i) AREA CAREER AND TECHNICAL
15 EDUCATION SCHOOL.—The term ‘area ca-
16 reer and technical education school’ means
17 such a school, as defined in section 3 of
18 the Carl D. Perkins Career and Technical
19 Education Act of 2006 (20 U.S.C. 2302),
20 which participates in a program under that
21 Act (20 U.S.C. 2301 et seq.).

22 “(ii) COMMUNITY COLLEGE.—The
23 term ‘community college’ means an institu-
24 tion which—

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1 “(I) is a junior or community col-
2 lege as defined in section 312(f) of the
3 Higher Education Act of 1965 (20
4 U.S.C. 1058(f)), except that the insti-
5 tution need not meet the requirements
6 of paragraph (1) of that section, and

7 “(II) participates in a program
8 under title IV of that Act (20 U.S.C.
9 1070 et seq.).

10 “(iii) INDUSTRY OR SECTOR PARTNER-
11 SHIP.—The term ‘industry or sector part-
12 nership’ has the meaning given such term
13 under section 3 of the Workforce Innova-
14 tion and Opportunity Act (29 U.S.C.
15 3102).

16 “(iv) INDUSTRY TRADE ASSOCIA-
17 TION.—The term ‘industry trade associa-
18 tion’ means an organization which—

19 “(I) is described in paragraph (3)
20 or (6) of section 501(c) of the Inter-
21 nal Revenue Code of 1986 and exempt
22 from taxation under section 501(a) of
23 such Code, and

24 “(II) is representing an industry.

32

1 “(v) LABOR ORGANIZATION.—The
2 term ‘labor organization’ means a labor or-
3 ganization, within the meaning of the term
4 in section 501(c)(5) of the Internal Rev-
5 enue Code of 1986.

6 “(vi) RECOGNIZED POSTSECONDARY
7 CREDENTIAL.—The term ‘recognized post-
8 secondary credential’ means a credential
9 consisting of an industry-recognized certifi-
10 cate or certification, a certificate of com-
11 pletion of an apprenticeship, a license rec-
12 ognized by the State involved or Federal
13 Government, or an associate or bacca-
14 laurate degree.

15 “(D) NON-HIGHLY COMPENSATED EM-
16 PLOYEE.—

17 “(i) IN GENERAL.—For purposes of
18 subparagraph (A), the term ‘non-highly
19 compensated employee’ means an employee
20 of the taxpayer whose remuneration for the
21 taxable year for services provided to the
22 taxpayer does not exceed \$82,000.

23 “(ii) AGGREGATION RULE.—For pur-
24 poses of clause (i), all persons treated as
25 a single employer under subsection (b), (c),

33

1 (m), or (o) of section 414 shall be treated
2 as one employer.

3 “(iii) INFLATION ADJUSTMENT.—In
4 the case of any taxable year beginning
5 after 2022, the \$82,000 amount in clause
6 (i) shall be increased by an amount equal
7 to—

8 “(I) such dollar amount, multi-
9 plied by

10 “(II) the cost-of-living adjust-
11 ment determined under section 1(f)(3)
12 for the calendar year in which the tax-
13 able year begins, determined by sub-
14 stituting ‘calendar year 2021’ for ‘cal-
15 endar year 2016’ in subparagraph
16 (A)(ii) thereof.

17 If any amount after adjustment under the
18 preceding sentence is not a multiple of
19 \$1,000, such amount shall be rounded to
20 the next lowest multiple of \$1,000.”.

21 (3) CONFORMING AMENDMENTS.—

22 (A) The heading of section 250(b) of such
23 Code is amended by striking “INTANGIBLE IN-
24 COME” and inserting “INNOVATION INCOME”.

34

1 (B) The heading of section 250 of such
2 Code, as amended by section __01, is amended
3 by striking “**INTANGIBLE INCOME**” and in-
4 serting “**INNOVATION INCOME**”.

