

Bringing it home: A study of the incentives surrounding the repatriation of foreign earnings under the American Jobs Creation Act of 2004

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Abstract

This paper examines how the American Jobs Creation Act of 2004 influences corporate investment behavior. Specifically, we investigate whether firms increase share repurchases in response to the tax holiday. Although shareholder distributions are not an allowable use of repatriated earnings under the provisions of the legislation, we show that this behavior is efficient from a theoretical perspective. In fact, our evidence suggests that firms that repatriate foreign earnings under the tax holiday increase share repurchases during 2005 by \$28.95 billion more than non-repatriating firms.

Key Words: *Multinational Firms, Foreign direct investment, Corporate Taxation, Payout policy, Repurchases*

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The American Jobs Creation Act of 2004 (the Act) provides a one-time incentive for U.S. companies to repatriate foreign earnings by effectively reducing the tax rate on overseas profits from 35% to 5.25%. In recent years, U.S. multinational corporations' profits surged as growth in global markets outpaced domestic growth.¹ This international expansion led to record foreign profits for U.S. firms, which remain invested overseas unless repatriated to the United States. To encourage firms to return these profits to the U.S., the Act temporarily reduces the tax burden on repatriated foreign earnings.

Because the intent of the legislation is to increase domestic investment, the Act requires firms to have a plan to use the funds for such purposes as capital expenditures, research and development, debt repayment, and certain merger and acquisition activity. The Act specifically prohibits firms from using the funds for dividends, share repurchases, and executive compensation. Although initial estimates suggest that firms could repatriate up to \$426 billion under the Act (Albring, Dzranin, and Mills 2005), anecdotal evidence suggests that firms are using the repatriated funds to repurchase shares.²

We examine whether U.S. multinational corporations that repatriate under the Act face declining investment opportunities and abnormally increase shareholder payouts during the tax holiday on repatriated foreign earnings. Existing theory regarding repatriation of foreign earnings finds that taxes on unremitted foreign earnings are a binding constraint only when the investment opportunities in both the U.S. and overseas are limited (Hartman 1985; Scholes et al. 2005). We extend the theoretical framework to incorporate the temporary tax holiday and argue

¹ "U.S. Multinationals Reap Overseas Bounty", *Wall Street Journal*, April 4, 2005, A2.

² See for example, "Buybacks Soar; Firms Deny a Link to Repatriated Profit-Tax-Break", *Wall Street Journal*, October 24, 2005, A2. As another example, the following quote is from "Postcards From a Tax Holiday", *The New York Times*, November 12, 2005: "Hewlett-Packard has announced a repatriation of \$14.5 billion, layoffs of 14,500 workers and stock buybacks of more than \$4 billion for the first half of 2005, about three times the size of its buybacks in the period a year earlier."

that only firms with limited U.S. investment opportunities have a proclivity to repatriate under the Act. Therefore, distributing the repatriated cash to shareholders is the economically efficient outcome for firms that benefit from the tax holiday.

Because the nature of the Act is a one-time only tax holiday, we expect that firms are more likely to increase repurchases than dividends. Repurchases are an effective method for distributing a positive transitory shock to cash flow and are more transitory than dividends since they do not imply a commitment to make regular distributions (Guay and Harford 2000). Furthermore, unlike dividends, open market repurchases do not require a formal announcement thereby increasing the opacity of shareholder distributions made with repatriated funds.

We test our predictions by investigating the investment opportunities, free cash flows, and payout behavior of firms that disclose their repatriation intentions under the Act. Financial reporting rules require firms that are either planning to repatriate or still considering whether to repatriate under the Act to disclose a summary of the repatriation provision as it applies to the firm, estimates of possible amounts of repatriation, and the related tax effects.³ We perform a Lexis/Nexis search of SEC 10-K and 10-Q filings from October 22, 2004 through March 31, 2006 for disclosures of firms' repatriation plans. Ultimately, we identify 246 firms that repatriate a total of \$258 billion under the Act.

Using a sample of 246 repatriating and 2,499 non-repatriating firms, we find some evidence consistent with repatriating firms facing declining investment opportunities. Limited investment choices suggest that repatriating firms should then choose to distribute repatriated earnings in an effort to mitigate agency concerns. Although we find evidence that total repurchases across all multinational firms increase in 2005, the mean increase in repurchases for repatriating firms is \$155 million compared with only \$13 million for non-repatriating firms.

³ See the Financial Accounting Standards Board Staff Position No. 109-2 (FSP 109-2).

After controlling for predictors of repurchases, we estimate that our sample of repatriating firms increase share repurchases during 2005 by \$28.95 billion more than non-repatriating firms.⁴ This figure represents 11.2% of the total amount of repatriations under the Act reported by our sample firms (\$258 billion) and approximately 23.9% of their free cash flow (\$121 billion).

This study makes three important contributions. First, we contribute to the literature that investigates whether firms repurchase shares to reduce agency costs of free cash flows (Jensen 1986). In a setting in which theory predicts agency benefits from repatriation and subsequent distribution to shareholders, we find evidence consistent with the free cash flow hypothesis. Similar to Grullon and Michaely (2004) who examine firm performance and characteristics around share repurchases, the results of this study suggest that firms increase share repurchases to mitigate over-investment. In addition, our work contributes to the debate on how firms use windfall profits/cash flow (Blanchard, Lopez-de-Silanes, and Shleifer 1994; Bates 2005). We show that at least some of the cash brought back into the U.S. is not over-invested but prudently remitted to shareholders.

Second, the results of this study corroborate the evidence in existing studies that find that repatriation taxes are a binding constraint on firms' cash management. For example, Hartzell, Titman, and Twite (2006) find that repatriation taxes help explain why multinational firms hold excess cash. Consistent with Hartzell et al. (2006), we provide evidence that the reduction of repatriation taxes induces firms to bring foreign earnings back into the United States. Furthermore, the results suggest that strategies to de-facto repatriate using complex organizational structures (e.g., cross-border special purposes entities) are too costly to completely remove the constraint of repatriation taxes on intra-firm cash flows. Finally, this

⁴ The mean increase in affected firms was 0.00245% of total assets per quarter and the cumulative assets for the affected firms is \$2.954 trillion.

study should be of interest to policy makers. We document that firms undertake aggressive policy positions when they benefit the firm. Although firms are not following the spirit of the law, their actions are putting overseas profits back into the U.S. economy – just not in the manner that Congress intended.

The remainder of the paper is organized as follows. Section I provides background on tax and accounting rules for foreign subsidiary earnings. Section II develops our hypotheses. Section III describes the analysis of aggregate Flow of Funds data, Section IV describes the firm-level analysis of characteristics of repatriating firms and payout behavior, and Section V concludes.

I. Summary of Repatriation Taxes and the American Jobs Creation Act of 2004

Under U.S. tax law, multinational firms pay taxes on foreign earnings upon repatriation of the earnings to the U.S. at a rate equal to the U.S. tax rate. To reduce the potential for double taxation, the firm can reduce the U.S. tax liability on foreign earnings by the amount of foreign taxes previously paid on the repatriated earnings (i.e., receive a foreign tax credit), not to exceed the U.S. tax liability on the earnings. Therefore, a firm that pays foreign taxes at a rate that exceeds the U.S. tax rate generally owes no U.S. taxes on remittances of foreign earnings. On the other hand, a firm with a foreign tax rate lower than the U.S. tax rate generally owes U.S. taxes on repatriated earnings at a rate equal to the difference between the U.S. and foreign tax rates.

The American Jobs Creation Act of 2004 (the Act) creates a one-time tax incentive for U.S. multinational companies to remit foreign earnings to the U.S. by reducing the U.S. tax rate on repatriations of foreign earnings. The intent of the Act is to encourage U.S. multinational

firms to bring home cash parked in foreign countries and use it to increase jobs and capital investment in the United States. As a result, the Act includes restrictions on the type and amount of funds eligible for the reduced tax rate as well as on the intended use of the funds in the United States.

The tax incentive created by the Act is a one-time 85% dividends received deduction for eligible dividends received from controlled foreign corporations (i.e., repatriations of foreign earnings). To be eligible for the dividends received deduction, the dividends must be paid in cash and invested in the U.S. under a plan approved by the chief executive officer or comparable officer and the board of directors. Approved uses of the funds include, but are not limited to, funding for hiring and training, infrastructure, research and development, capital investments, and financial stabilization for purposes of job retention and creation. The Act specifically excludes dividend payments, share repurchases, and executive compensation from the list of approved uses.

The amount of repatriations eligible for the dividends received deduction is subject to several limitations. First, the Act limits the eligible amount to the excess repatriation over the average amount of repatriation during the previous five years, excluding the highest and lowest years. All else equal, firms that have been systematically repatriating in the past will not benefit as much under the Act as firms that have never repatriated. Second, the Act limits the eligible amount to the greater of (1) \$500 million, (2) the earnings reported as permanently reinvested on the last audited financial statements filed on or before June 30, 2003, or (3) the amount of U.S. tax liability attributable to permanently reinvested earnings (PRE) reported in the last audited financial statements filed on or before June 30, 2003 if the amount of PRE is not reported.⁵

⁵ Accounting Principals Board Opinion No. 23 (APB 23) defines PRE as the earnings of foreign subsidiaries that have been invested abroad indefinitely or that will be remitted in a tax-free liquidation. For financial reporting

Finally, the Act reduces the amount eligible for the dividends received deduction by any increase in related-party debt incurred by foreign subsidiaries between October 3, 2004 and the close of the tax year for which the firm claims the dividends received deduction.

The decision to repatriate foreign earnings under the Act affects firms' financial statements through its effect on income tax expense and deferred tax liabilities. In the months following the Act, many firms requested additional guidance to clarify the application of the new tax laws including allowable uses of the repatriated funds and the correct application of the law to the foreign tax credit calculation. Because the application of the law was unclear, the financial statement effects were also unclear. On December 21, 2004, the Financial Accounting Standards Board (FASB) issued FASB Staff Position No. 109-2 (FSP 109-2) to provide accounting and disclosure guidance for amounts firms intend to repatriate under the Act. FSP 109-2 requires firms that have not yet completed their evaluation of the effect of the Act on their reinvestment plans to disclose a summary of the repatriation provision as it applies to the firm, the effect on income tax expense for any amounts that will be repatriated under the Act, the range of reasonably possible amounts still being considered for repatriation under the Act, and the range of income tax effects of such repatriation. For the period during which the firm completes its evaluation of the Act, FSP 109-2 requires firms to report the total effect on income tax expense (or benefit) for amounts that have been repatriated under the Act.

purposes, firms recognize the potential U.S. tax liability on foreign earnings when they report the foreign earnings, regardless of whether they repatriate the earnings to the U.S., resulting in a deferred tax liability in the amount of the potential U.S. taxes on future repatriations. However, if the firm deems the foreign earnings as PRE, it is not required to record a deferred tax liability or recognize income tax expense for the potential U.S. tax liability on future repatriations. If or when a firm changes its reinvestment plans and no longer considers the earnings indefinitely reinvested, it records an expense for the U.S. tax liability. See Collins, Hand, and Shackelford (2001) and Krull (2004) for a discussion of firms' decisions to designate foreign earnings as PRE.

