How the New FDDEI Tax Rules Could Lower Taxes for U S Companies Selling Overseas

A recent tax change could make a real difference for U.S. businesses working with customers overseas. The export-related incentive known as FDII, or Foreign Derived Intangible Income is permanent. Let's talk about what's changing, how it affects your business and why this update might expand your opportunities abroad.

FDII was designed to encourage U.S. companies to keep their intellectual property, like software, patents, and processes here at home, while selling to customers outside the country. Under the old setup, a U.S. corporation could take a 37.5% deduction on qualifying income, for an effective tax rate of roughly 13.125%. The calculation involved deduction eligible income, deemed intangible income, and the portion of revenue earned from foreign sources. A 10% qualified business asset investment, or QBAI, amount was subtracted and interest and R & E expenses were allocated, which often reduced the eligible income.

OBBBA makes FDII permanent, but with a few adjustments. FDII is renamed FDDEI, or Foreign Derived Deduction Eligible Income. The deduction drops from 37.5% to 33.34% bringing the effective tax rate to about 14%. Interest and R & E expenses no longer reduce FDDEI, which could mean more income qualifies. The 10% QBAI subtraction is gone, benefiting asset heavy businesses, such as manufacturers. Gains from selling intangible or depreciable property after June 16, 2025 are excluded from the calculation.

So, what does all of this mean for you? If your company sells products or services abroad or earns income tied to intellectual property, the incentives continue, just with slightly different math. Businesses with large tangible assets may see a larger benefit now that QBAI is gone. Companies with significant interest or R & E expenses might also come out ahead. And while the deduction percentage is a bit smaller, the qualifying base is broader, which could offset that change.

How can you prepare? Here are some practical steps: Model your income under the new FDDEI framework to identify which revenue streams qualify. Review your expense allocations, since interest and R & E won't reduce qualifying income anymore, your old methods might need a refresh. Evaluate timing: the new rules apply to tax years beginning after December 31, 2025, and certain gains after

June 16, 2025 are treated differently. Run projections: compare past results under FDII to what you'd see under FDDEI. you may uncover new advantages.

The export incentive framework is here to stay, and whether you're selling services, software, or manufactured goods abroad, now is the time to revisit your numbers and see how these changes fit your strategy.