

# Corporate Inversions and Economic Performance

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## Abstract

This paper assesses the economic factors associated with corporate inversions, including the 48 inversions that have occurred since the analysis of Desai and Hines (2002). The analysis presented here is observational, not causal, as it examines how the business activities of firms that chose to invert changed after expatriation. In addition to statistically assessing the equity market's reaction to inversion announcements, this paper examines how firms alter their patterns of employment and investment after inversion. In particular, the paper follows how the foreign shares of an inverting firm's employment and investment change following inversion, relative to comparable non-inverting firms. The behavior of inverting firms following expatriation is assessed going back to 1980 as well as only after the 2004 policy change, which made expatriation through merger with a foreign firm with substantive foreign business activities more attractive. The results suggest that inverting firms have higher shares of the employees and capital expenditures located abroad after inversion relative to changes experienced by similar non-inverting firms. Further, these increases are not attributable to one-time changes due to the inclusion of a new foreign partner's existing workforce and ongoing investments; foreign shares of employment and investment are higher two and more years after inversion relative to the first year just after inversion when any one-time increases would register.

**Keywords:** Corporate inversion, offshoring

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# 1 Introduction

News that an American firm has decided to invert, that is re-incorporate as a foreign firm, is generally met with concerns regarding the causes, such as the relatively high U.S. corporate tax rate and system of taxing worldwide income, and the consequences, including worries about the offshoring of jobs. Repeated attempts by Congress through legislation and the executive branch through regulations to stem the flow of firms abroad have not stopped the expatriation of U.S. firms. Recent inversions, such as the expatriation of Medtronic Inc. to Ireland and Burger King Worldwide Inc. to Canada, have renewed calls for both measures to directly curtail the tax benefits of inverting and more comprehensive tax reform that would reduce U.S. marginal tax rates, making the U.S. a more hospitable incorporation location.

The first U.S. inversion, the move by Louisiana-based construction company McDermott International Inc. to Panama in 1982, was quickly followed by the addition of §1248(i) to the tax code. The new provision disallowed inversions of the same form as McDermott's re-domiciliation. Legislative reaction to Helen of Troy Ltd.'s 1994 expatriation from El Paso to Bermuda brought new tax treatment under §367. Shareholders of a U.S. target firm were now liable for taxes on gains between the share purchase price at the time of inversion and their existing cost-basis if transferring U.S. shareholders owned more than 50 percent of the new corporation. The late 1990s and early 2000s brought a spate of new inversions, including the notable expatriation of Tyco International in 1997.<sup>1</sup> These inversions led Congress to add new anti-inversion provisions to the 2004 American Jobs Creation Act, creating §7874 of the Internal Revenue Code. These measures became the primary corporate-level anti-inversion provisions and aimed to disallow inversions where a U.S. firm simply re-incorporated abroad without a substantial business presence in the foreign jurisdiction.

The adoption of §7874 raised the threshold for expatriation. Under §7874 if the U.S. target firm's shareholders own at least 60 percent but less than 80 percent of the new inverted firm, the new foreign firm has acquired substantially all of the assets of the U.S. target, and the new firm lacks substantial business activities in the new foreign jurisdiction of incorporation, then for a

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<sup>1</sup> According to Avi-Yonah (2002), "until Tyco inverted successfully in 1997, investment bankers generally assumed that a U.S. company would pay an unacceptable price in its share value if it reincorporated in Bermuda. [...] But after Tyco, it became clear that share prices do not drop as a result of reincorporation." Work by Hanlon and Slemrod (2009), on the other hand, found that a company's stock price declines on average when there is media coverage of its use of tax shelters. The decline is smaller, however, for firms that are viewed to be less tax aggressive. Dharmapala and Desai (2009) similarly found that tax avoidance is not simply a transfer of resources from the state to shareholders due to governance issues and agency problems.

ten-year period after the inversion the U.S. target firm will be subject to U.S. corporate income taxes on its “inversion gain”<sup>2, 3</sup> After years of case-by-case evaluations of the tax implications of potential inversions, in 2012 the IRS issued new guidance that requires at least 25 percent of a company’s employees, assets and income be located in or derived from the new country of incorporation for the firm to no longer be considered a U.S. firm for tax purposes. The dynamic effect of this measure aimed at immediately slowing inversions was to make substantive mergers more likely.

By enacting §7874 to prevent inversions that were simply a change of address and not a move abroad for business reasons, policymakers made mergers with substantive foreign firms more attractive to firms looking to invert for tax purposes. Merging with a substantive foreign firm first makes it more likely that the shareholders of the U.S. target firm will own less than 60 percent of the new firm—the key threshold for §7874 to apply. Second, merging with a substantive foreign firm makes it more likely that the newly inverted combined firm will have enough foreign business activity to meet the new 25 percent “bright-line” test the U.S. Treasury introduced in 2012.

The measures of §7874 may have deterred self-inversions successfully but they may have made the loss of U.S. business activity more likely. The substantive foreign companies U.S. firms now merge with are more likely to have existing plants, research centers or sales forces in the foreign jurisdiction. With these operations and facilities already in place, foreign merger partners may demand that more business activity be moved abroad or marginal increases in business activity be located abroad. Furthermore, firms may locate new or existing operations abroad to reduce U.S.-source income still subject to U.S. corporate tax rates even after inversion.

This paper assesses the economic factors associated with corporate inversions, including the 48 inversions that have occurred since the analysis of Desai and Hines (2002). In addition to statistically assessing the equity market’s reaction to inversion announcements, this paper examines how firms alter their patterns of employment and investment after inversion. In particular, the paper follows how the foreign shares of an inverting firm’s employment and investment change following inversion, relative to comparable non-inverting firms. The behavior

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<sup>2</sup> For an excellent overview of inversion transactions please see Tax Section of the New York State Bar Association (2002) and for additional detail on §7874 please see the Tax Section of the New York State Bar Association (2014).