II. Hypothesis Development

As summarized in Scholes, Wolfson, Erickson, Maydew, and Shevlin (2005), the decision to invest abroad can be expressed as a function of foreign and domestic tax rates and risk-adjusted after-tax returns. In a world with market imperfections, expected risk-adjusted returns can vary across countries. In the analysis that follows, we assume that foreign and domestic after-tax returns, rf and rd , are exogenous and constant over time. Thus, any change in taxation on repatriation does not affect the return on the incremental investment opportunity. We also implicitly assume that domestic tax rates are higher than foreign rates. Though the converse may hold, these firms likely do not benefit from the reduction in the U.S. tax rate on repatriations.

If a firm invests an amount, I , overseas, the investment yields the following accumulation after n periods:

$$I[(1+rf)^n - 1] \quad (1)$$

Where:

rf = the risk-adjusted after-local-tax rate of return abroad

n = investment horizon

I = amount invested

For a firm with foreign earnings on an existing foreign investment, the repatriation decision requires a comparison of the after-all-taxes returns to reinvesting the foreign earnings abroad and repatriating to the United States. Allow EP to represent the cumulative amount of foreign earnings that are reinvested abroad (Equation (1)) and assume that foreign and domestic tax rates and after-tax returns are constant over time. If a firm repatriates at the beginning of the period then invests the amount available after taxes in the U.S. for one period, at the end of the period the firm has (assuming a one period model):

$$EP(1 + rd) - \frac{EP}{1 - tf}(td - tf)(1 + rd) = \frac{EP(1 - td)}{1 - tf}(1 + rd) \quad (2)$$

Where:

td = domestic tax rate

tf = foreign tax rate

rd = the risk-adjusted after-tax domestic rate of return

$td > tf$

If instead the firm leaves the earnings abroad and then repatriates after one period it has:

$$EP(1 + rf) - \frac{EP(1 + rf)}{(1 - tf)}(td - tf) = \frac{EP(1 - td)}{(1 - tf)}(1 + rf) \quad (3)$$

A firm will repatriate at the beginning of the period when (2) > (3).⁶ In a one period model, this relation simplifies to $rd > rf$. Thus, firms will repatriate foreign earnings when the domestic after-tax rate of return exceeds the foreign after-local-tax return, and the U.S. tax on repatriations does not influence the repatriation decision. (Hartman 1985; Scholes et al. 2005)

Although the theory suggests that repatriation taxes do not affect the repatriation decision, existing studies show that dividend repatriations are sensitive to the tax cost of repatriating (Hines and Hubbard 1990; Altshuler, Newlon, and Randolph 1995; Desai, Foley, and Hines 2001). These studies suggest that tax rates affect repatriations due to a firm's ability to exploit temporary changes in the tax cost of repatriation created by timing repatriations from low-tax countries to coincide with repatriations from high-tax countries (Clausing 2005). In this study, we investigate the effect of a temporary change in statutory tax rates on repatriations, which is incremental to intra-firm, intertemporal variation in the tax cost of repatriations.

We modify the Scholes et al. (2005) and Hartman (1985) analysis by incorporating the temporary effect of the Act on the tax cost of repatriating and by incorporating firms' ability to

⁶ In Equations (2) and (3) EP is grossed up by the foreign tax rate because U.S. firms pay U.S. taxes on their local pre-tax income.

borrow. The Act allows a temporary 85% dividends received deduction for repatriations in 2005.⁷ Therefore, the Act changes the decision to reinvest versus repatriate because tax rates are not constant over time: the U.S tax rate on repatriations is lower if the firm repatriates in 2005 than if the firm reinvests the profits abroad and repatriates later. We let tdo represent the U.S. tax on repatriations that benefit from the tax holiday.⁸ Assuming that repatriations at the beginning of the period benefit from the tax holiday, if the firm repatriates at the beginning of the period then reinvests the after-tax amount in the U.S. at the end of the period the firm has:

$$EP(1 + rd) - \frac{EP}{1 - tf}(tdo - tf)(1 + rd) = \frac{EP(1 - tdo)}{1 - tf}(1 + rd) \quad (4)$$

Where $tdo < td$.

Notice that (4) is equivalent to (2) with tdo replacing td .

However, if the tax holiday is not available when the firm reinvests its profits in the foreign country and repatriates at the end of the period, then the amount the firm has after repatriating to the U.S. at the end of the period is the same as Equation (3), the after-all-taxes return to reinvesting for one period then repatriating to the U.S. before the tax holiday. The firm will repatriate at the beginning of the period as long as (4) > (3). Therefore, the firm will repatriate immediately taking advantage of the tax holiday when:

$$rd > (1 + rf) \left[\frac{(1 - td)}{(1 - tdo)} \right] - 1 \quad (5)$$

Now, suppose that the firm moves from a one-period to an n-period investment horizon:

⁷ Technically, the benefits of the AJCA could be utilized in 2004. Firms could choose to repatriate under the Act either during 2004 or 2005 tax years.

⁸ The following details the explicit computation of tdo .

$$EP - \frac{EP}{1 - tf}(td - tf) + \frac{.85EP}{1 - tf}(td - tf) = EP - \frac{.15EP(td - tf)}{1 - tf} = \frac{EP(1 - .85tf - .15td)}{1 - tf}$$

$$\text{So, } tdo = (.85tf + .15td)$$

$$rd > (1 + rf) \left[\frac{(1 - td)}{(1 - tdo)} \right]^{\frac{1}{n}} - 1 \quad (5^*)$$

Notice that as the period of investment increases, the relative importance of the tax benefit decreases (recall, $td > tdo$). As firms approach an indefinite investment horizon ($n \rightarrow \infty$), reinvestment only depends upon the relation of rd to rf . Therefore, unless the firm intends to repatriate in the near term, the tax holiday has relatively little impact on the repatriation decision (see Altshuler, Newlon, and Randolph 1995; Hartman 1985; Clausing 2005).

The preceding discussion suggests that if firms have adequate foreign investment opportunities, then the reduction in the repatriation tax on foreign earnings will have no effect on repatriation behavior. This leads to our null hypothesis:

H₀: U.S. multinational firms do not significantly increase repatriations in the period following enactment of the Act.

However, to the extent that firms have relatively limited investment opportunities they can benefit from the Act. Therefore, we test the following hypothesis:

H₁: U.S. multinational firms increase repatriations in the period following enactment of the Act.

Now assume that if a firm has an investment opportunity it can borrow at rate i and invest in that project, where i equals the firm's after-tax cost of borrowing, and the firm will invest in the project as long as the after-tax return is greater than the after-tax cost of borrowing.⁹ Because the firm did not repatriate prior to the Act, when tdo was equal to td , we can infer that $rd < rf$.

Because the firm did not borrow and invest in the incremental domestic investment opportunity,

⁹ Assume that i represents the firm's after-tax cost of borrowing, that it is identical across all countries and that the firm always has the option to use its overseas assets to secure its borrowing. In our analysis, we also assume the cost of borrowing, i , is exogenous, i.e., that i is not dependent upon whether the incremental investment project is situated in the U.S or abroad. Furthermore, i is set independent of the shift in firms' capital structure that results from the borrowing. See Hines (1994) for a full equilibrium model of foreign investment that incorporates capital structure.

we can also infer that $rd < i$. Therefore, for a firm to consider repatriating under the Act, the following relation must hold:

$$i > rd > (1 + rf) \left[\frac{(1 - td)}{1 - tdo} \right] - 1 \quad (6)$$

Notice that this relation implies that rd is low but not necessarily that rf is below i . If $rf > i$, then the firm should not repatriate, but should invest in the foreign country. If rf is less than i then the firm's EP could be "trapped" overseas. If this EP is either in cash or over-invested in foreign assets, then the firm could face an agency problem (Jensen 1986).

If firms do repatriate under the Act, then our theory suggests that these firms have excess cash/over-investment and that the cost of repatriation under U.S. tax laws in effect before the Act exceeded the cost of over-investment. To investigate our conjecture, we test the following hypothesis:

H₂: Firms that repatriate under the Act face over-investment as evidenced by higher free-cash flow and lower investment opportunities relative to non-repatriating firms.

Firms that benefit from the Act chose not to repatriate before the Act because domestic investment opportunities were limited ($rd \leq rf$), so repatriation of foreign funds does not eliminate the over-investment problem. When a firm's capital exceeds its investment opportunities, it can over-invest, retain the excess cash, or distribute the cash to its shareholders. Because firms can mitigate agency costs by distributing to shareholders we predict the following:

H_{3a}: Firms that repatriate under the Act abnormally increase shareholder distributions.

Repurchasing stock and paying dividends are the two primary methods for distributing excess capital. However, firms may prefer share repurchases for at least two reasons. First, unlike dividends, open market repurchases do not typically require commitment. Thus, once a firm repurchases, it is not expected to continue to repurchase on a regular basis (Guay and

Harford 2000). Second, repurchases are tax-preferred. Though dividends and repurchases are both taxed at a 15% reduced rate, repurchases are taxed as capital gains, which dominate dividends from a tax perspective.¹⁰ This leads us to our final hypothesis:

H_{3b}: Firms that repatriate under the Act abnormally increase share repurchases.

