



1. INTRODUCTION At a high level, the foreign-derived intangible income (FDII) deduction is an effort to incentivize U.S. corporations to use the United States, rather than foreign locations, as an export hub. With its historically high corporate tax rates, many U.S. and foreign-based multinationals used the United States to access the U.S. economy, but structured many of their cross-border activities offshore, where foreign profits could be taxed at a relatively low rate. The FDII rules begin with the corporate rate drop from 35% to 21%, which very generally incentivizes increased U.S. profit-making activities, and gains momentum by offering additional tax rate reductions for specified export activities. At its most simplistic, FDII begins with the general 21% corporate rate for U.S. corporate earnings attributable to non-export activities. Income from export activities is then divided between income deemed earned with respect to the tax.....