How New GILTI & BEAT Tax Rules Will Impact U.S. Companies in 2026

If your company has overseas operations or makes payments to foreign affiliates, there's a tax update you'll want to wrap your head around. GILTI and BEAT have both been made permanent, but with several key changes.

Let's talk about GILTI, or Global, Intangible, Low Tax Income first. This rule was introduced to discourage U.S. companies from moving profits to low-tax jurisdictions. It applies when a U.S. shareholder owns a foreign corporation, a CFC or controlled foreign corporation, and certain foreign income exceeds a 10% deemed return on the foreign entity's tangible assets, the QBAI.

Under the prior rules, a U.S. corporation could deduct 50% of GILTI under Section 250, producing an effective U.S. tax rate of about 10.5%. before foreign tax credits. An 80% foreign tax credit, or FTC, was allowed for foreign taxes paid on GILTI income. If the foreign tax rate reached approximately 13.125%, no additional U.S. tax was required.

OBBBA has made several modifications that impact GILTI for tax years beginning after December 31 2025. Here are the main changes:

- It is now renamed Net CFC Tested Income, or NCTI.
- The Section 250 deduction drops from 50% to 40%, raising the effective tax rate from about 10.5% to nearly 12.6% before foreign tax credit.
- The QBAI exclusion is removed, so more foreign income is included in the base.
- The foreign tax credit allowance rises from 80% to 90% of foreign taxes paid or accrued. So if the foreign tax rate is at least 14% no further US tax may be due.
- Expense allocation rules tighten. Deductions are only allowed if they are directly allocable to the income in question, and interest and R & D costs can no longer be allocated to foreign source and CTI, which may affect credit rates.

Some other technical points are now permanent, such as stock ownership timing and look-through rules.

Now let's talk about BEAT, the Base Erosion and Anti Abuse Tax. That's a minimum tax targeted at U.S. C corporations meeting certain thresholds that make large deductible payments like interest, royalties, rent, and certain service fees to foreign affiliates. Before the recent changes, the base erosion minimum tax amount or BEMTA, was set at 10% of modified taxable income, or MTI, with a future rise to 12.5% after 2025. Taxpayers could offset some BEAT liability with U.S. tax credits, especially research and development credits.

Under the new act, instead of jumping to 12.5%, the BEAT rate will rise to only 10.5%, for tax years after December 31, 2025. Research and development and certain other credits remain available to offset BEAT liability. The proposed high-tax exemption for payments to very high tax jurisdictions did not make the final cut, meaning payments to high-tax affiliates may still be subject to BEAT.

So how might this affect your business? If you are a U.S. company with foreign affiliate structures, CFCs, or cross-border payments, For companies with CFCs, the income base under NCTI is a broader since QBAI is gone and the effective rate is higher. This means more income may be subject to U.S. tax.

On the upside, the higher FTC percentage of 90%, and tighter expense allocation rules, may reduce the U.S. tax hit for companies operating in moderate to high-tax jurisdictions. For businesses making significant payments to foreign affiliates, the BEAT changes are moderate, but the scope stays wide and the rate is a little lower than expected.

Here are a few practical tips to take now.

Model the impact of the NCTI changes: Evaluate how your CFC structures, foreign tax rates, and expense allocations would play out under the new rules.

Review your foreign tax profile: With the FTC percentage increasing, companies and countries with higher tax rates may see benefits, while low-tax jurisdictions may trigger more U.S. tax.

Assess your payment and cost allocations: For both BEAT and NCTI, how you document interest, R & D, royalties, and service fees matters more than before.

Update your planning horizon: These changes apply for tax years starting after December 31, 2025, so start building your assumptions now.

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Engage your advisors: Because many of the changes are technical and hinge on foreign versus U.S. source income, intercompany transactions and entity classification. Working with your tax team now can help you avoid surprises.

While these adjustments are moderate, they may have meaningful effects on U.S. businesses with global operations. If you're operating across borders, now's a good moment to revisit your structures, your expense allocations, and your tax projections.