III. Aggregate Analysis of Repatriations and Shareholder Payouts

Our first hypothesis predicts an increase in earnings repatriations from foreign subsidiaries in the period following the Act. We first analyze the Flow of Funds data published by the Federal Reserve Board to determine whether the Act affects aggregate repatriation behavior. The Flow of Funds data reports total dividends received by U.S. corporations from foreign subsidiaries. If firms increase repatriations during the tax holiday we expect a significant increase in dividends received from foreign subsidiaries after the Act. In Figure 1, we plot total dividends received from foreign subsidiaries (i.e., earnings repatriations) for each quarter from 1989 through 2005. Total dividends remains within the range of \$5 billion to \$15 billion for most quarters from the first quarter of 1989 through the fourth quarter of 2004, then increases to nearly \$30 billion in the first quarter of 2005, \$35 billion in the second quarter, \$74 billion in the third quarter, and \$65 billion in the fourth quarter. The mean quarterly dividends from foreign subsidiaries is \$7.44 billion in 2003 and \$8.98 billion in 2004, whereas in 2005 the mean quarterly dividends from foreign subsidiaries is \$51.28 billion, a 471% increase from 2004 ($t=3.79$). As a percentage of gross domestic product (GDP) total dividends from foreign

¹⁰ Capital gains dominate dividends from a tax perspective for at least four reasons. One, dividends accelerate the tax payment that could be deferred until the stock is sold (or fully avoided if held until the shareholder dies). Two, unlike dividends, shareholders can time the sale of an investment and thus pay the resulting capital gain tax when the shareholder's marginal tax rate is lowest. Three, with capital gains a portion of the proceeds is treated as a return of basis and thus goes untaxed. Conversely, basis cannot be used to avoid dividend income. Four, since only \$3,000 of capital losses (net of capital gains) can be deducted each year, capital gains, unlike dividends, enable individuals to accelerate utilization of their pool of capital losses, an important consideration for many individuals following the downturn in the equity markets from 2000 to 2002.

subsidiaries is 0.27% in 2003, 0.31% in 2004, and 1.63% in 2005. Thus, repatriations increase by 1.32% of GDP during the tax holiday. Consistent with H_1 , these results suggest that repatriations from foreign subsidiaries increase significantly during the tax holiday.

Because we expect that firms that repatriate under the Act increase total payout, and in particular, share repurchases, in Figure 2 we show total quarterly share repurchases and total shareholder dividends from 1989 through 2005.¹¹ Both share repurchases and shareholder dividends increase steadily from 1995 through 2005. However, share repurchases begins a sharper increase in 2003 that continues through 2005. The mean quarterly share repurchases increases from \$20.5 billion in 2003 to \$33.0 billion in 2004, a 61% increase, and increases further to \$49.7 billion in 2005, a 51% increase. The mean quarterly shareholder dividends increases from \$26.9 billion in 2003 to \$30.1 billion in 2004, a 12% increase, and increases further to \$33.9 billion in 2005, a 13% increase. The changes in share repurchases and shareholder dividends from 2004 to 2005 are both statistically significant ($t=2.35$ for share repurchases and $t=2.42$ for shareholder dividends).

Based on the aggregate data, dividends from foreign subsidiaries increase significantly after the Act. Share repurchases and shareholder dividends also increase significantly after the Act. However aggregate share repurchases and shareholder dividends include amounts for all firms regardless of whether they repatriate under the Act. Therefore, to test our theory of firms' repatriation behavior around the Act, we use firm-level data to study whether over-investment and changes in payout behavior differ between firms that repatriate under the Act and those that do not repatriate.

¹¹ As described in Section IV we estimate share repurchases as repurchases of common and preferred stock from the Statement of Cash Flows less the decrease in preferred stock from the Compustat Industrial Quarterly files and shareholder dividends as quarterly dividends per share times total shares outstanding from the Compustat Industrial Quarterly files. Consistent with the procedures we use to construct the sample in Sections IV and V, we eliminate observations in the top 0.5% of dividends and share repurchases.

IV. Firm-Level Analysis of Repatriation Plans and Shareholder Payouts

To investigate characteristics of repatriating firms and changes in payout behavior for repatriating versus non-repatriating firms, we construct a sample of firms that have repatriated or intend to repatriate foreign earnings under the Act. We use firms' FSP 109-2 disclosures about the financial statement effects of the Act to study the relation between repatriations under the Act and firms' payout behavior.¹² To construct our sample, we search SEC filings on Lexis-Nexis from October 22, 2004 to March 31, 2006 for mentions of the American Jobs Creation Act.¹³ This search results in 10,836 filings. We eliminate firms not listed on Compustat, firms incorporated outside of the U.S. or missing information regarding foreign activity in each of the past three years, firms with fiscal years ending in January through August, and all insurance companies and financial services firms resulting in a sample of 877 firms that mention the Act in their SEC reports.¹⁴ From each of these filings we record the information the firm reports about the Act including the firm's plans for repatriation, the range of possible repatriation amounts, the range of possible income tax effects, and the amount of PRE. Of the 877 firms, 246 repatriate under the Act in 2004 or 2005, 16 state that they are still evaluating the effect of the Act on their plans for repatriation, and 599 state that they will not repatriate under the Act.¹⁵

A. Descriptive Statistics

¹² See Section I for a detailed description of the disclosure requirements.

¹³ The exact search term that we use is "American w/1 jobs w/1 creation w/200 repatriat! w/50 earn! w/20 foreign".

¹⁴ We eliminate firms that are missing foreign tax expense or foreign pre-tax earnings on Compustat in each of the prior three years. We also eliminate firms with fiscal years ending in January through August because these firms do not have to decide whether to repatriate under the Act until their year ends in 2006. In addition, they had not yet filed their 2006 10-K in the period we collected data.

¹⁵ Firms in our sample may report that they are still evaluating, not repatriating, or planning to repatriate in various financial reports included in our search. Our classification of firms into these three categories is based on their last disclosure during our search period. The 16 firms that are still evaluating the Act are September fiscal year ends that have until September 30, 2006 to decide whether to repatriate.

We report summary statistics for this Lexis-Nexis sample (the LN Sample) in Table 1. We also report summary statistics for all other firms in Compustat with a non-missing stock price (data199) listed on Compustat as of the end of 2004 excluding firms incorporated overseas, firms with missing reported foreign activity over the past three years, firms with fiscal years ending in January through August, insurance companies, and financial services firms. Firms in the LN sample are larger on average than the Compustat firms in terms of total assets and market value. At the end of 2004, the mean total assets for the LN sample is \$6.984 billion and the mean market value of equity is \$7.219 billion, whereas the mean total assets for Compustat firms is \$839.33 million and the mean market value of equity is \$713.97 million. The LN sample also has lower mean debt ratios (0.229) than Compustat firms (0.413). The effective tax rate of the LN sample (0.276) is higher than the effective tax rate of Compustat firms (0.142) suggesting that the LN sample faces a greater tax burden.

B. Characteristics of Repatriating Firms

Our theory predicts that the firms that benefit from the Act are firms with low investment opportunities. Grullon and Michaely (2004) predict that agency problems of free cash flows arise when firms transition from a high-growth to a low-growth stage. As growth opportunities diminish, free cash flows increase, and the likelihood of over-investment by management increases. Thus, these firms exhibit decreases in capital investment (R&D and capital expenditures) and increases in free cash flows. In the context of this study, we expect that firms that benefit from repatriating under the Act, and therefore decide to repatriate, are firms for which growth opportunities were decreasing prior to the Act. Therefore, we expect that repatriating firms experience declines in capital investment and growth and increases in free-cash

flow in the years leading up to the Act. To test this prediction, we estimate the following equation using logistic regression:

$$\begin{aligned} \text{Repatriate} = & \alpha_0 + \alpha_1 \Delta FPTI + \alpha_2 \Delta MB + \alpha_3 \Delta RD + \alpha_4 \Delta CapEx + \alpha_5 FCF + \alpha_6 RateDum \\ & + \alpha_7 USTR \end{aligned} \quad (7)$$

Where *Repatriate* equals one if the firm states that it will repatriate (246 firms), and zero otherwise (2,499 firms) and each of the change variables (Δ) is the mean of the difference between the firm's measure and the industry measure based on Fama and French (1997) industry classifications over the three-year period 2002 to 2004. $\Delta FPTI$ equals the change in foreign pre-tax income (data273) scaled by average assets (data6); ΔMB equals the change in the firm's market to book ratio (data25*data125/data60); ΔRD equals the change in the ratio of R&D to average assets; $\Delta CapEx$ equals the change in capital expenditures (data128) divided by average assets (data6); *FCF* equals average free cash flows after funding the maintenance of current investment projects (defined as operating free cash flows less net asset purchases less merger and acquisitions as in Richardson 2006) divided by average assets (data6) for the period 2002 to 2004; *RateDum* equals one if the U.S. statutory rate of 0.35 exceeds the average foreign tax rate from 2002 through 2004, and zero otherwise; and *USTR* equals the average U.S. tax rate from 2002 through 2004.¹⁶

$\Delta FPTI$ measures the profitability of foreign operations leading up to the Act, and ΔMB measures investors' changes in expectations about the firm's growth leading up to the Act. H_2 predicts that firms that repatriate under the Act have lower investment opportunities abroad than non-repatriating firms. Because investment opportunities are increasing in foreign earnings

¹⁶ In calculating the average of the continuous variables from 2002 through 2004, we winsorize firm-year observations at the top and bottom 0.5%. In addition, observations with negative book values are eliminated from both the firm and industry samples.

growth and market to book ratios, we expect negative coefficients on $\Delta FPTI$ and ΔMB . ΔRD and $\Delta CapEx$ measure changes in investment activity prior to the Act. Because we expect that repatriating firms experience decreases in investment activity in the years leading up to the Act, we predict negative coefficients on these variables. As we anticipate that repatriating firms have higher free cash flows than non-repatriating firms, we expect a positive coefficient on FCF . We include $RateDum$ and $USTR$ to capture the potential tax benefits of repatriating under the Act. Since firms with foreign tax rates greater than the U.S. tax rate generally do not benefit from the Act, we predict a positive coefficient on $RateDum$. $USTR$ captures the overall tax burden of the firm. We anticipate a positive coefficient on this variable because firms with greater tax burdens can benefit more from tax planning.

Table II reports summary statistics for the variables in Equation (7). The mean amount that the 246 repatriating firms in our sample plan to or have repatriated (*Total Repatriation*) is \$1.047 billion. On average, *Total Repatriation* is 10.96% of total assets and 60.22% of PRE. Contrary to the prediction that repatriating firms have lower investment opportunities than non-repatriating firms, the mean $\Delta FPTI$ is 0.0039 for repatriating firms and -0.0015 for non-repatriating firms. However, the mean ΔMB is smaller for repatriating firms than for non-repatriating firms (0.3511 and 1.5005, respectively). Moreover, the median ΔMB is negative for repatriating firms, indicating that for over half of the repatriating sample, the market to book ratio is decreasing relative to the industry mean. Consistent with repatriating firms decreasing capital investment, ΔRD and $\Delta CapEx$ are smaller for repatriating firms than for non-repatriating firms. The mean ΔRD is 0.0000 (0.0053) for repatriating (non-repatriating) firms. The mean $\Delta CapEx$ is -0.0010 for repatriating firms and 0.0007 for non-repatriating firms. In addition, in support of our prediction, FCF is higher for repatriating firms (0.0462) than non-repatriating

firms (-0.1542). Thus, the results in Table II provide preliminary support for our expectation that repatriating firms have lower investment opportunities and higher free cash flows than non-repatriating firms.

