

Territorial Tax System Reform and Corporate Financial Policies

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Abstract

We examine the effect of a permanent change to a country income repatriation tax system on a set of corporate financial policies. In 2009 Japan and UK switched from a worldwide system to a territorial system for the taxation of earnings repatriated by their multinational firms. Due to the relatively high corporate tax rate in Japan and UK, the new system effectively reduced the tax liabilities of most multinational firms when repatriating earnings. We find that after the change Japanese and UK firms accumulate less cash, pay out larger amounts to shareholders through dividends and share repurchases, and invest less abroad. We do not find that the tax system change has significantly affected corporate domestic investments.

JEL Classifications: F21; F23; G15; G31; G35

Keywords: International Corporate Finance, Corporate Taxes, Repatriation Taxes, Cash Holdings, Payout Policy; Corporate Investments

1. Introduction

The taxation of foreign profits repatriated to the headquarters of U.S. multinational corporations has been the subject of a heated debate among policy makers and corporate lobbyists in the last few years.¹ Countries either adopt a worldwide system (also known as tax-credit system) or a territorial system (also known as exemption system). Under the worldwide system, used by the U.S. and a minority of other countries, the domestic country levies corporate taxes on repatriated profits earned abroad. If the foreign corporate tax rate is smaller than the domestic corporate tax rate, a firm pays taxes to the foreign country on subsidiary income and then pays the remaining difference ($\text{tax}_{\text{domestic}} - \text{tax}_{\text{foreign}}$) to the parent country. If, instead, the foreign tax rate is larger than the domestic tax rate, a firm pays taxes to the foreign country on subsidiary income and then receives a credit on the difference ($\text{tax}_{\text{foreign}} - \text{tax}_{\text{domestic}}$) by the parent country (Graham (2008)). As a consequence multinational firms operating in low-corporate-tax countries might choose not to transfer profits back to their domestic country unless necessary. Foley, Hartzell, Titman and Twite (2007) find that U.S. firms facing higher repatriation taxes hold more cash. Most countries adopt instead a territorial system. Under this system, the parent country taxes a firm only on profits earned at home. Foreign subsidiaries' repatriated profits are exempt. The repatriation tax system adopted by a country is likely to have significant implications on tax receipts, the level on domestic and foreign corporate investments, and corporate payout policy.

¹ See for example "Corporate taxes, the myths and facts", The Wall Street Journal, October 12, 2012; "Obama vs. Volcker, Et Al. The President's advisers agree with Romney on a territorial tax reform", The Wall Street Journal, October 4, 2012; "Why investors can't get more cash out of U.S. companies", The Wall Street Journal, February 19, 2011; and "Escaping the shakedown", The Economist, July 4, 2009.

In this study we investigate the recent repatriation tax system change in U.K. and Japan. These two countries switched from the worldwide to the territorial system at the beginning of 2009. This exogenous change provides a unique opportunity to test the different implications of the two systems on corporate financial policies of multinational corporations. Specifically, we investigate if the change in the repatriation tax system significantly affects the level of corporate cash holdings, the amount of dividends paid and shares repurchased by the parent company, and the amount of domestic versus foreign capital expenditures. We find that Japanese and U.K. multinationals accumulate less cash overall, invest less abroad, and distribute more cash to shareholders through dividends and share repurchases after the adoption of the territorial system in 2009. However, our results show that the change in the repatriation tax system had no significant effect on the level of domestic corporate investments. Our results have also strong economic significance. A change in the *Income Repatriation Tax Cost* from its 2006-2008 mean value of 0.30 to zero during the 2009-2011 territorial system period causes a drop in multinational firms' cash holdings of about 15%, an increase in dividend yield from 1.67% to 1.93%, an increase in net payout yield from 1.84% to 2.14%, and a 50% decrease in foreign capex/assets from 6.6% to 3.3%, everything else constant.

This study examines for the first time the corporate financial policy implications of a permanent change in a country income repatriation tax system. Previous studies have been confined to the analysis of U.S. samples focusing on a single tax system and a single financial policy decision, such as cash holdings (e.g., Foley, Hartzell, Titman and Twite (2007)) or a temporary change in income repatriation taxation, such as the 2004 Homeland Investment Act (Dharmapala, Foley and Forbes (2011)).

