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Governance & Accountability Institute shares timely news, insights and perspectives with corporate managers in key topic areas:

- ⦿ *Corporate Citizenship,*
- ⦿ *Corporate Responsibility,*
- ⦿ *Corporate Sustainability,*
- ⦿ *Community Affairs, and*
- ⦿ *Sustainable Investing.*

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## Repatriating Corporate Taxes and Corporate Responsibility / Corporate Citizenship Implications

### ***2017 Tax Reform Discussions/Decisions: American Companies Are Being Encouraged to Bring the Money Back Home! Will They? Then What? Implications for Corporate Responsibility and Citizenship...***

If the offshore earnings are granted a tax holiday under new tax reforms, will U.S. companies bring billions in cash back to the United States...and what will then happen to that money?



- Will the prospective tax reform legislation moving along in Washington this week result in U.S. companies being able to “repatriate” the hundreds of billions of dollars sitting offshore in other countries?
- Will any of that money return to the United States? What will the monies that do return be used for by American companies?

We share some perspectives in this brief about the possible implications for Corporate Responsibility / Corporate Citizenship managers.

### **Background**

**The U.S. House of Representatives** in early November passed a tax bill that would set a one-time rate of **12%** on U.S. companies’ offshore cash earnings, with **5%** for non-cash holdings. The “hope” is that U.S. companies would bring billions’ of dollars back and plough the cash into the economy (to create jobs and expand the economy).

**The U.S. Senate bill**, still being fashioned (hourly) as we prepare this brief, would similarly provide a tax holiday to create economic growth. A joint Senate-House committee would be able to hammer out differences and create the document that goes to the White House for signature.

The investor universe of course loves all of this! In anticipation, the Dow Jones Industrial Average climbed to a new record at 24,000 and higher; the S&P 500 Index and NASDAQ indices have been on a tear as well.

***Corporate CEOs have been more reserved in their***



### *reaction.*

**CNN Money** reports that CEOs are not sure of where the repatriated monies would end up. At a **Wall Street Journal CEO Council Conference** in November, when asked by the moderator if the CEOs would invest in the United States, just a few raised their hands.

**Gary Cohn** (President Trump's economic advisor) quickly asked: "Why aren't the other hands up?" Guess why!

**We've look at this approach before:**

**President Barack Obama** in February 2015 proposed a one-time tax rate of **14%** on what was estimated to be **US\$2.1** trillion in profits stashed outside the United States by major U.S. corporations. (The rate now is 35%,)

The proposal was designed to encourage companies to bring funds back to the U.S. and use the monies for infrastructure (roads, bridges, etc.

The proposal went nowhere; now **Speaker Paul Ryan** criticized the proposal as "envy economics," and that broad-based reforms in the tax code are needed.

### **Bloomberg Reported the Following in June 2017**

Large-cap U.S. companies have lots of money stashed offshore, such as:

- **General Electric**, \$83 billion profits abroad
- **Microsoft**, \$126 billion
- **Cisco**, \$68 billion
- **Oracle**, \$60 billion
- **DuPont**, \$96 billion
- **Apple**, \$256 billion (#1 on Bloomberg's tally)
- **Wal-Mart Stores**, \$86 billion
- **Alphabet**, \$93 billion
- **Johnson & Johnson**, \$66 billion

The Top 50 (said Bloomberg) had almost one trillion US dollars being stored offshore. Just techie giants Apple, Microsoft and Cisco Systems alone have more than \$400 billion stored overseas.

### **McKinsey Shares Expert Perspectives**



The management consultants **David Cogman** (Hong Kong partner) and **Tim Koller** (New York City partner) at **McKinsey & Company** shared these perspectives in June 2017:



- The McKinsey estimate is that between \$1.5 trillion / and \$2.5 trillion of untaxed profits is offshore...the real number has not been clearly established.

The “healthiest thing to do” is to have companies bring the cash back to the United States.

The details in the deal (to do so) should be clear about “who” holds the cash and “what” should happen to it.

Important: McKinsey says the 500 largest US non-financial companies have more than \$1 trillion *more* than their businesses really need – the majority of the money is stored offshore in non-US overseas subsidiaries to avoid US income taxes due if the money was repatriated.

Consider that the companies’ combined market cap at start of 2017 was \$17.9 trillion and revenues were a collective \$8.9 trillion. A level of \$1.66 trillion in cash reserves is about 10% of total market cap and 20% of revenues. A 2% threshold for cash reserves is the generally accepted practice, the consultants said. *What do you do with the rest?*

They go on:

- The excess cash is not good for the economy; it is not being used productively.
- Companies are tempted to make acquisitions or capital investments that might over time actually destroy value.
- The excess cash distorts investing. An Apple share in May 2017 at \$156 market price represents \$49 in Apple cash (and \$107 in operations).