<sup>3</sup> Under §7874 if the U.S target’s shareholders own 80 percent or more of the new firm, then it will be treated like a domestic firm for U.S. tax purposes.

of inverting firms following expatriation is assessed going back to 1980 as well as only after the 2004 policy change. The results suggest that inverting firms have higher shares of the employees and capital expenditures located abroad after inversion relative to changes experienced by similar non-inverting firms. Firms that inverted after 2004 drive these impacts, suggesting that regulatory policy did in fact affect the nature of inversions and associated post-inversion behavior. These increases are not attributable to one-time changes due to the inclusion of a new foreign partner's existing workforce and ongoing investments; foreign shares of employment and investment are higher two and more years after inversion relative to the first year after inversion when any one-time increases would register.

It is important to note that the analysis presented here is observational and simply examines how the business activities of firms that chose to invert changed after expatriation. It follows firms for whom inversion was optimal. The results do not inform our view of the impact of inversion on a random firm, or even a firm on the margin of inverting. The behavior pattern we see is not necessarily causal. Rather than inversion leading to higher foreign shares of employment and investment, it may well be true that firms that planned to increase their foreign activities choose to invert; that is, causality could run in the reverse direction. Alternatively, both expatriating and increased foreign activities may be driven by a third outside factor. While we cannot attribute the changes in foreign employment and investment shares following inversion to the act of inverting, the analysis can help us understand how the business activities of these inverting firms changed following inversion.

The following section of the paper describes the U.S. tax system's treatment of international income and the incentives for expatriation it creates. It also details stock market reactions to inversion announcements. Section 3 describes the data used in the analysis and the empirical strategy. Section 5 reports how real economy outcomes like employment and investment differ post-inversion. Section 6 concludes.

## ***2 The Taxation of Foreign Income and Incentives to Invert***

Corporate income earned abroad by U.S. multinational corporations is potentially subject to both U.S. taxation and taxation by foreign governments. The U.S. hews to a worldwide tax system, taxing earnings of U.S. corporations regardless of where they are earned, while much of the world has implemented territorial tax systems. This discrepancy creates incentives for U.S. firms

to invert, that is expatriate and incorporate in a foreign country.<sup>4</sup> Policy attempts to avoid costly double taxation of such income form the crux of the complications of international taxation. These rules and their implications are discussed below.

## *2.1 U.S. Taxation of Foreign Income*

To prevent the same income from being subject to multiple taxes, the U.S. allows firms to claim tax credits for income and related taxes paid to foreign governments.<sup>5</sup> For example, a U.S. firm subject to the 35 percent U.S. corporate tax rate earning \$100 in profits in a foreign country with a 15 percent corporate tax rate could potentially make use of foreign tax credits. Rather than owing \$35 in taxes to the U.S. government on \$100 of income earned abroad, the U.S. firm would only need to remit \$20 to the U.S. Treasury if it paid foreign taxes on that income. The firm can claim a foreign tax credit for the income taxes paid to the foreign government, offsetting \$15 of U.S. tax liabilities and thus only owing \$20 in U.S. taxes. Foreign tax credits in this case do not reduce the total tax burden—the firms still remits 35 percent of its income in taxes—but do reduce the U.S. share of taxes remitted.<sup>6</sup>

U.S. taxes are not necessarily owed in the year foreign income is earned. U.S. multinationals can defer any U.S. taxes owed on foreign subsidiary profits until the foreign subsidiary distributes the earnings back to the U.S. parent as dividends. Subpart F income—which is typically income of a controlled foreign corporation that is relatively movable across tax jurisdictions, such as insurance income—is, however, excepted from deferral. For income not subject to subpart F, the firm must also wait until distribution to claim any accompanying foreign tax credits. Generally, the share of a foreign subsidiary’s total earnings deemed distributed to the U.S. parent determines the share of foreign taxes paid that can be claimed as foreign tax credits.

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<sup>4</sup> In addition to the United States, Chile, Greece, Ireland, Israel, South Korea and Mexico all use worldwide tax systems. Both the United Kingdom and Japan transitioned to a territorial system in 2009. It should be noted that the possibility of cross-crediting may mean that tax rates for some firms are lower under worldwide taxation than they would be under a purely territorial system.

<sup>5</sup> For more detail on the necessary characteristics for a foreign tax to be eligible for foreign tax credits see West and Varma (2012).

<sup>6</sup> A U.S. firm can directly claim foreign tax credits for foreign taxes it itself pays. A U.S. corporation can also claim “indirect” or “deemed” foreign tax credits if it owns at least 10 percent of a foreign corporation that pays foreign taxes; it can only claim these credits, however, when the foreign income earned by the subsidiary is distributed to the U.S. parent or included in the U.S. corporation’s income under Subpart F of the U.S. tax code.

For example, if the U.S. cooperation's foreign subsidiary in the example above is not subject to Subpart F and only distributes \$34 of after-tax earnings back to its U.S. parent and re-invests the remaining \$51 in its own operations, then the U.S. parent is eligible for only a fraction of the potential \$15 foreign tax credit. The U.S. parent can only claim  $\$15 * \frac{\$34}{\$85} = \$6$  in foreign tax credits. Deferral is only available on active business profits of a foreign-incorporated affiliate. Earnings from affiliates that are not separately incorporated abroad are immediately subject to U.S. taxation.

Controlled foreign corporations—foreign corporations that are at least half owned by American individuals or corporations with each stakeholder owning at least 10 percent—are subject to additional provisions to limit attempts by U.S. firms to delay the distribution of foreign profits subject to very low tax rates to the U.S. parent. Under Subpart F certain types of foreign income are deemed distributed when earned and thus are subject to U.S. taxes regardless if they are repatriated to the U.S. parent or not.<sup>7</sup> U.S. firms are not subject to Subpart F and can indefinitely defer remitting U.S. taxes on income earned abroad if the subsidiaries generating the income have active business operations and the profits are re-invested in active business lines of the subsidiary.

