

# The future of US international corporate tax reform

**Kimberly Clausing**



## ACKNOWLEDGMENTS

I am grateful to Penn Wharton Budget Model staff for their work estimating this proposal, including Lysle Boller and Alexander Arnon. I received excellent research assistance from Shane Ball, and I received helpful feedback from Aviva Aron-Dine and from participants at the Hamilton Project author's conference. I am also grateful to the Hamilton Project team, including Lauren Bauer and Asha Patt, for their help with production.

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**Kimberly Clausing**

*University of California–Los Angeles, School of Law*

June 2026

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# Abstract

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In the years ahead, the U.S. Congress and the next administration will face important choices about the future of U.S. international corporate tax. Given the fiscal challenges facing the United States as well as prior progress addressing tax competition, this proposal suggests measures to strengthen U.S. corporate taxation within the structure of current U.S. law while better aligning efforts with the large potential of international collective action. Proposal components include a higher top rate for the largest (approximately 2 percent of) corporations, modifications of the corporate tax base to better target excess profits, adoption of a strong country-by-country minimum tax, and accompanying reforms to the international tax system. The 10-year revenue projections from this suite of reforms are about \$4 trillion over the 2030–39 budget window (approximately 0.9 percent of forecast GDP), and the distributional effects of the reform are very progressive.

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# Introduction

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U.S. corporate tax policy has long reckoned with a fundamental tension between two policy aims: protecting the corporate tax base from erosion and ensuring the competitiveness of U.S. multinational corporations (MNCs). This tension stems in part from a global collective action problem: While many governments may want to strengthen their taxation of multinational corporate income, the mobility of multinational corporate income and concerns about preserving competitiveness make policymakers reluctant to act. Instead, governments shift toward other tax instruments, typically burdening labor.

While international tax reform efforts have been underway for decades, the most significant development was the 2021 international tax agreement. Pillar Two of this agreement put forward a global minimum tax on multinational corporate income at a rate of 15 percent; this rate would be levied regardless of where MNCs book their income. After the European Union (EU) moved forward unanimously in late 2022 to implement Pillar Two, implementation occurred in many more countries during 2023 and 2024. Due to a backstop provision (the undertaxed profits rule, UTPR) that reaches the income of MNCs based in non-adopting countries whenever they serve adopting markets, Pillar Two was poised to reach nearly all multinational income by 2026.

However, in 2025, the Trump administration promptly rejected the international tax agreement. Furthermore, it announced myriad threats against other countries, often explicitly linking their threats to the Pillar Two minimum tax, as well as other tax policy disagreements. While the cudgels were multifaceted, Republicans in Congress went so far as to propose a “revenge tax” that would target foreign investors in the United States if their governments used certain tax instruments.

The Group of Seven (G7) countries, and eventually the entire Inclusive Framework (more than 100 governments convened by the OECD), ultimately accommodated U.S. demands. They put forth a revised agreement in early 2026 that included a “side-by-side” provision to allow special treatment for U.S.-based MNCs, effectively exempting them from the backstop provisions of the global tax deal.

In the years ahead, the U.S. Congress and the next administration will face important choices about the future of U.S. international corporate tax.

One option is to maintain the status quo. The United States would continue to “go it alone,” employing its own unique suite of three separate minimum tax regimes.<sup>1</sup> Under this approach, U.S. corporate tax revenues, already among the lowest in the world as a share of GDP, would remain low, and U.S. MNCs would face a bewildering array of minimum taxes both at home and abroad. While U.S. firms might gain some competitive advantage from their special treatment under Pillar Two, that advantage might prove illusory if U.S. non-participation ultimately undermines the global agreement, reigniting intense tax competition pressures on corporate rates.

A second option would be to adopt major, novel reforms to U.S. international corporate taxation without working collaboratively with other countries. Recent proposals to pursue a destination-based cash flow tax (DBCFT) fall under that umbrella (see for example Gale, Looney, and Patel 2026). Unilateral adoption of formula apportionment would be another example. While these reforms have merits, there are dangers to pursuing them quickly and without coordination.

Instead, I propose an approach that would strengthen U.S. corporate taxation within the structure of current U.S. law while taking advantage of the large potential of international collective action. This proposal has several components:

## Corporate tax rate and base

The corporate tax rate would be raised to 27 percent for corporations with more than \$5 million in income. This rate change would affect approximately 2 percent of those corporations with positive income and approximately 96 percent of the tax base. The rate would remain at 21 percent for more than 98 percent of corporate taxpayers.<sup>2</sup>

An additional surtax of 10 percent of tax liability (resulting in an effective corporate rate of 29.7 percent) would apply for corporations with more than \$50 million in income, fewer than one-half of 1 percent of positive profit corporations and approximately 89 percent of the corporate base.

The higher rate would be accompanied by a broader corporate tax base that moved the corporate tax base closer to a tax on pure profits.

## Minimum tax on foreign income

To support a higher domestic rate, the United States would institute a reformed country-by-country minimum tax on the foreign income of U.S. MNCs at a 15 percent deduction relative to the domestic rate (resulting in tax rates of either approximately 23 percent or 25 percent on nearly all foreign income). This would replace the current U.S. minimum tax regime.

The United States would also institute a UTPR, adopting the backstop provision of the Pillar Two tax. The present export subsidy provision (foreign-derived deduction eligible income [FDDEI]) would be repealed. Other U.S. minimum taxes (BEAT and CAMT) would be “turned off” for many taxpayers, as they would no longer be necessary.

## Improvements to Pillar Two

After enacting these reforms, the United States would partner with other governments in another round of international negotiations on international tax, with the aim of strengthening and simplifying international collective action around tax competition.

Given the fiscal challenges facing the United States as well as the progress already made abroad, this path would present the best hope of meeting three important challenges facing U.S. policymakers.

First, the U.S. fiscal situation requires far more revenue, and the coming challenges of AI alongside existing distributional inequities make capital income, and particularly excess profits, an important tax base. At present, capital income and excess profits are lightly taxed by the U.S. government.

Second, in a time of strained international relations, designing reforms to be mutually advantageous and resilient is particularly pressing. International taxation is a global collective action problem, and the most effective approach is to work in alignment with other countries. Of course, every country will have its own objectives regarding the ideal corporate tax rate and base. But implementing minimum standards, and working to strengthen them in the years ahead, will serve the fiscal needs of nearly all jurisdictions. It also serves the needs of the global business community to have a more stable and aligned approach.

Third, the international corporate tax reform proposal offers a response to public concerns about offshoring. Offshoring is a real source of discontent, and international tax reform can meet the moment by reducing the tilt in the playing field that favors foreign income while making the tax system more efficient and progressive. In contrast, the Trump administration’s tariff policies have vilified trading partners; created regressive tax burdens; introduced new inefficiencies and distortions; harmed U.S. manufacturing, production, and growth more broadly; fueled corruption; and weakened the United States’ place in the world (Clausen and Obstfeld 2026).

# The challenge

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This section considers U.S. corporate tax policy objectives, the status quo abroad, and the strengths and weaknesses of the current U.S. international corporate tax regime within that context.

## How does the corporate tax serve US tax policy objectives?

### Revenue: The corporate tax addresses critical revenue needs

While U.S. fiscal imbalances are presently sustainable, they still expose concerning long-term weaknesses. The Congressional Budget Office (CBO) forecasts that deficits will be about 6 percent of GDP over the coming budget window, with debt-to-GDP ratios climbing from 100 percent to about 120 percent by 2036 (CBO 2026). It is also likely that the fiscal outlook will deteriorate further. For example, the CBO forecasts assume that growth is nearly constant over the coming decade at rates similar to today's growth rate; however, a recession, pandemic, war, or other calamity could worsen this outlook.<sup>3</sup> CBO also assumes that temporary tax cuts under the recent 2025 tax legislation (One Big Beautiful Bill Act, OBBBA) will not be extended, while deferred spending cuts will occur.<sup>4</sup>

Such budget imbalances have real consequences for American households. Large fiscal deficits raise interest rates, generating higher payments on mortgages, small business loans, and consumer debt. Fiscal imbalances redistribute resources across generations, harming taxpayers in the future relative to those of the past. Fiscal imbalances also directly contribute to trade imbalances since shortfalls in national savings relative to investment must be met by higher capital inflows from abroad, the mirror image of the trade deficit. Higher trade balances in turn risk unwise policy responses: The Trump administration's 2025 tariffs were justified by the notion that U.S. imbalances reflect "unfair" trade.<sup>5</sup> Perhaps most important, fiscal imbalances reduce U.S. fiscal space when the next calamity hits, risking tepid policy responses to economic downturns. While a crisis may be unlikely at any particular moment, any crisis comes with large, damaging

consequences, augmenting the case for prudential fiscal policy.

Within this context, the corporate tax has an important role to play. Labor income is subject to both payroll and income taxes and has high tax compliance rates due to third-party reporting. Capital income, including income from excess profits, is often lightly taxed in the United States and has lower compliance. Further, entity-level taxation is the only way to reach the vast majority of U.S. equity income, as more than 70 percent of U.S. equity income is not taxed at the individual level by the U.S. government since it is held in untaxable accounts (such as retirement and pension accounts), by nontaxable entities (such as endowments), or by foreigners (Rosenthal and Burke 2020).

Even income on equities held in taxable accounts benefits from large tax advantages, including deferral of taxation until realization and the possibility of step-up in basis at death, which completely forgives capital gains tax liabilities. Undoing these tax preferences would be exceedingly politically difficult, and constitutional objections could be raised against many proposals that would reach unrealized gains at the individual level. In contrast, the corporate tax was recognized as constitutional even before the income tax passed constitutional muster (with ratification of the 16th Amendment in 1913).

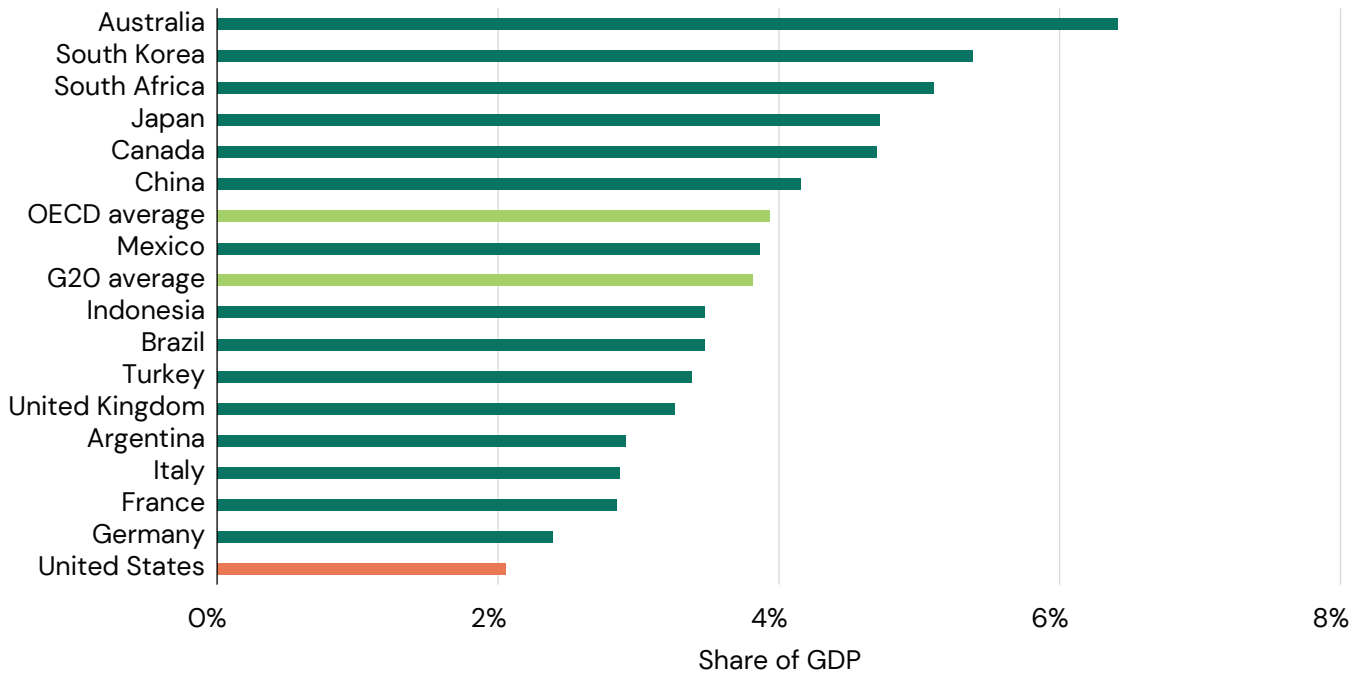
Not only is the corporate tax a key tool for reaching most capital income, but it also acts as a backstop for the labor income tax, since high-income workers have some discretion in the form their income takes, and the corporate form can provide sheltering opportunities if the corporate tax rate is too low.