We report the results of estimating Equation (7) in Column (1) of Table III. Inconsistent with our expectations, we find that the coefficient on $\Delta FPTI$ is positive and significant. This result suggests that the likelihood that a firm repatriates is increasing in changes in foreign pre-tax earnings prior to the Act. However, this finding may be explained by noting that our measure, $\Delta FPTI$, does not represent the rate of return on invested foreign assets because it is scaled by total foreign and domestic assets. If foreign assets have been increasing at a rate greater than domestic assets, then the marginal rate of return on foreign investment could be decreasing. Untabulated results using a sub-sample of firms that report geographic segment data suggest that the foreign return on assets is less for repatriating firms than for non-repatriating firms.¹⁷

The results related to the other explanatory variables in Equation (7) are more consistent with our predictions. In support of H_2 , the coefficient on ΔMB is negative and significant suggesting that the likelihood that a firm repatriates is decreasing in changes in market to book ratios relative to the industry mean. Because the market to book ratio is based on the market valuation of the firm and therefore represents investors' expectations about the future earnings of the firm, this result provides support for the hypothesis that repatriating firms have lower investment opportunities than non-repatriating firms. Likewise, the coefficients on ΔRD and

¹⁷ The mean return on foreign assets is lower for repatriating firms (-0.338) than for non-repatriating firms (-0.028; $t=1.30$) for the period 2002 to 2004. Since firms no longer are required to report geographic segments and many do not report foreign assets, we only have 7 repatriating and 109 non-repatriating firms in this comparison. However, a comparison of the ratio of foreign sales (SALE) to foreign pre-tax earnings (data273) suggests a similar pattern, i.e. the ratio of foreign sales to foreign earnings is greater for non-repatriating versus repatriating firms (40.94 and 13.84, respectively; $t=1.09$).

$\Delta CapEx$ are negative (though $\Delta CapEx$ is insignificant) which provides some additional support for our prediction that repatriating firms face decreasing investment opportunities. The coefficient on FCF is positive and significant in support of H_2 . This result suggests that the likelihood that a firm repatriates is increasing in free cash flows.¹⁸

In Columns (2) and (3), we estimate Equation (7) using a Tobit analysis with Total Repatriation divided by total assets and Total Repatriation divided by PRE as the dependent variables, respectively. The results are similar to those in Column (1) and suggest that firms repatriate more the greater their potential over-investment concerns.

Overall, the results in Tables II and III provide support for the hypothesis that firms that repatriate under the Act face decreasing investment opportunities and increasing free cash flows relative to non-repatriating firms. Next, we investigate whether repatriating firms attempt to mitigate their agency problems by distributing repatriated funds.

C. Univariate Analysis of Changes in Payout Behavior

In Tables IV and V we compare quarterly share repurchases and shareholder dividends for three groups of firms: firms that state that they will repatriate (Repatriating), firms that are still evaluating their repatriation plans (Still Evaluating), and firms that will not repatriate (Not Repatriating). The sub-sample of firms that are not repatriating includes firms that state in their financial statements that they do not plan to repatriate under the Act and those that do not mention the Act in their financial statements. Table IV reports the mean ratio of share repurchases to total assets ($ShrRep$) and the total dollar amount of repurchases ($Total Repurchases$) by quarter beginning with the first quarter of 2003 through the fourth quarter of

¹⁸ Results are similar when we include total assets as a control for size as in Grullon and Michaely (2004). Results are also similar when we include the log of market value of equity as a control for size, however the coefficient on ΔRD becomes insignificant.

2005 for the three sub-samples. We estimate repurchases as repurchases of common and preferred stock from the Statement of Cash Flows less the decrease in preferred stock from the Compustat Industrial Quarterly files (data93 less the change in data55 and data71). The Repatriating and Still Evaluating samples have larger *ShrRep* than the Not Repatriating sample. For the Repatriating sample, *ShrRep* increases from \$0.0231 in 2003, to \$0.0278 in 2004, and \$0.0408 in 2005, an increase in total repurchases of 1.77% of total assets from 2003 to 2005. For the Still Evaluating firms, *ShrRep* decreases from \$0.0094 in 2003 to \$0.0090 in 2004 then increases to \$0.0422 in 2005, an increase of in total repurchases of 3.28% of total assets from 2003 to 2005. For firms in the Not Repatriating sample, *ShrRep* increases from \$0.0079 in 2003 to \$0.0165 in 2004 then decreases to \$0.0127 in 2005, an increase in share repurchases of 0.48% of total assets from 2003 to 2005. The increase in *ShrRep* over this time period is significantly different from zero for the Repatriating and Still Evaluating firms but not for the Not Repatriating firms. This increase in repurchase activity for repatriating firms is consistent with an increase in payout behavior for firms planning to repatriate under the Act.

We investigate the dividend behavior of firms in the Repatriating, Still Evaluating, and Not Repatriating samples in order to determine whether all payouts to shareholders generally increase over the period. In Table V we report the mean ratio of dividends to total assets (*Dividends*) and *Total Dividends* for each sub-sample. We estimate dividends as quarterly dividends per share times number of shares outstanding from the Compustat Industrial Quarterly files (data16 times data61). Increases in dividends are more modest than the increases in repurchases. For the Repatriating sample, *Dividends* increases from \$0.0151 in 2003, to \$0.0171 in 2004, and \$0.0189 in 2005, an increase in dividends of 0.38% of total assets from 2003 to 2005. For Still Evaluating firms, *Dividends* increases from \$0.0029 in 2003 to \$0.0035 in 2004

and \$0.0042 in 2005, an increase in dividends of 0.13% of total assets. Firms in the Not Repatriating sample also have a small increase in dividends during the sample period. For the Not Repatriating sample, *Dividends* increases from \$0.0318 in 2003 to \$0.0326 in 2004 and \$0.0335 in 2005, an increase in total dividends of 0.17% of total assets. Overall, the results in Tables IV and V suggest that repatriating firms increase repurchases relative to non-repatriating firms but do not systematically increase dividends in response to the Act.

D. Multivariate Tests of Changes in Payout Behavior

We formally test whether changes in payout behavior are related to repatriations under the Act using the following empirical model¹⁹:

$$\begin{aligned} \Delta Payout_{i,t} = & \beta_0 + \beta_1 PostAct_{i,t} + \beta_2 Repatriate_{i,t} + \beta_3 PostAct * Repatriate_{i,t} \\ & + \beta_4 Size_{i,t-1} + \beta_5 \Delta CapEx_{i,t-1} + \beta_6 ROE_{i,t-1} + \beta_7 Debt_{i,t-1} + \beta_8 DivYld_{i,t-1} + \beta_9 \Delta Cash_{i,t-1} \\ & + \beta_{10} \Delta Payout_{i,t-4} + \gamma_k Industry_{i,k} + \theta_q Qtr_{i,q} + e_i \end{aligned} \quad (8)$$

Where $\Delta Payout$ equals the change in total dividends plus total share repurchases divided by total assets from quarter t-4 to quarter t; *PostAct* is a dummy variable equal to one for all quarters beginning after the Act (i.e., quarters beginning after October 2004) and zero otherwise; *Repatriate* is a dummy variable equal to one for firms that state that they will repatriate under the Act, and zero otherwise; *Size* equals the log of market value of equity at the beginning of the quarter; $\Delta CapEx$ equals the change in the ratio of capital expenditures to total assets from the beginning of quarter t-4 to the beginning of quarter t; *ROE* equals the ratio of earnings to market value of equity in quarter t-1; *Debt* equals the ratio of current plus long term debt to total assets as of the beginning of the quarter; *DivYld* equals dividends per share divided by stock price at the

¹⁹ Core, Guay, Richardson and Verdi (2006) and Hribar, Jenkins and Johnson (2006) use similar models to predict repurchase behavior.

end of the quarter; $\Delta Cash$ equals the change in the ratio of cash and cash equivalents to total assets from the beginning of quarter t-4 to the beginning of quarter t; and *Industry* and *Qtr* are fixed effects.

The coefficient on *PostAct* measures whether changes in payout increase after the Act and the coefficient on *Repatriate* measures whether changes are higher for repatriating firms. We make no prediction for these coefficients. However, H_{3a} predicts that repatriating firms increase their payout more than non-repatriating firms subsequent to enactment. Therefore, we expect a positive coefficient on *PostAct*Repatriate* (β_3).

Hypothesis H_{3b} predicts that because share repurchases, unlike dividend payments, do not require a commitment to make ongoing distributions, firms will prefer share repurchases to dividend payments as a means of distributing repatriated funds to shareholders. Therefore, if our theory is correct, repatriating firms' share repurchases should increase more than dividend payments after the Act. To test H_{3b} , we estimate Equation (8) using $\Delta ShrRep$, the change in the ratio of share repurchases divided by total assets from quarter t-4 to quarter t, and $\Delta Dividends$, the change in the ratio of dividends to total assets from quarter t-4 to quarter t, in turn as the dependent variable. A positive coefficient on *PostAct*Repatriate* when $\Delta ShrRep$ is the dependent variable would provide support of H_{3b} . Furthermore, we anticipate that β_3 is lower in magnitude when $\Delta Dividends$ is the dependent variable relative to when $\Delta ShrRep$ is the dependent variable.

We also include variables that existing research finds to be significant determinants of repurchases and dividends. Dittmar (2000) predicts that firms are more likely to repurchase shares when the stock is undervalued and managers are better informed than investors about the true value of the firm. Because Vermaelen (1981) predicts that information asymmetry between

managers and investors is larger for small firms, Dittmar (2000) predicts that repurchases are decreasing in firm size. However, Dittmar (2000) and Core, Guay, Richardson, and Verdi (2005) find a positive relation between repurchases and size, and Barclay, Smith, and Watts (1995) find a positive relation between dividends and size. Because existing empirical evidence suggests that large firms tend to make larger repurchases and pay more dividends, we expect a positive coefficient on *Size*. We include *ROE* to control for profitability, which creates variability in dividends (Lintner 1956). Consistent with Dittmar (2000) and Core et al. (2005) we expect *Debt* and $\Delta CapEx$ to be negatively related to repurchases. Because we anticipate that shareholder payouts are increasing in the cash available for repurchases and dividends, we expect a positive coefficient on $\Delta Cash$. In addition, we include *DivYld* as a measure of a firm's capacity to increase dividends. The greater a firm's dividend yield, the less likely a firm is to be able to increase its dividends. *DivYld* also controls for the substitutability of dividends and repurchases (Grullon and Michaely 2002). Because it is unclear whether dividends are a substitute or complement for repurchases, and consistent with existing literature, we make no prediction for the coefficient on *DivYld* when $\Delta Payout$ or $\Delta ShrRep$ is the dependent variable. However, we expect *DivYld* to be negatively related to $\Delta Dividends$. Finally, the lagged values of changes in the payout measures control for changes in payout levels before the Act, and we expect negative coefficients on these variables.