Foreign tax credits are limited to the U.S. tax liability on foreign-source income. This limit prevents tax credits earned on income abroad from offsetting taxes owed on income earned in the U.S. For example, the foreign tax credit limit on \$100 of foreign-source income is \$35 if the firm is subject to the 35 percent corporate tax rate. If a firm has paid less than \$35 in foreign taxes, it is not foreign tax credit limited and can claim credits for all of the foreign taxes paid. It is said to have “deficit foreign tax credits”. These are the firms for whom the U.S. system of taxing worldwide income is most onerous and expatriation is most attractive. If the firm operates in a foreign jurisdiction with tax rates that exceed the U.S. rate, that is if the firm has paid more than \$35 in foreign taxes, then it is credit limited. Such a firm can claim a maximum of \$35 in foreign tax credits that year. The difference between a firm's credit limit and the foreign taxes it has paid is its “excess foreign tax credits”. A firm's excess foreign tax credits measures the excess taxes it has paid to foreign governments relative to U.S. tax obligations (before foreign tax credits) on

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<sup>7</sup> Income subject to immediate taxation under Subpart F includes income used to insure against U.S. risk, foreign base company income that arises from using a foreign subsidiary for international transactions that are not directly connected to the subsidiary's country, income from passive investments like securities, income invested in U.S. property, and interestingly income used to pay bribes to foreign officials.

income earned abroad. Firms can carry excess foreign tax credits back up to two years or carry them forward up to five years; because the credits are not adjusted for inflation, the time value of money makes it most attractive to carry excess credits back rather than forward.<sup>8</sup>

A firm's foreign tax credit limit is not determined country-by-country but instead on a worldwide basis. A firm's excess foreign tax credits are the sum of all income taxes paid to foreign governments less the U.S. obligation on foreign-source income. Tax payments exceeding U.S. obligations in one foreign country can offset U.S. taxes that would otherwise be owed on income earned in a country with lower taxes than the U.S.<sup>9</sup> This worldwide averaging reduces the likelihood of excess foreign tax credits, reducing the tax cost of remaining incorporated in the U.S. while having active foreign business operations.

Foreign tax credits are also affected by allocation rules that divvy up certain expenses incurred in the U.S. between domestic and foreign income. These expenses include interest payments, research and developments expenditures and overhead costs. Even if incurred in the U.S., these expenses are thought to aid operations both in the U.S. and abroad. Following this logic, shares of each of these expenses must be allocated to domestic and foreign income according to specific formulas. Interest expenses are divvied up between foreign and domestic income according to the share of assets held in the U.S. versus abroad. Research and development and general overhead are allocated between foreign- and domestic-source income according to a formula that depends on both where the activity is conducted as well as the share of sales that is foreign versus domestic.<sup>10</sup> These allocation rules reduce a firm's foreign tax credit limit: expenses allocated to foreign income reduce foreign income and thus the associated U.S. tax obligation and foreign tax credit limit. These rules adversely affect firms with excess foreign tax credits—as expenses are allocated to foreign income their foreign tax credits are further limited. They have no such effect on firms that pay less than the U.S. obligation in foreign taxes and thus have deficit foreign tax credits.

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<sup>8</sup> Firms subject to the corporate AMT have an additional limitation since their combined net operating loss and foreign tax credit tax reductions cannot amount to more than 90 percent of their AMT tax liabilities. The AMT's added wrinkle is its lower 20 percent marginal tax rate—a firm subject to the AMT will have more excess foreign tax credits for the same income from the same foreign jurisdictions than a non-AMT firm.

<sup>9</sup> One limitation of this cross-country crediting is allocation of foreign income into baskets based on how the income was earned. The baskets separate income earned from active business operations from passive income, and income earned from specific activities that may be subject to particularly high foreign tax rates such as shipping, oil production, and others. For more detail on these baskets and the implications of allocation see Desai and Hines (1999). The 2004 American Jobs Creation Act consolidated a number of baskets making it less likely that a firm would have excess foreign tax credits.

<sup>10</sup> These allocation formulas have been subject to frequent changes. Hines (1993) assesses the impact of the allocation formula for research and development expenses.

This system of taxing income earned abroad by U.S. firms and then offering foreign tax credits for taxes paid to foreign jurisdictions makes U.S. incorporation (with its obligation to pay U.S. corporate taxes) disadvantageous for firms that face low tax rates abroad. Any stock of un-repatriated earnings abroad makes expatriation even more immediately advantageous as the firm can avoid all U.S. taxes on this accumulated income.<sup>11</sup>

## 2.2 *Incentives to Invert*

Expatriation or inversion describes the relocation of a corporation's legal domicile from the U.S. to a lower-tax foreign nation. Inversions often do not involve the relocation of a firm's corporate headquarters, only a change in its legal domicile. There are three potential sources of tax advantages from inverting.<sup>12</sup> First, the inverted firm can establish new foreign operations without being subject to controlled foreign corporation rules. In fact, the tax saving may be significant enough to justify moving existing foreign operations held by the U.S. firm to the new parent, even though these transfers are generally taxable at the corporate level. Once the assets and the business lines are no longer owned by a U.S.-incorporated firm, they are no longer subject to U.S. taxation, specifically the firm no longer owes residual U.S. taxes on what had been foreign-source income.<sup>13</sup> Second there is the possibility of tax savings on U.S.-source income. Any means of reducing the profits booked by U.S. affiliates via paying the foreign parent tax deductible interest or royalties through a treaty jurisdiction like Barbados or Luxembourg, or via advantageous transfer pricing, will reduce the U.S. corporate tax liabilities once the firm has re-domiciled out the American worldwide tax system. Seida and Wempe (2004) show firm effective tax rates decline substantially after inversion, which they infer is largely due to earnings stripping. Finally, inverting can facilitate a firm's use of un-repatriated foreign earnings for the inverting acquisition or in subsequent deals.<sup>14, 15</sup>

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<sup>11</sup> For more on the electability of corporate residency and the incidence of trapped old equity see Shaviro (2010).

<sup>12</sup> There is reason to believe that many U.S. corporations could benefit from incorporating elsewhere. Collins and Shackleford (2003) find that companies domiciled in the U.S. face higher tax burdens than both U.S. domestic-only companies and Canadian multinationals (though they face similar tax burdens to British multinationals).

<sup>13</sup> The U.S. does withhold taxes on certain payments to individuals and firms in other countries; namely the U.S. withholds on interest payments, dividend distributions and royalties. Though withholding may apply, the rates themselves, however, are often reduced if the receiving individual or firm resides in a country with which the U.S. has a tax treaty, sometimes all the way to zero.

<sup>14</sup> The use of "locked-out" overseas cash was one reason cited for Pfizer's recent interest in acquiring UK-based AstraZeneca. According Pfizer Chief Financial Officer Frank D'Amelio, "[Relocating] would still allow me to access the offshore funds and do it in a tax-efficient way". As, he said, more than 70 percent of Pfizer's \$49 billion in cash is held abroad (Hoffman April 28, 2014).

