Global Intangible Low-Taxed Income, 2020-2030: Revised Estimates for the U.S. and Massachusetts

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Parameters:

Enactment Date:	2020
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Summary

PWBM projects that U.S. multinational corporations will generate about $4.6 trillion in Global Intangible Low-Taxed Income over the 10-year period from 2021 to 2030. PWBM estimates that 3 percent of this amount, or about $140 billion, would be apportioned to Massachusetts.

Projections, 2020-2030

Table 1 presents PWBM's projections of total Global Intangible Low-Taxed Income (GILTI) reported by all U.S. multinational corporations (MNCs) and the amount that would be apportioned to Massachusetts from 2020 to 2030.

PWBM projects that MNCs will generate $380 billion in GILTI in 2020, about $12 billion (or 3 percent) of which would be apportioned to Massachusetts. Over the 10-year period from 2021 to 2030, PWBM projects that MNCs will generate $4.6 trillion in GILTI in total, about $140 billion of which would be apportioned to Massachusetts.

Assumptions

Projections of growth in MNCs' foreign income are based on the Congressional Budget Office's January 2020 economic baseline. Other economic and external factors that affect the amount of GILTI (such as MNCs' capital intensity and foreign tax rates) are generally held constant at recent levels.

PWBM's projections assume that the distribution of MNCs' reported income across their foreign affiliates is determined partly by tax planning considerations. A change in the effective tax rate faced by one entity in a multinational group may induce shifts in the location of reported income within the group to lower the

group's overall tax liability. These shifts reflect MNCs' ability to change the location of reported income without changing the location of the economic activity that generated it. Consistent with conventional revenue estimation methodology, PWBM's projections assume that capital, labor, and other real economic variables do not change in response to changes in tax rates.

Table 1. GILTI apportioned to Massachusetts

Billions of Dollars

	All U.S. multinational corporations	Apportioned to Massachusetts
2020	382	11.6
2021	388	11.8
2022	402	12.2
2023	424	12.8
2024	445	13.5
2025	464	14.1
2026	462	14.0
2027	473	14.3
2028	486	14.7
2029	503	15.2
2030	520	15.8
Total, 2021-2030	4,568	138.4

Estimates of GILTI by industry are apportioned to Massachusetts based on the state's shares of total U.S. sales, payroll, and property in each industry. For most industries, GILTI is apportioned using a weighted average of the three shares, with the sales share double-weighted. For manufacturing industries and mutual funds, GILTI is apportioned based on the sales share only. Estimates of the three factors by industry are held constant throughout the projections.

Sources

PWBM's estimates for all U.S. multinational corporations are based primarily on data collected from federal corporate income tax forms – including Form 5471, Form 8975, Form 1118, and Form 1120. Additional information comes from the U.S. balance of payments and from a mandatory survey of U.S. multinationals conducted by the Bureau of Economic Analysis (BEA). Data from these sources is generally available through 2016 or 2017. Projections through 2030 and estimates of GILTI are from PWBM's tax microsimulation model, which simulates corporate income tax returns for a representative synthetic sample of U.S. corporations.

PWBM's estimates of Massachusetts' shares of sales, payroll, and property by industry are based on data from BEA, including the input-output accounts, GDP by state, wages and salaries by state, and the fixed asset accounts. Data from these sources is available through 2017.

PWBM's current estimate of $4.6 trillion in GILTI over the 10-year period from 2021 to 2030 is $1 trillion lower than its preliminary estimate of $5.6 trillion.[1] The decline in projected GILTI is attributable to three factors:

- PWBM incorporated recently released or revised historical data for 2017 and 2018. Based on this more recent information, PWBM lowered its projection of the amount of the income reported in certain countries considered tax havens. This change accounts for $660 billion (or two thirds) of the revision.
- PWBM's preliminary estimate used economic assumptions based on the Congressional Budget Office's August 2019 economic baseline. PWBM's current estimate uses assumptions based on the agency's January 2020 baseline. This change accounts for $175 billion (or about 18 percent) of the revision.
- PWBM's preliminary estimate was on a static basis, meaning that it did not reflect tax planning responses to changes in effective tax rates. PWBM's current estimate does reflect these responses. This change accounts for $155 billion (or about 16 percent) of the revision.

Table A1 shows the effects of each of these factors on PWBM's projections by year.

Table A1. Sources of revisions to GILTI, 2020-2030

Billions of Dollars

| | Revised | Preliminary | Difference | | | |
| | | | | Attributable to... | | |
			Total	Historical data	Economic assumptions	Tax planning responses
2020	382	428	-46	-51	5	-1
2021	388	435	-47	-52	6	-1
2022	402	459	-57	-55	-1	-1
2023	424	487	-63	-58	-5	-1
2024	445	515	-70	-61	-8	-1
2025	464	542	-78	-65	-12	-1
2026	462	567	-105	-68	-16	-21
2027	473	596	-123	-71	-23	-29
2028	486	625	-139	-75	-32	-33
2029	503	654	-150	-78	-38	-35
2030	520	683	-163	-81	-45	-36
Total, 2021-2030	4,568	5,562	-994	-663	-175	-156

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[1] PWBM issued preliminary estimates on January 24th, 2020. Contact Policy-PWBM@wharton.upenn.edu to request a copy.