

**PRESS RELEASE**

**U. S. Senate Permanent Subcommittee on Investigations**

**HOMELAND SECURITY AND GOVERNMENTAL AFFAIRS COMMITTEE**

Carl Levin, Chairman



FOR IMMEDIATE RELEASE

October 11, 2011

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## **Levin Report Finds Offshore Tax Break Is a Failed Tax Policy Whose Repeat Could Damage the Economy**

WASHINGTON – Sen. Carl Levin, D-Mich., chairman of the Senate Permanent Subcommittee on Investigations, released a report today that found that the 2004 repatriation tax break that allowed U.S. companies to bring \$312 billion in offshore earnings back to the United States at an extraordinarily low tax rate did not produce any of the promised benefits of new jobs or increased research expenditures to spur economic growth.

The report looked at the top 15 repatriating companies and found that, instead of spurring jobs and economic stimulus, the tax break was instead associated with increased corporate stock buybacks and executive pay. The report also observed that the 5.25% tax rate created a competitive disadvantage for domestic businesses that chose not to engage in offshore operations or investments, and provided a windfall for multinationals in a few industries without benefitting the U.S. economy as a whole.

“There is no evidence that the previous repatriation tax giveaway put Americans to work, and substantial evidence that it instead grew executive paychecks, propped up stock prices, and drew more money and jobs offshore,” said Levin. “Those who want a new corporate tax break claim it will help rebuild our economy, but the facts are lined up against them. That’s why think tanks from the left and right have condemned another repatriation tax break as an unaffordable giveaway to multinationals that have stashed billions of dollars offshore and are now lobbying to get out of paying their fair share of taxes.”

The Levin report makes publicly available for the first time detailed information from the 15 corporations that claimed the largest qualifying dividends under the 2004 American Jobs Creation Act. That Act allowed corporations a one-time reduction in taxes on offshore income brought into the United States. Supporters said the legislation would infuse capital into U.S. firms which would then use the funds to increase hiring, research, and other investments.

Though the law specified allowable uses of repatriated funds, and expressly prohibited using repatriated money for stock repurchases or executive pay, it did not require corporations to track their use of repatriated funds and so provided no mechanism to monitor compliance with the law. To determine how corporations used their repatriated funds, the Subcommittee

surveyed the 15 corporations that repatriated the most money through qualifying dividends, and an additional five firms that repatriated significant amounts.

The top 15 repatriators were Altria, Bristol-Myers Squibb, Coca-Cola, DuPont, Eli Lilly, Hewlett-Packard, IBM, Intel, Johnson & Johnson, Merck, Oracle, PepsiCo, Pfizer, Procter & Gamble, and Schering-Plough (which merged with Merck in 2009). The additional five repatriators surveyed by the Subcommittee were Cisco Systems, Honeywell International, Microsoft, Motorola, and Wyeth (which was acquired by Pfizer in 2009). While all 20 corporations provided the requested information, Cisco Systems also disclosed that, after repatriating \$1.2 billion in 2006, it later amended its 2006 tax return to eliminate the repatriation deduction claimed for the funds in connection with an IRS settlement resolving various audit issues. In light of that disclosure, the report does not make use of the Cisco survey data.

The top 15 corporations together brought back a total of \$155 billion in offshore earnings, or half of all funds repatriated as qualifying dividends. With the additional four corporations, the total amount of repatriated funds was \$163 billion.

Among the report's findings are the following.

--**No Job Increase.** The repatriation tax break failed in its express purpose to increase U.S. jobs. After repatriating \$155 billion, the top 15 repatriating firms reduced their overall U.S. workforce by nearly 21,000 jobs.

--**No R&D Increase.** The repatriation tax break did not accelerate investments in research and development. In fact, among the top 15 repatriating corporations, the pace of R&D spending slightly decreased after the tax break.

