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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

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