

**A Temporary Reduction in Taxes on Repatriated Profits
for the Purpose of Economic Stimulus and Investment
in National Priorities**

An Economic Assessment

Prepared By

**Dr. George Schink
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Executive Summary

The American economy is caught in a deep recession that has now spread throughout the world. This recession was triggered by a financial crisis—huge declines in asset prices, liquidity and more recently solvency problems within global financial institutions. The result has been a dramatic implosion of credit availability to even creditworthy borrowers. Although financial markets have shown a few signs of improvement since the passage of TARP—for example, LIBOR, the key interbank lending rate, and credit spreads on high-quality commercial paper are down—normal conditions have not been restored. The severe credit crunch inside and outside the financial system continues to intensify the economic downturn. The economy is caught in a vicious downward spiral in which the recession itself increases credit risk, discourages lending even by solvent financial institutions, and intensifies the credit crisis.

As demonstrated in the U.S. and elsewhere, banking and credit crises cause deep and protracted falls in output, employment and investment, including costly business bankruptcies that would have been unnecessary under normal credit conditions. History also confirms that such crises are not self-correcting; substantial government spending, significant tax relief for consumers and businesses, and a concomitant large increase in government debt are required to resolve them. According to recent studies by President Obama's Council of Economic Advisers and by Macroeconomic Advisers, a respected private sector macroeconomic consulting firm, a stimulus package of about \$800 billion over two years will have a significant positive effect, creating between 3 and 4 million jobs in the U.S. economy by the end of 2010. But these studies also

show that given the severity of the downturn, the unemployment rate will rise to around 8% in 2009 and will still be around 7% in the fourth quarter of 2010. Many respected economists argue that an \$800 billion package is too small and that additional stimulus will be needed. In a recent speech, Federal Reserve Chairman Ben Bernanke made the same argument.

In the current credit crisis, even creditworthy and profitable companies face liquidity and credit constraints that require cuts in both operations and capital spending. These cuts cause lay-offs, reduced purchases from suppliers, and delays or cancellations of capital investment projects. Such actions intensify the economic downturn. In addition, even profitable companies find that their suppliers and customers are unable to obtain working capital to sustain their operations, resulting in further declines in sales, income and employment. Under these circumstances, temporary tax relief policies that increase the funds available to credit and liquidity-constrained companies can ease the economic downturn and provide funding to businesses that would otherwise find the credit they need either too costly or simply impossible to obtain through the capital market.

In crafting the stimulus package, President Obama and the Congress are evaluating policy options according to several criteria including: (1) a policy's cost to the federal government budget; (2) the speed with which a policy will affect spending, output and employment levels; (3) the so-called "bang for the buck" or magnitude of the effect, including both the direct effects on those who are hired as a result of the policy and the indirect effects that result from newly employed workers spending more and stimulating other industries; and (4) the extent to which a given policy fosters growth-enhancing investments in such areas as education and training, R&D, broadband development, health care, and energy efficiency and renewable energy development. This paper uses these criteria to evaluate a stimulus proposal for a temporary reduction in the corporate tax rate on repatriated foreign earnings of U.S. multinational companies.

The proposal would allow companies to repatriate incremental foreign earnings into the U.S. and pay a 5.25% maximum corporate tax rate rather than the standard 35% maximum tax rate in 2009 and 2010. In addition, the companies taking advantage of this temporary tax relief would

agree to invest at least 5% of their incremental repatriated funds in national priority areas. The evidence in this paper indicates that this proposal is a strong candidate for inclusion in the stimulus package.

