Real Effects of Accounting Rules: Evidence from Multinational Firms’ Investment Location and Profit Repatriation Decisions

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Abstract:
We analyze survey responses from nearly 600 tax executives to better understand corporate decisions about real investment location and profit repatriation. Our evidence indicates that avoiding financial accounting income tax expense is as important as avoiding cash taxes when corporations decide where to locate operations and whether to repatriate foreign earnings. This result is important in light of the recent research about whether financial accounting affects investment and in light of the decades of research on foreign investment that examines the role of cash taxes but heretofore has not investigated the importance of financial reporting effects. Our analysis suggests that financial reporting is an important factor to be considered in the policy debates focused on bringing investment to the U.S.

Keywords: investment, reinvestment, repatriation, tax expense, multinational

JEL classification: M40, H20, H25

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I. Introduction

This paper addresses the broad research question of whether accounting affects corporate investment decisions. Specifically, we study whether the ability to avoid or defer the recording of income tax expense on financial statements is an important consideration in real corporate investment decisions regarding location of operations and, once foreign operations begin, whether to repatriate foreign earnings to the U.S. or reinvest the foreign earnings overseas. The question of whether statutory tax rates affect investment location has been studied extensively in prior research (see Section 3 for a review). Our paper examines whether the U.S. financial accounting rules for recording the income tax expense also provide incentives for firms to move investment to and retain investment in foreign locations. We emphasize that although we study tax items reported on financial statements, our paper contributes to the broad research agenda that investigates whether financial reporting in general affects real corporate actions.

The key issue for our study is that U.S. multinationals can, by declaring their foreign source earnings “permanently reinvested” overseas, avoid reporting on their financial statements the deferred incremental U.S. income tax expense related to these foreign earnings. Not recognizing the income tax expense results in lower reported GAAP effective tax rates and higher net incomes.¹ Traditional financial economics would argue that the “paper” income tax expense recognized on financial statements should not affect corporate decision-making. To the contrary, some research indicates that financial statement reporting considerations do in fact affect real

¹ See Hanlon [2003] for a general discussion of the difference between cash taxes and the income tax expense for financial accounting purposes. In short, the income tax expense reported on financial statements is an accrual based expense measure and rarely equals the cash taxes paid to the government. Generally Accepted Accounting Principles define the effective tax rate as total worldwide income tax expense divided by worldwide pretax earnings. Throughout the rest of the study we refer to this measure as the GAAP ETR.
corporate decisions (see Graham et al. [2005] and the references therein). In addition, anecdotal
evidence indicates that financial statement income tax expense effects are important in repatriation
decisions. For example, James Tisch, CEO of Loews, wrote a letter to the editor of the *Wall Street
Journal* stating that, “Unbeknownst to many (including legislators and Joint Committee on
Taxation estimators), GAAP allows corporations to avoid the accrual of taxes on foreign
earnings…The results of the interaction of our repatriation tax laws and the GAAP accounting
rules is that very little in the way of foreign earnings are repatriated….The accounting penalty for
repatriating even a penny of foreign profits is so great that those foreign funds will not come back
to the U.S….,” (July 5, 2008).

Little research to date has examined whether financial reporting consequences (i.e., the
“accounting penalty” to which the CEO above refers) affect corporate location and reinvestment
versus repatriation decisions. Shackelford et al. [2010] discuss the need for research that examines
both the tax and accounting implications of real corporate investment decisions. The authors argue
that because tax and accounting interact in important ways that affect real decisions, researchers
should incorporate both tax and accounting choices when analyzing and interpreting corporate
behavior. In addition, Hines [1999] calls for more research that examines the relation between tax
and non-tax determinants of foreign direct investment. In this paper, we take a step towards filling
these voids by surveying tax executives to obtain data about the importance of the financial
accounting expense deferral in these real corporate decisions.

Specifically, we directly inquire about whether the financial accounting effects of being
able to designate earnings as permanently reinvested under Accounting Principles Board
Statement No. 23 (APB 23) affect real corporate decisions about operation location and profit
reinvestment versus repatriation.\textsuperscript{2} In addition, we examine the relative importance of the deferral of actual cash income taxes versus the deferral of the income tax expense recognition for financial accounting purposes. The use of survey evidence is appropriate for our research questions because the cash and accounting effects are difficult, if not impossible, to separately identify using archival data. One reason for this difficulty is that there is no tradeoff in this setting between tax and financial reporting.\textsuperscript{3} Thus, reliably identifying whether firms are responding to the accounting incentives or the tax incentives is hard to accomplish using archival data. In our survey, we directly ask tax executives about the cash tax effects and the financial accounting effects as separate factors in their decision-making process. Thus, using a survey of executives allows us to avoid the use of proxies in our main analysis where we investigate whether the financial accounting effects are important in the firms’ decisions about investment location and profit repatriation.

Our evidence indicates that the ability to avoid or defer the recording of income tax expense on financial statements is an important consideration in real corporate investment decisions regarding location of operations and whether to repatriate foreign earnings to the U.S. or reinvest the foreign earnings overseas. For example, nearly one-third of the respondents rated income tax expense deferral under APB 23 as being important in their decision to locate operations outside of the U.S. Further analysis indicates the data are consistent with APB 23 expense deferral being most important for publicly traded firms with foreign assets and high

\textsuperscript{2} APB 23 provides an exception to deferred tax accounting in that a deferred tax expense (for any future incremental U.S. tax due on foreign earnings when repatriated) is not recorded on the parent company financial statements for foreign subsidiary earnings that are declared to be permanently reinvested overseas. We discuss this provision more below. APB 23 (and SFAS 109) are now incorporated into Accounting Standards Codification Section 740 (specifically the permanently reinvested earnings designation is in 740-10-25)

\textsuperscript{3} We provide a detailed discussion of the tax and accounting rules in the next section. For a review and discussion of the book-tax tradeoff literature, see Shackelford and Shevlin [2001] and Hanlon and Heitzman [2010]. In many settings firms wanting to reduce cash taxes also have to report lower book income thus facing a book-tax tradeoff. In the setting that we examine, reducing cash taxes by deferring repatriation also can increase (as opposed to reduce) book income if the firm designates at least some of the foreign earnings as permanently reinvested overseas.
intangibles. Indeed, for this subsample of companies, nearly 60 percent respond that APB 23 expense deferral is important in their decision to invest in a foreign location. When we inquire about whether the deferral of the financial accounting tax expense is important in their decision of whether to repatriate foreign earnings to the U.S. or reinvest foreign earnings outside of the U.S., nearly 44 percent of the full sample responded that APB 23 expense deferral is important. Again APB 23 expense deferral is most important for companies that are publicly traded, have foreign assets, and have high intangibles. For this question, nearly two-thirds of the sub-sample of respondents with these characteristics answered that APB 23 expense deferral is an important factor when deciding on whether to repatriate earnings from a foreign location.

For both decisions – where to locate operations and whether to reinvest or repatriate foreign earnings – the importance of the financial accounting expense deferral is as important statistically as the importance of cash tax deferral when making these decisions. These results are surprising in light of the decades of research on the location and repatriation decisions that tests the cash tax implications but has heretofore not examined the financial accounting effects. The implications of our evidence are that the financial accounting effects lead to greater foreign direct investment by U.S. multinationals and lower repatriations, all else constant. Overall, our results suggest that financial accounting expense deferral impacts real decisions that have macroeconomic implications.\(^4\)

A contemporaneous paper by Blouin et al. [2010] examines capital market incentives on corporate repatriations using survey data from the Bureau of Economic Analysis (BEA). Their paper is similar to ours in that both papers investigate the same general question of whether financial accounting effects (APB 23 tax expense deferral) impact firms’ decisions to repatriate

\(^4\) These macroeconomic effects include increased investment in foreign locations, large cash balances, increased domestic debt levels, job creation overseas, and less tax revenue to the U.S. government.
earnings. Their paper uses BEA data and our paper uses our self-compiled survey data from corporate tax executives specifically designed to address our particular research question. The tests in Blouin et al. examine only repatriations and how they vary with proxies for capital market pressures. In contrast, we use directed questions to gather data about whether accounting effects are important in a broader set of questions: investment and repatriation decisions (in general and under a recent temporary tax act). Blouin et al. [2010] interpret their results as being consistent with APB 23 tax expense deferral influencing the repatriation decision, consistent with and supporting one part of our results. We view our paper and the Blouin et al. paper as complementary, with both adding to the portfolio of knowledge about repatriation decisions. We discuss their paper in more detail below.

An underlying question is why firms care so much about the effective tax rate (GAAP ETR) and reported accounting earnings. We offer some conjectures and supporting evidence. First, a lower GAAP ETR increases after-tax accounting income, which previous research has shown affects shareholder returns (see Kothari [2001] for a review of the literature relating returns and earnings). Second, compensation contracts could be affected by the GAAP ETR. For example, to the extent that stock option or other forms of equity-based compensation are used, then the aforementioned relation between after tax earnings and stock prices will affect compensation. Furthermore, if bonus and other performance plans are based on after-tax earnings (e.g., in value added measurement plans in which the effective tax rate is used to adjust for taxes (see Young and O’Byrne [2001])), then the reported GAAP ETR will be important. Third, in general, it is well documented that tax departments are viewed as profit centers in many firms and they strive to obtain lower GAAP ETRs (see Robinson et al. [2009]).

Another potential reason that the GAAP ETR is important is because both it and after-tax earnings are often compared across firms, including companies in other tax jurisdictions. In
interviews with several of our respondents, we find that their companies view the non-recognition of deferred tax expense on permanently reinvested earnings as an item that better aligns U.S. multinationals’ effective tax rates with the rates of foreign competitors and as an item that increases comparability of firms’ financial statements. In a letter to the International Accounting Standards Board, Financial Executives International argued that effectively eliminating APB 23 would not “improve comparability of financial reports of U.S. preparers and non-U.S. preparers subject to IAS” and that “…earnings could be significantly affected relative to the foreign-based company when the companies are actually in essentially the same economic position … comparability would diverge rather than converge.”5 Thus, the GAAP ETR is potentially an important metric because it affects stock prices, compensation contracts, and/or is an important benchmark.

We use survey data based on tax executive responses to conduct our analyses. Thus, we would be remiss not to mention that our data and results are subject to the general caveats associated with all survey data. When drafting the survey we attempted to word the questions carefully and worked with a survey consulting firm (discussed below) to employ best practices. In addition, we compare our firms to the Compustat population and to the survey non-responders in an effort to test for non-response bias. However, despite these efforts if there is some unforeseen systematic tendency to obscure the truth or to be unconsciously biased on particular questions, our results could be affected.

The remainder of the paper proceeds as follows. Section 2 discusses the tax and accounting rules related to the foreign earnings of a U.S. multinational. Section 3 discusses the prior literature

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5 Excerpted from the Financial Executives International letter to Sir David Tweedie, Chairman of the IASB dated June 14, 2004. Currently IAS 12 effectively retains the APB 23 tax treatment (as does SFAS 109) of including an exception to deferred tax accounting for basis differences between book and tax for investments in foreign subsidiaries that are essentially permanent in nature (i.e., if the company designates the foreign earnings as permanently reinvested the company does not record the incremental repatriation tax in its home country).
regarding accounting effects on investment, investment location decisions, and the reinvestment or repatriation decision. Section 4 discusses our survey approach, how we obtain our sample, and descriptive data on the respondents. Section 5 analyzes the survey responses. Section 6 concludes.

2. Taxation and Accounting Rules for Foreign Earnings

2.1. TAXATION OF FOREIGN EARNINGS

The United States taxes corporate and individual income on a worldwide basis. This means that U.S. taxes are owed on income earned in the U.S. as well as on income earned abroad. However, an important feature of the U.S. tax system is what is known as deferral. In general, a U.S. parent is taxed on its foreign subsidiaries’ income only when those foreign earnings are repatriated back to the parent corporation.6 Until repatriation, foreign earnings reinvested in foreign operations are allowed to grow U.S.-tax free.

To avoid subjecting U.S. multinationals (and individuals) to double taxation, the U.S. allows a foreign tax credit (in recognition of income taxes paid to foreign governments) that reduces the U.S. tax owed on repatriated foreign earnings. In simple terms and ignoring limitations, if the U.S. tax rate (e.g., 35%) exceeds a given firm’s average foreign tax rate (e.g., 30%), the company has to pay U.S. tax on repatriated foreign earnings at a rate equal to the difference between the U.S tax rate and the foreign tax rate (e.g., 5%). In contrast, if the firm’s average foreign tax rate exceeds the U.S. tax rate, the company will not owe any incremental U.S.

