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Photographer: Drew Angerer/Getty Images

Corporate America Extracts Cash From Bermuda After Tax Change

By Laura Davison

Jul. 24, 2019 9:10AM

- *Tech, chemical companies brought back the most back onshore*
- *Trump said tax law would bring back $4 trillion from offshore*

U.S. corporations brought back offshore profits in record numbers last year with nearly half of the repatriated funds coming from low-or-no-tax countries where companies had stashed cash prior to the 2017 tax law.

Nearly half of the cash U.S. multinationals brought back onshore during 2018 came from Bermuda—$231 billion—and the Netherlands—$138.8 billion, according to figures released by the Commerce Department's Bureau of Economic Analysis July 24. Ireland was the third largest source of repatriated cash, but the value is suppressed because of confidentiality rules in the country, according to the report.

The data give one of the first indications at how U.S. companies are deploying cash globally following an overhaul of the U.S. tax system, which cut the corporate tax rate to 21% from 35% and changed how the Internal Revenue Service taxes overseas corporate profits.

The figures show that chemical manufacturers and electronics producers—both industries that have historically relied heavily on offshore subsidiaries for tax purposes—brought back the most. The data also show U.S. direct investment abroad decreased by $62.3 billion to $5.95 trillion in 2018 as a result of companies repatriating cash.

The data give lawmakers a sense about how much the law, which overhauled how global companies pay taxes, changed corporate behavior.

U.S. corporations brought back about $876.8 billion over 2018 and the first quarter of 2019, according to Commerce Department figures released last month. That’s a fraction of the $4 trillion that President Donald Trump said would be returned to the U.S. as a result of his tax law.

Tax Avoidance

Companies had kept much of their overseas profit offshore to avoid a 35% tax that kicked in when they brought the money back to the U.S. The Republican tax law set a one-time 15.5% tax rate on cash and 8% on non-cash or illiquid assets repatriated to the U.S., regardless of where the profits sat.

Going forward, companies generally only pay U.S. taxes on the profits they earn domestically. However, the law included some exceptions, that means they can still owe on foreign profits. The global low-tax-intangible income levy, or Gilti, in the law was meant to keep U.S. corporations from stashing profits in low-or-no tax countries.

Economists and some tax lawyers have said Gilti actually encourages companies to earn money overseas, the opposite of Congress’s intention. Policymakers in Congress and the Treasury Department are closely watching how companies react to the law to see if there are unintended holes that allow corporations to minimize their tax bills.

Many corporations asked the Internal Revenue Service for more time to file their tax returns for 2018, the first under the new tax law. Once those are filed, it can take years for auditors and companies to resolve disputes about how much tax they owe.

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