Effects of International Tax Provisions on Domestic Labor Markets

Juan Carlos Serrato, Stanford Graduate School of Business

Abstract

How does international taxation impact domestic workers? We study two fundamental elements of international tax systems by analyzing US provisions that isolate these elements. The first provision—the 1997 "Check-the-Box" regulations—lowered effective tax rates abroad by facilitating profit shifting from high tax foreign affiliates to tax havens. The second provision—the 2004 "repatriation holiday"—decreased tax costs of repatriating foreign earnings. Using a dynamic difference-in-differences framework, we estimate that local exposure to Check-the-Box significantly reduced domestic employment and earnings.

This result is consistent with multinationals substituting domestic and foreign activity in response to lower effective tax rates abroad. We find the repatriation holiday had no effects on labor markets, indicating foreign cash holdings of US MNCs are not an important source of financing for domestic business activity. We conclude that these watershed moments in the history of US international tax policy did not benefit domestic workers.