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6 There are exceptions to the general deferral tax rules. For example, earnings of foreign branches and from investments in passive assets (mostly financial type assets, subpart F income) are subject to immediate U.S. taxation.
tax upon repatriation (nor will it receive an immediate rebate from the U.S. government, though it will accumulate a foreign tax credit).\(^7\)

2.2. ACCOUNTING FOR THE U.S. TAXATION OF FOREIGN EARNINGS

A U.S. firm’s financial statements include the income or losses of foreign subsidiaries that are more than 50 percent owned, and the representative share of income or losses of foreign entities owned between 20 and 50 percent (under the equity method of accounting). A firm’s tax return, however, does not include any of these foreign earnings. Instead, a firm’s U.S. tax return only includes dividends (i.e., cash) received from these entities (while financial statement income excludes these dividend amounts because the accounting earnings were already included when earned, in accordance with financial accounting principles).

As a result, for a U.S. multinational, the difference between current year foreign accounting earnings and current year cash dividends repatriated from the foreign jurisdiction is a temporary difference on which incremental U.S. deferred taxes would normally be accrued. Such an accrual would be included in the income tax expense on the financial statements. However, an exception is provided in Accounting Principles Board Opinion No. 23 (APB 23), which states that the accrual for taxes that would be due on future repatriations should not be recognized if the indefinite reversal exception applies. In other words, if a firm has foreign earnings in a foreign subsidiary that the company deems to be permanently reinvested abroad (i.e., the company does not plan to repatriate the earnings), the firm’s financial statement tax provision will not include an accrual of U.S. taxes that would be due on repatriation of those earnings, even though the earnings are included in book income. Thus, all else equal, if a company has earnings in a low tax country

\(^7\) Foreign tax credits can be carried over (back one year, forward 10 years). There are limitations on the amount of foreign tax credit that can be utilized, a discussion of which is beyond the scope of this paper. See Scholes et al. [2009] for details.
that it reinvests and designates as permanently reinvested, the company will have a lower GAAP
effective tax rate and higher after-tax earnings relative to what the case would be if the foreign
subsidiary earnings were not designated as permanently reinvested. Hereafter, we refer to this
accounting effect as APB 23 tax expense deferral.

An example of a firm’s disclosure is included in Appendix A. This disclosure illustrates
the effect of designating foreign earnings as permanently reinvested on the firm’s GAAP ETR.
Note for this company the effect of having $19 billion in earnings overseas and designated as
permanently reinvested reduces their GAAP ETR by 6.4 percentage points (because there is no
incremental U.S. tax expense accrued), which in turn increases the firm’s income reported on its
financial statements.8

3. Prior Research

We briefly review two broad areas of related literature. The first area is research about
financial accounting effects on corporate decisions. The second area is the literature that examines
the determinants of locating investment and reinvestment of any earnings overseas. This second
area of the literature has potentially large macroeconomic and public policy implications but has
heretofore not examined the importance of financial accounting with regard to investment
location. Our study contributes to both of these broad areas of the literature.

3.1. Financial Accounting Effects on Corporate Decisions

There is a relatively long literature examining the tradeoffs firms make between tax
reporting and financial accounting reporting that documents the importance of financial

8 The disclosure in Appendix A is formatted based on a real U.S. multinational company but the amounts have been
altered so that the identity cannot be revealed (e.g., the impact of foreign operations was made slightly lower). In the
interest of maintaining strict confidentiality with respect to which companies are in our sample, we do not include the
actual financial statements of any particular company and we refrain from naming any company in the paper.
accounting effects. In sum, the evidence is generally consistent with firms paying higher cash
taxes in order to improve their financial reporting results. A portion of this literature is about
corporate decisions about investment (see Hanlon and Heitzman [2010] and Shackelford and
Shevlin [2001] for reviews).

A broad range of other studies also exemplify the interest and importance of financial
accounting effects on corporate investment decisions, but from a somewhat different aspect. For
example, Biddle et al. [2009] examine the effect of financial reporting quality on investment
efficiency. In other studies, McNichols and Stubben [2008] and Jackson et al. [2009] examine
whether accounting earnings reported for external users influence managers’ investment decisions.
Most closely related to our current paper, Jackson et al. [2009] provide evidence that a firm’s
chosen depreciation method affects its capital investment. The authors hypothesize that managers’
investment decisions are affected by depreciation method choices and one of the reasons they cite
is financial reporting earnings consequences.

Our study also investigates the effect of accounting on investment. In our case, however, it
is not the choice of accounting method that is of interest, but rather the accounting rule that
provides an exception to deferred tax accounting for foreign subsidiary earnings. In addition, the
decision we examine is a real investment location decision that is not easily reversed and that has
potentially important macroeconomic effects – the location of operations for U.S. multinationals.

3.2. INVESTMENT LOCATION AND EARNINGS REINVESTMENT DECISIONS

In deciding where to locate operations, firms consider many factors, such as local
infrastructure, labor supply, culture, economy, political risk, distance to customers, financing
opportunities, and the location’s tax rates and policies. Single [1999] asked 66 experienced tax
executives of major U.S.-based multinationals in the manufacturing industry to review a

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9 See also Biddle and Hilary [2006], Bushman and Smith [2001], Healy and Palepu [2001], and Lambert et al. [2007].
subsidiary plant location scenario and evaluate the relative importance of all the location-specific factors. Only five of the factors were tax-related and all five tax factors ranked among the lower half in importance for the location decision. More detailed analysis of the extent to which taxes in the foreign country impact location decisions is conducted by Wilson [1993] who investigates the role of taxes in location decisions through interviews with nine companies. Wilson [1993] concludes that tax considerations largely dictate location decisions in business activities for which nontax costs are low, such as where to locate administrative centers. However, for manufacturing location decisions he reports that nontax considerations are very important, even when the final decision is to locate in a low-tax country. Finally, neither of these studies examines the financial accounting implications of locating operations in a foreign jurisdiction, the subject of our paper.

 Numerous studies in economics attempt to estimate the effect of host country taxation on foreign direct investment in a country. Indeed DeMooij and Ederveen [2003] compare the results of 25 studies and conclude that the median response documented in the literature to a one percent reduction in the host country tax rate is slightly more than a three percent increase in foreign direct investment in that country.10 Thus, there is substantial evidence suggesting that host country taxation affects location decisions. However, to our knowledge, no empirical study has examined the importance of financial accounting income tax expense deferral in location decisions.

 Shackelford et al. [2010] hypothesize that the discretion in financial reporting that a firm gains via foreign operations gives companies an incentive to locate in low-tax countries, e.g., tax havens. This incentive occurs because generally the lower the foreign tax rate, the greater the U.S. tax due upon repatriation and thus the larger the financial accounting expense that can remain unrecognized by locating abroad, reinvesting foreign profits, and designating those profits as

10 See Altshuler, Grubert and Newlon [2001], Devereux and Freeman [1995], Hines [1996, 1997, and 1999], and Slemrod [1990]. In earlier work, Hines [1999] surveys the literature to date and finds an overall elasticity of -0.6.
permanently reinvested. The model the authors develop implies that because the non-recognition of the expense is valued by managers, GAAP rules have the effect of encouraging investment in low-tax countries or tax havens. We test this hypothesis in our paper.

Previous research has also investigated the corporate decision of whether to reinvest or repatriate foreign earnings. General considerations include relative domestic and foreign rates of return and local politics. In general, there has been some mixed evidence over time about whether and the extent to which the repatriation tax matters when companies make repatriation decisions (see Hartman, 1985; Altshuler and Newlon, 1993; Grubert and Mutti, 1995; Desai et al., 2001; Altshuler and Grubert, 2003; Foley et al., 2007; U.S. Treasury, 2007; U.S. GAO, 2008; Brennan, 2008; Blouin and Krull, 2009). All of these studies examine the importance of the home country repatriation tax; none examine the importance of the financial accounting effects.

Most closely related to our paper, as mentioned in the introduction, is Blouin et al. [2010] who examine capital market incentives on corporate repatriations using survey data from the Bureau of Economic Analysis (BEA). Their paper is similar to the repatriation portion of our paper in that we both investigate the same general question of whether financial accounting effects (APB 23 tax expense deferral) impact firms’ decisions to repatriate earnings. Blouin et al. [2010] interpret their results as being consistent with APB 23 tax expense deferral influencing the repatriation decision, consistent with and supporting this one part of our results. However, the use of the BEA data, and their tests in particular, require some maintained assumptions making it difficult to reliably separate the accounting effects from the tax effects.11 While survey data bring

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11 Specifically, the first set of tests in Blouin et al. [2010] relies on the public/private designation as a proxy for capital market pressures, thus requiring an assumption that public and private firms value cash tax savings equivalently in order to be able to identify the effects of capital market pressures. The data in our survey responses (as discussed below and presented in Table 4) are inconsistent with this assumption. The second set of tests in Blouin et al. [2010] are regressions of repatriations on the level of permanently reinvested earnings (PRE), which is somewhat circular in nature since the PRE designation means that the firm is not repatriating the earnings by definition. Thus, the separation of cash tax from accounting effects is problematic.
their own set of concerns (see caveats below), one benefit of our survey approach is that we
directly ask tax executives to separately identify the importance of the cash tax deferral and the
accounting expense deferral. A final related study is Krull [2004], who examines whether firms
designate earnings as permanently reinvested in an attempt to manage earnings to meet analysts’
forecasts. She reports evidence consistent with firms doing so. Her results suggest that firms
likely value the accounting flexibility afforded by APB 23.

4. Survey Approach and Sample

We developed our survey instrument with the support of Tax Executives Institute
and PricewaterhouseCoopers. We solicited feedback from members of both groups as well
as from academic researchers. Survey Sciences Group (SSG), a survey research consulting
firm, assisted with the survey formatting and programmed an online version. SSG also
professionally formatted a paper version of the survey that we distributed with our final
reminder invitation (discussed below). We had two companies beta test the survey and we
made revisions based on their suggestions. The final survey contained 64 questions, most
with subparts. The paper version of the survey was 12 pages long. There were many
branching questions and as a result many firms were directed to answer only a portion of
the questions. See www.ssgresearch.com/taxsurvey for the online version of the survey.
The paper version is available upon request.

An initial email invitation was sent on August 9, 2007 to the 2,794 member firms
of Tax Executives Institute. We examined the list of Fortune 500 companies and identified
45 firms that were not members of Tax Executives Institute. For these firms,
PricewaterhouseCoopers supplied the tax executive’s name and email address. Three email
invitations were returned as undeliverable. On August 15, 2007 we sent a letter via two-
day express mail to fifteen companies for which we did not have email addresses. A total of 2,806 companies received invitations to complete the survey.

SSG sent three email reminders throughout August and September. We then sent a paper version of the survey (along with a letter with instructions of how to complete the questionnaire online) during the last week of September and the first week of October. We closed the online survey on November 9, 2007.

A total of 804 firms accessed the survey. Sixty of these companies entered no more than two responses and thus we delete them from our sample leaving 744 usable responses. The response rate for our survey is 26.5 percent, higher than many prior survey studies. For example, Graham et al. [2005] obtain a response rate of 10.4 percent, Trahan and Gitman [1995] report a response rate of 12 percent, Graham and Harvey [2001] obtain a 9 percent response rate, and Brav et al. [2005] report a 16 percent response rate. In addition, Slemrod and Venkatesh [2002] survey tax preparers (12 percent response rate) and corporate taxpayers (9 percent response rate) about compliance costs, and Slemrod and Blumenthal [1996] obtain a 21.8 percent response rate in a survey of large corporate taxpayers about compliance costs. Thus, our response rate compares favorably with other recent surveys.12

We are most interested in U.S. multinationals’ decisions with respect to the financial accounting treatment of the corporate income tax. Therefore, we eliminate eleven firms that indicate they are not subject to the U.S. corporate income tax (i.e., businesses not taxed at the entity level, such as S corporations and other flow-through entities). We

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12 We believe the support of Tax Executives Institute was very helpful in increasing the response rate. In addition, there seemed to be genuine interest in the topics we asked about as evidenced by the respondents’ comments. For example, one company wrote “Appreciate the survey. Interestingly, the survey touches on those tax management areas most important to our company at the moment…” Another commented “I rarely fill out surveys, but was impressed by your questions.” Another respondent just wrote, “Good survey!”
also eliminate 29 companies that state they did not file a corporate income tax return - Form 1120 (under the assumption that these companies are also not C-corporations (i.e., they are not businesses taxed at the entity level)). We restrict the sample further by eliminating observations for subsidiaries of foreign parents (105 firms) and for responses that state in their comments that their foreign operations were insignificant and thus they were not sure how to respond to the foreign earnings questions (4 firms). This leaves 595 remaining firms on which we conduct our analyses. The sample size varies across questions due to branching or incomplete responses for a particular question.

