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Tax Exemption for Repatriated Foreign Earnings: Proposals and Analysis

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Tax Exemption for Repatriated Foreign Earnings: Proposals and Analysis

Summary

A prominent feature of several broad business and international tax bills in the 108th Congress is their different proposals to reduce the tax U.S. firms pay on dividends they receive from their overseas subsidiaries. The proposals (contained in S. 596, S. 1475, S. 1637, H.R. 767, H.R. 1162, and H.R. 2896) fit into the U.S. tax structure as follows: while the United States taxes corporations that are chartered in the United States on their worldwide income, it does not tax foreign-chartered corporations on their foreign-source income. Thus, with some exceptions, if a U.S. firm conducts its foreign business through a foreign-chartered subsidiary corporation, its overseas earnings are not subject to U.S. tax as long as the income remains in the hands of the foreign subsidiary and is reinvested abroad. The income is subject to U.S. tax only when it is ultimately repatriated to the U.S. parent corporation as dividends or other intra-firm payments. At that point, U.S. taxes ordinarily apply, although credits may be claimed for foreign taxes paid. It is these U.S. taxes due upon "repatriation" that would be reduced under the proposals.

The feature of the U.S. tax code that allows U.S. firms to postpone taxes on their overseas earnings is known as the "deferral principle," or simply "deferral." Although the tax code's Subpart F provisions in some cases deny deferral to passive investment income, the benefit is generally available for business income earned through foreign subsidiaries. In general, deferral poses a tax incentive for U.S. firms to invest in foreign countries with low tax rates. This is because a tax whose payment can be postponed matters less to a firm than a tax that is paid currently; as long as payment is postponed, a firm can invest and earn a return on what would otherwise be spent on taxes. Supporters of a tax cut for repatriated dividends argue that the tax that applies to repatriated dividends is a part of deferral's tax incentive to employ capital abroad. They argue that the tax on repatriations discourages U.S. firms from repatriating their foreign earnings. In some cases, they point out, U.S. firms confront the choice of reinvesting a given amount of foreign profits in a low-tax foreign country without immediately paying U.S. tax, or of triggering U.S. tax by paying dividends to the U.S. parent. The U.S. tax, it is argued, discourages repatriation, and has induced some U.S. firms to accumulate large stocks of reinvested earnings abroad. Reducing the tax, it is argued, will stimulate a flow of earnings back to the United States and will increase investment in the United States.

According to economic theory, a temporary tax cut for repatriations may induce a near-term increase in dividend remittances to U.S. parent firms from abroad as long as it is temporary. A permanent tax cut, however, may have no impact on repatriations, while at the same time inducing firms to increase new capital outflows from the United States to locations abroad. If repatriations occur, it not clear whether U.S. firms would use the repatriated funds to finance investment or would put them to other uses — for example, the payment of dividends to stockholders. In the area of economic stimulus, some or all of the stimulative impact of repatriations may be offset by exchange rate adjustments that would reduce net exports.

This report will be updated as legislative events occur.

Contents

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The 108th Congress is considering several bills containing a variety of provisions that affect international business and investment. A principal impetus for the bills is the controversy between the United States and the European Union over the U.S. extraterritorial income (ETI) tax benefit for exports; each of the bills address the dispute by repealing ETI. However, the bills also contain numerous tax benefits and investment incentives designed, in part, to offset the economic effects of ETI's repeal. In the international area, one of the most prominent proposals is a plan to reduce the U.S. tax that U.S. firms pay when their overseas operations remit ("repatriate") their foreign earnings as dividends to their U.S. parent corporations. Different variations on this concept are contained in several of the ETI bills: the initially introduced version of H.R. 2896 (Thomas), S. 1475 (Hatch); and S. 1637 (Grassley; approved by the Senate Finance Committee on October 1).[1] Earlier versions of the plan were contained in the Senate-passed version of the May, 2003 tax cut bill (P.L. 108-27; the Jobs and Growth Tax Relief and Reconciliation Act, or JGTRRA) and in H.R. 767 (English), H.R. 1162 (Smith), and S. 596 (Ensign).

Proponents of the tax cut for repatriations argue that the provisions will result in increased repatriations of funds U.S. firms would otherwise reinvest abroad, thus boosting U.S. domestic investment. As detailed below, however, economic analysis suggests that the impact of the tax cut depends heavily on whether it is temporary or permanent. (Most of the legislative proposals would provide a temporary rather than permanent reduction.) A temporary tax cut may indeed trigger increased repatriations, although whether U.S. firms would use the funds to finance increased investment is uncertain. A permanent tax cut on repatriations would likely have no impact on repatriations and may encourage U.S. firms to increase their level of new investment abroad.

