

The Effect of Financial Accounting on the Location, Reinvestment, and Repatriation Decisions of Multinational Companies

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Abstract:

We survey nearly 600 tax executives about company location, reinvestment, and repatriation decisions to gain a better understanding of some of the factors that are important when firms make these decisions. Prior literature does not examine the importance of the ability to avoid recording the U.S. income tax expense on foreign earnings for financial accounting purposes. Our survey evidence is consistent with the ability to avoid this financial accounting expense being important in decisions about where firms locate operations and decisions about whether to reinvest or repatriate foreign earnings. Indeed, the importance of avoiding expense recognition is statistically indistinguishable from the importance of avoiding the real, cash taxes. This result is important in light of the decades of research on location and repatriation decisions that examines cash tax implications but has heretofore not investigated the importance of financial accounting effects. Our results suggest that financial reporting considerations could be one cause of “trapped” equity and high cash holdings.

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1. Introduction

Economic theory dictates that, in a perfect setting, corporate investment should occur if and only if it adds to firm value. In a multinational company, funds should be transferred between domestic divisions and foreign subsidiaries so as to permit this value maximizing investment to occur. In reality, the tax code introduces constraints that inhibit the flow of funds between business units, which in turn affects investment choices. For example, under some circumstances a U.S.-based multinational would have to pay tax on profits transferred from a foreign subsidiary back to the domestic parent (i.e., a repatriation tax). This repatriation tax often gives multinationals an incentive to defer the date of repatriation to avoid paying tax on these profits in the current period.

In addition to being able to defer these real, cash tax payments, multinationals can, by declaring earnings “permanently reinvested” overseas, avoid reporting on their financial statements the U.S. income tax expense related to these permanently reinvested earnings.¹ Traditional financial economics would argue that the “paper” income tax expense recognized on financial statements should not affect corporate decision-making. To the contrary, prior research indicates that financial statement reporting considerations do in fact affect real corporate decisions (see Graham, Harvey, and Rajgopal, 2005 and the references therein). In addition, anecdotal evidence indicates that accounting income tax expense effects are important in the repatriation decisions. For example, James Tisch, CEO of Loews, wrote a letter to the editor of the *Wall Street Journal* stating that, “Unbeknownst to many (including legislators and Joint Committee on Taxation estimators) GAAP allow corporations to avoid the accrual of taxes on foreign earnings...The results of the interaction of our repatriation tax laws and the GAAP

¹ See Hanlon (2003) for a general discussion of the difference between cash taxes and the income tax expense for financial accounting purposes. In short, the income tax expense is an accrual based expense measure and does not necessarily equal the cash taxes paid.

accounting rules is that very little in the way of foreign earnings are repatriated....The accounting penalty for repatriating even a penny of foreign profits is so great that those foreign funds will not come back to the U.S....” (July 5, 2008).

There is a substantial body of work in economics, finance, and accounting that studies firms’ real investment and repatriation decisions.² However, due perhaps to data limitations, no research to date has examined whether financial accounting considerations related to the avoidance of income tax expense recognition affect corporate location and reinvestment and repatriation decisions. In this paper, we take a step towards filling this void by surveying tax executives to obtain data about the importance of the financial expense deferral in these decisions.

Shackelford, Slemrod, and Sallee (2008) discuss the need for research that examines both the tax and accounting implications of real corporate investment decisions. The authors state that, because tax and accounting interact in important ways that affect real decisions, researchers should incorporate both tax and accounting choices and implications when analyzing and interpreting corporate behavior. The authors develop a model to formalize the idea that when managers value flexibility in their tax and financial reporting, they are more likely to make real decisions that create an environment that allows such discretion. For example, Shackelford et al. (2008) hypothesize that the discretion in financial reporting that a firm gains via foreign operations gives companies an incentive to locate in low-tax countries, e.g., tax havens. This incentive occurs because generally the less the foreign tax, the greater the U.S. tax due upon repatriation (again because of the way the foreign tax credits work), and thus the larger the financial accounting expense that can remain unrecognized by locating abroad, reinvesting

² See Hartman, 1985; Scholes et al., 2008; Hines and Hubbard, 1990; Altshuler and Newlon, 1993; Altshuler, Newlon, and Randolph, 1995; Desai, Foley, and Hines, 2001; Altshuler and Grubert, 2002; Blouin and Krull, 2008; Brennan, 2008; DeWaegenaere and Sansing, 2006; Oler, Shevlin, and Wilson, 2007; among others

foreign profits, and designating those profits as permanently reinvested. Because the non-recognition of the expense is valuable, GAAP rules could have the effect of encouraging investment in tax havens.

Our survey evidence contributes to the prior literature in several ways. Among other things, we are able to inquire about 1) whether the financial accounting effects of being able to designate earnings as permanently reinvested under Accounting Principles Board Statement No. 23 (APB 23) affect the decisions of operation location, reinvestment, and repatriation, and 2) the relative importance of the deferral of cash income taxes and the deferral of the income tax expense recognition for financial accounting purposes. Our survey evidence indicates that the ability to avoid or defer the recording of income tax expense for financial accounting is an important consideration in real corporate investment decisions regarding location of operations and whether to repatriate or reinvest earnings. For example, 31 percent of the respondents rated income tax expense deferral under APB 23 as being important in their decision to locate operations outside of the U.S. In addition, 44 percent of respondents stated that deferral of the financial accounting tax expense is important in their decision of whether to reinvest earnings outside of the U.S. The average rating of financial accounting implications for the decision to reinvest or repatriate is statistically significantly larger than a null of financial accounting considerations not being important. More interestingly, for both decisions – where to locate facilities and whether to reinvest or repatriate – the importance of the financial accounting expense deferral is not statistically different than the importance of cash tax deferral when making these decisions. This result is surprising in light of the decades of research on the location and repatriation decisions which tests the cash tax implications but has heretofore not examined the financial accounting implications. Furthermore, in addition to the evidence in

Foley et al. (2007) about repatriation taxes contributing to large cash holdings of firms, our results suggest that financial accounting expense deferral may be another contributing factor.

Based on prior literature we also analyze the data conditional on firm size, ownership, level of effective tax rates, average level of cash tax rates on repatriations, and other variables to shed light on the implications of various theories in prior research. For both the location and repatriation decisions the data reveal that publicly traded firms, firms with a significant amount of foreign assets, firms with low reported effective tax rates, and firms with high research and development spending all rate financial accounting expense deferral as an important factor in their decision making process more often than firms without these characteristics.

We also examine a specific setting of a temporary tax price change in dividend repatriations to investigate the factors (including financial accounting statement effects) that were important when firms were considering how to react to this tax price change. This specific setting was the American Jobs Creation Act of 2004 which granted a one-time dividend received deduction (DRD) against repatriated foreign earnings of U.S. multinationals. The DRD provision exempted 85 percent of qualified dividends repatriated from U.S. tax, which effectively reduced the rate of U.S. tax on the repatriated dividends to 5.25 percent (15 percent*35 percent statutory tax rate). This tax reduction constituted a temporary change in the tax price of dividend repatriation and thus, altered the incentives to repatriate earnings back to the U.S.³ We ask the tax executives about the importance of the financial accounting effects in their response to the tax price change. Our survey data reveal that over 40 percent of respondents state that the potential additional financial accounting expense was an important factor they considered when deciding whether and to what extent to repatriate earnings under the

³ Most estimates of the amount of dividend repatriated that qualified for the DRD exceed \$300 billion (Redmiles, 2007).

AJCA. Indeed, 16 percent of respondents said that their firm did not repatriate earnings to the maximum amount allowed because of the adverse financial statement effects.

One interesting feature of the Act was that the qualified repatriations were limited to the amount of designated permanently reinvested earnings (or \$500 million whichever was greater) but were not required to be repatriated *from* permanently reinvested earnings. Thus, the outcome for financial accounting purposes in terms of the effect on income could vary across firms. For example, if a firm repatriated permanently reinvested earnings for which no U.S. tax had been previously accrued, the repatriation would increase the firm's U.S. tax expense by the 5.25 percent tax on the repatriated earnings (less any available foreign tax credits on those earnings). On the other hand, if a firm repatriated earnings that were not designated as permanently reinvested, the repatriation of the funds and the associated 5.25 percent tax could decrease the firm's tax expense (and increase earnings) because those earnings would have had a higher rate of tax accrued than the 5.25 percent (less credits). Thus, the repatriation of dividends and payment of the 5.25 percent tax under the Act could have resulted in increased earnings. Our results show that 26 percent of respondent firms repatriated earnings that were not previously designated as permanently reinvested and thus increased earnings through the repatriation.

The remainder of the paper proceeds as follows. Section 2 discusses the tax and accounting rules regarding the foreign earnings of a U.S. multinational as well as the AJCA of 2004. Section 3 discusses the prior literature regarding location decisions and the reinvestment or repatriation decision. Section 4 discusses our survey approach, how we obtained our sample, and descriptive data on the respondents. Section 5 analyzes the responses to each survey question. Section 6 concludes.

2. Taxation and Accounting Rules for Foreign Earnings

2.1 Taxation of foreign earnings

The U.S. taxes its residents' (corporate and individual) income on a worldwide basis.⁴ This means that U.S. taxes are incurred on income earned in the U.S. as well as on income earned abroad. However, an important feature of the U.S. tax system is what is known as deferral. In general, a U.S. parent is taxed on its subsidiaries' foreign income only when it is repatriated back to the parent corporation.⁵ Until repatriation, earnings reinvested in foreign operations are allowed to grow U.S.-tax free.^{6,7}

To avoid subjecting U.S. multinationals (and individuals) to double taxation, the U.S. allows a foreign tax credit against U.S. taxes for income taxes paid to foreign governments. These credits are limited, however, to the amount of U.S. tax liability on foreign income (before any foreign tax credit). Thus, in terms of taxes due upon repatriation of foreign dividends, in general, if a firm has an average foreign tax rate that exceeds the U.S. tax rate, then the firm will not owe any incremental U.S. tax upon repatriation (nor will it receive a rebate from the U.S. government). These firms are said to be in an excess credit position (or are said to have binding

⁴ The U.S. system is really a "hybrid" tax system (as are most countries') because the U.S. taxes worldwide income but allows for deferral and foreign tax credits.

⁵ Deferral is only available for U.S. taxes on earnings of foreign subsidiaries of U.S. parents; it is not available for the earnings of a foreign branch.

⁶ There are provisions, such as the Subpart F rules, which aim to discourage U.S. firms from taking full advantage of deferral. Under these rules, certain foreign income of foreign subsidiaries is not eligible for deferral and is subject to immediate taxation in the U.S. Subpart F income includes, among other items, passive income of the foreign subsidiary.