5. **Descriptive Statistics, Research Questions, Results, and Inferences**

5.1. **DESCRIPTIVE STATISTICS**

The survey was divided into four parts. The first section asked general descriptive questions about the companies. The second part of the survey asked questions about general location and reinvestment and repatriation decisions, the subject of the current paper. The third part focused on the 2004 American Jobs Creation Act and repatriation decisions in response to that Act (e.g., sources and uses of cash repatriated). The final part of the survey asked general questions about tax aggressiveness, tax rates, and tax planning. The data from the third and fourth parts of the survey are analyzed in separate papers.

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13 There were 24 companies that actually answered that they filed zero Form 1120s. There were 5 companies that did not answer the question and were deleted from the sample because by analyzing the other questions in the survey we determined that these companies were likely not C corporations either.

14 The results and inferences of our analyses are virtually identical when we restrict the sample to a common set of firms that answered both the location and repatriation questions.

15 To be clear, the current paper and Graham et al. [2010] use the same survey instrument to gather data but the two papers examine different research questions. More specifically, Graham et al. [2010] focus on the 2004 American Jobs Creation Act (the Act) and the sources and uses of funds that companies repatriated under the Act. They also examine the costs firms incur to avoid the repatriation tax in general. Graham et al. [2010] does not investigate financial accounting issues or effects, the subject of the current paper. The current paper does examine the financial accounting effects of the Act in Tables 5 and 6 and in Figure 2; however, the remainder of the paper uses a broader sample.
The descriptive data for our sample firms are summarized in Table 1. In terms of ownership, 75 percent of the respondents are publicly traded on the NYSE, NASDAQ or AMEX, 23 percent are privately held, and the remaining 2 percent responded that they were ‘other’ such as over the counter stocks. Our respondent firms represent a variety of industries, with roughly 30 percent being from manufacturing, 16 percent classified as holding companies, almost seven percent from professional, scientific, and technical services, and six percent from retail trade (industry classifications are derived from the companies’ responses about their principal business activity code on Form 1120). In all, 19 different industry classifications are represented.

It is difficult using publicly available archival sources to obtain data on the location of a firm’s assets. Using a survey, we are able to gather this information. In our sample, 53 percent of the respondents indicate that their companies have 10 percent or less of their assets in foreign locations. Slightly more than 8 percent of the firms have more than half of their assets in foreign locations.

Examining tax return filing characteristics reveals that our sample firms range from simple to complex in nature. For example, 94 percent of the respondents file a consolidated tax return. Of these consolidated returns, 58 percent include more than 10 entities in the tax filing. In addition, 80 percent of the sample files at least one Form 5471 indicating these companies have significant ownership interests in foreign subsidiaries.16

We report information on GAAP ETRs (total worldwide income tax expense/worldwide pretax book income) in Table 1 as well. We ask privately held companies to report their GAAP effective tax rate and we compute the ratio using financial statement data for the publicly traded firms in our sample (the data are for the most recent year prior to completing the survey).

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16 Form 5471 is an informational return filed in the U.S. about the activities of a foreign controlled corporation owned more than 10 percent by a U.S. person (the definition of which includes a U.S. corporation).
Consistent with archival GAAP ETR data (e.g., Dyreng et al. [2008]), most of the firms report a GAAP effective tax rate in the 30 percent to 40 percent range, with the distribution being asymmetric – more firms report a relatively lower rate than a relatively higher rate. The data in Table 1 also reveal that 46 percent of the respondents indicate their firm has a U.S. net operating loss (NOL) carryforward, 50 percent report that their firm has foreign NOLs, and 69 percent have state tax NOLs. Finally, three-fourths of the sample firms have foreign sourced earnings. Thus, collectively the descriptive data indicate that the majority of firms in our sample have complex tax structures and international activities.

One of the limitations of using survey data is the potential for non-response bias (e.g., perhaps only a certain type of firm answered our survey and/or some types of firms avoided our survey, which would make the results less generalizable). To address non-response bias, we use data from Compustat to compare the surveyed firms to all Compustat firms, and within the surveyed firms, we compare the responding firms to the non-responding firms. We compare our sample to Compustat because most readers are familiar with Compustat data and thus can get a sense for our sample from such a comparison. Note that private companies comprise 23% of our sample and that few private companies are included in Compustat. In general, we think that including private firms in our analysis is desirable because they are an important part of the economy and we are able to offer some insights that other studies that include only public companies cannot.

The comparisons to Compustat are shown in Table 2. In columns (1) and (2), we find that our average sample firm is larger than the average Compustat firm in terms of assets (even though our sample includes private firms for the asset measure), market value, and sales. Our average sample firm has a larger debt-to-asset ratio, a smaller cash-to-asset ratio, and a smaller market-to-book ratio relative to the average Compustat firm. Further, our sample firms have on average a
higher return-on-assets, a higher effective tax rate, and lower asset and sales growth rates. Thus, our sample firms are not small or poorly performing, and therefore our results might not generalize to such firms.

The comparison of respondent to non-respondent firms is shown in Table 2, columns (3) and (4). The average respondent firm is marginally smaller in terms of assets but similar in terms of market value and sales to the average non-respondent firm. In addition, the respondent firms have, on average, lower debt ratios, higher cash ratios, and a higher return-on-assets. While there are some differences across the respondents and non-respondents, we cannot think of any obvious biases that arise because of the differences. Moreover, in terms of industry composition, it appears that the respondent and non-respondent samples are similar with the exceptions of our survey population being overrepresented in manufacturing industries and underrepresented in the financial services, insurance, and real estate industries. In spite of the above, we recognize that it is possible that the companies that decided to answer the survey are those companies that most care about APB 23 and the accounting expense deferral. Thus, our results may not generalize to all firms, though the similarity between respondent and non-respondent firms suggests that this is not a major problem.

5.2. RESEARCH QUESTIONS AND SURVEY RESPONSES

5.2.1. Location Decision – Unconditional Analysis. We ask the following question to investigate the corporate decision of whether to locate operations in the U.S. or outside the U.S.: “Relative to all the factors your company considers when making a decision about whether to locate operations in the U.S. or outside the U.S., how important are the following?” The factors are 1) foreign tax rate, 2) U.S. cash tax deferral, and 3) financial accounting expense deferral under APB 23. The phrase “relative to all other factors” is intended to control for other factors such as the stability of
the local government, regulation, work ethic of labor force, utilities, proximity to target market, import/export restrictions, transportation costs, etc.\textsuperscript{17}

The respondents are asked to rate each of the factors on a 5 point scale ranging from “Not at all important” (given a numerical representation of 0) to “Very important” (a numerical representation of 4). In our analysis of the data we interpret these ratings in several ways. First, we classify ratings of three or four on the zero to four scale as being “important” to the firm and ratings of zero and one as being “not important.” Second, we compute the average rating for each factor. Finally, we interpret the relative ratings as a ranking of the relative importance of the factors.

Table 3 presents the data. In Panel A, for each factor, we present the percent of respondents that answered that the factor was important (received a rating of 3 or 4) and the percent of firms that answered that the factor was not important (a rating of 0 or 1). The data reveal that approximately 38 percent of firms indicate that the foreign tax rate is important in their decision to invest in a foreign location. Slightly more than 35 percent of the respondents say that the availability of U.S. cash deferral is important. In terms of the importance of financial accounting expense deferral under APB 23, a little more than 31 percent of firms say that this is an important factor in their decision-making process when determining whether to make an investment overseas. While less than half the overall sample say the factor is important, accounting expense deferral is of the same relative magnitude as cash tax deferral. In terms of absolute magnitude, for a factor not previously investigated in prior research, it is surprising to us

\textsuperscript{17} We focused on a subset of relevant factors in the question in the interest of brevity. We acknowledge that it is possible that salience gives rise to respondents ranking the included factors as more important than they would if confronted by a more comprehensive list of choices. However, to mitigate this problem, we compare the rankings across the named factors and conduct conditional analyses within the sample; such comparisons are less affected by concern about potential salience.
that nearly one-third of companies indicate that financial statement expense deferral is important relative to all other factors when deciding whether to make a foreign investment.

The mean rating for foreign tax rate is 1.86, for U.S. cash tax deferral is 1.76, and for financial accounting expense deferral under APB 23 is 1.65. Although none of these ratings is greater than 2 (medium importance), we note that this question is about a decision to locate operations overseas. We would not expect tax and accounting factors to, on average, be extremely important for a diverse sample of firms because there are many other factors to consider when deciding where to locate operations (e.g., labor force, political stability of the country, etc.). However, when the importance rating of the cash tax deferral factor is compared to the importance rating of the financial accounting expense deferral factor, they are not statistically distinguishable from each other (t-statistic of 1.32 on the difference in means). This implies a “paper” accounting expense is equally important as a factor that directly affects cash flows (cash tax deferral).

5.2.2. Location Decision – Conditional Analysis. We next investigate ratings based on a variety of firm characteristics in order to provide more detail on the type of firm for which APB 23 expense deferral is most important. For example, we explicitly test whether public firms are different from private firms in their rating of financial accounting effects because prior literature demonstrates that public firms are under greater financial reporting pressure than private firms and, as a result, are willing to incur costs to achieve a desired financial accounting outcome (Cloyd et al. [1996]; Beatty and Harris [1999]; Mikhail [1999]). Thus, we predict that publicly owned companies will rate financial accounting expense deferral as more important than private firms. We also condition on the level of the GAAP effective tax rate the firm reports. We predict that firms with a lower reported effective tax will rate financial accounting concerns higher than firms with a high reported effective tax rate. We interpret the effective tax rate as a revelation of corporate preferences for low or high rates (similar to Hanlon and Slemrod [2009]). Thus, firms
with a low rate engage in actions to achieve that low rate and, as a result, should rate financial accounting expense deferral more highly than firms with a high effective tax rate. Finally, we condition on the amount of research and development expense (R&D) as a proxy for the type of firm that can more easily locate in a foreign jurisdiction and ship product and more easily shift income through intangibles (Grubert and Slemrod [1998]) as compared to locating heavy manufacturing operations abroad (Wilson [1993]). We predict that firms with large R&D expenditures will rate financial accounting concerns as being more important in location (and repatriation) decisions because locating near customers is not as important in relative terms (i.e., shipping the product is easier for these firms). We use R&D spending as the underlying construct for the “firm type” on which we condition. One might group by industry, however, we note that pharmaceutical firms are classified as manufacturers in our sample (by tax form industry codes) and thus industry analysis would combine pharmaceutical firms in the same group with manufacturers with fewer intangible assets, whereas we predict differences across these two sets of firms based on the underlying ease with which the company can locate operations overseas.

The results of the conditional analysis are provided in Panel B of Table 3. The numbers in the table are the percentage of respondents that answered that the factor was important. For example, 41.3 percent of the public firms respond that the foreign tax rate is important among all the factors they consider when deciding to locate overseas.

Several interesting observations emerge from these data in terms of the type of company that values APB 23 expense deferral and/or cash tax deferral. Significantly more public firms rate the tax and financial accounting factors as being important than do private firms. Indeed, only 11 percent of the private firms in our sample rate financial accounting expense deferral as important compared to the 37 percent of public firms that rate the factor as important. This result is consistent with prior literature that concludes that because public firms are under greater financial
reporting pressure they consider financial accounting effects as more important than do private firms (Cloyd et al. [1996]; Beatty and Harris [1999]; Mikhail [1999]).

Consistent with our stated prediction, significantly more firms with a low GAAP ETR indicate cash tax deferral and accounting expense deferral as being important when deciding where to locate operations. This result may seem counter-intuitive at first but as discussed above, we interpret the GAAP ETR as a proxy for overall tax and financial reporting preferences with regard to the income tax expense. Firms that have a low GAAP ETR take actions to make it low and thus, it makes sense that these would be the same firms that are concerned about taxes and the financial accounting effects (in other words, firms with high ETRs reveal a preference of less concern about effective rates or they would have taken actions to reduce their GAAP ETR in the first place).

Consistent with our stated prediction, firms with relatively high R&D (scaled by sales) rate cash tax deferral and financial accounting expense deferral as being significantly more important than firms with low R&D. Firms with high R&D have proportionally more intangible assets which are easier to source to (and ship from) a foreign location. As a result, high R&D companies rate tax and accounting concerns as more important relative to all other concerns because they have fewer (at least different) other concerns (Wilson [1993]).18 For example, it would be more difficult for a heavy manufacturer of construction equipment to move to Ireland and ship the heavy equipment than it is for an intangible asset firm to locate in Ireland and ship their product. The data also reveal that firms with foreign source earnings and with a high percentage of foreign

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18 Indeed, in discussions with respondent companies, one heavy manufacturer with low R&D spending said their decision is driven by the need to reach the local customer and nothing else. The respondent went on to say that he disagreed with the view often expressed by policy-makers that the decision for operation location for U.S. multinationals is U.S. or China (or elsewhere). This respondent indicated that if a company is trying to reach customers in China, the decision is China or not building at all.
assets rate the tax and accounting effects as important more often than firms without much foreign activity.