The findings of this study are particularly relevant to inform the policy debate in the U.S. about a possible modification of the tax credit system or a possible switch to a territorial system in the same guise of Japan and the UK. While an analysis of the effect of this change on government tax receipts is outside of the scope of this paper, our study shows the strong impact that this policy change is likely to have on corporate financial policies of U.S. multinational firms.

The rest of this paper is organized as follows. Section 2 presents the empirical questions related to the possible implications of an income repatriation tax system change to corporate financial policies. Section 3 outlines our sample selection and provides summary statistics and univariate analysis. Section 4 discusses our multivariate analysis. Section 5 reports robustness checks. Section 6 concludes.

2. Hypotheses development

Multinational firms have to consider several possible alternatives on how to best use the profits generated by foreign subsidiaries. Firms can maintain foreign earnings abroad with the effect of increasing the subsidiaries' cash holdings, they can use foreign earnings to increase investments in the subsidiary countries, or they can repatriate foreign income to the domestic country in the form of intra-firm dividends. The repatriated earnings can be used to increase domestic cash holdings, increase corporate payouts to shareholders, embark in new domestic capital investments, or initiate acquisitions. Altshuler and Grubert (2002) argue that firms residing in worldwide tax system countries with high corporate tax rates (such as the U.S.) and with foreign subsidiaries in countries with lower tax rates tend to avoid the high taxes on repatriation by keeping foreign earnings within the foreign subsidiaries. Grubert and Mutti

(2001) find that firms with manufacturing subsidiaries with effective tax rates below 10% repatriate on average only 7% of their earnings. Desai, Foley and Hines (2001) study a panel of foreign affiliates of U.S. firms from 1992 to 1997 and find that a decline of repatriation tax rates of 1% is associated with an increase of 1% in intra-form dividends. Repatriation taxes can in part explain why US firms hold more cash than what predicted by standard firm characteristics (Foley, Hartzell, Titman and Twite (2007)). Desai, Foley and Hines (2007) find that US companies with attractive domestic investment opportunities are more likely to repatriate earnings when the trade-off between external financing costs and repatriation taxes favor earning repatriation. However, Dharmapala, Foley and Forbes (2011) show that during the 2004 tax holiday, U.S. multinational firms used the temporary repatriation tax break to increase payouts to shareholders rather than investing in new domestic projects.

We formulate our hypothesis as follows:

Hypothesis 1: Japanese and U.K. firms that face repatriation tax costs during the worldwide system period hold less cash overall after the adoption of the territorial system for income repatriation.

Hypothesis 2: Japanese and U.K. firms that face repatriation tax costs during the worldwide system period distribute more cash to shareholders in form of dividends and share repurchases after the adoption of the territorial system for income repatriation.

Hypothesis 3: Japanese and U.K. firms that face repatriation tax costs during the worldwide system period invest less in new foreign projects after the adoption of the territorial system for income repatriation.

Hypothesis 4: Japanese and U.K. that face repatriation tax costs during the worldwide system period invest more in new domestic projects after the adoption of the territorial system for income repatriation.

Our hypothesis are based on the fact that the great majority of firms headquartered in Japan and the U.K. face repatriation tax costs during the worldwide system period due to the higher corporate tax rate in this two countries compared to the tax rates in most foreign countries where foreign subsidiaries are located. In fact, only about 2% of our sample has a negative repatriation tax cost between 2006 and 2008.

3. Sample and Univariate Analysis

3.1. Sample formation and variables

The initial sample consists of the entire population of Japanese and U.K. multinational firms covered by WorldScope from 2006 to 2011. Consistent with previous studies, we remove financial firms and utilities. After removing companies for which tax data or other variables used in the multivariate analyses are not available, our sample consists of 8,350 firm-year observations (5,303 Japanese and 3,047 UK) and 1,976 unique firms. Consistent with Foley et al. (2007), our sample includes both multinational and purely domestic firms.²

The main independent variable of this study is the income repatriation tax cost. Similar to Foley et al. (2007), for the period between 2006 and 2008, we compute the income repatriation tax cost by first subtracting foreign taxes paid from the product of a firm's foreign

² For the multivariate analyses with foreign and domestic capital expenditures as dependent variables, we exclude purely domestic firms from our sample.

pre-tax income and its effective tax rate.³ We then scale the maximum of this difference or zero by total firm assets. This variable is set to 0 between 2009 and 2011 due to the implementation of the territorial system in 2009, which effectively removed the tax cost of repatriating earnings. We also generate an alternative income repatriation tax cost variable. This variable is analogous to the income repatriation tax cost but for substituting the firm's effective tax rate with the country corporate statutory tax rate.