⁷ The earnings for the foreign subsidiaries are not consolidated and taxed currently because for tax purposes the consolidation rules are different for domestic and foreign subsidiaries. For tax purposes, consolidation onto a single return can be elected, but is not required, when direct or indirect ownership of a *domestic* subsidiary is at least 80 percent in terms of voting power and value. Foreign subsidiaries generally cannot be included in the domestic tax consolidation, and thus neither are their earnings. If the foreign subsidiary had income effectively connected with a U.S. trade or business then that income would be subject to U.S. tax, however the foreign subsidiary still would not be part of the tax consolidation with the U.S. parent.

foreign tax credits).⁸ Conversely, if a firm has an average foreign tax rate that is less than the U.S. tax rate, the firm will receive full credit for the foreign tax paid (or deemed paid) and will have to pay U.S. tax in the amount of the differential between the U.S. tax rate and the foreign tax rate times the foreign earnings. These firms are said to be in a deficit credit position (or are said to have nonbinding foreign tax credits).

2.2 *Accounting for foreign earnings and the U.S. taxation of those earnings*

Generally Accepted Accounting Principles are not concerned with the source of a company's income. Thus, the deferral concept in tax is an important distinction from financial accounting. For financial accounting purposes, any subsidiary greater than 50 percent owned, whether incorporated in the U.S. or in a foreign location, is required to be consolidated on the financial statements. Thus, the financial statements will include the income or loss of foreign subsidiaries that are more than 50 percent owned and the representative share of income or loss of foreign entities owned between 20 and 50 percent (under the equity method of accounting) while the tax return will not include any of these amounts.⁹ Instead, the tax return will include any dividends received from these entities (while the financial statements will not include these dividend amounts).

⁸ Excess foreign tax credits can be carried back and forward. Statistics of Income data for the year 2002 reveals that the excess foreign tax credit carryovers into the year 2002 were significant: the carryover was equivalent in amount to 42 percent of the total foreign taxes paid, accrued, and deemed paid for the year 2002. These data include 138,000 corporate returns sampled from over 5.3 million active corporate returns (Forms 1120, 1120-L, 1120-F, 1120-PC, and 1120-REIT).

⁹ Recent changes to the financial accounting rules will make this difference potentially larger with the option to adopt fair value accounting under SFAS 157 and SFAS 159. Under these standards a firm can choose to adopt fair value accounting for 20 percent – 50 percent investments in another entity. Further discussion is beyond the scope of this paper. However, the point that the fair value increases or decreases would be income for book purposes whether domestic or foreign, retains the point that GAAP (nor International Financial Reporting Standards (IFRS)) does not distinguish between domestic and foreign income.

A U.S. corporation must generally compute deferred tax assets and deferred tax liabilities for all temporary differences that exist between the book and tax bases of its worldwide assets and liabilities. For a multinational, the difference between current year earnings and current year dividends is a temporary difference on which deferred taxes would normally be accrued. However, an exception is provided in Accounting Principles Board Opinion No. 23 (APB 23), which states that the accrual for taxes that would be due on repatriation should not be recognized for undistributed earnings of subsidiaries if the indefinite reversal exception applies.¹⁰ In other words, if a firm has foreign earnings in a foreign subsidiary that the company deems to be permanently reinvested (PRE) (i.e., the company does not plan to repatriate the earnings), the firm's financial statement tax provision will not include an accrual of U.S. taxes that would be due on repatriation of those earnings even though the earnings are included in income. Thus, all else equal, if a company has earnings in a low tax country that it reinvests and designates as permanently reinvested, the company will have a lower overall effective tax rate and higher earnings relative to what earnings would be if they were earned in the U.S. or earned in the foreign subsidiary but not designated as permanently reinvested.

2.3 *The American Jobs Creation Act of 2004*

The American Jobs Creation Act was enacted into law on October 22, 2004. A portion of the Act was codified in Internal Revenue Code (IRC) Section 965. Subject to some limitations the AJCA provided that a corporation that is a U.S. shareholder of a controlled foreign corporation (CFC) may elect, for one taxable year, an 85 percent DRD with respect to certain

¹⁰ SFAS 109 retains the indefinite reversal exception in APB 23.

cash dividends it receives from its CFCs.¹¹ This deduction provision effectively reduced the applicable U.S. tax rate on qualified repatriations from 35 percent (less applicable credits) to 5.25 percent (less applicable credits) (15 percent times 35 percent).

The DRD was subject to several limitations. For the purposes of our paper, the only relevant limitation was that the amount of dividends eligible for the deduction was limited to the greater of the following 1) \$500 million, 2) the amount shown on the taxpayer's applicable financial statement as being permanently reinvested outside of the U.S. (the applicable financial statement is the most recently audited financial statement which is certified on or before June 30, 2003 as being prepared in accordance with GAAP and if the taxpayer is required to file with the SEC is so filed on or before June 30, 2003), or 3) if only the tax attributable to the permanently reinvested earnings is disclosed then the limitation is the amount of tax divided by 35 percent.¹²

3. Prior Literature on the Location of Operations and the Reinvestment or Repatriation of Foreign Earnings

3.1 Location decisions

In deciding where to locate operations, there are many factors to consider. For example, the infrastructure, labor supply, culture, economy, political risk, geographic location in terms of distance to customers and distance from the U.S., financing, and the tax rates and policies in the locations where operations might be located.

The extent to which foreign country taxes impact location decisions has been studied in prior literature. For example, Wilson (1993) investigates the role of taxes in location decisions

¹¹ See IRS Notice 2005-10 for the definition of cash dividends (dividends defined in which IRC Sections qualify). The election could only be made for one of the following years 1) the last tax year that began after October 22, 2004 or 2) the first tax year that began during the one year period beginning on October 22, 2004.

¹² For more details on the AJCA and the DRD see IRC Section 965, IRS Notice 2005-10, Blouin and Krull (2008), Brennan (2008), Graham et al. (2008), and others.

through interviews with nine companies. Wilson's (1993) evidence leads him to conclude that tax considerations largely dictate location decisions for business activities where nontax costs are low, such as administrative centers. However, for manufacturing location decisions he reports that nontax considerations are very important, even when the final decision is to locate in a low tax country.

Kemsley (1998) examines a much broader set of companies and tests whether the ratio of exports to foreign production varies with export incentives and foreign country tax rates.

Kemsley (1998) reports that taxes matter such that greater export incentives are associated with higher exports and lower host country taxes are associated with a lower ratio of exports to foreign production.¹³

There are a large number of studies in economics that attempt to estimate the effect of host country taxation on foreign direct investment in a country. For example, Grubert and Mutti (2000) use tax returns of 500 U.S. multinationals and estimate that a lower tax rate which increases the after-tax return to capital by one percent is associated with a roughly 3 percent higher rate of capital investment. Indeed, DeMooij and Ederveen (2003) compare the results of 25 empirical studies and conclude that the median value of the tax rate elasticity in the literature is around 3.3 percent – a 1 percent reduction in the host country tax rate raises foreign direct investment in that country by 3.3 percent.¹⁴ Thus, there is substantial evidence regarding host country taxation and its effect on location decisions. However, to our knowledge, no empirical

¹³ Single (1999) asked sixty-six experienced tax executives of major U.S.-based multinationals in the manufacturing industry to review a case study involving a subsidiary plant location scenario and evaluate the relative importance of all the location-specific factors. Five of the factors were tax-related: Corporate tax rate, tax holidays, the presence of a treaty with the U.S., withholding rates, and accelerated capital write-off provisions. Single (1999) reports that all tax factors ranked among the lower half of all the factors listed in terms of importance in the decision.

¹⁴ See Altshuler, Grubert and Newlon (2001), Devereux and Freeman (1995), Hines (1996, 1997, and 1999), and Slemrod (1990).

study has examined the importance of financial accounting income tax expense deferral in the location decision of a multinational corporation's activities.

3.2 Reinvestment or repatriation decisions

Previous research has also investigated the effect of taxation on the decision to reinvest or repatriate foreign earnings. Throughout this literature, there has been some level of debate about the extent to which a home country repatriation tax is important. For example, Hartman (1985) demonstrates that, if the repatriation and U.S. taxation of foreign earnings is inevitable and tax rates are constant (and these are crucial assumptions), then U.S. repatriation taxes do not affect the decision of mature firms to either reinvest funds abroad or repatriate the earnings. Others argue firms can (easily) tax plan around the repatriation tax (Altshuler and Grubert, 2002) and thus the tax is not an important factor. In addition, there is the empirical observation that little U.S. tax is actually collected on foreign earnings (Grubert and Mutti, 1985; Altshuler and Newlon, 1993; U.S. Treasury, 2007; U.S. Government Accountability Office, 2008; Dyreng and Lindsey, 2008).

However, the assumptions in Hartman (1985) are very specific and do not apply in many contexts. Empirical tests of firm actions in a cross-section where the repatriation tax varies (Desai et al., 2001), using specific matched tax return data for the parent and subsidiaries (Altshuler and Newlon, 1993), or in the case of a temporary tax price change such as the AJCA (Blouin and Krull, 2008; Brennan, 2008; Graham et al., 2008) all provide evidence consistent with dividend repatriations being sensitive to changes in the repatriation tax price. Further, Foley et al. (2007) provides evidence consistent with the repatriation tax being a determinant of firms' large cash balances. While these studies examine the importance of the home country

repatriation tax, none examine the importance of the financial accounting effect related to the tax. In our survey we ask about both the cash taxes and the financial statement effects in order to 1) contribute to the prior literature about taxes, 2) examine the previously untested financial accounting factor, and 3) use the importance of the repatriation tax as a benchmark for the financial accounting effect.

Two empirical studies investigate permanently reinvested earnings and its effect on firm actions or market pricing. First, Krull (2004) examines whether firms designate earnings as permanently reinvested in an attempt to manage earnings to meet analysts' forecasts (by not having to report the tax expense, thereby increasing earnings per share) and whether the amounts designated as permanently reinvested reflect investment and tax incentives. She finds evidence consistent with year-to-year changes in the amount of permanently reinvested earnings being positively related to the difference between analyst forecasts and pre-managed earnings, suggesting that firms change the amount of earnings designated as permanently reinvested in order to meet analyst forecasts.

Second, Collins, Hand, and Shackelford (2001) report evidence consistent with current capitalization into stock prices of the unrecognized deferred tax liability associated with unrepatriated foreign earnings generated in low-tax jurisdictions. The authors state that, although managers anecdotally comment that they engage in tax planning to enhance stock prices, the current capitalization of future unrecorded taxes suggests that the market does not reward the tax planning stemming from deferring taxes on foreign earnings. The authors also claim that their evidence is consistent with Hartman's (1985) argument that the timing of repatriation does not matter – the market impounds the tax even when management claims the earnings are permanently reinvested.