To further highlight and synthesize our results in terms of uncovering the type of firm for which APB 23 expense deferral is likely most important, we present a graphical analysis in Panel A of Figure 1. We partition the sample into those firms where we most expect to find that financial accounting is important based on the above conditional analyses. We include data only from a subsample of firms – those that are publicly traded and have positive foreign assets (N = 284). We further subdivide this subsample into those companies with high research and development spending (lighter shaded, top bar) and those with low research development spending (darker shaded bottom bar) to proxy for the level of intangibles. The data here are very stark. For both high and low R&D companies, the percent of publicly traded firms that state that financial accounting expense deferral is important is higher than the percent of companies in the overall sample as presented in Panel A of Table 3. In addition, there is a large difference (significant at < 0.01) between high and low R&D companies. For example, nearly 60 percent of publicly traded firms with foreign assets and high research and development spending rate the accounting expense deferral under APB 23 as an important factor in their decision to locate investment in a foreign jurisdiction as compared to 35% of the companies in this subsample with low R&D spending. It is this type of firm (i.e., public, with foreign assets, and high R&D spending) for which APB 23 appears to be most important.

In Panel C of Table 3, we present results from the estimation of regressions using the variables from the conditional univariate analysis in Panel B. We estimate 3 separate regressions

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19 We assign a high R&D indicator for those firms with greater than the median research and development (scaled by sales) spending of those firms in our sample that had positive research and development spending.
20 Note that we do not have the amount of research and developmental spending for private firms. Thus, to include both R&D and an indicator for being publicly held, we create an indicator variable for having nonmissing R&D in Compustat (some public firms have a missing value) and then interact this indicator variable with the spending on
with three separate dependent variables: 1) the rating of APB 23 expense deferral, 2) the rating of cash tax deferral, and 3) the difference between the APB 23 expense deferral importance rating and the cash tax deferral importance rating. The results in the first regression indicate that being publicly held, having foreign source earnings, having a high percentage of foreign assets, and having high research and development spending are significant predictors of the rated importance of delaying expense recognition on financial statements. Similar factors are significant in the regression with cash tax deferral as the dependent variable (the second set of regression results), except that size is also significantly related to the importance rating.

The third regression focuses on the difference for each firm between its importance rating for APB 23 expense deferral and cash tax deferral. In our data, seventy percent of respondents give the same rating to cash tax deferral and APB 23 expense deferral (specifically, the difference in ratings = 0), while 18.6 percent (11.4 percent) rate cash tax deferral higher (lower) than the APB 23 expense deferral. We find that 26 percent (43 percent) rate both cash tax deferral and APB 23 expense deferral as important (unimportant). Less than 4 percent of firms rate one factor as important and the other as not important in the location decision. Overall, the correlation between the ratings of the two factors is 0.825. The regression results indicate that being publicly traded is positively related to a firm rating APB 23 expense deferral higher than cash tax deferral. This result is consistent with public firms being under greater financial reporting pressure and thus valuing accounting effects more than private firms, on average. This regression also reveals a negative coefficient for size (consistent with the first two regression results), indicating that larger firms rate APB 23 expense deferral lower than cash tax deferral in terms of importance.\footnote{We also estimate these regressions with industry fixed effects where we include nine industry fixed effects, one for each of the industry classifications in Table 1 that comprise at least two percent of the sample. The effect of industry for the remaining firms (those from industries which make up less than two percent of the sample and those that did not make up any part of the sample) is also included in the model as a fixed effect.}

R&D. In addition, we convert the high/low variables in Panel B into continuous variables to mitigate the effects of multicollinearity.
Overall, we document that the availability of accounting expense deferral under APB 23 is an important factor in determining where to locate operations and its importance is statistically indistinguishable from the importance of the availability of cash tax deferral. Furthermore, our data indicate that this factor is most important to publicly traded companies with high R&D spending and foreign assets in place.

5.2.3. Reinvestment vs. Repatriation Decision – Unconditional Analysis. Having investigated the decision about where to locate operations, we turn now to the decision of whether to reinvest foreign profits overseas or repatriate them home to the U.S. Table 4 reports the results. Panel A presents the data for all respondents who answered the question. The unconditionally most important repatriation factor is the “rate of return outside the U.S. is higher than that in the U.S.” with nearly 60 percent of respondents indicating the rate of return is important (a rating of 3 or 4). U.S. cash tax deferral is the second most important factor, with approximately half of the respondents rating cash deferral as important. Interestingly, nearly 45 percent of the respondents rate the financial accounting expense deferral under APB 23 as important, making it the third most important factor. The mean ratings are 2.58 for higher rates of return outside the U.S., 2.29 for U.S. cash tax deferral, 2.18 for financial accounting expense deferral under APB 23, and 2.15 for the foreign tax rate. We note that the average ratings for the tax and accounting factors for the repatriation question are higher than the ratings in the location of foreign operations question (1.76 and 1.65 for the location decision, respectively). The differences in ratings across the two decisions are significant at the 0.01 level. This result is consistent with expectations because there are fewer operational, non-tax, non-accounting factors to consider once the decision to operate overseas has been made and thus, the importance of the accounting and tax factors increases.

not provide an industry code) is captured in the intercept. The results are statistically and qualitatively the same with or without industry fixed effects. Thus we do not tabulate the results.
Of note is that financial accounting expense deferral has an average importance rating that is not significantly different than the importance rating for U.S. cash tax deferral (t-statistic of the difference is 1.13). As before, a “paper” accounting consideration is statistically as important as a “real” cash deferral. This result is quite surprising to us given that the prior literature scarcely mentions financial accounting considerations as a driver affecting the decision of whether to reinvest or repatriate foreign earnings (with the exception of concurrent papers Shackelford et al. [2010] and Blouin et al. [2010]).

5.2.4. Reinvestment vs. Repatriation Decision – Conditional Analysis. Panel B of Table 4 analyzes the data for various sub-samples of firms for the repatriation versus reinvestment decision (based on the same conditioning variables as in Table 3). The patterns for the repatriation responses are very similar to those for the location decision (Table 3). For example, when deciding whether to repatriate earnings, publicly traded firms are more likely than private firms to rate both cash tax deferral and financial accounting expense deferral as being important. The most striking difference is the rating of the financial accounting expense deferral: 51.4 percent of public firms rate this factor as important while only 14.7 percent of private firms do so. Again, this result is consistent with public firms being under more financial reporting pressure.

In addition to the private/public contrast, we find that larger firms, firms with a higher foreign asset percentage, firms that have a lower GAAP effective tax rate, and firms with relatively high R&D spending all rate the importance of accounting expense deferral more highly than their counterparts. The results are similar with respect to the importance of cash tax deferral. We examine the effect of having a U.S. NOL on this decision because it could be that firms with

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22 One possible explanation as to why public firms rate cash tax deferral more highly than private firms is that the survey question is phrased “relative to all other” considerations the firms have. Private firms likely have fewer opportunities to raise capital than public firms thus, quite likely rely more heavily on internal funds, even when subject to a costly repatriation tax. As a result, among private firms tax and accounting effects are less important when rated relative to all other factors (given that the need for domestic financing may rate more highly).
an NOL are not concerned with the tax and accounting effects because the U.S. NOL would offset any incremental tax upon repatriation (and thus perhaps the inclusion of these firms would cause our results to be understated). However, running counter to this reasoning is the possibility that a U.S. taxpayer would not use the U.S. NOL to offset fully taxable dividends that could be left offshore (because the firm might rather use the net operating loss to offset other earnings). In our data, we find no difference in the rankings for firms with a U.S. NOL.

We further investigate the conditional effects by graphing the results for a sub-sample of companies. Panel B of Figure 1 presents the data from the sub-sample of firms that are publicly traded and that have foreign assets. Again the lighter shaded bar on top for each factor represents firms that have high research and development spending and the lower, darker bars represent firms with relatively little research and development spending. Note that the importance of the cash tax and financial accounting expense deferral factors are greater for both high and low R&D firms for this sub-sample relative to the entire sample per the data in Panel A of Table 4. In addition, the importance rating for high R&D intensive companies is much higher (significant at < 0.01) than for low R&D companies. Nearly 64 percent of the R&D intensive companies rate financial accounting expense deferral as being important, surprisingly large for a factor not previously examined in prior research (nor considered in public policy debates).

We estimate regressions using the above conditioning variables and present these results in Panel C of Table 4. The variables that statistically explain the importance of financial accounting expense deferral in the repatriation decision are 1) being publicly traded, 2) having a high foreign asset percentage, and 3) having high research and development expenses.\(^\text{23}\)

\(^{23}\) We note that the conditional and cross-sectional regression analyses help mitigate concerns that respondents simply checked boxes randomly when rating the importance of the various factors in each decision. Specifically, with a 5 point (zero-to-four) scale and our classification of a 3 or 4 as important, one might expect if tax executives were just randomly filling out the survey that approximately 40% of respondents would rate each factor as important. Indeed this is what we observe in panel A of Table 3 but
other conditioning variables are controlled for, size is not a significant determinant of the
importance of APB 23 expense deferral. Thus, it is not size per se that is the determinant; rather,
high R&D spending, high percentage of foreign assets, and being publicly held appear to be
driving the importance rating of APB 23 expense deferral.24

Again, we calculate the difference for each firm between its APB 23 deferral and cash tax
deferral ratings. Sixty-five percent of respondents give the same rating to the cash tax deferral and
APB 23 expense deferral (difference in ratings = 0), while 21.7 percent (13.4 percent) rate cash tax
deferral higher (lower) than the APB 23 expense deferral. We find that 38 percent (24 percent)
rate both cash tax deferral and APB 23 expense deferral as important (unimportant). Again less
than 4 percent of firms rate one factor as important and the other as not important in the
repatriation decision. Overall, the correlation between the rankings of the two factors is 0.765.

When we estimate the regression with the difference between the APB 23 expense deferral
rating and the cash tax deferral rating as the dependent variable (Table 4 Panel C), we see that the
only statistically significant variable is whether the company is publicly traded or not, consistent
with financial reporting pressure causing APB 23 expense deferral to be so important.

24 In sensitivity analysis we restrict our sample to the very largest firms: those with total assets greater than $5 billion
(N=120 firms). Note that 93 percent of these large firms are public (compared to 76 percent in the full sample) and
the mean percentage of their assets that are foreign is 20.9 percent. For the location decision (Table 3), when we
estimate the regression with cash tax savings as the dependent variable, only the binary variable for the existence of
foreign source income is significant at conventional levels. When we estimate the regression with APB 23 expense
deferral as the dependent variable, firm size, foreign source earnings and R&D are each positive and significant (size
and R&D at the 10% two-tailed level). For the repatriation decision (Table 4) (noting that all these firms have foreign
source earnings), only the percent of foreign assets variable is significant in the cash tax savings regression. Nothing
is significant in the APB 23 expense deferral regression. The lack of significance in this subsample of large firms is
not surprising because we have suppressed much of the variation in the variables by focusing on the very largest
firms. In a separate sensitivity test, we re-estimate Table 3 and 4 regressions deleting the financial institutions (23
observations and 9 observations in Table 3 and Table 4, respectively). We find that the results are virtually identical to
those reported in the paper – all the same variables have the same significance as reported in the tables.
5.2.5. *Other Analyses.* In the above sections we address and discuss our main two research questions – what is the effect of the APB 23 deferral of financial accounting expense on U.S. multinationals’ investment and repatriation decisions? In this sub-section we discuss some additional questions and analyses that are related but do not directly address our main two research questions. The additional analyses in this section 1) provide data about the permanently reinvested earnings levels as a percentage of total unremitted earnings and about company responses to a hypothetical repeal of APB 23, 2) provide data on the importance of the effect of APB 23 expense deferral in a special case surrounding the American Jobs Creation Act of 2004 in which there was a tax price reduction on repatriations of foreign earnings, and 3) examine whether our finding that APB 23 financial accounting expense deferral is a significant determinant of companies’ overseas cash holdings in the spirit of Foley et al. (2007). These data and analyses are not available from other sources and may be of interest to readers in interpreting our paper or other research.

5.2.5.1. *How Much Unremitted Foreign Earnings are Designated as Permanently Reinvested?*

To get a sense of the importance of the APB 23 permanently reinvested earnings (PRE) designation, we ask a subset of our sample firms how much unremitted foreign earnings (URE) their companies had and how much of those earnings were designated as permanently reinvested under APB 23. Note this question was only answered by companies who took advantage of the American Jobs Creation Act of 2004 to repatriate foreign earnings during a “tax holiday” period where the U.S. allowed a lower tax price upon repatriations (5.25% versus 35%, before credits). Thus, our sample for this question may contain companies with a different percentage or level of permanently reinvested earnings than we might observe if we examined data from a broader sample of firms (e.g., all the firms included in the analysis in Tables 3 and 4). One specific way in which these firms might be different is that they may have anticipated the 2004 rate reduction and surrounding rules and increased the amount of permanently reinvested earnings to maximize their
low-tax repatriations. We highlight that our data on the amount of unremitted foreign earnings are unique because such data are not disclosed by companies and thus are not in Compustat (and the amount of unremitted foreign earnings is not in Bureau of Economic Analysis data either). However, for this same reason we cannot calibrate the generalizability of our unremitted earnings data. We obtain the data in Table 5 as of June 30, 2003, the date required to be used when firms computed qualifying dividends when they repatriated foreign source earnings under the American Jobs Creation Act of 2004 (the Act). See below for a discussion of the American Jobs Creation Act of 2004.

