The Effect of U.S. Tax Reform on Foreign Acquisitions

Harald J. Amberger
Vienna University of Economics and Business

Leslie Robinson*
Tuck School of Business at Dartmouth College

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Abstract

The Tax Cuts and Jobs Act (TCJA) of 2017 marked a significant change in U.S. international tax policy, altering the tax costs associated with U.S. ownership of foreign assets. We examine the pattern of foreign acquisitions by U.S. firms, both before and after the TCJA, emphasizing the key tax reform provisions that alter incentives for outbound investment. We find considerable cross-sectional variation across target and acquirer characteristics in changes to the probability of foreign acquisition. Notably, we find a decrease in the likelihood that a highly profitable foreign target in a low-tax jurisdiction will be acquired by a U.S. firm, as the TCJA's Global Intangible Low-Taxed Income (GILTI) regime imposes an immediate U.S. tax on these foreign earnings. Our findings are important in light of the current U.S. administration's intention to make GILTI more burdensome. A stated intention of the TCJA was to improve the competitiveness of U.S. firms. Our study cautions that, through GILTI, the reform *reduces* U.S. firms' ability to compete in global M&A markets and that this situation would worsen if current proposals were adopted.

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* Corresponding author: 100 Tuck Hall, Hanover, NH 03755, United States.

1. Introduction

For two decades preceding the 2017 Tax Cuts and Jobs Act (TCJA), U.S. politicians debated whether and how to reform the international tax system. The U.S. then had a "worldwide system," which often resulted in U.S. taxes being due when foreign income was repatriated, thus discouraging U.S. multinational corporations (MNCs) from doing so. This tax system was thought to put U.S. MNCs at a disadvantage, compared to those based in countries with a "territorial system" that imposed no domestic taxes on the foreign profits of their resident firms.[1] Signed into law on December 22, 2017, the TCJA simultaneously introduced some features of a territorial system, i.e., elimination of U.S. taxation of repatriated dividends (the "repatriation tax"), along with new features of a worldwide system, i.e., the Global Intangible Low-Taxed Income (GILTI); this regime taxes some foreign income in the U.S. as it is earned, if foreign tax rates fall below a certain threshold rate. These changes to the U.S. international tax system were complemented by a substantial U.S. corporate income tax rate reduction, from 35 to 21 percent. Understanding the net effect on firms' incentives under this new hybrid system is imperative, in light of current proposals to further expand GILTI (Alston & Bird, 2021).

We examine the TCJA's effect on U.S. firms' decisions to acquire foreign targets. How these decisions changed is of particular importance, as cross-border patterns of mergers and acquisitions (M&As) were an often-cited indicator that the U.S. international tax system was flawed. In the years immediately preceding the TCJA, Lyon (2020) highlights that an increasing share of cross-border M&As transferred assets and ownership of U.S. firms to foreign ownership. Not only were U.S. firms a target for acquisition by foreign firms (Bird et al., 2017), they were also disadvantaged in bidding for foreign targets (Feld et al., 2016). A change in these patterns after 2017 will reveal whether or not the TCJA addressed these flaws.

[1] A high corporate income tax rate of 35 percent, imposed upon the repatriation of foreign income (with relief granted for foreign tax), made the tax cost of U.S. ownership of foreign assets high, distorting investment decisions by U.S. firms (Desai and Hines, 2003). Moreover, the incentive to postpone the repatriation of foreign income led to substantial amounts of cash being held abroad (Foley et al., 2007; Gu, 2017) and being spent, in part, on less profitable foreign acquisitions (Edwards et al., 2016; Hanlon et al., 2015; Harford et al., 2017).

Our empirical results show a decreased probability that a foreign target is acquired by a U.S. firm after the reform. This effect is concentrated in highly profitable targets in low-tax jurisdictions and is therefore driven by GILTI. We also find it less likely that a U.S. acquirer with untaxed foreign earnings will close a foreign acquisition, but more likely if the acquirer has little foreign presence or is debt constrained.[2] Taken together, these results suggest that, while the TCJA led to increased M&A activity for some U.S. firms, GILTI disadvantaged U.S. acquirers. Our results indicate that the Biden administration's proposal to strengthen and expand GILTI (discussed in Section 2.2) would further reduce U.S. firms' ability to compete in global M&A markets.

The TCJA is a robust setting in which to empirically investigate the effect of changes in tax law on outbound acquisitions, because passage of the act was a relatively exogenous event (Carrizosa et al., 2020; Wagner et al., 2018). Although tax reform was likely after the 2016 U.S. election, the framework was not presented until September 2017; the act itself was passed only three months later (Gaertner et al., 2020), limiting the opportunity for anticipatory actions. In addition, the TCJA did not cause significant policy responses at the international level. The major U.S. trading partners did not substantially change their tax rules (Chalk et al., 2018). Changes to other countries' tax systems thus do not cloud the TCJA's economic effects, strengthening the inferences we can draw by examining the reform.[3]

The TCJA could have changed the incentives for foreign acquisitions in several ways. On the one hand, repealing the U.S. repatriation tax reduces the expected tax rate on income earned abroad, thereby lowering the marginal cost of foreign investment (Liu, 2020). This change strengthens the incentive for foreign acquisitions, because U.S. firms are no longer tax-disadvantaged owners of foreign targets (Desai and Hines, 2003; Feld et al., 2016). On the other hand, repealing the repatriation tax removes an internal capital market friction. By eliminating the tax cost of repatriating foreign earnings, the TCJA raises the

[2] "Untaxed foreign earnings" refer to the active earnings of foreign corporate affiliates that were not taxed in the U.S. because they were not yet repatriated. In contrast, passive earnings of foreign corporate affiliates are generally taxed by the U.S. on an accrual basis under Subpart F. Those earnings can be repatriated tax-free because they were taxed by the U.S. when earned (i.e., they are not "untaxed foreign earnings").

[3] Our main results are insensitive to dropping either target or acquirer observations in countries that decreased their statutory corporate income tax rates in the post-TCJA period.

opportunity cost of reinvesting these profits abroad (Albertus et al., 2019; Arena and Kutner, 2015; Edwards et al., 2016), weakening the incentive for some foreign acquisitions. Lowering the corporate income tax rate from 35 to 21 percent provides U.S. firms with more after-tax cash flow in the U.S. (Dyreng et al., 2020), which can be used to finance foreign acquisitions. Yet GILTI, intended as a backstop to profit-shifting (Markle, 2016), discourages U.S. firms from acquiring highly profitable targets in low-tax jurisdictions. Collectively, the TCJA provides us with multiple sources of cross-sectional variation across acquirer and target characteristics.

To identify the effect of the TCJA on foreign acquisitions, we employ multiple empirical strategies. In our first set of tests, we examine whether the reform changed the likelihood that a foreign target is acquired by a U.S. firm.[4] This test provides insights into the impact of the TCJA on U.S. firms' activity in foreign M&A markets. Moreover, we can test whether the reform (or specific provisions of it) changed the incentives of U.S. firms to acquire certain types of targets. We collect data on cross-border acquisitions completed between 2011 and 2019 from Bureau van Dijk's Zephyr database. Our global sample includes 3,266 targets, located in 46 countries. By including target country and target industry fixed effects, we identify the effect of the reform from over-time variation in the probability that a foreign target is acquired by a U.S. firm within each target industry and country.

The likelihood that a foreign target is acquired by a U.S. firm, we find, decreases significantly after the reform. In economic terms, our estimates suggest a drop by 3.5-4.5 percentage points. This result, which holds across multiple specifications, indicates that the TCJA generally weakened the incentives of U.S. firms to engage in foreign M&A activity. We conduct several cross-sectional tests to assess whether this response varies across different types of foreign targets and to tie our main result to

[4] Lyon (2020) examines the impact of the TCJA on deal valuations. The theoretical (and expected empirical) impact of any tax reform on deal valuations is *a priori* less clear than for deal counts or deal probabilities, given the possibility that firms at different points along the deal value distribution may be differentially susceptible to different M&A motives. Thus, for instance, transaction volume could be increasing alongside declining valuations, if relatively small (low value) acquisitions benefit more from the tax reform than do relatively large (high value) deals. We are concerned with understanding a firm's motives to pursue and complete M&A transactions regardless of size.

specific provisions of the TCJA. We find that the decrease in the probability of being acquired by a U.S. firm is concentrated in highly-profitable targets located in low-tax countries. We attribute this result to the adoption of GILTI. Moreover, we find a stronger reduction in probability for targets located in low-growth environments. We attribute this result to the repeal of the repatriation tax, which increased the opportunity cost of investing abroad and reduced the attractiveness of low-growth investments.

Our target-level analysis is a pre-post comparison of the probability that a foreign target is acquired by U.S. firms. It thus does not compare trends in the foreign M&A activity of U.S. acquirers to those of non-U.S. acquirers. To strengthen our inferences in this regard, we employ an alternative identification strategy based on Feld et al. (2016). In a difference-in-differences (DiD) framework, we test whether the likelihood that the *acquirer* of a foreign target is located in the U.S. (treatment group), relative to the likelihood that the acquirer resides in another country (control group), changed in response to the TCJA. Consistent with our target-level analysis we find that the probability that the acquirer of a foreign target is located in the U.S. decreases after the reform.

This approach also allows us to test for parallel pre-reform trends in the foreign M&A activity of U.S. acquirers and non-U.S. acquirers, respectively. We estimate yearly treatment effects (with 2017 as our base year) and find insignificant estimates for the pre-reform period (2011-2016), indicating similar trends in M&A activity for acquirers in all locations. Next, we conduct placebo tests, assuming pseudo reforms in the U.S. for each pre-reform year, and find no change in foreign M&A activity in response to these pseudo reforms. Collectively, these tests rule out that differential pre-reform trends in foreign M&A activity of U.S. acquirers and non-U.S. acquirers drive our results and strengthen our conclusion that the firms in our sample indeed responded to the U.S. tax reform of 2017.

The TCJA generally weakened the incentives of U.S. firms to make foreign acquisitions, as the above results indicate. We next investigate whether the foreign investment responses documented in our target-level analysis vary across different types of *potential* U.S. acquirers. We also test which provisions of the reform might explain such variation. To do so, we combine our dataset on cross-border deals with financial-statement data from Compustat. This data-merge yields a sample of potential U.S. acquirers,

with information on the annual number of foreign acquisitions and the total amount spent on these deals. We define multiple treatment and control groups, conditional on the pre-reform characteristics of potential U.S. acquirers, and conduct DiD tests to identify heterogeneous investment responses. We include firm fixed effects in all tests to control for unobservable time-invariant firm characteristics and to identify the effect of the TCJA from within-firm variation in the incentives for foreign M&A.

First, we expect that the repeal of the repatriation tax weakened the incentives for foreign acquisitions for those U.S. firms that had untaxed (by the U.S.) foreign earnings before the reform. Prior to 2017, these firms had faced a tax incentive to hold cash abroad (Foley et al., 2007) and to reinvest their foreign earnings in less profitable M&A transactions (Edwards et al., 2016; Hanlon et al., 2015). By eliminating the tax cost of repatriation, the TCJA increased the opportunity cost of reinvesting those profits abroad. Second, we predict stronger incentives for foreign acquisitions for those U.S. firms with no significant foreign presence prior to the reform. These firms are likely to finance foreign acquisitions through domestic funds; for them, the repeal of the repatriation tax reduced the marginal cost of investing abroad (Liu, 2020). Moreover, the lower corporate income tax rate of the reform should provide domestic firms with additional after-tax cash flows; these could be used for foreign acquisitions. Finally, and again due to the lower corporate income tax rate, we anticipate stronger incentives for foreign acquisitions for those U.S. firms with constrained access to public debt markets. Given high costs of borrowing (Faulkender and Petersen, 2006), these firms should benefit from cash-tax savings, which would facilitate their foreign M&A activity. Our empirical tests support each of these predictions. Our results suggest that, depending on the pre-reform characteristics of a potential U.S. acquirer, the individual provisions of the TCJA led to heterogeneous foreign investment responses among U.S. firms.[5]

Our study contributes to the literature by assessing the effect of the 2017 tax reform on foreign acquisitions by U.S. firms. While a concurrent study by Beyer et al. (2017b) fails to find evidence for

[5] Our treatment and control firms exhibit similar pre-reform trends in foreign M&A activity in all tests. To further corroborate our results, we compare foreign M&A activity of U.S. firms to that of Canadian firms, as the latter group was not directly affected by the reform (Carrizosa et al., 2020). Corroborating our target-level results, we document a relative decline after the TCJA in the probability of acquiring a foreign target for U.S. firms.

changes in foreign capital expenditures, our results suggest that the TCJA influenced foreign investment behavior at the extensive margin by lowering the average propensity of U.S. firms to acquire foreign targets. The introduction of a hybrid tax system led to heterogenous responses that have important tax policy implications. The key territorial feature of the TCJA – the elimination of the U.S. repatriation tax – improved the competitiveness of some U.S. firms in the global M&A market and removed investment distortions. MNCs with untaxed foreign earnings made fewer (and more value-enhancing) foreign acquisitions after the TCJA, while MNCs with limited foreign operations or that faced debt constraints were more likely to acquire a foreign target. In contrast, GILTI – the key worldwide feature of the TCJA – resulted in a decrease in the competitiveness of U.S. firms, when bidding for profitable low-tax targets.

The important policy implication of our study is that anti-abuse provisions like GILTI can significantly thwart attempts toward territoriality in a tax system. The GILTI regime currently operates as if all U.S. ownership of highly profitable targets in low-tax jurisdictions occurs for purposes of tax avoidance. By assuming so, the TCJA puts all U.S. firms at a greater disadvantage, when bidding specifically for these targets, than did the pre-2017 tax system. The Biden administration currently proposes to expand the number of cases where U.S. ownership of a foreign subsidiary incurs an immediate U.S. tax. Given that a stated intention of the TCJA was to improve the competitiveness of U.S. firms, our study cautions that GILTI *reduces* their competitiveness and that the current proposals would do so as well, if they were adopted.