The control variables used in the multivariate analysis are firm characteristics that the extant literature shows to significantly affect cash holdings, payout policy, and corporate investments: Log of Total Assets, Consolidated Income/Total Assets, Market-to-Book Value of Equity, Standard Deviation of Operating Income, Leverage, Capital Expenditures/Total Assets, R&D Expenses/Total Assets, and Tobin's Q. As stated above, our main sample includes multinational and domestic firms. Even excluding tax considerations, multinational firms might hold more cash due to a longer delay between the receipt of cash and its use, and more precautionary cash holdings due to greater overall risk face by multinational firms (Foley et al. (2007)). Moreover firms with a larger proportion of income generated abroad will proportionally pay fewer dividends if most of the foreign income is not repatriated to the domestic headquarters. We control for these possible differences with two income variables: Domestic Income/Total Assets, and Foreign Income/Total Assets. The dependent variables of the different regression specifications are cash holdings, corporate investments and payout policy variables: Cash/Net Assets, Domestic Capital Expenditures/Total Assets, Foreign Capital Expenditures/Total Assets, Dividend Payout Yield, and Net Payout Yield. The Appendix describe all variables and their sources.

³ We calculate the effective tax rate by dividing income taxes by pre-tax income.

3.2.Descriptive statistics and univariate analysis

Table 1 presents descriptive statistics for the all variables. We provide aggregate statistics for the overall sample along with statistics for the Japanese and UK sub-samples. The Alternative Income Repatriation Tax Cost is larger than the Income Repatriation Tax Cost due to statutory tax rates being usually higher than effective tax rates. While the median of foreign income is 0, its average is \$ 96.43 M, which is only slightly lower than the average of domestic income (\$101.48 M). These results suggest that more than half of the sample firms are domestic, but multinational firms post a large amount of earnings abroad. This is more pronounced for UK firms than Japanese firms. The mean foreign income of UK firms is higher than their mean domestic income. UK firms have also larger market-to-book ratio, higher q and higher foreign capital expenditures than Japanese firms. Moreover, more than half of UK firms do not pay dividends or buy back shares.⁴ In the main multivariate analyses we include a country dummy. We also replicate our multivariate tests by separating UK and Japanese firms as a robustness check.

Table 2 presents univariate tests performed on two sub-samples generated by splitting the sample firm-year observations between worldwide period (2006-2008) and the territorial period (2009-2011). The great majority of UK and Japanese firms faced a positive repatriation cost during the worldwide period. Only about 2% of our sample has a negative repatriation tax cost between 2006 and 2008 due to the relative high corporate tax rate in Japan and UK. We present the results of t-tests of the difference of the means, and Wilcoxon-Mann-Whitney non-parametric tests for the dependent variables of the multivariate analysis: Cash/Net Assets, Dividend

⁴The proportion of UK dividend payer to non-payer in our sample is 49:51.

Payout/Total Assets, and Net Payout (dollar amount of dividends plus repurchases less equity issuances)/Total Assets, Domestic Capital Expenditures/Total Assets, and Foreign Capital Expenditures/Total Assets. The sample for these univariate tests consists only of multinational firms. With the exclusion of Cash/Net Assets, these univariate tests provide preliminary evidence of changes in corporate financial policies resulting from the tax system change. The t-test of the mean shows that multinational firms are more likely to pay higher dividends and pay out more overall (i.e., dividends and repurchases) in the 2009-2011 period when effectively the tax cost of repatriating earnings drops to zero. The Wilcoxon test suggests that domestic capital expenditures have also increase after the implementation of the territorial system in 2009. Finally both the t-test of the mean and the Wilcoxon test show that foreign capital expenditures to total assets are significantly smaller after the elimination of the income repatriation tax. Overall, the results presented in table 2 suggests that, after the adoption of the territorial tax system of income repatriation, multinational firms are more likely to transfer income to their domestic headquarters to pay more dividends, buy back shares and invest domestically rather than abroad.

