

# Summary of Repatriated Dividend Study

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# Overview

- Description of the new law
- Data sources and limitations
- Statistics
  - by industry of filer
  - by country of incorporation and industry of distributing controlled foreign corporations (CFC's)

# What is the One-Time Dividend Received Deduction?

- 85% deduction of qualifying dividends received from CFC's
  - CFC –a corporation in which U.S. shareholders own more than 50% of the voting power or stock value
- Claimed once for a tax year ending between 10/22/2004 and 10/22/2006
- Must be used to fund permitted domestic investments

# What Are Qualifying Dividends?

- “Extraordinary” —amount exceeding average distributions over five year period
- Capped—at the greater of permanently invested foreign earnings or \$500 million
- Earmarked for approved investments—as outlined in a domestic reinvestment plan (DRP)
- Excludes debt increase—with some exceptions

## Data Sources and Limitations

- All returns from SOI's corporation sample reporting dividend deduction
  - Excludes audit adjustments and amended returns
  - Subject to sampling error
- Weighted to reflect population
  - 784 returns weighted to reflect 843 corporations

## Determination of the Characteristics of the CFC's Distributing the Dividends

- Matched by name to 2004 Form 5471 file
- Large dividends from unknown or missing CFC's
  - matched to current year Form 5471
  - matched to Form 1118, Schedule C
  - requested from taxpayers

# Statistics

- 843 corporations repatriated \$362 billion
  - \$312 billion qualified for the deduction
  - \$265 billion deducted
  - Compared to \$804 billion of accumulated, non-taxable E&P for all CFC's for Tax Year 2004
  
- ◆ Mostly large corporations repatriating substantial amounts
  - \$24 billion in average total assets
  - Average cash dividend of \$429 million
  - Average qualifying dividend of \$370 million

## Repatriated Dividends, By Major and Selected Minor Industries

(Money amounts in billions of dollars)

| Major Industry                                       | Number of Returns | Cash Dividends | Qualifying Dividends | Percentage of Total Qualifying Dividends |
|--|-------------------|----------------|----------------------|--|
| <b>All industries, total</b>                         | <b>843</b>        | <b>\$361.9</b> | <b>\$312.3</b>       | 100%                                     |
| Manufacturing  | 465               | 289.4          | 252.3                | 81                                       |
| Computer/ electronic equipment                       | 85                | 68.6           | 57.5                 | 18                                       |
| Pharmaceutical and medicine                          | 29                | 105.5          | 98.8                 | 32                                       |
| Wholesale and retail trade                           | 133               | 14.7           | 12.9                 | 4  |
| Information  | 49                | 14.6           | 13.2                 | 4  |
| Finance, insurance, real estate,<br>rental & leasing | 49                | 13.3           | 11.9                 | 4  |
| All other industries                                 | 147               | 29.8           | 22.1                 | 7  |



## Average Assets and Repatriated Dividends, By Major and Selected Minor Industries

(Money amounts in millions of dollars)

| Major Industry                                       | Average<br>Total<br>Assets | Average<br>Cash<br>Dividends | Average<br>Qualifying<br>Dividends | Qualifying<br>Dividends<br>as a % of<br>Cash<br>Dividends |
|--|----------------------------|------------------------------|------------------------------------|---|
| <b>All industries, total</b>                         | <b>24,003.8</b>            | <b>\$429.3</b>               | <b>\$370.5</b>                     | <b>86%</b>  |
| Manufacturing  | 12,744.8                   | 622.4                        | 542.5                              | 87  |
| Computer/ Electronic Equipment                       | 4,950.9                    | 806.7                        | 676.3                              | 84  |
| Pharmaceutical and Medicine                          | 27,187.7                   | 3,638.0                      | 3,406.2                            | 94  |
| Wholesale and retail trade                           | 2,320.4                    | 110.5                        | 96.7                               | 87  |
| Information  | 24,692.1                   | 297.7                        | 269.4                              | 91  |
| Finance, insurance, real estate,<br>rental & leasing | 71,553.1                   | 271.9                        | 243.2                              | 89  |
| All other industries                                 | 63,158.3                   | 202.9                        | 150.3                              | 74  |

