The Daily Dish

Show Me the Money

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Eakinomics: Show Me the Money

On Tuesday, the Bureau of Economic Analysis (BEA) released "U.S. International Transactions: Second Quarter 2018." Inherently spellbinding, this release would normally draw a fairly small audience. But interest in cross-border cash flows has been piqued by the Tax Cuts and Jobs Act (TCJA).

Recall that one of the most significant reforms in the TCJA was the movement from a worldwide system of taxation to a territorial system. In the former, U.S. firms were taxed on profits regardless of where on the globe they were earned — with the caveat that the final tax was not imposed until the money was brought back (repatriated) to the United States. As a result, many firms had elected to leave earnings overseas, and the pile of unrepatriated cash was growing rapidly.

Under the new system, only those profits earned in the United States (the "territory") will be subject to the regular corporate income tax. Taken at face value, the switch from worldwide to territorial would permit those overseas stockpiles to escape tax entirely. To remedy this, the TCJA contained a one-time transition tax (15.5 percent for cash in liquid assets; 8 percent on other assets) on legacy overseas earnings, regardless of whether they are repatriated. That tax would be payable over the next 8 years.

This provision provides a quick test of the TCJA's efficacy. Since firms owe the tax no matter what, they should only repatriate the legacy earnings if the United States has a become a better environment in which to invest — hence the interest in money being brought into the United States. The BEA announced that $169.5 billion was repatriated in the second quarter, slightly down from a revised $294.9 billion in the first quarter. (This is a combination of current profits and legacy profits). Putting the two quarters together, the annualized pace of repatriation was $928.8 billion.

Is a trillion dollars of repatriation "large," and does it indicate success for the TCJA? A recent *Wall Street Journal* story seemingly would suggest not. "U.S. companies have moved cautiously in repatriating profits stockpiled overseas in response to last year's tax-law rewrite, after the Trump administration's assertions that trillions of dollars would come home quickly and supercharge the domestic economy." Unfortunately, this assessment is driven by a statement — "We expect to have in excess of $4 trillion brought back very shortly" — by President Trump in August. $4 trillion might reflect enthusiasm and aspiration, but it is well north of any other estimate of the potential repatriation sum. Indeed, most estimates cluster in the $1 to $1.5 trillion range, which is roughly the current pace. And this volume is well above historical norms — the volume of repatriated earnings in the first half of 2018 alone is more than in all of 2015, 2016, and 2017 combined — so the impact of the TCJA is fairly clear.

Repatriated dollars are the first tests of the TCJA corporate reforms, and things appear on track. The next steps are to transform that cash into greater investment and higher productivity.