4. Main multivariate analysis

Our multivariate analysis consists of several regression specifications that examine the effect of the change from the repatriation worldwide system to the territorial system on the decisions by Japanese and U.K. firms (a) on the level of cash holdings, (b) on payout policy (both dividend payments and share repurchases), and (c) on the amount of corporate investments abroad and in their domestic country. All regressions specifications are fixed effects regressions:

$$y_{it} = \beta X_{it} + \alpha_c + \gamma_j + \varepsilon_{it} \quad (1)$$

where y_{it} is one of the corporate financial policy dependent variables listed below, X_{it} is a vector of the time-varying tax and firm level characteristics listed in the variable section, α_c is a country dummy, γ_j are industry fixed effects, and ε_{it} is the error term. We do not include year dummies in our main tests because our repatriation tax variables assume the value of 0 for the 2009-2011 period and, therefore, include a time component. When estimating equation (1) we account for serial correlation by estimating clustered (Rogers) standard errors, which are White standard errors that account for within firm correlation.

4.1. *Repatriation Tax Costs and Cash*

Table 3 presents the results of fixed effects linear regressions with the natural logarithm of cash to net assets as dependent variable. In the first specification we use *Income Repatriation Tax Cost* as the tax variable of interest, while in the second specification we use the *Income Repatriation Tax Cost* variable. The two specifications present a consistent picture. Both repatriation tax cost variables are positive and significant. Until 2008, when due to the credit repatriation tax system firms had to face additional taxes to repatriate income from low tax rate countries, UK and Japanese firms significantly accumulated more cash.⁵ This result is consistent with our first hypothesis and confirms the result obtained by Foley et al. (2007) for U.S. corporations. This result has a very strong economic significance. If the *Income Repatriation Tax Cost* goes from its 2006-2008 mean value of 0.0030 to effectively zero during the 2009-

⁵ As stated previously, firms can enjoy a negative repatriation tax cost (overall tax credit) during the tax credit system if the majority of the income repatriated is from countries with tax rates lower than the domestic tax rate. However only about 2% of our sample has a negative repatriation tax cost between 2006 and 2008 due to the relative high corporate tax rate in Japan and UK.

2011, cash holdings drop about 15% from their median value for multinational firms, everything else constant.

Consistent with previous studies about cash holdings determinants (e.g., Opler, Pinkowitz, Stulz and Williamson (1999)) larger companies, companies with more debt, more capital expenditures, more R&D Expenses and larger payouts (dividends and share repurchases) hold significantly less cash. The positive and significant coefficient of *St. Dev. Of Operating Income* suggests that the firms in our sample accumulate more cash when faced with more uncertainty, consistent with what Arena and Julio (2012) show for U.S. corporations,

4.2.Repatriation Tax Cost and Corporate Payouts

Cash repatriated to the domestic headquarters might be used by corporations to increase corporate payouts. In Table 4 we analyze the effect of income repatriation tax costs on dividends and in Table 5 we analyze the effect of income repatriation tax costs on total payouts (dividends plus share repurchases). The results presented in Table 4 show that both proxies for repatriation tax costs are negatively and significantly related to the dividend payout yield. This result is consistent with our hypothesis that the elimination of repatriation taxes due to the enactment of the territorial system had the significant effect of increasing dividend payments by UK and Japanese corporations. The coefficient of the *Income Repatriation Tax Cost* implies a large change in dividend yield after the implementation of the territorial system. If the *Income Repatriation Tax Cost* goes from its 2006-2008 mean value of 0.0030 to effectively zero during the 2009-2011, the dividend yield increases from its median value of 1.67% to 1.93%.

The control variables have coefficients consistent with the findings of previous studies that analyze the determinants of payout policy (cites). Larger companies, more profitable

companies, companies with lower leverage, lower R&D expenses and less income volatility distribute more cash to their shareholders in form of dividends.

The results of the net payout yield regressions presented in Table 5 are consistent with the results of the dividend regression. Repatriation tax costs have also a negative and significant effect of total net payouts. A change of the *Income Repatriation Tax Cost* from its 2006-2008 mean value of 0.30 to zero during the 2009-2011 territorial system period causes a 16% increase in net payout yield from 1.84% to 2.14%, everything else constant. The coefficients of control variables have the expected sign consistent with the dividend regression results of Table 4 and previous studies on payout policy.