## Repatriated Dividends, by Major and Selected Minor Industry of Distributing CFC

(Money amounts are in billions of dollars)

| Major Industry                                    | Number of CFC's | Cash Dividends | Qualifying Dividends | Percentage of Total Qualifying Dividends |
|---|-----------------|----------------|----------------------|--|
| <b>All industries, total</b>                      | <b>4,246</b>    | <b>\$361.9</b> | <b>\$312.3</b>       | 100%                                     |
| Manufacturing                                     | 1,361           | 168.8          | 156.5                | 50                                       |
| Pharmaceutical and medicine                       | 103             | 88.1           | 84.9                 | 27                                       |
| Wholesale and retail trade                        | 739             | 23.1           | 16.6                 | 5  |
| Finance, insurance, real estate, rental & leasing | 386             | 20.8           | 16.6                 | 5  |
| Bank or other holding companies                   | 509             | 97.7           | 82.6                 | 27                                       |
| All other industries                              | 1,251           | 51.5           | 40.0                 | 13                                       |

# The Effect of the Limitations

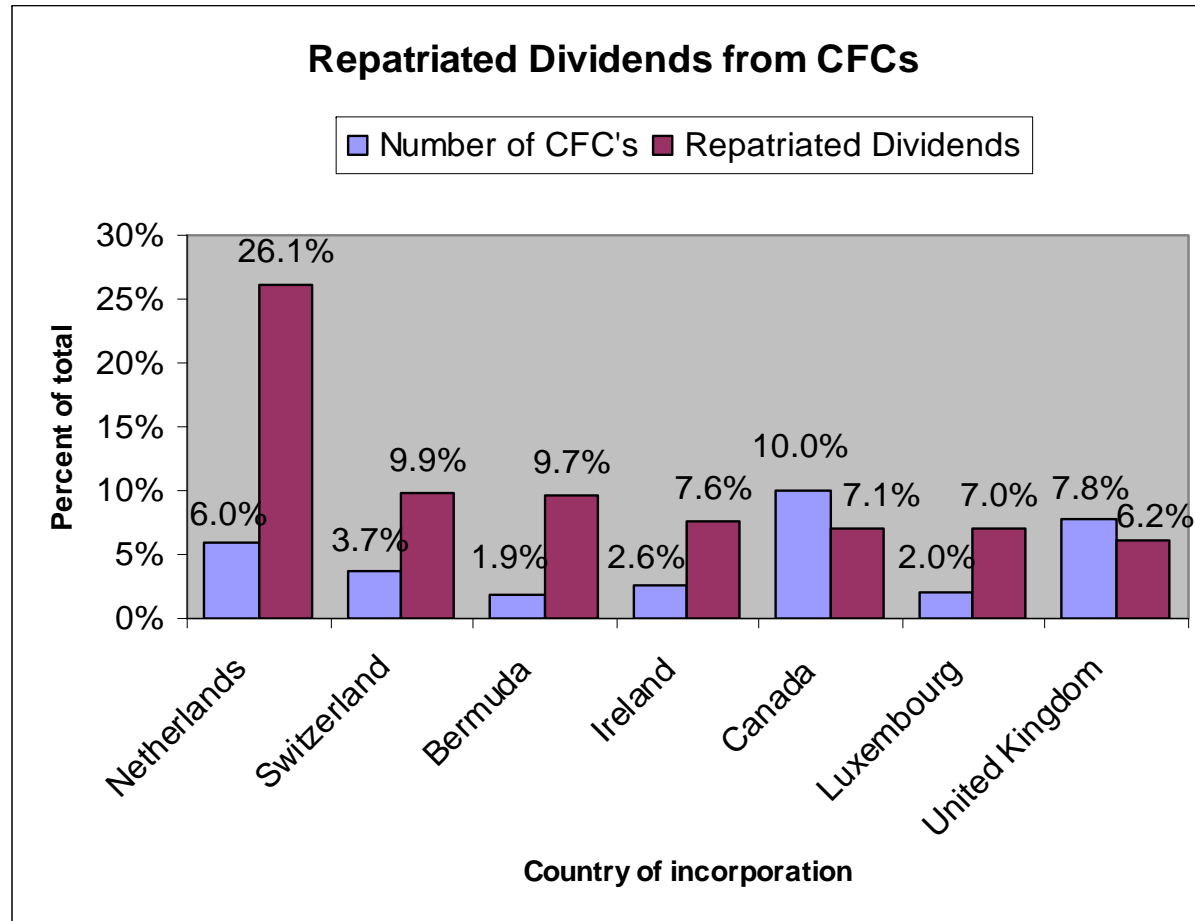
- 1) “Extraordinary”
  - 473 corporations (56%)
  - \$34 billion of total average base distributions
- 2) \$0.5 billion or foreign earnings cap
  - 38 corporations (5%)
- 3) Invested per Domestic Reinvestment Plan
  - 175 corporations (21%)
  - \$14.6 billion under extraordinary dividends
- 4) Increased debt
  - 53 corporations (6%)
  - \$0.2 billion