<sup>15</sup> Interestingly, work by Atshuler, Newlon, and Randolph (1995) shows that tax rate changes only affect earnings repatriation

Tax factors have been shown to affect who chooses to invert. Voget (2011) found that repatriation taxes did weigh on expatriation decisions with a 10 percentage point increase in taxes increasing the share of relocating multinational firms by 2.2 percentage points. Recent work by Chorvat (2015) suggests that inverting particularly benefits firms with intangible assets.

### ***2.3 Brief History of Inversions and the Regulatory Cat-and-Mouse Game***

Firms have used different types of transactions over the years to invert. Table 1 describes the set of inversions analyzed, providing the date of announcement, transaction detail, a description of the firm's line of business as well as whether the firm reports the segment data necessary for the regression analysis. The first inversion occurred in 1982 when McDermott, a Louisiana-based construction company, changed its legal domicile to Panama. The corporation's Panamanian subsidiary served as a holding company for all of McDermott's foreign operations and had built up significant profits on which the firm was reticent to pay U.S. corporate taxes. McDermott chose instead to invert its corporate structure by making its Panamanian subsidiary the new parent of its U.S. operations. Inverting allowed McDermott to distribute its foreign profits to its shareholders as dividends while avoiding U.S. corporate taxes. This notable event led to the addition of §1248(i) to the tax code, which prevented future inversions of the same form as the McDermott transaction. The next inversion, Helen of Troy's 1994 expatriation from El Paso to Bermuda via the creation of a new subsidiary that then became the parent, brought new regulatory rules. Additional regulations under §367 of the Internal Revenue Code imposed shareholder taxes on transfers of appreciated property to a foreign corporation in an otherwise tax-free transaction, if U.S. transferors owned at least 50 percent of the new firm after the transaction. These §367 regulations were of course less effective in discouraging inversions where shareholders had little accumulated gains or were not subject to U.S. taxes.

A rash of inversions in the late 1990s and early 2000s, including the notable expatriations of Tyco International and Stanley Works, led Congress to add new anti-inversion provisions to the 2004 American Jobs Creation Act. The measures of §7874 were made retroactive to 2003. §7874 became the primary corporate-level provision aimed at discouraging inversions though §367 can still apply at the shareholder level. The section has two subparts §7874(a) and §7874(b), which apply under different inversion conditions and have differing tax implications.

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behavior of U.S. firms when the changes in rates are temporary rather than permanent.

If an inversion meets the three conditions that make it subject to §7874(a), then for a ten-year period after the inversion the U.S. target firm will be subject to U.S. corporate income taxes on its “inversion gain”, which are gains related to the certain asset transfers and licenses. The three requisite conditions for §7874(a) to apply are: 1) a foreign corporation acquires substantially all of the assets of a domestic target; 2) after the acquisition, former shareholders of the target firm own at least 60 percent of the foreign firm; and importantly, 3) after the acquisition, the firm does not have “substantial business activities” in the foreign jurisdiction. Alternatively, if after the inversion former shareholders of the target firm will own at least 80 percent of the foreign firm, then §7874(b) applies. If §7874(b) applies then the inverted firm will be treated like a domestic firm for tax purposes.

Prior to the 2004 law that changed the tax treatment of expatriating firms, there were measures to limit the ability of firm’s moving their domiciles outside of the U.S. to do business with the federal government. The 2002 law creating the Department of Homeland Security forbade the new agency from contracting with inverted firms; subsequent spending bills have extended the ban to all federal agencies.<sup>16</sup>

American corporations were soon inverting by making use of the “substantial business activities” exception of §7874, leading the Internal Revenue Service to release several sets of temporary regulations between 2006 and 2012 that clarified and further limited the exception. In a bulletin released in July 2006, the IRS identified two separate tests that could be used to identify whether a firm was eligible for the “substantial business activities” exception: the “safe harbor test,” which required 10 percent of a corporation’s employees, assets, and sales to be located in its new country of incorporation; and the “facts and circumstances test,” which would require all corporations that did not pass the “safe harbor test” to be evaluated on a case-by-case basis. The IRS quickly deemed the “safe harbor test” to be too expansive and repealed it in 2009. In 2012, the IRS also replaced the “facts and circumstances test” with a “bright line test” that required at least 25 percent of the company’s employees, assets, and income to be located in or derived from its new country of corporation.

In September 2014, the Department of the Treasury issued a notice intended to reduce the tax

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<sup>16</sup> In 2006, the prohibition was extended to apply to the Departments of Transportation, Treasury, and Housing and Urban Development; the Judiciary; and Independent Agencies. The Consolidated Appropriations Act of 2008 prohibited all federal agencies from contracting with inverted firms; this has been renewed in subsequent Appropriations Acts.

benefits of inverted corporations.<sup>17</sup> More recently, members of Congress have considered new legislation to stanch the flow of firms abroad. The Stop Corporate Inversions Act of 2015 proposes amending §7874 to apply to all inversions where company management is located primarily within the U.S. after the transaction and the company has significant business activities located within the U.S.

### 3 *Data and Empirical Strategy*

The data used in this study come from corporate announcements and financial data from public sources. Inversion dates were hand collected from firm announcements generally found among each firm's investor relations documents. Stock market return data come from CRSP. The annual financial statement data are from corporate 10-Ks filings as reported by Compustat. In addition to general balance sheet and income statement data, the study draws on fields from Compustat's Historical Segments Data (Segments data hereafter), which provides business and geographic segment detail for over 70 percent of the companies in Compustat's North America database. It is important to note that the Segments data are self-reported by corporations, meaning that reporting is voluntary and not based on standardized definitions of lines-of-business or geographic areas.<sup>18</sup> The lack of standardization is less of a concern here, as this investigation focuses exclusively on distinctions between domestic and foreign activities, classifications less susceptible to subjectivity.<sup>19</sup>

A more pressing concern is that geographic breakdowns are provided voluntarily: segment data are only detailed by firms willing to reveal these disaggregations. Firms who decide that the differences between their foreign and domestic operations are immaterial, irrelevant or politically sensitive can and will opt to not report these details. Thus, the data drawn upon here clearly describe a self-selected sample.