1. The proposal would attract an estimated \$565 billion of additional repatriated earnings to the U.S. that would otherwise remain overseas. To put this amount in perspective, the stimulus bill passed by the House on January 28, 2009 calls for incremental government spending of \$545 billion.
2. These incremental earnings would be available to support the domestic activities of U.S. companies and would have a substantial effect in 2009 and 2010, the years of greatest vulnerability for the U.S. economy. The largest stimulus effect would most likely occur in 2010, but output and employment would be higher than they would have been otherwise through 2012, as a result of the additional investment spending that occurs over a 3 to 4 year period.
3. According to a careful analysis by Dr. Allen Sinai, a distinguished macroeconomist, the additional funds would mean 425,000 additional jobs during the 2009-2012 period. These additional jobs would result from the creation of new jobs and the retention of existing jobs that would have been lost if these additional funds were not available.
4. In contrast to other business tax cuts under consideration for inclusion in the stimulus package, the repatriation proposal would increase rather than reduce federal government revenues. The incremental tax revenues would result from two sources: both the taxes paid on the incremental repatriated earnings that would otherwise remain overseas and would not be subject to U.S. taxes; and from the taxes that would result from the increased economic activity in the U.S. stimulated by the incremental repatriated earnings.
5. To qualify for a temporary reduction in the tax rate on incremental repatriated earnings, U.S. companies would commit to invest at least 5% of these earnings in national priority areas including renewable energy projects, energy efficiency projects, health care initiatives and broadband development. If, as expected, the temporary tax relief attracts about \$565 billion of incremental repatriated earnings, this commitment would mean an

additional \$28 billion of investment in these areas. By comparison, the stimulus bill passed by the House contains about \$90 billion for investments in these areas.

The U.S. multinational companies that hold substantial profits abroad and would be likely to repatriate incremental funds in response to this proposal include many of the nation's most competitive, innovative, and successful companies. These firms are generally major exporters, pay higher than average wages, and are major investors in R&D. These profitable growing companies have viable projects that could be initiated quickly using the repatriated funds. Further, many of these companies are already actively engaged in developing and promoting national priority investment projects in areas such as broadband development, healthcare IT, renewable energy, and energy efficiency. As a consequence, it is likely that they would direct more than 5% of their repatriated funds to such investments.

Countries around the world are competing to attract these successful multinational companies to locate more of their production and employment activities abroad. The repatriation proposal would encourage these companies to bring home more of their substantial foreign earnings to finance their domestic operations and investment at a time when the domestic economy needs significant economic stimulus. Without this temporary tax relief, most of these earnings would remain abroad and would fund investments that would bolster the competitiveness of foreign locations relative to the United States. By encouraging investment in the U.S., the reduction in the tax on repatriated earnings would bolster the U.S. operations of U.S. companies and make the U.S. a more attractive location for production and employment. Accordingly, the proposed repatriation policy not only provides a short run stimulus, it is also a sound policy for strengthening U.S. competitiveness in the long run.

Introduction and Summary

The deepening U.S. recession, spawned by a financial crisis, is now spreading throughout the world. The huge declines in asset prices, liquidity and more recently solvency problems within global financial institutions have dramatically reduced credit availability to even creditworthy borrowers. Financial markets have improved somewhat since the passage of TARP, but normal conditions have certainly not been restored. As a result, the severe credit crunch is intensifying the economic downturn, while the economic downturn acerbates the credit crises. As a result, the economy is caught in a vicious downward spiral in which the recession itself increases credit risk, discourages lending even by solvent financial institutions, and intensifies the credit crisis.

Banking and credit crises cause deep and protracted falls in output, employment and investment, including costly business bankruptcies. Moreover, history has shown that these crises are not self-correcting. Rather, restoring economic growth requires significant government interventions including a substantial increase in government spending and tax cuts to both consumers and businesses. Such actions necessarily generate a large increase in government debt. Both President Obama's Council of Economic Advisers and Macroeconomic Advisers, a respected private sector macroeconomic consulting firm, estimate that a stimulus package of roughly \$800 billion over two years will have a significant positive effect on the U.S. economy, creating between 3 and 4 million jobs by the end of 2010. Because of the severity of the downturn, even with these interventions, the unemployment rate will rise to around 8% in 2009 and will still be around 7% in the fourth quarter of 2010. As a result, economists of varying political views -- including Martin Feldstein, Paul Krugman and Federal Reserve Board Chairman Ben Bernanke -- believe additional stimulus above the proposed \$800 billion package is needed.