At present, U.S. corporate tax revenues are very low when compared to that in other major countries (see figure 1). These low revenues can be explained in part by the importance of pass-through business income in the United States, and pass-through business income is also ripe for reform (an issue tackled by Johnson et al. 2026).<sup>6</sup> Still, profits of U.S. C-corporations are high relative to either historical benchmarks or those in comparable nations (CBO 2023). See also figure 5, which considers U.S. C-corporations in the global context.

While even a modest corporate tax increase can have large revenue implications, the corporate tax

FIGURE 1

## Corporate tax revenue as a share of GDP, United States and select countries, 2022



Source: OECD Corporate Tax Statistics 2025.



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changes suggested here could easily raise about \$4 trillion, or 0.86 percent of GDP, over the budget window 2030–39. (Converting to a contemporaneous budget window, 2026–35, the revenue total would be about \$3.46 trillion.) It is important that any corporate tax increase be accompanied by a robust international tax regime, or MNCs will simply shift income out of the United States in response to higher rates.

### Progressivity: The corporate tax is an important part of tax progressivity

Major estimators (Budget Lab 2025; CBO 2012; Joint Committee on Taxation [JCT] 2013; Penn Wharton Budget Model (described below); Tax Policy Center 2024; U.S. Department of the Treasury [see, e.g., Cronin et al. 2013]) have long assigned the majority of the corporate tax burden to capital holders or shareholders, rather than labor, indicating that the corporate tax is relatively progressive. Recent reforms have made the tax even more progressive by concentrating more of the burden on supernormal capital income (excess profits or rents), as discussed further below.

Capital income is far more concentrated than labor income. For example, the top 1 percent of the income distribution holds 52 percent of positive capital

income and 61 percent of supernormal capital income, far higher shares than their 12 percent share of labor income. In contrast, the bottom half of the population earns 14 percent of all labor income but only 2.5 percent of positive capital income and 2.4 percent of supernormal capital income (U.S. Department of the Treasury 2024).

The corporate tax is a key tool for building a more progressive tax system. While labor income is already taxed in a highly progressive manner in the U.S. tax system, capital income is often untaxed or lightly taxed at the individual level, and taxation at the entity level for C-corporations occurs at a statutory rate (21 percent) that is about half the top personal labor income tax rate (40.8 percent, including Medicare taxes). Further, the effective tax rate on corporate income is far lower than that due to myriad provisions that narrow the corporate tax base as well as the ability of the largest companies to shift income offshore, lowering their tax rate even further. For example, recent analyses of the effective tax rates of large U.S. companies found rates of 14 percent (for 342 companies over 2018–22; see Gardner, Wamhoff, and Marasini 2024) and even lower (Government Accountability Office 2022); rates have lately dropped further in the wake of OBBBA corporate tax cuts, discussed below.

A more robust system of capital income taxation is also key to meeting coming technological disruptions (and would have also been useful for prior disruptions). The widely discussed AI revolution may shrink labor income in the economy relative to capital income, though there are differences of opinion regarding the pace and pattern of such a disruption. Still, having tools in place to properly tax capital income is a key part of ensuring that the benefits of such innovations are broadly shared.<sup>7</sup>

## Efficiency: The corporate tax can be an efficient tax policy tool

The current U.S. corporate tax base, which exempts or subsidizes the normal return to many investments, has a large overlap with a tax on supernormal capital income (also called rents; see Beer et al. 2020; Fox 2020; González, Hansen, and Mooney 2026; Power and Frerick 2016). Recent corporate tax changes following the 2025 tax legislation increase that overlap by increasing the use of expensing.<sup>8</sup> As described in more detail in Clausing (2024a), these considerations imply that the corporate tax may be a relatively efficient tax, since taxes on pure profits (rents) don't affect firm decisions regarding employment, investment, or output. That said, the domestic corporate tax base could still be better designed to capture rents, as suggested by Furman (2020). This would simply entail full expensing of all investment alongside the removal of interest deductibility.

The corporate tax also has a regulatory function, as emphasized by Avi-Yonah (2020). Only in the presence of positive corporate tax burdens can Pigouvian taxes on corporations have their full effectiveness. For example, "good" activities (such as rare drug research or clean energy innovation) can be encouraged through tax credits, and "bad" activities (such as market power) can also be addressed, at least in part, through the tax system.

As argued in Clausing (2024a), to address market concentration, the corporate tax could include a graduated feature such that firms with higher (excess) profits automatically face a higher rate. Indeed, the corporate tax base is very concentrated, so the revenue consequences of any reform mostly come from taxing fewer than 1 percent of corporations. That suggests useful dials for policymakers that either want to tax the biggest profits at higher rates or those that want to hold the vast majority of corporate taxpayers harmless.

## Why international tax reform is central to corporate tax reform

## Offshoring and profit-shifting incentives

Both before and after the Tax Cuts and Jobs Act (TCJA) of 2017, the U.S. international corporate tax system has featured a large distortion in favor of foreign income relative to U.S. income. Prior to 2018, income earned in low-tax countries did not incur U.S. tax until repatriation to the United States, and companies could simply leave funds offshore and achieve the equivalent of a tax-free repatriation by borrowing against them.<sup>9</sup> As a result, U.S. MNCs accumulated huge stocks of earnings in the lowest-tax rate jurisdictions.

The TCJA ended the repatriation distortion by moving to a system that exempted *some* foreign income from U.S. taxation, while taxing other income as it was earned, at rates roughly half the domestic rate.<sup>10</sup> However, the TCJA implemented a "globally averaged" minimum tax that maintained a strong preference for foreign income over domestic income. This preference arose not only from the low minimum tax rate but also from the structure of the minimum tax. Because of global averaging, even high-tax foreign income came with the advantage of offsetting tax due on low-tax foreign income, whereas domestic income had no such advantage (Clausing 2020a).<sup>11</sup> (See box 1.)

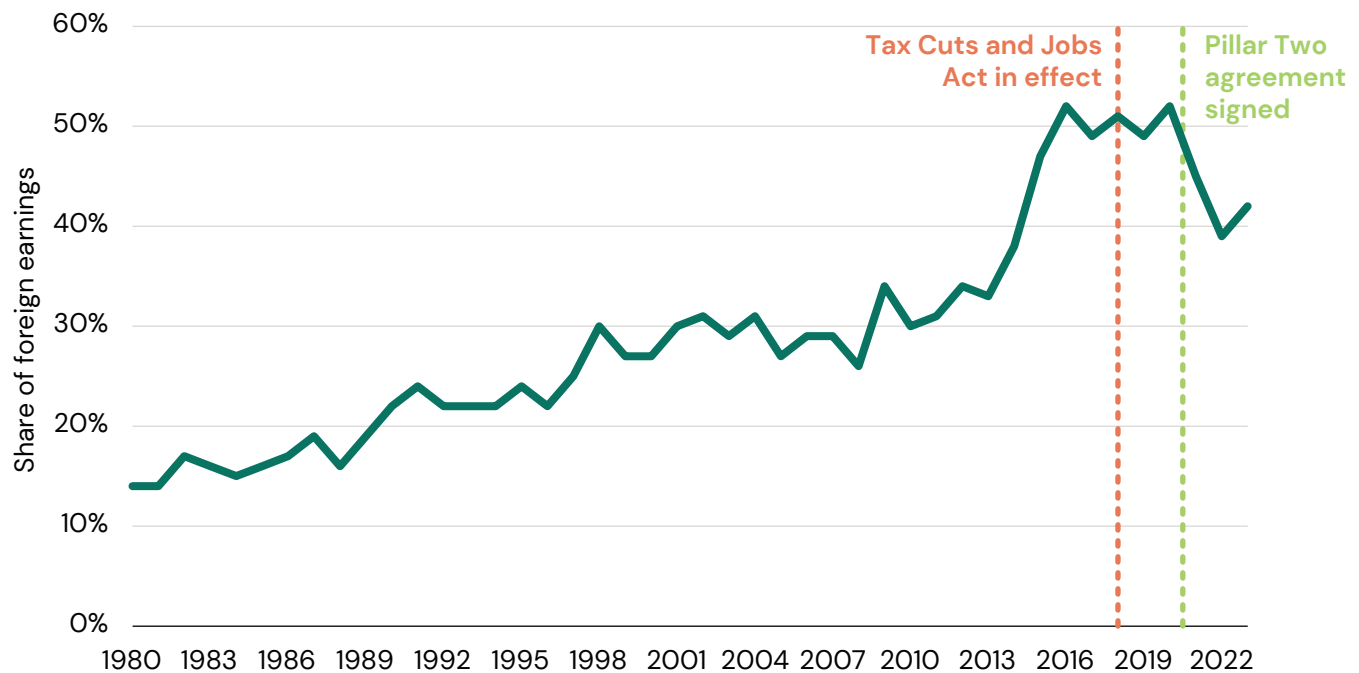
Further, under the TCJA, foreign income was only taxed if it exceeded a 10 percent return on tangible business assets, providing a net incentive to increase tangible assets offshore. The 2025 tax legislation (OBBBA) eliminated the 10 percent return threshold, but it also provided a net tax cut on foreign income. The revenue cost of the international provisions totaled more than \$160 billion over the budget window according to JCT (2025) and more than \$275 billion according to Penn Wharton Budget Model (2025).<sup>12</sup>

In the early years after the TCJA, evidence indicated that there was little change in the share of income booked in low-tax countries (see figure 2), perhaps unsurprising given that aspects of the TCJA legislation heightened profit-shifting incentives even though other aspects reduced such incentives. In turn, revenue raised on the foreign income of U.S. MNCs appeared relatively flat, and the TCJA international provisions actually lost revenue once the TCJA's export subsidy provision (the FDII, now FDDEI since OBBBA) was accounted for (Arnon 2023; Boller, Luo, and Sun 2024).

A few years after the TCJA, however, there were signs of reduced profit-shifting activity, particularly in 2022 and 2023. While it is difficult to conclusively pinpoint the influence of various factors, the Pillar Two international tax agreement was a key factor changing the international tax environment at that time, as companies witnessed a commitment by countries representing nearly all of world GDP to tax multinational income at a 15 percent minimum rate in late 2021, with actual implementation steps following in the years thereafter.

FIGURE 2

## Share of US MNC foreign earnings in eight low-tax jurisdictions



Source: U.S. Bureau of Economic Analysis, as reported in Wright and Zucman (2018) and updates.

Note: The eight jurisdictions include Bermuda, Cayman Islands, Ireland, Luxembourg, the Netherlands, Puerto Rico, Singapore, and Switzerland.