Table VI reports the descriptive statistics by quarter for our sample of 2,745 firms (combined LN and Compustat samples). The mean log of market value of equity of this sample (*Size*) ranges from 5.088 to 5.143 across the four quarters. The mean change in repurchases as a percent of assets ranges from 0.0156% to 0.0207% across the four quarters and the mean change in dividends as a percent of assets ranges from -0.0009% to 0.0032% across the four quarters.

Table VII includes the results from estimating Equation (8), the OLS estimation of the relation between repatriation plans and changes in payout behavior. In Panel A, we report the results using Compustat estimates of $\Delta Payout$, $\Delta Dividends$, and $\Delta ShrRep$.²⁰ In Column (1), where $\Delta Payout$ is the dependent variable, the coefficient on $PostAct$ is positive and significant, indicating that payout levels generally increase during 2005, consistent with the analysis in Figure 2. The coefficient on $Repatriate$ is not significantly different from zero, indicating that repatriating firms do not have significantly higher or lower changes in payout before the Act than non-repatriating firms. In support of H_{3a} , the coefficient on $PostAct*Repatriate$ is positive and significant ($\beta_3=0.00234$; $t=4.27$). This result is consistent with our expectation that firms that have a proclivity to repatriate under the Act have larger increases in payout after the Act than firms that do not plan to repatriate.

In Columns (2) and (3) of Table VII we decompose $\Delta Payout$ into changes in dividends and changes in share repurchases. In Column (2) we report the results using changes in dividends, $\Delta Dividends$, as the dependent variable. As in Column (1), the coefficient on $PostAct$ is positive and significant. However, the coefficient on $Repatriate$ is negative and significant suggesting that repatriating firms have significantly lower changes in dividends than non-repatriating firms before the Act. The negative and insignificant coefficient on $PostAct*Repatriate$ ($\beta_3=-0.00010$; $t=-0.63$) suggests that firms that repatriate under the Act do not change their dividend policy around the Act.

When $\Delta ShrRep$ is the dependent variable (Column (3)), the coefficient on $PostAct$ is positive and significant and the coefficient on $Repatriate$ is not significantly different from zero. The positive and significant coefficient on $PostAct*Repatriate$ ($\beta_3=0.00245$; $t=4.77$) provides

²⁰ All t-statistics are calculated using the Newey-West procedure to correct for heteroskedasticity and serial correlation. Results are similar when we calculate standard errors clustered by firm or time.

support for H_{3b} .²¹ This result suggests that firms that repatriate under the Act increase share repurchases under the Act by 0.245% of total assets more per quarter during 2005 than non-repatriating firms. We also estimate Equation (8) using the maximum amount that firms disclose they will repatriate in place of *PostAct* and report the results in Column (4) of Table VII. We find that the increase in repurchases for repatriating firms after the Act is positively related to the amount the firm plans to repatriate providing further support for H_{3b} . Overall, the results indicate that repatriating firms increase payout to shareholders after the Act by a larger amount than non-repatriating firms, and the increase in payout results from an increase in share repurchases, consistent with our predictions.

To determine the economic significance of the effect of the Act on share repurchases, we multiply the coefficient on *PostAct*Repatriate* in Column (3) of Table VII, Panel A (0.00245) by the total assets of the 246 firms that state that they plan to repatriate (\$2.954 trillion) yielding the mean increase in repurchases per quarter for the four quarters of 2005. Therefore, the sample of repatriating firms increases repurchases in 2005 by \$28.95 billion more than non-repatriating firms. This figure represents 11.2% of the total maximum amount of repatriations reported by the sample firms (\$258 billion) and 23.9% of the firms' free cash flows (\$121 billion).

The results for the control variables in Table VII are mixed. Consistent with our expectations and existing literature, the coefficient on *Size* is positive and significant when $\Delta Payout$ or $\Delta ShrRep$ is the dependent variable, but is positive and insignificant when $\Delta Dividends$ is the dependent variable. The coefficient on $\Delta CapEx$ is negative as predicted when $\Delta Payout$ or $\Delta ShrRep$ is the dependent variable, but is not significant in any specification. Consistent with

²¹ In additional tests we include measures of stock option exercises to control for the possibility that firms repurchase shares to offset the dilutive effect of option exercises (Dittmar 2000). The coefficient on the stock option measure is not significant and including this variable does not affect inferences related to the variables of interest. We also include the market to book ratio as an additional control and find similar results.

our predictions, the coefficient on *Debt* is negative and significant and the coefficient on $\Delta Cash$ is positive and significant for all payout measures. However, this finding is different from the results in Core et al. (2005) who find no significant relation between repurchases and cash holdings. The coefficient on *ROE* is not significant for any of the payout measures, and the coefficient on *DivYld* is negative and significant only when $\Delta ShrRep$ is the dependent variable, consistent with a substitution effect.

In Panel B of Table VII, we re-estimate Equation (8) using CRSP measures of $\Delta Payout$, $\Delta Dividends$, and $\Delta ShrRep$ as the dependent variable.²² The results in Panel B provide additional support for our hypotheses. The coefficient on *PostAct*Repatriate* is positive and significant for $\Delta Payout$ ($\beta_3=0.00264$; $t=6.18$) and for $\Delta ShrRep$ ($\beta_3=0.00232$; $t=5.76$) suggesting that repatriating firms increase repurchases after the Act by 0.232% of total assets more than non-repatriating firms. Inconsistent with the results in Panel A, when $\Delta Dividends$ is the dependent variable, the coefficient on *PostAct*Repatriate* is also positive and significant ($\beta_3=0.00019$; $t=3.73$). However, the magnitude of the coefficient is less than one-tenth the magnitude of the coefficient when $\Delta ShrRep$ is the dependent variable, supporting the prediction that firms increase share repurchases after the Act by substantially more than they increase dividends.

We perform additional tests to determine the sensitivity of the results to the composition of our sample firms. Because the dependent variables, $\Delta Payout$, $\Delta Dividends$, and $\Delta ShrRep$, include a large proportion of zeros, we perform additional tests to determine the sensitivity of our results to omitting observations that do not pay dividends or make share repurchases. We report the results of estimating Equation (8) without observations with a value of zero for the dependent

²² We estimate $\Delta ShrRep$ using CRSP data by multiplying monthly decreases in shares outstanding by the end of the month stock price. We make corrections as described in Pontiff and Woodgate (2005) to eliminate repurchases attributable to errors in the CRSP data.

variables in Columns (1) and (2) of Table VIII. The results provide additional support for our hypotheses, and the magnitudes of the coefficients are similar to those reported in Table VII (Compustat $\Delta ShrRep$ $\beta_3 = 0.00218$, $t=2.27$; CRSP $\Delta ShrRep$ $\beta_3 = 0.00304$, $t=2.91$). To determine whether our results are affected by changes in the make-up of our sample over time, we report the results of estimating Equation (8) using a balanced sample in Columns (3) and (4) of Table VIII. The balanced sample includes firms with data available for each quarter from 1989 through 2005. Once again, results related to our hypotheses are consistent with those reported in Table VII (Compustat $\Delta ShrRep$ $\beta_3 = 0.00304$, $t=5.15$; CRSP $\Delta ShrRep$ $\beta_3 = 0.00215$, $t=4.79$).

V. Summary and Conclusion

On October 22, 2004 Congress passed the American Jobs Creation Act that provides a one-time 85% dividends received deduction on dividends received by U.S. multinational corporations from their foreign subsidiaries. The purpose of the Act is to encourage multinational firms to bring funds currently held in foreign subsidiaries back to the U.S. and use those funds to increase jobs and capital investment. We show that only firms with low investment opportunities benefit from repatriating under the Act, and therefore, the optimal use of repatriated funds is to make shareholder distributions. We test whether the payout behavior of firms repatriating under the Act is consistent with this theory. Our results suggest that firms repatriating under the Act increase repurchases after the Act but do not significantly increase dividend payments. These results are consistent with the extant literature that suggests that firms are less likely to increase regular dividends than one time repurchases or special dividends for a temporary tax benefit.

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Figure 1
Net Quarterly Dividends from Foreign Subsidiaries

This Figure graphs net quarterly dividends received by U.S. Multinational corporations from foreign subsidiaries using the Federal Reserve Board Flow of Funds data. Amounts are the sum of net dividends received from foreign subsidiaries for each quarter from the first quarter of 1989 through the fourth quarter of 2005. Values on the y-axis are in \$millions.

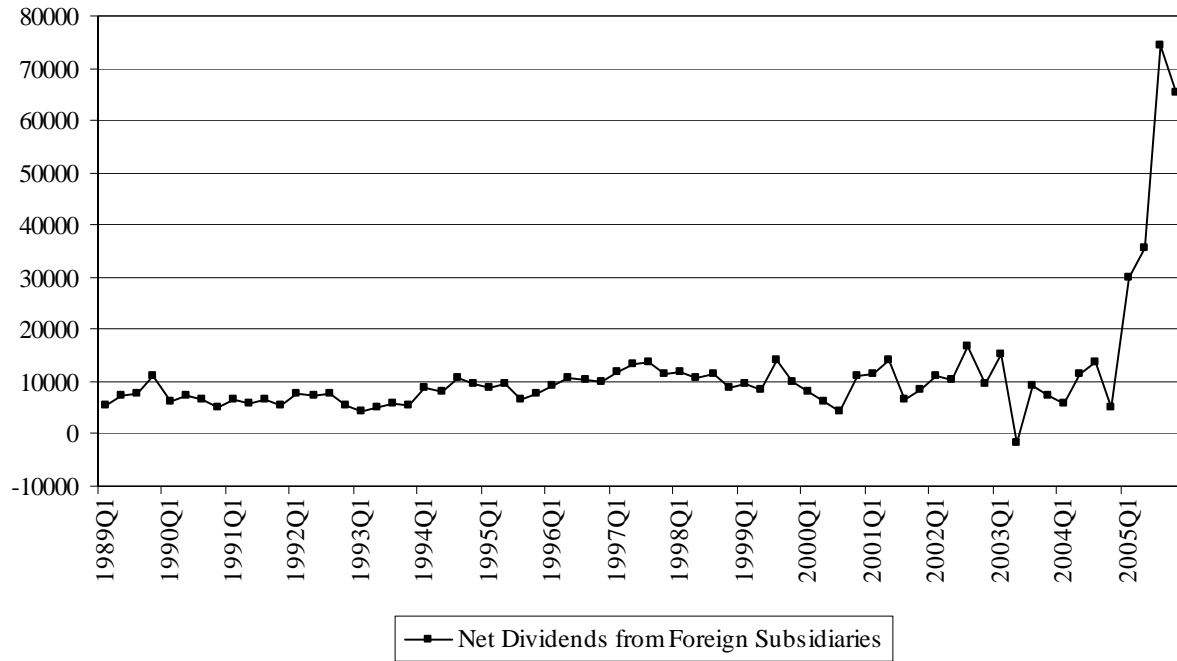


Figure 2
Total Quarterly Share Repurchases and Shareholder Dividends

This figure graphs total share repurchases and total shareholder dividends paid by sample firms from the first quarter of 1989 through the fourth quarter of 2005. The sample includes firms listed on Compustat, incorporated in the U.S. that have non missing foreign activity in at least one of the previous three years, with fiscal years ending in September through December, excluding insurance companies and financial services firms and observations in the top 0.5% of the sample. Total Share Repurchases equals the sum of repurchases for sample firms for the quarter where repurchases equals repurchases of common and preferred stock from the Statement of Cash Flows less the decrease in preferred stock from the Compustat Industrial Quarterly files (data93 less change in data51 and change in data71). Total Shareholder Dividends equals total dividends paid by sample firms during the quarter where dividends equals dividends per share times number of shares outstanding from the Compustat Industrial Quarterly files. Values on the y-axis are in \$millions.