Neither of these studies, however, examines whether the deferral of income tax expense for financial accounting is an important factor when making the “real” decision of whether to reinvest or repatriate earnings back to the U.S. Ours is the first paper to address this issue.

4. Survey Approach and Sample

We survey tax executives to obtain data on the relative importance of the factors considered when making location and reinvestment decisions. For example, we ask whether cash taxes and/or financial accounting expense deferral are important relative to all other factors companies consider. We also test whether cash taxes are more or less important than financial accounting expense considerations, and we identify the conditions and firm characteristics under which cash and financial accounting concerns are most important.

We developed the survey document with the support of Tax Executives Institute (TEI) and PriceWaterhouseCoopers (PwC). We solicited feedback from members of both of the above groups as well as from academic researchers.

Survey Sciences Group (SSG), a survey research consulting firm, assisted with the survey formatting and programmed an online version of the survey. SSG also professionally formatted a paper version of the survey to be distributed with the final reminder. We had two companies beta test the survey and we made revisions based on their suggestions. The final survey contained 64 questions, most with subparts. The paper version of the survey was 12 pages long. The survey contained many branching questions and as a result many firms were directed to answer only a portion of the questions. See www.ssgresearch.com/taxsurvey for the online version of the survey. The paper version is available from the authors upon request.

An initial email invitation was sent on August 9, 2007 to the 2,794 member firms of Tax Executives Institute (TEI). We examined the list of Fortune 500 companies and identified 45 firms that were not members of TEI. For these firms, PwC supplied the tax executive's name and email address. Three email invitations were returned as undeliverable. On August 15, 2007 we sent a letter via two-day express mail to fifteen companies for which we did not have email addresses. A total of 2,806 companies received invitations to complete the survey.

SSG sent three email reminders throughout August and September. We then sent a paper version of the survey (along with a letter with instructions of how to complete the survey online) during the last week of September and the first week of October. We closed the online survey on November 9, 2007.

A total of 804 firms entered the online version of the survey or sent back a paper version. Sixty of these companies entered no more than one or two responses and thus we delete them from our sample leaving 744 usable responses. The response rate for our survey is 26.5 percent, higher than many prior survey studies. For example, Graham, Harvey, and Rajgopal (2005) obtain a response rate of 10.4 percent, Trahan and Gitman (1995) report a response rate of 12 percent in a survey mailed to 700 executives, Graham and Harvey (2001) obtain a 9 percent response rate, and Brav et al. (2005) report a 16 percent response rate. In addition, Slemrod and Venkatesh (2002) survey tax preparers and corporate taxpayers about compliance costs and obtain a 12 percent response rate from the tax professionals and 9 percent from the taxpayer corporations. Slemrod and Blumenthal (1996) obtain a similar response rate to ours. They survey large corporate

taxpayers about compliance costs and obtain a response rate of 21.8 percent (365/1,672). Thus, our response rate compares favorably with other recent surveys.¹⁵

Because we are interested in U.S. companies' decisions with respect to corporate taxes and the accounting treatment of these taxes, we eliminate eleven firms that indicate they are an S-corporation or other type of flow-through entity and are thus not subject to the U.S. corporate income tax. We also eliminate 29 companies that state they did not file a form 1120 (under the assumption that these companies are also not C-corporations but rather are some type of pass-through entity).¹⁶ We restrict the sample further by eliminating observations for subsidiaries of foreign parents (105 firms) and for responses that state in their comments that their foreign operations were insignificant and thus they were not sure how to respond to the foreign earnings questions (4 firms). We have 595 remaining firms on which we conduct the following analyses. The sample size varies across questions due to branching or incomplete responses for that particular question.

5. Descriptive Statistics, Research Questions, Results, and Inferences

5.1 Descriptive statistics

The survey was divided into four parts. Section A asked general descriptive questions about the companies.¹⁷ These data are summarized in Table 1. In terms of ownership, 75

¹⁵ We believe the support of TEI was very helpful in increasing the response rate. In addition, there seemed to be genuine interest in the topics we asked about as evidenced by the respondents' comments. For example, one company wrote "Appreciate the survey. Interestingly, the survey touches on those tax management areas most important to our company at the moment..." Another commented "I rarely fill out surveys, but was impressed by your questions. The U.S. system for taxing foreign dividends is terrible in so many ways and doesn't even raise revenue." Another respondent just wrote, "Good survey!"

¹⁶ There were 24 companies that actually answered that they filed zero 1120s. There were 5 companies that did not answer the question but were deleted from the sample because by analyzing the other questions in the survey we determined that these companies were likely not C corporations either.

¹⁷ The second part of the survey asked questions about general location and reinvestment and repatriation decisions, with some attention to the AJCA of 2004, the subject of the current paper. The third part focused on the AJCA of

percent of the respondents are publicly traded on the NYSE, NASDAQ or AMEX, while 23 percent are privately held, and 2 percent responded that they were ‘other’ such as over the counter stocks. Our respondent firms represent a variety of industries, with roughly 30 percent being from manufacturing, 16 percent classified as holding companies, almost 7 percent from professional, scientific, and technical services, and 6 percent from retail trade (industry classifications are derived from the companies’ responses about their principal business activity code on Form 1120). In all, 19 different industry classifications are represented and 11 percent of the respondents did not enter an industry code.

Table 1 shows that our sample contains substantial variation in firm size (measured by assets). On average, our firms are larger than the average firm on Compustat. For example, 68 percent of our sample firms fall in the upper two quintiles of Compustat firms ranked by assets. Indeed, our sample contains many household names and some of the largest companies in the economy.

It is difficult using publicly available archival data to obtain data on the location of a firm’s assets. In contrast, we are able to gather this information. In our sample, 53 percent of the companies indicate they have 10 percent or less of their assets in foreign locations. Only slightly more than 8 percent of the firms have more than half of their assets in foreign locations.

We report tax return filing characteristics of the firms. These data reveal that our sample firms range from simple to complex in nature. For example, 94 percent of our sample files a consolidated tax return. Of these consolidated returns, 58 percent include more than 10 entities in the tax return filing. In addition, 80 percent of the sample file at least one Form 5471, indicating these companies have significant ownership interests in foreign subsidiaries. These

2004 and the repatriation decisions in response to that Act. The final part of the survey asked general questions about tax aggressiveness, tax rates, and tax planning. The data from the third and fourth parts of the survey will be analyzed in separate papers.

data are not publicly available for a similar set of firms so we cannot compare to any established benchmark.

Because we are interested in the financial accounting effects of the location and repatriation decisions, we gather data on effective tax rates. We define the effective tax rate as the traditional GAAP effective tax rate (total worldwide income tax expense/ pretax book income) and we define the current effective tax rate as the worldwide current tax expense divided by pretax book income. We ask privately held companies to report their effective rate and we compute the ratios using financial statement data for the publicly traded firms (the data are for the most recent year prior to completing the survey). Consistent with archival ETR data (e.g., Dyreng et al., 2008), most of the firms report an effective tax rate in the 30 percent to 40 percent range, with the distribution being asymmetric -- more firms report a relatively lower rate than a relatively higher rate. The current effective tax rate is lower than the effective tax rate (total tax expense divided by pretax book income) for most firms, also consistent with prior research.

Finally, in our sample, almost 40 percent of the companies say that they generally have had excess foreign tax credits (i.e., foreign tax credit carryforwards) over the last five years and 60 percent respond that they did not. These data provide some idea as to whether the company operates in generally low-tax or high-tax foreign jurisdictions as well as the foreign tax credit position which may influence their repatriation decisions. The fact that 40 percent of companies are generally in an excess foreign tax credit position calls into question the prevalence of cross-crediting schemes mentioned in Altshuler and Grubert (2002). This same comment was echoed by one of our test companies when we asked them about the prevalence of cross-crediting. The

tax executive said that a lot of firms had excess credits, which he thought implied that cross-crediting was not common in practice or if available, not extensively used.

In Table 2, we report additional descriptive data. The data reveal that 244 firms indicate they have a U.S. NOL carryforward and the mean (median) U.S. NOL over all sample firms (including those that have a zero NOL) is \$854 million (\$0) as of the latest fiscal year end. In terms of foreign NOL carryforwards, 249 firms report having a foreign NOL with a mean (median) of \$139 million (\$0). More firms report having a state NOL (353 firms) but these NOLs are smaller in magnitude, with a mean (median) of \$114 million (\$10). Finally, three-fourths of the sample firms indicate that they have foreign sourced earnings (see Panel B of Table 2). Thus, consistent with the data above, our sample does not consist of simple firms—rather, the majority has international activities.

When we compare our sample firms to the general Compustat population (untabulated) we find that our sample firms are, on average, slightly larger and have approximately the same book-to-market ratios, while being slightly more leveraged with higher effective tax rates. We provide descriptive statistics that many of our sample firms file complex tax returns including multiple entities and that reflect ownership in foreign entities. Thus, our sample is not comprised of simple “unimportant” firms. This should help to mitigate some concern over potential non-response bias, a standard concern for survey papers

5.2 *Research questions and survey responses*

5.2.a *Location decision – unconditional analysis*

We ask respondents to evaluate the importance of three factors in their decision of whether to locate operations in the U.S. or outside the U.S. We ask “Relative to all the factors

your company considers when making a decision about whether to locate operations in the U.S. or outside the U.S., how important are the following?" The three factors we list are 1) foreign tax rate, 2) U.S. cash tax deferral, and 3) financial accounting expense deferral under APB 23. The phrase "relative to all other factors" is intended to control for other factors studied in prior literature such as the stability of the government, regulation, work ethic of labor force, utilities, proximity to target market, import/export restrictions, transportation costs, etc. (Wilson, 1993; Single, 1999). What is missing in prior literature is whether financial accounting considerations such as expense deferral under APB 23 are important in the decision to locate operations in a foreign location.

The respondents are asked to rate each of the factors on a 5 point scale ranging from "Not at all important" (given a numerical representation of 0) to "Very important" (a numerical representation of 4). In our analysis of the data we interpret these ratings in several ways. First, we classify ratings of three or four on the zero to four scale as being "important" to the firm and ratings of zero and one as being "not important." Second, we compute the average rating for each factor and compare this average rating to a zero rating of not important at all. Finally, we interpret the ratings as a ranking of the relative importance of the various factors.

As shown in Table 3, the foreign tax rate is an important factor in the location decision for 38 percent of the respondents, and the ability to defer U.S. cash taxes is important to 35 percent of the respondents. Surprisingly, nearly one-third of the respondents state that the financial accounting expense deferral under APB 23 is important (i.e., the respondent rates the factor as a 3 or 4 on the rating scale) in the decision of where to locate operations. The mean rating of tax expense deferral (1.65) is significantly different from a null that financial considerations do not matter (i.e., a rating of zero). Furthermore, statistical tests on differences

in the average ratings indicate that the importance of financial accounting expense deferral is statistically equivalent to the importance of cash tax deferral (t-statistic of 1.32). We present a graph of these results in Figure 1.

