Discussion of Bird Papers on Taxation and M&A

Mihir A. Desai

ITPF Brookings Conference

Primary Results

- Foreign acquirers are more likely to purchase more profitable U.S. targets
  – More so for majority transactions
  – More so for acquirers from havens than non-havens
- Increases in depreciation allowances decrease likelihood of foreign acquisition
- More “locked-out earnings” associated with greater likelihood of foreign acquisition
  – Varies by WW or territorial of acquirer country
  – Apparent for regimes that switch

Profitability Results - Suggestions

- Distinction between foreign and domestic profitability – leverage interactions
- Use industry controls only – with lower effects
- The majority/minority test is difficult to swallow
- Use variation in acquirer tax regime
- Use differences in tax rates in addition to havens
- Explore/Explain the role of losses
- Consider premia paid by foreigners and combined returns
- Links to broader cross-border m&a literature

Depreciation Results - Comments

- Can short-lived depreciation changes explain long-term merger investment decisions?
- Consider interactions with allocation rules
- Also…
  – Use variation in acquirer tax regime
  – Use differences in tax rates in addition to havens
  – Explore/Explain the role of losses
  – Consider premia paid by foreigners and combined returns

“Locked Out Earnings” Results - Comments

- Usage of PRE and Repatriation Cost
  - Cash abroad?
  - Accounting frictions?
  - Tax costs of repatriations?
  - Low foreign tax rates?
- Each is a distinct mechanism and the paper is unclear about which is operative
- Again, losses are puzzling
- Consider using AJCA dynamics

Overview

- Aside from these results, we know tha lots of other decisions are being shaped here – eg. offshore cash is shaping outbound activity

=> Inversions and policies toward them can't be understood without understanding the links to the broader market for corporate control

=> The link is that tax effects are manifest in both settings and that these transactions are points on a continuum

=> Changing tax incentives along this continuum will like shift the distribution of activity accordingly rather than limiting it - patchwork solutions vs. structural solutions