

PLYMOUTH INSTITUTE FOR FREE ENTERPRISE

**BASE EROSION ANTI-ABUSE TAX (BEAT)**

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APRIL 2026

**ADVANCING AMERICAN  
FREEDOM FOUNDATION**

**TOPLINE:** The One Big Beautiful Bill (OBBB) (mostly) prevented a harmful increase to a complicated and inefficient extra tax on U.S. multinational corporations, known as the Base Erosion Anti-abuse Tax (BEAT).

**BACKGROUND:** The 2017 Tax Cuts and Jobs Act (TCJA) improved the flawed corporate and international tax code but put in place a (less) flawed patchwork of international tax provisions, including BEAT. Prior to TCJA, U.S.-based multinational companies would generally owe U.S. taxes on foreign-earned profits that their foreign affiliates sent to the U.S. parent. Double taxation was common for many U.S.-based companies because of this “worldwide” tax system. This incentivized corporate inversions, in which corporations “inverted” to become foreign-parented multinationals to avoid the punitive U.S. taxes. TCJA shifted the corporate tax code away from a worldwide system toward a more territorial system, in which profits tend to be taxed only where they are earned (consistent with most other countries’ tax systems).

Under the new territorial income tax system, lawmakers wanted to ensure that U.S. multinationals did not artificially shift profits (and therefore taxes) out of the U.S. and into foreign affiliates in low-tax countries. BEAT is one tool meant to prevent such profit shifting. TCJA enacted BEAT as a tax on certain intercompany payments made by multinationals with at least \$500 million of company-wide gross receipts if those intercompany payments exceeded 3% of the company’s total deductions. BEAT has proven to be a ham-fisted and ineffective way of trying to tax foreign-shifted profit.

**What OBBB Did:**

- Prevented a scheduled increase in the BEAT tax rate from 10% to 12.5%.
- Set the BEAT tax rate at 10.5% instead.

**Why It Matters?**

- IRS estimates suggest that in 2022 BEAT raised only about 6% of the revenue JCT originally forecast. The tax is more compliance trouble than it’s worth.
- If lawmakers choose to keep BEAT as a tool to reduce profit shifting, it should be redesigned so that it is limited only to payments to affiliates in low-tax countries.

**Where Can I Find the Changes?** OBBB Section 70331; 26 U.S.C. § 59A.

**BOTTOMLINE:** America must make itself the most attractive place in the world for companies to locate. BEAT, a special tax on legitimate intercompany services, is counterproductive to that goal. U.S. multinationals are better off because of OBBB’s reduction in the BEAT tax rate, but they’ be even better off if BEAT was eliminated.