5.2.b *Location decision – conditional analysis*

We next investigate conditional ratings based on a variety of firm characteristics. We select the conditioning variables based on prior research. For example, we test whether public firms are different than private firms in their rating of financial accounting effects because prior literature demonstrates that public firms are under greater financial reporting pressure than private firms and, as a result, are willing to incur costs to achieve a desired financial accounting outcome (Cloyd et al., 1996; Beatty and Harris, 1999; Mikhail, 1999). Thus, we predict that publicly owned companies will rate financial accounting expense deferral as more important than private firms. We also condition on the level of the effective tax rate the firm reports. We predict that firms with a lower reported effective tax will be more likely to rank financial accounting concerns higher than firms with a high reported effective tax rate. We interpret the effective tax rate as a revelation of preferences for low or high rates (similar to Hanlon and Slemrod (2008)). Thus, firms with a low rate engage in actions to achieve that low rate and, as a result, should rank financial accounting expense deferral more highly. Similarly, we use firms' responses to a general question that asks which is more important to management at their firm -- cash taxes or the reported book effective tax rates as a conditioning variable. We predict that firms that respond that GAAP effective tax rates are more important will rate financial accounting expense deferral as more important than firms where cash taxes are generally more important. Finally, we condition on the amount of R&D expense. We use R&D spending as a

proxy for the type of firm that can more easily shift income through intangibles (Grubert and Slemrod, 1998) rather than locating heavy manufacturing operations abroad (Wilson, 1993). We predict these firms with large R&D expenditures will rate financial accounting concerns as being more important in location (and repatriation) decisions because employment and customer concerns for location decisions are not as great.

The results of our conditional analysis are provided in Panel B of Table 3. The numbers in the table are the percentage of respondents that answered that the factor was important or very important (i.e., the respondent gave the factor a rating of three or four on the zero-to-four scale). For example, 41.3 percent of the public firms responded that the foreign tax rate was important or very important among all the factors they consider when deciding to locate overseas.

Several interesting observations emerge from these data. Significantly more public firms rate the tax and financial accounting factors as being important than do private firms. Indeed, only 11 percent of the private firms in our sample rate financial accounting expense deferral as important compared to the 37 percent of public firms that rate the factor as an important consideration. This result is consistent with prior literature on public versus private firms that demonstrates the public firms are under greater financial reporting pressure (Cloyd et al., 1996; Beatty and Harris, 1999; Mikhail, 1999).

Further, firms with foreign source earnings and with a high percentage of foreign assets rate the tax and accounting effects as important more often than firms without much foreign activity. One potential explanation for this result is that firms that are not already multinational in nature may have more pressing concerns with non-tax, non-accounting factors whereas firms that are already multinational have previously addressed these concerns.

The results in Panel B also indicate that firms with excess foreign tax credits rate both tax and accounting factors to be of high importance relative to the ratings given by firms without excess foreign tax credits. Firms with excess credits generally have a foreign tax rate greater than the U.S. tax rate and thus have more credits than they can use. While we cannot explain this result completely, one potential explanation is that once firms have excess foreign tax credits, the tax and accounting implications gain importance because these firms now have to focus on using the credits.

Firms that elected Section 965 to take advantage of the one-time DRD rate accounting expense deferral and cash tax deferral much more highly than firms that did not take advantage of the low repatriation tax rate. This makes sense because these are firms that deferred the cash taxes and likely the financial accounting expense prior to the AJCA one-time DRD time period.

Consistent with our stated prediction, more firms with a low GAAP ETR rate cash tax deferral and accounting expense deferral as being important when deciding where to locate operations. This result may seem counter-intuitive at first but as discussed above, we interpret the effective tax rate as a proxy for overall tax and financial reporting preferences with regard to the income tax expense. Firms that have a low ETR take actions to make it low and thus, it makes sense that these would be the same firms that are concerned about taxes and the financial accounting effects (in other words, firms with high rates reveal a preference of not worrying about effective rates or they would have taken actions to reduce their ETR in the first place).

Firms that say that top management at their company is more concerned with GAAP ETR than cash taxes (self-reported evaluation), rate financial accounting expense deferral as more important than firms where cash taxes are thought to be the more valued metric. This result is consistent with our prediction above and highlights a consistency between survey responses that

directly ask about the importance of accounting considerations and responses that are used to deduce such an attitude.

Finally, consistent with our stated prediction, firms with relatively high research and development spending (R&D; research and development expense scaled by sales) rate cash tax deferral and financial accounting expense deferral as being much more important than firms with low R&D. Firms with high R&D consist of proportionally more intangible assets and intangible assets are easier to source to a foreign location without investing heavily in manufacturing assets and labor. As a result, these companies rate tax and accounting concerns as more important relative to all other concerns because they have fewer (at least different) other concerns (Wilson, 1993).¹⁸

Overall, we document that the availability of accounting expense deferral under APB 23 is an important factor in location decisions and its importance is statistically indistinguishable from the importance of the availability of cash tax deferral. Furthermore, our data indicate that consistent with predictions firm characteristics (e.g., public versus private ownership, having high or low R&D spending, etc.) are related to the importance assigned to both the tax and financial accounting factors as companies decide where to locate operations around the world.

5.2.c Reinvestment vs. repatriation decision – unconditional analysis

We next investigate which factors affect the corporate decision to reinvest foreign earnings versus repatriate.¹⁹ The factor that is most important unconditionally is the ‘rate of

¹⁸ Indeed, in discussions with respondent companies one heavy manufacturer with low R&D spending) said their decision is driven by the need to reach the local customer and nothing else. The respondent went on to say that the policy makers often say the decision for operation location for U.S. multinationals is U.S. or China (or elsewhere) but that is not the decision. If the companies are trying to reach customers in China, the decision is China or not building at all.

¹⁹ We include two additional factors for the repatriation decision relative to the location decision question discussed above. We include a factor for the relative rates of return because Hartman (1985) is very explicit that this is the

return outside the U.S. is higher than that in the U.S.’ (Table 4 Panel A), with nearly 60 percent of respondents saying the rate of return is important (a rating of 3 or 4 on the scale). The importance of this factor is consistent with the spirit of the Hartman (1985) model. In contrast, U.S. cash tax deferral is the second most important factor, with approximately half of the respondents saying cash deferral is important (a rating of 3 or 4 on the scale).

Interestingly, 44.9 percent of the respondents said that the financial accounting expense deferral under APB 23 is important, making it the third most important factor. Moreover, financial accounting expense deferral has an average rating that is not significantly different than U.S. cash tax deferral (t-statistic of the difference is 1.13). As before, a “paper” accounting consideration is statistically as important as a “real” cash deferral. This result is quite surprising given the prior literature which scarcely mentions financial accounting considerations as a driver affecting the decision of whether to reinvest or repatriate foreign earnings (with the exception of Shackelford et al., 2008). We note that the average ratings for the tax and accounting factors for the repatriation question are higher than the ratings in the location of foreign operations question. This result is likely because there are fewer operational, non-tax, non-accounting factors to consider once the decision to operate overseas has been made. We graph the Table 4 Panel A results in Figure 2.

5.2.d Reinvestment vs. repatriation decision – conditional analysis

Panel B of Table 4 analyzes the data for various sub-samples of firms for the repatriation versus reinvestment decision. We use the same conditioning variables as for the location decision based on the same reasoning. Very similar patterns emerge for the repatriation question

most important consideration for the repatriation decision (in fact the only consideration under certain conditions). We include a factor “the need for foreign cash to service debt” because one of our beta test companies suggested that we include it.

to what we observed above for the location decision question (Table 3). For example, publicly traded firms rate both cash tax deferral and financial accounting expense deferral as being more important than do private firms when deciding whether to repatriate earnings. The most striking difference is the rating of the financial accounting expense deferral – 51.4 percent of public firms rated this factor as important while only 14.7 percent of private firms do so. Again, this result is consistent with public firms being under more pressure to report higher financial accounting returns.

Among firms that say that top management at their company is more concerned with GAAP ETR than cash taxes (self-reported evaluation), significantly more rate financial accounting expense deferral as important than do firms where cash taxes are thought to be valued more highly (51.3 percent versus 30.0 percent). Firms that state that top management at their company is generally more concerned with the GAAP ETR also seem to rate U.S. cash tax deferral as important in the repatriation decision more often than firms that say management is generally more concerned with cash taxes. Ex ante, one might have predicted no difference between these two groups for the deferral of cash taxes factor because to obtain financial accounting expense deferral the firm must first have cash tax expense deferral which puts the two groups in the same position. Thus, the significant result we obtain here, is somewhat of a puzzle. Finally, similar to the results for location decision, firms with relatively high R&D rate cash tax deferral and financial accounting expense deferral as being much more important than firms with low R&D.

5.2.e *What if APB 23 were repealed?*

To further investigate the importance of financial accounting expense, we evaluate responses to the following question “If the rule allowing the deferral of U.S. tax expense under APB 23 were repealed but the deferral of cash tax until repatriation was still allowed, would your company repatriate more foreign earnings as dividends (in other words, if your company had to immediately accrue the tax expense for financial accounting would your company repatriate more dividends?)?” As summarized in Figure 3, approximately 14 percent of the respondents said yes, they would repatriate more foreign earnings if APB 23 were repealed. This indicates that the accounting expense deferral is more important than the cash tax deferral for one in seven firms. In addition, 35 percent of the respondents responded “maybe” they would repatriate more if APB 23 were repealed. Thus, 49 percent of the respondents either would bring more cash back to the U.S. or would consider bringing more cash back to the U.S. and incur the U.S. cash taxes upon repatriation if their company had to record financial accounting tax expense on those earnings regardless of whether they actually repatriate the foreign profits. This result suggests that in addition to the cash tax costs for large balance sheet cash balances discussed in Foley et al. (2007), financial reporting considerations could be another cause of “trapped” equity or high cash holdings observed at many firms.

While it is novel that expense deferral is important in these decisions relative to all the other factors companies have to take into consideration, our results are consistent with recent research in other areas. First, the long line of book-tax tradeoff studies offers evidence generally consistent with financial accounting earnings being more important than tax savings in many settings (for a summary of this literature see Shackelford and Shevlin, 2001). For example, Erickson, Hanlon, and Maydew (2004) examine firms accused of committing financial

accounting fraud and find that these firms paid an average of \$0.11 in excess taxes per dollar of overstated earnings, consistent with the firms sacrificing real value to overstate financial accounting earnings. Thus, our finding that financial accounting earnings are important to firms and that they are generally just as important or more important than cash tax savings, complements other research. But that the financial accounting expense deferral can be important in real location decisions and the decision to repatriate earnings is beyond the implications studied previously.

