Bloomberg

Want a Repatriation Tax Holiday? Hire More U.S. Workers: View

By the Editors *Jul 1, 2011 5:01 AM GMT*

U.S. multinational companies have stockpiled enormous amounts of cash overseas in the hope that they can avoid paying taxes on it. This isn't illegal, nor is it illogical, given that current law would tax those profits at rates up to 35 percent when they're brought back to the U.S.

But it certainly does no good for the U.S. economy, which is badly in need of productive investment.

As Bloomberg News reported, Cisco Systems Inc. has $31.6 billion in overseas earnings on which it has paid no U.S. income taxes. That's almost 90 percent of Cisco's total cash. All told, companies say, $1 trillion in earnings sit offshore, awaiting the blessing of a benevolent Congress to come home and start creating jobs, jobs, jobs. These companies are lobbying the government to offer a repatriation tax holiday, in which the tax rate on foreign profits would fall to 5.25 percent, for one year.

Evidence suggests this won't do much for employment. A study published by the National Bureau of Economic Research found that the last time the U.S. tried such a program, in 2004, it had little measurable effect on job creation. "Repatriations did not lead to an increase in domestic investment, employment or R&D – even for the firms that lobbied for the tax holiday stating these intentions," the study said. Instead, roughly 92 cents of every repatriated dollar went to stock buybacks and shareholder dividends.

Tax experts largely agree that this is terrible policy- making. Coming so soon after the last tax holiday, another one this year would encourage corporations to hoard yet more money overseas in anticipation of still more breaks. It might distort currency markets at the margins. It would surely encourage tax gamesmanship, as lawyers would seek ways around whatever conditions Congress might apply. It would also be an enormous distraction from designing a permanent fix for the corporate tax code.

There are other, better options for stimulus. Another short-term tax cut for the middle class would probably be more effective in creating jobs. But if Congress is intent on granting another holiday, it should be reserved for companies that will add full-time jobs -- to ensure that taxpayers get something in return for the corporate-tax break.

Here’s one option: Companies could repatriate foreign profits at, say, a 15 percent rate, less than the average company pays and well below the top rate of 35 percent. To keep that subsidy, they would have to show an increase in employee headcount, averaged over the next three years. In the long run, the bigger the increase in payroll, the bigger the tax break.

Some companies lobbying for a tax holiday -- technology giants Cisco, Apple Inc. and Google Inc. come to mind -- probably wouldn’t benefit much by this plan, as they are unlikely to hire in large numbers. So be it. They will have to bring back their offshore earnings at the higher rate or invest the money overseas.

Likewise, this is hardly a cure-all for 9 percent unemployment. Some companies will figure out how to game the system, and others will be rewarded for hiring workers they intended to hire anyway. But it might nudge some cautious manufacturers to take the hiring plunge instead of continuing to wait for the jobless rate to decline and consumer spending to rebound. Creating some new jobs is better than creating no new jobs.

In the 112th Congress, that would count as progress.