But whether the tax cut would or would not stimulate repatriations may not be the key to the proposal's effect on U.S. economic growth. First, even if sizeable repatriations occur, the rate of return available from U.S. investment will not be altered by the repatriations; it is thus possible that the bulk of the repatriations will be remitted to stockholders or used to pay down corporate debt. Second, when the repatriations occur, those that are denominated in foreign currencies will be converted to dollars, which may drive up the price of the dollar in world currency markets. As a result, U.S. net exports would decline from levels that would

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[1] Press reports indicate, however, that a revised version of H.R. 2896 does not contain the tax cut for repatriations. Alison Bennett, "Ways and Means Sets Oct. 27 Markup for Controversial Export Tax Repeal Bill," BNA *Daily Tax Report*, Oct. 20, 2003, p. G-6.

otherwise occur, and the stimulative impact of the repatriations on the U.S. economy may be muted.

Before discussing this analysis in detail, however, we look first at the U.S. international tax structure and how each of the repatriation proposals would alter it.

Deferral

The United States bases its jurisdiction to tax international income on residence; it thus taxes U.S. chartered corporations on their worldwide income, but does not tax foreign corporations on their foreign-source income. Accordingly, a U.S. firm with overseas operations can indefinitely postpone its U.S. tax on its foreign income by conducting its foreign operations through a foreign-chartered subsidiary corporation. As long as its foreign earnings remain in the hand of the subsidiary and are reinvested abroad, U.S. taxes do not apply. The firm pays taxes on its overseas earnings only when they are remitted from the foreign subsidiary to the domestic U.S. parent as intra-firm dividends or other income.

Another prominent feature of the U.S. tax system that deserves mention here is the foreign tax credit, a provision designed to alleviate double taxation where U.S. and foreign governments' tax jurisdictions overlap. Under its terms, U.S. taxpayers can generally credit foreign taxes they pay against U.S. taxes they would otherwise owe. Foreign taxes, however, can only be credited against the portion of U.S. tax that falls on foreign-, rather than domestic-source income; when a firm's foreign taxes exceed U.S. tax on foreign income, the excess cannot be credited in the current year. Accordingly, a firm pays total taxes — U.S. plus foreign — on its foreign income taxes at an average rate that is equal to either the U.S. tax rate, or the foreign tax rate, whichever is higher.

With respect to repatriated dividends, U.S. firms can claim "indirect" foreign tax credits for foreign taxes paid by their subsidiaries on the earnings out of which the repatriated dividends are paid. Thus, for investment that uses the deferral principle, a U.S. firm pays taxes at the higher of the U.S. or foreign rate; the U.S. component, however, is paid on a deferred basis. As described more fully below, this ability to defer U.S. tax poses an incentive for U.S. firms to invest abroad in countries with low tax rates. The proposals to cut taxes on repatriation are based on the premise that even this deferred tax on remitted dividends discourages repatriations and encourages firms to reinvest foreign earnings abroad and that a cut in the tax would stimulate repatriations.

An exception to the deferral principle is provided by the tax code's Subpart F provisions, which were first enacted in 1962 as a means of discouraging U.S. firms from accumulating tax-deferred income in subsidiaries located in offshore "tax havens." Under Subpart F, certain types of income are subject to U.S. tax, whether they are repatriated or not. Subpart F income generally includes income from passive investment (e.g., interest, rents, royalties, and dividends from unrelated corporations) as well as several other types of income whose geographic source is thought to be easily manipulated. In general, however, income from active business operations is outside the scope of Subpart F and can benefit from deferral.

Current Proposals

Early in 2003, three bills were introduced that proposed reduced taxes on repatriations: H.R. 767 (English); H.R. 1162 (Smith); and S. 596 (Ensign). Subsequently, the Senate version of JGTRRA would also have reduced taxes on repatriations, but the measure was dropped in conference. More recently, a tax cut for repatriations was included in three bills that address the ETI controversy while also proposing a number of domestic and foreign investment incentives: H.R. 2896, as initially introduced (Thomas); S. 1475 (Hatch); and S. 1637 (Grassley; approved by the Senate Finance Committee on October 1). A fourth ETI proposal (H.R. 1769/S. 970; Crane and Rangel in the House and Hollings in the Senate) would not cut taxes on repatriations.