2. Related literature and hypothesis development

2.1 Taxes and cross-border M&A activity

Studies that analyze cross-border M&A activity often control for differences in taxation, but pay little attention to the role of taxation itself. Bertrand et al. (2007) include taxes among their explanatory variables, for example, when estimating a conditional logit model over 400 European cross-border acquisitions in the 1990s. Other studies choose to focus on a single aspect of taxation, such as taxes imposed on buyers and sellers at the time of the deal or taxes on the subsequent profits of the combined entity. For instance, some studies focus on the *corporate* capital gains tax (Erickson, 1998; Erickson and

Wang, 2000; Maydew et al., 1999; Todtenhaupt et al., 2020), while others focus on the *personal* capital gains tax (Ayers et al., 2007, 2004, 2003). Collectively, this work documents that taxes on the selling shareholders affect the probability a deal will occur, as well as the structure of the deal and the acquisition premium; all but Todtenhaupt et al. (2020) focus on domestic U.S. M&As.

Another distinction is whether a study addresses the target's tax system or that faced by the acquiring firm. Here, the cross-border nature of M&As matters. The statutory tax rate in the target's country is most often explored (Arulampalam et al., 2019; Coeurdacier, 2009; di Giovanni, 2005; Erel et al., 2012; Herger et al., 2016). This literature generally finds a negative elasticity of M&A activity with respect to the target country's tax system. Bradley et al. (2020), for example, find that the introduction of a patent box in the target country increases the likelihood of targets being acquired, if no additional nexus requirements are imposed. Huizinga et al. (2012) find that non-resident dividend withholding taxes imposed by a target country dampen cross-border M&As.

Studies that focus on the tax system faced by the acquiring firm are the ones most closely related to ours. In the economics literature, the ownership neutrality concept introduced by Desai and Hines (2003) describes a tax system that does not distort the ownership of assets. Capital ownership neutrality requires a level playing field for all bidders pursuing a foreign acquisition. When the acquirer is located in a country with a worldwide tax system, a cross-border M&A can trigger additional taxation of the target's income in the acquirer's country (Huizinga et al., 2012; Huizinga and Voget, 2009; Voget, 2011). For foreign acquisitions financed through domestic funds, a repatriation tax imposes an additional tax cost on future income earned by the target (Liu, 2020). Such taxes handicap the acquisition of foreign targets by acquirers expecting to face these repatriation tax burdens.

Only three major acquiring countries in the cross-border M&A market have imposed potentially significant repatriation taxes on a foreign target's income: the UK, Japan, and the U.S. Feld et al. (2016) found that the repeal of repatriation taxes in Japan and the UK increased the number of foreign acquisitions, with a much larger effect in Japan. When these authors simulated a similar policy switch in the U.S., the number of cross-border acquisitions increased by 11 percent.

A number of aspects make the U.S. tax system, and U.S. firms, quite different from those in Japan and the UK. First, in the 2017 reform of its tax code the U.S. did not "abolish" its worldwide tax system. Instead, it moved to a quasi-territorial system that, due to the GILTI regime (described below), is more burdensome for some firms than the old system. Second, some U.S. firms were quite active in acquiring foreign targets prior to the reform.[6] Hanlon et al. (2015), Edwards et al. (2016), and Harford et al. (2017) show that U.S. firms with a greater accumulation of foreign cash, due to repatriation tax avoidance (i.e., "locked-out earnings" or "locked-out cash"), are more likely to acquire foreign targets. However, all three studies find these investments to be less value-enhancing, in terms of deal announcement returns, buy and hold returns, and returns on assets.

Bird et al. (2017) test a related hypothesis in the U.S. domestic M&A market. They find that U.S. firms with greater locked-out earnings are more likely to be acquired by foreign firms located in countries with a territorial tax system, than they are by U.S. companies, because the foreign firms can avoid the repatriation tax on their U.S. targets' foreign profits. These researchers corroborate their results by looking at countries that switched from a worldwide to a territorial tax system (i.e., the UK and Japan). After the switch, acquirers from switching countries increase their preference for U.S. targets with significant locked-out earnings.

2.2 Pertinent TCJA provisions and hypothesized effects on outbound M&A activity

The core provisions of the 2017 TCJA were meant to address the allegedly uncompetitive nature of the U.S. corporate tax system and its perceived role in so-called inversion transactions, which had gained the public's attention.[7] In this section and in Figure 1, we provide an overview of the provisions we expect to have a material impact on the incentives for foreign acquisitions by U.S. firms. We discuss

[6] The literature is mixed with respect to the impact of the U.S. repatriation tax on the acquisition of domestic U.S. targets by U.S. acquirers. Hanlon et al. (2015) find that repatriation taxes are positively associated with foreign but not with domestic M&A activity. Martin et al. (2015) find that repatriation taxes are positively associated with both foreign and domestic M&A activity. Harris and O'Brien (2018) find that repatriation taxes are negatively associated with domestic M&A activity. See Chen and Shevlin (2018) for a discussion.

[7] An inversion describes the process of re-domiciling for tax purposes. Prior to the TCJA, the high U.S. corporate income tax rate and the repatriation tax on foreign earnings provided a tax incentive for firms to move their tax domicile from the U.S. to a more favorable taxing jurisdiction (see, e.g., Babkin et al. (2017)).

each individual TCJA provision in more detail in Appendix A.

The most significant domestic reform was the reduction in the U.S. federal corporate income tax rate from 35 to 21 percent. The resulting tax rate put the U.S. in line with the average corporate income tax rate in the OECD, reducing firms' incentives to shift operations (and income) out of the U.S. The most significant international reform was the abolishment of the U.S. repatriation tax. Prior to the TCJA, a U.S. parent company faced a 35 percent U.S. corporate income tax (minus applicable foreign tax credits) on the dividends received from its foreign subsidiaries. To avoid this repatriation tax, U.S. MNCs often retained their earnings in no- or low-tax countries—referred to as the "lock-out effect." By no longer subjecting income earned by foreign subsidiaries to U.S. taxation, the TCJA was heralded as incorporating territoriality into the U.S. tax system, similar to the practices followed by other developed countries. As part of its transition to the new system, the U.S. imposed a one-time transition tax on the untaxed foreign earnings U.S. MNCs had accumulated as of 2017.

The reduction in the corporate income tax rate impacted all existing and potential U.S. operations by increasing firms' expected after-tax cash flows (Dyreng et al., 2020). To the extent that the increased cash flow attenuated financial constraints and provided additional liquidity that could be used to acquire foreign targets, the reduction in the tax rate would have increased *outbound* M&A activity. How the repeal of the repatriation tax would affect incentives for foreign acquisitions is less clear. On the one hand, eliminating the lock-out effect increased the opportunity cost of reinvesting abroad, weakening incentives for foreign acquisitions. On the other hand, repealing the repatriation tax reduced the marginal cost of funding foreign acquisitions through domestic funds, increasing incentives for foreign acquisitions (Liu, 2020). Hence, depending on a U.S. MNC's investment opportunities and the marginal source of funding for foreign investment, eliminating the repatriation tax could result in expansion of either the domestic or the foreign operation, including through acquisitions.

The TCJA also included two provisions targeted at discouraging one type of investment, while encouraging another. Acting as the "stick" and the "carrot," respectively, the Global Intangible Low-tax Income (GILTI) regime discourages U.S. ownership of intellectual property (IP) in low-tax jurisdictions,

while the Foreign-Derived Intangible Income (FDII) regime encourages U.S. ownership of IP in the U.S., specifically when that IP is used to serve foreign customers.[8] As income earned from IP ownership is often difficult to observe, the TCJA infers IP profits under both regimes to be those exceeding a 10 percent return on tangible assets. These "excess" profits are penalized under GILTI if earned abroad and rewarded under FDII if earned in the U.S. By being so clearly defined in the tax code, these two TCJA provisions provide us with an opportunity to test for changing M&A incentives.

GILTI was introduced as a backstop to profit-shifting incentives, which may be stronger when foreign income is exempt from U.S. taxes (Markle, 2016). As such, GILTI imposes an immediate U.S. tax on IP income earned outside the U.S., if it is not subject to a sufficient level of taxation (currently around 13 percent) in the foreign jurisdiction; the Biden administration is proposing to increase this rate to 25 percent, just above the OECD's average corporate income tax rate in 2020. Even at 13 percent, GILTI clearly discourages outbound acquisitions by U.S. firms of profitable targets in low-tax jurisdictions, because it increases the effective tax cost of earning such profits. The Biden administration is also proposing to eliminate the exemption for the 10 percent return on tangible assets, instead subjecting all foreign profits earned by U.S. firms to a minimum tax rate. Both the 10 percent return and the foreign tax rate are currently determined as an average across an MNC's entire foreign operations; the Biden administration is proposing, instead, to compute GILTI on a country-by-country basis. Each of these proposed changes would bring more foreign income under the GILTI regime, making the U.S. system more worldwide than territorial, and reflecting a much higher tax cost to U.S. MNCs operating abroad.

These TCJA provisions – reduction in the U.S. corporate income tax rate, elimination of the U.S. repatriation tax, and introduction of FDII and GILTI – each clearly change the incentives for U.S. firms to make foreign acquisitions. The lower corporate income tax rate should facilitate foreign acquisitions by increasing the cash available to invest abroad. Elimination of the repatriation tax could either increase or

[8] The TCJA also included a Base Erosion Anti-Abuse Tax (BEAT), intended to discourage U.S. firms from shifting profits out of the U.S. via outbound intercompany payments. We discuss BEAT in Appendix A, but do not include it in our empirical tests. The BEAT provisions are relatively easy to avoid (Laplante et al., 2021), and we do not think they had clear incentive effects on outbound acquisitions of U.S. firms.

decrease outbound M&A activity by U.S. firms, depending on the marginal source of funds and access to capital, as well as foreign investment opportunities. FDII should decrease outbound M&A activity, by making the relative cost of operating in the U.S. versus abroad more favorable to the U.S., while GILTI should reduce U.S. acquisitions of highly profitable targets in low-tax countries. However, the net effect of these incentives will depend on how firm-specific and target-specific facts interact with the TCJA provisions. Therefore, our empirical tests consider how these changes to the U.S. tax system alter the incentives for foreign acquisitions, conditional on firm (both foreign target and potential U.S. acquirer) characteristics.

3. Empirical setup, data, and descriptive statistics

3.1 Empirical setup

Our empirical strategy is twofold. First, we examine foreign target firms and assess whether their likelihood of being acquired by a U.S. parent changed in response to the TCJA. This target-level analysis sheds light on how the reform affected U.S. firms' level of activity in foreign M&A markets. We also can assess whether the reform changed U.S. firms' incentives to acquire certain types of foreign targets. We focus on deal probabilities, because the expected impact of any tax reform on deal valuations is *a priori* less clear. For instance, transaction volume could decrease alongside increasing valuation if larger (higher value) acquisitions benefit more from the reform than do smaller (lower value) ones, i.e., if the expected tax benefits of larger deals are significantly greater, on average, than those of smaller deals.

Second, we analyze U.S. firms and test whether the reform changed the incentives for foreign acquisitions conditional on a potential U.S. acquirer's characteristics. In this acquirer-level analysis, we test whether foreign investment responses, documented at the target level, vary across different types of potential U.S. acquirers. We then investigate which key reform provisions might drive these heterogeneous responses. In sum, our twofold empirical strategy allows us to consider some of the more nuanced effects of the TCJA, as outlined in Figure 1.

3.1.1 TCJA and U.S. acquisitions of foreign targets (target-level analysis)

To test for the effect of the TCJA on U.S. acquisitions of foreign targets, we examine the

likelihood that foreign target *i* is acquired by a U.S. firm. To this end, we estimate the following linear probability model:[9]

$$Prop(USAcq)_i = \alpha_j + \alpha_c + \beta_1 Post_t + \beta_2 LN(Assets)_{i,t-1} + \beta_3 ROA_{i,t-1} + \beta_4 Leverage_{i,t-1} + \beta_5 Intangibles_{i,t-1} + \beta_6 Loss_{i,t-1} + \varepsilon_i \ , \quad (1)$$

where *USAcq* is an indicator variable equal to one if foreign target *i* has a U.S. acquirer, and zero if it is acquired by a non-U.S. firm.[10] Our independent variable of interest, *Post*, is an indicator variable equal to one if target *i* is acquired after the TCJA, i.e., in the years 2018 or 2019, and zero otherwise, i.e., between 2011 and 2017. β_1 captures the effect of the TCJA on the probability that a foreign target has a U.S. acquirer. A negative (positive) coefficient on β_1 suggests that the tax reform reduced (increased) the probability of being acquired by a U.S. firm.

We include target industry fixed effects (α_j), defined at the one-digit NACE industry level, and target country fixed effects (α_c). These fixed effects absorb the impact of time-invariant target industry and country characteristics. By including these fixed effects, we identify the effect of the TCJA from over-time variation in the probability that a foreign target is acquired by a U.S. firm within each target industry and country. In a robustness test, we replace the separate fixed effects with target country-industry fixed effects and find consistent results (see column (5) of Table 2).

In addition to these industry- and country-level controls, we follow Bird et al. (2017) and control for characteristics of the target firm that could influence its likelihood of having a U.S. acquirer. Specifically, we control for target size by including the natural logarithm of target total assets (*LN(Assets)*). We also control for profitability (*ROA*), non-current liabilities (*Leverage*), and intangible assets (*Intangibles*), all scaled by total assets. These variables control for differences in income-shifting strategies between U.S. and non-U.S. acquirers (Kohlhase and Pierk, 2020; Markle, 2016) that could

[9] Including fixed effects in non-linear logit or probit models could cause the incidental parameters problem discussed in Allison (2009) and Greene (2004). Linear probability models are less prone to this concern and therefore are preferable in fixed-effects estimations with a binary dependent variable (Wooldridge, 2010).

[10] Following Hanlon et al. (2015), we define *USAcq* based on the location of the global ultimate owner of the acquirer. Hence, an acquisition by a foreign subsidiary of a U.S. firm is classified as a U.S. acquisition, taking into account that firms could use cash held in their foreign subsidiaries to acquire foreign targets.

affect the relative attractiveness of a foreign target.