The average ratio of PRE to URE is 0.76, indicating that three-fourths of all accumulated foreign earnings are declared permanently reinvested (see Table 5). Table 5 also indicates that the median firm classifies all unremitted foreign earnings as permanently reinvested and that three-fourths of companies classify at least 57 percent of unremitted earnings as permanently reinvested. That more than half the sample designates all of their unremitted earnings as permanently reinvested indicates that the APB 23 tax expense deferral is an important accounting rule.

5.2.5.2. What if APB 23 Were Repealed?

To further investigate the importance of financial accounting expense, we asked the following question “If the rule allowing the deferral of U.S. tax expense under APB 23 were repealed but the deferral of cash tax until repatriation was still allowed, would your company repatriate more foreign earnings as dividends (in other words, if your company had to immediately accrue the tax expense for financial accounting would your company repatriate more dividends?)?” In untabulated data we find that approximately 17 percent of the respondents said yes, they would repatriate more foreign earnings if APB 23 were repealed. In addition, 43 percent of the respondents responded “maybe” they would repatriate more if APB 23 were repealed, which we interpret as indicating that the option would be considered. Thus, 60 percent of the
respondents indicate that they would consider bringing more cash back to the U.S. even if it meant incurring the U.S. cash taxes upon repatriation, if their company had to record financial accounting tax expense on those earnings regardless of whether they repatriate. In other words, if the exception to deferred tax accounting were discontinued for foreign earnings permanently reinvested, many of the respondents would at least consider repatriating the earnings and incurring the cash tax cost. This result suggests that in addition to cash tax costs contributing to the large balance sheet cash balances observed in Foley et al. [2007], financial reporting considerations could be another cause of “trapped” equity or high cash holdings observed at many firms. We investigate this issue more fully in Section 5.2.5.4.

5.2.5.3. One-Time Dividend Received Deduction on Repatriations

The survey questions discussed above and the main emphasis of the paper address financial accounting effects on general investment and repatriation decisions. We also asked the executives several questions about the importance of accounting effects when their firm faced the decision to repatriate earnings under a special “one-time” reduction of the tax on repatriated earnings. This section briefly discusses the responses to those questions.

The American Jobs Creation Act (the Act) was enacted into law on October 22, 2004 and a portion of the Act was codified in Internal Revenue Code (IRC) Section 965. The Act provided that a corporation that is a U.S. shareholder of a controlled foreign corporation may elect, for one taxable year, an 85 percent dividend received deduction (i.e., not have to pay tax on 85 percent of repatriated dividends) with respect to certain cash dividends it receives from its foreign subsidiaries.\(^{25}\) This deduction provision effectively reduced the applicable U.S. tax rate on qualified repatriations from the U.S. statutory corporate tax rate of 35 percent (less applicable

\(^{25}\) See IRS Notice 2005-10 for the definition of cash dividends. The election could only be made for one of the following years 1) the last tax year that began after October 22, 2004 or 2) the first tax year that began during the one year period beginning on October 22, 2004.
credits) to 5.25 percent (less applicable credits) \((5.25 = 15 \text{ percent } \times 35 \text{ percent})\). In this paper, we discuss questions that address the financial accounting effects firms might have considered when deciding whether to repatriate earnings under the Act.\(^{26}\)

The dividends received deduction in the Act was subject to several limitations. For the purposes of our paper, the only relevant limitation was that the amount of dividends eligible for the deduction was limited to the greater of the following: 1) $500 million and 2) the amount shown on the taxpayer’s applicable financial statement as being permanently reinvested outside of the U.S. (the applicable financial statement is the most recently audited financial statement which is certified on or before June 30, 2003 as being prepared in accordance with GAAP, and if the taxpayer is required to file with the SEC is so filed on or before June 30, 2003).\(^{27}\)

This limitation (to PRE or $500M) provided a maximum in terms of amount repatriated that would qualify for the deduction but the Act did not require funds to be repatriated from permanently reinvested earnings (i.e., the cash could have been repatriated from unremitted foreign earnings that were not designated as permanently reinvested). Thus, the outcome for financial accounting purposes in terms of the effect on income could vary across firms. For example, if a company repatriated permanently reinvested earnings for which no U.S. tax had been previously accrued, the repatriation would increase the firm’s U.S. tax expense by the 5.25 percent tax on the repatriated earnings (less any available foreign tax credits). On the other hand, if a firm repatriated earnings that were not designated as permanently reinvested, the repatriation of the funds and the associated 5.25 percent tax could decrease the firm’s tax expense (and increase earnings) because those earnings would probably have had a higher rate of tax accrued than the

\(^{26}\) See Graham et al. [2010] who focus on the Act and the sources and uses of funds that companies repatriated under the Act. Graham et al. [2010] also examine the costs firms incur to avoid the repatriation tax in general. Graham et al. [2010] do not investigate financial accounting issues or effects.

\(^{27}\) For more details on the Act and the dividend received deduction see IRC Section 965, IRS Notice 2005-10, Blouin and Krull [2009], Brennan [2008], Graham et al. [2010], and others.
5.25 percent (less credits). Thus, in the latter case, the repatriation of dividends and payment of the 5.25 percent tax under the Act could have increased earnings.

A firm-specific example highlights this effect. Per disclosures in annual report filings with the SEC, one company repatriated $1.2 billion of foreign earnings, which had the effect of reducing their GAAP ETR by approximately 0.5 percent.\(^{28}\) In an investor relations conference call where a question was asked about how repatriating earnings could reduce the GAAP ETR, the company representative explained that the “…majority of them (foreign reinvested earnings) are continually permanently reinvested in productive assets overseas…but that they had $1.2 billion overseas that we thought we could repatriate which had been provided at rates above the repatriation rate of 5%.” Thus, the company repatriated non-PRE earnings but in an amount less than their PRE. The reversal of the previously recorded deferred tax liability down to the tax owed at the lower rate under the Act resulted in a decrease in the company’s GAAP ETR and an increase in earnings (of roughly $107 million).

We discussed this GAAP ETR effect with one of the beta test companies. The tax executive said that there were two reasons that his company repatriated funds from non-PRE: 1) it avoided any hassles with their auditor over the company bringing back earnings that were previously designated as permanently reinvested, and 2) it avoided an income statement hit. In our sample, when we directly ask companies whether they brought earnings back from a non-PRE pool, 26 percent of the respondents (that answered this question) said that they did (untabulated).\(^{29}\)

\(^{28}\) Data are from the company’s 10-K. We avoid using company names throughout the paper to maintain confidentiality as to which firms are in our sample and which firms are not. Our including this example does not imply that this particular company is or is not in our sample.

\(^{29}\) There are 31 firms in our sample that had non-PRE but did not repatriate those non-PRE earnings. The average (and median) firm that could have repatriated non-PRE but did not is smaller (in terms of assets, sales, and market value) and has much lower growth metrics (sales and asset growth and market-to-book ratios) than firms that repatriated non-PRE. Thus, on average these firms appear to be under less capital market scrutiny, which may provide one explanation for their decision not to repatriate non-PRE earnings. However, we asked one of the larger companies that had non-PRE, why they repatriated only PRE. Their response was that they still planned future repatriations of non-PRE and thus needed to retain the tax accrual on the books for those future repatriations.
To evaluate the overall importance of the financial accounting expense deferral for firms that repatriated under the Act, we included “Additional financial accounting expense that could result if earnings previously designated as permanently reinvested were repatriated” as a factor when we asked firms the following question “When considering whether and to what extent your company would repatriate earnings utilizing the Act’s one-time dividends received deduction, which of the following were of most concernimportance to your company (e.g., which items received the most attention in planning all aspects of the repatriation)?”

Table 6 Panel A presents the unconditional results. Note again that the companies that answered this question are a subset of the sample from Tables 3 and 4. The companies included in Table 6, are only those that repatriated earnings in response to the American Jobs Creation Act. In our sample, 51.3 percent of the respondents stated that the additional cash tax liability that the repatriation would generate was important in their decision to repatriate (the respondent gave the factor a 3 or 4 on the scale) while 43.2 percent of the firms reported that the additional financial accounting tax expense that would be reported upon repatriation of permanently reinvested earnings was important in their decision of whether to, and the extent to, repatriate earnings under the Act. For a factor not investigated previously in the literature, 43 percent is a surprisingly large proportion of companies to view this factor as important. In addition, the importance of the repatriation’s effect on the financial accounting expense is statistically indistinguishable from the importance of the effect on the cash taxes (with a t-statistic of 1.19 for the difference in the average rating).30 In addition, it is important to remember that the importance of the financial

30 In addition, several companies wrote in responses in the “Other” category. Some responses for this question about the factors important when repatriating earnings under the Act indicated that it was very important to their company to repatriate earnings in a way that decreased the firm’s effective tax rate and increased earnings. One such comment was “…5.25% tax applied to earnings on which a 35% deferred tax had been accrued.” Another similar response was “All foreign earnings are expected to be repatriated so primary consideration was reducing the U.S. tax that had been provided and decreasing the effective tax rate.” Another comment was that the main consideration was “Anticipated future effective tax rate benefits related to a reduction in future repatriations of low-tax foreign earnings.” Thus, some
accounting effects may be understated because some firms were able to decrease their tax expense through the rules of the Act, thus increasing earnings (by repatriating earnings not designated as PRE) and because firms could clearly disclose why the effective tax rate increased (i.e., the Act allowed a lower cash tax rate on repatriations). In Figure 2, we provide a graphical representation of the data in order to more readily highlight the results.

Panel B of Table 6 presents univariate results by type of firm. This sample of firms is more homogeneous than the sample in Tables 3 and 4 because the companies included here are only those that repatriated cash back to the U.S. during the temporary tax “holiday” provided by the American Jobs Creation Act of 2004. As a result, we would expect fewer significant differences to emerge since there is less variation in the variables. However, a few differences are revealed. For example, the data indicate that when considering a repatriation in response to the lower cash tax cost, public firms considered the additional financial accounting expense that would occur much more important than did private firms. Indeed, 46.2 percent of the publicly traded companies responded that the financial accounting implications from reversing the permanently reinvested designation was an important factor in their decision making process, whereas only 18.2 percent of companies that are privately held said that the financial accounting effects were an important factor.

5.2.5.4. Is There an Accounting Based Explanation for Why Firms Hold So Much Cash?

Foley et al. [2007] examine whether cash (repatriation) tax costs help explain the large cash balances observed on multinational firms’ balance sheets. Using confidential BEA survey data for approximately 1,600 observations they document a positive relation between cash tax costs and foreign cash holdings and a negative but insignificant relation between cash tax costs
and domestic cash holdings. The authors conclude that the cash tax costs of repatriation are a significant cause of firms holding substantial cash on their balance sheets. They highlight that much of this cash is held overseas (but they cannot definitively show that there is substitution of foreign cash for U.S. cash).

