Analytics

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RE: Repatriation: Set the Cash Balances Free!

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Again and again and again politicians have to learn that raising taxes above a reasonable level results in less tax revenue by encouraging tax avoidance. The current tax rate of 35% on the repatriated income of the foreign operations of U.S. firms, the highest rate in the developed world, is a classic example.

Rather than turn over more than one-third of their net income earned abroad to the U.S. government, companies simply keep that net income overseas. This means, of course, that jobs and investment, together with all the economic multiplier effects, remain overseas as well. In addition, U.S. companies seek out overseas tax havens and reconfigure company ownership to become foreign based.

The most comprehensive research on taxes and income repatriation simply confirm what economists and common sense predicts.

Dr. Robert Shapiro is, Chair of the Globalization Initiative for NDN, a center-left think tank and former Under Secretary of Commerce for Economic Affairs in the Clinton Administration, and Dr. Aparna Mathur, is a resident scholar at the American Enterprise Institute. After an econometric analysis of two decades of data on repatriation, Shapiro and Mathur conclude that "enacting temporary tax relief for repatriated foreign earnings in 2004 brought back several hundred billion dollars for the U.S. economy, and ended up providing billions for the Treasury."

"Enacting repatriation again should have the same effects at a time when revenues are scarce. While it would be better for the American economy to put in place corporate tax reforms suited to the realities of our new global economy, taking the temporary step of another round of "repatriation relief" would be a fiscally sound option that policy makers should consider in the months ahead."

The central complaint of critics is that U.S. companies will not hire more U.S. employees from the additional repatriated income. Instead the companies will pay down their debt and use dividends and repurchasing to drive up the value of their stock (to the benefit of top management).

The results from the most recent rate cut refute this concern. The Homeland Investment Act (HIA) of 2004 provided a one year reduction of the tax rate on repatriated income down to 5.25%. Repatriation surged during the grace year and that effect continued for at least three more years. The estimates are that by the end of a decade, the rate reduction will have generated a net gain for the U.S. Treasury of $23.5 billion.

The surge of repatriated income during the tax cut year resulted in an estimated gain of 92,000 jobs in the U.S. economy. Especially large employment gains were recorded in manufacturing, finance, and retail. Nevertheless, the macroeconomic boost in hiring extended across all but a handful of industries. There is no single "silver bullet" for the lagging U.S. economy. We are suffering from death by 1,000 cuts. This means remediating the situation one misinformed policy at a time. Reducing the repatriation tax rate would be one positive policy change, helping to free up to an estimated $1.2 trillion in foreign cash balances of U.S. firms to come home.

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