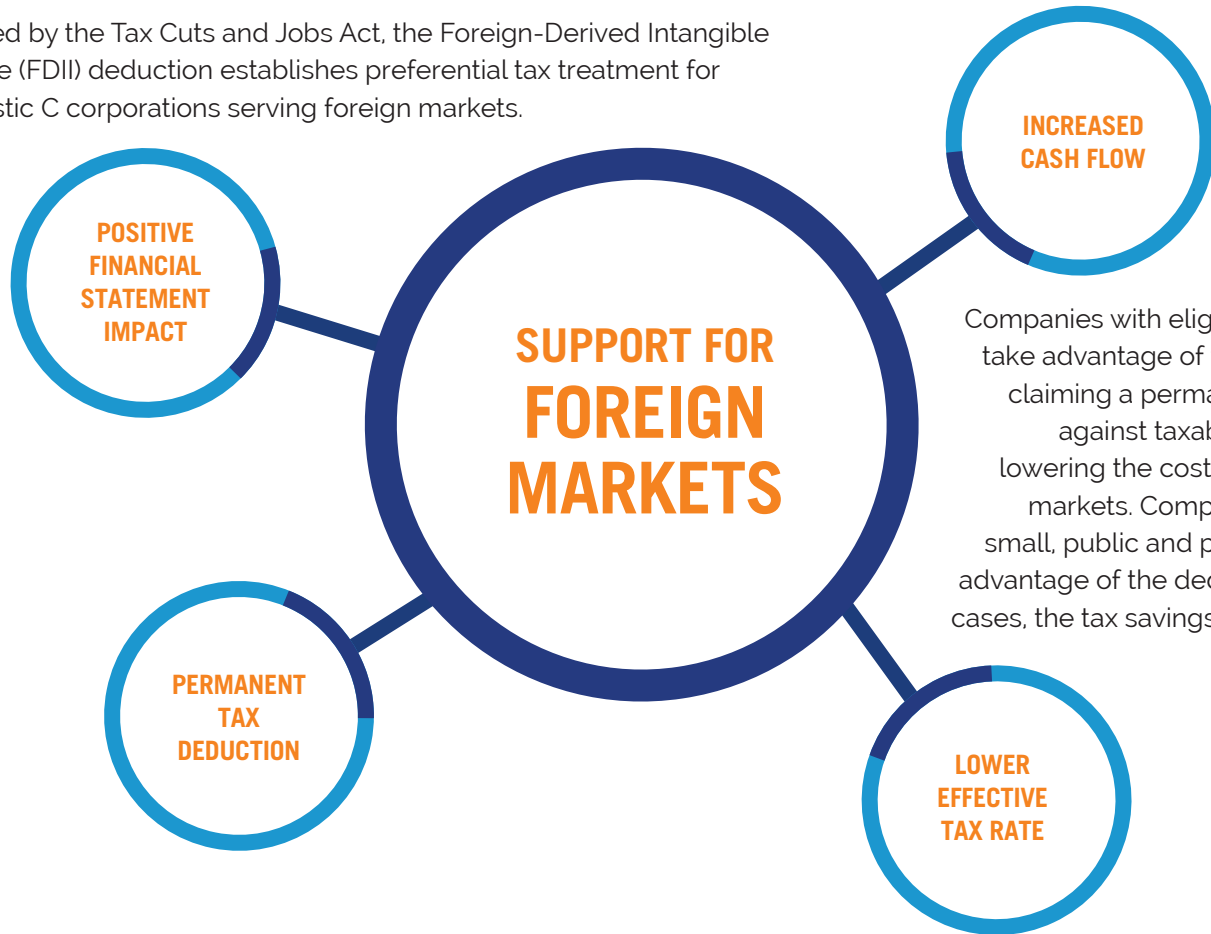


FOREIGN-DERIVED INTANGIBLE INCOME

REDUCE YOUR EFFECTIVE TAX RATE AND INCREASE CASH FLOW

Enacted by the Tax Cuts and Jobs Act, the Foreign-Derived Intangible Income (FDII) deduction establishes preferential tax treatment for domestic C corporations serving foreign markets.



COULD YOUR COMPANY QUALIFY FOR THE FDII DEDUCTION?

Your company may qualify for this favorable benefit if it is a C corporation with income from:

- Sales of property to foreign persons that result in foreign use. Sales include any lease, license, exchange, or other disposition.
- Services provided to any person not located within the U.S. or any services provided with respect to property not located within the U.S.

Related party transactions can be included, with some restrictions.

CALCULATING THE FDII DEDUCTION

The calculation to determine the foreign-derived intangible deduction is complex and requires careful planning to obtain the full benefit.

The deduction is equal to 37.5% of FDII.

$$\text{FDII} = \frac{\text{Deemed Intangible Income (DII)} \times \text{Foreign Derived Deduction Eligible Income (FDDEI)}}{\text{Deduction Eligible Income (DEI)}}$$

DII = DEI – Deemed Tangible Income Return (**DTIR**)

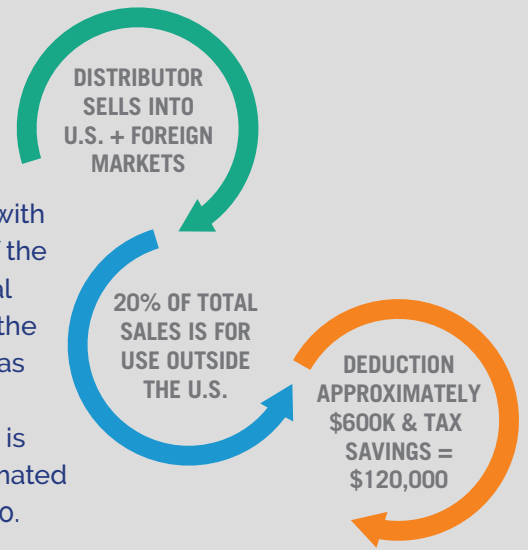
DTIR = 10% x Qualified Business Asset Investment (**QBAI**)

THE ELLIOTT DAVIS SOLUTION

Let our team of experienced professionals help you analyze the tax benefit, provide a detailed report, and substantiate the FDII deduction.

CASE STUDY

A U.S. distributor of chemicals serves both the U.S. market and foreign markets. The company has total sales of \$75M USD with sales to foreign persons for use outside of the U.S. of approximately \$15M USD. The total taxable income of the company before the FDII deduction is \$8M. The company has qualified business assets of \$5M. The company's expected FDII deduction is approximately \$600,000, with estimated permanent tax savings of \$120,000.



SCOPE



- Analyze activities to determine qualifying sales and allocable deductions.
- Develop a preliminary calculation of the estimated FDII tax benefit.

TRACKING



- Work with the company to develop methods for tracking data.
- Analyze ability to pull reports with the required data points.

ANALYSIS



- Conduct a detailed analysis to expand upon the initial findings.

FINDINGS



- Provide FDII calculation, documentation, and memorandum summarizing the findings from the FDII Study, including any planning opportunities identified that can further maximize the FDII deduction.

INTERNATIONAL TAX

To learn more about FDII and how it might impact your company, contact your Elliott Davis advisor or one of our international tax experts.

Melody Horton

International Tax Shareholder
d: 865.552.4877
e: melody.horton@elliottdavis.com

Pam Carroll

International Tax Senior Manager
d: 865.552.4724
e: pam.carroll@elliottdavis.com

elliott davis

elliottdavis.com

MOORE STEPHENS