Repatriation and R&D

By Lydia O'Neal

In a study of 395 corporations between 2001 and 2009, researchers found that the last time Congress allowed multinationals to repatriate earnings at a lower tax rate, research and development expenses grew by about 11 percent of the total dollars brought back to the U.S.

Pennsylvania State University at Erie assistant professor Qi Dong and professor Xin Zhao examined company expenditures in the four years prior to and following the enactment of the 2004 American Jobs Creation Act. That law subjected repatriated earnings of foreign affiliates to an effective tax rate of 5.25 percent, well below the top corporate rate of 35 percent at the time and today's 15.5 percent rate for overseas cash.


The new research, published in the March edition of the Journal of the American Taxation Association, found R&D spending that directly stemmed from repatriation grew by about $30 billion, compared to the total of $268 billion repatriated by the corporations in the sample. The average R&D boost per repatriating firm amounted to $42 million, the study said.

“The AJCA provides a unique setting for evaluating the effect of the tax policy on R&D investment because the AJCA changed firms’ costs of accessing internal equity through the reduced repatriation tax rate,” the authors wrote. They added that such equity “is a particularly important financing source for R&D investment.”