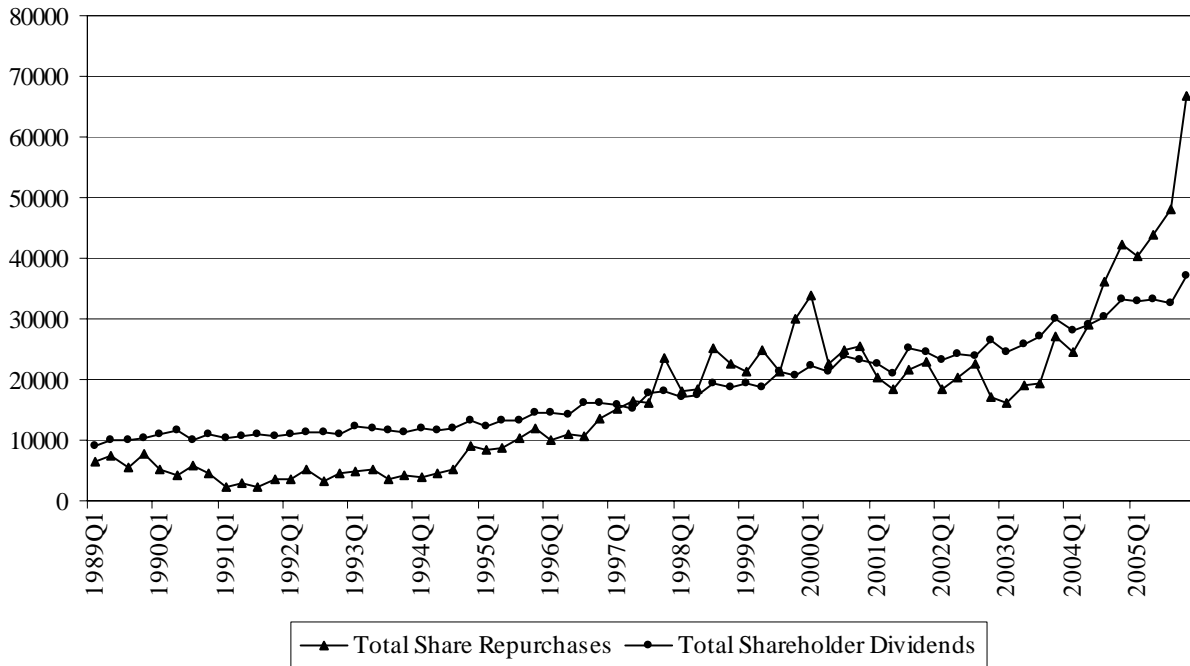


Table I
Descriptive Statistics for the Lexis-Nexis Sample and the Compustat Sample

This Table reports annual means and medians of descriptive data as of the end of 2004 for the Lexis/Nexis Sample (LN Sample) and the Compustat Sample. The Lexis/Nexis Sample includes firms that mention the Act in a 10-K or 10-Q between October 22, 2004 and March 31, 2006, excluding firms not listed on Compustat, firms incorporated outside the U.S, insurance companies, firms with fiscal years ending in January to August, financial services firms, and firms with missing foreign activity in each of the last three years. The Compustat Sample includes all Compustat firms that meet these criteria but do not mention the Act during the search period. *Assets* is the log of average assets (data6). *Debt* is the ratio of long-term debt (data9) plus the debt included in current liabilities (data34) to average assets (data6). *ROE* is net income (data172) scaled by equity (data60). *MVE* is price per share (data199) times common shares outstanding in millions (data25). *ETR* is the total effective tax rate measured as total tax expense (data16) over pre-tax income (data170). *USTR*, the U.S. effective tax rate, is domestic tax expense (data63) over domestic pre-tax income (data272). *FTR* is the foreign effective tax rate calculated as foreign tax expense (data64) over foreign pre-tax income (data273). *PRE* is the amount of permanently reinvested foreign subsidiary earnings reported in the income tax footnote. *Total Repatriation* is the amount the firm reports that it has or plans to repatriate. If the firm reports a range of possible amounts for repatriation, Total Repatriation equals the maximum of the range. Dollar amounts are in \$millions.

	LN Sample			Compustat Sample		
	N	Mean	Median	N	Mean	Median
Assets	877	6,983.590	1,052.270	1,868	839.327	79.561
Debt	877	0.229	0.203	1,868	0.413	0.161
ROE	877	0.156	0.107	1,861	0.295	0.069
MVE	874	7,218.610	1,223.930	1,865	713.965	112.589
ETR	877	0.276	0.301	1,868	0.142	0.000
USTR	877	0.169	0.003	1,868	0.0329	0.000
FTR	877	0.434	0.158	1,868	0.0225	0.000
PRE	484	629.750	78.88	N/A	N/A	N/A
Total Repatriation	246	1047.410	124.690	0	N/A	N/A

Table II
Incentives to Repatriate

Total Repatriation is the amount the firm reports that it has or plans to repatriate in \$millions. If the firm reports a range of possible amounts for repatriation, Total Repatriation equals the maximum of the range; PRE equals the amount the firm discloses as permanently reinvested earnings in the income tax footnote in \$millions. Each of the change variables (Δ) is the mean of the difference between the firm's measure and the industry measure based on Fama and French (1997) industry classifications over the three-year period 2002 to 2004. $\Delta FPTI$ equals the change in foreign pre-tax income (data273) scaled by average assets (data6); ΔMB equals the change in the firm's market to book ratio (data25*data125/data60); ΔRD equals the change in the ratio of R&D to average assets; $\Delta CapEx$ equals the change in capital expenditures (data128) divided by average assets; FCF equals average free cash flows after funding the maintenance of current investment projects (defined as operating free cash flows less net asset purchases less merger and acquisitions as in Richardson 2006) divided by average assets for the period 2002 to 2004; $RateDum$ equals one if the U.S. statutory rate of 0.35 exceeds the average foreign tax rate from 2002 through 2004, and zero otherwise; and $USTR$ equals the average U.S. tax rate from 2002 through 2004. All continuous variables are winsorized at the top and bottom 0.5%. ***, **, * indicates significantly different from the repatriating sample at the 1%, 5% and 10% level, respectively.

	Repatriating Firms			Non-Repatriating Firms		
	N	Mean	Median	N	Mean	Median
Total Repatriation	246	1,047.4100	124.6882	2,499	0.0000***	0.0000
Total Repatriation/Assets	246	0.1096	0.0712	2,499	0.0000***	0.0000
Total Repatriation/PRE	246	0.6022	0.5674	2,499	0.0000***	0.0000
$\Delta FPTI$	246	0.0039	0.0019	2,499	-0.0015***	-0.0014
ΔMB	246	0.3511	-0.2948	2,499	1.5005***	0.2512
ΔRD	246	0.0000	0.0001	2,499	0.0053***	0.0005
$\Delta CapEx$	246	-0.0010	0.0003	2,499	0.0007**	0.0014
FCF	246	0.0462	0.0387	2,499	-0.1542***	-0.0051
$RateDum$	246	0.7663	1.0000	2,499	0.2520***	0.0000
FTR	246	0.2312	0.2223	2,499	0.0564***	0.0000
$USTR$	246	0.1618	0.1461	2,499	0.0365***	0.0000

Table III
Characteristics of Repatriating Firms

Column (1) reports the results of estimating a logit model where the dependent variable is equal to one if the firm repatriated under the Act, and zero otherwise. Columns (2) and (3) report the results of estimating a tobit model where the dependent variables are the amount the firm states that it repatriated or the maximum amount of the range it reports that it intends to repatriate under the act divided by total assets or PRE. PRE equals the amount of earnings the firm reports that it has indefinitely reinvested in foreign subsidiaries. Total Repatriation is the amount the firm reports that it has or plans to repatriate in \$millions. If the firm reports a range of possible amounts for repatriation, Total Repatriation equals the maximum of the range; PRE equals the amount the firm discloses as permanently reinvested earnings in the income tax footnote in \$millions. Each of the change variables (Δ) is the mean of the difference between the firm's measure and the industry measure based on Fama and French (1997) industry classifications over the three-year period 2002 to 2004. $\Delta FPTI$ equals the change in foreign pre-tax income (data273) scaled by average assets (data6); ΔMB equals the change in the firm's market to book ratio (data25*data125/data60); ΔRD equals the change in the ratio of R&D to average assets; $\Delta CapEx$ equals the change in capital expenditures (data128) divided by average assets; FCF equals average free cash flows after funding the maintenance of current investment projects (defined as operating free cash flows less net asset purchases less merger and acquisitions as in Richardson 2006) divided by average assets for the period 2002 to 2004; $RateDum$ equals one if the U.S tax rate of 0.35 exceeds the average foreign tax rate from 2002 through 2004, and zero otherwise; and $USTR$ equals the average U.S. tax rate from 2002 through 2004. The sample includes the 2,745 firms combined from our LN and Compustat samples described in Table I. All continuous variables are winsorized at the top and bottom 0.5%.