As of 2023 (figure 2), the share of U.S. MNC income in eight important low-tax rate jurisdictions is still high, at over 40 percent. Considering the richer detail provided by IRS country-by-country data, there is further evidence of the profit-shifting problem in the latest data available (2023). About 54 percent of all U.S. MNC foreign income is earned in the jurisdictions noted in figure 2 as well as those where the country-by-country data indicate effective tax rates below 15 percent.<sup>13</sup>

Figure 3 shows the top 20 jurisdictions for U.S. MNC profits in 2023, based on the corporations reporting positive profits in the country-by-country data. These data make clear that the location of foreign profits is sensitive to tax factors. For example, there are more U.S. MNC profits in Singapore, a country of about 6 million people and about \$500 billion GDP, than there are in the Asian economic powerhouses of China, India, Japan, and Korea combined; those four countries account for 3 billion people and about \$28 trillion in GDP, more than 50-fold the size of Singapore’s economy. Likewise, Switzerland, with about 9 million people and about \$900 billion GDP, shows more than three-quarters of U.S. MNC profits booked in the combined European powerhouses of Germany, the United Kingdom, France, Italy, and Spain, which together account

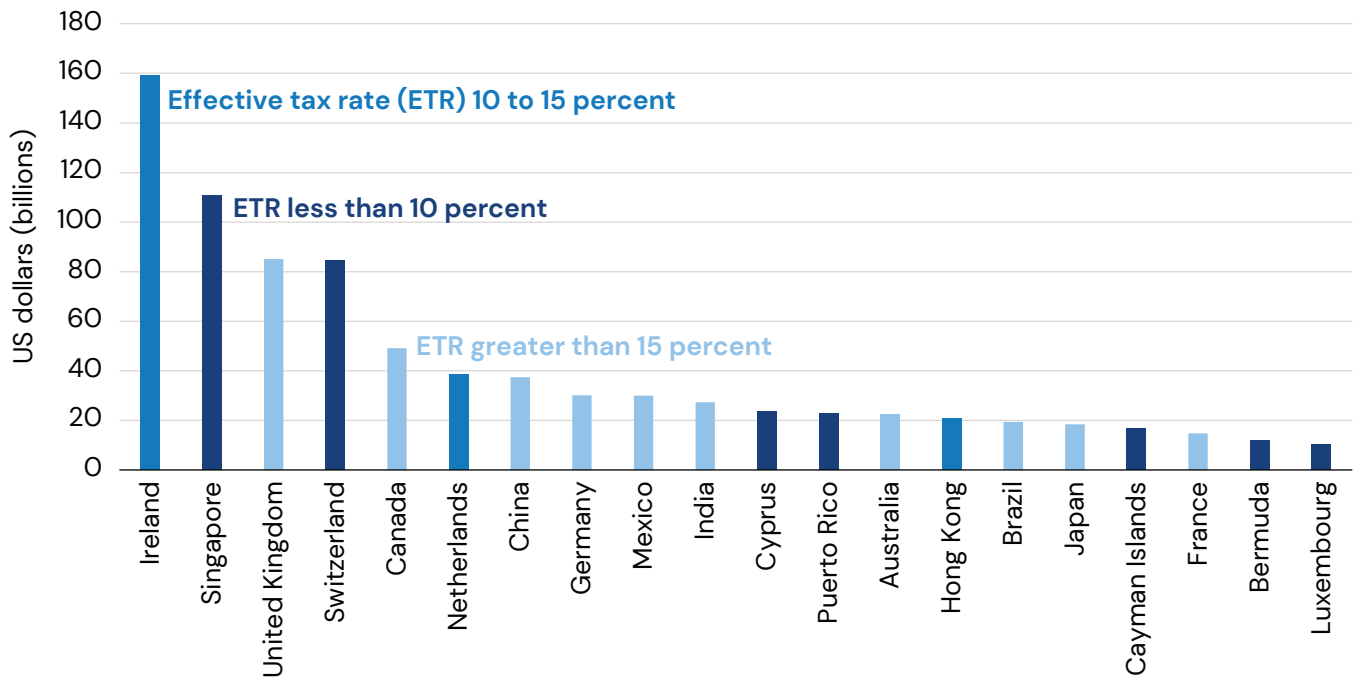
for about 325 million people and about \$15 trillion in GDP.<sup>14</sup>

Table 1 shows that U.S. MNC profits are systematically higher in low-tax jurisdictions than in other jurisdictions. For the biggest 20 profit countries, which account for 85 percent of foreign profits for U.S. MNCs, low-tax jurisdictions (defined as those below 15 percent) have more than 150 percent more profits than other jurisdictions, yet their populations total just 2 percent of the other group’s population total. Additionally, their GDP (which itself may be distorted by profit shifting) is a mere 12.5 percent of the other group’s GDP.

Profits per employee also vary starkly across countries, often in ways that correlate with tax treatment. In these data, there are three types of affiliate countries: low-activity, low-tax jurisdictions (Bahamas, Barbados, Bermuda, British Virgin Islands, Cayman Islands, Cyprus, Gibraltar, Jersey, Luxembourg, Malta), high-activity, low-tax jurisdictions (Hong Kong, Ireland, Malaysia, the Netherlands, Puerto Rico, Singapore, Switzerland), and higher-tax jurisdictions. While the worldwide average profit per employee is \$37,000, it is \$357,000 for the typical high-activity, low-tax jurisdiction and an astonishing \$8 million for the typical low-activity, low-tax jurisdiction.

FIGURE 3

Top 20 foreign profit locations for US MNCs, 2023



Source: International Revenue Service 2023.

Note: Data are from the IRS country by country file for 2023, the most recent data available. Data are reported with both tax rates and profits calculated using the positive profit sample.



TABLE 1

Ratios of outcomes in low-tax jurisdictions to other jurisdictions

	Profit (USD, b.)	ETR (positive sample)	Population (billions)	GDP (USD, b.)
Low-tax jurisdictions	423	8.6%	0.09	5,600
Other jurisdictions	277	25.4%	3.6	45,100
Ratio low/other	153%		2.4%	12.5%

Source: International Revenue Service 2023.

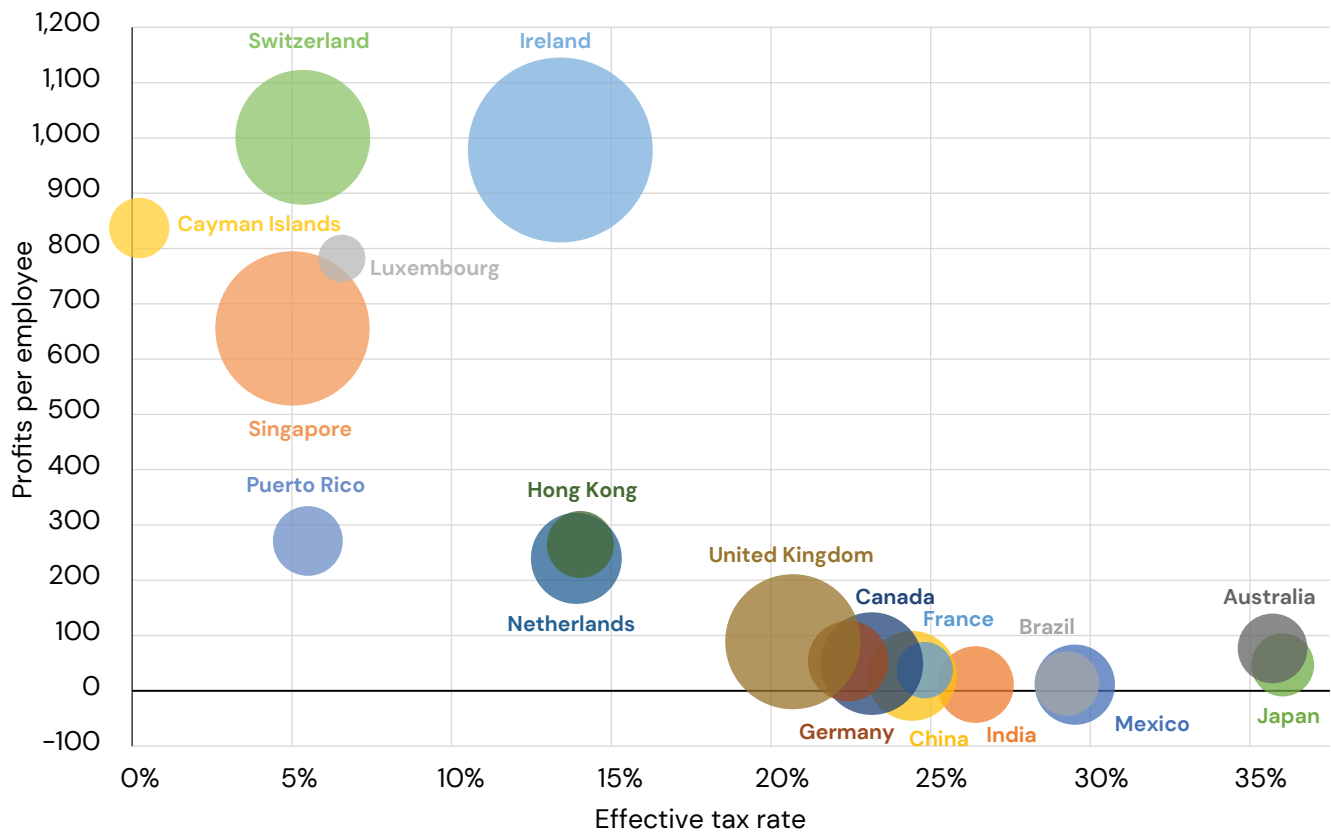
Note: Data are from the IRS country-by-country file for 2023, the most recent data available. Data are reported with tax rates and calculated using the positive profit sample and overall profits using the full sample (thus including firms with losses).



A large body of empirical evidence documents these large tax distortions, indicating the importance of profit-shifting behavior.<sup>15</sup> Figure 4 shows the relationship between profits per employee and the effective tax rate of the jurisdiction for the 20 most important hosts of U.S. multinational affiliates sized by total profits. (Bermuda and Cyprus—two low-tax, low-activity jurisdictions—are not shown since their profit-to-employment ratio is too high to be depicted on these axes.) There is a clear negative relationship between profits per employee and the effective tax rate: The higher the tax rate, the lower the profit per employee.

While the most recent country-by-country data are from 2023, recent firm disclosures mandated by the Financial Accounting Standards Board detail the continued tax avoidance behavior of U.S. MNCs. For example, Georges and Milin (2026) analyze about 40 companies’ 2025 tax disclosures, finding a collective reduction in U.S. tax liability of \$11.5 billion from the use of haven affiliates. Although not all disclosures have been released yet, including those of prominent tech firms, pharmaceutical companies play a disproportionate role in these data. Ten pharma and biotech

**FIGURE 4**  
**Profits per employee for US MNCs, 2023**



Source: International Revenue Service 2023.

Note: Data are from the IRS country-by-country file for 2023, the most recent data available. Data are reported with both tax rates and profits calculated using the positive profit sample, showing only the top 20 jurisdictions. The size of the bubble indicates the amount of the profits in each jurisdiction. Bermuda and Cyprus are not shown on these axes due to their very high profits/employee ratios of \$12.8 million and \$12.5 million, respectively; these jurisdictions both have effective tax rates below 2 percent.



companies account for more haven tax savings than the other 30 companies combined.<sup>16</sup>

At present, the clear tilt in the tax playing field in favor of foreign income has real consequences for both the U.S. tax base and economic activity. While President Donald Trump’s embrace of tariffs is one attempt to change the international rules of the game in a manner that favors U.S. domestic activity, the tariffs are so distortionary that they are in truth acting as a hindrance to U.S. economic activity instead (Clausing 2025b; Clausing and Obstfeld 2026). In contrast, international tax reform seeks to create a more level playing field, not a more distortionary one.

### Efforts to stem corporate tax base erosion and tax competition abroad

As of early 2026, 49 countries had adopted the Pillar Two minimum tax of the international tax agreement, and implementation was in progress in many others.<sup>17</sup>

A wide array of governments have adopted it, including most of the EU countries, Japan, South Korea, the United Kingdom, Indonesia, Thailand, Canada, Australia, Malaysia, South Africa, Switzerland, Türkiye, and several jurisdictions that previously offered very light tax treatment, including Singapore and Switzerland. Further, because of the agreement’s structure, by the end of 2025, the minimum tax was poised to cover over 90 percent of multinational income through either adoption or backstop provisions (Bradbury and O’Reilly 2025).<sup>18</sup>

The agreement behind the transformative Pillar Two tax came earlier, in 2021, when more than 135 countries representing about 95 percent of world GDP agreed on a two-pillar solution. Prior to that, countries struggled to achieve meaningful international tax reform. For example, after years of preparatory work, a number of base erosion and profit-shifting reform guidelines were put forward in 2015. These efforts achieved incremental improvements in addressing

some tax abuses and improved measurement and data collection, but they left the problem largely intact.

As discussed in more detail in Clausing (2026), the 2021 international tax agreement was a huge achievement, building on decades of work that documented the twin problems of corporate tax base erosion and tax competition. The agreement acknowledged that longstanding international tax principles were ill-suited to the business practices of large multinational enterprises in a global economy, so a more holistic solution was needed.