To draw meaningful comparisons, a sample of non-inverting firms was assembled based on characteristics not used as outcomes of interest or explanatory variables in the analysis. Like

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<sup>17</sup> More specifically, the notice limited a corporation's ability to restructure a foreign subsidiary in order to access its earnings tax-free, and to access those earnings by having the foreign subsidiary make a tax-free "hopscotch loan" (to the foreign parent instead of the United States parent). It also eliminated the cash-free transfer of cash or property to the new foreign parent company and strengthened the requirement that former shareholders must own less than 80 percent of the new company.

<sup>18</sup> That is, the countries and regions included in for example the 'Asia Pacific' non-domestic segment may differ by company.

<sup>19</sup> For each segment that a firm reports data, Compustat provides a field labeling the segment 'domestic' or 'non-domestic'. These are the designations used here to determine whether a segment is foreign or domestic.

Desai and Hines (2002) the comparison sample here is selected based on the frequency with which the firm reports export sales. Annual financial data were drawn from Compustat beginning in 1980, roughly three years prior to the first inversion, through 2014, the last full calendar year at the time of this study. Of the 59 inversions recorded for this period, 27 report sufficient foreign employment data and 20 report sufficient foreign capital expenditures to be included the regression analysis.

### ***3.1 Sample Details and Summary Statistics***

Table 2 details how the final sample for the regression analysis compares to the broader Compustat database in terms of key balance sheet and income statement items. These summary statistics provide a sense of how firms that report sufficient segment data and meet other data requirements for the analysis differ from the average firm in the Compustat database.

The top panel of Table 2 describes the Compustat universe over the sample period. The Compustat database describes Total Assets for 316,564 firm-years between January 1980 and December 2014. This broad sample has mean Total Assets of \$5,098 billion with an interquartile range of \$17.88 billion to \$814.7 billion. Total Long-term Debt averages \$895.1 billion with a median of only \$7.15 billion. The average Total Revenue is roughly \$1,624 billion although average Net Income is \$88.22 billion. All four distributions are heavily right-skewed. The second panel of Table 2 describes the subset of firm-year observations that are successfully merged with segment data from Compustat's Historical Segment Data. A firm-year observation will be successfully merged if that firm reports either business line or geographic segment data in that year. Roughly thirty percent of firm-years in the Compustat universe cannot be successfully matched because they do not report any kind of segment data. This matched sample is on average lower asset and carries less debt, though revenue and net income levels are much more similar (and somewhat higher) than the broader Compustat sample. The third panel describes the set of firms that report geographic segment details in at least some years between 1980 and 2014. Nearly 80 percent of firm-years that report any segment data report only line-of-business segment data. The subset of firms that do report geographic segment data have more assets, more debt, greater revenue and higher net income on average. This is true throughout the distribution (except that the 25th percentile of firms in this sample are less profitable than firms that report any kind of segment data).

The bottom panel of Table 2 describes the sample used in the regression analysis. This

sample consists of firms that invert (and report geographic segment data) and non-inverting firms deemed to have significant enough international activity to be comparable to firms that choose to invert. It is important that the criteria used for selecting these non-inverters be unrelated to the dependent or explanatory variables used in the regression analysis. The sample of non-inverting firms is restricted to firms that report export sales for at least half of the years their 10-K data is reported by Compustat. These are the firms I consider most comparable to firms that choose to invert as they demonstrate meaningful foreign activity and could potentially engage in the types of foreign employment and investment that are the outcomes of interest in the analysis.<sup>20</sup> The sample used in the regression analysis is actually more similar in terms of medians to the broad Compustat sample and the sample that reports any kind of segment data than the general subsample that reports geographic data. The regression sample has average Total Assets of \$4,017, roughly 80 of the broader Compustat sample described in the top panel. Its average Total Long-Term Debt (\$1,032) is somewhat higher than the full sample, while its average Total Revenue (\$2,379) and Net Income (\$172.2) are meaningfully higher than the broader sample.

### ***3.2 Market Reactions to Inversion Announcements***

The reaction of the stock market to a firm's announcement that it plans to invert provides a useful measure of the change in expected after-tax cash flows related to the inversion. Figure 1 describes the near-term market reaction to the inversion announcements of 42 firms. The raw percentage changes in share prices are plotted, unadjusted for the performance of the general market for greater transparency. The upper and lower bars for each firm respectively report the one-day and five-day percentage changes in equity share prices following the announcement.<sup>21</sup> The top panel describes inversions between 1982 and 2003, the middle between 2004 and 2011 and the bottom between 2012 and 2014. As the bars indicate market reactions are mixed for all three figures, meaning that during the era prior to the adoption of §7874, after the adoption of §7874, before and after the bright-line test, in many cases the market believed that the expected costs related to expatriating, including any applicable corporate and shareholder capital gain taxes, outweighed the anticipated benefits.

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<sup>20</sup> Desai and Hines (2002) restricted their sample of comparable non-inverting firms to those that continuously provided export data from 1992 until 1998, seven years in the middle of their sample period.

<sup>21</sup> The one-day change is the return on the next trading day following the inversion announcement while the five-day change is the cumulative return over the following five days.

### 3.3 *Empirical Strategy*

Beyond the financial markets reaction to a firm's inversion announcement, this study is concerned with the impact of inversion on the other aspects of a firm's economic performance. In particular, as Section 2.1 details, the U.S. system of taxing the foreign income of U.S. corporations and taxing the U.S. income of foreign corporations creates strong incentives to invert and then move economic activity abroad following inversion. Reincorporation abroad can potentially only mean a change of address but not substantive changes in the way a firm does business. In this case, while the expatriation will affect the amount of tax revenue raised by taxing authorities in different jurisdictions, it will not change in the way factors are employed by the firms in the U.S. or abroad. On the other hand, if expatriation affects the firm's operations, there may be 'real economy' consequences to the change of address. The empirical analysis below specifically assesses how the share of a firm's employees that is located outside of the U.S. and the share of its capital expenditures outside of the U.S. change following inversion.

