If you don't regularly receive my reports, request a free subscription at ***steve_bakke@comcast.net*** !
Follow me on Twitter at ***http://twitter.com/@BakkeSteve*** and receive links to my posts and more!

FOREIGN EARNINGS: LET'S GET THE IDLE CASH HOME!

By Stephen L. Bakke July 17, 2016

There's a problem that's often ignored but still very important to our economy – foreign earnings of domestic companies that haven't been repatriated back into the U.S. These funds are just sitting there overseas. I agree with the progressives that those funds represent a huge potential for good, and that tax reform legislation should address the problem. While we agree on that, I have a different perspective on the best solution.

First we should focus on the actual un-invested idle cash sitting overseas. That number is $1.7 trillion in cash and equivalents as recently announced by Moody's Investment Service. This total is concentrated in large technology companies with about one third of the total belonging to Apple, Microsoft, Alphabet, Cisco Systems and Oracle.

A proper solution demands an understanding of why this happens in the first place. The biggest reason is that the U.S. corporate tax rate is the highest (or almost) in the developed world. Multi-national U.S. companies are responding predictably to incentives presented by our tax code. Because of our high rates, better "after tax" returns are available elsewhere. Even the President has bemoaned our high corporate tax rates relative to competing economies. If these funds were to come back to the U.S., they would be subject to a tax rate as high as 35%. Why would these large multinationals even consider doing so?

Compounding the high tax rate is the tradition of double taxation on corporate earnings. After a company pays income taxes, those same earnings are taxed again when the funds are distributed as dividends. I won't discuss here additional potential taxation of these corporate earnings that can come with gains on stock sales and estate taxes.

Some are of the opinion that Congress should compell payment of taxes on those funds. As a practical matter, there would be a problem retroactively taxing these profits and many analyses ignore the foreign tax credits that would offset most of the 35% U.S. tax rate, were these funds repatriated.

Many advocates of taxing these funds consider it part of raising the overall corporate share of tax revenues. Accomplishing this would be mostly symbolic because, even if total coporate tax revenues were doubled, it would raise additional taxes by approximating only 1.6% of our GDP. And who pays these taxes anyway? For the most part, the ultimate consumer does.

I've somewhat reluctantly come to realize that many claims of unfair corporate tax advantage are exaggerated, many solutions improbable if not totally impossible, and if accomplished, the result would be mostly symbolic and not meaningful in amount.

I say we should "bring these funds home" by reducing the applicable repatriation tax rate. That's a better and more permanent benefit than merely taxing the overseas funds with the balances remaining overseas. If we could persuade corporations to bring these funds home, they would then be used by corporate America to expand the economy through business investment. If all the available funds were to return, that would be almost a $1.7 trillion stimulus, with no funding required by the taxpayers!

Let's reduce corporate tax rates to give U.S. multi-national corporations incentive to locate factories and headquarters right here at home. And let's eliminate any double taxation on corporate profits that currently exists. What an economic difference those changes would make!