Our evidence above suggests financial accounting tax expense deferral could be another explanation for the large observed cash balances. To further examine this research question we attempt to replicate the Foley et al. [2007] results in our sample using the financial accounting importance rating as our main test variable. If the accounting implications are important, we would expect that the relation between cash balances and our APB 23 tax expense deferral rating would be significantly positive. However, our tests are subject to at least two limitations. First, we have a much smaller sample size (N=267 for our largest regression) and an ordinal rating between 0 and 4 for our independent variable. Second, while we would like to use the ratio of foreign cash/total assets we cannot because we do not have foreign cash holdings, only total worldwide cash for the subset of sample firms on Compustat. Thus, we use two proxies for foreign cash holdings, neither of which are perfect. The proxies we use are total worldwide cash holdings multiplied by the percentage of foreign assets the firm discloses in the survey, and the amount of permanently reinvested earnings (both variables are scaled by assets excluding cash). We estimate two different regressions using the two different proxies for foreign cash and we include industry fixed effects. Finally because of the large cash repatriations in year 2005 due to companies repatriating when the large dividend received deduction was available under the 2004 American Jobs Creation Act, we use financial statement data (including cash holdings) for the fiscal year ended 2004. Use of data from years immediately after the AJCA 2004 would reflect much lower cash holdings by many of the companies that are precisely the ones that care about tax and accounting for tax effects.
Our results are presented in Table 7. First, we regress the log of our estimate of foreign cash scaled by net assets on each of the ratings – the importance of cash tax deferral and the importance of financial accounting expense deferral – separately and then together. As reported in Panel A, the coefficient on each of the ratings is positive and significant when each is in the regression alone. When both ratings are included in the same regression, both have a positive coefficient but the financial accounting rating is insignificant. We also estimate a regression including all the control variables used in Foley et al. [2007] but requiring these variables reduces the sample size significantly. Neither of our test variables is significant at conventional levels in these expanded specifications.31

The results of the regression using our second proxy for foreign cash holdings, the amount of permanently reinvested earnings scaled by total assets (PRE/TA) (where assets again are defined as assets less cash), as the dependent variable are in Panel B of Table 7.32 When the importance rating of APB 23 deferral is included on its own (second column of results) or with cash tax deferral (third column of results), it is significant in explaining the PRE/TA dependent variable consistent with financial accounting effects increasing the amount of foreign cash holdings (as proxied by PRE/TA). When we add the additional control variables, the importance of APB 23 tax expense deferral retains significance. We also note that the coefficient on foreign income is positive and significant and the coefficient on domestic income is negative and significant, similar to the Foley et al. [2007] tests using foreign cash holdings as the dependent variable. Given the constraints of the data and sample, these results provide some evidence that APB 23 deferral of recording tax expense on financial statements contributes to trapped foreign

31 The cash tax rating is marginally significant at a one-tailed p-value of 0.07.
32 We caveat that a firm could have a large amount of earnings designated as permanently reinvested but have little cash if the earnings are reinvested in operating assets. On the other hand, while some firms did have to borrow significant sums of cash to repatriate under the Act, Graham et al. [2010] document that 62 percent of all funds repatriated from their sample of firms repatriated from cash holdings and 13 percent of the funds were repatriated from foreign financial assets.
earnings and high cash balances. However, due to the limitations of our regressions and the proxies we use for foreign cash holdings, these results must be interpreted with some reserve.

6. Conclusions

Our main objective in this paper is to examine whether the ability to avoid or defer the recording of income tax expense for financial accounting is an important consideration in real corporate investment decisions regarding location of operations and whether to repatriate foreign earnings to the U.S. or reinvest the foreign earnings overseas. Shackelford et al. [2010] predict and model that both cash tax deferral and financial accounting expense deferral may be important factors for firms as they decide where to locate operations. Our results support their location predictions. We also investigate the repatriation versus reinvestment decision and find that financial reporting effects are important in this decision as well.

We examine survey responses from nearly 600 executives and find evidence consistent with the deferral of income tax expense for financial accounting being important in corporate decisions regarding location of operations and whether to repatriate or reinvest foreign earnings. For example, 31 percent of the respondents rated deferral under APB 23 as being important in their decision to locate operations outside of the U.S. In addition, 44 percent of respondents stated that deferral of the financial accounting tax expense is important in their decision of whether to reinvest foreign earnings outside of the U.S. These percentages are above 60 percent for firms that are publicly traded, have foreign assets, and have high research and development spending – companies for which one might expect the financial accounting incentives to be highest.

33 Recall that firms provided importance ratings for both the investment location decision and the reinvestment versus repatriation decision. We use the ratings from the investment decision in the regressions above in order to maximize the number of observations. We also estimate the same regressions described above but with importance ratings from the reinvestment versus repatriation decision. Few factors are significant in explaining Cash/TA but in the PRE/TA regressions the results are similar to those described above, except when all the control variables are included the importance of cash tax deferral and accounting expense deferral become insignificant.
For both decisions – where to locate operations and whether to reinvest or repatriate – the importance of the financial accounting tax expense deferral is not statistically different than the importance of cash tax deferral when making these decisions. This result is important in light of the decades of research on the location and repatriation decisions that considers the cash tax implications but heretofore has not examined the financial accounting implications. Our results show that the accounting expense deferral is important to companies and appears to provide an incentive, along with the relatively high corporate tax rates in the U.S., to move operations and investments overseas and to reinvest foreign earnings overseas. This statement is especially true for companies that are publicly traded, already have a relatively substantial foreign presence, and have significant intangible assets. In addition, given the importance to policymakers of where U.S. corporations invest, our results should be informative in that the determinants of investment location include not only the effects of tax policies but the financial accounting rules as well.
Appendix A
Example of Corporate Disclosure of Foreign Earnings Tax Effects
(Hypothetical company)

Note 8: Income Taxes
Under SFAS 109, “Accounting for Income Taxes,” income taxes are recognized for the amount of taxes payable for the current year and for the impact of deferred tax liabilities and assets, which represent future tax consequences of events that have been recognized differently in the financial statements than for tax purposes. Deferred tax assets and liabilities are established using the enacted statutory tax rates and are adjusted for any changes in such rates in the period of change.

Earnings before income taxes consisted of the following:

| Years ended December 31 | 2009 |
|-------------------------|------|
| United States           | $11,721 |
| International           | 8,346  |
| Total                   | 20,067 |

The income tax provision consisted of the following:

| Years ended December 31 | 2009 |
|-------------------------|------|
| Current Tax Expense     |      |
| U.S. federal            | $1,305  |
| International           | 1,860  |
| U.S. state and local    | 291    |
|                         | 3,456 |
| Deferred Tax Expense    |      |
| U.S. federal            | 1,624  |
| International and other | (64)   |
|                         | 1,560  |
| Total Tax Expense       | 5,016  |

A reconciliation of the U.S. federal statutory income tax rate to our actual income tax rate is provided below:

| Years ended December 31 | 2009 |
|-------------------------|------|
| U.S. federal statutory income tax rate | 35.0%  |
| Rate effect of foreign operations | -6.4%  |
| Income tax reserve adjustments | -2.8%  |
| Other                    | -0.8%  |
| Effective Income Tax Rate | 25.0%  |

We have undistributed earnings of foreign subsidiaries of approximately $19 billion at December 31, 2009, for which deferred taxes have not been provided. Such earnings are considered indefinitely invested in the foreign subsidiaries. If such earnings were repatriated, additional tax expense may result, although the calculation of such additional taxes is not practicable.

Note: We use a fictitious company in order to preserve the confidentiality of the survey participants. The note represents the typical format for the income tax note required under SFAS 109.
Appendix B

Variable Descriptions

**Public/Private** = Company responses to a question that asks if the firm is public and traded on NYSE or on NASDAQ/AMEX or if the firm is private.

**Size** = Total assets of the firm in the most recent fiscal year prior to completion of the survey, self-reported by the respondents. Firms above the median are considered large firms and those below the median are considered small firms.

**Foreign Asset Percentage** = Company responses to a question that asked the respondent for the percentage of foreign assets in foreign locations. Firms with a percentage greater (lower) than the sample median are considered to have a high (low) ratio.

**Foreign Source Earnings** = Indicator variable representing responses to a question that asked the respondent whether their company has had foreign source earnings in the last ten years. The variable is set to one if the respondent answered their company did have foreign source earnings and zero otherwise.

**GAAP ETR** = The companies’ effective tax rate (total worldwide tax expense/worldwide pre-tax book income) for the last fiscal year prior to completion of the survey. Obtained from reported survey answers for the private companies and from Compustat data for the public firms. A high (low) GAAP ETR is defined as being above (below) the sample median.

**U.S. NOL** = Company responses about whether the firm had a U.S. net operating loss (U.S. NOL) for tax purposes in the latest fiscal year-end before the completion of the survey.

**R&D** = The level of research and development spending scaled by sales. These data are from Compustat. We do not have data for the private firms for this item. Firms with an R&D spending amount above (below) the sample median are considered high (low). If R&D expense is missing on Compustat we replace with zero.
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Figure 1
Important Factors in the Investment and Repatriation Decisions – Conditional Analyses

Panel A: Public Firms with Assets in a Foreign Location – Investment Decision

Panel B: Public Firms with Assets in a Foreign Location – Repatriation Decision

Notes: Panel A presents survey responses to the question: Relative to all the factors your company considers when making a decision about whether to locate operations in the U.S. or outside the U.S., how important are the following? Panel B presents survey responses to the question: In general, what factors are important in your company’s decision to reinvest foreign earnings outside of the U.S.? All data are obtained from a survey of corporate tax executives. The survey provides a 5 point rating scale ranging from 0 to 4. The zero rating is labeled “Not at all important” and the rating of 4 is labeled “very important.” The data above are the percentage of firms that answered that the listed factor was important at either the 3 or 4 rating. In Panel B the top series are public firms with high R&D spending and the bottom series are public firms with low R&D spending.
Figure 2
Factors Important for Firms Taking Advantage of the One-Time Dividends Received Deduction in the 2004 Tax Act

Notes: Survey responses to the question: When considering whether and to what extent your company would repatriate earnings utilizing the Act’s one-time dividend received deduction, which of the following were of most concern/importance to your company (e.g., which items received the most attention in planning all aspects of the repatriation)? All data are obtained from a survey of corporate tax executives. The survey provides a 5 point rating scale ranging from 0 to 4. The zero rating is labeled “Not at all important” and the rating of 4 is labeled “very important.” The data above are the percentage of firms that answered that the listed factor was important at either the 3 or 4 rating.
Table 1
Descriptive Statistics

| Ownership (N=594)       | Percent | Assets (N=535) | Percent | Entities included in 1120 group (N=554) | Percent |
|-------------------------|---------|----------------|---------|----------------------------------------|---------|
| Public - NYSE           | 47.0    | <$500 million   | 26.9    | 1                                      | 0.54    |
| Public - Nasdaq/Amex    | 28.0    | $500 - $999 million | 16.3    | 2 - 10                                 | 41.52   |
| Private                 | 23.0    | $1 - $4.9 billion | 32.7    | 11 - 50                                | 42.24   |
| Other (e.g., OTC)       | 2.0     | $5 - 10 billion  | 7.5     | 51 - 100                               | 8.48    |
|                         |         | > $10 billion    | 16.6    | > 100                                  | 7.22    |

| Industry (N=595)        | Percent | Ownership (N=594) | Percent | Assets (N=535) | Percent | Entities included in 1120 group (N=554) | Percent |
|-------------------------|---------|-------------------|---------|----------------|---------|----------------------------------------|---------|
| Agriculture, Forestry, Fishing, and Hunting | 0.17 | Mining            | 1.85    | 0%            | 25.46   | 1                                      | 60.48   |
|                         |         | Utilities         | 1.01    | 0-10%         | 26.77   | 2 - 10                                 | 28.35   |
|                         |         | Construction      | 1.51    | 11%-20%       | 11.52   | 11 - 50                                | 8.76    |
|                         |         | Manufacturing     | 29.92   | 21%-30%       | 10.97   | 51 - 100                               | 0.52    |
|                         |         | Wholesale Trade   | 5.04    | 31%-40%       | 9.29    | 101 - 1,000                           | 1.55    |
|                         |         | Retail Trade      | 6.22    | 41%-50%       | 7.62    | > 1,000                               | 0.34    |
|                         |         | Transportation and Warehousing | 2.02 | 51%-60% | 2.42 |
|                         |         | Information       | 4.54    | 61%-70%       | 2.60    |                                        |         |
|                         |         | Finance and Insurance | 5.04 | 71%-80% | 1.67 |
|                         |         | Real Estate, Rental and Leasing | 2.18 | 81%-90% | 0.74 |
|                         |         | Professional, Scientific, and Technical Services | 6.72 | 91%-100% | 0.93 |
|                         |         | Management of Companies (Holding Companies) | 15.80 |
|                         |         | Admin., Support, Waste Mgt. and Remediation Services | 1.51 |
|                         |         | Educational Services | 0.50 | <10%   | 10.9   | 2 - 10                                 | 28.79   |
|                         |         | Health Care and Social Assistance | 1.18 | 10%-20% | 4.8    |
|                         |         | Arts, Entertainment, and Recreation | 1.01 | 20%-30% | 18.5   |
|                         |         | Accomodation and Food Services | 1.68 | 30%-40% | 55.6   |
|                         |         | Other services    | 0.67    | 40%-50%       | 6.2     |                                        |         |
|                         |         | No code reported  | 11.43   | >50%          | 4.1     |                                        |         |

| File a consolidated Form 1120 (N=590)      | Percent | Percent | Percent |
|-------------------------------------------|---------|---------|---------|
| Yes                                       | 93.9    | Yes     | 46.3    |
| No                                        | 6.1     | State   | 68.7    |

| Percent of firms with foreign source income in last 10 years (N=551) | Percent |
|---------------------------------------------------------------------|---------|
| Yes                                                                  | 75.0    |
| No                                                                   | 25.0    |