At the root of the problem lies the arm's length standard alongside the taxation of affiliated corporations as if they were truly separate entities.<sup>19</sup> MNCs are meant to price their intrafirm transactions among affiliated entities as if they were occurring at "arm's length" with unaffiliated businesses. This ideal ignores the fact that an MNC, by its very existence, can be expected to earn greater profits than unaffiliated companies operating independently. Further, the global nature of modern markets, alongside the intangible nature of much economic value, makes it nearly impossible to pinpoint where profit truly arises. These ambiguities, combined with a lax regulatory and legal environment, give MNCs discretion about the location of their profits. Many MNCs' tax departments became "profit centers."

Governments responded to fears of tax base mobility, especially the mobility of jobs and investment, by lowering corporate tax rates.<sup>20</sup> At the same time, MNCs moved profits across jurisdictional boundaries, often without moving proportionate economic activity, so profits reached absurdly large shares of the economy in many low-tax jurisdictions, as well-documented in OECD analysis (Hugger et al. 2024). Thus, in recent years, historically high corporate profits generated only flat or decreasing corporate tax revenues for governments. Further, the choice of lower tax rates did not stem the problem, as most profit shifting was destined for a tiny number of jurisdictions with rock-bottom tax rates.

### *What is Pillar Two?*

The Pillar Two minimum tax was designed to tackle these tax competition and base erosion problems. In brief, it includes three main rules that operate in tandem to tax all multinational corporate income at 15 percent (or more) regardless of where it is booked. First, the source jurisdiction where the affiliate operates has an opportunity to tax, and source countries can implement a "qualified domestic minimum top-up tax" if they want to match the Pillar Two tax base. Second, there is a coordinated income inclusion rule whereby the residence (typically, headquarters) jurisdiction tops up the tax burden to 15 percent if the income is not already taxed at that rate at the

source. These two rules together reduce tax competition pressures between home and host jurisdictions, but they do not address competition from companies based in non-adopting countries. Thus, a third rule, or "fiscal fail-safe" (Mason 2022), comes into play. The under-taxed profits rule, or UTPR, levies a minimum tax on multinational group affiliates that are not subject to a top-up tax under an income inclusion rule as long as they serve adopting country markets.

The UTPR means that a minimum tax will still be paid by companies that are resident in hold-out jurisdictions (and their foreign subsidiaries) if they serve adopting country markets. Since MNCs from non-adopting countries will still have to pay a minimum tax, this creates a strong incentive for hold-out governments to adopt minimum taxes to collect the revenue themselves.<sup>21</sup>

These rules operate on a country-by-country basis. This feature makes it pointless for haven jurisdictions to undermine the system by offering rock-bottom rates or favorable regimes to foreign affiliates, since their tax advantages will simply be negated by another jurisdiction that tops up tax burdens to 15 percent.

That said, some tax competition persists under the agreement. While the 15 percent floor is higher than preexisting rates in tax haven countries, it still lies below the corporate tax rates many countries might choose absent tax competition pressures. Further, the Pillar Two rules allow tax competition in other forms, as governments may use other tax instruments, including refundable tax credits, to lower company tax burdens. Governments are also allowed to use a "substance-based income exclusion" to further reduce tax rates on the income derived from a given rate of return on assets or payroll, perhaps incentivizing economic substance in low-tax jurisdictions (see, e.g., Perry 2022).

Still, the global minimum tax is expected to reduce the twin pressures of profit shifting and tax competition. Indeed, OECD analysis indicates that nearly all country groups would receive net increases in corporate tax revenue from the Pillar Two tax regime, with only the "investment hubs" (very low-tax jurisdictions) losing tax base. The amount of profits shifted abroad was expected to fall by roughly half due to the global minimum tax (Hugger et al. 2024).

### *What happened since 2025?*

On day one of the Trump administration, President Trump issued a memorandum declaring that the U.S. commitments under the Pillar Two agreement have no "force or effect" in the United States unless formally adopted by Congress (White House 2025b). Still, the key substance of that declaration was already true. Congress has the sole authority to tax, and legislation would be required to better align the U.S. tax system with the international agreement. This was something

the Biden administration failed to achieve despite its active role in negotiating the international tax agreement in 2021 and the fact that Democrats controlled both Congress and the White House in 2021 and 2022.

More significant than the memorandum was the stance of the Trump administration in the months that followed, including a series of retaliatory threats should Pillar Two taxes—or other taxes deemed problematic, such as digital sales taxes (DSTs)—reach U.S. MNCs.

Such retaliatory threats took many forms, including tariff escalation, a possible “revenge tax,” and reduced cooperation in other areas. The revenge tax (Section 899) was included as a proposal in the 2025 tax and budget process. Under the proposal, foreign investors would face a high and escalating tax rate on their U.S. investments if certain tax instruments (including DSTs and UTPRs) were used by their home governments. While the revenge tax was not ultimately enacted, such a tax—similar to tariffs—risked substantial harm to the U.S. economy, in this case due to adverse effects on inward foreign investments.<sup>22</sup>

Still, these threats were effective. As of 2025, the Pillar Two agreement was already implemented in more than 40 jurisdictions, most of which also implemented the UTPR.<sup>23</sup> Because the UTPR acts as a backstop, the agreement was poised to cover nearly all U.S. multinational income, since important U.S. MNCs typically have affiliates in several of the adopting jurisdictions. Thus, the UTPR would have topped up U.S. tax burdens on a country-by-country basis.

However, the U.S. government insisted on an exception for U.S. MNCs from Pillar Two, whereby the United States would qualify as having a compliant regime under a “side-by-side” arrangement. This had the effect of turning off the UTPR for U.S. MNCs. Other countries ultimately accepted the side-by-side arrangement even though the U.S. tax system is weaker than the Pillar Two system in key respects. Perhaps most importantly, the U.S. minimum tax system is based on *global averaging* (see box 1).

This preserves a rationale for havens to stay out of the regime, particularly if they primarily host U.S. MNC affiliates, since the low taxes paid by U.S. MNCs will not be “topped up.”

This exception also gives U.S. MNCs an important competitive advantage. Like master distillers, U.S. MNCs can blend income from zero- or low-tax jurisdictions with income streams from higher-tax jurisdictions, converting the minimum tax to a “maximum” tax. As Clausing (2020a) shows, a country-by-country minimum tax is therefore (all else equal) a far stronger minimum tax.

By the summer of 2025, the six non-U.S. members of the G7 acquiesced to pursuing a side-by-side agreement. After wider negotiations and technical work, in early 2026 the OECD announced that the broader group of signatories to the agreement would

support the side-by-side system, alongside other changes that expand safe harbors and the ability of governments to use nonrefundable tax credits without triggering minimum tax liabilities (OECD 2026a).<sup>24</sup>

These agreements are widely recognized as both watering down the agreement (Saint-Amans 2026; Soong 2026) and providing U.S. MNCs with an unfair advantage. As the latter becomes more apparent, other countries may choose to weaken their own regimes and/or to move into the alternative side-by-side regime—an option open to other governments even though the United States is presently the only tax system qualifying for side-by-side treatment.<sup>25</sup> More generally, the complexity of the international tax rules provides ample opportunities for new types of tax-minimizing behavior, with or without the complicity of tax authorities, as the new rules are implemented and developed.

How foreign governments respond to these developments remains to be seen. At present, many governments are more focused on addressing other bilateral concerns with the United States around tariffs, security, and other areas. Other attempts to reform multinational taxation through international cooperation, for example, at the United Nations, will have difficulty achieving wide buy-in without U.S. participation. And other unilateral tax instruments that might reach U.S. MNCs, such as the DSTs that Pillar One reforms were meant to address, also present conflicts with the Trump administration. (These issues are discussed below in the “Questions and concerns” section.)

In the end, the international tax agreement has survived, albeit in a weakened form. However, both tax competition pressures and corporate tax base erosion possibilities expanded with the side-by-side agreement. Still, the large number of countries that have fully adopted the Pillar Two system, as well as the promising backstop of the UTPR, provide one path forward in the years ahead. The Pillar Two agreement is a good starting point for strengthening international tax cooperation, as I suggest below.

## What is the current status quo in the United States?

The present U.S. corporate tax environment is characterized by three key features: a corporate tax base that is eroding due to recent U.S. legislative and regulatory developments, a broad array of complex international provisions that are at odds with international collective action efforts, and new challenges that have emerged from the U.S. economic policy stance, including the widespread use of tariffs.

**BOX 1**

## Country-by-country minimum taxes are more effective in reducing both profit shifting and tax competition pressures

The Pillar Two minimum tax regime is designed to ensure that an MNC’s earnings from each jurisdiction are taxed at a rate of at least 15 percent. In contrast, the U.S. minimum tax (previously GILTI, now NCTI) levies a minimum tax (at a lower rate) on the combined foreign earnings of U.S. MNCs, allowing global averaging. (The CAMT also has this feature.)

Table 2 illustrates this distinction in a highly stylized example comparing a 15 percent minimum tax with global averaging versus a 15 percent country-by-country minimum tax. Consider a U.S. MNC that operates in only countries A and B, where country A levies tax at a 28 percent and country B is a haven with no taxes. Under a globally averaged minimum tax, this firm would owe no U.S. tax on its foreign income.

Moreover, both country A and country B would be tax-preferred relative to U.S. income that is taxed at a 21 percent corporate rate. Country B has a low-tax rate, but no NCTI tax is due since tax credits from country A tax offset NCTI tax liability.

Country A has a higher tax rate than the United States, but income earned in country A erases minimum tax due on country B’s income, a substantial advantage compared to income earned in the United States.

In contrast, under a country-by-country minimum tax like Pillar Two, country B’s income is topped up to the minimum rate, and country A’s income comes with no extra tax advantages. The result is that an MNC has no reason to prefer income in country A for tax reasons and a reduced incentive to shift investment or profits to country B.

Of note, in the presence of a minimum tax with global averaging, country B still has an incentive to engage in tax competition, since its low rate will still draw multinational investment and profit shifting. Whereas under a widely adopted country-by-country minimum tax regime, there is no reason for any jurisdiction to undercut the minimum tax rate, since other countries will top up their low-tax liabilities. Thus, tax competition pressures are substantially lessened.

**TABLE 2**  
**Minimum tax example**

	Country A	Country B	Worldwide
<b>15% minimum tax with global averaging</b>			
Foreign tax rate	28%	0%	14%
Income earned	100	100	200
Foreign tax paid	28	0	28
Top-up tax	0	0	0
<b>15% country-by-country minimum tax</b>			
Foreign tax rate	28%	0%	14%
Income earned	100	100	200
Foreign tax paid	28	0	28
Top-up tax	0	15	15

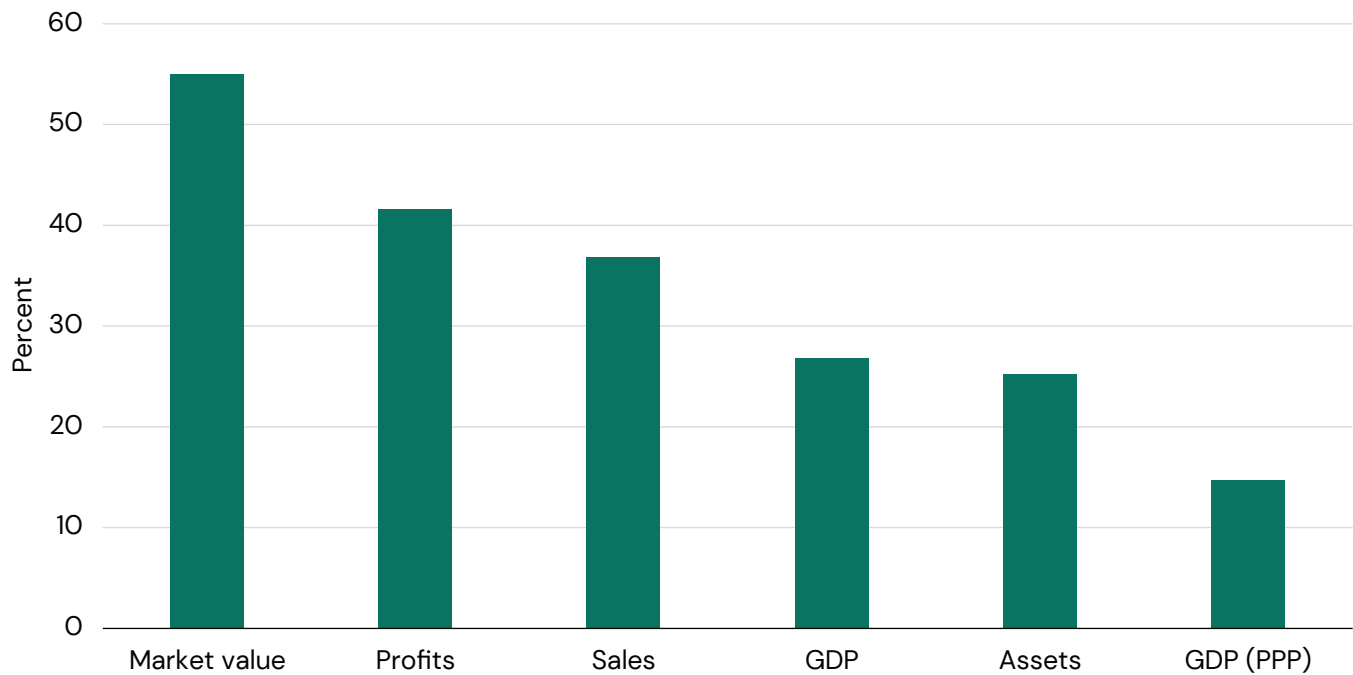
Source: Author’s calculations (Clausing 2026).