Finally, we add *Loss* as an indicator variable equal to one if target *i* incurs a financial-statement loss. Losses could alter the future effective tax rate of the target and thus affect its attractiveness (Bird, 2015). Aside from these tax aspects, most of our control variables proxy for (future) target performance (Bird et al., 2017). We lag all variables by one year to capture target characteristics in the year prior to the M&A deal. In untabulated tests, we replace the annual values of our variables with their three-year averages (Bradley et al., 2020) and find consistent results. We define the variables and outline the respective data sources in Appendix B.

3.1.2 TCJA and outbound M&A activity of U.S. firms (acquirer-level analysis)

To analyze the effect of the TCJA on outbound M&As of potential U.S. acquirers, we estimate the following linear probability model, which models the likelihood that U.S. firm *i* acquires a foreign target in year *t*:

$$\begin{aligned} Prop(ForAcq)_{i,t} = \ & \alpha_i + \alpha_t + \beta_1 Post_t + \ \beta_2 \sum Treated_i + \beta_3 Post_t * \sum Treated_i + \\ & \beta_4 SalesGrowth_{i,t-1} + \beta_5 WorkingCapital_{i,t-1} \ + \\ & \beta_6 Leverage_{i,t-1} + \beta_7 MTB_{i,t-1} + \beta_8 Size_{i,t-1} + \varepsilon_{i,t} \ . \end{aligned} \tag{2}$$

The dependent variable, *ForAcq*, is an indicator variable equal to one if firm *i* acquires at least one foreign target in year *t*, and zero otherwise. In line with Equation (1), *Post* takes the value of one for years after the TCJA, and zero for years prior to the reform. Vector *Treated* includes a set of treatment indicators (*RepatTaxCost*, *Domestic*, and *NonInvGradeRating*) to identify differential responses in M&A activity to the reform, conditional on the pre-reform characteristics of firm *i*. First, *RepatTaxCost* is an indicator variable equal to one if firm *i* reports repatriation tax costs (i.e., the firm has untaxed (by the U.S.) foreign earnings) prior to the TCJA (treated firms), and zero if repatriation tax costs are zero (control firms).[11] Second, *Domestic* is an indicator variable equal to one if firm *i* is classified as domestic

[11] We calculate a firm's repatriation tax costs in a given year (*RepatTax*) following the approach in Foley et al. (2007). We set missing values for repatriation tax costs to zero. Our results are robust to excluding firms that report non-zero or non-missing foreign income taxes, but missing or zero foreign pre-tax income in a given year. As an alternative proxy, we use required firm-level disclosures of the TCJA transition tax to measure untaxed foreign earnings more directly (*TransitionTax*) and find consistent results (see Section 4.2.).

(i.e., without a significant foreign presence) prior to the TCJA (treated firms), and zero if the firm is classified as a multinational (control firms).[12] Third, *NonInvGradeRating* is an indicator variable equal to one if firm *i* has no or a non-investment grade credit rating prior to the reform (treated firms), and zero if firm *i* has an investment grade rating (control firms).[13, 14]

We separately interact all treatment indicators with *Post*. We expect a negative coefficient on β_3 for *RepatTaxCost*, since the repeal of the repatriation tax increases the opportunity cost of reinvesting profits abroad. Specifically, this provision reduces the tax cost of distributing foreign funds to the U.S. parent, making the repatriation of foreign profits relatively more attractive and weakening the incentives of firms with untaxed foreign earnings to re-invest these earnings through foreign M&As. Conversely, we predict positive coefficients on β_3 for *Domestic* and *NonInvGradeRating*. Domestic firms are more likely to finance their foreign acquisitions through domestic funds, in which case the repeal of the repatriation tax reduces the marginal cost of investing abroad. Moreover, the lower corporate income tax rate should provide these firms with greater after-tax cash flows. Similarly, firms with constrained access to debt markets (*NonInvGradeRating*) should benefit from domestic cash-tax savings, facilitating foreign M&As.

We include firm fixed effects (α_i) and year fixed effects (α_t). Firm fixed effects control for the effect of unobservable time-invariant firm characteristics on the firm's likelihood of acquiring a foreign target in year *t*. Year fixed effects absorb the impact of time-specific shocks and of the business cycle on foreign M&A activity. With this research design, we test how the probability to acquire foreign targets changed due to the reform within treated firms, relative to control firms. As a result, we identify the effect of the TCJA from within-firm variation in the incentives for foreign acquisitions. We note that firm and year fixed effects absorb the coefficients on *Post* and *Treated.*

[12] We classify a firm as domestic if its foreign pre-tax income is zero or missing.
[13] We calculate *RepatTaxCost*, *Domestic*, and *NonInvGradeRating* over the period 2014 to 2016. We compute long-run measures to alleviate endogeneity concerns (Klassen and Laplante, 2012). We choose 2016 as the end point because, with the TCJA enacted in December 2017, it is the last fiscal year unaffected by the reform.
[14] We note that *NonInvGradeRating* is negatively correlated with *Leverage* ($p < 0.01$). Thus, firms in our sample with no or a non-investment grade rating exhibit lower leverage ratios than firms with an investment grade rating, consistent with the former group having constrained access to debt markets (Faulkender and Petersen, 2006).

In line with prior research (Hanlon et al., 2015; Harford, 1999), we control for several determinants of foreign M&A activity. Specifically, we include annual sales growth (*SalesGrowth*), non-cash working capital (*WorkingCapital*), and long-term debt (*Leverage*). *WorkingCapital* and *Leverage* are both scaled by total assets. We add the market-to-book value of equity (*MTB*) to capture differences in firm-level growth opportunities and the natural logarithm of total assets (*Size*) to control for firm size.[15] Consistent with Equation (1), we lag control variables by one year to capture firm characteristics in the year prior to foreign acquisitions. We define variables and outline respective data sources in Appendix B.

3.2 Sample selection and descriptive statistics

3.2.1 Global sample of foreign targets

We construct a global sample of acquisitions using Bureau van Dijk's (BvD's) Zephyr database. This database provides deal-level data on domestic and cross-border M&As, including information on the seller, the acquirer, and the target, for both publicly listed and private targets (Bradley et al., 2020; Feld et al., 2016). We construct our global sample in a way that allows us to test whether the TCJA had an effect on a foreign target's probability of being acquired by a U.S. firm; we then search for cross-sectional variation in this effect, based on the target's characteristics.

In Zephyr, we first identify all acquisitions completed between 2010 and 2019 that have non-missing deal values.[16] Since we collect a global sample, we do not restrict deals by location. We choose 2010 as a starting point to mitigate the impact of the global financial crisis. Our final sample covers acquisitions completed between 2011 and 2019, because we lag target-level controls by one year in our multivariate analysis. Following Bird et al. (2017), we focus on deals in which the acquirer ends up with a majority stake (> 50 percent) in target *i*. In addition, both the target and the acquirer must be classified as corporations, and both parties must have non-missing country and industry data.

We next link all the targets and acquirers in this sample to the Orbis database, using the

[15] Since we exploit repatriation costs prior to the reform (*RepatTaxCost*) in a treatment indicator, we do not include annual repatriation tax costs (*RepatTax*) as a control variable. However, our results are qualitatively similar when controlling for *RepatTax*, consistent with Hanlon et al. (2015).
[16] We exported the data from Zephyr on December 11, 2019.

identifiers provided by BvD. From Orbis, we extract financial-statement data for each target and ownership data for each acquirer; the latter enables us to identify the global ultimate owner (GUO) of the acquirer and to determine its location. With this data we can identify, for instance, acquisitions by foreign subsidiaries of U.S. firms and correctly classify these transactions as U.S. firms' outbound M&A activity.

This process yields an initial sample of 33,401 acquisitions.[17] We delete targets with implausible financial-statement values (such as negative sales, negative employees, negative fixed assets, or negative total assets) and transactions with deal values of less than €100,000.[18] Since we are interested in the impact of the tax reform on U.S. firms' *outbound* M&A activity, we exclude all deals with a U.S. target (we relax this rule in our supplementary tests). We also drop acquisitions with insufficient data to compute our control variables. Finally, to restrict our sample to target countries with an active M&A market, we drop observations from target countries where fewer than 15 deals were completed during our sample period.

Our final global sample covers 3,266 cross-border deals (i.e., for which the target and the acquirer are located in different countries). In addition, we obtain data on 4,909 domestic deals (i.e., for which the target and the acquirer are located in the same country), which we include in a robustness test (see column (6) of Table 2). All deals involve non-U.S. targets. Table 1 shows the distribution of cross-border deals by target country with, not surprisingly, the larger, more developed countries serving as the primary target hosts (panel A). Most targets are profitable, with a mean (median) return on assets of 2.5 (4.7) percent, low leverage, and a low level of capitalized intangibles held on the balance sheet (panel B).

3.2.2 U.S. sample of potential acquirers

We construct a U.S. sample by combining data on cross-border M&A deals from Zephyr with financial-statement data from Compustat. We construct this sample in a way that allows us to test for the

[17] We are able to increase the sample size considerably (i.e., by approximately 35,000 observations) if, when information on the GUO is missing, we assume that the acquirer is its own GUO. Our main results are not affected by this assumption. We report results excluding these observations to be conservative in our approach and ensure that we have correctly classified the country of the acquirer's GUO.

[18] Excluding micro deals is consistent with Bird et al. (2017). Our results are similar when we relax this requirement.

TCJA's effect on the probability that a U.S. firm will acquire a foreign target and to examine whether this effect varies with the U.S. firm's characteristics.

We first obtain a sample of firms incorporated in the U.S. with data available in Compustat for fiscal years 2010 to 2018.[19] Following Hanlon et al. (2015), we next exclude financial firms (SIC codes 6000-6999) and utilities (SIC codes 4900-4949). To facilitate the identification of firm-years affected by the TCJA, we drop observations with non-December fiscal year-ends (Beyer et al., 2017). Moreover, we drop firms with "LP" or "TRUST" in their names, to exclude flow-through entities not subject to firm-level taxes (Dyreng et al., 2008). Consistent with prior research (Chay and Suh, 2009; Hoberg et al., 2014), we delete observations with negative sales or negative total assets, as well as those with book equity below $250,000 or total assets below $500,000. Finally, we drop those with insufficient data to compute our regression variables. Following these selection criteria results in a sample of 11,975 firm-year observations from Compustat.

In a final step, we merge the M&A data from our global sample with the Compustat sample. Specifically, for each acquirer in our global sample, we determine whether its GUO is a U.S. firm. We then aggregate the deal-level data per GUO-year to obtain the number of foreign acquisitions by a U.S. GUO in year *t*. We also compute the annual value of these transactions. We link this data to the Compustat sample using the GUO's International Securities Identification Number (ISIN), as reported in Orbis.[20] In our final U.S. sample, 626 firm-years exhibit foreign acquisitions, representing 717 distinct M&A deals. Panel C of Table 1 presents descriptive statistics for our U.S. sample. Overall, we observe that approximately 5 percent of the firm-years in our U.S. sample report at least one acquisition of a foreign target.

[19] We obtain financial-statement data for the years 2010 to 2018, because acquirer-level controls are lagged by one year in our multivariate analysis (see Section 3.1.2).
[20] Compustat uses Committee on Uniform Securities Identification Procedures (CUSIP) numbers, not ISIN. However, each ISIN, as reported in Orbis, can be transformed into a CUSIP number by extracting the ISIN's final six digits.

4. Main Results

4.1 TCJA and U.S. acquisitions of foreign targets

4.1.1 Target-level analysis

Table 2 presents the main results of our target-level analysis. For all cross-border deals completed between 2011 and 2019, the likelihood that a target is acquired by a U.S. firm decreases in the post-TCJA period, as indicated by the negative and significant coefficient on *Post*. This pattern holds across all specifications. In columns (1) through (5), we employ various target-industry and target-country fixed effects. Including target country-industry fixed effects in Column (5) imposes the strictest fixed-effects design, capturing the over-time variation in the probability of being acquired by a U.S. firm within each target-country-industry. Column (6) expands our sample to include domestic acquisitions, i.e., when both acquirer and target are located in the same country. Column (7) excludes all deals consummated in 2017, the year the TCJA was passed, to address concerns that U.S. firms' foreign M&A activity changed in anticipation of the reforms. Column (8) restricts the pre-reform period to 2016 and 2017, to see if acquisition patterns between 2011 and 2015 drive our inferences.

In economic terms, the estimates on *Post* in columns (4) and (5) indicate a decrease in the probability of being acquired by a U.S. firm of between 3.5 and 4.5 percentage points. Prior to the TCJA, the unconditional probability of being acquired by a U.S. firm, for the foreign targets in our sample, is equal to 20.77 percent; our estimates thus imply a relative reduction by 16.8 to 21.7 percent. It is clear that the tax reform generally weakened the incentives of U.S. firms to engage in foreign acquisitions.

Table 3 presents the results of cross-sectional tests in which we examine specific provisions of the TCJA. As discussed in Section 2.2, GILTI created a strong disincentive to earn corporate profits in low-tax jurisdictions by imposing an immediate U.S. tax on "intangible low-taxed income" without regard to repatriation. Although GILTI operates at a consolidated level across all foreign operations, adding a low-tax target to a portfolio of foreign income increases the likelihood of a U.S. firm being subject to GILTI. Accordingly, when we bifurcate our sample of foreign targets at the median, based on the host country's statutory corporate income tax rate, in columns (1) and (2), we find strong evidence

that the reduced likelihood of being acquired by a U.S. firm is concentrated in those foreign targets expected to generate "low-taxed income."[21]

We tighten this test further by considering whether the low-taxed income expected to be generated by the target would be considered "intangible" under GILTI. As discussed in Section 2.2, GILTI defines intangible income as that which exceeds a 10 percent return on foreign tangible property. Adding one more "relatively profitable" low-tax target to a foreign portfolio therefore increases the likelihood of a U.S. firm being subject to GILTI. Accordingly, in columns (3) and (4) we bifurcate our sample of foreign targets at *both* the median tax rate (as in columns (1) and (2)) and the median profitability; we define profitability as the return on tangible fixed assets.[22] We find strong evidence that the reduced likelihood of foreign targets being acquired by a U.S. firm is concentrated in targets expected to generate specifically what GILTI calls "*intangible* low-taxed income".[23] Taken together, the results in columns (1) through (4) are consistent with the conclusion that GILTI disincentivizes the acquisition of highly profitable foreign targets located in low-tax jurisdictions.

