The Effect of Tax Costs on U.S. Multinational Cash Holdings

Christine Dobridge, Federal Reserve Board of Governors*

Paul Landefeld, Joint Committee on Taxation

Abstract: In this paper, we study the effect of repatriation tax costs on the cash holdings of multinational corporations using tax return data on US multinationals and their controlled foreign corporations. By exploiting numerous declines in foreign tax rates over time and across jurisdictions, we show that following foreign tax cuts, firms increase cash-to-asset ratios of affiliates in countries with a tax rate decrease. They also reduce the cash-to-asset ratios of the U.S. parent corporations while cash-to-asset ratios remain unchanged for affiliates in countries with no tax rate change. On net declining foreign tax rates increase overall firm cash-to-asset ratios, suggesting that the increase in repatriation tax costs has been a driver of the overall increase in corporate cash holdings over the past several decades.

*The analysis and conclusions expressed in this paper are those of the author and do not necessarily reflect the views of the Board of Governors of the Federal Reserve System, its members, or its staff.

This research embodies work undertaken for the staff of the Joint Committee on Taxation, but as members of both parties and both houses of Congress comprise the Joint Committee on Taxation, this work should not be construed to represent the position of any member of the Committee. This work is integral to the Joint Committee on Taxation staff's work and its ability to model and estimate the effects of changes in the tax treatment of U.S. multinational corporations.