Ten companies in two industries hold three-out-of-four dollars in earned profits offshore: in **pharmaceuticals** (just three companies), and in **technology** (seven firms). The other quarter of the total is spread across other industries.

Most likely the funds if they came back would in some cases be directed to shareholders (via share repurchases and dividends) – not in capital investments.

About 1/3 of the cash overseas is held by companies that generate profits in the USA; 2/3 are companies generating earnings in other countries...and companies are keeping profits there right now.

The last time (2004) there as a structured repatriation plan, the money that came back at a lower rate was used for share re-purchases by the firms.



McKinsey's experts explain that the more cash that accrues, the harder it is for firms to find good uses (options) for it. (Few new jobs were created; that plan was passed by Congress and enthusiastically signed into law by **President Bill Clinton** as the **American Jobs Creation Act!**)

## The 20-Year Trend of the Offshore Cash Stash

As we prepared this brief, *The New York Times* published a story: "[How Tax Bills Would Reward Companies That Moved Money Offshore.](#)"

The "stashing" of cash offshore is a 20-year trend, enabled by changes in tax policy in 1996 as the modern globalization trends took hold.

American companies expanded both markets (sales) and operations offshore; over time, the offshore earnings remained in the respective nations, paying a lower tax rate than the USA, and could not be brought back without a huge tax bill resulting. So what to do?

The current Republican Congress's initiative to repatriate the money offshore is focused on some (estimated) **\$3 trillion** in corporate cash and other assets being held in Bermuda, Grand Cayman, The Island of Jersey, and other "tax havens."

US companies do have a high rate on profits (**35%**) but avoid paying taxes on funds earned offshore as long the monies stay in another country.

The Times's headline comes from a white shoe law firm (**Proskauer Rose**) – US multinationals have shifted profits (earnings) abroad and deferred taxes; the proposed tax bill(s) *will reward them for doing so*.

## G&A Institute Shared Perspectives

### Implications for Corporate Responsibility / Corporate Citizenship in the USA

*If* the Senate and House bills are reconciled, *if* the White House then agrees, and the tax plan becomes law, and *if* U.S. companies are offered the opportunity to bring offshore earnings back home at a lower rate...*then what?*

- Investors would be pleased with moves to boost the value of their shares through special dividends or share buybacks.

*That's good news for an important group of stakeholders of public companies.*

*What are the messages then beyond the investor base? Think about the company's stakeholder base...*

- What might the expectations of the workforce be? (Raises...hiring of more hands to help with tasks...special bonuses for outstanding performance...more help with healthcare benefits?)
- What are the expectations of the local communities in which your company has facilities? Will new jobs be created in town?



New capital investments made (locally)? Will new funds flow to help meet community needs? Will philanthropy be expanded?

***What are the expectations of donor recipients, not-for-profit partners?***

- Will more funds be directed to Corporate Responsibility programs and partnerships? Will existing programs be expanded? Things like cooperative STEM education programs?

***If tax reform is passed and “companies are rewarded,” key messages are needed!***

- What are the benefits to be enjoyed by stakeholders as the cash comes home to America?

***All of this ties in some ways to the strategies, actions and communications related to companies’ corporate responsibility / citizenship / sustainability.***

***Is your firm ready for the questions to come from stakeholders as the good news about lower corporate tax rates spreads to all corners?***

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- The CNN report on the Wall Street Journal CEO Conference: <http://money.cnn.com/2017/11/15/news/economy/gary-cohn-tax-ceo-repatriation/index.html>
- Reuters: <https://www.reuters.com/article/us-usa-budget-tax/obama-targets-foreign-profits-with-tax-proposal-republicans-skeptical-idUSKBN0L51IX20150201>
- The issues were debated back in 2012 as then-Senator Carl Levin (Michigan) held hearings on “Tax Avoidance by Multinational Corporations: Info at: <https://web.archive.org/web/20120924031542/http://www.levin.senate.gov/newsroom/press/release/subcommittee-hearing-to-examine-billions-of-dollars-in-us-tax-avoidance-by-multinational-corporations/?section=alltypes>
- Finally, if you want to set up a Cayman Islands “offshore company,” it is easy (you don’t have to be a huge multinational, although that helps). Just connect with Cayman Enterprise City: <http://www.caymanenterprisecity.com/>