Credit crises limit the flow of funds to even creditworthy and profitable companies. The restricted access to credit requires cuts in operations as well as in capital spending. A lack of credit, therefore, leads to lay-offs, reduced purchases from suppliers, and delays or cancellations of capital investment projects. Such reductions in firm expenditures clearly exacerbates the economic downturn. As a result of the current credit contraction, even profitable companies are finding their suppliers and customers unable to obtain the working capital to fund normal

operations. This further depresses sales, income and employment. History has demonstrated, however, that a reduction in the tax on repatriated funds reduces the barriers to the free flow of liquidity from foreign to U.S. subsidiaries. Consequently, such temporary business tax relief increases the funds available to credit and liquidity-constrained companies. This can ease the economic downturn by providing funding to businesses that would otherwise find needed credit either too costly or simply impossible to obtain through the capital market.

In crafting the stimulus package, President Obama and the Congress are evaluating policy options according to several criteria including: (1) a policy's cost to the federal government budget; (2) the speed with which a policy will affect spending, output and employment levels; (3) the so-called "bang for the buck" or magnitude of the effect, including both the direct effects on those who are hired as a result of the policy and the indirect effects that result from newly employed workers spending more and stimulating other industries; and (4) the extent to which a given policy fosters growth-enhancing investments in such areas as education and training, R&D, broadband development, health care, and energy efficiency and renewable energy development.

President Obama's economic team and the Congress are using these criteria in evaluating various proposals for business tax relief. To date, the main business tax options currently under consideration seem to be a 5-year carryback of net operating losses, bonus depreciation allowances, and the extension of increased expensing for small businesses. Using the criteria enumerated above, however, another option merits serious consideration. Several of America's leading multinational companies have proposed a temporary two-year reduction in the U.S. corporate tax rate on earnings repatriated from foreign subsidiaries.

The proposed temporary two-year reduction in the maximum U.S. corporate tax rate on incremental repatriated foreign earnings from 35% to 5.25%¹ is estimated to induce U.S. multinational corporations to repatriate an incremental \$565 billion in foreign earnings that would otherwise have remained overseas.² To put this amount in perspective, the massive economic stimulus bill passed by the House on January 28, 2009 called for incremental domestic spending of \$545 billion. To qualify for reduced taxation, U.S. corporations would agree to limit the use of the incremental \$565 billion in repatriated foreign earnings to specific uses approved by Congress and to further agree to direct at least 5% of the incremental repatriated funds (at least \$28 billion) to national priority investments. This \$28 billion spent on national priorities amounts to an almost one-third increment to the amount directed to these activities in the House-passed stimulus bill.³ These national priority investments include renewable energy projects, energy efficiency projects, health care initiatives, and broadband development.

The U.S. multinational corporations that would repatriate the incremental \$565 billion of foreign earnings would use these funds, for example, to finance stalled shovel-ready investment projects, provide liquidity to finance their ongoing operations and to supply credit to their customers and suppliers who have had difficulty obtaining sufficient working capital. Some of the funds would also be used to pursue national priority investment projects. These uses of the incremental \$565 billion of repatriated foreign earnings would provide a very substantial economic stimulus to the U.S. economy. As a consequence of this incremental \$565 billion of repatriated foreign earnings, Dr. Allen Sinai estimates that there would be, on average, 425,000 more jobs between 2009 and 2012 and, in addition, federal government revenues would increase by about \$112

¹ The specific proposal is to exclude 85% of the incremental repatriated foreign earnings from taxation. The remaining 15% would be subject to the maximum corporate tax rate of 35% implying an effective maximum tax rate on the incremental repatriated foreign earnings of 5.25% (0.15 times 35%). Incremental repatriated foreign earnings would be those in excess of the average recent repatriations by a firm. This average is calculated over the prior 6 years excluding the year when funds were repatriated under the terms of the AJCA and the high and low values from the remaining 5 years (i.e., the average of the 3 most recent normal years).

² Allen Sinai, *Macroeconomic Effects of Reducing the Effective Tax Rate on Repatriated Foreign Subsidiary Earnings in a Credit- and Liquidity-Constrained Environment*, December 2008, pages 10-12 (hereinafter "Sinai").

³ The stimulus bill passed by the House on January 28, 2009 contained \$90 billion for national priority investments (\$54 billion for renewable energy and energy efficiency; \$20 billion for health care initiatives; and \$16 billion for science, research, and technology including broadband development).

billion over the same period.⁴ These increased federal revenues stem from both the taxes paid on the repatriated foreign funds that otherwise would have remained overseas and the increased tax revenues generated by the increased economic activity stimulated by the U.S. multinational's use of the incremental \$565 billion of repatriated foreign earnings.

