



Average U.S. and Foreign Tax Rates on the Income of U.S. Multinationals

Prepared for The Alliance for Competitive Taxation

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This report provides estimates of the average U.S. and foreign tax rates on the foreign income of U.S. multinational companies (MNCs), over the 2012-2024 period. The report was prepared for the Alliance for Competitive Taxation.

The average **foreign** tax rate on the foreign income of U.S. MNCs was calculated from company financial statements as a weighted average of the current provision for foreign taxes divided by foreign earnings before tax, limited to companies with non-negative foreign earnings in any given year. Where foreign earnings are not separately stated, they are estimated as total earnings less domestic earnings.

The average **U.S.** tax rate on the foreign income of U.S. MNCs is calculated based on aggregated data reported on Internal Revenue Service (IRS) Form 1118 (foreign tax credit) published by the IRS Statistics of Income (SOI) Division. U.S. tax is estimated as 21 percent (35 percent before 2018) of foreign taxable income less foreign tax credits used. Foreign taxable income includes income from all sources, including (taxable) dividends, passive income, general limitation income, section 901(j) income,¹ income resourced by treaty, global intangible low-taxed income (GILTI), and foreign branch income. The average U.S. tax rate is calculated as U.S. tax after foreign tax credits divided by the sum of (1) foreign taxable income, (2) domestic expenses that reduce the foreign tax credit limitation but are not directly allocable to foreign source income, and (3) net operating losses.² SOI tabulations of Form 1118 currently are available only through 2022 and were not published for 2019.

Executive Summary

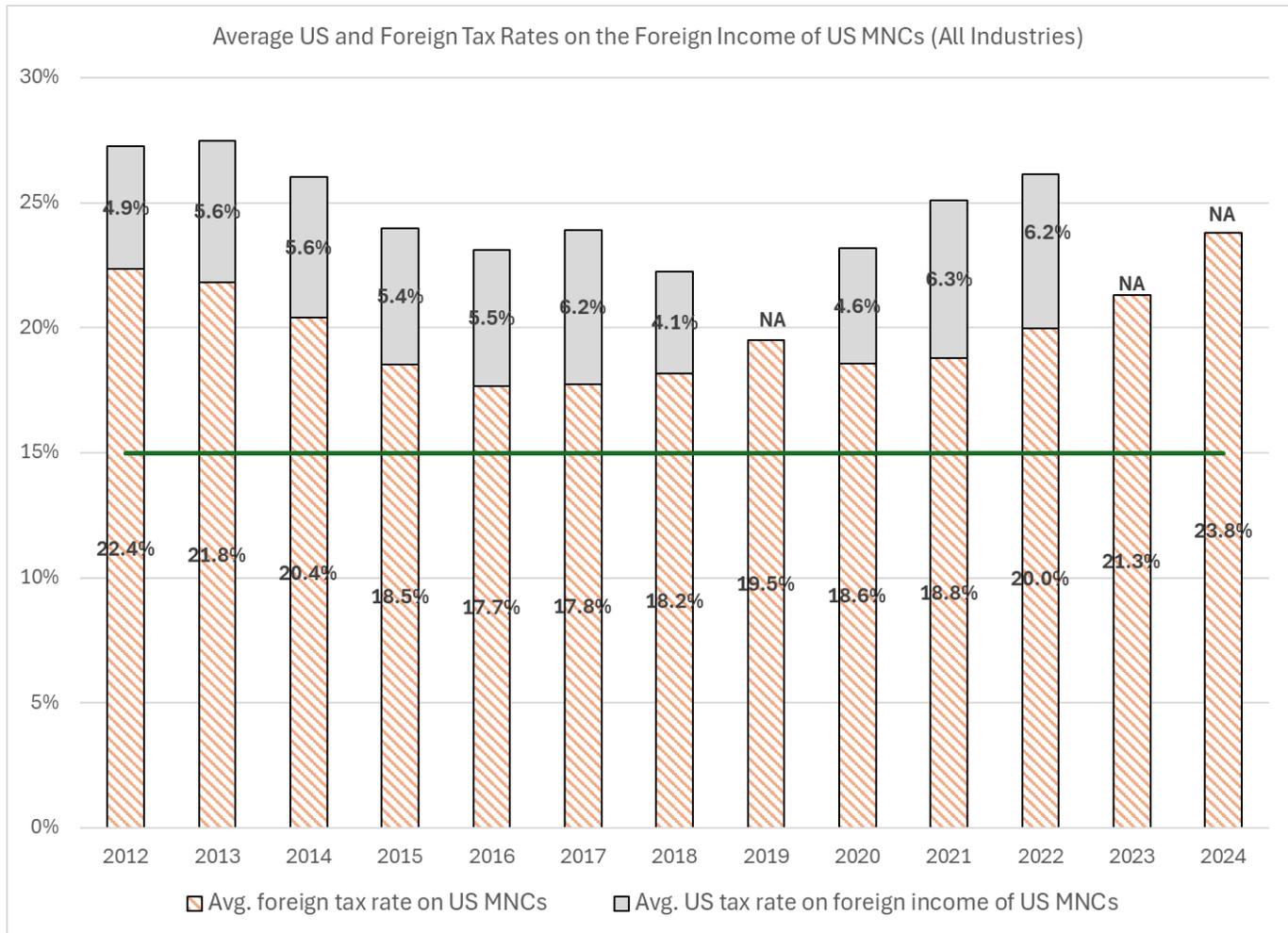
On average, U.S. multinational companies pay substantially more than a 15-percent combined U.S. and foreign tax rate on their foreign income, both before and after the 2017 Tax Cuts and Jobs Act (TCJA). Moreover, if State income taxes and deferred taxes on GILTI were included, as under the 15-percent global minimum tax developed under the auspices of the Organization for Economic Cooperation and Development (OECD), the average tax rates would be even higher than indicated in this report.

