The repatriation tax trap
Rodney P. Mock
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Lowering the highest corporate tax rate for U.S. corporations is one thing, and a good thing. Enacting another "tax holiday" for overseas earnings is an entirely different matter.

Why should we reward certain U.S. multinational corporations for their unpatriotic tax-dodging behavior of shipping jobs and profits overseas? Meanwhile, corporations remaining in the United States are penalized for not incorporating foreign subsidiaries and storing their profits in them. That is exactly what has occurred in the past, and, if the Republican presidential candidates get their way, it will happen again.

Last month, the U.S. Senate Permanent Subcommittee on Investigations announced the results of its survey of 27 U.S. multinational corporations holding more than half a trillion dollars in tax-deferred foreign earnings. Participants of the survey included such big-name tech companies as Apple, Cisco, Google and Microsoft, companies that have been fleeing overseas for years yet providing us with the digital paradise of technology we all enjoy so much.

These same corporations support a coalition called Win America, which is lobbying hard for another tax holiday - stating more than $1.4 trillion "trapped overseas" would provide an "immediate jolt to our economy" and "create new jobs" if only such earnings could be repatriated. We hear the same job-creation slogans from the GOP presidential candidates.

According to the subcommittee's survey, however, most of these earnings are not trapped at all. They are already in the United States. In fact, because of a special exception in the tax code, the subcommittee's data show that 46 percent of the participants' tax-deferred earnings - about $250 billion - are maintained in U.S. bank accounts or invested in U.S. assets such as U.S. Treasurys, U.S. stocks (other than their own), U.S. bonds and U.S. mutual funds.

Even though these earnings are benefiting from the stability and security of U.S. banks and investments, they nevertheless are considered foreign earnings and not subject to U.S. taxation (although, once invested, if they produce earnings, that additional income could be subject to U.S. taxation).

But wait a minute, I thought the foreign earnings were "trapped" overseas, and if we could just bring them back, it would stimulate the economy and create jobs. A win-win.

Republican Michele Bachmann, who has suspended her campaign for president, stated on CBS News'
"Face the Nation" that "we have over $1.2 trillion in earnings that we could bring immediately to kick-start the economy, which would be a true stimulus. ... We could bring that money in at a zero-percent tax rate."

GOP candidates Rick Santorum, Rick Perry, Jon Huntsman, Mitt Romney and Ron Paul also have embraced the stimulus myth and are demanding a "tax holiday." They want either no tax or an anemic rate of taxation on repatriated earnings. Newt Gingrich largely has been silent on the issue, although he did say at the ABC News-sponsored Iowa Republican debate that he would lower the corporate tax rate to 12.5 percent from its current high of 35 percent, which would "bring in at least $700 billion in repatriated money back from overseas."

President Obama has indicated previous opposition to a stand-alone tax holiday outside comprehensive corporate tax reform.

However, we have been through this tax holiday exercise once before, and it was a dismal failure for the American people.

In 2004, Congress passed the American Jobs Creation Act, which allowed U.S. parent corporations to repatriate earnings held offshore in their foreign subsidiaries at an effective tax rate of 5.25 percent. According to the legislative history of the Jobs Act, it was intended to be a "one-time affair," to bring earnings back home into the United States, to stimulate the economy with private investment and - most importantly - create jobs.

Not all industries benefited equally from the Jobs Act, though. The most significant repatriating firms were largely in the pharmaceutical and tech industries - the same industry sectors that aggressively lobbied Congress for the Jobs Act. Those sectors are well positioned to benefit because they hold their stockpiles of cash in extremely low-taxing jurisdictions such as the Netherlands, Switzerland, Bermuda and Ireland.

According to an earlier report by the Senate subcommittee:

-- Instead of creating jobs, repatriating firms reduced their workforce.

-- Instead of stimulating private investment, repatriating firms increased executive compensation and repurchased company shares.

The Jobs Act also had the unintended consequence of encouraging firms to further stockpile their earnings overseas in anticipation of a future tax holiday. Billions upon billions of stockpiled cash creates quite a bit of political leverage.

The previous subcommittee report also indicated U.S. corporations now have more than $2 trillion in cash assets domestically in addition to their tax-deferred foreign earnings invested here. Who, exactly, is winning here?

We ate the cheese of this tax-policy mousetrap once, like blind mice. Hopefully, we learned our painful
Holiday tax rate

Seven Republican presidential hopefuls have agreed to a no-to-low percentage tax rate to repatriate corporate revenues earned overseas. The move, favorable to big business, might not stimulate domestic growth and jobs, however.

Rodney P. Mock is an associate professor of accounting at the Orfalea College of Business at California Polytechnic State University in San Luis Obispo and author of "Permanently Reinvested Earnings: Priceless" (Tax Notes). Send your feedback to us through our online form at sfgate.com/chronicle/submissions/#1

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