The bills proposing to cut repatriation taxes would either reduce the tax rate on repatriated dividends or provide a deduction that delivers a tax cut of similar magnitude. One bill (H.R. 2896, as originally introduced) would provide an 80% deduction, generally the equivalent of a 7% tax rate for a firm paying the top corporate rate of 35% under current law [35% X (100% — 80%) = 7%]. The remainder of the bills would apply either a 5.25% rate or an 85% deduction, which delivers its equivalent.

Most of the bills apply their reduced tax rate or their deduction to the excess of some measure of repatriated dividends over average repatriations during a base period. To illustrate, S. 1637 applies its reduced rate only to repatriations in excess of average repatriations in three of the five most recent taxable years ending before January 1, 2003, with the highest and lowest repatriation years disregarded.[2] For example, H.R. 2896 provides that qualifying dividends must be invested in the United States pursuant to a plan approved by the firm's chief operating officer and board of directors. Most of the proposals also require firms to adopt domestic investment plans for repatriations that qualify for the reduced tax. H.R. 2896 adds an additional cap, limiting qualified repatriations to the amount of earnings firms characterized in their most recent financial reports filed with the Securities and Exchange Commission as having been permanently reinvested abroad. If a firm does not contain such a characterization in its reports, qualified dividends are deemed to be zero.[3]

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[2] S. 1475 does not limit eligible dividends to those exceeding repatriations in a base period, but instead subjects eligible dividends to a cap equal to the excess of current year "innovation expenses" over innovation expenses in a base period. Innovation expenses are defined to include research and development outlays and generally new investment in machines and equipment. S. 1475 also does not contain language requiring a domestic investment plan.

[3] H.R. 2896 also provides that if a firm's actual repatriations dip below the base period amount in any of the 10 years following the firm's election year, the amount of the reduced

(continued...)

Each of the bills generally denies foreign tax credits for foreign taxes paid on repatriations that qualify for the reduced rate or the deduction. The bills containing rate reductions rather than deductions also reduce the firms' foreign tax credit limitation, thereby ruling out the possibility of a double benefit. In addition, several of the bills have a mechanism that is apparently intended to reduce the chance of a firm's foreign tax credits reducing the benefit of the bills' repatriation rate reduction. For example, S. 1637 provides that a taxpayer can select which dividends are counted as simply meeting (but not exceeding) the base period computation and which are treated as exceeding the base period amount. Since only dividends exceeding the base period amount qualify for the bill's reduced rate, a tax-minimizing firm would choose dividends subject to high foreign taxes (and that are thus shielded from U.S. tax by foreign tax credits) as being less than the base period amount and dividends subject to low foreign taxes as exceeding the base amount. These latter dividends would be unshielded by foreign tax credits and could thus benefit from the bill's rate reduction.[4] S. 596 and H.R. 767 provide a slightly different mechanism with the same effect; they provide that a firm's maximum qualifying dividends are those actually paid by the firm or a lesser amount of dividends designated by the firm.

The proposals would generally not apply to retained earnings of foreign subsidiaries that are subject to Subpart F. The bills apply their reduced rate or dividend deduction to dividends paid by foreign corporations; Subpart F generally applies to the passive investment income of foreign subsidiaries before considering whether distributions occur and without deducting dividends.

As noted in the analysis below, an important dimension of the proposals is the time frame over which they would apply, and whether their reduction for repatriated dividends would be permanent or temporary. This design feature could have an important impact on whether firms respond to the tax cut with increased repatriations; one line of economic reasoning suggests a temporary reduction is more likely to stimulate increased repatriations. Of the proposals, S. 1475 would provide a permanent tax reduction; the remaining plans would provide a tax reduction with a duration that varies among the proposals from six months to one year.

[3] (...continued)
tax is recaptured, along with an interest payment.

[4] S. 596 and H.R. 767 contain a similar mechanism. S. 1475 does not limit qualified dividends to those exceeding base period dividends. It does, however, permit a taxpayer to designate which dividends qualified for the reduced repatriation rate — a mechanism with a similar effect to those in the other bills.