We test for an effect of the repeal of the repatriation tax in columns (5) and (6). As discussed in Section 2.2, the TCJA's repeal of the U.S. repatriation tax reduced the tax disadvantage that U.S. firms had, as owners of foreign targets, relative to non-U.S. firms. However, eliminating the lockout effect also removed an internal capital market friction, making the repatriation of foreign earnings less costly and increasing the opportunity cost of investing abroad (Albertus et al., 2019). We therefore expect U.S. firms to become less likely to pursue low-growth investment projects abroad after the reform. When we split

[21] We estimate a fully-interacted model to assess whether the coefficients on *Post* differ between subsamples (Allison, 1999). Specifically, we interact all independent variables with an indicator variable that identifies the subsamples and re-estimate the regression on the full sample. We then conduct a one-tailed t-test to assess whether the coefficient on *Post* is smaller in columns (1), (3), and (5) than in columns (2), (4), and (6), respectively. The p-values for these tests are provided in Table 3. A fully-interacted model allows all independent variables to have differential effects on the probability of being acquired by a U.S. firm in each subsample (Allison, 1999). Our results are similar when only interacting *Post*.

[22] The results are similar when we split the sample based on the 10 percent return on tangible assets cut-off. However, we believe that splitting the sample based on median profitability is more appropriate because, again, GILTI operates at the level of the consolidated foreign operation.

[23] Alternatively, we consider a target's active patent holdings provided by Orbis as a proxy for high expected profits. We find (untabulated) strong evidence that the reduced likelihood of foreign targets being acquired by a U.S. firm is concentrated in the low-tax rate and high patent-holding subsample.

the sample at the annual median of target country GDP growth (columns (5) and (6)), we find support for this conjecture. That is, the reduction in the likelihood of being acquired by a U.S. firm is stronger for targets located in low-growth countries.

4.1.2 Alternative empirical strategy: TCJA and acquirer location

Our target-level analysis is a pre-post comparison of a target's probability of being acquired by a U.S. firm. One drawback is that it does not allow us to compare the trends in M&A activity of U.S. acquirers to those of non-U.S. acquirers. To address this concern, we apply an alternative empirical strategy, based on Feld et al. (2016), and examine the effect of the TCJA in a difference-in-differences (DiD) design. Specifically, we use a conditional logit regression to model the likelihood that the acquirer of foreign target *i* is located in a given country. This empirical setup expands the number of observations so that the acquirer could be located in any acquirer country represented by our global sample.

The dependent variable, *AcqCountry*, is an indicator variable equal to one for the actual acquirer country, and zero for all other countries. As an independent variable, we include the indicator variable *Reform*, which is equal to one for the U.S., and zero for all other potential acquirer countries. We again include the variable *Post*, and interact *Reform* with *Post* to yield the DiD design. By including a fixed effect for each potential acquirer country, we exploit over-time variation in the taxation of potential acquirers located in the U.S. This design allows us to test whether the likelihood that the acquirer of target *i* is located in the U.S. (the treatment group) changed in response to the TCJA, relative to the likelihood that the acquirer is located in any other country (the control group). In line with our target-level analysis, we expect a negative coefficient on *Reform*Post*, indicating a lower likelihood that the acquirer of foreign target *i* is located in the U.S. post TCJA.[24]

[24] Following Feld et al. (2016), we control for the characteristics of each potential acquirer country (*LN(GDPCapita)*, *GDPGrowth*, *MarketValueEquity*, and *ExchangeRate*) and of each potential acquirer-target country pair (*NumberAcquistions*, *LN(Distance)*, *Neighboring*, *CommLanguage*, *Colony*, and *SameCountry*). We include *MarketValueEquity* and *ExchangeRate* in a second step, because data for these variables are not available for all potential acquirer countries, leading to a sizeable loss in sample size (see columns (2) and (4) in Table 4). Our conditional-logit regression is based on a fixed-effects (*within*) estimator for each target. Therefore, we do not control for characteristics that are constant for all potential acquirer countries of target *i*, such as target country characteristics,

As expected, the coefficient on *Reform*Post* is negative and significant in column (1) of Table 4. We obtain similar results when including additional controls (column (2)) or excluding year 2017 observations (columns (3) and (4)). In sum, these results corroborate the findings from our target-level analysis and provide additional evidence that U.S. firms are less dominant in the global M&A market after the TCJA.

This approach also allows us to test for parallel pre-reform trends in the foreign M&A activity of U.S. and non-U.S. acquirers. To do so, we replace *Post* with a set of year indicators and estimate yearly treatment effects. We constrain the estimate to zero for the year 2017 (i.e., the year the TCJA was passed), and estimate treatment effects relative to this base year.[25] We re-estimate the model in column (2) of Table 4 and depict our results in Figure 2a. As is evident, yearly treatment effects in the pre-reform period are insignificant and vary unsystematically around zero (all $p > 0.22$). Further, these estimates are jointly insignificant ($p = 0.53$), and their sum is not significantly different from zero ($p = 0.63$). For the post-reform period, we observe consistently negative treatment effects; these are strongest in 2019 ($p = 0.04$) and slightly less pronounced in 2018 ($p = 0.35$). This time lag is reasonable, because cross-border deals take time to complete, resulting in a delayed response to the TCJA. In sum, Figure 2a indicates parallel trends in acquirer location prior to the TCJA. It suggests that differential pre-reform trends in the M&A activity of U.S. and non-U.S. acquirers do not drive our results.

To address concerns that other, non-TCJA related events could explain our findings, we conduct placebo tests. Specifically, we drop all post-reform observations and assume pseudo reforms in the U.S. for the years 2011 through 2016. When we re-estimate the regression in column (2) of Table 4 for each pseudo reform, the coefficients on *Reform*Post* are all insignificant and close to zero (untabulated, all $p > 0.42$). These results support the notion that the firms in our sample indeed responded to the TCJA.

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as well as target country and year fixed effects. Since these variables do not vary across acquirers, they are absorbed in the estimation.

[25] We obtain similar results when excluding observations from 2017 and using 2016 as our base year.

4.2 TCJA and outbound M&A activity of U.S. firms

Next we focus on potential U.S. acquirers and examine their changing propensity to purchase a foreign target due to the TCJA. As noted under Equation (2), we intend to identify heterogeneous responses to the reform based on the pre-reform characteristics of the potential acquirers in our U.S. sample. In Table 5, we partition firms according to the extent to which they had untaxed foreign earnings prior to the passage of the TCJA. We consider two measures of untaxed foreign earnings, tabulating the results for each measure separately in panels A and B. Our estimated coefficients in Panel A use *RepatTaxCost*, a common proxy for untaxed foreign earnings (Foley et al., 2007). In Panel B, we use the required firm-level disclosures of the TCJA transition tax to measure untaxed foreign earnings more directly (*TransitionTax*). We examine both the likelihood that U.S. firm *i* acquires a foreign target in year *t* (columns (1) through (4)) and the total dollar amount spent on foreign acquisitions in the same year, measured by the natural logarithm of the total value of all completed deals (columns (5) and (6)). We exclude observations for the year 2017 in columns (3) and (4).[26]

Our results suggest that firms with untaxed foreign earnings prior to the TCJA (as measured by the existence of such earnings in columns (1) and (2) or the quartile rank of their amount in columns (3) and (4)) exhibit a lower propensity to acquire a foreign target after the reform.[27] We also find that these firms spend a smaller amount on cross-border acquisitions after the reform. The estimates in columns (1) and (5) of panel A suggest that a firm with untaxed foreign earnings exhibits a 3.2 percentage point lower probability to acquire a foreign target, post TCJA, and spends 26.7 percent less on cross-border deals, than does a firm without untaxed foreign earnings. The estimates in panel B are very similar in size.[28] We again estimate yearly treatment effects for the model in column (1) of panel A to assess whether treatment

[26] We re-run this and the subsequent tests (untabulated) after limiting the pre-reform period to the years 2016 and 2017. Our inferences are robust to using this shorter pre-reform period.

[27] Since we include firm and year fixed effects, *RepatTaxCost* and *Post* are perfectly collinear with the set of firm and year indicators included in the regression and therefore subsumed in the estimation. We obtain similar results when re-estimating this and the subsequent tests without year-fixed effects.

[28] Since we find similar results for both measures, our tests indicate that *RepatTaxCost* is a suitable proxy for the stock of a firm's untaxed foreign earnings.

and control firms exhibit parallel pre-reform trends in the likelihood of acquiring a foreign target. In Figure 2b, the yearly treatment effects are insignificant pre-reform (all $p > 0.13$). The estimates are also jointly insignificant ($p = 0.35$), and their sum is not significantly different from zero ($p = 0.52$), suggesting parallel pre-reform trends in the outbound M&A activity.

Collectively, these results are consistent with our expectation that, before the TCJA, untaxed foreign earnings represented, to a large extent, trapped cash. After the TCJA, this cash is no longer trapped and can be used for investment at home or abroad with an equal tax cost of doing so. The repeal of the repatriation tax helped level the playing field with respect to investment opportunities for foreign cash. As firms can now repatriate this cash at no additional cost, the TCJA increases the opportunity cost of investing abroad (Edwards et al., 2016) and thus decreases the likelihood that foreign cash will be used to acquire foreign targets.

Table 6 considers the extent to which a U.S. firm had a significant foreign presence prior to the TCJA. The indicator *Domestic* captures the sub-set of potential U.S. acquirers with no significant foreign operations prior to the reforms. We examine the probability that firm *i* acquires a foreign target in columns (1) and (2) and the total amount spent on cross-border acquisitions in column (3). We again exclude observations for the year 2017 in column (2). The positive and significant coefficients on *Domestic*Post* imply that a U.S. firm without a significant foreign presence prior to the TCJA exhibits a higher probability of purchasing a foreign target (by 3.6 percentage points) and spends more on cross-border acquisitions (by 28.8 percent) after the reform than does a multinational firm. Figure 2c indicates that treatment and control firms again exhibit similar pre-reform trends in their probability of acquiring a foreign target.[29]

Overall, while our previous analysis suggests firms with untaxed foreign earnings exhibit a lower propensity to acquire foreign targets, Table 6 suggests that the TCJA induced firms without any significant history of foreign operations to expand abroad. For this latter group, the repeal of the

[29] Pre-reform, all yearly treatment effects are insignificant (all $p > 0.14$). These estimates are also jointly insignificant ($p = 0.83$), and their sum is not significantly different from zero ($p = 0.45$).

repatriation tax reduced the marginal cost of funding foreign acquisitions through domestic funds (Liu, 2020), making foreign acquisitions relatively more attractive. Moreover, the lower U.S. corporate income tax rate instituted by the TCJA generates cash-tax savings, increasing the domestic funds available for foreign investment.

Table 7 provides additional evidence that the TCJA lessened the frictions that previously had deterred U.S. firms from investing abroad. Here we consider whether a U.S. firm had no credit rating or a non-investment grade credit rating prior to the TCJA, as indicated by *NonInvGradeRating*. We study the probability that firm *i* acquires a foreign target in columns (1) and (2), and the total amount spent on cross-border acquisitions in column (3); in column (2), we drop observations for the year 2017. The results in column (1) suggest that, after the TCJA, a firm with limited access to public debt markets exhibits a 3.8 percentage point higher likelihood of buying a foreign target than does a firm that could raise debt more easily (the coefficient is positive but insignificant when using deal value in column (3)).[30] Again, the lower U.S. corporate income tax rate after the TCJA generates cash-tax savings that increase the domestic funds available for foreign investment, particularly for firms that can not easily borrow prior to the reform.

Finally, to further corroborate our findings, we expand our U.S. sample to include both U.S. and Canadian firms. In a sample of potential acquirers from both countries, we may identify the overall shift in the likelihood that U.S. firms acquire a foreign target relative to Canadian firms. We choose Canadian firms as a control group because these firms are economically comparable to U.S. firms, while not being directly affected by the TCJA (Carrizosa et al., 2020).[31] In Table 8, we use the indicator *US* to capture potential acquirers located in the U.S. We examine the probability that firm *i* acquires a foreign target in

[30] Figure 2c again indicates that the firms in our treatment and control groups exhibit similar pre-reform trends in their probability of acquiring a foreign target, since yearly treatment effects are insignificant in the pre-reform period (all $p > 0.19$). Further, these estimates are jointly insignificant ($p = 0.62$), and their sum is not significantly different from zero ($p = 0.84$).

[31] A Canadian firm could be affected by the TCJA if it plans to acquire a U.S. target. To alleviate concerns that this mechanism could affect the inferences drawn from this test and to be consistent with the target-level analysis, we limit foreign acquisitions of Canadian firms to targets located outside the U.S. We obtain similar results when also excluding Canadian targets acquired by U.S. firms.

columns (1) and (2), and the total amount spent on cross-border acquisitions in column (3); again, in column (2), we exclude observations for the year 2017. The negative and significant coefficients on *US*Post* after the TCJA indicate a decline in the probability that a U.S. firm will acquire a foreign target and in the amount spent by U.S. firms on cross-border acquisitions, relative to Canadian firms.[32] These results again suggest that the TCJA had a generally negative effect on the foreign M&A activity of potential U.S acquirers, corroborating our target-level analysis.

