Discussion of Bird Papers on Taxation and M&A

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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 that 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 likely shift the distribution of activity accordingly rather than limiting it - patchwork solutions vs. structural solutions