The U.S. multinational corporations that would be most likely to repatriate incremental funds as a result of the temporary tax reduction include many of the nation's most competitive, innovative, and successful companies. These firms are generally major exporters, pay higher than average wages, and are major investors in R&D. These profitable growing companies have viable projects that could be initiated quickly using the additional repatriated funds. Further, many of these companies are actively engaged in developing and promoting national priority investment projects in areas such as broadband development, healthcare IT, renewable energy, and energy efficiency. As a consequence, it is likely that more than 5% of the repatriated funds would be directed to investments in national priority areas.

Countries around the world are competing to attract the activities and accompanying employment of these multinational companies. The tax imposed by the U.S. on repatriated funds provides further incentive for U.S.-based multinationals to invest abroad. The temporary tax reduction on incremental repatriated earnings would encourage companies to use more of their substantial foreign retained earnings to finance U.S. operations and investments. Under existing tax policy, most of these earnings are likely to continue to be used abroad. The temporary reduction in the tax on repatriated earnings, however, would encourage investment in the U.S. and thereby bolster the domestic operations of U.S. multinationals. Accordingly, the proposed repatriation policy not only provides a short run stimulus, it is also a sound policy for strengthening the long-run U.S. competitiveness of the U.S. industry.

⁴ Sinai, pages 12-20. Dr. Sinai used a large-scale structural macroeconometric model of the U.S. economy to estimate the effects of the incremental repatriated foreign earnings on the U.S. economy.

The Scale of Foreign Earnings Held by U.S. Multinationals and Their Reasons For Not Repatriating These Funds

According to the most recent estimates, U.S. multinational companies hold \$1,456 billion of accumulated earnings abroad.⁵ These funds are held mainly in liquid financial instruments and, from the perspective of the U.S. economy, they represent an untapped resource on the balance sheets of the foreign subsidiaries of these companies. Under the current federal tax laws, if a U.S. multinational corporation were to repatriate these foreign funds, these repatriations would be subject to a 35% corporate income tax rate, less a credit for the foreign corporate income taxes already paid on these earnings. U.S. multinational corporations do repatriate some of their foreign earnings, but the incremental taxes on these repatriated funds make them more expensive and thus less attractive for funding and investing in their U.S. operations. These funds can be invested abroad without incurring the incremental taxes, and this tax disadvantage toward U.S. investment reduces the relative return on U.S. investments and thereby encourages foreign investments.

A temporary reduction in the taxes applied to repatriated foreign earnings would provide a substantial incentive to bring foreign funds into the U.S. for domestic investment projects and for other operational and strategic purposes. Earnings held abroad by U.S. multinationals have increased by more than 80 percent in the past three years, going from \$804 billion in 2005 to \$1,456 billion in 2008.⁶ This increase was stimulated by a decline in corporate tax rates in many foreign countries relative to the U.S. and also by generous subsidies paid by foreign governments to encourage American companies to establish production bases abroad. An unfortunate consequence of the interaction of current U.S. tax policy and foreign tax and subsidy policy is that U.S. multinationals are discouraged from bringing the earnings from their foreign operations home and are encouraged to expand their foreign operations in lieu of their domestic operations. To the extent that these foreign earnings are never brought into the U.S., they are used to support operations and investment abroad rather than at home.

⁵ Sinai, pages 10-12.