5. Additional analyses

5.1 Announcement returns

As discussed in Section 2.2, the U.S. repatriation tax was abolished to address the lock-out effect, encouraging firms to repatriate their foreign earnings and to invest them either domestically or abroad without tax friction. Prior to the TCJA, Hanlon et al. (2015) found that U.S. firms with a greater accumulation of foreign cash, due to repatriation tax avoidance, were more likely to engage in a foreign acquisition. However, due to potential agency conflicts over how to employ foreign cash (Amberger et al., 2020), investors placed a valuation discount on the announcement of these deals. In Table 9, we re-examine the announcement returns analysis of Hanlon et al. (2015) for periods both before and after the tax reform.

In columns (1) and (2), we show that deal announcement returns for firms with higher repatriation tax costs (and thus a greater accumulation of foreign cash) are relatively higher after the TCJA, as indicated by the positive coefficient on *RepatTax*Post*. The coefficient on *RepatTax* in the period prior to the TCJA is negative (consistent with Hanlon et al. (2015)), but insignificant. Our results are stronger in columns (3) and (4), when we eliminate deals announced during the U.S. election year (2016) and the year of the tax reform (2017). Collectively, these results suggest the TCJA eliminated a tax friction, allowing firms to effectuate more value-enhancing deals (in expectation) with less potential agency costs.

[32] In additional tests (untabulated), we again find insignificant yearly treatment effects for the pre-period (all $p > 0.26$). These estimates are also jointly insignificant ($p = 0.63$) and their sum is not significantly different from zero ($p = 0.87$), suggesting that U.S. and Canadian firms exhibit similar pre-reform trends in the probability to acquire a foreign target.

5.2 Domestic U.S. acquisitions

Although we are primarily concerned with its effect on *outbound* acquisitions, the TCJA provides an opportunity to extend the analysis by Bird et al. (2017) of the domestic U.S. M&A market. These authors argue that foreign firms resident in countries with a territorial tax system, pre-TCJA, were tax-favored acquirers of U.S. targets, because the old worldwide tax system in the U.S. made it difficult for U.S. bidders to compete for U.S. targets. The case was particularly true for U.S. targets with large untaxed foreign earnings, due to the U.S. repatriation tax.

To see if the TCJA removed this disadvantage for U.S. acquirers of U.S. targets, we re-estimate our target-level analysis on a sample of U.S. deals and examine the effect of the TCJA on the probability that U.S. target *i* is acquired by a U.S. firm.[33] We present these results in Table 10. Since this analysis focuses on U.S. deals only, we do not include target country fixed effects. In columns (1) and (2), we find a positive and significant coefficient on *Post*. In columns (3) and (4), we note that the coefficient on *Post* remains positive, but becomes marginally insignificant, when we eliminate deals completed in 2017 ($p = 0.17$) and when we limit the pre-reform period to the years 2016 and 2017 ($p = 0.13$). These results suggest that the TCJA had a positive effect on U.S. acquisitions by U.S. firms, by putting U.S. and foreign bidders on more equal footing.

To further link changing M&A activity to the provisions of the TCJA, we consider specific attributes of U.S. targets that would make them relatively more attractive to U.S. acquirers after the tax reform. We report these cross-sectional test results in Table 11. In columns (1) and (2), we partition the sample of U.S. targets using an indicator variable identifying those targets with and without untaxed foreign earnings (i.e., with and without repatriation tax costs) as of the date of the acquisition. We find that the increase in the probability of a U.S. target being acquired by a U.S. firm is concentrated in targets

[33] The sample selection criteria follow the requirements for our global sample. As an additional step, we link deals with U.S. targets from Zephyr with financial-statement data from Compustat, using the ISIN of the target (again transformed into CUSIP before merging the two datasets). As a result, the sample in this analysis is limited to publicly listed U.S. targets, consistent with Bird et al. (2017). Since we examine public targets only, we can follow Bird et al. (2017) and use market capitalization (*LN(MarketCap)*) as a proxy for target size.

that have untaxed foreign earnings. The increased interest in these targets is consistent with the elimination of the tax friction implied by the repatriation tax.

In columns (3) and (4), we partition the sample of U.S. targets using an indicator variable identifying those most likely to benefit from the FDII regime. As discussed in Section 2.2, the TCJA created an incentive for U.S. firms serving foreign markets to generate high corporate profits in the U.S. This incentive arises because FDII imposes a lower rate (approximately 13 percent) on "foreign-derived intangible income" than on regular corporate income (which is taxed at 21 percent). To capture this sample, we identify targets with high profits (above the sample-year-median return on tangible assets) and foreign operations (*Domestic* = 0). We find that the increase in the probability of a U.S. target being acquired by a U.S. firm is concentrated in these targets, consistent with the incentives created by the FDII provisions of the TCJA.

6. Concluding remarks

Prior to the Tax Cuts and Jobs Act (TCJA) of 2017, the U.S. corporate tax system was perceived as placing U.S. firms at a competitive disadvantage relative to non-U.S. firms, particularly in the context of income earned outside the U.S. Cross-border M&A patterns were an often-cited indicator that the U.S. international tax system was flawed (Lyon, 2020). Not only were U.S. firms a target for acquisition by foreign firms (Bird et al., 2017), they were also disadvantaged when bidding for foreign targets (Feld et al., 2016). This was primarily due to the high corporate income tax rate of 35 percent and the tax levied on foreign-source income upon repatriation.

Signed into law on December 22, 2017, the TCJA introduced features of a territorial tax system (i.e., elimination of the U.S. repatriation tax), alongside features of a worldwide tax system (i.e., the GILTI regime, which taxes some low-taxed foreign income in the U.S. as it is earned). These changes were complemented by a substantial reduction in the U.S. corporate income tax rate. We examine how the TCJA altered U.S. firms' decisions to acquire foreign targets to determine whether, and the extent to which, the reforms addressed the underlying competitiveness issue that so prominently featured in political debates. Understanding the net effect on firms' incentives under this new hybrid system is

imperative in light of current proposals to further expand the worldwide features of the GILTI regime.

We evaluate the impact of key TCJA provisions on the foreign M&A activity of U.S. firms by conducting a series of empirical tests. Our results show that the probability of a U.S. firm acquiring a foreign target decreases after the reform. This effect is concentrated in highly profitable targets located in low-tax jurisdictions and is therefore driven by the newly adopted GILTI regime. We also find a decreased probability that a U.S. acquirer with untaxed foreign earnings will close a foreign M&A deal, but an increased probability if the U.S. acquirer had little foreign presence pre-TCJA or is debt constrained. Taken together, our results suggest that, while the TCJA led to an increase in M&A activity for some U.S. firms, its GILTI regime disadvantages U.S. acquirers when bidding for highly profitable low-tax targets. Our results also indicate that the changes proposed by the Biden administration, to strengthen and expand the GILTI regime, will disadvantage U.S. firms even more than under either the pre-2017 or the current system.

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Appendix A: Detailed discussion of pertinent TCJA reforms

The Tax Cuts and Jobs Act (TCJA) of 2017 is one of the most significant tax reforms the U.S. has experienced in decades, changing the incentives for many corporate decisions. One of the challenges for empiricists interested in studying its impact is that the TCJA contains multiple important policy changes that cannot be viewed in isolation. The purpose of this Appendix is to describe in detail each tax policy change that we expect to impact the incentives for outbound M&A activity by U.S. firms. In Figure 1 and in Section 2.2 of the manuscript, we summarize these provisions and their expected economic effects.

Provision #1: Change in the U.S. federal statutory tax rate for corporate income

One of the key domestic provisions in the TCJA was the reduction in the U.S. federal statutory corporate income tax rate from 35 percent to 21 percent. This change impacts all existing and potential U.S. operations, because it increases firms' expected after-tax cash flows (Dyreng et al., 2020). Several other provisions (described below) can increase or decrease the U.S. effective tax rate for any given level of U.S. income, depending on the characteristics of firms' domestic and foreign operations. Also worth noting is that the corporate alternative minimum tax was repealed, and there is no sunset provision, making the statutory corporation income tax rate reduction permanent.

Provision #2: One-time transition tax and future tax-free repatriation of foreign earnings

One of the key international provisions was the abolishment of the U.S. repatriation tax. Prior to the TCJA, a U.S. parent company faced a 35 percent U.S. corporate income tax (minus applicable foreign tax credits) on the dividends received from its foreign earnings. As a result, U.S. MNCs generally preferred to retain their foreign earnings in no- or low-tax countries offshore. This provision was enacted to address this so-called "lock-out effect", by encouraging companies to repatriate foreign earnings and to invest them either domestically or abroad. A foreign subsidiary's distribution of future earnings will no longer give rise to U.S. tax at the U.S. parent company.

As part of the transition to this new system, the U.S. imposed a one-time tax on U.S. MNCs' accumulated untaxed foreign earnings. Thus, U.S. MNCs were required to include their accumulated foreign earnings, measured as of November 2, 2017 or December 31, 2017 (whichever date yielded the

greater amount), in their taxable income as part of the transition. The included income is subject to U.S. taxes at the rate of 15.5 percent for cash and cash equivalents, and 8 percent for non-cash assets. The TCJA allows U.S. MNCs to elect to pay this one-time transition tax in eight back-loaded annual installments (with the majority of the payments made in the final three years) and without incurring any interest charge. Even if this option were chosen, an immediate distribution of the accumulated foreign earnings would be tax-free and would not accelerate the tax liability.[34] In the short-term, the transition tax may be more onerous for some firms, particularly those with non-cash assets abroad, prompting an initial contraction of their operations (or an increase in borrowing).

Provision #3: Global intangible low-taxed income (GILTI)

The TCJA was heralded as incorporating territoriality into the U.S. tax system. Similar to the practices followed by other developed countries, income earned by foreign subsidiaries of U.S. firms would not be subject to U.S. taxation, either when earned or when distributed to the U.S. parent. In reality, the TCJA reforms offer only "partial" or "quasi" territoriality. First, the TCJA retained the Subpart F inclusion rules (which go back to 1962); these rules subject *passive* foreign earnings in low-tax jurisdictions to an immediate U.S. tax. Second, the TCJA introduced GILTI, a tax regime that subjects some *active* foreign earnings to an immediate U.S. tax. GILTI is an anti-abuse provision meant to prevent U.S. companies from aggressively stripping income out of the U.S. and shifting it to low-tax countries.

In broad terms, GILTI operates in two ways. First, a foreign subsidiary's earnings (excluding its Subpart F income) in excess of 10 percent of its depreciable foreign tangible property (reduced by certain related interest expenses) is considered to be "intangible income" and potentially subject to U.S. tax. Second, GILTI determines whether this intangible income was "low-taxed" by reference to the effective tax rate paid in the foreign subsidiary's host country. Assuming no underlying foreign income taxes were paid on such income, the effective U.S. tax rate on it is 10.5 percent (through a 50 percent deduction) for

[34] This installment tax liability will be accelerated, and the remaining payments will become due if any of the following triggering events occur: 1) failure to make an installment payment; 2) liquidation, sale, exchange, or disposition of substantially all assets of the taxpayer; 3) cessation of business; 4) change of an individual status as a U.S. person; 5) death of the taxpayer; 6) joining a U.S. consolidated group; and 7) deconsolidation of a U.S. group.

the taxable years beginning after December 31, 2017 and before January 1, 2026. Because of the interplay of revised foreign tax credit rules, the minimum foreign tax rate at which no U.S. income tax would be due on such income is 13.125 percent. The minimum foreign tax rate increases to 16.406 percent (through a decrease in the deduction to 37.5 percent, assuming no underlying foreign income taxes paid on such income) for taxable years beginning after December 31, 2025. There is no sunset provision.

Thus, GILTI becomes more onerous over time. As the foreign effective tax rate that triggers the GILTI tax rises, investment in low-tax countries becomes less attractive because GILTI increases the tax cost of earning profits in these low-tax jurisdictions. Further, since GILTI is tied to the return on a subsidiary's tangible property, the provisions discourage investment in foreign IP and the acquisition of highly profitable targets. Also, the calculation of GILTI for any given U.S. MNC is aggregated over all of its foreign subsidiaries and does not operate at the individual subsidiary level. This makes attempts by U.S. MNCs to manipulate the GILTI rules challenging.

Provision #4: Foreign-derived intangible income (FDII)

Intended to attract cross-border business back to the U.S., a tax rate even lower than 21 percent is now imposed on certain U.S. income. Specifically, the FDII provisions incentivize U.S. businesses to operate domestically, and to maintain ownership of valuable intellectual property in the U.S., by reducing the tax rate on U.S. income derived in foreign markets.

In broad terms, FDII also operates in two ways. First, a U.S. corporation's earnings in excess of 10 percent of its depreciable U.S. tangible property is considered intangible income and is potentially eligible for the reduced U.S. tax rate. Second, the share of U.S. income related to the export of goods or services is determined as the share of the U.S. tax base eligible for the reduced rate.[35] Thus, FDII is intended to be a tax incentive to generate sizable U.S. profits from serving foreign markets. As these sizable profits are deemed to be related to the use of IP (though this is not measured directly), FDII is an attempt to reverse the intangible asset migration by U.S. firms over the past two decades.

[35] This may be income earned by a U.S. firm on the sale, license, or lease of property, or on the provision of services to an unrelated foreign party for foreign use or consumption. Additional rules apply to related-party transactions.

The effective U.S. tax rate on such income is 13.125 percent (through a 37.5 percent deduction) for taxable years beginning after December 31, 2017 and before January 1, 2026. The effective U.S. rate increases to 16.406 percent (through a decrease in the deduction to 21.875 percent) for taxable years beginning after December 31, 2025. Thus, FDII becomes less beneficial over time. There is no sunset provision. The EU has voiced concerns that FDII may violate international trade law. The U.S., however, argues that FDII is intended to work in tandem with GILTI to neutralize tax as a driver of where to locate intellectual property. Consequently, FDII may lower incentives to invest abroad and to serve foreign markets through export sales.

Provision #5: Base erosion and anti-abuse tax (BEAT)

To manage the erosion of the U.S. tax base, through payments by U.S. MNCs to their foreign affiliates giving rise to U.S. deductions, a base erosion anti-abuse minimum tax (BEAT) was added to the TCJA. BEAT applies to "base erosion payments" made or accrued in taxable years beginning after December 31, 2017 by U.S. corporations with average annual gross receipts of at least $500 million over the prior three-year period (aggregating related U.S. corporations and certain foreign subsidiaries) and a "base erosion percentage" generally of 3 percent or more.