**BROOKINGS**

FIGURE 5

## US corporate share of Forbes Global 200 metrics (and GDP)



Source: Murphy and Schifrin 2025; International Monetary Fund 2025; author's calculations.

Note: Firm data are from the Forbes Global 2000 list (see Murphy and Schifrin 2025).

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### Low US corporate revenues will be further eroded

As of 2024, the United States received comparatively little corporate tax revenue as a share of GDP (figure 1 above) when compared to peer nations despite having the world's most profitable and competitive corporate sector. For example, figure 5 shows Forbes Global 2000 data that indicate that U.S. corporations account for more than 40 percent of the total worldwide profits of the top 2,000 public corporations (Forbes 2025).<sup>26</sup>

Developments in 2025 further weakened U.S. corporate tax revenues from this low starting point. Legislative changes in OBBBA included several important new tax cuts favoring investment expensing (including some extensions to structures), research and development, interest deductibility, and foreign income. Consequently, as of the February Treasury data, corporate tax revenues dropped nearly 25 percent in the wake of OBBBA, as corporations wrote off additional expenses due to favorable changes from OBBBA (U.S. Department of the Treasury 2026).<sup>27</sup> Indeed, even more than before OBBBA, debt-financed U.S. corporate investment is subsidized through the U.S. tax system due to the combination of full expensing for many investments and less limited interest deductibility.

All told, the OBBBA corporate tax cuts are estimated by the JCT to cost more than \$900 billion.<sup>28</sup>

Corporate tax relative to GDP is expected to be only about 1.3 percent over the coming decade (CBO 2026), a share far lower than that of peer nations, where corporate tax revenues averaged about 3.8 percent for G20/OECD countries (figure 1) in the most recent data (2022).

### US MNCs are subject to a broad array of sui generis complex tax regimes that do not align well with international tax rules

The U.S. multinational corporate community is likely pleased with the side-by-side agreement and their exemption from the reach of the UTPR. That said, they will still need to file some informational returns for the Pillar Two regime in 2024 and 2025, and perhaps beyond, and they remain within the reach of countries' qualified domestic minimum top-up (QDMTT) taxes (Sheppard 2026). In addition, U.S. MNCs face a byzantine host of international tax rules at home, including the former GILTI (now NCTI), the BEAT, the CAMT, and the Subpart F rules.<sup>29</sup>

At the same time, governments abroad may not be satisfied by the present international tax environment and may seek to tax U.S. MNCs through other instruments, including DSTs. Further, if concerns about competitiveness further erode the strength of Pillar Two

abroad, any U.S. MNC advantage could prove short-lived in the face of relentless tax competition pressures.

## US MNCs face other economic policy challenges

The U.S. MNC community has benefited from the improved tax stability created by OBBBA. Several tax provisions were made permanent on favorable terms, including those affecting expensing, research and development, interest deductibility, and the treatment of foreign income.

However, other aspects of the Trump administration's economic policies have introduced substantial new sources of tax uncertainty. For example, the administration's tariff policies have changed in substantive ways more than 100 times since Donald Trump took office in January 2025 (Bown 2025). Tariffs have been far higher than historic norms (Budget Lab 2026), and they have been implemented in a highly chaotic and—in important instances—unlawful manner.<sup>30</sup>

These tariffs are disruptive to businesses in many ways. First, many MNCs are *both* large importers and large exporters. Tariffs raise the costs of their intermediate inputs that are imported, and they also threaten their export markets (due to retaliation and a higher equilibrium exchange rate). Second, the mercurial nature of the administration's tariffs has made it exceedingly difficult for businesses to strategically plan their sourcing and production decisions. Third, tariffs are part of a larger decay in U.S. international relations with many trading partners, which adds increasing frictions to international interactions of all types, including MNC activity.<sup>31</sup>

Other elements of the current economic policy environment are also troubling to many in the business community, including persistent challenges to central bank independence, large increases in the path of future government budget deficits, new international conflicts, and larger questions about U.S. institutional strength.

# The proposal

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The proposal strengthens U.S. corporate taxation while also better aligning U.S. corporate tax policy efforts with the large potential of international collective action. The logic of the proposal is rooted in both U.S. fiscal challenges and the opportunities that lie ahead to rebuild international economic cooperation. Its key features are the following.

- **Corporate tax rate and base.** The corporate tax rate would be raised to 27 percent for corporations with more than \$5 million in income. The higher rate would apply to about 96 percent of the corporate tax base but only about 2 percent of corporations with positive income. An additional surtax of 10 percent of tax liability (an effective tax rate of 29.7 percent) would apply for corporations with more than \$50 million in income. This rate would apply to about 89 percent of the corporate tax base and only the top one-half of 1 percent of positive profit corporations.<sup>32</sup> The higher rate would be accompanied by a broader corporate tax base that moves the corporate tax base closer to a tax on pure profits.
- **Minimum tax on foreign income.** To support a higher domestic rate, the United States would institute a reformed country-by-country minimum tax on the foreign income of U.S. MNCs with a 15 percent deduction relative to the domestic rate. This would result in a tax rate of approximately 23 percent or 25 percent on nearly all foreign income, depending on whether the surtax applied. This would replace the current U.S. minimum tax regime. The United States would also institute a UTPR, adopting the backstop provision of the Pillar Two tax. The current export subsidy provision (FDDEI, formerly FDII) would be repealed. Other U.S. minimum taxes (BEAT and CAMT) would be “turned off” for many taxpayers.
- **Improvements to Pillar Two.** After enacting these reforms, the United States would partner with other governments in another round of international negotiations on international tax, with the aim of strengthening and simplifying international collective action around tax competition. If the U.S. government legislated both higher corporate tax rates and a strong country-by-country minimum tax in 2029, the United

States would be well poised to advance its priorities in the scheduled “stock take” on Pillar Two in 2029, discussed further below.

While specific parameters of the proposal can be dialed to suit policymakers’ underlying goals, the logic behind the direction of each reform is detailed below.

## The corporate rate should be increased

I propose a higher corporate tax rate (either 27 percent or 29.7 percent) for the approximately two percent of corporations that comprise more than 95 percent of the tax base. While the rate choice is dialable, this proposal demonstrates how much revenue can be raised by the corporate tax, even stopping well shy of the U.S. corporate tax rate prior to the TCJA, which stood at 35 percent. This rate is similar to those favored by the Biden administration.<sup>33</sup>

## The corporate tax should be levied on rents

The more that one can align the tax base with a tax on rents, the better the justification for a higher corporate rate, since there would no longer be concerns regarding negative consequences for the capital stock or worker wages.

One set of proposals that would align the corporate tax with a tax on rents are DBCFT reforms, suggested by Auerbach (2010), Devereux et al. (2021), and Gale, Looney, and Patel (2026). While DBCFT reforms also propose changing the treatment of cross-border transactions, the approach here is to simply reform the *domestic* corporate tax base to target rents, and handle international tax issues through other mechanisms. This can be done by combining full expensing with an elimination of interest deductibility.<sup>34</sup>

That said, there would likely be strong opposition to fully eliminating interest deductibility. If so, one could still consider measures that would lessen distortions between investments, while also moving the tax base *toward* a pure rents tax. A useful starting point

would be to reduce interest deductibility. Tightening the Section 163(j) rules is one option, by making the current law cap on interest deductibility more binding. At present, firms can deduct interest up to an amount equaling 30 percent of earnings before interest, tax, depreciation, and amortization (EBITDA). After the TCJA, but before OBBBA, that 30 percent limit briefly applied (from 2022 to 2025) to earnings before interest and tax (EBIT, a smaller amount than EBITDA), thus making the limit more binding. Another mechanism for tightening the limit would be to reduce the 30 percent limit to a lower fraction, such as 20 percent.

There remain some questions in the literature about the effectiveness of expensing in driving additional investment.<sup>35</sup> Additionally, after the TCJA, there is little evidence that investment effects benefited most workers or generated notable changes in economic growth, whereas corporate tax cuts resulted in both very large reductions in corporate tax revenue and a less progressive tax system (Clausing 2024b). Thus, even if the corporate tax base cannot be fully shifted to a tax on rents, there remains strong rationale for higher corporate tax rates, despite some downsides for capital investment. Of note, there may also be environmental trade-offs associated with investment expensing (see Andersen, Curtis, and Ohrn 2025).<sup>36</sup>

## The minimum tax on foreign earnings should apply on a country-by-country basis at a rate higher than its current level

This proposal recommends a 15 percent discount for foreign income relative to domestic income. This balances two goals: leveling the playing field between domestic and foreign income for U.S. MNCs (which suggests no discount at all) versus preserving U.S. corporate competitiveness in global merger and acquisition bids (which suggests a larger discount, to the global minimum rate).

Importantly, the successor minimum tax to the GILTI/NCTI regime should tax low-taxed foreign income on a country-by-country basis, not based on global averaging.<sup>37</sup> (See box 1.) This provides a much stronger mechanism for reducing tax competition pressures, and it aligns with the minimum tax design of Pillar Two, which adopted country-by-country minimum taxation for this reason.

In the presence of global averaging, zero-tax (or very low-tax) jurisdictions still have an incentive to keep their low rates to serve MNCs that are not subject to the Pillar Two regime (at present, U.S. MNCs). Any U.S. minimum (NCTI) tax resulting from their hyper-low-tax burdens can easily be offset by blending

that income with income earned in higher-tax jurisdictions, converting the minimum tax to a maximum tax on foreign income.<sup>38</sup>

## Other international tax reforms complement these measures and simplify the US regime

The U.S. subsidy for export income (FDDEI) should be repealed. At present, this provision lowers tax rates for income derived from exports; this is in direct conflict with WTO rules and norms. Further, there is little substantive rationale for subsidizing export income per se. The trade balance is determined by macroeconomic factors, and there is no evidence that exports have compelling positive externalities. Finally, the FDDEI deduction comes at a large revenue cost, as shown by Penn Wharton Budget Model (2025) and in the estimates below.

BEAT is a minimum tax affecting large corporations that engage in profit shifting through related party deductions, whereas the CAMT is a corporate alternative minimum tax on book income. Under this reform, both can be “turned off” for many taxpayers. BEAT was originally intended to curb the profit shifting of foreign MNCs with affiliates in the United States, but it also affects U.S.-headquartered MNCs. Under the proposed regime, BEAT rules could specify that BEAT does not apply to any MNC subject to the U.S. country-by-country minimum tax regime. In the presence of the Pillar Two regime, BEAT is also less important for foreign MNCs. However, if the U.S. corporate tax rate increases, foreign MNCs will have stronger incentives to shift income out of the U.S. tax base.<sup>39</sup> Therefore, it may be wise to further tighten the BEAT regime while limiting it to taxpayers that are not subject to the new U.S. country-by-country minimum tax. Likewise, CAMT can be reconfigured to only apply to taxpayers that are not in the new U.S. country-by-country minimum tax regime.