⁶ *Id.*

Economists agree that the current U.S. tax law creates a strong incentive for companies to retain earnings in foreign countries with lower corporate tax rates. They also agree that a temporary reduction in U.S. taxes on repatriated foreign earnings can produce potentially large cash inflows to the parent companies in the U.S. The economists' predictions regarding the effects of a temporary reduction in U.S. taxes were borne out by the American Jobs Creation Act of 2004 (AJCA) experiment. Of the \$804 billion of foreign earnings available for repatriation when the AJCA was implemented, \$362 billion (or 45%) was repatriated. This exceeded the amount that could be expected to be repatriated absent the tax reduction by \$312 billion (i.e., the amount that could be expected to be repatriated was the average amount repatriated during the 5 years ending in 2003, excluding the high and low amounts, which was \$50 billion). This \$312 billion was subject to a maximum 5.25% tax rate instead of the standard 35% corporate tax rate.⁷ If the same percentage of foreign earnings available for repatriation in 2008 were repatriated as a consequence of the proposed temporary 5.25% maximum tax rate for 2009 and 2010, total repatriations would be \$655 billion (45% times \$1,456 billion).⁸ The average repatriations (excluding 2005 and the two highest and lowest values during the prior six years) is estimated to be \$90 billion. Therefore, of the \$655 billion repatriated, \$565 billion is incremental and would be subject to the 5.25% maximum tax rate.⁹ The incremental \$565 billion are funds that otherwise would not be available for use within the U.S. by the U.S. multinational corporations.¹⁰

Description of the Repatriation of Foreign Funds Proposal

The proposal would allow U.S. multinational corporations to repatriate incremental foreign earnings into the U.S. and pay a 5.25% maximum tax on the repatriated funds during 2009 and 2010 instead of the standard 35% maximum tax rate. The specific proposal is to exclude 85% of

⁷ *Id.* The reduction in the maximum tax rate to 5.25% was accomplished by excluding 85% of the repatriated funds from taxation. The 15% of the repatriated funds subject to tax were taxed at the 35% rate adjusted downward to reflect foreign taxes already paid on these funds.

⁸ *Id.*

⁹ Using a different analytical approach, Robert Shapiro estimated that the incremental earnings that would be repatriated in 2009 and 2010 as a result of the temporary 5.25% maximum tax rate on repatriated foreign earnings would be \$421 billion instead of the \$565 billion estimated by Allen Sinai. Both estimates are substantial and support the conclusions drawn in this analysis. Robert J. Shapiro and Aparna Mathur, *Using What We Have To Stimulate the Economy: The Benefits of Temporary Tax Relief for U.S. Corporations To Repatriate Profits Earned by Foreign Subsidiaries*, January 2009, pages 1-3, 6-8, 15-16 (hereinafter "Shapiro").

¹⁰ See Sinai, pages 1-3, 6-8, and 15-16.

the repatriated funds from taxation which reduces the maximum tax rate from 35% to 5.25%. The 15% of repatriated funds subject to tax would be taxed at the 35% tax rate adjusted downward to reflect foreign taxes already paid on these earnings. The incremental repatriation would be defined as repatriations in excess of “normal” repatriations during the last 6 years.¹¹ In exchange, these corporations would agree to restrict the use of these funds to a list of permitted uses and also agree to invest at least 5% in national priorities.

The proposed list of permitted uses by the U.S. multinational corporations is as follows:

- Funding for U.S. worker hiring, retention, wages, bonuses, education and training;
- Funding of U.S. employee pension, healthcare, retirement, 401k, and other similar employee benefit plans;
- U.S. debt reduction;
- Provide working capital financing to their U.S. suppliers and customers to replace the funding no longer available from financial institutions due to the financial crisis;
- Investment in troubled and/or distressed U.S. debt and related underlying U.S. assets, particularly those debts/assets to which TARP funds are being directed;
- Investment in the common and/or preferred stock of U.S. banks and financial institutions;
- Deposit in U.S. banks and financial institutions;
- Investment in U.S.-based research & development, infrastructure, plants and equipment, and other capital investments and business expenditures (including acquisitions to sustain or increase U.S. assets);
- Additional shareholder dividends, and share repurchases;
- Financial stabilization of U.S. companies; and
- Other uses permitted under guidance previously promulgated under Section 965 of the Internal Revenue Code.

¹¹ The “normal” repatriations would be defined as the average repatriation over the last six years excluding the year when a corporation repatriated funds under the 5.25% maximum tax rate of the American Jobs Creation Act of 2004 and the high and low values for the remaining years. The resulting average would include three of the last six years.

The uses shall not include executive compensation.

The proposed list of national priority investments include the following:

- Investment in clean/green research and development activities;
- Investment in alternative renewable energy power production and distribution;
- Implement energy efficiency programs;
- Investment in renewable energy and grid modernization;
- Implement green job training and skills development;
- Investment in health care initiatives;
- Investment in broadband deployment;
- Purchase of state and local municipal bonds.