It is important to note that the empirical analysis provides only observational insight. The estimates simply report how the employment and investment patterns of firms that chose to invert evolved following the expatriation. The estimated coefficients do not have a causal interpretation. Firms that have undertaken inversions systematically differ from firms that have not chosen to invert on observable and unobservable dimensions. The behavior of inverting firms after expatriation does not suggest how inversion would affect a random U.S. corporation or even a firm on the margin of inverting. Nonetheless understanding how firms that found it advantageous to re-incorporate outside of the U.S. altered their investment and employment patterns provides us with a sense of the aftermath of expatriation for these firms.<sup>22</sup> Moreover, if changes in the rules governing inversion affected the post-inversion behavior of expatriating firms, we can potentially better understand how policy choices have affected inversions.

The empirical analysis attempts to understand whether firms increase their foreign shares of employment and investment after inversion and whether these shares continue to increase or decrease in the following years. The first set of regressions simply assess whether foreign

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<sup>22</sup> As the results are observational, it would be incorrect to interpret the post-inversion behavior of inverting firms as an effect caused by inversion. It could be true that planned offshoring of employees or investment made inversion more attractive to these firms and thus caused them to invert. Or, a confounding factor could be at work, making capital expenditures, hiring abroad and expatriation more attractive. The existence or direction of a causal link is not discernible from the observational nature of the study.

employment and capital expenditure shares are higher in the years after inversion compared to the years prior to inversion, relative to a set of similar firms that chose not to invert but were impacted by the same general business climate as the inverting firms. The non-inverting sample of firms serves as a stand-in for how trends and economic forces generally affected the location of employees and investment during the sample period. These regressions have the general form:

$$Y_{it} = \alpha + \beta_0 Inversion_i + \beta_1 Inversion_i * Post_{it} + \delta_t + X_{it}'\gamma + \varepsilon_{it} \quad (1)$$

where  $Y_{it}$  is either the ratio of employees of foreign segments to total employees across all of a firm's geographic segments, or the ratio of capital expenditures of foreign segments to total capital expenditures across all of a firm's geographic segments. In addition to the constant term ( $\alpha$ ), and year fixed effects ( $\delta_t$ ), some regression specifications include time-varying firm controls,  $X_{it}$ . The key regressor of interest,  $Inversion_i * Post_{it}$ , is an interaction between the a dummy variable equal to one if firm  $i$  inverts at some point between 1980 and 2014 and the time-varying variable  $Post_{it}$ , which equals one if firm  $i$  inverted in a year prior to  $t$ . Thus, the interaction term is equal to one for observations describing an inverting firm in its post-inversion years. The regression also includes the main effect,  $Inversion_i$ . In some specifications the constant and  $Inversion_i$ , the dummy variable equal to one if a firm ever inverts, are replaced by firm fixed effects.

The coefficient  $\beta_1$  in effect measures how the average foreign share of employment (or investment) in the years after inversion compares to the average share in the years prior to inversion, relative to how the shares changed for non-inverting firms. This regression essentially assesses whether firms are different after they invert in terms of where they employ workers and incur capital expenditures.

Of course a U.S. firm that combines with a foreign firm is likely to report more foreign employees and investment following inversion as it will include the foreign firm's existing employees and ongoing foreign investment along with its own in the years after inverting. Such a one-time aggregation impact does not necessarily mean the operations that the U.S. firm undertook before inversion have somehow geographically changed after expatriation. To better understand how foreign employment and investment shares evolve following inversion, I focus on the post-inversion period and estimate the following regression model, where the year of inversion is denoted by  $\tau$ :

$$Y_{it} = \alpha_i + \beta Inversion_i * PostTwo_{it} + \delta_t + X_{it}'\gamma + \varepsilon_{it} \quad \forall t \geq \tau + 1 \quad (2)$$

The dependent variable,  $Y_{it}$ , in equation 2 again is the foreign share of employees or the foreign share of capital expenditures. Here, however, the sample is limited to at least one year after inversion for all inverting firms. Firm fixed effects,  $\alpha_i$ , control for unobservable differences across firms, while year fixed effects,  $\delta_t$ , control non-parametrically for common annual factors affecting all firms. Time-varying controls,  $X_{it}$ , are added as well. The regressor of interest,  $Inversion_i * PostTwo_{it}$  is an interaction between the inversion dummy, equal to one if a firm ever inverts between 1980 and 2014, and a new time-varying variable  $PostTwo_{it}$  which equals one if year  $t$  is at least two years after firm  $i$ 's year of inversion,  $\tau$ .

As inverting firms are only included in the analysis starting one year after the inversion, and the interaction term is turned on for inverting firms starting two years after inversion,  $\beta$  measures whether inverting firms have higher shares of foreign employment or investment two or more years after inversions compared to the year immediately after inversion, relative to the changes experienced by non-inverting firms. The one year buffer excludes the aggregation effect a firm may experience immediately upon inversion when a newly acquired foreign firm's existing foreign employees and investment are consolidated into reported totals. Effectively,  $\beta$  measures whether or not inverting firms continue to increase, or decrease, their foreign shares of employment and investment in years after they have expatriated. If  $\beta$  is significant and positive, then we can conclude that the any increase in foreign employment and foreign investment shares detected in estimates of equation 1 are not just a one-time event due to reporting changes, but that these shares continue to grow following inversion. Growing foreign employment and investment shares suggest that newly inverted firms business activities are increasingly located abroad, meaning that a change of address is associated with continuing changes in where factors are employed. Robust standard errors are reported for all specifications.

## 4 Results

Tables 3 and 4 report OLS estimates of equation 1, and describe how the foreign shares of employment and investment of expatriating firms compare before and after inversion, relative to non-inverting firms. Tables 5 and 6 report estimates of equation 2 with Table 5 detailing main results and Table 6 providing robustness checks.

