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Congress Changes the FDII Deduction in the One Big Beautiful Bill

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Congress made a number of changes in the One Big Beautiful Bill Act (H.R. 1), signed into law on July 4, 2025, impacting the Foreign-Derived Intangible Income (FDII) deduction in Section 250. [Click here for a link to a version of section 250 with changes redlined.](#) Three of the changes stand out.

1. The deduction haircut is permanently set at 33.34%. The new rate is 33.34%. The current rate is 37.5% but Congress previously scheduled a reduction of the rate to 21.875% for taxable years beginning after December 31, 2025.

2. Congress changed the structure and terminology of the deduction formula. Under current law, the formula for computing the “FDII” deduction is:

$$\text{FDII Deduction} = 37.5\% * ((\text{DEI} - (10\% * \text{QBAl})) * (\text{FDDEI} / \text{DEI}))$$

Congress changed the name of the deduction, now foreign-derived deduction-eligible income (FDDEI) Deduction, and provided the new formula:

$$\text{FDDEI Deduction} = 33.34\% * \text{FDDEI}$$

This new formula applies to taxable years beginning after December 31, 2025.

3. Congress revised the allocation provision. Under current law, Congress provides in section 250(b)(3)(A) that DEI equals gross income less six exclusions less “deductions (including taxes) properly allocable to such gross income.” Congress deleted this quoted language replacing it with “expenses and deductions (including taxes), other than interest expense and research or experimental expenditures, properly allocable to such gross income.” Two changes jump out. First, the exclusion of interest expense and research or experimentation expenses, which increases the tax benefit. Second, the addition of the word “expenses” to be allocated in addition to deductions. These changes are effective for taxable years beginning after December 31, 2025.

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