The Reasons Why the Repatriation Proposal Is a Win-Win Proposition

The repatriation proposal satisfies the four criteria President Obama and the Congress are applying to evaluate stimulus proposals:

- In contrast to other business tax incentives under consideration, the repatriation proposal would increase rather than reduce federal government revenues both directly and indirectly.
- This proposal would make funds available to support the domestic operations of U.S. companies quickly.
- The repatriation proposal would have a significant effect on the domestic activities of U.S. companies in 2009 and 2010, the years of greatest vulnerability for the U.S. economy.
- In contrast to other business tax incentives under consideration, the policy links tax relief for business directly to investments in national priorities. Moreover, over a relatively brief time frame, it would provide \$565 billion of additional liquidity to the U.S. economy.

Implementing this temporary tax reduction on the incremental repatriation of foreign earnings has very little cost in terms of lost federal corporate income tax revenues, because the 5.25% maximum tax would only be applied to repatriations above “normal” amounts. The “normal” amount for a U.S. multinational corporation would be defined as the average repatriations during the previous six years excluding the year when repatriations were higher due to the AJCA (most likely 2005) and the high and low years during the remaining 5 years (i.e., an average of the most recent 3 “normal” years).¹² In fact, the repatriation of the incremental foreign earnings that would be stimulated by the maximum tax rate being temporarily reduced to 5.25% in 2009 and 2010 would produce incremental federal corporate tax revenues of up to \$30 billion (5.25% of \$565 billion).¹³

More importantly, the foreign funds would be available for use in the U.S. now when incremental stimulus is most important. Implementing this policy would provide stimulus to business through the immediate balance sheet effects of new cash flows in a credit and liquidity constrained environment. Further, increased liquidity and greater cash flows will help companies maintain their operations, supply credit to their customers and suppliers, and spend more on capital formation and R&D. For example, these repatriated funds could be used to fund the shovel-ready U.S. projects that are stalled by an inability to obtain financing on reasonable terms, given the currently dysfunctional financial system. Also, some of the U.S. multinationals may need an influx of funds to allow them to strengthen their balance sheets to allow them to obtain credit on reasonable terms. In addition, these funds could be used by the U.S. multinationals to provide working capital to their U.S. suppliers and customers. These suppliers and customers are often smaller than U.S. multinationals and their access to credit markets has been substantially curtailed. Without adequate working capital, these U.S. suppliers and customers may not be able to maintain their normal operations which would further exacerbate the already serious economic distress. The current proposal also calls for at least 5% of the repatriated funds (about \$28 billion) to be directed to national priority projects such as improved energy efficiency, development of renewable energy, health care initiatives, and broadband

¹² There may be some acceleration of normal repatriations that would have occurred in subsequent years. To the extent this occurs, there would be a modest budgetary cost.

¹³ If the lower estimate of \$421 billion in repatriations developed by Robert Shapiro were used, the incremental federal corporate tax revenues would be up to \$22 billion (5.25% of \$421 billion).

development. These national priority efforts are currently stalled as a consequence of the severe economic recession and an inability to obtain financing within the current dysfunctional financial market. The requirement that \$28 billion of the incremental repatriated funds be directed to national priority investment will help move these important projects forward.

The above uses of the repatriated foreign earnings would increase jobs by providing a broad economic stimulus to the U.S. economy resulting in increased business investment, output, employment, wages, personal and corporate income, and, ultimately, additional federal tax revenues. Dr. Sinai estimated the amount of the economic stimulus stemming from the repatriation of an incremental \$565 billion in foreign earnings. The economic stimulus occurs over a four year period from 2009 through 2012,¹⁴ because the repatriated funds diverted to investment projects would be spent over a 3 to 4 year period.¹⁵ The largest positive effect on U.S. output occurs in 2010, but U.S. output is higher as a result of the increased repatriation of foreign earnings throughout the 2009 through 2012 period. The higher expected output levels lead to a parallel increase in jobs and a reduced unemployment rate.¹⁶ Dr. Sinai estimates that, on average, during the 2009 to 2012 period, there will be 425,000 more jobs.¹⁷

As a consequence of the increased output and employment stemming from the increased repatriation of foreign earnings, Dr. Sinai estimates that federal tax revenues would be increased by about \$82 billion. The taxes paid on incremental repatriated earnings would generate up to \$30 billion in revenue. Thus, the combined direct and indirect revenues generated by the temporary tax reduction will generate up to \$112 billion of additional tax revenue between 2009 and 2012.¹⁸

¹⁴ Dr. Sinai also analyzed the stimulative effects into 2013.