Notes: The above data are all obtained through survey questions, with the exception of the GAAP effective tax rate (total tax expense divided by pre-tax book income) for the publicly traded firms which is obtained from Compustat. Form 1120 is the U.S. Corporate Income Tax form. Form 5471 is an informational return filed in the U.S. about the activities of a foreign controlled corporation owned more than 10 percent by a U.S. person (the definition of which includes a U.S. corporation).
Table 2
Descriptive Statistics of Compustat Firms, Nonresponders, and Responders
(Non-response bias tests)

|                | All Compustat (1) | All firms we contacted with available data (2) | Survey Non-Responders with available data (3) | Survey Responders with available data (4) | P-value |
|----------------|-------------------|-----------------------------------------------|-----------------------------------------------|-------------------------------------------|---------|
|                | N Mean            | N Mean                                        | N Mean                                        | N Mean                                    |                     |
| Assets         | 4,996 4,066.26    | 1,398 8,891.22                                | 863 9,617.72                                  | 535 7,547.93                              | 0.000 0.000 0.202 0.085 |
| MVE            | 4,654 2,709.19    | 1,183 7,977.02                                | 813 7,831.80                                  | 370 8,304.84                              | 0.000 0.000 0.777 0.692 |
| Sales          | 4,977 1,991.09    | 1,235 5,527.34                                | 863 5,499.10                                  | 372 5,625.37                              | 0.000 0.000 0.881 0.855 |
| Debt           | 4,980 0.19        | 1,233 0.22                                    | 861 0.22                                      | 372 0.20                                  | 0.000 0.754 0.083 0.019 |
| Cash           | 4,994 0.20        | 1,234 0.14                                    | 862 0.13                                      | 372 0.15                                  | 0.000 0.000 0.086 0.019 |
| MB             | 4,653 3.75        | 1,183 3.28                                    | 813 3.26                                      | 370 3.29                                  | 0.000 0.005 0.946 0.891 |
| ROA            | 4,976 -0.05       | 1,235 0.05                                    | 863 0.05                                      | 372 0.06                                  | 0.000 0.000 0.033 0.006 |
| GAAP ETR       | 3,723 0.26        | 1,195 0.30                                    | 756 0.30                                      | 439 0.30                                  | 0.000 0.000 0.690 0.640 |
| Asset growth   | 4,795 0.20        | 1,211 0.14                                    | 845 0.14                                      | 366 0.14                                  | 0.000 0.000 0.921 0.918 |
| Sales growth   | 4,687 0.21        | 1,210 0.14                                    | 845 0.13                                      | 365 0.14                                  | 0.000 0.000 0.632 0.451 |
| Industry       |                  |                                              |                                              |                                          |         |
| 0              | 12 0.2%           | 3 0.2%                                       | 3 0.4%                                       | 0 0.0%                                    |         |
| 1              | 241 4.8%          | 58 4.7%                                      | 44 5.1%                                       | 14 3.6%                                   |         |
| 2&3            | 1,802 36.1%       | 549 44.0%                                     | 376 43.6%                                     | 173 45.1%                                 |         |
| 4              | 484 9.7%          | 141 11.3%                                     | 102 11.8%                                     | 39 10.2%                                  |         |
| 5              | 404 8.1%          | 152 12.2%                                     | 102 11.8%                                     | 50 13.0%                                  |         |
| 6              | 1,237 24.8%       | 142 11.4%                                     | 104 12.1%                                     | 38 9.9%                                   |         |
| 7              | 563 11.3%         | 155 12.4%                                     | 103 11.9%                                     | 52 13.5%                                  |         |
| 8              | 196 3.9%          | 43 3.4%                                       | 26 3.0%                                       | 17 4.4%                                   |         |
| 9              | 57 1.1%           | 4 0.3%                                        | 3 0.4%                                        | 1 0.3%                                    |         |

Notes: All dollar amounts are in millions. All Compustat variables are measured in the year 2006 and are winsorized at 1% and 99% of the distribution. Column (1) consists of all the firms on Compustat except for firms with a negative book value, firms whose name ends with LP, and firms incorporated outside of the U.S. Column (2) includes all the firms that were sent a survey (described earlier in the manuscript), that we could match to and retrieve the data on Compustat. Column (3) consists of the group of firms that are on Compustat and that we sent a survey to but did not receive a response. Column (4) includes the survey responders with data available on Compustat. Assets is defined as worldwide assets (Compustat data item AT). MVE is the market value of equity (data PRCC_F times data CSHO). Sales are total sales (data SALE) divided by total assets (data AT). Debt is the ratio of long-term debt (data DLTT) plus the debt included in current liabilities (data DLC) to total assets (data AT). Cash is cash and marketable securities (data CHE) scaled by total assets (data AT). MB is the market-to-book ratio (MVE/data CEQ). ROA is return-on-assets defined as net income (data NI) divided by total assets (data AT). GAAP ETR is the GAAP effective tax rate defined as total tax expense (data TXT) divided by pre-tax accounting income (data PI). Industries are determined by SIC codes because these are all Compustat firms (for which we do not have the tax code for industry). The industry groups are as follows: 0 = Agriculture, Forestry, and Fishing; 1 = Mining and Construction; 2 = Manufacturing (Food, Tobacco, Lumber, Furniture, Paper, Chemicals); 3 = Manufacturing (Rubber, Leather, Stone, Metal, Electronics); 4 = Transportation, Communication, Electric, Gas and Sanitary; 5 = Wholesale and retail trade; 6 = Finance, Insurance, and Real Estate; 7 = Hotel and Business Services; 8 = Health, Legal, and Educational Services; and 9 = Public Administration.
Table 3  
Factors Important in Where to Locate Operations

Survey responses to the question: Relative to all the factors your company considers when making a decision about whether to locate operations in the U.S. or outside the U.S., how important are the following?

Panel A: Unconditional Results

| Factor                                                      | % important | % not important | Average rating |
|--------------------------------------------------------------|-------------|-----------------|----------------|
| (1) Foreign tax rate                                        | 38.17       | 42.83           | 1.86           |
| (2) U.S. cash tax deferral                                  | 35.21       | 45.32           | 1.76           |
| (3) Financial accounting expense deferral under APB23       | 31.53       | 51.12           | 1.65           |

Statistical Test of Differences in the Average Rating of the Factors

| Comparison       | t-statistic |
|------------------|-------------|
| (1) = (2)        | 1.13        |
| (2) = (3)        | 1.32        |
| (1) = (3)        | 2.45***     |

Panel B: Conditional Results

| Factor          | % important | Ownership | Size | Foreign Source Earnings | Foreign Asset Percentage | GAAP ETR | R & D |
|-----------------|-------------|-----------|------|-------------------------|--------------------------|----------|------|
| (1)             | 38.2        | Public 41.3| Private 26.7***| Large 42.9 | Small 33.6* | Yes 45.2 | No 15.1*** | High 55.9 | Low 20.9*** | High 27.6 | Low 48.1*** | High 52.4 | Low 37.4*** |
| (2)             | 35.2        | Public 38.5| Private 23.3***| Large 42.5 | Small 28.2***| Yes 41.9 | No 14.3*** | High 48.0 | Low 22.8*** | High 25.2 | Low 44.3*** | High 50.5 | Low 33.7*** |
| (3)             | 31.5        | Public 37.1| Private 11.2***| Large 34.9 | Small 28.9  | Yes 37.5 | No 11.9***| High 46.5 | Low 17.9*** | High 24.3 | Low 40.7*** | High 51.9 | Low 31.0*** |
Table 3 (continued):
Factors Important in Where to Locate Operations

Panel C: Regression Results

|                        | Rating of APB23 | Rating of cash tax | Difference in ratings |
|------------------------|-----------------|--------------------|-----------------------|
|                        | coefficient     | t-stat             | coefficient           | t-stat             | coefficient | t-stat             |
| Intercept              | 1.460 **        | 2.28               | 0.987                 | 1.59               | 0.489       | 1.21               |
| Public                 | + 0.696 ***     | 4.03               | 0.362 **              | 2.16               | + 0.336 *** | 3.06               |
| ln(Assets)             | 0.019           | 0.68               | 0.072 ***             | 2.70               | -0.054 *** | -3.11              |
| Foreign source earnings| + 0.908 ***     | 5.56               | 1.054 ***             | 6.65               | -0.147      | -1.41              |
| Foreign asset percentage| + 1.547 ***    | 4.86               | 1.313 ***             | 4.25               | 0.223       | 1.10               |
| GAAP ETR               | - 0.039         | 0.10               | -0.332                | -0.86              | 0.370       | 1.47               |
| Nonmissing R&D         | -0.033          | -0.21              | 0.092                 | 0.61               | -0.138      | -1.39              |
| Nonmissing R&D *R&D    | + 3.932 ***     | 3.55               | 3.080 ***             | 2.86               | 0.926       | 1.31               |
| R-squared              | 0.276           | 0.286              | 0.037                 |                   |             |                   |
| N                      | 416             | 415                | 415                   |                   |             |                   |

Notes: The survey provides a 5 point rating scale ranging from 0 to 4 with a rating of zero labeled “Not at all important” and a rating of 4 labeled “very important.” The percentages listed in Panel A of the table under “% important” are the percentages of respondents that gave a rating of 3 or 4 for that particular factor. The percentages listed in Panel A of the table under the column “% not important” are the percentages of respondents that gave a rating of 0 or 1 for that particular factor. The percentages listed in Panel B are only the percentages of firms that gave a rating of 3 or 4 for the factor (i.e., the company rates the factor as important). We winsorize all non-indicator independent variables at the top and bottom 1%. Statistical significance is based on tests of the average rating being different between factors in Panel A and tests of the average rating for the sub-samples being statistically different from each other in Panel B. ***, **, and * mark significance of .01, .05, and .10 respectively. See Appendix A for definitions of the conditioning variables. Note that in the regression above we use the continuous version of the GAAP ETR and Foreign asset percentage. In addition, in order to be able to include public and private firms in the regression and test for the effect of R&D we establish an indicator variable set equal to 1 for observations that have nonmissing R&D and zero otherwise.
Table 4
Reinvestment vs. Repatriation

Panel A: Unconditional Results
Survey responses to the question: In general, what factors are important in your company’s decision to *reinvest foreign earnings outside of the U.S.*?

| Factor | % important | % not important | Average rating |
|--------|-------------|-----------------|----------------|
| (1) Rate of return outside the U.S. > in the U.S. | 58.4 | 19.9 | 2.58 |
| (2) U.S. cash tax deferral | 49.1 | 28.6 | 2.29 |
| (3) Financial accounting expense deferral under APB23 | 44.9 | 31.9 | 2.18 |
| (4) Foreign tax rate | 40.8 | 26.7 | 2.15 |
| (5) The need for cash to service foreign debt | 27.8 | 54.9 | 1.48 |
| (6) Other | 16.5 | 70.0 | 0.95 |

Statistical Test of Differences in the Average Rating of the Factors

| Comparison | t-statistic |
|------------|-------------|
| (1) = (2) | 3.12***     |
| (2) = (3) | 1.13        |
| (3) = (4) | 0.30        |

Panel B: Conditional Results

| Factor | % important | Ownership | Size | Foreign Asset Percentage | GAAP ETR | U.S. NOL | R & D |
|--------|-------------|-----------|------|--------------------------|----------|----------|-------|
|        |             | Public    | Private | Large | Small | High | Low | High | Low | Yes | No | High | Low |
| (1)    | 58.4        | 387       | 59.8  | 52.1* | 62.9  | 53.1** | 56.1 | 47.5*** | 52.3 | 64.7* | 56.2 | 59.0 | 53.5 | 63.0 |
| (2)    | 49.1        | 385       | 52.7  | 32.9*** | 55.1  | 44.4*** | 56.4 | 38.1*** | 37.4 | 61.1*** | 48.4 | 51.1 | 64.3 | 45.8*** |
| (3)    | 44.9        | 383       | 51.4  | 14.7*** | 49.5  | 41.2**  | 53.8 | 30.4*** | 32.8 | 58.1*** | 45.7 | 44.8 | 65.7 | 43.5*** |
| (4)    | 40.8        | 382       | 44.9  | 22.9*** | 44.1  | 37.1    | 49.6 | 25.9*** | 29.0 | 50.6*** | 41.2 | 39.8 | 58.6 | 37.8*** |
| (5)    | 27.8        | 381       | 28.5  | 24.6  | 32.1  | 24.1    | 32.8 | 20.6*** | 28.5 | 27.1   | 30.2 | 25.4 | 19.4 | 30.7** |
| (6)    | 16.5        | 237       | 17.3  | 13.0  | 14.4  | 18.6    | 19.7 | 11.6*** | 13.3 | 19.4   | 18.5 | 13.2 | 14.3 | 19.0  |
### Table 4 (continued)