## The United States should work with other countries on improving the Pillar Two regime

In late 2021, nearly the entire world (about 95 percent by GDP) agreed that multinational income should face a minimum tax burden, settling at a rate of 15 percent for most income. Despite the inclusion of the UTPR tool in the agreement, there were concerns about which country would “go first” in implementation. The EU countries ultimately moved first in December 2022. By 2025, the vast majority of worldwide income was

subject to the Pillar Two rules until the U.S. insistence on a side-by-side agreement in 2025.

In the future, the United States will have an opportunity to rejoin, perhaps in a leadership role, international cooperative efforts. If the United States were to go further in reforming its international tax regime than the bare minimum needed to comply with Pillar Two, as proposed here, the U.S. government would be well-positioned to lead another round of international tax cooperation, one that focused on addressing weaknesses in the Pillar Two regime alongside simplification.

The OECD report on the side-by-side deal includes a mechanism for stocktaking in 2029: a comprehensive, evidence-based review of whether the agreement is meeting its policy goals (OECD 2026b). The 2029 stocktaking would ideally be a rigorous investigation that would identify loopholes in current Pillar Two rules, opportunities for simplification, and ways in which countries' tax and subsidy policies have undermined the goals of Pillar Two.<sup>40</sup> Countries might then work on an agenda that would address these weaknesses. Given large fiscal needs throughout the world, it may prove feasible to modestly raise the global minimum rate, perhaps to 18 or 20 percent.

There are also likely to be continuing disputes regarding taxing rights, especially with respect to digital companies and the taxation of globally important AI firms. As discussed in the "Questions and concerns" section below, this could be a fruitful area for future multilateral negotiations.

Indeed, there is plenty of appetite abroad for stronger international tax rules, as most countries have large fiscal demands, a desire for progressive sources of revenue, and administrative challenges with respect to the complex Pillar Two regime. Thus, an additional round of negotiation around the twin goals of strengthening and simplifying the global Pillar Two minimum tax could help reinvigorate U.S. involvement in international economic cooperation. Indeed, this could be one prong of a broader agenda of U.S. reengagement with global cooperation around issues such as climate change, the world trading system, world health, and security.

## Dials

Most components of this proposal can easily be dialed to meet policymaker goals and changing conditions.

### What should the top corporate rate be?

Policymakers will balance their fiscal needs, considering other available tax instruments. Of note, the more the corporate tax base can be aligned with a tax on excess profits (rents), the less it falls on the normal return to capital (with possible impacts on labor), and the stronger the justification for a higher rate.

## Should there be a tax preference for foreign income, and if so, how large?

As an alternative, one could easily imagine a policy regime that applied the same rate to both foreign and U.S. income, perhaps at a lower uniform rate of, for example, 25 percent. This would remove the distortion favoring foreign income entirely, but it would raise competitiveness concerns with respect to foreign competitors that face lower rates. The latter considerations are somewhat less in today's environment given the 15 percent country-by-country floor that applies to most MNC income.

## Should the top rate apply to all corporations or just the highest-profit corporations?

An alternative would be to simply pick a new rate for all corporations, sticking to a flat rate structure. For example, if one simply applied a 27 percent rate to all corporate income, this proposal would raise \$400 billion lower than the graduated rate structure discussed here. While the top 0.2 percent of corporations would have lower burdens under a flat rate, the bottom 99 percent of corporations would experience a 6 percentage point tax increase under the flat rate alternative.<sup>41</sup>

The advantage of targeting higher-profit corporations with higher rates is that those few corporations are more likely to have income composed of rents (or "above-normal" profits), contribute the most to market concentration, and have fewer legitimate worries about competitiveness. Evidence also suggests larger profit shifting for larger firms, both because they have more profits to shift and because they are more aggressive in shifting profits offshore (Clifford, Miethe, and Semelet 2025; Wier and Erasmus 2023). This policy design can also "meet the moment" with respect to concerns about concentrated wealth and AI disruption without employing novel or untested tax regimes. The disadvantage of levying higher rates on the largest firms is that those firms have the most sophisticated and capable international tax avoidance abilities.<sup>42</sup>

## Meeting US tax policy objectives

This proposal raises about \$4 trillion in revenue, about 0.9 percent of GDP (see table 3). Estimates were provided by the Penn Wharton Budget Model (PWBM). PWBM has provided early scores of the international provisions of OBBBA as well as detailed analysis of the international provisions in TCJA in earlier work (Arnon 2023; Boller, Luo, and Sun 2024; Penn Wharton Budget Model 2025). There are several key elements to these estimates.

TABLE 3

## Revenue from the proposal, 2030–39

Provision	10-year revenue score (2030–39)
Corporate rate (21/27/27+surtax)	\$2.2 trillion
Corporate tax base changes	\$200 billion
Stronger per-country minimum tax	\$860 billion
UTPR adoption	Not estimated, positive
FDDEI repeal	\$710 billion
BEAT changes	Not estimated, small negative
CAMT changes	Not estimated, small negative
<b>Total</b>	<b>\$4.0 trillion</b>

Source: Penn Wharton Budget Model 2026.

Note: The stacking of the estimates does not follow the table 3 order. The stack order begins with the corporate rate changes, then FDDEI repeal, then minimum tax changes, then the corporate tax base changes.



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First, the budget window is 2030–39, which raises the estimates in nominal terms. Moving to a contemporaneous window (2026–35) would lower estimates to about 85 percent of the level reported here, or about \$3.4 trillion. Revenues are equivalent to about 0.86 percent of GDP in the budget window.

Second, the higher corporate rate (27 or 29.7 percent) raises \$2.2 trillion in the 2030–39 window, about \$415 billion of which is due to the graduated rate structure, since more additional revenue comes in from the surtax on the largest-profit firms (about 0.2 percent of firms) than is lost by exempting the bottom 99 percent of firms from the tax increase.

Third, with respect to tax base changes, these estimates only reflect tighter interest deduction limits, at 20 percent of EBIT.

PWBM estimators indicate that the net revenue effect of fully ending interest deductibility alongside full expensing would be positive over the 10-year budget window, and more so over the second decade, but time limits prevented an estimation of that scenario. (Older estimates considering this policy combination were more negative in the early period due to the fact that expensing was not already built into the tax code to such a large extent.)

Fourth, for the international provisions, at the specified rates, most of the revenue from the stronger minimum tax comes from the change in the tax rate on foreign income (some of which is embedded in the corporate score, which includes a mechanical increase in NCTI revenue as the corporate rate increases). The country-by-country feature of the minimum tax reform is relatively unimportant for revenue at these higher foreign income tax rates, but it would be more important at lower tax rates.<sup>43</sup> FDDEI repeal

is a substantial revenue-raiser, indicating the high cost of that provision under current law.

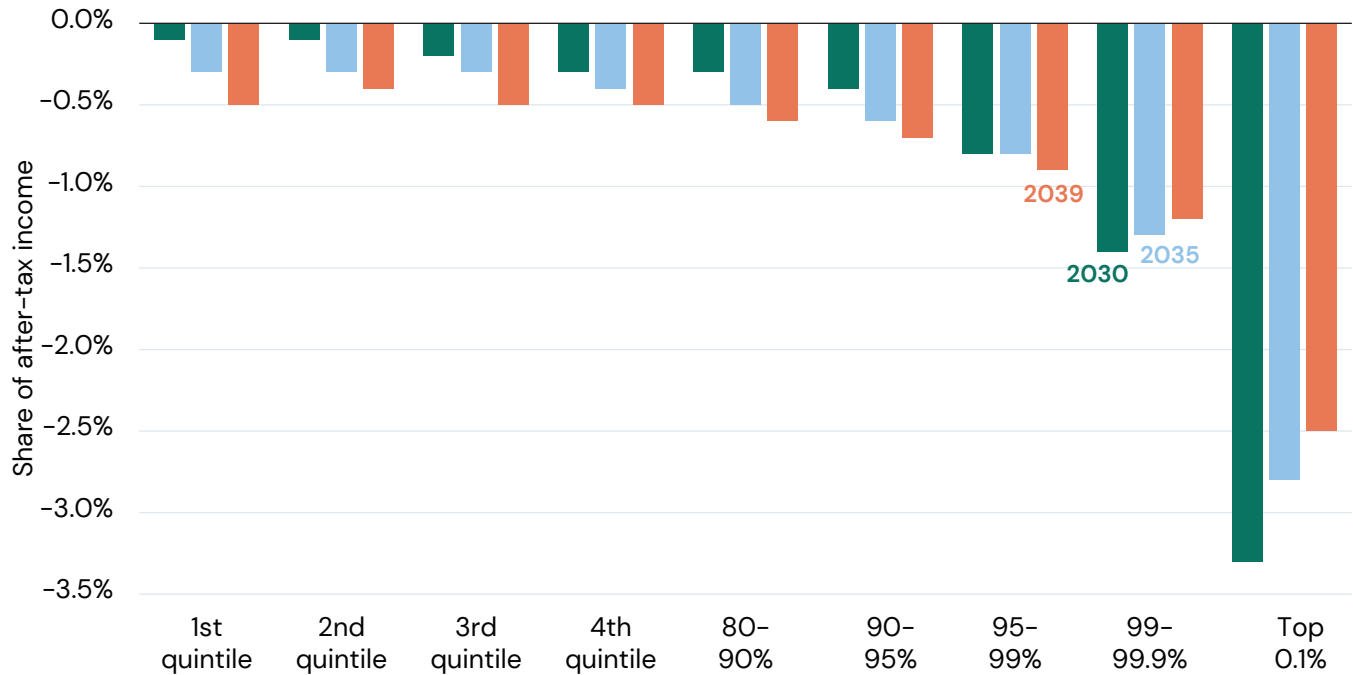
Neither UTPR nor the exemption of taxpayers from CAMT and BEAT are estimated. The author's expectation is that UTPR revenues would outweigh the cost of zeroing out CAMT and BEAT liabilities for minimum tax payers, since the CAMT and BEAT liabilities are presently very small.

Some caution is warranted in interpreting these estimates. First, while the scores account for behavioral responses, they are not dynamic scores that consider effects on economic growth; any change in economic growth (positive or negative) would affect the score. If the corporate tax base is oriented to better target rents, aspects of this proposal are efficiency enhancing, but estimators will differ in terms of their assessment of the macroeconomic consequences of this proposal. Second, the scores do not account for general equilibrium effects; corporate taxation also affects the noncorporate sector. If, as suggested in Johnson et al. (2026), pass-through taxation is modified so that all large businesses are treated as C-corporations, that would also influence general equilibrium considerations by evening the tax treatment across business types. Third, international tax proposals are very difficult to model, in part because of the importance of cross-border flows, which themselves depend on the actions of foreign governments, typically assumed away in estimates.

Beyond revenue, the proposal will also increase the efficiency of the corporate tax base by focusing on the above-normal profits (or rents) of U.S. corporations. This will increase the fairness of market competition, as domestic firms have no ability to minimize their tax burdens by shifting income offshore. Since at least Adam Smith's *Wealth of Nations* (1776), economists

FIGURE 6

## Distributional effects of the proposal



Source: Penn Wharton Budget Model 2026.



have understood that market competition is crucial for ensuring that market forces are consistent with good social outcomes (such as low prices, product quality, and labor bargaining power).

Further, from a benefits principle standpoint, all corporations—most definitively including the largest, most profitable U.S. MNCs—should contribute to the funding of the U.S. government, since the government provision of public goods (such as roads, ports, rule of law, basic research, etc.) benefits the success of businesses.

The proposal will increase the progressivity of the tax system, as shown in figure 6. PWBM analysis assumes that the tax burden is shared between capital and labor, with the burden on labor rising over time and eventually settling at 25 percent incidence on labor and 75 percent incidence on capital. Thus, the figure shows that the proposal’s distributional effects become somewhat less progressive over time. PWBM does not distinguish rents from the normal return to capital; it assumes that 40 percent of the capital

burden falls on foreigners, so that is not included in the figure’s distributional analysis.

The proposal has benefits for tax administration. While changing international tax rules is inherently complicated, the new regime will only apply to a small number of U.S. corporations, and it builds on existing tax policy structures. Other new approaches to taxing capital income in entities (such as the DBCFT; see below) or at the personal level (such as proposals for billionaires’ taxes on unrealized gains) are less tested, and the latter proposals are likely to be subject to court challenges. In contrast, most elements of this proposal are well-suited to swift legislative action. The United States even has experience with a graduated corporate tax rate, before it moved to a flat corporate rate in 2018.