Economic Effects

The Debate

Supporters of a tax cut for repatriated dividends have argued that the imposition of U.S. tax on dividend repatriations discourages U.S. firms from remitting their foreign earnings to the United States, and encourages them to reinvest the earnings abroad. Cutting the tax on remitted dividends, they argue, would trigger a stream of repatriations. According to one study cited by proponents, a one-year tax reduction such as that in the proposals at hand would encourage firms to repatriate an additional $300 billion from overseas. The inflow, it is argued, would in turn result in an increase in domestic investment and economic growth. It would also permit firms to pay down their debt, thus reducing their risk of bankruptcy.[5]

Other analyses are skeptical of the amount of repatriations the tax cut would stimulate, and even if repatriations do increase, question whether the repatriations would trigger an increase in investment within the United States. Critics have also suggested that the proposals would provide a windfall gain to stockholders of eligible corporations, since firms with existing foreign investments embarked on their projects with the full expectation that the remitted profits would be subject to the full U.S. dividend taxation and foreign tax credit system.[6]

Impact on Repatriations

The analysis here focuses on two questions. First, would either a temporary or permanent tax reduction for repatriated foreign earnings result in an appreciable increase in repatriations? Second, if such an increase does indeed occur, what would be its impact on the domestic economy?

We begin by looking at the incentive effects of the current U.S. international system, with the deferral system and indirect foreign tax credit described above. Economic theory is relatively clear on the basic incentive impact of the system: it encourages U.S. firms to invest more capital than they otherwise would in overseas

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[5] Senator John Ensign, Testimony Before the Senate Finance Committee, July 15, 2003. Posted on the Committee's web site at [http://finance.senate.gov/sitepages/hearing071503.htm]. See also Martin A. Sullivan, Tax Amnesty International: Relief for Prodigal Profits, *Tax Notes*, May 5, 2003, pp. 603-608.

[6] Opponents of the proposals include the U.S. Treasury Department; see Alison Bennett and Katherine M. Stimmel, "Finance Approves 19-2 Export Tax Bill with More Manufacturing, Subpart F Relief," BNA *Daily Tax Report*, Oct. 2, 2003, p. GG-2. For a description of the pro and con arguments, see U.S. Congress, Joint Committee on Taxation, *The U.S. International Tax Rules: Background and Selected Issues Relating to the Competitiveness of U.S. Businesses Abroad*, JCX-68-03, July 14, 2003, pp. 39-42. For an overview of legislative developments that is generally critical of the proposals, see Lee A. Sheppard, "U.S. Repatriation Amnesty and Other Bad Ideas," *Tax Notes International*, Sept. 8, 2003, pp. 860-866. For a recent new article on the proposals, see Glenn R. Simpson and Rob Wells, "Dueling Tax Cuts: Firms Accused of Using Shelters Lobby U.S. to Repatriate Funds," *Wall Street Journal*, May 19, 2003, p. A-2.

locations where local taxes are low. The reason is that by using deferral, U.S. firms can postpone payment of U.S. tax indefinitely, and because of discounting, called "deferral principle" (or simply "deferral") receive a tax benefit because taxes that are postponed matter less to a firm than an equal amount of taxes paid currently; postponed taxes can be invested by the firm and earn a return until they are actually paid. Accordingly, deferral poses an incentive for U.S. firms to invest abroad in countries with low tax rates over investment in the United States. According to traditional economic theory, deferral thus reduces economic welfare by encouraging firms to undertake overseas investments that are less productive — before taxes are considered — than alternative investments in the United States.

An expansion in the scope of deferral — for example, a scaling back of Subpart F — would likely increase net U.S. investment abroad. In general, repeal of deferral would likely reduce overseas investment. But the proposals at hand would not repeal deferral or alter its scope; they would change just one element of the tax-deferral structure: the magnitude of taxes due on repatriation. Further, most of the proposals would do so only temporarily. Thus, the analysis needs to be more detailed than one that simply looks at the overall, general impact of deferral; it needs to isolate the impact of the repatriation taxes in particular.

In recent decades, economists analyzing the impact of repatriations have increasingly drawn an analogy between the decision of whether to repatriate earnings and the decision a domestic corporation makes in whether to pay dividends to its individual stockholders — an analogy developed by Hartman in 1985.[7] In the domestic setting, the "new view" or "trapped equity" of dividends holds that taxes on dividends have no bearing on the payout decision because once equity enters a corporation, taxes must inevitably be paid when the funds' earnings are paid to stockholders. In the international setting, the new view similarly notes that once a firm makes an initial infusion of equity capital in a foreign subsidiary, home-country taxes must inevitably be paid when the investment's earnings are repatriated (that is, as long as the firm does not have sufficient foreign tax credits to offset U.S. taxes due on repatriated dividends). Given this inevitability, once the capital is abroad, repatriation taxes have no impact on the firm's decision whether to repatriate foreign earnings in the present or to instead reinvest them abroad. This irrelevance holds as long as the investing firm does not expect the tax laws or its circumstances (for example, its foreign tax credit position) to change.