5.2.f Repatriation decision under the AJCA DRD provisions

We next focus on the repatriation provisions of the AJCA of 2004. To get a sense of the magnitude of earnings that could potentially have been repatriated, we first ask our sample firms how much unremitted foreign earnings (URE) their companies had on the relevant date for the AJCA provisions (as of the latest year-end for which the financial statements were filed on or before June 30, 2003 (or if not public, then when certified)). We also ask how much of those earnings were designated as permanently reinvested (PRE) outside of the U.S. under APB 23 as of that same date. These data are presented in Table 5. We report the responses for the firms that repatriated earnings under the AJCA (i.e., firms that repatriated earnings and used the DRD in IRC Section 965) and then for firms that did not repatriate under the Act.

Among our sample firms, 99 firms made the Section 965 election and provided data on both unremitted foreign earnings and permanently reinvested earnings. The data in Table 5 indicate that the firms that made the Section 965 election have, on average, approximately eight times as much URE and PRE than do the firms that did not make the election. In untabulated data, the firms that made the election are on average larger, more likely to be publicly traded, and

are less likely to have excess foreign tax credits. The firms that made the election, however, are not significantly different in terms of likelihood of having a U.S. NOL or in their level of R&D spending.

We ask firms whether they made an IRC Section 965 election to take advantage of the one time DRD provision. Of the 464 companies that responded to this question, 27 percent responded that yes they did take advantage of the DRD provision, while 73 percent responded that they did not. After some branching steps, we asked firms that did not make the election or did not do so to the maximum amount allowed, “If your company did not take full advantage of the one-time DRD granted in the AJCA of 2004 and available through the IRC section 965, why not?” Table 6 Panel B summarizes the responses.

The data provide some notable observations. First, 45 percent of the firms reveal that not having the foreign earnings in cash was an important factor for not taking advantage of the one-time DRD. Second, 30 percent of the firms did not bring the earnings home even at a 5.25 percent rate because they did not want to incur the additional U.S. cash taxes – even at such a low rate. Third, 23 percent of firms responded that an important factor in their decision to take less than full advantage of the one-time tax relief was an expectation that they would pay less than 5.25 percent on future repatriations.

In most of the questions we include an “other” category that allows firms to list important factors that we did not explicitly enumerate. “Other” was a popular choice in response to this question regarding the factors that kept firms from repatriating the maximum amount allowed under the AJCA, being chosen by nearly 30 percent of the respondents. Some of the more common filled-in responses include: that the firm had excess credits (or that the repatriation under Section 965 would not allow them to generate excess credits to use against low tax

earnings), that the firm had U.S. NOLs so repatriations are sheltered anyway, foreign withholding taxes would be too high to produce a benefit, the company had borrowing limits in the foreign subsidiary (for Section 965, credit agreement limits, or rating agency concerns), and that the company needed its foreign cash for other uses.

We note that 16 percent of the respondents rated ETR concerns as an important (a rating of 3 or 4) factor for not repatriating the maximum amount allowed. This is surprising in light of the disclosures that could be made to explain why the ETR increased (i.e., the AJCA). This question is the only one for which cash taxes were clearly more important than the financial accounting effects (t-statistic of 3.43). This result may partially be because the increase in the effective tax rate could be so easily explained or because many tax managers realized that the effective tax rate could actually be *decreased* through the repatriation (more on this below) which reduced managers' concerns about the ETR.

The sub-samples analysis in Panel C of Table 6 provides additional insight. The importance of financial accounting expense deferral remains significantly different across some sub-groups of firms. For example, publicly traded firms, firms with more foreign assets, firms with excess foreign tax credits, and firms that report that top management is generally more concerned with the GAAP ETR than cash taxes are all more likely to report that financial accounting expense deferral was an important factor in not repatriating the maximum amount of earnings allowed under the AJCA. As one might expect, the firms that wanted to avoid the additional cash taxes even at the reduced rate are 1) firms that have excess foreign tax credits and NOLs (and thus can more likely shield the additional taxes without the DRD), 2) firms that normally pay a low U.S. cash tax rate on non-section 965 repatriations, and 3) firms that did not elect to take advantage of the one-time DRD at all.

The companies that *did* repatriate earnings under the provisions of the Act were asked the following question “When considering whether and to what extent your company would repatriate earnings utilizing the AJCA one-time DRD, which of the following were of most concern/importance to your company (e.g., which items received the most attention in planning all aspects of the repatriation)?” The results are reported in Table 7. The number of respondents is lower for this question because only those firms that took advantage of the one-time DRD were directed to answer this question. Of these respondents, 51.3 percent report that the additional cash tax liability the repatriation would create was an important consideration. We also include as a factor “Additional financial accounting expense that could result if earnings previously designated as permanently reinvested were repatriated.” To be clear, if the earnings were repatriated out of PRE, the reported tax expense would have increased by the U.S. tax due on those repatriations (the 5.25 percent rate less any foreign tax credits available on the amount) because no financial accounting expense for the residual U.S. taxes would have been recorded under the provisions of APB 23. This increase in the tax expense would reduce the firm’s reported GAAP earnings. In our sample, 43.2 percent of the firms reported that this financial accounting effect was important in their decision of whether and to what extent to repatriate earnings under the AJCA. For a factor not investigated previously in the literature, 43 percent is a surprisingly large proportion of firms to view this factor as important. The average rating is statistically significantly different from a null of “not important at all” (a zero on the importance scale). In addition, the importance of the repatriation’s effect on the financial accounting expense is statistically indistinguishable from the importance of the effect on the cash taxes (t-statistic of 1.19 for the difference in the average rating).²⁰

²⁰ In addition, several companies responded to the “Other” category for the question about the factors important in whether and to what extent firms repatriated earnings under the AJCA provisions with comments that indicate it was

Furthermore, the importance of the financial accounting effects may be understated in this case because some firms were able to decrease their tax expense through the AJCA provisions, thus increasing earnings. While the repatriations were limited to the maximum of PRE or \$500,000,000, there was no rule that required firms to actually repatriate PRE as long as the earnings were foreign subsidiary earnings. Indeed, under the rules of APB 23 one might actually think managers should repatriate earnings *not* designated as permanently reinvested first because these are the earnings the firm has previously stated that they expect to bring back as opposed to permanently reinvested earnings (which they have told shareholders that they plan to reinvest indefinitely).

Anecdotally, there is evidence that some firms recorded a tax benefit rather than an incremental U.S. tax expense for financial statement purposes. For example, General Electric repatriated \$1.2 billion of foreign earnings, which had the effect of reducing their ETR by approximately 0.5 percent.²¹ In an investor relations conference call where the question was asked about how repatriating earnings could *reduce* the ETR, the GE representative explained that the "...majority of them (foreign reinvested earnings) are continually permanently reinvested in productive assets overseas...but that they had \$1.2 billion overseas that we thought we could repatriate which had been provided at rates above the repatriation rate of 5%." Thus, GE repatriated non-PRE earnings but in an amount less than their PRE. The reversal of the previously recorded deferred tax liability down to the actual expense incurred under the AJCA resulted in a decrease in their ETR and an increase in earnings (of roughly \$107 million).

very important to their company to repatriate earnings in a way that decreased the firm's effective tax rate and increased earnings. One such comment was "...5.25% tax applied to earnings on which a 35% deferred tax had been accrued." Another similar response was "All foreign earnings are expected to be repatriated so primary consideration was reducing the U.S. tax that had been provided and decreasing the effective tax rate." Another comment was that the main consideration was "Anticipated future effective tax rate benefits related to a reduction in future repatriations of low-tax foreign earnings." Thus, some of the "other" comments include financial accounting concerns as well.

²¹ Data are from GE's 10-K.

Indeed, one of our beta test companies discussed this issue with us. The tax executive said that there were two reasons that they repatriated funds from non-PRE: 1) it avoided any hassles with their auditor over the company bringing back earnings that were previously designated as permanently reinvested, and 2) it avoided an income statement hit. In our sample, when we directly ask companies whether they brought earnings back from a non-PRE pool, 26 percent of the respondents said that they did (untabulated).

We also include as a factor whether firms considered potential scrutiny from their auditors from repatriating earnings that were previously designated as permanently reinvested. This allows us to examine the importance of the potential concern over the change of intentions -- 11.9 percent of our sample firms said it was an important factor in deciding whether and to what extent they repatriated earnings under the AJCA of 2004 (see Table 7). A graph of the data in Table 7 Panel A is presented in Figure 4.

Panel B of Table 7 presents the data conditional on various firm characteristics. Consistent with the prior results in Tables 3 and 4, these data reveal that financial accounting concerns are more important for publicly traded firms, firms with a higher percentage of foreign assets, firms with excess foreign tax credits, and firms that self-report that at their company the GAAP ETR is a more important metric than cash taxes.²²

²² Our data suggest that firms that said they have generally been in an excess foreign tax credit position took advantage of the one-time DRD provided in the AJCA. This is counter-intuitive as one would generally think that firms with excess credits would have already brought the earnings back to utilize the credits or that they would use the excess credits to offset the tax on current or future repatriations and would not need the benefits offered by the one-time DRD (in fact it may be costly to them to do so). However, what we do not know from our survey data is how far into the excess position these firms are or whether they expect to be in an excess credit position in the future. For example, Altshuler and Newlon (1993) report that approximately 50 percent of firms in 1984 – 1986 time period switched credit states (excess to non excess and vice versa).

6. Conclusions

Our main objective in this paper is to examine and explain firm behavior with respect to the location decision and the decision to reinvest or repatriate foreign earnings to gain a better understanding of the factors that are important in these decisions. Shackelford et al. (2008) predict and model that both cash tax deferral and financial accounting expense deferral may be important factors for firms as they decide where to locate operations. We support their claim with data and extend it to investigate the repatriation decision as well.

We survey nearly 600 executives and find evidence consistent with the deferral of income tax expense for financial accounting being important in company decisions regarding location of operations and whether to repatriate or reinvest earnings. For example, 31 percent of the respondents rated deferral under APB 23 as being either very important or important in their decision to locate operations outside of the U.S. In addition, 44 percent of respondents stated that deferral of the financial accounting tax expense is either very important or important in their decision of whether to reinvest earnings outside of the U.S. The average rating of financial accounting expense deferral for the decision to reinvest or repatriate is statistically significant. Interestingly, for both decisions – where to locate facilities and whether to reinvest or repatriate – the importance of the financial accounting expense deferral is not statistically different than the importance of cash tax deferral when making these decisions. This result is important in light of the decades of research on the location and repatriation decisions that considers the cash tax implications but has heretofore not examined the financial accounting implications.