4.3. *Repatriation Tax Cost and Corporate Investments*

Another possible consequence of repatriating more profits after the enactment of the territorial system is an improvement in the allocation of funds across countries and a lower likelihood to invest in low or negative net present value projects in foreign countries. We investigate this hypothesis with fixed effects regressions with foreign capital expenditures divided by total assets as dependent variable. For these regressions we exclude purely domestic companies from the sample. Table 6 presents the results.

Both repatriation tax cost proxies have positive and significant coefficients consistent with our hypothesis that the effective elimination of a repatriation tax for most firms due to the implementation of the territorial system has significantly reduced foreign investments. The *Income Repatriation Tax Cost* has also a very strong economic significance. A change of the *Income Repatriation Tax Cost* from its 2006-2008 mean value of 0.0030 to zero during the 2009-

2011 territorial system period causes a 50% decrease in foreign capex/assets from 6.6% to 3.3%, everything else constant.

The payout results presented in the previous tables show that firms use at least part of the cash repatriated to the domestic country to increase distributions to shareholders in form of dividends and share repurchases. Some of the repatriated cash could also possibly be used to increase domestic investments. We test this hypothesis with fixed effects regressions with domestic capital expenditures over assets as dependent variables. As for the regressions of Table 6, we exclude domestic firms from this test. Table 7 presents the results. Neither repatriation tax proxies has a significant coefficient suggesting that after the implementation of the territorial system UK and Japanese firms do not use the additional cash repatriated to their domestic country to increase domestic investments.

Overall, the tests discussed in this section show that the switch from a tax credit repatriation system to an territorial system had the effect of encouraging multinational firms to save more foreign cash by cutting foreign investments, to transfer larger quantities of foreign cash to their domestic country to increase corporate payouts but not domestic investments.

5. Robustness tests

As most countries around the world, both Japan and UK experienced a deep recession in 2008 and 2009. The recessionary years can possibly generate a bias in the results.⁶ We replicate our multivariate tests excluding the recessionary years' observations. All the tax variable coefficients maintain the same sign and are statistically significant (with the exception of those

⁶ We feel, however, that this risk is very limited because the recessionary period is split in half between the tax credit system years and the exception system years.

for the domestic investments regressions). The significance is sometimes at a lower level due to the smaller sample size which reduces the power of our tests.

In the main multivariate tests we analyze a sample comprising both Japanese and UK firms. We control for country heterogeneity with a country fixed effect indicator variable. However, some of our independent variables could relate to the dependent variables in a different way for UK versus Japanese firms. To check the robustness of our results to possible country-specific differences, we replicate our multivariate tests after separating UK and Japanese firms into two samples. As for the other robustness test, the coefficients of the tax proxies maintain their sign and are significant at the same or a lower level depending on the regressions.

6. Conclusions

Countries rarely make clear-cut changes to their taxation rules. In this study we exploit one of these rare opportunities offered by the decision by Japan and the U.K. in 2009 to switch from a worldwide to a territorial system for the taxation of repatriated corporate income. We find that this change had broad and significant repercussions on corporate financial decisions.

The switch from a tax credit repatriation system to a territorial system in Japan and U.K. offered multinational firms residing in these two countries the ability to repatriate foreign income at no additional tax cost. Overall, the results of this study suggests that the removal of this tax disadvantage when repatriating earnings had the effect of encouraging multinational firms to save more cash abroad by cutting foreign investments, and to transfer larger quantities of foreign cash to the domestic country to increase corporate payouts rather than domestic investments. The ability to use more cash from the firms' headquarters location for payouts had also the effect

to decrease overall cash holdings. The results of this paper might inform the decision-making process of policymakers in the U.S. and other countries that are currently adopting a worldwide system and are considering a change in their tax repatriation rule. In more general terms, this study underlines how a permanent change in the corporate tax code can have strong, long-standing consequences for corporate financial policies that can ultimately affect shareholder wealth and the level of employment in domestic and foreign countries.

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APPENDIX

Variable Definitions and Sources

All the financial statement data used to construct the variables is retrieved from Worldscope and is expressed in US dollars.