BEAT is an add-on minimum tax and is due in any year in which it exceeds the regular tax liability of a U.S. corporation. The BEAT base is equal to the sum of the corporation's regular tax base and, in general, the operating expenses paid by a U.S. corporation to its foreign affiliates that give rise to U.S. tax deductions. The BEAT rate is 5 percent for a taxable year beginning in 2018, 10 percent for taxable years beginning after December 31, 2018 and before January 1, 2026, and 12.5 percent for taxable years beginning after 2025. There is no reduction in the regular U.S. corporate tax liability in a future taxable year, making BEAT a permanent increase in the corporation's effective tax rate.

Appendix B: Variable Definitions

Variable	Description	Source
Target-Level Analysis (Global Sample)		
Prob(USAcq)	Indicator variable with the value of one if foreign target *i* is acquired by a firm that has an ultimate owner located in the U.S., and zero otherwise.	Zephyr Orbis
Post	Indicator variable with the value of one if the deal involving foreign target *i* is completed after 2017, and zero otherwise.	Zephyr
LN(Assets)	The natural logarithm of total assets of target *i* in the year prior to the deal.	Orbis
ROA	Earnings before interest and taxes of target *i* in the year prior to the deal, scaled by total assets.	Orbis
Leverage	Non-current liabilities of target *i* in the year prior to the deal, scaled by total assets.	Orbis
Intangibles	Intangible assets of target *i* in the year prior to the deal, scaled by total assets.	Orbis
Loss	Indicator variable with the value of one if the earnings before interest and taxes of target *i* in the year prior to the deal are negative, and zero otherwise.	Orbis
Alternative Empirical Strategy (Global Sample)		
Prob(AcqCountry)	Indicator variable with the value of one for the country in which the ultimate owner of the firm that acquires foreign target *i* is located, and zero for all other potential acquirer countries in our sample.	Zephyr Orbis
Reform	Indicator variable with the value of one for the U.S. as a potential acquirer country, and zero otherwise.	Zephyr Orbis
LN(GDPCapita)	Natural logarithm of the GDP per capita in the potential acquirer country in the year prior to the deal.	Worldbank
GDPGrowth	Annual GDP growth in percent in the potential acquirer country in the year prior to the deal.	Worldbank
NumberAcquisitions	Number of deals in the one-digit NACE industry of target *i* in the year prior to the deal with acquirers located in the potential acquirer country.	Zephyr
LN(Distance)	Natural logarithm of the simple distance between the country of target *i* and the potential acquirer country.	CEPII
Neighboring	Indicator variable with the value of one if the country of target *i* and the potential acquirer country share a common border, and zero otherwise.	CEPII
CommLanguage	Indicator variable with the value of one if the country of target *i* and the potential acquirer country share a common language, and zero otherwise.	CEPII
Colony	Indicator variable with the value of one if the country of target *i* and the potential acquirer country were ever in a colonial relationship, and zero otherwise.	CEPII

SameCountry	Indicator variable with the value of one if the country of target *i* and the potential acquirer country were ever part of the same country, and zero otherwise.	CEPII
MarketValueEquity	Market capitalization of listed domestic companies as a percentage of GDP in the potential acquirer country in the year prior to the deal.	Worldbank
ExchangeRate	National currency in the potential acquirer country in the year prior to the deal, expressed in U.S. dollar per national currency unit.	OECD
Acquirer-Level Analysis (U.S. Sample)		
Prob(ForAcq)	Indicator variable with the value of one if U.S. firm *i* acquires at least one foreign target in year *t*, and zero otherwise.	Zephyr Compustat
LN(Value of ForAcq)	Natural logarithm of the total deal value of foreign acquisitions by U.S. firm *i* in year *t*.	Zephyr
SalesGrowth	Sales growth of firm *i* in year *t-1*, as sales (SALE) in year *t-1* less sales (SALE) in year *t-2*, scaled by sales (SALE) in year *t-2*.	Compustat
WorkingCapital	Working capital of firm *i* in year *t-1*, as total current assets (ACT), less debt in current liabilities (DLC), less cash and short-term investments (CHE), and scaled by total assets (AT).	Compustat
Leverage	Leverage of firm *i* in year *t-1*, as long-term debt (DLTT), scaled by total assets (AT).	Compustat
MTB	Market-to-book ratio of firm *i* in year *t-1*, as market value of equity (PRCC*CSHO), scaled by stockholder's equity (SEQ).	Compustat
Size	Size of firm *i* in year *t-1*, as the natural logarithm of total assets (AT).	Compustat
Additional Variables (for Partitioning)		
RepatTaxCost	First, indicator variable with the value of one if firm *i* has positive repatriation tax costs in the year 2016, and zero otherwise. Second, quartile rank of positive repatriation tax costs in the year 2016. We set observations with no repatriation tax costs to zero. We calculate repatriation tax costs by taking the 3-year average of *RepatTax* for the years 2014-2016.	Compustat
TransitionTax	First, indicator variable with the value of one if firm *i* has transition tax costs disclosed in its post-TCJA 10-K filings (i.e., for fiscal years 2017-2019), and zero otherwise. The transition tax is the amount of U.S. tax due on all untaxed foreign earnings as of the date of passage of the TCJA. Second, quartile rank of transition tax costs disclosed by a firm *i* and scaled by total assets. We set observations with no transition tax costs to zero.	10-K Filings
Domestic	Indicator variable with the value of one if firm *i* is a domestic firm in the year 2016, and the value of zero if firm *i* is a multinational in the year 2016. We classify a firm as	Compustat

	domestic if its pre-tax foreign earnings (PIFO) for the years 2014-2016 are either zero or missing.	
NonInvGradeRating	Indicator variable with the value of one if firm *i* has no credit rating or a non-investment grade credit rating in the years 2014-2016, and the value of zero if firm *i* has an investment grade credit rating in these years.	S&P Credit Ratings
US	Indicator variable with the value of one if firm *i* is incorporated in the U.S. (FIC=USA), and the value of zero if firm *i* is incorporated in Canada (FIC=CAN).	Compustat
Additional Variables (U.S. Sample)		
CAR	Cumulative abnormal return around the announcement of the acquisition of foreign target *i*, consistent with Hanlon et al., (2015) We calculate the return for a five-day window around the announcement date (days: *t-2* to *t+2*). We calculate the market return using a value-weighted market portfolio.	CRSP
RepatTax	Repatriation tax costs of firm *i* in year *t-1*, consistent with Foley et al., (2007), as pre-tax foreign income (PIFO) multiplied by 0.35 less foreign income taxes (TXFO). The difference is scaled by total assets (AT). We set missing values for *RepatTax* to zero.	Compustat
LN(DealValue)	Natural logarithm of the deal value for target *i*.	Zephyr
Diversifying	Indicator variable with the value of one if foreign target *i* operates in a different one-digit NACE industry than the ultimate owner of the firm that acquires foreign target *i*, and zero otherwise.	Zephyr
PublicTarget	Indicator variable with the value of one if foreign target *i* is a publicly listed firm, and the value of zero if foreign target *i* is an unlisted firm.	Orbis
LN(MarketCap)	Natural logarithm of the market capitalization of target *i* in year *t-1,* as market value of equity (PRCC*CSHO).	Compustat

Figures and Tables

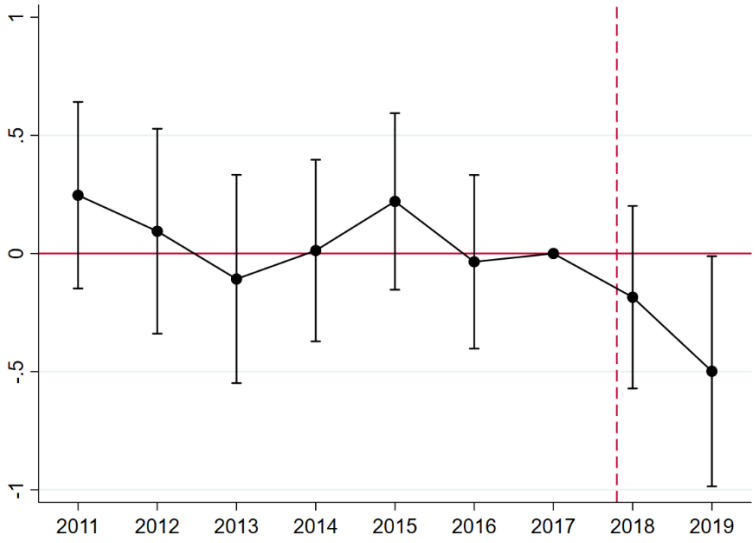
Figure 1: Incentives for U.S. firms to engage in outbound M&A activity

TCJA Provision	Outbound acquisitions by U.S. firms – Summary of incentive effects
Lower U.S. federal corporate income tax rate	• U.S. firms make more foreign acquisitions because of increased after-tax cash flows available to invest abroad
Elimination of U.S. repatriation tax	• U.S. firms make more foreign acquisitions because the marginal cost of funding decreases • U.S. firms make fewer foreign acquisitions because the opportunity cost of reinvesting abroad increases
Global intangible low-tax income regime	• U.S. firms make fewer acquisitions of foreign targets with significant amount of IP (defined as earning high profits) • U.S. firms make fewer acquisitions of foreign targets located in low-tax countries
Foreign-derived intangible income regime	• U.S. firms make fewer acquisitions of foreign targets because they are incentivized to invest domestically

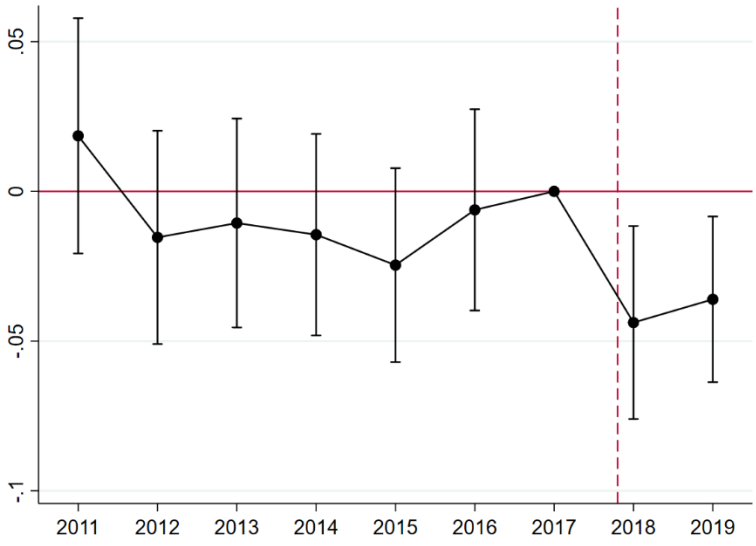
Note: This figure summarizes the hypothesized incentive effects of the individual TCJA provisions for the outbound M&A activity of U.S. firms, as discussed in Section 2.2.

Figure 2: Yearly Treatment Effects

(a)



(b)



(c)

(d)

Note: This figure plots yearly treatment effects. Figure a presents results for the likelihood that the acquirer of a foreign target is located in the U.S. Figure b (c) [d] presents results for the likelihood that a U.S firm acquires a foreign target, where year indicators are interacted with *RepatTaxCost* (*Domestic*) [*NonInvGradeRating*]. Figure a is based on a conditional logit model, while figures c-d are based on a linear probability model. The samples for all figures include cross-border acquisitions completed between 2011 and 2019. The coefficient estimates in all figures are constrained to zero for the year 2017. Hence, yearly treatment effects have to be interpreted relative to this base year. The dotted red line marks the event of the tax reform. Whisker bars represent 95 percent confidence intervals.

Table 1: Descriptive Statistics

Panel A: Sample Composition by Target Country (Global Sample)

Country	# of Cross-border Deals	Country	# of Cross-border Deals
Australia	148	Lithuania	19
Austria	23	Malaysia	68
Belgium	119	Netherlands	58
Bosnia	9	New Zealand	27
Brazil	24	Norway	98
Bulgaria	19	Philippines	6
Canada	124	Poland	115
Cayman Islands	57	Portugal	40
China	58	Romania	46
Colombia	29	Rumania	98
Croatia	14	Russia	43
Czech Republic	48	Slovak Republic	11
Denmark	52	Slovenia	17
Finland	60	South Korea	37
France	198	Spain	235
Germany	207	Sri Lanka	3
Greece	26	Sweden	124
Hungary	11	Taiwan	9
India	90	Thailand	23
Ireland	46	Turkey	13
Italy	233	Ukraine	42
Japan	24	United Kingdom	470
Kazakhstan	9	Vietnam	17
Latvia	19	**Total**	**3,266**

Panel B: Target-Level Descriptive Statistics (Global Sample)

Variables	**N**	**Mean**	**SD**	**Q1**	**Median**	**Q4**
LN(Assets)	3,266	10.480	2.043	9.079	10.450	11.820
ROA	3,266	0.025	0.257	-0.015	0.047	0.131
Leverage	3,266	0.189	0.264	0.008	0.076	0.267
Intangibles	3,266	0.077	0.156	0.000	0.005	0.060
Loss	3,266	0.317	0.465	0.000	0.000	1.000

Panel C: Acquirer-Level Descriptive Statistics (U.S. Sample)

Variables	N	Mean	SD	Q1	Median	Q4
Prob(ForAcq)	11,975	0.052	0.223	0.000	0.000	0.000
LN(Value of ForAcq)	11,975	0.511	2.362	0.000	0.000	0.000
SalesGrowth	11,975	0.138	0.458	-0.020	0.068	0.190
WorkingCapital	11,975	0.243	0.180	0.099	0.215	0.355
Leverage	11,975	0.173	0.172	0.000	0.138	0.292
MTB	11,975	3.677	4.424	1.364	2.340	4.104
Size	11,975	6.421	2.212	4.881	6.486	7.969

Note: This table presents the descriptive statistics for the global sample and the U.S. sample, respectively. The global sample includes all cross-border deals completed between 2011 and 2019. The U.S. sample includes all potential acquirers located in the U.S. Panel A presents the composition of the global sample by target country. Panel B presents target-level descriptive statistics for the global sample. Panel C presents descriptive statistics for the potential acquirers included in the U.S. sample.