5 (C) The item relating to section 250 in the
6 table of sections for part VIII of subchapter B
7 of chapter 1 of such Code, as amended by sec-
8 tion __01, is amended by striking “intangible
9 income” and inserting “innovation income”.

10 (c) EFFECTIVE DATE.—The amendments made by
11 this section shall apply to taxable years beginning after
12 [date].

13 **SEC. __06. MODIFICATIONS TO TAX ON BASE EROSION**
14 **PAYMENTS.**

15 (a) IN GENERAL.—Section 59A(b) of the Internal
16 Revenue Code of 1986 is amended to read as follows:

17 “(b) BASE EROSION MINIMUM TAX AMOUNT.—For
18 purposes of this section—

19 “(1) IN GENERAL.—The term ‘base erosion
20 minimum tax amount’ means, with respect to any
21 applicable taxpayer for any taxable year, the excess
22 (if any) of—

23 “(A) an amount equal to the base erosion
24 tax liability of the taxpayer for the taxable year,
25 over

35

1 “(B) an amount equal to the regular tax li-
2 ability (as defined in section 26(b)) of the tax-
3 payer for the taxable year, reduced (but not
4 below zero) by the excess (if any) of—

5 “(i) the credits allowed under this
6 chapter against such regular tax liability,
7 over

8 “(ii) the credit allowed under section
9 38 for the taxable year.

10 “(2) BASE EROSION TAX LIABILITY.—

11 “(A) IN GENERAL.—The term ‘base ero-
12 sion tax liability’ means the sum of—

13 “(i) 10 percent of the taxable income
14 of the taxpayer computed under this chap-
15 ter for the taxable year, plus

16 “(ii) **[X]** percent of the base erosion
17 income for the taxable year.

18 “(B) BASE EROSION INCOME.—The term
19 ‘base erosion income’ means, with respect to
20 any taxable year, the excess (if any) of—

21 “(i) the modified taxable income of
22 the taxpayer for the taxable year, over

23 “(ii) the taxable income of the tax-
24 payer computed under this chapter for the
25 taxable year.

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1 “(C) MODIFICATIONS FOR TAXABLE YEARS
2 BEGINNING AFTER 2025.—In the case of any
3 taxable year beginning after December 31,
4 2025—

5 “(i) subparagraph (A)(i) shall be ap-
6 plied by substituting ‘12.5 percent’ for ‘10
7 percent’, and

8 “(ii) subparagraph (A)(ii) shall be ap-
9 plied by substituting ‘**[X]** percent’ for
10 ‘**[X]** percent’.

11 “(D) INCREASED RATE FOR CERTAIN
12 BANKS AND SECURITIES DEALERS.—

13 “(i) IN GENERAL.—In the case of a
14 taxpayer described in clause (ii) who is an
15 applicable taxpayer for any taxable year,
16 the percentages otherwise in effect under
17 clauses (i) and (ii) of subparagraph (A)
18 shall each be increased by one percentage
19 point.

20 “(ii) TAXPAYER DESCRIBED.—A tax-
21 payer is described in this subparagraph if
22 such taxpayer is a member of an affiliated
23 group (as defined in section 1504(a)(1))
24 which includes—

37

1 “(I) a financial institution de-
2 scribed in section 582(c)(2), or

3 “(II) a securities dealer reg-
4 istered under section 15(a) of the Se-
5 curities Exchange Act of 1934.”.

6 (b) CONFORMING AMENDMENT.—Section
7 59A(e)(1)(C) of such Code is amended by striking “sub-
8 section (b)(3)(B)” and inserting “subsection
9 (b)(2)(D)(ii)”.

10 (c) EFFECTIVE DATE.—The amendments made by
11 this section shall apply to base erosion payments (as de-
12 fined in section 59A(d) of the Internal Revenue Code of
13 1986) paid or accrued in taxable years beginning after the
14 date of the enactment of this Act.

15 (d) INCORPORATING SHIELD CONCEPTS INTO
16 BEAT.—**[TO BE DETERMINED]**