Variable	Predicted	(1)		(2)		(3)	
		Repatriate		Total Repatriation/Assets		Total Repatriation/PRE	
		Coefficient	t-statistic	Coefficient	t-statistic	Coefficient	t-statistic
Intercept		-3.5781	-23.78	-0.3866	-15.71	-1.8281	-14.72
$\Delta FPTI$	-	14.3460	2.54	2.0963	3.47	7.0240	2.37
ΔMB	-	-0.0554	-3.36	-0.0035	-2.50	-0.0222	-3.13
ΔRD	-	-9.0178	-2.03	-0.9559	-1.91	-4.2122	-1.88
$\Delta CapEx$	-	-3.6413	-0.73	-0.6828	-1.31	-2.9650	-1.20
FCF	+	5.0521	6.59	0.6856	7.11	2.4288	6.24
RateDum	+	1.8928	10.02	0.1851	9.26	0.8863	9.17
USTR	+	3.3603	6.25	0.3538	6.07	1.6676	5.82
Scale				0.1954		0.9632	
Log Likelihood		-611.69		-309.39		-719.45	
N		2,745		2,745		2,745	

Table IV

Total Repurchases for Partitions Based on Repatriation Plans

This Table reports mean and total repurchases by quarter for the Lexis/Nexis (LN) sample. The LN sample includes firms that mention the Act in a 10-K or 10-Q between October 22, 2004 and March 31, 2006, excluding firms not listed on Compustat, firms incorporated outside the U.S, insurance companies, firms with fiscal years ending in January through August, financial services firms, and firms with no foreign activity in the last three years. Firms in the Repatriating Column are those that report in their financial statements that they repatriated under the Act in 2004 or 2005 or that they plan to repatriate under the Act. Firms in the Still Evaluating Column are those that state that they are still evaluating the effects of the Act on the results of operations. Firms in the Not Repatriating column are those that state that they will not repatriate under the Act. *ShrRep* is the repurchase amount from the statement of cash flows (data 93) less decreases in preferred stock (change in data55 and data71) scaled by total assets (data44). Total Repurchases are the total repurchases unscaled (of cash flow (data 93) less decreases in preferred stock (change in data55 and data71), reported in \$ millions. We eliminate observations in the top 0.5% of Repurchases.

Period	Repatriating			Still Evaluating			Not Repatriating		
	N	ShrRep (Mean)	Total Repurchases	N	ShrRep (Mean)	Total Repurchases	N	ShrRep (Mean)	Total Repurchases
2003: Q1	246	0.0067	7,621.2	16	0.0039	33.7	2,473	0.0026	8,678.0
2003: Q2	246	0.0054	11,535.1	16	0.0041	70.6	2,476	0.0018	7,367.2
2003: Q3	246	0.0060	10,532.4	16	0.0006	40.5	2,473	0.0019	9,025.3
2003: Q4	246	0.0050	15,544.1	16	0.0009	8.5	2,480	0.0017	11,491.3
<i>2003 Total</i>		<i>0.0231</i>	<i>45,232.8</i>		<i>0.0094</i>	<i>153.4</i>		<i>0.0079</i>	<i>36,561.8</i>
2004: Q1	246	0.0056	11,679.4	16	0.0022	53.5	2,480	0.0024	13,067.9
2004: Q2	246	0.0072	13,644.4	16	0.0038	73.4	2,479	0.0023	15,531.4
2004: Q3	246	0.0082	19,732.4	16	0.0024	122.9	2,480	0.0030	19,250.7
2004: Q4	246	0.0069	20,058.8	16	0.0005	7.8	2,482	0.0088	20,181.4
<i>2004 Total</i>		<i>0.0278</i>	<i>65,114.9</i>		<i>0.0090</i>	<i>257.6</i>		<i>0.0165</i>	<i>68,031.4</i>
2005: Q1	246	0.0087	22,519.5	16	0.0072	379.2	2,472	0.0022	18,933.1
2005: Q2	246	0.0093	23,399.3	16	0.0135	581.1	2,416	0.0036	20,956.0
2005: Q3	246	0.0108	24,241.4	16	0.0100	432.7	2,353	0.0029	23,673.0
2005: Q4	246	0.0120	33,214.3	16	0.0115	346.4	2,243	0.0040	32,687.7
<i>2005 Total</i>		<i>0.0408</i>	<i>103,374.5</i>		<i>0.0422</i>	<i>1,739.4</i>		<i>0.0127</i>	<i>96,249.8</i>

Table V
Total Dividend Payments for Partitions Based on Repatriation Plans

This Table reports mean and total dividends by quarter for the Lexis/Nexis (LN) sample. The LN Sample includes firms that mention the Act in a 10-K or 10-Q between October 22, 2004 and March 31, 2006, excluding firms not listed on Compustat, firms incorporated outside the U.S, firms with fiscal years ending between January and August, insurance companies, financial services firms, and firms with no foreign activity in the last three years. Firms in the Repatriating Column are those that report in their financial statements that they repatriated under the Act in 2004 or 2005 or that they plan to repatriate under the Act. Firms in the Still Evaluating Column are those that state that they are still evaluating the effects of the Act on the results of operations. Firms in the Not Repatriating column are those that state that they will not repatriate under the Act. Dividends equals quarterly dividends per share times total shares outstanding as reported by Compustat (Data16*Data61), divided by total assets (Data44). *Total Dividends* is dividends per share times total shares outstanding as reported by Compustat (Data16*Data61), in \$millions. We eliminate observations in the top 0.5% of Dividends.

Period	Repatriating			Still Evaluating			Not Repatriating		
	N	Dividends (Mean)	Total Dividends	N	Dividends (Mean)	Total Dividends	N	Dividends (Mean)	Total Dividends
2003: Q1	246	0.0031	13,280.2	16	0.0009	35.6	2,466	0.0060	10,782.3
2003: Q2	246	0.0032	14,304.4	16	0.0006	33.8	2,471	0.0057	11,927.7
2003: Q3	246	0.0045	14,245.1	16	0.0008	35.9	2,468	0.0075	12,598.2
2003: Q4	246	0.0042	16,191.8	16	0.0006	44.2	2,477	0.0126	14,081.8
<i>2003 Total</i>		<i>0.0151</i>	<i>58,021.4</i>		<i>0.0029</i>	<i>149.5</i>		<i>0.0318</i>	<i>49,390.1</i>
2004: Q1	246	0.0037	14,996.9	16	0.0009	46.4	2,475	0.0063	12,585.5
2004: Q2	246	0.0057	15,618.6	16	0.0006	44.5	2,475	0.0075	13,284.1
2004: Q3	246	0.0035	15,706.4	16	0.0012	59.9	2,475	0.0104	14,526.7
2004: Q4	246	0.0043	17,151.1	16	0.0009	62.6	2,479	0.0084	16,613.1
<i>2004 Total</i>		<i>0.0171</i>	<i>63,472.9</i>		<i>0.0035</i>	<i>213.4</i>		<i>0.0326</i>	<i>57,009.4</i>
2005: Q1	246	0.0067	17,618.0	16	0.0012	65.1	2,465	0.0075	14,722.2
2005: Q2	246	0.0037	17,180.0	16	0.0009	62.8	2,409	0.0082	16,156.3
2005: Q3	246	0.0036	16,797.3	16	0.0012	68.6	2,346	0.0080	15,649.3
2005: Q4	246	0.0049	19,600.0	16	0.0009	72.3	2,239	0.0097	17,994.9
<i>2005 Total</i>		<i>0.0189</i>	<i>71,195.4</i>		<i>0.0042</i>	<i>268.7</i>		<i>0.0335</i>	<i>64,522.7</i>

Table VI
Sample Descriptive Statistics

The sample includes firm-quarters from the first quarter of 1989 to the fourth quarter of 2005 with data available to calculate all regression variables, excluding firms incorporated outside the U.S., financial services firms, insurance companies, and firms with no foreign activity in the previous three years. $\Delta Payout$ is the sum of $\Delta ShrRep$ and $\Delta Dividends$. $\Delta ShrRep$ is the change from quarter t-4 to quarter t in the repurchase amount from the statement of cash flow (data 93) less decreases in preferred stock (change in data55 and data71) scaled by total assets (data44). $\Delta Dividends$ is the change from quarter t-4 to quarter t in dividends per share times total shares outstanding as reported by Compustat (data16 * data61)) scaled by total assets (data44). $MaxRepatriate$ is the amount the firm reports that it has or plans to repatriate divided by total assets. If the firm reports a range of possible amounts for repatriation, $MaxRepatriate$ equals the maximum of the range divided by total assets. $PostAct$ equals 1 if year equals 2005, 0 otherwise. $Repatriate$ equals 1 if the firm discloses in its financial statements that it has repatriated or plans to repatriate due to the Act. $Size$ is the log of the market value of equity. Market value of equity equals price (data14) times common shares outstanding (data61). $\Delta CapEx$ is the change in the ratio of capital expenditures (data90) to average total assets (data44) from the beginning of quarter t-4 to the beginning of quarter t. ROE is net income (data69*4) scaled by equity (data59). $Debt$ is the ratio of long-term debt (data51) plus the debt included in current liabilities (data45) to total assets (data44). $Dividend\ yield$ is dividends per share (data16) scaled by price (data14). $\Delta Cash$ is the change in the ratio of cash and cash equivalents (data36) to total assets (data44) from the beginning of quarter t-4 to the beginning of quarter t.