Appendix Variable Descriptions

- Public/Private** = Company responses to a question that asks if the firm is public and traded on NYSE or on NASDAQ/AMEX or if the firm is private.
- Size** = Total assets of the firm in the most recent fiscal year prior to completion of the survey, self-reported by the respondents. Firms above the median are considered large firms and those below the median are considered small firms.
- Foreign Asset Percentage** = Company responses to a question that asked the respondent for the percentage of foreign assets in foreign locations. Firms with a percentage greater (lower) than the sample median are considered to have a high (low) ratio.
- Excess FTC** = Company responses to a question that asked whether in general during the last five years the company had excess foreign tax credits.
- Elect Section 965** = Company responses as to whether they elected to repatriate dividends and take advantage of the one-time DRD through the provisions of the AJCA and IRC Section 965.
- ETR** = The companies' effective tax rate (total tax expense/pre-tax book income) for the last fiscal year prior to completion of the survey. Obtained from reported survey answers for the private companies and from Compustat data for the public firms. A high (low) ETR is one above (below) the sample median.
- NOL** = Company responses about whether the firm had a U.S. net operating loss (NOL) for tax purposes in the latest fiscal year-end before the completion of the survey.
- Cash Tax Rate on Non-965** = Company responses to a question that asked what the firms' average cash tax rate was on repatriations other than Section 965 repatriations. (We define the average cash tax rate in the survey to be the cash taxes paid to the U.S. after foreign tax credits divided by cash dividends received in the U.S.) Firms that report a rate greater (lower) than the sample median are classified as high (low) tax rate firms.
- Cash or GAAP ETR** = Company responses to a question that asked "Which metric is more important to top management at your company? GAAP ETR, cash taxes paid, or GAAP ETR and cash taxes paid are equally important."
- R&D** = The level of research and development spending scaled by sales. These data are from Compustat. We do not have data for the private firms for this item. Firms with an R&D spending amount above (below) the sample median are considered high (low). If R&D expense is missing on Compustat we replace with zero.

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Table 1
Descriptive Statistics

	Percent		Percent
Ownership (N=594)			
Public - NYSE	47	File a consolidated Form 1120 (N=590)	
Public - Nasdaq/Amex	28	Yes	93.9
Private	23	No	6.1
Other (e.g., OTC)	2		
Industry (N=595)			
Agriculture, Forestry, Fishing, and Hunting	0.17	Entities included in 1120 group (N=554)	
Mining	1.85	1	0.54
Utilities	1.01	2 - 10	41.52
Construction	1.51	11 - 50	42.24
Manufacturing	29.92	51 - 100	8.48
Wholesale Trade	5.04	> 100	7.22
Retail Trade	6.22		
Transportation and Warehousing	2.02	Number of Forms 1120 filed (N=582)	
Information	4.54	1	60.48
Finance and Insurance	5.04	2 - 10	28.35
Real Estate, Rental and Leasing	2.18	11 - 50	8.76
Professional, Scientific, and Technical Services	6.72	51 - 100	0.52
Management of Companies (Holding Companies)	15.80	101 - 1,000	1.55
Admin., Support, Waste Mgt. and Remediation Services	1.51	> 1,000	0.34
Educational Services	0.50		
Health Care and Social Assistance	1.18	Number of Forms 5471 filed (N=580)	
Arts, Entertainment, and Recreation	1.01	Zero	19.48
Accommodation and Food Services	1.68	1	7.59
Other services	0.67	2 - 10	28.79
No code reported	11.43	11 - 50	29.83
		51 - 100	8.45
		> 100	5.86
Assets (N=535)			
<\$500 million	26.9	Prior year GAAP ETR (N=439)	
\$500 - \$999 million	16.3	<10%	10.9
\$1 - \$4.9 billion	32.7	10%-20%	4.8
\$5 - 10 billion	7.5	20%-30%	18.5
> \$10 billion	16.6	30%-40%	55.6
		40%-50%	6.2
		>50%	4.1
Percent of Assets in Foreign Location (N=538)			
0%	25.46	Prior year Current ETR (N=434)	
0-10%	26.77	<10%	15.4
11%-20%	11.52	10%-20%	12.2
21%-30%	10.97	20%-30%	18.7
31%-40%	9.29	30%-40%	35.3
41%-50%	7.62	40%-50%	11.3
51%-60%	2.42	>50%	7.1
61%-70%	2.60		
71%-80%	1.67	Generally have excess foreign tax credits? (N=557)	
81%-90%	0.74	Yes	39.9
91%-100%	0.93	No	60.1

Notes: The above data are all obtained through survey questions, with the exception of the GAAP effective tax rate (total tax expense divided by pre-tax book income) and the current effective tax rate (current tax expense divided by pre-tax book income) for the publicly traded firms – those variables are obtained from Compustat. Form 1120 is the U.S. Corporate Income Tax form. Form 5471 is an informational return filed in the U.S. about the activities of a foreign controlled corporation owned more than 10 percent by a U.S. person (the definition of which includes a U.S. corporation).

Table 2
NOLs and Foreign Earnings

Panel A: Net Operating Losses

Survey responses to the question: As of your latest fiscal year-end, your company had tax net operating loss carryforwards in the following jurisdictions of approximately:
(all dollar amounts below are in millions of dollars)

All respondents

	Mean	Stand. Dev.	25th	50th	75th	Maximum	N
U.S. NOLs	854	17,407	0	0	47	399,639	527
Foreign NOLs	139	2,142	0	0	19	47,783	500
State NOLs	114	376	0	10	76	5,900	514

Responses conditional on the firm having an NOL

	Mean	Stand. Dev	25th	50th	75th	Maximum	N
U.S. NOLs	1,844	25,575	11	58	194	399,639	244
Foreign NOLs	280	3,032	5	19	60	47,783	249
State NOLs	167	444	7	30	122	5,900	353

Panel B: Foreign Earnings

Survey responses to the question: Does your company have (or has it had in the last 10 years) any foreign sourced earnings?

	Yes	No
551 companies responded	75%	25%

Table 3
Factors Important in Where to Locate Operations

Survey responses to the question: Relative to all the factors your company considers when making a decision about whether to **locate operations in the U.S. or outside the U.S.**, how important are the following?

Panel A: Unconditional Results

Factor	% important	% not important	Average rating	H ₀ : Average rating = 0
(1) Foreign tax rate	38.17	42.83	1.86	***
(2) U.S. cash tax deferral	35.21	45.32	1.76	***
(3) Financial accounting expense deferral under APB23	31.53	51.12	1.65	***

Statistical Test of Differences in the Average Rating of the Factors

Comparison

<u>Factors</u>	<u>t-statistic</u>
(1) = (2)	1.13
(2) = (3)	1.32
(1) = (3)	2.45

Table 3 (continued)
Factors Important in Where to Locate Operations

Panel B: Conditional Results

Factor	% important	Obs	Ownership		Size		Foreign Source Earnings		Foreign Asset Percentage		Excess FTC	
			Public	Private	Large	Small	Yes	No	High	Low	Yes	No
(1)	38.2	537	41.3	26.7***	42.9	33.6*	45.2	15.1***	55.9	20.9***	49.8	29.8***
(2)	35.2	534	38.5	23.3***	42.5	28.2***	41.9	14.3***	48.0	22.8***	44.2	29.0***
(3)	31.5	536	37.1	11.2***	34.9	28.9	37.5	11.9***	46.5	17.9***	39.3	26.0***

Factor	% important	Obs	Elect §965		ETR		NOL		Cash Tax Rate on Non-965		Cash or GAAP ETR		R & D	
			Yes	No	High	Low	Yes	No	High	Low	Cash	GAAP	High	Low
(1)	38.2	537	58.7	32.4***	27.6	48.1***	42.6	34.3***	45.3	45.7	34.5	43.1	52.9	32.1***
(2)	35.2	534	56.2	27.6***	25.2	44.3***	42.7	29.5***	43.3	39.4	27.9	39.2**	48.8	29.6***
(3)	31.5	536	52.1	24.8***	24.3	40.7***	36.6	27.3***	40.0	32.6	20.4	38.5***	48.0	27.4***

Notes: The survey provides a 5 point rating scale ranging from 0 to 4. The zero rating is labeled “Not at all important” and the rating of 4 is labeled “very important.” The percentages listed in Panel A of the table under “% important” are the percentages of respondents that gave a rating of 3 or 4 for that particular factor. The percentages listed in Panel A of the table under the column “% not important” are the percentages of respondents that gave a rating of 0 or 1 for that particular factor. The percentages listed in Panel B are only the percentages of firms that gave a rating of 3 or 4 for the factor (i.e., the company rates the factor as important). Statistical significance is based on tests of the average rating being different from a zero rating and differences between factors in Panel A and tests of the average rating for the sub-samples being statistically different from each other in Panel B. ***, **, and * mark significance of .01, .05, and .10 respectively. See the Appendix for definitions of the conditioning variables.

Table 4
Reinvestment vs. Repatriation Question

Panel A: Unconditional Results

Survey responses to the question: In general, what factors are important in your company's decision to **reinvest foreign earnings outside of the U.S.?**

Factor	% important	% not important	Average rating	H ₀ : Average rating = 0
(1) Rate of return outside the U.S. is higher than that in the U.S.	58.4	19.9	2.58	***
(2) U.S. cash tax deferral	49.1	28.6	2.29	***
(3) Financial accounting expense deferral under APB23	44.9	31.9	2.18	***
(4) Foreign tax rate	40.8	26.7	2.15	***
(5) The need for cash to service foreign debt	27.8	54.9	1.48	***
(6) Other	16.5	70.0	0.95	***

Statistical Test of Differences in the Average Rating of the Factors

Comparison

<u>Factors</u>	<u>t-statistic</u>
(1) = (2)	3.12
(2) = (3)	1.13
(3) = (4)	0.30

Table 4 (continued)
Reinvestment vs. Repatriation

Panel B: Conditional Results

Factor	% important	Obs	Ownership		Size		Foreign Asset Percentage		Excess FTC		Elect §965	
			Public	Private	Large	Small	High	Low	Yes	No	Yes	No
(1)	58.4	387	59.8	52.1*	62.9	53.1**	65.1	47.5***	61.3	55.1	68.3	56.6***
(2)	49.1	385	52.7	32.9***	55.1	44.4***	56.4	38.1***	54.8	42.9*	73.1	42.0***
(3)	44.9	383	51.4	14.7***	49.5	41.2**	53.8	30.4***	48.6	40.9	68.9	38.4***
(4)	40.8	382	44.9	22.9***	44.1	37.1	49.6	25.9***	42.9	38.5**	56.4	38.3***
(5)	27.8	381	28.5	24.6	32.1	24.1	32.8	20.6***	32.5	22.5**	35.3	27.2
(6)	16.5	237	17.3	13.0	14.4	18.6	19.7	11.6***	16.4	16.7	19.1	20.4