Given that repatriation taxes are inevitable once capital is infused in a foreign subsidiary, the new view holds that it makes no sense for a firm to simultaneously send new equity capital abroad while repatriating earnings that are already overseas. A firm's foreign operations will instead tend to follow a life cycle, with initial infusions of capital that occur as long as there are sufficiently profitable foreign investment opportunities, followed by a period when retained earnings are sufficient to fund the firm's declining investment requirements, and repatriations occur. The new view thus distinguishes between young foreign operations, where U.S. firms are making new capital infusions from the United States abroad, and mature operations,

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[7] David G. Hartman, "Tax Policy and Foreign Direct Investment," *Journal of Public Economics*, vol. 26, Feb. 1985, pp. 107-121.

who retain earnings to finance their foreign investments and who make repatriations. The new view here produces its first conclusion regarding the impact of a change in repatriation taxes: permanent reductions in taxes on repatriated dividends will likely lead to increased overseas investment by young firms; it will likely lead to no change in repatriations by mature foreign operations. In the latter case, the reduction in taxes will simply be manifest in windfall gains to the firms' stockholders.

The result is different for a temporary tax cut, at least in the short run. The irrelevance of repatriation taxes depends on the taxes being the same whether the earnings are repatriated in the present or the future; if taxes are temporarily reduced, this condition no longer holds, and a firm with mature foreign operations may gain by advancing repatriations. For young operations, a temporary tax cut may have no impact as long as the reduction expires before the firm plans to begin repatriating profits. Note that this result is similar to the impact of repatriation taxes on firms whose foreign tax credit status changes from year to year. In one year, such a firm might have foreign tax credits sufficient to avoid any repatriation taxes; in a subsequent year, a firm might not have enough foreign tax credits to offset all U.S. tax that would be due on repatriations. Such firms are thought to adopt an intermittent pattern of repatriations, sending funds home from abroad in years when foreign tax credits are plentiful and reinvesting funds when they are not.

It is possible, however, that this temporary increase in repatriations might reverse after the tax cut expires, with repatriations declining below levels that otherwise would have occurred. As a result of the temporarily increased repatriations, the repatriating firms' investment stock may decline, thus increasing the pre-tax return that stands to be earned by additional retained earnings. It may thus be profitable to follow an increase in repatriations with an increase in retained earnings. In effect, the temporary increase in repatriations will have accelerated or "borrowed" repatriations from future time periods.

In its international setting, the results of the new view of dividends has been supported by an increasing body of theoretical and empirical work. For example, studies have identified several means by which overseas subsidiaries can repatriate earnings while avoiding repatriation taxes, thus making repatriation taxes irrelvant as in the new view; parent firms, for example, can borrow against their subsidiaries' investments.[8] However, in the traditional view firms simultaneously send new capital abroad and repatriate earnings, a means, perhaps, of signaling profitability to its home-country managers and owners. There is also no distinction between young and mature foreign operations. Under this analysis, a permanent reduction of dividend taxes might cause earnings to be repatriated, but would also result in a new increase in U.S. firms' overseas investment. A temporary tax cut might likewise temporarily increase repatriations, but, as under the new view, the increase would likely be temporary and would likely not shift the long-run stock of investment from foreign locations to the United States.

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[8] Harry Grubert and John Mutti, *Taxing International Business Income: Dividend Exemption versus the Current System* (Washington: American Enterprise Inst., 2001), p. 19. For a summary of research on the international version of the new view, see Rosanne Altshuler, "Recent Developments in the Debate on Deferral," *Tax Notes*, April 10, 2000, pp. 255-268.

In short, then, a temporary cut in taxes on repatriation may stimulate a temporary increase in repatriations, but according to a prominent strain of economic theory, a permanent tax cut — or a tax cut that is perceived by investors as one that will ultimately become permanent — will have no impact. If, however, the enacted tax cut were to be temporary, what might be the magnitude of repatriations it would trigger? As noted above, supporters of the tax cut have cited a Smith/Barney study that indicates a pool of $300 billion in earnings has been reinvested abroad that would potentially benefit from the tax cut, if it were enacted. Data compiled by the Department of Commerce Bureau of Economic Analysis suggests the stock of unrepatriated earnings is at least that large: at year-end 1999, the stock was $403 billion; rough estimates suggest the stock grew to around $639 billion by year-end 2002. Given that approximately 75% of foreign income is earned by firms without sufficient foreign tax credits to offset U.S. tax, these figures suggest that around $479 billion of earnings have been retained abroad that would be subject to U.S. tax on repatriation. Again, however, this figure represents simply the pool of funds in a position to take advantage of the tax cut and not the volume of funds that would be repatriated.

