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# Will US companies put overseas cash to work? Don't bet on it

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The Republican tax plan seems about to hand a bow-tied holiday gift to some of America's richest multinational companies, from Apple and Microsoft to Google's parent Alphabet: Tens of billions in tax breaks on profits they've parked overseas.

Republicans say they're confident the companies will spend their windfall on new plants, equipment, jobs and higher pay—investments that would energize the economy and serve America's workers.

But will they?

Remarks from some of the companies themselves—as well as economic history—suggest that the payoff for the nation will be a meager one. The companies seem likely to direct their money mainly to shareholders through dividends and stock buybacks, just as large U.S. corporations have already been doing with the ample cash they have in hand.

At an industry conference last week, Amy Hood, Microsoft's chief financial officer, acknowledged that the tax changes wouldn't drive business decisions on whether to make an acquisition or build a data center.

Don't expect that "I'm going to spend a lot more capital" Hood said when asked what Microsoft would do with its windfall, according to a company transcript.

At issue is at least $2.6 trillion in profits U.S. companies have stored abroad. Under current law, companies must pay the 35 percent corporate tax when they return that money to the United States. So most have chosen to keep the money overseas—at least until Congress decides to make international taxes more favorable to big corporations.

That day is apparently at hand. Lawmakers are now reconciling differences in the bills the House and Senate each passed. The House version would tax the overseas earnings at low one-time rates: 14 percent on earnings in cash and other liquid investments and 7 percent on profits in investments that are harder to sell. In the Senate, the one-time tax would be 14.5 percent on cash and 7.5 percent on harder-to-sell assets.

Once the companies' earnings overseas were taxed at the one-time low rate, most future overseas profits could be returned home tax-free. Companies would still face a minimum U.S. tax on unusually high overseas profits.

The left-leaning Institute on Taxation and Economic Policy notes that the lower one-time rate would amount to a corporate tax break worth $454 billion in the Senate bill and $458 billion in the House version.

No sector would benefit more than tech companies. Collectively, they held $669 billion outside the U.S. at the end of 2016, according to Moody's Investors Service. Most of the industry's overseas cash has been accumulated by five companies: Apple, Microsoft, Cisco Systems, Alphabet and Oracle.

"This tax bill would be a significant shot in the arm for the tech industry," says GBH Insights analyst Daniel Ives.

Though some of that money might be plowed into technology development, equipment and hiring, CFRA analyst Scott Kessler predicts that tech companies would use most of the money brought back to the U.S. to repurchase their own stock and pay shareholder dividends.

And few analysts see any significant benefit to the U.S. economy.

"The growth effects might very well be modest," says Rebecca Kysar, visiting professor at the Fordham University School of Law.

In a conference call with analysts last week, Ron Nersesian, CEO of Keysight Technologies in Santa Rosa, California, which makes equipment for electronic measurements, acknowledged that his company would use its windfall to reduce debt "or give back cash to our investors in the form of share buybacks or in dividends."

Apple, which ended September with $252 billion in overseas cash, spent $45 billion buying back stock and issuing dividends over the past year—and had to borrow to pay for it. The iPhone maker obviously wouldn't have to borrow as heavily if it returned a big chunk of its overseas stockpile—something CEO Tim Cook has pledged to do if taxes are slashed.

Pharmaceutical companies have a big cash hoard overseas. Jeffrey Loo, an analyst at CFRA Research, predicted that Pfizer, Merck and Amgen would return some of their overseas money.

"They may use it primarily for stock buybacks," followed by dividend payments and acquisitions, Loo says. "They probably will increase research and development, but it probably won't be a significant amount."

Eli Lilly and Co. has about $10 billion stashed overseas, incoming chief financial officer Joshua Smiley told analysts Wednesday. Smiley said the company could use money returned from overseas to buy companies, finance research and return cash to shareholders.

Critics note that a one-time "tax holiday" on overseas profits did little for the economy 13 years ago. The American Jobs Creation Act temporarily cut taxes on repatriated profits to 5.25 percent. About 9,700 companies were eligible; 843 of them returned $312 billion. A Congressional Research Service report found that the tax holiday "did not increase domestic investment or employment."

Rather than expand operations or hire, companies tended to use the money to buy back shares of their own stock—purchases that disproportionately benefit wealthy investors, who are less likely to spend additional income.

A Senate subcommittee report concluded, in fact, that 10 of the 15 companies that repatriated the most money actually cut jobs after the tax holiday. Pfizer slashed 10,000 jobs in 2005 and 2006, Merck 7,000 and Hewlett-Packard 14,500.

And there's little evidence that the economy or big companies need help right now. The economy has grown at a healthy 3 percent annual pace each of the past two quarters. Unemployment is at a 17-year low of 4.1 percent. The Federal Reserve, confident in the economy's prospects, raised interest rates Wednesday for the third time this year.

Solid corporate profits have allowed companies to accumulate $2.36 trillion in cash. They aren't exactly desperate for new cash to invest.

"We might see the money going back to shareholders," Kysar says, "but companies don't necessarily have to build factories here or create new jobs."

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