Factor	% important	Obs	ETR		NOL		Cash Tax Rate on Non-965		Cash or GAAP ETR		R & D	
			High	Low	Yes	No	High	Low	Cash	GAAP	High	Low
(1)	58.4	387	52.3	64.7*	56.2	59.0	55.5	65.1	50.0	56.7**	61.8	57.8
(2)	49.1	385	37.4	61.1***	48.4	51.1	50.6	46.5	37.0	57.1***	64.1	38.5***
(3)	44.9	383	32.8	58.1***	45.7	44.8	45.1	44.5	30.0	51.3***	61.8	38.1***
(4)	40.8	382	29.0	50.6***	41.2	39.8	40.5	41.3	33.8	42.6*	54.1	33.6***
(5)	27.8	381	28.5	27.1	30.2	25.4	29.0	25.0	28.8	25.5	24.4	29.5
(6)	16.5	237	13.3	19.4	18.5	13.2	17.2	15.5	14.8	21.7	16.3	18.3

Notes: The survey provides a 5 point rating scale ranging from 0 to 4. The zero rating is labeled “Not at all important” and the rating of 4 is labeled “very important.” The percentages listed in Panel A of the table under “% important” are the percentages of respondents that gave a rating of 3 or 4 for that particular factor. The percentages listed in Panel A of the table under the column “% not important” are the percentages of respondents that gave a rating of 0 or 1 for that particular factor. The percentages listed in Panel B are only the percentages of firms that gave a rating of 3 or 4 for the factor (i.e., the company ranks the factor as important). Statistical significance is based on tests of the average rating being different from a zero rating in Panel A and tests of the average rating for the groups being statistically different from each other in Panel B. ***, **, and * mark significance of .01, .05, and .10 respectively. See the Appendix for definitions of the conditioning variables. The sample is smaller than in Table 3 because only firms with foreign source earnings were directed to answer this question.

Table 5
Information on Unremitted Foreign Earnings and Permanently Reinvested Earnings

Panel A: Firms that made the Section 965 Election

	N	Average	St. Dev.	25%	Median	75%	Sum
Unremitted foreign earnings	99	1,831.19	5,151.87	54.00	274.00	1,160.00	181,288.22
Permanently reinvested earnings	99	1,639.30	4,743.79	42.86	179.71	755.00	162,290.29
Ratio of PRE/URE	99	0.82	0.33	0.73	1.00	1.00	81.40

Panel B: Firms that did not make the Section 965 Election

	N	Average	St. Dev.	25%	Median	75%	Sum
Unremitted foreign earnings	97	239.45	671.47	10.00	35.35	200.00	23,226.80
Permanently reinvested earnings	97	184.80	638.63	3.71	15.00	95.30	17,925.79
Ratio of PRE/URE	97	0.72	0.42	0.38	1.00	1.00	69.92

Notes: Unremitted foreign earnings (URE) are earnings in foreign subsidiaries that have not been repatriated to the U.S. parent company. Permanently reinvested earnings (PRE) is the portion of URE the firm designates as permanently reinvested and on which there is no U.S. income tax accrual provided. The Section 965 election is the election to take advantage of the one-time dividend received deduction granted in the American Jobs Creation Act of 2004.

Table 6
One-Time Dividends Received Deduction Provision of the AJCA of 2004

Panel A: Firms Making the Section 965 Election

Survey responses to the question “Did your company make an IRC section 965 election (i.e., election for the one-time 85% dividends received deduction for repatriated earnings granted in the AJCA of 2004)?”

	Yes	No
449 companies responded	27%	73%

Panel B: Factors Important for Firms NOT Taking Full Advantage of the DRD Provision - Unconditional Results

Survey responses to the question: If your company did not take full advantage of the one-time DRD granted in the AJCA of 2004 and available through the IRC section 965 election, why not?

Factor	% important	% not important	Average rating	H ₀ : Average rating = 0
(1) Foreign earnings not held in cash or cash equivalents	45.2	44.7	1.91	***
(2) Foreign returns anticipated to be higher than U.S. returns	31.1	49.8	1.52	***
(3) Did not want to incur additional U.S. cash tax (even at lower rate)	30.2	55.9	1.44	***
(4) Other	29.2	65.0	1.27	***
(5) Anticipated paying less than a 5.25% rate on future repatriations	22.9	67.7	1.16	***
(6) Wanted to avoid increase to GAAP ETR	16.3	70.1	0.99	***

Statistical Test of Differences in the Average Rating of the Factors

Comparison

<u>Factors</u>	<u>t-statistic</u>
(3) = (6)	3.43

Table 6 (continued)
One-Time Dividends Received Deduction Provision of the AJCA of 2004

Panel C: Factors Important for Firms NOT Taking Full Advantage of the DRD Provision- Conditional Results

Factor	% important	Obs	Ownership		Size		Foreign Asset Percentage		Excess FTC		Elect §965	
			Public	Private	Large	Small	High	Low	Yes	No	Yes	No
(1)	45.2	228	45.3	44.5	40.7	51.8**	43.4	53.3*	37.5	55.7***	77.4	33.1***
(2)	31.1	225	30.4	35.3	29.6	32.7	34.6	24.6**	33.1	29.3	27.9	32.3
(3)	30.2	222	30.5	28.6	32.1	28.4	36.5	17.2***	34.9	24.5**	16.7	35.9***
(4)	29.2	120	26.7	42.1	33.9	22.2	35.0	12.1***	33.3	20.8	26.7	30.0
(5)	22.9	223	20.8	34.3	24.1	21.3	27.0	7.5***	29.0	15.5***	13.1	26.6***
(6)	16.3	221	18.7	2.9***	15.1	17.6	18.7	12.1***	21.1	10.4**	16.7	16.2

Factor	% important	Obs	ETR		NOL		Cash Tax Rate on Non-965		Cash or GAAP ETR		R & D	
			High	Low	Yes	No	High	Low	Cash	GAAP	High	Low
(1)	45.2	228	41.9	51.0	42.6	47.2	50.4	36.7*	34.9	44.0	50.0	41.3
(2)	31.1	225	32.0	31.3	30.3	32.0	34.5	26.6	26.8	33.7**	32.7	29.5
(3)	30.2	222	30.6	30.6	32.7	28.4*	23.7	42.5**	32.6	34.7	34.0	27.0
(4)	29.2	120	25.0	29.1	31.0	25.9	24.3	36.6	36.8	36.5	24.5	28.6
(5)	22.9	223	22.7	27.1	23.6	20.4	14.3	34.9***	23.8	20.2	24.2	19.5
(6)	16.3	221	16.4	16.7	16.0	15.7	17.2	15.0	4.8	21.4***	16.7	21.3

Notes: The survey provides a 5 point rating scale ranging from 0 to 4. The zero rating is labeled “Not at all important” and the rating of 4 is labeled “very important.” The percentages listed in Panel A of the table under “% important” are the percentages of respondents that gave a rating of 3 or 4 for that particular factor. The percentages listed in Panel A of the table under the column “% not important” are the percentages of respondents that gave a rating of 0 or 1 for that particular factor. The percentages listed in Panel B are only the percentages of firms that gave a rating of 3 or 4 for the factor (i.e., the company ranks the factor as important). Statistical significance is based on tests of the average rating being different from a zero rating in Panel A and tests of the average rating for the groups being statistically different from each other in Panel B. ***, **, and * mark significance of .01, .05, and .10 respectively. See the Appendix for definitions of the conditioning variables.

Table 7
One-Time Dividends Received Deduction Provision of the AJCA of 2004
Factors Important for Firms Taking Advantage of the DRD

Survey responses to the question: When considering whether and to what extent your company would repatriate earnings utilizing the AJCA one-time DRD, which of the following were of most concern/importance to your company (e.g., which items received the most attention in planning all aspects of the repatriation)?

Panel A: Unconditional Results

Factor	% important	% not important	Average rating	H ₀ : Average rating = 0
(1) Additional cash tax liability the repatriation would create	51.3	35.3	2.22	***
(2) Additional financial accounting expense that could result if earnings previously designated as permanently reinvested were repatriated	43.2	41.5	1.99	***
(3) Other	34.9	60.3	1.52	***
(4) Possible scrutiny from external auditor about repatriating earnings previously designated as permanently reinvested	11.9	67.0	1.13	***

Statistical Test of Differences in the Average Rating of the Factors

Comparison	t-statistic
(1) = (2)	1.19

Table 7 (continued)
One-Time Dividends Received Deduction Provision of the AJCA of 2004
Factors Important for Firms Taking Advantage of the DRD

Panel B: Conditional Results

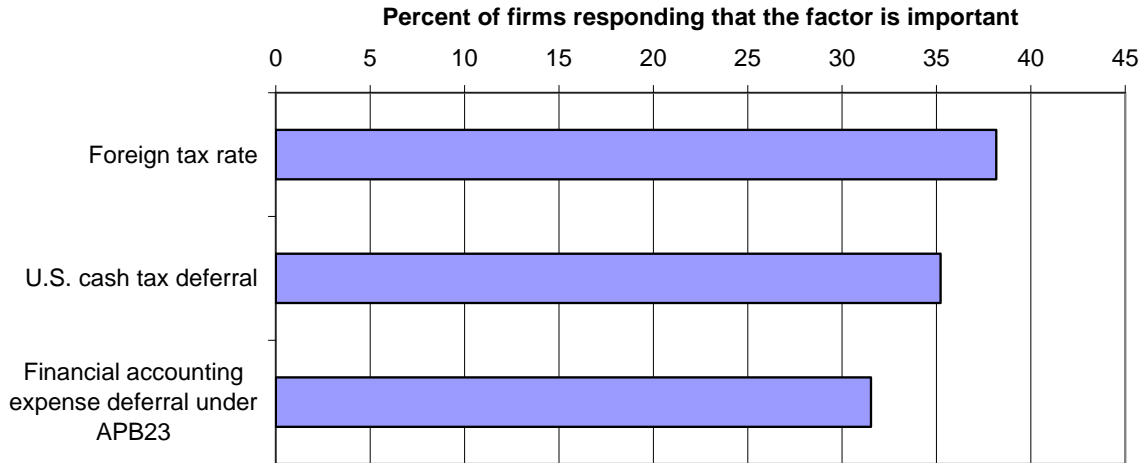
Factor	% important	Obs	Ownership		Size		Foreign Asset Percentage		Excess FTC	
			Public	Private	Large	Small	High	Low	Yes	No
(1)	51.3	119	54.2	27.3	53.0	48.5	42.3	42.3	55.2	47.1
(2)	43.2	118	46.2	18.2*	46.3	36.4	53.9	30.8**	52.2	32.0**
(3)	34.9	63	36.4	25.0	36.6	31.6	68.8	25.0	33.3	34.4
(4)	11.9	118	12.3	9.1	13.4	9.1	76.9	7.7	16.4	6.0

Factor	% important	Obs	ETR		NOL		Cash Tax Rate on Non-965		Cash or GAAP ETR		R & D	
			High	Low	Yes	No	High	Low	Cash	GAAP	High	Low
(1)	51.3	119	60.0	48.6*	60.4	43.0*	52.8	52.5	57.1	50.0	57.4	46.7
(2)	43.2	118	52.0	44.9	44.2	43.3	45.1	42.5	21.4	47.0***	44.1	48.3
(3)	34.9	63	38.5	33.3	38.1	31.6	35.3	36.0	50.0	30.3	46.2	18.2**
(4)	11.9	118	8.0	13.1	17.3	6.7	16.9	5.0	7.1	9.1	10.3	10.4

Notes: The survey provides a 5 point rating scale ranging from 0 to 4. The zero rating is labeled “Not at all important” and the rating of 4 is labeled “very important.” The percentages listed in Panel A of the table under “% important” are the percentages of respondents that gave a rating of 3 or 4 for that particular factor. The percentages listed in Panel A of the table under the column “% not important” are the percentages of respondents that gave a rating of 0 or 1 for that particular factor. The percentages listed in Panel B are only the percentages of firms that gave a rating of 3 or 4 for the factor (i.e., the company ranks the factor as important). Statistical significance is based on tests of the average rating being different from a zero rating in Panel A and tests of the average rating for the groups being statistically different from each other in Panel B. ***, **, and * mark significance of .01, .05, and .10 respectively. See the Appendix for definitions of the conditioning variables.