--**Stock Buybacks Increased.** Despite a prohibition on using repatriated funds for stock repurchases, which are often used as a way to share corporate profits with stockholders and push up the stock price, the top 15 repatriating corporations accelerated their spending on stock buybacks after repatriation, increasing them by 16% from 2004 to 2005, and 38% from 2005 to 2006. Overall, the 19 surveyed corporations more than doubled the amount of their average stock repurchases, from about \$2.2 billion in 2004 to \$5.3 billion in 2007.

--**Executive Pay Increased.** Despite a prohibition on using repatriated funds for executive compensation, the pay of the top five executives at the top 15 repatriating corporations jumped 27% from 2004 to 2005, and another 30% from 2005 to 2006. Average worker pay in the same years increased 3% and 11%.

--**Narrow Group Benefitted.** The repatriation tax break benefitted a narrow slice of the U.S. economy, primarily pharmaceutical and technology corporations, while providing no benefit to domestic firms that chose not to engage in offshore operations or investments.

--**Tax Haven Dollars Predominated.** A substantial share of the repatriated funds came from tax haven jurisdictions such as Bermuda, the British Virgin Islands, the Cayman Islands, and Switzerland, with seven of the surveyed corporations repatriating between 90 and 100% of their funds from tax havens.

**--Offshore Funds Increased.** Since the 2004 repatriation tax break, repatriating corporations have accumulated offshore funds at a greater rate than before the tax break, evidence that repatriation has encouraged the shifting of more corporate dollars and investments offshore. In 2011, U.S. corporations have record amounts of domestic cash assets totaling around \$2 trillion, indicating that the availability of cash is not constraining hiring or domestic investment and that allowing corporations to repatriate still more cash from offshore would be an ineffective way to spur new jobs.

The report findings for the top 15 repatriating corporations are consistent with research that examined all 843 repatriating corporations and found that the repatriation tax break was not associated with increased jobs or research and development expenditures at those corporations.

The report also examines the cost of the repatriation tax break, noting that the Congressional Joint Committee on Taxation (JCT) estimated a cost of \$3.3 billion over ten years for the 2004 law. While some dispute the JCT estimate and assert that the law actually produced tax revenue of \$16.4 billion (\$312 billion in qualified dividends x 5.25%), the report observes that analysis fails to acknowledge that a portion of the dividends, \$100 billion according to JCT's estimate, would have been repatriated even without the 2004 law and under normal corporate tax rates would have produced revenues considerably in excess of \$16.4 billion (for example, \$100 billion x 35% = \$35 billion). It is that foregone revenue which forms the basis for the tax loss estimated by the JCT. In addition, the report observes that, due to accelerated corporate stockpiling of offshore funds than before the 2004 repatriation, JCT estimates that a second repatriation tax break would impose an even larger cost of \$78.9 billion over ten years.

The report concludes that the repatriation tax break is a failed tax policy, which has cost the U.S. Treasury at least \$3.3 billion in net revenue lost over ten years, produced no appreciable increase in U.S. jobs or domestic investment, and led to U.S. corporations directing more funds offshore. The report recommends against a second tax break, warning of a substantial revenue loss, a failure to create jobs, and a new incentive for U.S. corporations to move more jobs and investment offshore in anticipation of future tax breaks.

“We can’t afford a tax break that would deepen the deficit, disadvantage domestic firms, and push more corporate dollars offshore, while failing to stimulate the economy,” said Levin. “Facts are stubborn things, and I’m hoping the facts can break through the lobbying frenzy over yet another corporate tax giveaway that makes no sense and would damage our economic recovery.”

Citing the report’s findings, Levin and Sen. Kent Conrad, D.-N.D., Chairman of the U.S. Senate Budget Committee, sent a letter to the Joint Select Committee on Deficit Reduction urging it not to support a repatriation tax break. That letter as well as the Levin report, entitled “Repatriating Offshore Funds: 2004 Tax Windfall for Select Multinationals,” can be found on the Subcommittee website at [www.hsgac.senate.gov](http://www.hsgac.senate.gov), following the links to “Subcommittees,” “Investigations,” and, at the bottom of the webpage, “Related Files.”