Variable	Definition
<i>Alternative Income Repatriation Tax Cost</i>	The product of a firm's foreign pre-tax income and its country corporate tax rate minus foreign taxes paid. The maximum of this difference or zero is then divided by total firm assets. This variable is set to 0 between 2009 and 2011.
<i>Log (Cash/Net Assets)</i>	Natural logarithm of cash plus marketable securities divided by total assets minus cash and marketable securities
<i>Capital Expenditures/Total Assets</i>	Total cash expenditures divided by total assets
<i>Dividend Payout Yield</i>	Firm's annual dividend payments divided by its year-end market value
<i>Domestic Income/Total Assets</i>	Domestic earnings before interest and taxes divided by total assets.
<i>Foreign Income/Total Assets</i>	Foreign earnings before interest and taxes divided by total assets.
<i>Income Repatriation Tax Cost</i>	The product of a firm's foreign pre-tax income and its effective tax rate minus foreign taxes paid. The maximum of this difference or zero is then divided by total firm assets. This variable is set to 0 between 2009 and 2011.
<i>Leverage</i>	(Long-term debt + short-term debt)/total assets.
<i>Log of Total Assets</i>	Natural logarithm of the firm assets
<i>Net Payout Yield</i>	firm's annual total net payout (dividends plus repurchases less equity issuances) divided by its year-end market value
<i>R&D Expenses/Total Assets</i>	Research and Development expenses, set to zero if missing, divided by total assets
<i>Market-to-Book Value of Equity</i>	Ratio of the market value to the book value of a firm's equity
<i>St. Dev. of Operating Income</i>	Standard deviation of the firm's annual operating income during the sample period
<i>Tobin's Q</i>	Total assets plus market value of equity minus book value of equity, all divided by total assets
<i>Total Income/Total Assets</i>	Consolidated earnings before interest and taxes divided by total assets.

Table 1
Descriptive Statistics

This table presents means and medians of firm characteristics for the full sample, a sub-sample that includes only Japanese firms, and a sub-sample that includes only UK firms. The sample period is 2006- 2011 unless otherwise specified in the table. The variables are described in the Appendix.

	Full Sample		Japan		United Kingdom	
	Mean	Median	Mean	Median	Mean	Median
Income Repatriation Tax Cost	0.0008	0.0000	0.0008	0.0000	0.0006	0.0000
Alternative Income Repatriation Tax Cost	0.0014	0.0000	0.0012	0.0000	0.0017	0.0000
Income Repatriation Tax Cost 2006-08	0.0030	0.0000	0.0036	0.0001	0.0018	0.0000
Alternative Income Repatriation Tax Cost 2006-08	0.0052	0.0000	0.0052	0.0004	0.0051	0.0000
Total Assets	2346.16	269.26	2292.75	358.95	2489.64	73.03
Total Income	155.93	10.49	118.45	14.01	256.53	2.01
Domestic Income	101.48	15.60	108.36	26.62	88.28	0.81
Foreign Income	96.43	0.0000	73.31	0	140.74	0
Cash	257.68	35.86	281.16	49.28	194.57	7.36
St. Dev. Operating Income	68.47	8.24	64.61	9.62	78.92	4.18
q	1.70	0.99	1.08	0.93	3.38	1.39
Market-to-Book	1.51	0.93	1.29	0.82	2.13	1.56
Leverage	0.20	0.15	0.20	0.16	0.19	0.10
Capex	117.86	5.82	115.62	8.16	124.19	1.36
Domestic Capex (only multinational firms)	60.98	3.87	38.81	13.94	62.62	3.13
Foreign Capex (only multinational firms)	139.34	1.45	44.17	4.25	147.18	1.32
R&D Expenses	82.77	4.44	87.15	5.24	59.48	1.67
Total Payout Yield	2.80%	1.84%	3.00%	2.13%	2.25%	0.00%
Dividend Yield	2.47%	1.67%	2.64%	1.89%	1.99%	0.00%

Table 2
Univariate Test

This table presents univariate statistics for cash, payout and capital expenditure variables that are potentially affected by income repatriation taxes. The table contrasts the means and medians of these variables when the repatriation tax cost is positive for most firms (worldwide system period, 2006-2008) and when instead it is zero (territorial system period, 2009-2011). For these tests we restrict our sample to multinational firms. The last two columns of the table present the p-values of the t-test of the difference of the means and the p-value of the Wilcoxon-Mann-Whitney non-parametric test.