The ratio of the number of foreign employees to the total number of employees across all geographic segments is the outcome of interest for all specifications detailed in Table 3. The specification of column one includes year fixed effects but no other regressors, meaning that the comparison between inverting and non-inverting firms accounts for the general time trend non-linearly, but controls for no other factors. The coefficient on *Inversion* reports the level difference in employee location patterns of firms that invert (the main effect of being an inverter), while the coefficient on the interaction term, *Post \* Inversion*, reports how inverting firms' foreign employment shares differ after inversion, relative to non-inverting firms. The coefficient on *Post \* Inversion*, 0.44 (0.04), suggests an unreasonably large increase the average share of employees located abroad after inversion, but the estimate is likely confounded by unobserved heterogeneity between firms. Column two adds firm fixed effects to the regression model to control for systematic firm differences, precluding the *Inversion* dummy variable. Limiting the analysis to within-firm variation, yields an estimates that suggests that firms that invert locate 11 percent more of their employees abroad in the post- inversion period, relative to firms that do not invert. Column three adds controls for time-varying firm characteristics, the natural log of total assets and the ratio of total long-term debt to total assets. The results are not economically or statistically different. The final two columns of Table 3 divide the sample between years prior to 2004 (column four) and years after 2004 (column five). These specifications aim to understand whether the increase in foreign employment experienced by inverting firms following expatriation is related to the 2004 policy change that required inverting firms to have substantive business activities in their new jurisdiction of incorporation.<sup>23</sup> In the pre- 2004 period, the coefficient on the interaction term *Post \* Inversion* is not statistically significant, meaning that prior to 2004 the share of an inverting firm's employees located abroad was not systematically different following inversion. After the 2004 policy change, however, estimates suggest that inverting firms increase their foreign employee shares by twelve percent. In other words, the increase in foreign employee share estimated in columns one through three are entirely attributable to the behavior of firms that invert after 2004. In prior years, firms

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<sup>23</sup> It would be natural to also examine how the foreign shares of investment and employment compared before and after the 2012 regulatory change that replaced the facts and circumstances test with a bright-line test requiring that 25 percent of the new firm's employees, assets and revenues be located in or generated in the new foreign jurisdiction. Unfortunately, the segment data only describe six firms that inverted after 2012 with four total observations describing their post-2012 employment and investment shares. At this time there is simply too little data describing firm behavior following inversions after the new regulation to evaluate the implications of the policy change.

invert, but any change in their share of employees located abroad is not statistically discernible.

Table 4 reports OLS estimates of equation 1 with the foreign share of firm capital expenditures as the dependent variable. Again column one only includes year dummies as controls, while firm fixed effects are added starting with column two, precluding the inclusion of the *Inversion* dummy variable in these specifications. Adding firm fixed effects reduces the coefficient on the regressor of the interest, the interaction term  $Post * Inversion$ , from 0.42 (0.04) to 0.08 (0.03). The estimate suggests that inverting is associated with firms making eight percent more of their capital expenditures abroad. Adding controls shrinks the coefficient to 0.06 (0.03), but does not render it economically or statistically dissimilar. Dividing the sample reveals very different patterns before and after 2004. Prior to the policy change, firms that inverted on average invested less overseas after expatriating than they did prior to inversion. After 2004, the sign on the coefficient flips, meaning that firms tend to have a higher foreign share of investment following inversion.

Of course inverting firms that merge with foreign firms are likely to realize a onetime time increase in employees and investment located abroad as they start including the existing workforce and on-going investments of the foreign firm in their reported data items. Table 5 reports OLS estimates of equation 2. Estimates of equation 2 reveal how the foreign shares of employment and investment of expatriating firms grew or shrank over the post-inversion period beginning at least a year after inversion. The regressor of interest is the interaction term,  $Inversion_i * PostTwo_{it}$ . It's coefficient reveals how the foreign share of employment or investment increases two or more years after inversion compared to the year just after inversion, relative to non-inverting firms. In columns one and two the dependent variable is the foreign share of employment while for columns three and four the outcome of interest is the foreign share of capital expenditures. Columns one and three use data from the entire 1980 to 2014 sample period. Columns two and four limit the sample of inverting firms to just those that invert after 2004—they thus only include data beginning in 2005. For columns two and four the comparison sample of non-inverting firms is limited to firm-year observations from 2005 and after.

Over the full sample period, the coefficient on  $Inversion_i * PostTwo_{it}$  is not significant for either the foreign share of employment (column one) or the foreign share of investment (column three). This means that over the full period inverting firms do not on average ratchet up their

foreign employment or investment shares in the years following inversion in a way that is statistically distinct from changes among the pool of non-inverting firms. The coefficient on  $Inversion_i * PostTwo_{it}$  is significant in both columns two and four where the sample is limited to inversions after the 2004 policy change. The positive coefficients show that inverting firms continued to increase their foreign shares of employment and investment two and more years after their expatriation, relative to non-inverting firms. That is, the increases in foreign employment and investment shares seen in Tables 3 and 4 are not due to one-time reporting changes, but in the post-2004 period signify enduring and continued increases the fractions of the inverted firms' employees and capital expenditures located abroad.

The set of firms that do not invert in this period play a key role as the comparison group relative to which the changes experienced by inverting firms are assessed. The set of non-inverting firms was chosen based on the frequency with which they report export sales. Firms that do not invert but report export sales at least half of the years in which they report other data to Compustat were deemed to be internationally active enough to be comparable to the set of firms that do choose to invert. Table 6 assesses the robustness of the results reported in Table 5 to alternative selection criteria. The specifications reported in columns one through four are identical to those of Table 5. In panel A the sample of non-inverting firms is limited to firms that report export sales in at least 75 percent of the years they report other financial data. This sample of firms shows more consistent international activity and thus should be even more comparable to firms that choose to expatriate. While the estimates are slightly different (though not statistically distinct) from those of Table 5, the pattern of coefficients on  $Inversion_i * PostTwo_{it}$  is very much the same. Only after 2004 do firms that invert continue to increase their foreign shares of employment and investment after their first year with a non-U.S. domicile. Panel B examines the sensitivity of the results to outlier observations in terms of debt-to-asset ratios. The five percent most leveraged firms, that is firms with debt-to-asset ratios exceeding 0.56, are dropped. These firms may have unusually high debt loads because they are in distress or in other atypical circumstances that make them less suitable members of the comparison sample of non-inverting firms. As the pattern of coefficients reported in panel B shows, the results of Table 5 are not driven by the behavior of these highly leveraged firms.

## 5 Conclusion

Starting with the first inversions of the 1980s and continuing through the most recent spate in 2014 and 2015, expatriations by U.S. firms have drawn the attention of policymakers, prompting calls for new policies to prevent inversions or dampen the incentives to invert through broader corporate tax reform. This paper assesses the economic performance of inverting firms. Data show that the market reaction to a firm's announcement of its intent to invert is largely mixed in terms of one-day and five-day returns. The reaction was mixed prior to the 2004 legislation that made substantive mergers with foreign firms more attractive as well as after.