Table 2: TCJA and U.S. Acquisitions of Foreign Targets

Variables	(1) Prob (USAcq)	(2) Prob (USAcq)	(3) Prob (USAcq)	(4) Prob (USAcq)	(5) Prob (USAcq)	(6) Prob (USAcq)	(7) Prob (USAcq)	(8) Prob (USAcq)
Post	-0.060***	-0.045***	-0.060***	-0.045***	-0.035**	-0.021***	-0.047***	-0.037*
	(0.016)	(0.016)	(0.016)	(0.016)	(0.017)	(0.007)	(0.017)	(0.020)
LN(Assets)	0.003	-0.003	0.004	-0.001	0.000	0.004***	-0.002	0.007
	(0.003)	(0.003)	(0.003)	(0.003)	(0.004)	(0.001)	(0.004)	(0.005)
ROA	-0.047	-0.012	-0.042	-0.010	0.001	-0.005	0.006	0.011
	(0.037)	(0.037)	(0.037)	(0.037)	(0.038)	(0.016)	(0.040)	(0.046)
Leverage	-0.042	-0.009	-0.041	-0.009	-0.010	-0.013	0.005	-0.018
	(0.027)	(0.026)	(0.027)	(0.027)	(0.029)	(0.013)	(0.029)	(0.038)
Intangibles	0.171***	0.108**	0.157***	0.081*	0.050	0.086***	0.077	0.104
	(0.048)	(0.049)	(0.049)	(0.049)	(0.052)	(0.027)	(0.053)	(0.068)
Loss	-0.013	-0.017	-0.007	-0.004	0.001	-0.005	-0.000	0.004
	(0.018)	(0.018)	(0.018)	(0.018)	(0.019)	(0.008)	(0.020)	(0.026)
Constant	0.179***	0.235***	0.168***	0.216***	0.201***	0.036**	0.220***	0.112**
	(0.035)	(0.037)	(0.036)	(0.037)	(0.041)	(0.015)	(0.040)	(0.054)
Observations	3,266	3,266	3,266	3,266	3,208	8,175	2,844	1,481
Industry-FE	No	No	Yes	Yes	No	Yes	Yes	Yes
Country-FE	No	Yes	No	Yes	No	Yes	Yes	Yes
Country-Industry-FE	No	No	No	No	Yes	No	No	No
R^2	0.009	0.082	0.021	0.097	0.149	0.073	0.096	0.114

Note: This table presents regression results for the effect of the TCJA on the likelihood that a foreign target is acquired by a U.S. firm. The samples in columns 1-5 and 7-8 include cross-border acquisitions only. The sample in column 6 includes cross-border acquisitions and domestic acquisitions, respectively. The samples in columns 1-6 include acquisitions completed between 2011 and 2019. The sample in column 7 excludes acquisitions completed in 2017. The sample in column 8 is limited to acquisitions completed between 2016 and 2019. The dependent variable is an indicator variable with the value of one if a target is acquired by a U.S. firm, and zero otherwise (i.e., a target is acquired by a non-U.S. firm). The independent variables in all columns are lagged by one year. All regressions are estimated as linear probability models. The regression in column 2 (3) [5] includes target industry (target country) [target country-industry] fixed effects. The regressions in columns 4 and 6-9 include target country and target industry fixed effects. We report heteroscedasticity-robust standard errors. *, **, and *** represent significance levels of 0.10, 0.05, and 0.01, respectively (two-tailed).

Table 3: TCJA and U.S. Acquisitions of Foreign Targets (Cross-Sectional Evidence)

	(1) Prob (USAcq)	(2) Prob (USAcq)	(3) Prob (USAcq)	(4) Prob (USAcq)	(5) Prob (USAcq)	(6) Prob (USAcq)
	< Median Tax Rate	> Median Tax Rate	High Profitability & Low Tax Rate	Remaining Sample	< Median GDP Growth	> Median GDP Growth
Post	-0.052**	-0.007	-0.080**	-0.024	-0.078***	0.000
	(0.022)	(0.030)	(0.034)	(0.019)	(0.025)	(0.025)
LN(Assets)	-0.002	-0.001	-0.001	0.000	0.002	-0.004
	(0.004)	(0.006)	(0.007)	(0.004)	(0.005)	(0.005)
ROA	-0.006	-0.021	0.044	-0.032	-0.037	0.033
	(0.045)	(0.063)	(0.116)	(0.041)	(0.052)	(0.054)
Leverage	-0.010	-0.006	0.036	-0.012	0.001	-0.018
	(0.032)	(0.047)	(0.066)	(0.030)	(0.039)	(0.038)
Intangibles	0.140**	-0.011	0.103	0.052	0.060	0.104
	(0.069)	(0.070)	(0.105)	(0.056)	(0.065)	(0.076)
Loss	-0.019	0.007	0.000	-0.000	-0.006	-0.005
	(0.022)	(0.029)	(0.000)	(0.019)	(0.025)	(0.027)
Constant	0.203***	0.236***	0.207**	0.191***	0.213***	0.219***
	(0.046)	(0.062)	(0.085)	(0.046)	(0.052)	(0.057)
p-Value (*Post*)	(1) < (2): 0.115		(3) < (4): 0.075		(5) < (6): 0.012	
Observations	1,789	1,476	896	2,368	1,728	1,477
Industry-FE	Yes	Yes	Yes	Yes	Yes	Yes
Country-FE	Yes	Yes	Yes	Yes	Yes	Yes
R^2	0.130	0.068	0.128	0.100	0.084	0.124

Note: This table presents results for cross-sectional tests for the effect of the TCJA on the likelihood that a foreign target is acquired by a U.S. firm. The samples in all columns include cross-border acquisitions completed between 2011 and 2019. The sample in column 1 (2) includes acquisitions in target countries with a statutory corporate income tax rate below (above) the annual sample median. The sample in column 3 (4) includes targets with profitability above the annual sample median and a statutory corporate income tax rate below the annual sample median (the remaining global sample). We measure profitability as the return on tangible fixed assets. The sample in column 5 (6) includes acquisitions in target countries with GDP growth below (above) the annual sample median. The dependent variable is an indicator variable with the value of one if a target is acquired by a U.S. firm, and zero otherwise (i.e., a target is acquired by a non-U.S. firm). The independent variables in all columns are lagged by one year. All regressions are estimated as linear probability models. All regressions include target country and target industry fixed effects. We report heteroscedasticity-robust standard errors. We estimate a fully-interacted model to assess whether the coefficients on *Post* differ between subsamples (Allison, 1999). *, **, and *** represent significance levels of 0.10, 0.05, and 0.01, respectively (two-tailed).

Table 4: Effect of the TCJA on Acquirer Location

	(1) Prob (AcqCountry)	(2) Prob (AcqCountry)	(3) Prob (AcqCountry)	(4) Prob (AcqCountry)
*Reform*Post*	-0.327***	-0.352***	-0.346***	-0.396***
	(0.122)	(0.134)	(0.124)	(0.138)
LN(GDPCapita)	-0.415	-0.109	-0.555	-0.175
	(0.405)	(0.420)	(0.431)	(0.449)
GDPGrowth	-0.011	-0.017	-0.007	-0.023
	(0.014)	(0.016)	(0.015)	(0.017)
NumberAcquisitions	0.192***	0.271***	0.174***	0.240***
	(0.023)	(0.044)	(0.023)	(0.042)
LN(Distance)	-0.107***	-0.122***	-0.128***	-0.147***
	(0.035)	(0.045)	(0.036)	(0.044)
Neighboring	0.709***	0.669***	0.672***	0.655***
	(0.082)	(0.103)	(0.086)	(0.107)
CommLanguage	0.724***	0.566***	0.711***	0.552***
	(0.074)	(0.079)	(0.080)	(0.085)
Colony	0.327***	0.297***	0.368***	0.345***
	(0.070)	(0.097)	(0.074)	(0.101)
SameCountry	0.657***	0.222	0.778***	0.312
	(0.185)	(0.225)	(0.194)	(0.238)
MarketValueEquity		0.002		0.003*
		(0.002)		(0.002)
ExchangeRate		0.001		-0.003
		(0.001)		(0.004)
Observations	189,589	103,202	165,067	90,388
Country-FE	Yes	Yes	Yes	Yes
Pseudo R^2	0.267	0.279	0.264	0.275

Note: This table presents regression results for the effect of the TCJA on the likelihood that the acquirer of a foreign target is located in the U.S. The sample in all columns includes cross-border acquisitions. The samples in columns 1-2 (3-4) include acquisitions completed between 2011 and 2019 (exclude acquisitions completed in 2017). The dependent variable is an indicator variable with the value of one for the actual acquirer country, and zero otherwise. All regressions are estimated as conditional logit models. All regressions include a fixed effect for each potential acquirer country included in our global sample. We report heteroscedasticity-robust standard errors. *, **, and *** represent significance levels of 0.10, 0.05, and 0.01, respectively (two-tailed).

Table 5: TCJA and Outbound M&A Activity of Firms with Untaxed Foreign Earnings

Panel A: Repatriation Tax Costs Prior to the Reform

	(1) Prob (ForAcq)	(2) Prob (ForAcq)	(3) Prob (ForAcq)	(4) Prob (ForAcq)	(5) LN(Value of ForAcq)	(6) LN(Value of ForAcq)
RepatTaxCost	Indicator	Quartiles	Indicator	Quartiles	Indicator	Quartiles
*RepatTaxCost*Post*	-0.032***	-0.012***	-0.030***	-0.011***	-0.267***	-0.083**
	(0.009)	(0.004)	(0.010)	(0.004)	(0.102)	(0.041)
SalesGrowth	0.004	0.004	0.005	0.005	0.052	0.052
	(0.003)	(0.003)	(0.003)	(0.003)	(0.033)	(0.033)
WorkingCapital	0.020	0.020	0.017	0.017	0.167	0.168
	(0.026)	(0.026)	(0.029)	(0.029)	(0.258)	(0.258)
Leverage	-0.040*	-0.039*	-0.033	-0.033	-0.352*	-0.352*
	(0.021)	(0.021)	(0.023)	(0.023)	(0.213)	(0.213)
MTB	0.002***	0.002***	0.002***	0.002***	0.014***	0.014***
	(0.001)	(0.001)	(0.001)	(0.001)	(0.005)	(0.005)
Size	-0.012**	-0.012**	-0.011*	-0.011*	-0.121**	-0.120*
	(0.006)	(0.006)	(0.006)	(0.006)	(0.055)	(0.055)
Constant	0.128***	0.127***	0.124***	0.123***	1.271***	1.260***
	(0.037)	(0.037)	(0.039)	(0.040)	(0.362)	(0.363)
Observations	11,975	11,975	10,476	10,476	11,975	11,975
Firm-FE	Yes	Yes	Yes	Yes	Yes	Yes
Year-FE	Yes	Yes	Yes	Yes	Yes	Yes
R^2	0.250	0.250	0.266	0.266	0.224	0.224

Panel B: Transition Tax Disclosed as a Consequence of the Reform

	(1) Prob (ForAcq)	(2) Prob (ForAcq)	(3) Prob (ForAcq)	(4) Prob (ForAcq)	(5) LN(Value of ForAcq)	(6) LN(Value of ForAcq)
TransitionTax	Indicator	Quartiles	Indicator	Quartiles	Indicator	Quartiles
*TransitionTax*Post*	-0.029***	-0.010**	-0.030***	-0.011**	-0.209*	-0.064
	(0.011)	(0.004)	(0.012)	(0.004)	(0.120)	(0.048)
SalesGrowth	0.004	0.004	0.005	0.005	0.051	0.052
	(0.003)	(0.003)	(0.003)	(0.003)	(0.033)	(0.033)
WorkingCapital	0.024	0.023	0.021	0.020	0.194	0.193
	(0.025)	(0.026)	(0.029)	(0.029)	(0.258)	(0.258)
Leverage	-0.042**	-0.042**	-0.036	-0.036	-0.374*	-0.371*
	(0.021)	(0.021)	(0.023)	(0.023)	(0.213)	(0.213)
MTB	0.002***	0.002***	0.002***	0.002***	0.014***	0.014***
	(0.001)	(0.001)	(0.001)	(0.001)	(0.005)	(0.005)
Size	-0.012**	-0.012**	-0.011*	-0.011*	-0.117**	-0.120**
	(0.006)	(0.006)	(0.006)	(0.006)	(0.055)	(0.055)
Constant	0.123***	0.125***	0.117***	0.120***	1.232***	1.248***
	(0.037)	(0.037)	(0.039)	(0.040)	(0.362)	(0.363)
Observations	11,975	11,975	10,476	10,476	11,975	11,975
Firm-FE	Yes	Yes	Yes	Yes	Yes	Yes
Year-FE	Yes	Yes	Yes	Yes	Yes	Yes
R^2	0.250	0.250	0.266	0.266	0.224	0.224

Note: This table presents results for the effect of the TCJA on the likelihood that a U.S. firm acquires a foreign target conditional on untaxed foreign earnings prior to the reform. In panel A (B), we measure untaxed foreign earnings based on repatriation tax costs prior to the reform (based on transition tax costs disclosed as a consequence of the reform). The samples in columns 1-2 and 5-6 include foreign acquisitions of U.S. firms completed between 2011 and 2019. The samples in columns 3-4 exclude acquisitions completed in the year 2017. In columns 1-4, the dependent variable is an indicator variable with the value of one if a U.S. firm acquires a foreign target in year *t*, and zero otherwise (i.e., a U.S. firm does not acquire a foreign target in year *t*). In columns 5-6, the dependent variable is the natural logarithm of one plus the overall value of foreign acquisitions by a U.S. firm in year *t*. In columns 1, 3, and 5 (2, 4, and 6) of panel A, *RepatTaxCost* is an indicator variable with the value of one if the three-year average repatriation tax costs of a firm between 2014 and 2016 are greater than zero (is the quartile rank of the three-year average repatriation tax costs between 2014 and 2016). In columns 1, 3, and 5 (2, 4, and 6) of panel B, *TransitionTax* is an indicator variable with the value of one if the transition tax disclosed by a firm in its post-TCJA 10-K filings (i.e., for fiscal years 2017-2019) is greater than zero (is the quartile rank of the transition tax disclosed by a firm in its post-TCJA 10-K filings and scaled by total assets). The transition tax is the amount of U.S. tax due on all untaxed foreign earnings as of the date of passage of the TCJA. The independent variables in all columns are lagged by one year. The regressions in columns 1-4 (5-6) are estimated as linear probability models (as linear regression models). All regressions include firm and year fixed effects. We report heteroscedasticity-robust standard errors, clustered by firm. *, **, and *** represent significance levels of 0.10, 0.05, and 0.01, respectively (two-tailed).