	2006-2008		2009-2011		diff mean	Wilcoxon test
	Income Repatriation Tax Cost>0		Income Repatriation Tax Cost=0		t-test	
	Mean	Median	Mean	Median	p-value	p-value
Cash/Assets	0.2091	0.1331	0.2123	0.1689	0.498	0.463
Dividend Yield	0.0158	0.0125	0.0207	0.0136	0.000	0.265
Payout Yield	0.0206	0.0150	0.0267	0.0172	0.000	0.210
Domestic Capex/Assets	0.0342	0.0137	0.0360	0.0171	0.664	0.076
Foreign Capex/Assets	0.0241	0.0119	0.0218	0.0058	0.087	0.000

Table 3
Cash Holdings and Income Repatriation Tax Cost

This table presents the coefficients of fixed effect regressions with the logarithm of cash divided by net assets as dependent variable. The main explanatory variables are the income repatriation tax cost in the first specification and the alternative income repatriation tax in the second specification. All variables are described in the appendix. The regressions include country and industry fixed effects. P-values, obtained with standard errors corrected for clustering of errors by firm, are presented in parentheses.

Dependent Variable: Ln(Cash/Net Assets)		
	(1)	(2)
Income Repatriation Tax Cost	10.7895 (0.003)	
Alternative Income Repatriation Tax Cost		2.0665 (0.030)
Log of Total Assets	-0.1480 (0.000)	-0.1451 (0.000)
Domestic Income/Total Assets	0.0202 (0.620)	0.0252 (0.536)
Foreign Income/Total Assets	-0.0211 (0.662)	-0.0270 (0.579)
Market-to-Book Value of Equity	0.0001 (0.892)	0.0001 (0.885)
Leverage	-0.9439 (0.000)	-0.9475 (0.000)
Capital Expenditures/Total Assets	-2.4525 (0.000)	-2.4260 (0.000)
R&D Expenses/Total Assets	-2.2716 (0.000)	-2.2789 (0.000)
Payout/Total Assets	-3.6801 (0.000)	-3.6890 (0.000)
St. Dev. of Operating Income	0.0001 (0.000)	0.0001 (0.000)
Intercept	-1.5607 (0.059)	-1.6184 (0.051)
Country Dummy	Yes	Yes
Industry Dummy	Yes	Yes
N	8,387	8,387
Adj. R ²	0.401	0.396

Table 4
Dividend Payout Yield and Income Repatriation Tax Cost

This table presents the coefficients of fixed effect Tobit regressions with the dividend payout yield as dependent variable. The dividend payout yield is the firm's annual dividend payments divided by its year-end market value. The main explanatory variables are the income repatriation tax cost in the first specification and the alternative income repatriation tax in the second specification. All variables are described in the appendix. The regressions include country and industry fixed effects. P-values, obtained with standard errors corrected for clustering of errors by firm, are presented in parentheses.

Dependent Variable: Dividend Payout Yield		
	(1)	(2)
Income Repatriation Tax Cost	-0.5220 (0.002)	
Alternative Income Repatriation Tax Cost		-0.1608 (0.002)
Log of Total Assets	0.0057 (0.000)	0.0055 (0.000)
Domestic Income/Total Assets	0.1001 (0.000)	0.0985 (0.536)
Foreign Income/Total Assets	0.1150 (0.000)	0.1245 (0.000)
Market-to-Book Value of Equity	-0.0001 (0.179)	-0.0001 (0.170)
Leverage	-0.0144 (0.000)	-0.0137 (0.000)
Capital Expenditures/Total Assets	0.0015 (0.921)	-0.0009 (0.952)
R&D Expenses/Total Assets	-0.1361 (0.000)	-0.1355 (0.000)
St. Dev. of Operating Income	-0.0001 (0.002)	-0.0001 (0.002)
Intercept	-0.2167 (0.997)	-0.2135 (0.998)
Country Dummy	Yes	Yes
Industry Dummy	Yes	Yes
N	8,415	8,415
Pseudo R ²	0.454	0.441

Table 5
Net Payout Yield and Income Repatriation Tax Cost

This table presents the coefficients of fixed effect Tobit regressions with the total payout yield as dependent variable. The net payout yield is the firm's annual dividend payments plus share repurchase amount minus equity issuance, all divided by its year-end market value. The main explanatory variables are the income repatriation tax cost in the first specification and the alternative income repatriation tax in the second specification. All variables are described in the appendix. The regressions include country and industry fixed effects. P-values, obtained with standard errors corrected for clustering of errors by firm, are presented in parentheses.