# When Will the Investment Be Completed?

## Planned Completion Dates for Reinvestment

| Completion Date for Investment | Number of Returns | Percentage of Total |
|--------------------------------|-------------------|---------------------|
| Total                          | 843               | 100%                |
| <b>By end of 2006</b>          | <b>419</b>        | <b>50</b>           |
| <b>By end of 2007</b>          | <b>171</b>        | <b>20</b>           |
| By end of 2008                 | 75                | 9                   |
| By end of 2009                 | 97                | 12                  |
| After 2009                     | 51                | 6                   |
| Not specified                  | 31                | 4                   |

# Percentage of Repatriated Dividends, by Country of Incorporation of Distributing CFC



## Number of Returns and Average Repatriated Dividends, By Select Countries

(Money amounts in millions of dollars)

| Country                   | Number<br>of<br>Returns | Average<br>Cash<br>Dividends | Average<br>Qualifying<br>Dividends | Qualifying<br>Dividends<br>as a % of<br>Cash<br>Dividends |
|---------------------------|-------------------------|------------------------------|------------------------------------|---|
| <b>All returns, total</b> | <b>843</b>              | <b>\$429.3</b>               | <b>\$370.5</b>                     | <b>86%</b>  |
| Bermuda                   | 47                      | 744.1                        | 676.6                              | 91  |
| Luxembourg                | 40                      | 636.0                        | 586.7                              | 92  |
| Netherlands               | 149                     | 633.7                        | 603.4                              | 95  |
| Switzerland               | 78                      | 458.7                        | 415.7                              | 91  |
| Ireland                   | 68                      | 405.7                        | 376.2                              | 93  |
| United Kingdom            | 206                     | 114.2                        | 81.7                               | 72  |
| Canada                    | 244                     | 104.7                        | 87.9                               | 84  |

# “Cherry Picking” Effect

Percentage of Cash Dividends Qualifying for the Deduction, by Country of Incorporation<sup>1</sup>

| Top Ten Countries |     | Lowest Ten Countries |     |
|-------------------|-----|----------------------|-----|
| Singapore         | 98% | Brazil               | 52% |
| Malaysia          | 98  | Philippines          | 51% |
| Netherlands       | 95  | Italy                | 43% |
| Hong Kong         | 94  | South Korea          | 42% |
| Cayman Islands    | 93  | Argentina            | 36% |
| Ireland           | 93  | South Africa         | 33% |
| Luxembourg        | 92  | Taiwan               | 28% |
| Bermuda           | 91  | Colombia             | 27% |
| Switzerland       | 91  | India                | 27% |
| Sweden            | 90  | Japan                | 10% |

<sup>1</sup> Does not include countries with low number of CFC's

# Revised Foreign Tax Credit

- \$5 billion of foreign taxes attributed to nondeductible portion of qualifying dividends
- 168 taxpayers reduced their foreign tax credit by \$3.2 billion (6.5%) due to additional limitation



# Summary of Findings

- \$362 billion was repatriated
- Nearly 1/3 brought home by pharmaceutical companies
- CFC's engaged in pharmaceutical or medicine manufacturing or defined as a bank holding or other holding company accounted for over half of the cash dividends
- Over 1/4 distributed from CFC's incorporated in the Netherlands
- Percentage of cash dividends qualifying for the deduction varied greatly by distributing country