Finally, this proposal will better align the U.S. corporate tax system with efforts to tackle tax competition and profit shifting abroad, setting the stage for more productive cooperative efforts on economic governance in the time ahead.

# Questions and concerns

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## What about digital sales taxes (DSTs) and the Pillar One agreement?

DSTs are a controversial tax instrument. In the period prior to the 2021 tax agreement, governments often turned to DSTs to tax the activities of prominent, large tech firms, which were disproportionately American. The U.S. Trade Representative, in a flawed analysis, determined that these taxes were discriminatory and made tariff threats, which in turn provoked threats of retaliation abroad.<sup>44</sup>

Pillar One of the 2021 international tax agreement attempted to tackle such issues by including a suspension and rollback of DSTs alongside a new tax instrument that would reallocate some of the above-normal profits of the largest, most profitable MNCs toward the market jurisdiction. Pillar One did not focus narrowly on digital companies but instead treated all large, profitable companies alike, beyond carve-outs for extractive and financial firms.<sup>45</sup> The revenue impacts of Pillar One were estimated by the OECD to net about \$20 billion annually, alongside a redistribution of revenue away from low-tax “investment hubs” and toward all other country groups, with the largest relative increase in revenues for low-income jurisdictions.<sup>46</sup> However, progress on Pillar One negotiations ultimately stalled. While some talks continue, it is unlikely that Pillar One will be resuscitated.

In the meantime, countries continue to use and propose DSTs, including a new proposal from Poland in early 2026 (Hoke 2026). U.S. government hostility toward DSTs continues apace. President Trump issued an executive order labeling such taxes as plunder, and DSTs also generated opposition in the U.S. Congress (Congressional Research Service 2025; White House 2025a). In 2025, the proposed Section 899 “revenge tax” (discussed above) targeted countries with DSTs, though it was ultimately dropped.

In part, DST proliferation stems from attempts by countries hosting digital companies to unilaterally extract revenue from highly profitable companies. However, since the DST tax base is on sales, not profits, the incidence of a DST is unclear. Companies may “pass on” DSTs to their consumers/users in the local

market (Congressional Research Service 2024), as several companies have announced. This shifts tax burden away from the company and toward the market jurisdiction’s consumers. Still, most digital companies are not perfectly competitive. DSTs will cause a deviation from the price and quantity companies would otherwise find optimal, leading to a reduction in quantity and a higher price than without the tax. Thus, the firm’s profits may fall, and some of the tax burden could fall on the firm; this mechanism may explain why companies consistently object strenuously to DSTs (see, e.g., Sarfo 2026). The ultimate incidence of any DST is an empirical judgment that will depend on the details of both the tax and the market in question, but some early evidence indicates that consumers bear a large part of the burden (Langenmayr and Muddansani 2025).

To some extent, the controversy around DSTs has centered around the fact that many DSTs appear to single out U.S. firms. In part, this is a consequence of U.S. market dominance in this sector, though there are big digital companies (e.g., ByteDance, Spotify) headquartered in other countries. Any excise tax is likely to disproportionately affect producers of the taxed products; for example, a tax on wine is more likely to affect wine-producing nations than others. Decisions about which excise taxes to levy are sovereign tax policy choices. So long as levies are not designed with discriminatory intent, there appears to be little reason to object. Indeed, countries may arrive at different judgments about ideal excise taxes, based on either Pigouvian (responding to market failures) rationale or other tax policy goals.<sup>47</sup>

There are also conceptual questions about value creation that are germane to debates about DSTs and Pillar One. To the extent that DSTs are an (admittedly imperfect) proxy for a profits tax, they raise questions about whether profits originate in the market jurisdiction or are only “created” where the product is sourced. Related, Pillar One sought a reallocation of some taxing rights toward market jurisdictions based on the rationale that the users of products contribute to profits. Here, economic theory is clear, at least since Alfred Marshall’s *Principles of Economics* in 1890. In any market, both supply and demand create value, much like both blades of scissors cut a piece of paper.

In sum, DSTs may have generated animosity from the U.S. government, but this animosity is not (typically) well justified. If DSTs are not designed in a discriminatory fashion, they can be viewed as excise taxes akin to those on cigarettes, alcohol, and gasoline. Their burden will often fall at least in part on local consumers. Regardless, their use is a sovereign domestic tax policy choice.

Nonetheless, unilateral adoption of DSTs is likely inferior to a more coordinated approach to the underlying policy goals. While the original Pillar One proposal laid some useful groundwork, a fresh start that builds on that expertise may prove the most sensible approach.

## Why not pursue a more ambitious systemic reform? What about a DBCFT or a sales-based formulary apportionment?

In Hamilton Project papers by Gale, Looney, and Patel (2026) and Auerbach (2010), the authors suggest adoption of a DBCFT. This tax would act as a pure corporate profits tax on those profits generated by U.S. consumption. The economic consequences of a DBCFT regime are roughly equivalent to those of a value-added tax (VAT) combined with a wage subsidy; the DBCFT acts as a tax on profits, but it exempts the normal return to savings and labor income. The cash flow part of the tax allows the normal return to capital to be exempt by allowing full expensing. The “destination basis” is typically implemented through a border adjustment that taxes imports and exempts exports.

In my own prior Hamilton Project proposals (Avi-Yonah and Clausing 2007; Clausing 2020c), I have suggested a sales-based formulary system. This operates more akin to a traditional corporate tax, but the tax due in the United States is based on a formulaic share of total global income. The share taxed in the United States would depend on the ratio of U.S. sales to worldwide sales. This system has much in common with how many U.S. states tax U.S. national income. For example, firms pay California corporate tax based on a formulaic share of their U.S. income: the share of California sales relative to total U.S. sales.

These reforms both have the advantage of lowering the tax elasticity of the corporate tax base by taxing profit based on the location of consumer markets. There is a strong intuitive rationale for such a design. Countries can set their corporate tax regimes without concern for corporate tax base erosion due to profit shifting or the movement of real economic activities abroad, removing the most vexing dilemma of international corporate taxation. Further, company competitiveness concerns are no longer paramount, since location decisions have no impact on tax burdens.

However, both DBCFT and formulary apportionment systems would work best in the presence of internationally coordinated adoption. Otherwise,

situations of double taxation and double nontaxation could easily arise due to large differences in international tax systems. Admittedly, if a large country like the United States unilaterally adopts either a DBCFT or a formulary apportionment system, other countries will have strong incentives to follow. Otherwise, foreign-based MNCs could shift income out of foreign jurisdictions and into the United States without affecting the U.S. tax burden (which is just based on global profits attributed to U.S. sales), eroding foreign country tax bases. Nonetheless, absent widespread foreign adoption, country tax systems would be seriously misaligned. Further, if these reforms are contemplated soon (e.g., 2029), that would be a poor time for additional reckless U.S. unilateralism.

International coordination is particularly important in the context of a DBCFT. Otherwise, the border adjustment risks creating industry-wide shocks. In theory, the exchange rate could adjust in an equal, offsetting manner. However, as explained in Clausing (2017) and Avi-Yonah and Clausing (2017), there is little reason (beyond theory) to expect such a smooth exchange rate adjustment. In practice, exchange rates rarely behave according to the predictions of *any* economic models, as emphasized by Rogoff (1999) and others. Indeed, in the case of large economies that have adopted value-added taxes under floating exchange rate regimes, the predicted smooth adjustment of the exchange rate to the border adjustment did not occur.

Still, even if adopted multilaterally, the DBCFT could create large redistributions of corporate tax revenue from trade surplus countries to trade deficit countries (Ferrari et al. 2023). While that may seem like a feature of the reform (not a bug) for the United States, these dynamics are likely to stymie international cooperation around DBCFT adoption.

Further, today’s pattern of haphazard and constantly evolving tariff rates, together with myriad exemptions, is not a good starting point for a border adjustment. Policymakers may be inclined to simply “start from” today’s tariffs in these DBCFT reforms. However, given the highly distortionary pattern of today’s policy environment, the current tariffs would be a particularly poor starting point for international corporate tax reform.

A final concern with these big reforms is that they are rife with implementation challenges. DBCFT, in particular, is a wholesale reworking of the U.S. corporate tax system, and myriad details would need to be worked out, including the treatment of financial firms, important transition issues, and the question of how to handle exporting firms. (Exporters will have large revenues, expenses, and no tax liabilities, suggesting persistent losses that would be difficult to use absent mergers.)

## Don't international agreements harm US revenue? Why should the United States work with other countries?

In a frequently misunderstood publication, the JCT (2023) issued a report on the revenue consequences of Pillar Two adoption. The report analyzes five scenarios for U.S. revenues; the headline for some critics of the agreement is that the U.S. government will lose revenue due to Pillar Two adoption abroad. Under one scenario's assumptions (complete worldwide adoption with no U.S. policy adoption), the United States is estimated to lose \$122 billion over 10 years. (Under several other possible scenarios, the United States gains revenue.)

The JCT report's conclusions have often been taken out of context. A full discussion is provided in Clausing (2023) and briefly summarized here. In short, the report's own estimates show that the United States would, under any assumptions, raise more corporate tax revenue with Pillar Two adoption than if the U.S. government stood aside. Further, the report shows that Pillar Two will reduce profit-shifting incentives worldwide, a finding consistent with the broader literature, including Hugger et al. (2024).

Other factors are key to bear in mind when considering the JCT report. First, it is important to recognize that the international agreement responds to a global collective action problem. Prior to the agreement, decades of tax competition reduced typical corporate rates to roughly half their 1980s level, and U.S. MNCs paid an effective rate on foreign income in the single digits. By establishing a country-by-country minimum tax rate of 15 percent, the agreement will reduce both tax competition and profit shifting. This enhances the tax sovereignty of any government that wishes to tax corporate income at a rate of at least 15 percent.

Second, foreign governments also have taxing rights and a need to address corporate tax base erosion. The alternative to a coordinated agreement is not a world in which only the United States taxes multinational income, as implicit in some of the comparisons based on the JCT analysis. Pillar Two reduces the elasticity of the global corporate tax base, making it far easier for all governments—including the United States—to collect meaningful corporate revenue.

Third, there is enormous uncertainty surrounding these estimates, as discussed in the JCT report. For example, the JCT modified baseline assumes that Pillar Two implementation abroad will substantially reduce profit shifting. Its estimate provides a wide range of outcomes where U.S. revenue effects could be either positive (up \$224 billion over 2023–33) or negative (down \$174 billion), depending on the ultimate location of profits. International provisions are difficult to model. Further, the JCT does not include the effects of the agreement in reducing *foreign* multinational income shifting, which would increase the U.S. tax base.

Fourth, the JCT uses a baseline that includes various U.S. provisions in effect in 2023: the GILTI, BEAT, and CAMT. The JCT also assumes that any implementation of Pillar Two in the United States occurs at the lowest compliant rate. However, one strength of the agreement is that it enables the policy space for *more* robust corporate tax measures in adopting countries, pushing against the “race to the bottom” dynamic. Indeed, with Pillar Two in place, it is easier for the United States to pursue revenue-raising corporate reforms.

In the end, the agreement's most important contribution is structural: By reducing profit-shifting pressures, it makes the entire corporate tax base less elastic and gives policymakers the room to levy more effective taxes on multinational income.

## If the United States exceeds the global minimum standard, is that a problem for other countries?

Typically, no. A strong U.S. minimum tax helps alleviate the pressures of tax competition and profit shifting abroad, helping other countries achieve their own corporate tax policy goals more easily. Under today's status quo, U.S. MNCs have a competitive advantage relative to firms taxed according to the global minimum tax standard. However, under the proposed U.S. reform, the lowest-taxed foreign firms would have a relative advantage in comparison to U.S. firms, similar to the situation from 2017 to 2022, when the U.S. government implemented a 10.5 (to 13.125) percent minimum tax on foreign income, yet the minimum tax rate abroad was 0 percent.

Under this proposal, U.S. firms would lose some competitiveness in merger and acquisition bids compared to firms operating under the most generous foreign regimes, but there would still be important U.S. policy advantages from adopting a strong minimum tax. Foremost, it would reduce the tilt in the tax playing field that favors foreign income relative to U.S. income. Second, it would allow other countries to expand their own taxation of corporate income, serving fiscal needs and tax fairness abroad. Related, U.S. policy action could help galvanize a new round of international tax cooperation aimed at addressing the loopholes and complexity associated with the present Pillar Two structure, alongside handling lingering issues around taxing rights.

