Investment and Global Intangible Low-Taxed Income

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Abstract

The Tax Cuts and Jobs Act of 2017 introduced Global Intangible Low-Taxed Income (GILTI), which is a minimum tax on the foreign earnings of US-based companies. In this paper, we model investment incentives for multinational firms and, in particular, how GILTI alters foreign activity in low-tax and high-tax jurisdictions. We find that GILTI creates differing tax regimes depending on the foreign tax rate. In high-tax countries, US firms face a territorial regime. However, in low-tax countries, US firms face a regime that resembles a worldwide tax system. In our model, GILTI incentivizes tangible capital investment in low-tax countries, thereby altering the capital intensity of those subsidiaries. The new US system also eliminates the incentive for firms to hold foreign passive investment. We test these inferences empirically, finding mixed evidence in support of our theoretical predictions.