#### Reinvestment vs. Repatriation

**Panel C: Multivariate Analysis**

| Dependent variable | Rating of APB23 expense deferral | Rating of cash tax deferral | Difference in ratings | APB23 rating - Cash tax rating |
|--------------------|----------------------------------|-----------------------------|-----------------------|-------------------------------|
|                     | coefficient | t-stat | coefficient | t-stat | coefficient | t-stat |
| Intercept           | 0.269       | 0.40   | 0.319       | 0.48   | -0.012      | -0.02 |
| Public +            | 1.029 ***   | 4.65   | 0.509 **    | 2.32   | + 0.522 *** | 3.08 |
| ln(Assets)          | 0.034       | 1.11   | 0.052 *     | 1.72   | -0.020      | -0.84 |
| NOL                | -0.045      | -0.30  | 0.028       | 0.18   | -0.079      | -0.68 |
| Foreign asset percentage + | 1.176 *** | 3.43   | 1.147 ***   | 3.39   | 0.021       | 0.08 |
| GAAP ETR -         | -0.313      | -0.68  | -0.231      | -0.51  | -0.096      | -0.27 |
| Nonmissing R&D      | 0.201       | 1.09   | 0.359 *     | 1.96   | -0.158      | -1.12 |
| Nonmissing R&D * R&D + | 3.848 *** | 3.12   | 2.819 **    | 2.31   | 0.962       | 1.02 |
| R-squared           | 0.215       | 0.156  | 0.015       |        |             |       |
| N                  | 287         | 286    | 286         |        |             |       |

Notes: The survey provides a 5 point rating scale ranging from 0 to 4 with a zero rating labeled “Not at all important” and a rating of 4 labeled “very important.” The percentages listed in Panel A of the table under “% important” are the percentages of respondents that gave a rating of 3 or 4 for that particular factor. The percentages listed in Panel A of the table under the column “% not important” are the percentages of respondents that gave a rating of 0 or 1 for that particular factor. The percentages listed in Panel B are only the percentages of firms that gave a rating of 3 or 4 for the factor (i.e., the company ranks the factor as important). We winsorize all non-indicator independent variables at the top and bottom 1%. Statistical significance is based on tests of the average rating being different between factors in Panel A and tests of the average rating for the sub-samples being statistically different from each other in Panel B. ***, **, and * mark significance of .01, .05, and .10 respectively. See Appendix A for definitions of the conditioning variables. The sample is smaller than in Table 3 because only firms with foreign source earnings were directed to answer this question. See Table 3 for the adjustments made to the conditioning variables for use in the regression.
Table 5
Information on Unremitted Foreign Earnings and Permanently Reinvested Earnings

| Variable               | N  | Mean   | Std Dev | 25th Pctl | 50th Pctl | 75th Pctl | Sum    |
|------------------------|----|--------|---------|-----------|-----------|-----------|--------|
| Unremitted foreign earnings | 196 | 1,043  | 3,768   | 21        | 97        | 542       | 204,515|
| Permanently reinvested earnings | 196 | 897    | 3,431   | 8         | 53        | 356       | 175,749|
| Ratio of PRE/URE       | 196 | 0.76   | 0.36    | 0.57      | 1.00      | 1.00      | 149.01 |

Notes: Unremitted foreign earnings (URE) are earnings in foreign subsidiaries that have not been repatriated to the U.S. parent company. Permanently reinvested earnings (PRE) is the portion of URE the firm designates as permanently reinvested and on which there is no U.S. income tax accrual provided. Both amounts are from the survey data. There are a smaller number of observations in this table because the data are provided based on respondents to a question about a tax form filed to elect to take advantage of the one-time-dividends received deduction under the American Jobs Creation Act of 2004. (See manuscript for a discussion of the American Jobs Creation Act). Thus, these data are obtained from companies that elected to take advantage of the American Jobs Creation Act of 2004 provision to repatriate foreign earnings at a lower tax price. As a result, these data may not be generalizable to a broader sample of firms that did not elect to take advantage of the American Jobs Creation Act provision.
Table 6
Factors Important for Firms Taking Advantage of the One-Time Dividends Received Deduction in the 2004 Tax Act

Survey responses to the question: When considering whether and to what extent your company would repatriate earnings utilizing the AJCA one-time DRD, which of the following were of most concern/importance to your company (e.g., which items received the most attention in planning all aspects of the repatriation)?

Panel A: Unconditional Results

| Factor                                                          | % important | % not important | Average rating |
|-----------------------------------------------------------------|-------------|-----------------|----------------|
| (1) Additional cash tax liability the repatriation would create | 51.3        | 35.3            | 2.22           |
| (2) Additional financial accounting expense that could result if earnings previously designated as permanently reinvested were repatriated | 43.2        | 41.5            | 1.99           |
| (3) Other                                                       | 34.9        | 60.3            | 1.52           |
| (4) Possible scrutiny from external auditor about repatriating earnings previously designated as permanently reinvested | 11.9        | 67.0            | 1.13           |

Statistical Tests of Differences in the Average Ratings of the Factors

| Comparison | t-statistic |
|------------|-------------|
| (1)=(2)    | 1.19        |
| (2)=(3)    | 4.93***     |
| (3)=(4)    | 4.46***     |
Table 6
Factors Important for Firms Taking Advantage of the One-Time Dividends Received Deduction in the 2004 Tax Act

Panel B: Conditional Results

| Factor | % important | Ownership | Size | Foreign Asset | GAAP ETR | U.S. NOL | R&D |
|--------|-------------|-----------|------|---------------|----------|----------|-----|
|        |             | Public    | Private | Large | Small | High | Low | High | Low | Yes | No | High | Low |
| (1)    | 51.3        | 54.2      | 27.3   | 53.0  | 48.5  | 54.9 | 42.3 | 58.3 | 49.3 | 60.4 | 43.3* | 58.1 | 50.9 |
| (2)    | 43.2        | 46.2      | 18.2*  | 46.3  | 36.4  | 47.8 | 30.1*** | 50.0 | 45.7 | 44.2 | 43.3 | 44.2 | 46.3 |
| (3)    | 11.9        | 12.3      | 9.1    | 13.4  | 9.1   | 13.3 | 7.7  | 8.3  | 12.8 | 17.3 | 6.8 | 9.3  | 11.1 |
| (4)    | 34.9        | 36.4      | 25.0   | 36.6  | 31.6  | 37.0 | 25.0 | 41.7 | 32.4 | 38.1 | 31.6 | 36.4 | 42.9 |

Notes: Survey responses to the question: When considering whether and to what extent your company would repatriate earnings utilizing the Act’s one-time dividend received deduction, which of the following were of most concern/importance to your company (e.g., which items received the most attention in planning all aspects of the repatriation)? All data are obtained from a survey of corporate tax executives. The survey provides a 5 point rating scale ranging from 0 to 4. The zero rating is labeled “Not at all important” and the rating of 4 is labeled “very important.” The data above in Panel B are the percentage of firms that answered that the listed factor was important at either the 3 or 4 rating. ***, **, and * mark significance of .01, .05, and .10 respectively. See Appendix A for definitions of the conditioning variables. The sample is smaller than in Tables 3 and 4 because only firms that elected to take advantage of the American Jobs Creation Act of 2004 provision to repatriate foreign earnings at a lower tax price were directed to this question.
Table 7  
Tests of Association Between Survey Ratings and Proxies for Foreign Cash Balances

Panel A: Estimated foreign cash balance as a proxy for foreign cash balance

| Variable                                      | coefficient | t-stat | coefficient | t-stat | coefficient | t-stat | coefficient | t-stat | coefficient | t-stat |
|------------------------------------------------|-------------|--------|-------------|--------|-------------|--------|-------------|--------|-------------|--------|
| Intercept                                     | -6.408***   | -17.57 | -6.059***   | -17.09 | -6.412***   | -17.54 | -5.261***   | -7.54 | -4.780***   | -7.48  |
| Importance rating of cash tax deferral         | + 0.449***  | 5.36   | 0.415***    | 3.18   | 0.203*      | 1.51   | 0.156       | 1.18   |             |        |
| Importance rating of APB23 expense deferral    | + 0.341***  | 4.22   | 0.431       | 0.35   | -0.167      | -1.30  | -0.107      | -0.86  |             |        |
| Domestic income                               |             |        |             |        | -1.984*     | -1.31  | -2.136*     | -1.41  |             |        |
| Foreign income                                | +           |        |             |        | 12.586***   | 4.02   | 13.881***   | 4.60   |             |        |
| Log assets                                    |             |        |             |        | 0.109       | 1.37   | 0.094       | 1.22   |             |        |
| Dividend dummy                                |             |        |             |        | -0.329*     | -1.39  | -0.299      | -1.28  |             |        |
| Book to market                                |             |        |             |        | 0.086       | 0.41   | 0.049       | 0.24   |             |        |
| St dev operating income                       |             |        |             |        | 1.448       | 0.97   | 1.202       | 0.81   |             |        |
| R&D                                           | +           |        |             |        | 7.271***    | 2.69   | 8.755***    | 3.42   |             |        |
| Capex                                         |             |        |             |        | 5.118       | 1.36   | 2.098       | 0.59   |             |        |
| Market Leverage                               |             |        |             |        | -4.215***   | -4.98  | -4.095***   | -5.13  |             |        |

Industry fixed effects: yes, yes, yes, yes, no  
N: 266, 267, 267, 177, 177  
R^2: 0.214, 0.182, 0.214, 0.468, 0.393
Table 7 (continued)

Tests of Association Between Survey Ratings and Proxies for Foreign Cash Balances

Panel B: Amount of permanently reinvested earnings as proxy for foreign cash balance

| Variable                                      | coefficient | t-stat | coefficient | t-stat | coefficient | t-stat | coefficient | t-stat | coefficient | t-stat |
|-----------------------------------------------|-------------|--------|-------------|--------|-------------|--------|-------------|--------|-------------|--------|
| Intercept                                     | 0.034       | 1.34   | 0.023       | 0.98   | 0.030       | 1.21   | 0.218       | 0.34   | 0.039       | 0.69   |
| Importance rating of cash tax deferral        | +           | 0.007  | 1.14        | -0.009 | -0.89       | -2.13  | -0.027      | -2.13  | -0.031      | -2.53  |
| Importance rating of APB23 expense deferral   | +           | 0.013**| 2.22        | 0.020**| 2.06        | 0.021**| 1.70        | 0.025**| 2.15        |
| Domestic income                               | -           | -0.531***| -3.43      | -0.525***| -3.55       |
| Foreign income                                | +           | 1.070***| 3.71        | 1.109***| 4.02        |
| Log assets                                    |             | 0.007  | 0.91        | 0.005  | 0.70        |
| Dividend dummy                                | -           | 0.008  | 0.35        | 0.006  | 0.26        |
| Book to market                                |             | 0.019  | 1.11        | 0.020  | 1.20        |
| St dev operating income                       |             | -0.075 | -0.38       | -0.082 | -0.43       |
| R&D                                           | +           | -0.136 | -0.46       | -0.104 | -0.39       |
| Capex                                         | -           | 0.648  | 1.65        | 0.541  | 1.54        |
| Market Leverage                               | -           | -0.121*| -1.31       | -0.112*| -1.36       |

Industry fixed effects: yes, yes, yes, yes, no

N: 195, 197, 195, 118, 118

R²: 0.072, 0.900, 0.093, 0.325, 0.307

Notes: This table uses two proxies for foreign cash holdings and tests whether respondents’ answers for the importance of tax and accounting factors are determinants of the (proxies for) foreign cash holdings. Panel A presents estimated coefficients and t-statistics from regressions of a ratio of an estimate of foreign cash holdings to the net assets (assets less the estimate of foreign cash) of the firm on the importance ratings of cash tax and accounting expense deferral (and control variables). The estimate of the foreign cash holdings is computed by multiplying each company’s foreign asset percentage by their total worldwide cash on the balance sheet (we only have for public firms). Panel B uses a different proxy for foreign cash holdings - natural logarithm of the ratio of permanently reinvested earnings to assets (where assets are measured as total assets less cash). Importance rating of cash tax deferral and APB 23 expense deferral are the ratings from Table 3. Following Foley et al. (2007) Domestic income and Foreign income are scaled by total assets. Domestic income is from Compustat and is pre-tax income and Foreign income is from Compustat and is also pre-tax. Log assets is the natural logarithm of total firm assets. Dividend dummy is a dummy equal to one if the firm pays cash dividends and zero otherwise. Book-to-market is the ratio of book value of common equity to market value of common equity. Standard deviation of operating income is the standard deviation of the ratio of operating income before depreciation to total assets measured over the five years prior to 2006. R&D is the ratio of research and development expenditures to total assets. Research and development is set to zero when missing. Capex is the ratio of capital expenditures to total assets. Market Leverage is the ratio of long and short term debt to the sum of long and short term debt and the market value of equity. We winsorize all non-indicator independent variables at the top and bottom 1%. ***, **, and * mark significance of .01, .05, and .10 respectively (one tailed where we have a prediction, two tailed, otherwise).