Discussion of “Watch What I Do, Not What I Say: The Unintended Consequences of the HIA”

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Overview

- A discussant’s nightmare!
- Unintended consequences?
- Provide a picture of those taking advantage of the holiday
- Policy implications?
- Open research questions
Money is fungible!

- Are Members of Congress naïve?
- Experiment demonstrated that firms were not financially constrained when it comes to domestic investment (even though they claimed they were)
- Difficult to use tax policy toward MNCs to influence their domestic investment
Unintended consequences

- Given money is fungible, what should we have expected?
  - Any difference in use of dividends in 2005 than in any other year with transitory low tax rate on dividend repatriations?
  - Aside: Surprised the authors didn’t find significant effect on debt buybacks and executive compensation
Who took advantage of the holiday?

- A small number of mostly large corporations (Redmiles 2008, data from tax returns)
  - Some 843 corporations (of a total of 9,700 corporations with foreign subsidiaries)
  - 29 pharmaceutical corporations repatriated roughly 32% of all qualifying dividends
  - 15 computer manufacturing corporations repatriated roughly 11%
  - 34 semiconductor firms repatriated about 4%
  - These 78 firms accounted for almost half of all qualifying dividends!
Repatriations by industry of parent

- Computer and electronic manufacturing
- Pharmaceutical manufacturing
- Other manufacturing
- Wholesale and retail trade
- Finance, insurance, real estate
- Information
- All other

Other manufacturing
Pharmaceutical manufacturing
Computer and electronic manufacturing
Wholesale and retail trade
Finance, insurance, real estate
Information
All other
Repatriations by industry of subsidiary

Pharmaceutical manufacturing

Other manufacturing

Holding companies

Wholesale and retail trade

Finance, insurance, real estate

All other
Repatriations by country of subsidiary

- United Kingdom
- Bermuda
- Switzerland
- Canada
- Cayman Islands
- Ireland
- Luxembourg
- All Other Countries

- Netherlands
Back to the paper...

- Provide similar information from the BEA data

- Questions: Does BEA data identify qualifying dividends?

- Authors do perform sensitivity analysis
  - If just look at manufacturing or pharma, any result on executive compensation or debt buy downs?
Instruments for dividends

- Why use only dummy variables?
- Instrument #1: Foreign tax burdens
  - Why not use parent’s average repatriation tax instead of an indicator of whether tax is greater than the median? What was the median?
- Instrument #2: Tax haven / holding company
  - What percentage of firms did not have an affiliate in a tax haven or a holding company affiliate?
- Suggestion for another instrument
  - Measure of cash held abroad interacted with 2005 dummy (more on this later)
Policy implications?

- Burden of repatriation tax is important since it bears on the comparison of different systems of taxation of cross border investment.
  - In particular, bears on comparison between exemption systems (no repatriation tax) and worldwide systems like the current U.S. system.
  - An important question is whether deferral under the current system is as good as exemption.
Policy implications?

- Some (including myself) have suggested that under current system firms have alternatives to repatriations
  - Can borrow against passive assets held abroad. Earnings in low-tax country can support domestic investment without bearing the U.S. corporate tax. (But interest rate may ↑ with stock of debt)
  - Can use “triangular strategies”. Low-tax affiliate invests in high-tax affiliate which becomes vehicle for tax free repatriation.
  - Another strategy uses tiers of subsidiaries to “blend” repatriation tax rates

- Repatriation tax can be avoided
  - Would predict that no one uses the holiday!
Policy implications?

- Results of paper suggest that these alternatives to repatriation, in fact, are not costless … but do they give us information about excess burden of the repatriation tax?

- As authors state, results show that firms can’t eliminate the burden of repatriation taxes

- Grubert (July 2009) lays out a model in which there is no conceptual link between holiday repatriations and the burden of the tax
Open research questions

- Tax holidays
  - Does finding a big temporary response to a tax holiday say anything about the welfare cost of the tax in question?
  - What are the welfare implications of tax holidays?

- Did the tax holiday discourage repatriations post holiday?
Great paper

- The type of research that makes a difference in DC!
- Tax holiday has been proposed and dismissed but will certainly be proposed again
- Demonstrates the difficulty of using tax policy towards multinationals to increase domestic investment