Impact on the Domestic Economy

If the tax cut were to indeed stimulate increased repatriations, what would be its likely impact on the domestic economy? First, traditional economic theory is skeptical of the ability of repatriations to stimulate domestic investment. The reasoning is as follows: firms undertake investments based on the prospective attractiveness of investment opportunities, on the one hand, and the return savers (i.e., stockholders) require of their corporate-sector investments, on the other. An increase in cash flow in the form of larger repatriations would change neither the return that can be generated by domestic investment opportunities nor the return required by savers. Thus, the repatriation is thought unlikely to stimulate an increase in domestic investment. Rather, the repatriated dividends are more likely to be put to other uses: for example, the payment of dividends to existing stockholders or paying down of debt.

As noted above, several of the bills make the availability of the tax cut contingent on the repatriating firm adopting a plan for investing the repatriated funds. However, even the presence of such a plan may not induce a firm to increase its investment or, in effect, to use its repatriated funds to finance domestic investments. The reason is the fungibility of corporate funds; resources repatriated from abroad can finance domestic investment no more or no less effectively than funds whose origin is the United States. Thus, for example, a firm could adopt a plan that dedicates the repatriated funds to investment but at the same time it could switch domestic-source funds to other uses — for example, the payment of dividends. (Fungibility and related concepts also question the efficacy of several other mechanisms designed to augment their effect: for example, the limitation of qualified dividends to an excess over a past base period; and the linking of the tax cut to the presence of funds characterized as permanently reinvested abroad.)

Economic theory is also skeptical of the impact of an increase in repatriations as an economic stimulus because of the likely effect of repatriations on exchange rates and — in consequence — on trade. The adjustments work as follows: when the earnings of foreign subsidiaries are repatriated, they are converted from foreign currencies to U.S. dollars; the increased demand for dollars drives up the price of the dollar in foreign exchange markets. As a consequence of the dollar's appreciation, U.S. exports become more expensive for foreign buyers (and imports become cheaper for U.S. buyers). U.S. exports would thus temporarily decline, which would place a drag on the economy that would fully or partly offset any stimulative effect from the injection of repatriated funds into the economy.

The repatriation proposals would also likely have an impact on U.S. tax revenues. The Joint Committee on Taxation has estimated the revenue impact of two of the proposals: the repatriation tax cut in H.R. 2896 (the Thomas bill) and that in S. 1637 (the Senate Finance Committee bill).[9] According to the estimates, the dividend provision of H.R. 2896 would reduce taxes by $2.9 billion over 10 years; S. 1637 would reduce revenue by $3.8 billion over the same period. The slightly larger impact of the Finance Committee bill is perhaps a result of its slightly larger reduction in the applicable tax — to 5.25% rather than the equivalent of a 7% rate mandated by the Thomas bill. Beyond this, the bills show a similar pattern over time. Both are estimated to actually increase tax revenues in their first year, probably reflecting an underlying assumption in the estimates that repatriations would initially increase. In subsequent years, the proposals are predicted to reduce revenues by gradually diminishing amounts, which likely reflects an assumption that at least part of the initial increase in repatriations would be drawn from repatriations that would have been made in subsequent years. In the case of each bill the 10-year revenue loss from the repatriation measure alone makes up only a small portion of the bill's revenue loss: 3.6% in the case of the Finance bill and 1.7% in the case of the Thomas measure. (For example, larger revenue-losing items in S. 1637 include a deduction for income from domestic production and an extension of the carryforward period for foreign tax credits. Larger items in H.R. 2896 are its more generous depreciation allowances and repeal of Subpart F's coverage of certain types of sales and service income.)

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[9] Joint Committee on Taxation, *Estimated Revenue Effects of H.R. 2896, the American Jobs Creation Act of 2003*, JCX-71-03, Aug. 1, 2003; and *Estimated Revenue Effects of Modifications to the Chairman's Mark of S. 1637, the Jumpstart Our Business Strength (JOBS)* Act, JCX-86-03, Oct. 1, 2003.