

Accepted Manuscript

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PII: S0304-405X(17)30098-3
DOI: [10.1016/j.jfineco.2017.05.007](https://doi.org/10.1016/j.jfineco.2017.05.007)
Reference: FINEC 2771

To appear in: *Journal of Financial Economics*

Received date: 26 August 2015
Revised date: 11 July 2016
Accepted date: 9 August 2016

Please cite this article as: Tiantian Gu , U.S. Multinationals and Cash Holdings, *Journal of Financial Economics* (2017), doi: [10.1016/j.jfineco.2017.05.007](https://doi.org/10.1016/j.jfineco.2017.05.007)



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Tiantian Gu^{a, b}

Abstract

U.S. multinational firms hold significantly more cash than domestic firms. I study this cash differential using a dynamic model featuring corporate physical and intangible investment, cross-border decisions, and financial policies. I find that the cash differential diminishes by 42% if repatriation costs are set to zero. Hence, costly repatriation induces cash accumulation offshore. Further, firms that invest overseas have different ex ante cash policies from firms that do not. I examine this self-selection effect by eliminating heterogeneous intangibility across multinational and domestic firms, which reduces the cash differential by 28%. I also examine the likelihood of corporate inversion under federal regulations. The estimated annual tax loss to the U.S. Treasury from inversions is reduced from \$2.2 billion to \$1.3 billion if the requirements for foreign ownership are tightened from 20% to 50%.

JEL classification: C61; E22; F23; G32

Keywords: Cash holdings; Multinationals; Intangibles; Structural estimation

^a I am grateful to two anonymous referees and Bill Schwert (Editor) for suggestions that have substantially improved the paper. I gratefully acknowledge helpful comment from Rajesh Aggarwal, Olubunmi Faleye, Jayant Kale, Karthik Krishnan, and Anand Venkateswaran. I also thank seminar participants at Northeastern University.

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