Table 6: TCJA and Outbound M&A Activity of Domestic Firms

	(1) Prob (ForAcq)	(2) Prob (ForAcq)	(3) LN(Value of ForAcq)
*Domestic*Post*	0.036***	0.039***	0.288***
	(0.008)	(0.008)	(0.085)
SalesGrowth	0.006*	0.006	0.068*
	(0.003)	(0.004)	(0.036)
WorkingCapital	0.030	0.026	0.266
	(0.026)	(0.029)	(0.268)
Leverage	-0.038*	-0.028	-0.335
	(0.022)	(0.025)	(0.228)
MTB	0.001**	0.001**	0.011**
	(0.001)	(0.001)	(0.005)
Size	-0.016***	-0.016**	-0.157**
	(0.006)	(0.006)	(0.057)
Constant	0.147***	0.143***	1.453***
	(0.039)	(0.041)	(0.378)
Observations	11,362	9,945	11,362
Firm-FE	Yes	Yes	Yes
Year-FE	Yes	Yes	Yes
R^2	0.251	0.267	0.225

Note: This table presents results for the effect of the TCJA on the likelihood that a U.S. firm acquires a foreign target conditional on being a domestic firm prior to the reform. The samples in columns 1 and 3 include foreign acquisitions of U.S. firms completed between 2011 and 2019. The sample in column 2 excludes acquisitions completed in the year 2017. In columns 1-2, the dependent variable is an indicator variable with the value of one if a U.S. firm acquires a foreign target in year *t*, and zero otherwise (i.e., a U.S. firm does not acquire a foreign target in year *t*). In column 3, the dependent variable is the natural logarithm of one plus the overall value of foreign acquisitions by a U.S. firm in year *t*. *Domestic* is an indicator variable with the value of one if a firm reports missing pre-tax foreign income in the three years 2014 to 2016. The independent variables in all columns are lagged by one year. The regressions in columns 1-2 (3) are estimated as linear probability models (as linear regression models). All regressions include firm and year fixed effects. We report heteroscedasticity-robust standard errors, clustered by firm. *, **, and *** represent significance levels of 0.10, 0.05, and 0.01, respectively (two-tailed).

Table 7: TCJA and Outbound M&A Activity of Debt-constrained Firms

	(1) Prob (ForAcq)	(2) Prob (ForAcq)	(3) LN(Value of ForAcq)
*NonInvGradeRating*Post*	0.038*	0.040*	0.181
	(0.021)	(0.022)	(0.238)
SalesGrowth	0.004	0.005	0.053
	(0.003)	(0.003)	(0.033)
WorkingCapital	0.021	0.018	0.169
	(0.026)	(0.029)	(0.258)
Leverage	-0.041*	-0.034	-0.375*
	(0.021)	(0.023)	(0.216)
MTB	0.002***	0.002***	0.015***
	(0.001)	(0.001)	(0.006)
Size	-0.013**	-0.012**	-0.125**
	(0.006)	(0.006)	(0.055)
Constant	0.121***	0.115***	1.235***
	(0.038)	(0.040)	(0.369)
Observations	11,791	10,313	11,791
Firm-FE	Yes	Yes	Yes
Year-FE	Yes	Yes	Yes
R^2	0.249	0.264	0.224

Note: This table presents results for the effect of the TCJA on the likelihood that a U.S. firm acquires a foreign target conditional on having no credit rating or a non-investment grade credit rating prior to the reform. The samples in columns 1 and 3 include foreign acquisitions of U.S. firms completed between 2011 and 2019. The sample in column 2 excludes acquisitions completed in the year 2017. In columns 1-2, the dependent variable is an indicator variable with the value of one if a U.S. firm acquires a foreign target in year *t*, and zero otherwise (i.e., a U.S. firm does not acquire a foreign target in year *t*). In column 3, the dependent variable is the natural logarithm of one plus the overall value of foreign acquisitions by a U.S. firm in year *t*. *NonInvGradeRating* is an indicator variable with the value of one if a firm has no or a non-investment-grade rating in the three years 2014 to 2016, and zero otherwise (i.e., an investment-grade rating in the three years 2014 to 2016). The independent variables in all columns are lagged by one year. The regressions in columns 1-2 (3) are estimated as linear probability models (as linear regression models). All regressions include firm and year fixed effects. We report heteroscedasticity-robust standard errors, clustered by firm. *, **, and *** represent significance levels of 0.10, 0.05, and 0.01, respectively (two-tailed).

Table 8: TCJA and Outbound M&A Activity of U.S. and Canadian Firms

	(1) Prob (ForAcq)	(2) Prob (ForAcq)	(3) LN(Value of ForAcq)
*US*Post*	-0.019***	-0.019***	-0.170**
	(0.007)	(0.007)	(0.070)
SalesGrowth	0.002	0.002	0.023
	(0.002)	(0.002)	(0.017)
WorkingCapital	0.009	0.011	0.088
	(0.019)	(0.021)	(0.192)
Leverage	-0.045***	-0.039**	-0.408**
	(0.016)	(0.018)	(0.166)
MTB	0.002***	0.002**	0.013**
	(0.001)	(0.001)	(0.005)
Size	-0.009*	-0.008	-0.079
	(0.005)	(0.005)	(0.049)
Constant	-0.102***	-0.094***	-0.942***
	(0.031)	(0.033)	(0.312)
Observations	16,293	14,318	16,293
Firm-FE	Yes	Yes	Yes
Year-FE	Yes	Yes	Yes
R^2	0.253	0.271	0.225

Note: This table presents results for the effect of the TCJA on the likelihood that a U.S. firm acquires a foreign target relative to Canadian firms. The samples in columns 1 and 3 include foreign acquisitions of U.S. and Canadian firms completed between 2011 and 2019. The sample in column 2 excludes acquisitions completed in the year 2017. In columns 1-2, the dependent variable is an indicator variable with the value of one if a U.S. or Canadian firm acquires a foreign target in year *t*, and zero otherwise (i.e., a U.S. or Canadian firm does not acquire a foreign target in year *t*). In column 3, the dependent variable is the natural logarithm of one plus the overall value of foreign acquisitions by a U.S. or Canadian firm in year *t*. *US* is an indicator variable with the value of one if a firm is incorporated in the U.S. The independent variables in all columns are lagged by one year. The regressions in columns 1-2 (3) are estimated as linear probability models (as linear regression models). All regressions include firm and year fixed effects. We report heteroscedasticity-robust standard errors, clustered by firm. *, **, and *** represent significance levels of 0.10, 0.05, and 0.01, respectively (two-tailed).

Table 9: TCJA and Deal-announcement Returns

	(1) CAR	(2) CAR	(3) CAR	(4) CAR
RepatTax	-0.029	0.142	-0.138	-0.027
	(0.199)	(0.215)	(0.212)	(0.193)
*RepatTax*Post*	0.733*	0.570	0.899**	0.773**
	(0.370)	(0.410)	(0.275)	(0.308)
Leverage	0.040	0.038	0.038	0.036
	(0.023)	(0.022)	(0.022)	(0.023)
MTB	-0.001**	-0.001*	-0.002***	-0.001**
	(0.001)	(0.001)	(0.000)	(0.000)
Size	-0.003	-0.002*	-0.003	-0.003
	(0.001)	(0.001)	(0.002)	(0.001)
LN(DealValue)	0.004*	0.003	0.004	0.004
	(0.002)	(0.002)	(0.002)	(0.002)
Diversifying	0.005	0.006	0.004	0.006
	(0.005)	(0.005)	(0.004)	(0.003)
PublicTarget	-0.017*	-0.018**	-0.017	-0.016
	(0.008)	(0.007)	(0.010)	(0.009)
Constant	-0.013	-0.015	-0.008	-0.011
	(0.016)	(0.018)	(0.020)	(0.022)
Observations	733	733	589	589
Industry-FE	No	Yes	No	Yes
Country-FE	No	Yes	No	Yes
Year-FE	Yes	Yes	Yes	Yes
R^2	0.049	0.111	0.054	0.118

Note: This table presents results for announcement-return tests conditional on the repatriation tax costs of a U.S. acquirer. The samples in columns 1-2 include foreign acquisitions of U.S. firms announced between 2011 and 2019. The samples in column 3-4 exclude acquisitions announced in the years 2016 or 2017. The dependent variable is the cumulative abnormal return of a U.S. acquirer, computed for a five-day window around the announcement of the foreign acquisition (*t-2* to *t+2*). Acquirer-level independent variables in all columns are lagged by one year. All regressions are estimated as linear regression models. The regressions in columns 1 and 3 (2 and 4) include year (target industry, target country, and year) fixed effects. We report heteroscedasticity-robust standard errors, clustered by firm and year. *, **, and *** represent significance levels of 0.10, 0.05, and 0.01, respectively (two-tailed).

Table 10: TCJA and U.S. Acquisitions of U.S. Targets

	(1) Prob (USAcq)	(2) Prob (USAcq)	(3) Prob (USAcq)	(4) Prob (USAcq)
Post	0.064**	0.052*	0.045	0.059
	(0.031)	(0.032)	(0.033)	(0.039)
LN(MarketCap)	-0.009	-0.004	-0.008	0.011
	(0.008)	(0.008)	(0.009)	(0.014)
ROA	0.103	0.038	0.102	-0.086
	(0.118)	(0.117)	(0.127)	(0.209)
Leverage	0.071	0.019	-0.011	0.122
	(0.050)	(0.051)	(0.055)	(0.082)
Intangibles	-0.136*	-0.117*	-0.073	-0.129
	(0.071)	(0.071)	(0.074)	(0.116)
Loss	-0.005	-0.002	0.016	0.002
	(0.041)	(0.041)	(0.043)	(0.065)
Constant	0.865***	0.860***	0.902***	0.688***
	(0.063)	(0.063)	(0.065)	(0.113)
Observations	850	850	735	361
Industry-FE	No	Yes	Yes	Yes
R^2	0.018	0.050	0.052	0.082

Note: This table presents regression results for the effect of the TCJA on the likelihood that a U.S. target is acquired by a U.S. firm. The samples in columns 1-2 include acquisitions completed between 2011 and 2019. The sample in column 3 excludes acquisitions completed in 2017. The sample in column 4 is limited to acquisitions completed between 2016 and 2019. The dependent variable is an indicator variable with the value of one if a target is acquired by a U.S. firm, and zero otherwise (i.e., a target is acquired by a non-U.S. firm). The independent variables in all columns are lagged by one year. All regressions are estimated as linear probability models. All regressions include target industry fixed effects. We report heteroscedasticity-robust standard errors. *, **, and *** represent significance levels of 0.10, 0.05, and 0.01, respectively (two-tailed).

Table 11: TCJA and U.S. Acquisitions of U.S. Targets (Cross-Sectional Evidence)

	(1) Prob (USAcq)	(2) Prob (USAcq)	(3) Prob (USAcq)	(4) Prob (USAcq)
	Untaxed Foreign Earnings	No Untaxed Foreign Earnings	High Profitability & Multinational Target	Remaining Sample
Post	0.150**	0.014	0.154*	0.027
	(0.075)	(0.035)	(0.079)	(0.035)
LN(MarketCap)	0.013	-0.008	0.023	-0.008
	(0.020)	(0.009)	(0.025)	(0.009)
ROA	-0.339	0.063	-0.577	0.008
	(0.260)	(0.131)	(0.676)	(0.120)
Leverage	-0.003	-0.002	0.045	-0.004
	(0.131)	(0.057)	(0.147)	(0.056)
Intangibles	-0.146	-0.028	-0.259	-0.130
	(0.157)	(0.079)	(0.183)	(0.086)
Loss	-0.000	-0.014	0.000	-0.002
	(0.110)	(0.044)	(0.000)	(0.042)
Constant	0.690***	0.920***	0.702***	0.911***
	(0.152)	(0.069)	(0.178)	(0.070)
p-Value (*Post*)	(1) > (2): 0.048		(3) > (4): 0.057	
Observations	230	612	175	675
Industry-FE	Yes	Yes	Yes	Yes
R^2	0.049	0.081	0.060	0.066

Note: This table presents results for cross-sectional tests for the effect of the TCJA on the likelihood that a U.S. target is acquired by a U.S. firm. The samples in all columns include acquisitions completed between 2011 and 2019. The sample in column 1 (2) includes targets with repatriation tax costs (no repatriation tax costs) prior to the acquisition. The sample in column 3 (4) includes multinational targets with profitability above the sample median (the remaining target sample). We measure profitability as the return on property, plant, and equipment. The dependent variable is an indicator variable with the value of one if a target is acquired by a U.S. firm, and zero otherwise (i.e., a target is acquired by a non-U.S. firm). The independent variables in all columns are lagged by one year. All regressions are estimated as linear probability models. All regressions include target industry fixed effects. We report heteroscedasticity-robust standard errors. We estimate a fully-interacted model to assess whether the coefficients on *Post* differ between subsamples (Allison, 1999). *, **, and *** represent significance levels of 0.10, 0.05, and 0.01, respectively (two-tailed).