¹⁵ See Sinai, pages 12-20.

¹⁶ *Id.*

¹⁷ See Sinai, pages 12-20. If the incremental repatriated foreign earnings equaled the lower \$421 billion estimate by Robert Shapiro, assuming that the multiplier effect would be proportional to the amount repatriated, the estimated number of new jobs created by repatriation would be 316,668.

¹⁸ If the incremental repatriated foreign earnings equaled the lower \$421 billion estimate by Robert Shapiro, assuming that the multiplier effects would be proportional to the amount repatriated, the estimated additional federal tax revenues stemming from the increased economic activity stimulated by the repatriations plus the direct tax payments on the repatriated funds would be about \$83 billion.

The private sector employs the vast majority of American workers, and resumption of growth in the U.S. economy depends on its recovery. Though some segments of the private sector will benefit directly from the stimulus plan as currently proposed, the major proposed initiative that provides direct benefits to a significant number of firms involves carry-backs of net operating losses. But currently profitable firms will not be able to use this benefit. Yet, firms earning profits are likely to have the greatest investment and expansion opportunities, and, are therefore more likely than others to expand capacity and output in response to a tax incentive.

The firms that are currently holding substantial profits abroad and that would benefit from the repatriation proposal include many of the nation's most competitive and innovative companies.¹⁹ These firms are generally major exporters, pay higher than average wages and devote significant shares of their revenues to R&D.²⁰ In 2006, the U.S. multinationals accounted for 51.3% of total U.S. exports while their output accounted for 21.8% of U.S. private industry output.²¹ The average compensation per employee by U.S. multinationals in 2006 was 17.3% higher than the average for all other private U.S. firms.²² The U.S. multinationals' R&D spending accounted for 75.8% of R&D spending by all U.S. businesses in 2006.²³

Further, U.S. multinationals have the bulk of their operations in the U.S. despite the unfavorable U.S. tax treatment. In 2006, the U.S. multinationals produced 71.6% of their output in the U.S., had 66.5% of their employees in the U.S., and the U.S. employees of these multinationals received 76.2% of the total employee compensation paid by these companies.²⁴ In addition, of the total R&D spending done by the U.S. multinationals in 2006, 86.8% was done in the U.S.

¹⁹ Price Waterhouse Coopers, and National Economic Consulting, *Permanently Reinvested Earnings of U.S. Corporations*, August 12, 2008 (hereinafter PwC/NEC Study). This study measured the foreign earnings holdings of 842 U.S. multinational corporations.

²⁰ Raymond J. Mataloni, Jr., *U.S. Multinational Companies: Operations in 2006, Survey of Current Business*, November 2008 (hereinafter "SCB Study").

²¹ SCB Study, pages 30-31, Bureau of Economic Analysis, U.S. Department of Commerce (BEA), Industry Economic Accounting, (hereinafter "BEA Data"), http://www.bea.gov/industry/gpotables/gpo_list.cfm?anon=87414®istered=0 . Industry output is measured by value added.

²² SCB Study page 40; BEA Data.

²³ SCB Study, page 32.

²⁴ SCB Study, pages 40-41.

while 71.6% of their output was produced in the U.S.²⁵ Many of the U.S. multinationals that currently hold substantial foreign earnings abroad are actively engaged in developing and promoting the Obama Administration's national priorities including broadband development, healthcare IT, renewable energy, and energy efficiency.²⁶ These U.S. multinationals would be likely to devote substantially more than the minimum 5% of their repatriated foreign earnings to national priority investments.

²⁵ SCB Study, pages 31-33, 40-41.

²⁶ PwC/NEC Study.