¹ Section 901(j) income relates to foreign income earned in countries ineligible for the foreign tax credit due to U.S. sanctions or other policy concerns.

² The addback of domestic expenses and net operating losses to taxable income is intended to make the denominator of the U.S. tax rate that is based on IRS data more similar to the denominator of the foreign tax rate that is based on foreign income as reported on the financial statements of companies with positive foreign income.

Results

The following chart shows the average foreign and U.S. tax rates on the foreign income of U.S. MNCs for all industries based on the methodology described above.



The average foreign tax rate on the foreign income of U.S. MNCs exceeded 15 percent in every year over the 2012-2024 period.

Combined with the residual U.S. tax on the foreign income of U.S. MNCs, the average tax rate on the foreign income of U.S. MNCs exceeded 26 percent in 2022, the most recent year for which data on U.S. taxes paid on the foreign income of U.S. MNCs is available.

These average tax rates exclude (1) deferred taxes on GILTI, and (2) taxes imposed by the 21 U.S. States that include some GILTI in their tax bases³, both of which are accounted for in the 15-percent global minimum tax (i.e., Pillar Two) developed under the auspices of the Organization for Economic Cooperation and Development.

³ See, J. Walczak, State Implications of the GILTI to NCTI Conversion, Tax Foundation, July 9, 2025.

Data Limitations

The methodology used in this report does not include U.S. Tax Cuts and Jobs Act transition tax paid on pre-2018 earnings under of foreign affiliates of U.S. companies that use the calendar year for financial accounting purposes. For taxpayers that do not use the calendar year for financial accounting purposes, transition tax may be included in the 2018 tax year but, except in rare cases, not in subsequent years.⁴

Due to limitations in the publicly available data, the following considerations should be kept in mind in interpreting the results in this report: (1) the SOI data do not separately break out branches, so they are included in the calculations; (2) the SOI data include companies with negative earnings; and (3) the SOI data include 10-50 companies (i.e., foreign companies that are not controlled foreign corporations (CFCs)) as well as non-public companies.

⁴ For tax year 2017, filers of Form 1120 were instructed not to include section 965 amounts on their Forms 1118. See <https://www.irs.gov/pub/irs-news/appendixq2.docx>. Consequently, the 2017 SOI data should exclude section 965 amounts. About 60 percent of transition tax was paid in tax year 2017. Some taxpayers had controlled foreign corporations with 1-month deferred tax years (e.g., November 30 year-ends) or, in rare circumstances, specified foreign corporations owned through minority partnership interests with different year-ends. In these cases, the transition tax with respect to those foreign affiliates would have been picked up in tax year 2018 (or, in very rare circumstances, even later). For tax year 2018, filers of Form 1120 were instructed to include section 965 amounts on their Forms 1118. See <https://www.irs.gov/pub/irs-prior/i1118--2018.pdf>. The section 965 amounts are not separately stated on these Forms 1118.