Some foreign governments may worry that their tax incentives would have less ability to spur U.S. MNC activity in their countries in the presence of a strong U.S. minimum tax. Yet, that may be a feature, not a bug, of this proposal. Strong forces of tax competition cause governments to compete aggressively in an attempt to lure mobile activity across jurisdictions. Diminishing the forces of tax competition can allow governments valuable flexibility in setting tax policy parameters around their own fiscal goals.

# Endnotes

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1. These include the GILTI/NCTI regimes (the global intangible low-taxed income minimum tax, which evolved into the net controlled foreign corporation tested income [NCTI] regime in the 2025 tax legislation), the CAMT (corporate alternative minimum tax), and the BEAT (base erosion anti-abuse tax), all discussed below.
2. These shares, and those in the following bullet, are approximate and based on 2022 data from table 4 of IRS Statistics of Income (SOI) tables (2025). The IRS SOI table includes only those corporations with positive income, so this proposal overstates the share of corporations that would be affected by the tax policy change, as firms without tax liabilities are not affected. Below, PWBW estimates also calculate the share of taxpayers affected by this proposal, finding even lower shares with more refined methods; see endnote 41 and the surrounding text.
3. The ongoing war with Iran was not factored into the CBO's projections, published February 11, 2026.
4. Recent sharp reductions in IRS funding and staffing may also harm revenue trajectories. For one assessment, see Budget Lab (2026a).
5. See Clausing and Obstfeld (2026) for a discussion of the economic harms created by these tariffs.
6. At minimum, the Section 199A deduction should be repealed; this deduction has been panned by tax experts across the political spectrum for being costly, inefficient, and regressive.
7. It may help increase support for the proposal to designate some of the increased revenues for tools that help those coping with disruption, including earned income tax credits, wage insurance, and/or other parts of a stronger safety net.
8. There are still many distortions present across types of investment. For example, many debt-financed investments subject to full expensing are tax subsidized by the code, whereas equity-financed investments facing regular depreciation schedules are taxed more heavily.
9. Firms could also use "cross-crediting" to repatriate income from low-tax jurisdictions when excess tax credits were available from tax paid in higher-tax jurisdictions.
10. The exact rate could be higher (up to 13.125 percent) if the MNC operated in high-tax countries as well, since foreign tax credits were only 80 percent creditable.
11. Different firms face different incentives depending on whether or not they have "excess" foreign tax credits, as discussed in Clausing (2020a).
12. In JCT (2025) estimates, the strictly international provisions generated a net tax cut of about \$160 billion, but there were also other large corporate tax cuts, including a relaxation of limits on interest deductibility, that have implications for foreign income. The overall corporate tax cuts in the legislation totaled more than \$900 billion. Penn Wharton Budget Model (2025) estimates focus on a subset of the OBBBA international tax provisions.
13. Effective tax rates are calculated based on the positive profit sample of the country-by-country data files when country data are available, or the full sample when the country is not in the positive profit sample.
14. Population and GDP numbers in this paragraph are from the World Bank, using the same year as the IRS country-by-country data files (2023) (World Bank 2026); 2023 is the most recent year available for the IRS data.
15. See Bilicka (2019); Clausing (2020a, 2020b); Clifford, Miethe, and Semelet (2026); Crivelli, de Mooij, and Keen (2016); Coffey (2021); Dowd, Landefeld, and Moore (2017); Ferrari et al. (2023); Garcia-Bernando and Janský (2024); Garcia-Bernando, Janský, and Zucman (2022); Guvenen et al. (2022); Hugger et al. (2024); OECD (2015); Samarakoon and Organ (2026), Tørsløv, Weir, and Zucman (2023); Wier and Zucman (2022).
16. The role of a small number of companies is also apparent in foreign data. For example, according to Setser (2026), Irish balance of payments data show foreign MNCs (almost all of which are U.S.-headquartered firms) earning \$300 billion in Ireland by 2025, nearly half of Ireland's GDP (which itself is likely distorted by profit shifting) (World Bank 2024).
17. This includes countries that have adopted either income inclusion rules or qualified domestic minimum top-up taxes, two parts of the Pillar Two architecture discussed below.
18. Adopting countries account for 53 percent of non-U.S. world GDP. By the end of 2025, 90 percent of large MNCs are estimated to be in scope. These MNCs are likely to be larger than average, so more than 90 percent of the tax base is covered.
19. An alternative approach would be to tax MNCs on a consolidated basis, providing tax credits for taxes paid abroad, and determining the U.S. tax base by formula. This approach is how U.S. states tax corporate income; they don't ask U.S. businesses to separately account for income and expenses in each U.S. state, which would be both impractical and rife with opportunities for abuse.
20. See Clausing (2016), de Mooij and Ederveen (2008), Heimberger (2021), Hellier (2023), Keen and Konrad (2013), Overesch and Rincke (2011), and Wilson (1999).
21. Opponents of the agreement raise sovereignty concerns, since the UTPR encourages governments to levy corporate tax of at least 15 percent, and they might otherwise prefer to tax more lightly. However, another view is that the UTPR improves tax sovereignty, as it helps jurisdictions tax mobile multinational income without facing excessive competitive pressures.
22. Such a revenge tax instrument would be difficult for Congress to pass without relying on a reconciliation vehicle, since it would not have sufficiently broad support. Further, it is unlikely that it would survive scrutiny in a reconciliation effort, as such a tax likely violates Senate budget rules for reconciliation. That said, the Senate could choose to go around the parliamentarian, as they did with respect to the scoring

baseline. I discuss the 2025 tax and budget legislation elsewhere (Clausing 2025a).

23. At last tally, 33 jurisdictions have implemented the UTPR, including the EU member states, Australia, Canada, Indonesia, Japan, New Zealand, South Korea, Thailand, Türkiye, and the United Kingdom.
24. There remain implementation issues with the side-by-side agreement, as the agreement takes the form of guidance from the OECD; it will need to be implemented through national legislation. Ireland has already announced implementation, with retroactive effect to the beginning of the year.
25. A qualifying side-by-side domestic tax system must have three elements: a 20 percent or greater nominal statutory corporate tax rate (taking into account subnational taxes), a minimum tax based on financial statement income (such as the U.S. CAMT or foreign qualified domestic minimum top-up taxes) of at least 15 percent, and no material risk that in-scope MNCs headquartered in the jurisdiction will be subject to an effective tax rate below 15 percent on their domestic operations (OECD 2026b).
26. While in theory some publicly traded companies need not be C-corporations—if they are publicly traded partnerships or real estate investment trusts—the U.S. companies in the Forbes data set are generally C-corporations.
27. The most recent Monthly Treasury Statement shows corporate receipts of \$109 billion over the current fiscal year (October 2025 through February 2026); the same period in the prior fiscal year indicated \$144 billion in corporate receipts.
28. Regulatory changes have also reduced U.S. revenues. As detailed in Sweeney et al. (2026) and Drucker (2025), regulatory changes by the Treasury Department under the Trump administration have reduced the reach of the CAMT, amounting to backdoor tax cuts. This will cause the CAMT to further underperform revenue expectations. While some of the OBBBA tax cuts could cause more firms to fall into the CAMT regime, many of the cuts affect factors that are already carved out from the CAMT tax base.
29. Subpart F taxes some passive income of U.S. MNCs at the full domestic rate; there are also very small categories of other income that fall into the subpart F regime, but U.S. MNCs are mostly able to avoid the regime for active income.
30. Learning Resources, Inc. v. Trump, 2026 WL 477534.
31. These issues are discussed at greater length in Clausing and Obstfeld (2026).
32. These shares are based on IRS data and are approximate; shares are lower using PWBm estimates. See endnotes 2 and 41 for additional detail.
33. In the run-up to the Biden administration, 28 percent was often mentioned as a target corporate tax rate in policy proposals, including those by Furman (2020) and Clausing (2020c). This rate was eventually adopted by the Biden campaign and by subsequent Treasury Greenbooks issued during the Biden administration (which describe and estimate administration tax policy proposals for the president’s budget). The choice of a 28 percent rate balanced concern for peer country norms—which suggested that going back to the pre-TCJA 35 percent was untenable—alongside an acknowledgment that 21 was too low, given the important role of the corporate tax for other tax policy goals.
34. There are important questions regarding the treatment of the ordinary return to capital abroad. At present, U.S. tax law varies in its treatment of such investment, though the NCTI rate is lower than the domestic tax rate, and foreign tax regimes and investment incentives may be more or less generous than the U.S. tax treatment of investment. Pillar Two rules can also interact with domestic expensing provisions, though Pillar Two’s deferred tax rules accommodate many timing differences associated with differences between book and tax treatment of investment depreciation.
35. The TCJA had notable effects on investment in well-identified, high-quality studies (see Kennedy et al. 2024 and Chodorow-Reich et al. 2025), though the effects were too small to discern in several more aggregate studies (reviewed in Clausing 2024b) or by simply viewing aggregate investment time series. The broader literature does not settle the overall effect of expensing on aggregate investment. For examples, see House and Shapiro (2008) and Cohen and Cummins (2006). Part of the difficulty is identifying episodes where expensing changes are arguably permanent, since temporary expensing can generate timing effects that push investment into time-favored windows or locations (e.g., across U.S. states; see Ohn 2019). Also, while the evidence indicates that eligible investments increase relative to ineligible investments, the overall effect depends on the economy-wide treatment of investment, and firms are likely to face heterogeneous behavioral responses based on their profitability, size, and cash flow (Zwick and Mahon 2017). Further, firm managers may be more sensitive to accounting earnings, which are not affected by expensing (see Edgerton 2010, 2012).
36. The authors employ differences-in-differences estimates to examine the consequences of bonus depreciation for emissions, finding that bonus depreciation increases annual emissions by 30 percent at the most affected firms. They estimate overall environmental damages from more generous depreciation regimes at between \$20 billion and \$45 billion per year.
37. In practice, a similar result can be found with a “high-tax” kick-out that removes high-tax streams of income from the global average. However, determining which jurisdictions are designated “high-tax” requires care, since there are often important differences between statutory and effective tax rates.
38. Some firms with losses may find that tax burdens are higher under global averaging, since more foreign tax payments are creditable under a per-country minimum tax system. But overall, per-country minimum taxes are a stronger constraint on both profit shifting and tax competition.
39. In this context, it would also be useful to strengthen and extend anti-inversion rules, including Section 965(l), which expires at the end of 2027 (see Driessen 2024).
40. It is also possible that international tax cooperation could help address excessive subsidies (analogous to the EU’s “state aid” concept) that have often proved thorny to handle within the context of the WTO and international trade disputes.
41. These shares are based on PWBm modeling of tax returns that would fall into each bracket, a more refined calculation than those based on publicly available IRS Statistics of Income data cited elsewhere in the proposal (IRS 2025).
42. While there may be some minor administrability concerns associated with graduated rates, the U.S. government already has experience with rules to counter artificial avoidance, as the U.S. corporate rate was also graduated before 2018. Further, graduated rates would be indexed and implemented just like normal tax brackets, so there would not be cliff effects around the thresholds. Given the thresholds and the small number of brackets, movements between brackets are likely to be relatively rare.
43. Estimates of the minimum tax changes alone, absent any change in the corporate tax rate, indicate that the 15 percent deduction and country-by-country implementation would bring in about \$720 billion over the 2030–39 window.
44. Shay (2023) critiques the U.S. Trade Representative analysis of DSTs.

45. Target companies were those with gross global revenues in excess of \$20 billion and profit margins in excess of 10 percent.
46. See figure 5.4 in O'Reilly et al. (2023, 38). While the OECD analysis does not include a separate estimate for the United States, most analyses show very small effects on U.S. revenues, since the country has a large role as both a headquarters and a market jurisdiction. The JCT found a revenue effect for the United States that included a range of possible effects that overlapped with zero, with an estimated central effect of a U.S. revenue loss of about \$1 billion in 2021, a number that is also approximately zero in the U.S. federal revenue context (Joint Committee on Taxation 2024).
47. One argument for digital taxes would be the negative externalities associated with some types of digital activity, particularly the use of social media. Governments may also be concerned that digital firms generate technological displacement that affects labor demand or brick and mortar businesses.

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