	QTR1		QTR2		QTR3		QTR4	
	Mean	Median	Mean	Median	Mean	Median	Mean	Median
N	26,100	26,100	26,659	26,659	26,997	26,997	27,213	27,213
$\Delta Payout$	0.000196	0.000000	0.000244	0.000000	0.000187	0.000000	0.000178	0.000000
$\Delta ShrRep$	0.000180	0.000000	0.000207	0.000000	0.000156	0.000000	0.000191	0.000000
$\Delta Dividends$	0.000017	0.000000	0.000032	0.000000	0.000025	0.000000	-0.000009	0.000000
$MaxRepatriate$	0.009609	0.000000	0.009877	0.000000	0.009885	0.000000	0.009711	0.000000
$PostAct$	0.104943	0.000000	0.098241	0.000000	0.094085	0.000000	0.089296	0.000000
$Repatriate$	0.111916	0.000000	0.113845	0.000000	0.113790	0.000000	0.112961	0.000000
$Size$	5.087718	5.097268	5.112789	5.104702	5.142880	5.144015	5.098745	5.100787
$\Delta CapEx$	-0.001138	0.000000	-0.001068	0.000000	-0.001008	0.000000	-0.000982	0.000000
ROE	-1.358557	0.081161	-0.196039	0.070472	0.382612	0.089844	-0.540212	0.089405
$Debt$	0.303942	0.209916	0.304732	0.214725	0.310608	0.211809	0.323276	0.212448
$Divyld$	0.003354	0.000000	0.003483	0.000000	0.003188	0.000000	0.003361	0.000000
$\Delta Cash$	-0.001934	-0.000037	-0.001350	-0.000014	-0.001393	-0.000008	-0.001774	-0.000009

Table VII

Regression Analysis of Changes in Total Payout, Repurchases, and Dividends around the Act

The sample includes firm-quarters from 1989 to 2005 with data available to calculate all regression variables, excluding firms incorporated outside the U.S., *financial services firms, insurance companies, and firms with no foreign activity in the previous three years*. $\Delta Payout$ is the sum of $\Delta ShrRep$ and $\Delta Dividends$. In Panel A, $\Delta ShrRep$ is the change from quarter t-4 to quarter t in the repurchase amount from the statement of cash flows (data 93) less decreases in preferred stock (change in data55 and data71) scaled by total assets (data44), and $\Delta Dividends$ is the change from quarter t-4 to quarter t in dividends per share times total shares outstanding as reported by Compustat (data16 * data61) scaled by total assets (data44). In Panel B, $\Delta ShrRep$ equals monthly reductions in shares outstanding (SHROUT) times the price (PRC) scaled by total assets (data44), and $\Delta Dividends$ equals per share dividend amounts (DIVAMT) by ex-date times total shares outstanding (SHROUT) scaled by total assets (data44). *MaxRepatriate* is the amount the firm reports that it has or plans to repatriate divided by total assets. If the firm reports a range of possible amounts for repatriation, *MaxRepatriate* equals the maximum of the range divided by total assets. *PostAct* equals 1 if year equals 2005, 0 otherwise. *Repatriate* equals 1 if the firm disclosed in its financial statements that it has repatriated or plans to repatriate due to the Act. *Size* is the log of the market value of equity (price (data14) times common shares outstanding (data61)). $\Delta CapEx$ is the change in the ratio of capital expenditures (data90) to average total assets (data44) from the beginning of quarter t-4 to the beginning of quarter t. *ROE* is net income (data69*4) scaled by equity (data59). *Debt* is the ratio of long-term debt (data51) plus the debt included in current liabilities (data45) to total assets (data44). *Dividend yield* is dividends per share (data16) scaled by price (data14). $\Delta Cash$ is the change in the ratio of cash and cash equivalents (data36) to total assets (data44) from the beginning of quarter t-4 to the beginning of quarter t.

Panel A: Compustat Measures

Variable	Pred.	(1) $\Delta Payout$		(2) $\Delta Dividends$		(3) $\Delta ShrRep$		(4) $\Delta ShrRep$	
		Coefficient	t-statistic	Coefficient	t-statistic	Coefficient	t-statistic	Coefficient	t-statistic
Intercept	?	-0.00019	-0.69	-0.00002	-0.20	-0.00014	-0.55	-0.00017	-0.66
PostAct	?	0.00107	8.45	0.00039	5.35	0.00066	6.40	0.00077	7.52
Repatriate	?	-0.00013	-1.01	-0.00008	-2.12	-0.00005	-0.37		
PostAct* Repatriate	+	0.00234	4.27	-0.00010	-0.63	0.00245	4.77		
MaxRepatriate	?							-0.00003	-0.03
PostAct* MaxRepatriate	+							0.01483	3.42
Size _{t-1} (x100)	+	0.01358	9.22	0.00072	1.25	0.01291	9.64	0.01310	10.06
$\Delta CapEx_{t-1}$ (x100)	-	-0.00659	-1.11	0.00175	0.81	-0.00872	-1.43	-0.00859	-1.40
ROE _{t-1}	?	0.00000	0.13	0.00000	1.45	0.00000	-0.66	0.00000	-0.66
Debt _{t-1} (x100)	-	-0.00560	-2.49	-0.00122	-2.75	-0.00455	-1.93	-0.00457	-1.94
Divyld _{t-1} (x100)	?/-	-0.03733	-0.36	0.10822	1.03	-0.15320	-1.86	-0.15193	-1.85
$\Delta Cash_{t-1}$ (x100)	+	0.22039	9.50	0.04557	3.69	0.16631	8.55	0.16619	8.54
$\Delta ShrRep_{t-4}$	-					-0.45669	-51.26	-0.45650	-51.24
$\Delta Payout_{t-4}$	-	-0.42718	-32.77						
$\Delta Dividends_{t-4}$	-			-0.32601	-5.78				
N		105,586		107,007		106,969		106,969	
Adj. R Square		0.1735		0.1039		0.1958		0.1956	

Table VII Continued

<i>Panel B: CRSP Measures</i>									
Variable	Pred.	(1) ΔPayout		(2) ΔDividends		(3) ΔShrRep		(4) ΔShrRep	
		Coefficient	t-statistic	Coefficient	t-statistic	Coefficient	t-statistic	Coefficient	t-statistic
Intercept	?	-0.00013	-1.23	-0.00008	-4.20	-0.00002	-0.20	-0.00006	-0.54
PostAct	?	0.00026	4.46	0.00003	5.25	0.00023	3.91	0.00035	5.79
Repatriate	?	-0.00001	-0.12	-0.00002	-1.39	-0.00002	-0.24		
PostAct* Repatriate	+	0.00264	6.18	0.00019	3.73	0.00232	5.76		
MaxRepatriate	?							0.00016	0.18
PostAct* MaxRepatriate	+							0.01133	3.43
Size _{t-1} (x100)	+	0.00566	6.50	0.00061	4.33	0.00454	5.22	0.00484	5.64
ΔCapEx _{t-1} (x100)	-	0.00155	0.89	0.00015	0.47	0.00054	0.33	0.00066	0.40
ROE _{t-1}	?	0.00000	0.69	0.00000	-0.16	0.00000	0.72	0.00000	0.72
Debt _{t-1} (x100)	-	-0.00055	-2.34	-0.00016	-2.59	-0.00047	-2.32	-0.00049	-2.39
Divyld _{t-1} (x100)	?/-	-0.07131	-1.39	-0.01380	-1.03	-0.05932	-1.50	-0.05791	-1.47
ΔCash _{t-1} (x100)	+	0.00349	0.38	0.00301	2.14	0.00048	0.05	0.00057	0.06
ΔShrRep _{t-4}	-					-0.46917	-39.38	-0.46881	-39.35
ΔPayout _{t-4}	-	-0.46002	-38.16						
ΔDividends _{t-4}	-			-0.12037	-5.43				
N		106,094		107,526		106,868		106,868	
Adj. R Square		0.1951		0.0183		0.2032		0.2024	

Table VIII

Regression Analysis of Changes in Repurchases around the Act for Non-Zero Observations and a Balanced Panel

The sample in the Non-Zero Observations Columns includes firm-quarters from 1989 to 2005 with data available to calculate all regression variables, excluding firms incorporated outside the U.S., financial services firms, insurance companies, and firms with no foreign activity in the previous three years, and observations for which $\Delta ShrRep$ equals zero. The sample in the Balanced Panel Columns includes firm-quarters from 1989 to 2005 with data available to calculate all regression variables for each quarter from 1989 through 2005, excluding firms incorporated outside the U.S., financial services firms, and insurance companies. $\Delta ShrRep$ is the change from quarter t-4 to quarter t in the repurchase amount from the statement of cash flows (data 93) less decreases in preferred stock (change in data55 and data71) scaled by total assets (data44), and $\Delta Dividends$ is the change from quarter t-4 to quarter t in dividends per share times total shares outstanding as reported by Compustat (data16*data61) scaled by total assets (data44). In Panel B, $\Delta ShrRep$ equals monthly reductions in shares outstanding (SHROUT) times the price (PRC) scaled by total assets (data44), and $\Delta Dividends$ equals per share dividend amounts (DIVAMT) by ex-date times total shares outstanding (SHROUT) scaled by total assets (data44). *PostAct* equals 1 if year equals 2005, 0 otherwise. *Repatriate* equals 1 if the firm disclosed in its financial statements that it has repatriated or plans to repatriate due to the Act. *Size* is the log of the market value of equity (price (data14) times common shares outstanding (data61)). $\Delta CapEx$ is the change in the ratio of capital expenditures (data90) to average total assets (data44) from the beginning of quarter t-4 to the beginning of quarter t. *ROE* is net income (data69*4) scaled by equity (data59). *Debt* is the ratio of long-term debt (data51) plus the debt included in current liabilities (data45) to total assets (data44). *Dividend yield* is dividends per share (data16) scaled by price (data14). $\Delta Cash$ is the change in the ratio of cash and cash equivalents (data36) to total assets (data44) from the beginning of quarter t-4 to the beginning of quarter t.

Variable	Non-Zero Observations					Balanced Panel			
	Pred.	(1)		(2)		(3)		(4)	
			Compustat $\Delta ShrRep$		CRSP $\Delta ShrRep$		Compustat $\Delta ShrRep$		CRSP $\Delta ShrRep$
		Coefficient	t-statistic	Coefficient	t-statistic	Coefficient	t-statistic	Coefficient	t-statistic
Intercept	?	0.00120	1.21	0.00555	2.33	-0.00034	-0.93	-0.00001	-0.04
PostAct	?	0.00351	8.26	0.00224	3.43	0.00080	4.83	0.00029	2.86
Repatriate	?	-0.00060	-2.11	-0.00041	-1.27	-0.00011	-0.76	-0.00010	-0.89
PostAct* Repatriate	+	0.00218	2.27	0.00304	2.91	0.00304	5.15	0.00215	4.79
Size _{t-1} (x100)	+	0.02176	4.95	0.00323	0.43	0.01023	5.48	0.00412	3.21
$\Delta CapEx_{t-1}$ (x100)	-	-0.61476	-2.42	0.24683	0.32	-0.00076	-0.26	-0.00008	-0.07
ROE _{t-1}	?	0.00000	-0.96	0.00000	-0.36	0.00000	0.26	0.00000	1.03
Debt _{t-1} (x100)	-	-0.13817	-1.39	-0.72784	-8.60	-0.00893	-3.56	-0.00374	-3.07
Divyld _{t-1} (x100)	?	-0.84692	-4.21	-6.00106	-1.82	-0.40091	-5.75	-0.19793	-3.22
$\Delta Cash_{t-1}$ (x100)	+	1.10257	8.94	-0.00996	-0.04	0.28061	7.26	0.01049	0.55
$\Delta ShrRep_{t-4}$	-	-0.59564	-58.85	-0.66849	-45.80	-0.45256	-38.48	-0.46629	-31.46
N		30,908		11,929		50,737		50,510	
Adj. R Square		0.2647		0.2985		0.2012		0.2109	