Dependent Variable: Net Payout Yield		
	(1)	(2)
Income Repatriation Tax Cost	-0.5949 (0.003)	
Alternative Income Repatriation Tax Cost		-0.2034 (0.001)
Log of Total Assets	0.0063 (0.000)	0.0061 (0.000)
Domestic Income/Total Assets	0.1065 (0.000)	0.1052 (0.000)
Foreign Income/Total Assets	0.1309 (0.000)	0.1430 (0.000)
Market-to-Book Value of Equity	-0.0001 (0.152)	-0.0001 (0.145)
Leverage	-0.0129 (0.002)	-0.0122 (0.003)
Capital Expenditures/Total Assets	-0.0286 (0.106)	-0.0316 (0.075)
R&D Expenses/Total Assets	-0.1373 (0.000)	-0.1374 (0.000)
St. Dev. of Operating Income	-0.0001 (0.017)	-0.0001 (0.015)
Intercept	-0.2550 (0.998)	-0.2394 (0.998)
Country Dummy	Yes	Yes
Industry Dummy	Yes	Yes
N	8,415	8,415
Pseudo R ²	0.438	0.420

Table 6
Foreign Investments and Income Repatriation Tax Cost

This table presents the coefficients of fixed effect regressions with foreign capital expenditures to total assets as dependent variable. The main explanatory variables are the income repatriation tax cost in the first specification and the alternative income repatriation tax in the second specification. Purely domestic firms are excluded from the sample. All variables are described in the appendix. The regressions include country and industry fixed effects. P-values, obtained with standard errors corrected for clustering of errors by firm, are presented in parentheses.

	(1)	(2)
Income Repatriation Tax Cost	0.6465 (0.021)	
Alternative Income Repatriation Tax Cost		0.3568 (0.084)
Log of Total Assets	0.0019 (0.004)	0.0021 (0.001)
Domestic Income/Total Assets	-0.0050 (0.563)	-0.0021 (0.556)
Foreign Income/Total Assets	0.0008 (0.729)	0.0010 (0.652)
Market-to-Book Value of Equity	-0.0001 (0.952)	0.0001 (0.962)
Leverage	-0.0007 (0.907)	-0.0006 (0.926)
Lag Capital Expenditures/Total Assets	0.1314 (0.000)	0.1324 (0.000)
R&D Expenses/Total Assets	-0.0053 (0.769)	-0.0055 (0.761)
St. Dev. of Operating Income	-0.0001 (0.096)	-0.0001 (0.046)
Intercept	0.1361 (0.743)	0.0156 (0.707)
Country Dummy	Yes	Yes
Industry Dummy	Yes	Yes
N	1,147	1,147
Adj. R ²	0.246	0.211

Table 7
Domestic Investments and Income Repatriation Tax Cost

This table presents the coefficients of fixed effect regressions with domestic capital expenditures to total assets as dependent variable. The main explanatory variables are the income repatriation tax cost in the first specification and the alternative income repatriation tax in the second specification. Purely domestic firms are excluded from the sample. All variables are described in the appendix. The regressions include country and industry fixed effects. P-values, obtained with standard errors corrected for clustering of errors by firm, are presented in parentheses.

	(1)	(2)
Income Repatriation Tax Cost	-0.1119 (0.774)	
Alternative Income Repatriation Tax Cost		-0.5570 (0.263)
Log of Total Assets	-0.0017 (0.089)	-0.0017 (0.078)
Domestic Income/Total Assets	0.0029 (0.639)	0.0035 (0.570)
Foreign Income/Total Assets	0.0028 (0.403)	0.0023 (0.490)
Market-to-Book Value of Equity	0.0001 (0.371)	0.0001 (0.392)
Leverage	0.0272 (0.0031)	0.0266 (0.0036)
Lag Capital Expenditures/Total Assets	0.1736 (0.000)	0.1731 (0.000)
R&D Expenses/Total Assets	-0.0349 (0.141)	-0.0351 (0.137)
St. Dev. of Operating Income	-0.0001 (0.058)	-0.0001 (0.030)
Intercept	0.0394 (0.512)	0.0343 (0.567)
Country Dummy	Yes	Yes
Industry Dummy	Yes	Yes
N	1,147	1,147
Adj. R ²	0.218	0.196