Figure 1

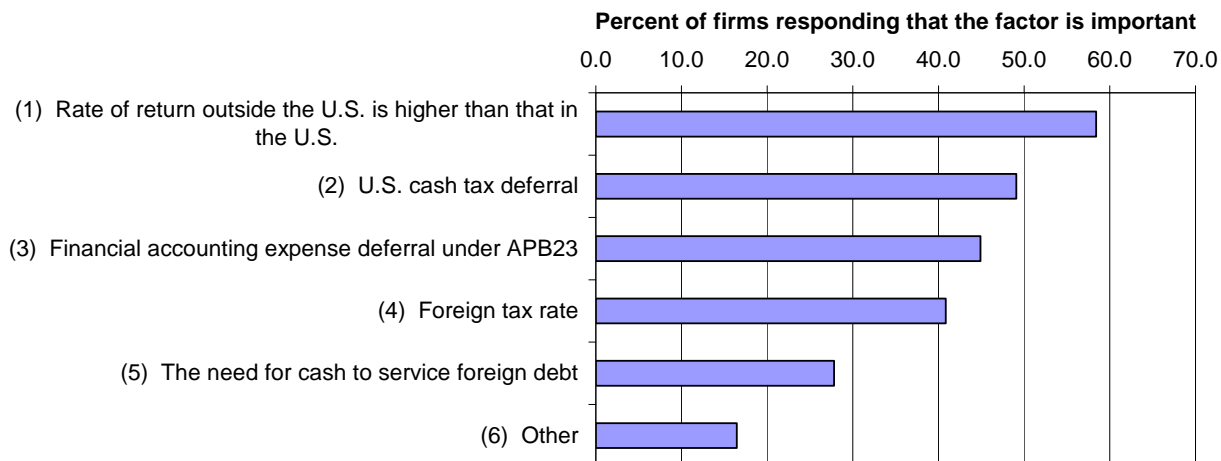
Factors Important in the Decision of Where to Locate Operations



Notes: Survey responses to the question: Relative to all the factors your company considers when making a decision about whether to **locate operations in the U.S. or outside the U.S.**, how important are the following? All data are obtained from a survey of corporate tax executives. The survey provides a 5 point rating scale ranging from 0 to 4. The zero rating is labeled “Not at all important” and the rating of 4 is labeled “very important.” The data above are the percentage of firms that answered that the listed factor was important at either the 3 or 4 rating.

Figure 2

Factors Important in the Decision of Whether to Reinvest Foreign Earnings Outside the U.S.



Notes: Survey responses to the question: In general, what factors are important in your company’s decision to **reinvest foreign earnings outside of the U.S.**? All data are obtained from a survey of corporate tax executives. The survey provides a 5 point rating scale ranging from 0 to 4. The zero rating is labeled “Not at all important” and the rating of 4 is labeled “very important.” The data above are the percentage of firms that answered that the listed factor was important at either the 3 or 4 rating.

Figure 3
Response to a Hypothetical Repeal of Deferral under APB 23

Survey responses to the question “If the rule allowing the deferral of U.S. tax expense under APB 23 were repealed but the deferral of cash tax until repatriation was still allowed, would your company repatriate more foreign earnings as dividends (in other words, if your company had to immediately accrue the tax expense for financial accounting would your company repatriate more dividends)? “

(N=383)

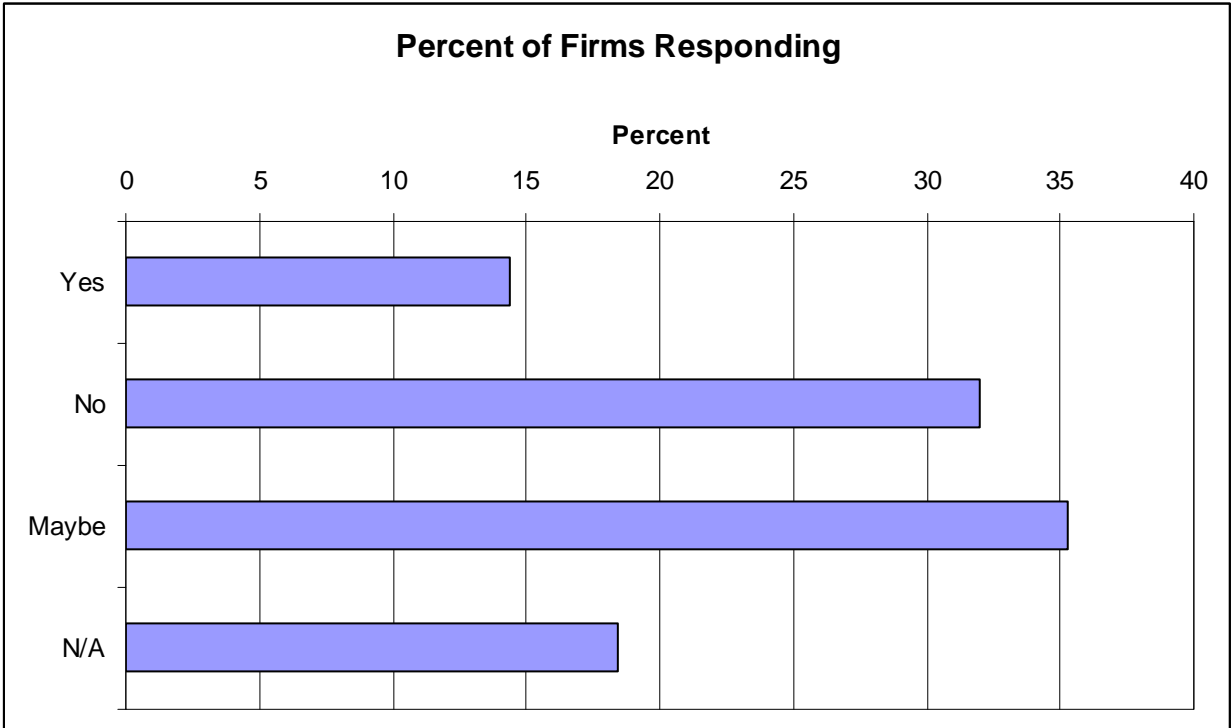
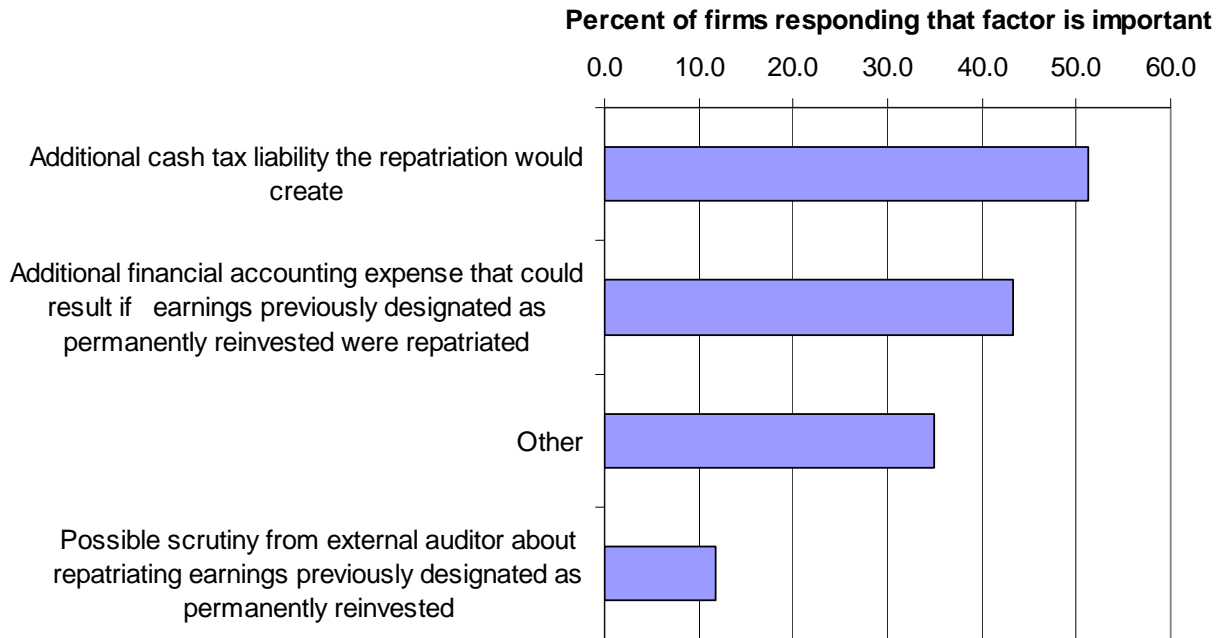


Figure 4
Factors Important for Firms Taking Advantage of the DRD



Notes: Survey responses to the question: When considering whether and to what extent your company would repatriate earnings utilizing the AJCA one-time DRD, which of the following were of most concern/importance to your company (e.g., which items received the most attention in planning all aspects of the repatriation)? All data are obtained from a survey of corporate tax executives. The survey provides a 5 point rating scale ranging from 0 to 4. The zero rating is labeled “Not at all important” and the rating of 4 is labeled “very important.” The data above are the percentage of firms that answered that the listed factor was important at either the 3 or 4 rating.