Geographic segment data reported by some firms as part of their financial statements is used to assess how the location of employees and capital expenditures changes after inversion. The empirical results show that inverting firms increase their foreign shares of employment and inversion after expatriation, relative to a comparison sample of non-inverting firms. These results are entirely driven by the behavior of firms that invert after 2004, when I.R.C. §7874, which made substantive mergers with foreign firms a preferable and easier method of inverting, was adopted. Comparing the foreign shares of employment and investment two or more years after inversion to the shares the year following inversion suggests that these shares continue to grow after any reporting changes following inversion.

These results do require many important caveats. First, only some firms break their employment and capital expenditures down by geographic segment. Firms may consider the materiality as well as the political sensitivity of reporting such dis-aggregated data, making the available data potentially selected. Second, the analysis simply tracks the operations of firms for whom it was optimal to invert. Despite the careful construction of the comparison group of non-inverting firms, and the robustness of the results to alternative selection criteria, this study is only observational. The results cannot be interpreted as causal---the employment and investment pattern changes cannot be considered the consequence of inverting. Third, the fact that foreign operations increased after inversion following the adoption of §7874 in 2004 does not necessarily mean the new law changed the behavior of firms that were planning to invert. It could simply be that the new law had a selection effect where the set of firms inverting was different. Finally, it is important to note that the analysis only assesses how firms that are generally deemed “inverters” behave following inversion. Though the set of inversions assessed here is generally agreed upon and is consistent with respected media sources<sup>24</sup>, the sample does

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<sup>24</sup> For example, Zachary R. Mider’s Pulitzer-winning series for Bloomberg News (Mider 2014).

not describe all transactions that involve a change of domicile out of the U.S. As regulations regarding the U.S. tax treatment of expatriating firms have changed, which transactions are considered inversions has also changed. Additionally, mergers that result in a change of domicile but may not involve a low-tax jurisdiction, such as Daimler-Benz AG's 1998 purchase of Chrysler Corp., are not considered. Future research considering these business-motivated expatriations as well would help broaden our understanding how economic performance changes after inversion versus simply changing domicile.

Though the paucity of data makes it difficult to draw strong conclusions from this empirical evidence, the pattern of increased foreign shares of employment and investment after inversion following the adoption of §7874 in 2004 is consistent in various specifications and robustness checks. The evidence suggests that the measure aimed at reducing inversions by disallowing simple re-incorporations abroad may have had unintended consequences. In trying to prevent the loss of tax revenue and potentially business activity that accompany expatriations, §7874 motivated firms to engage in mergers with foreign firms that have substantial foreign operations; these existing foreign operations may have reduced the cost of locating new projects in the foreign jurisdiction. In other words, measures aimed at disallowing “easy” inversions may have made the re-location of employees and investment to foreign jurisdictions after inversion more likely.

The broader implications of these results is that legislation that is narrowly focused on preventing inversions via specific transactions can run the risk of motivating transactions that have other unanticipated consequences. Specific rules targeted at particular inversion methods may have the consequence of encouraging behavior that avoids the regulations but entails actions that have other negative consequences for the U.S. economy. The empirical results reported here are largely suggestive, but they do raise questions regarding the wisdom of constructing policy to stop particular expatriations.

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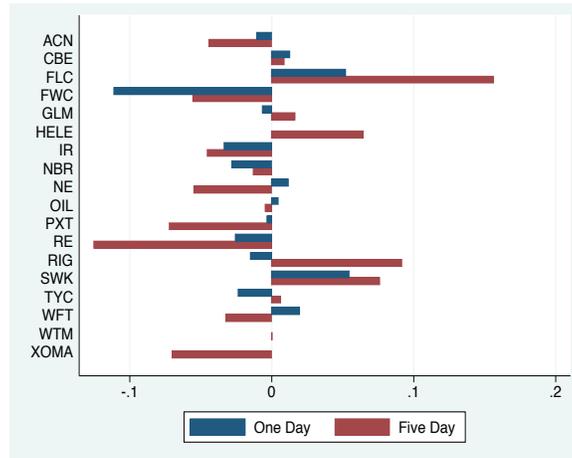
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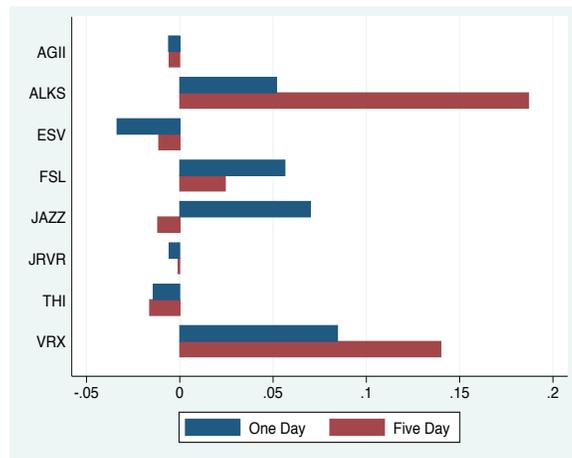
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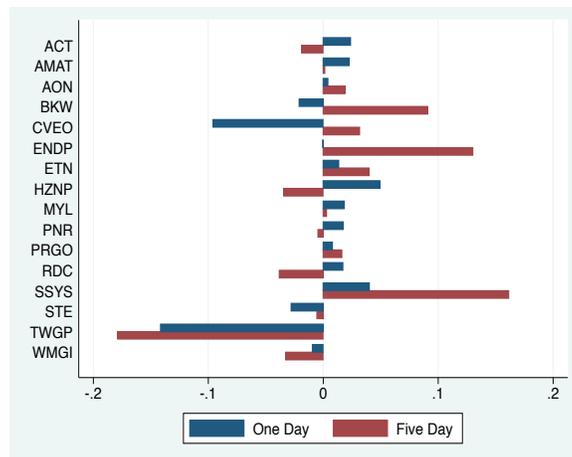
Figure 1: One-Day and Five-Day Share Price Percentage Increase, 1982 – 2014



1982 – 2003



2004 – 2011



2012 – 2014

Table 1: Corporate Expatriations, 1982 - 2015

Firm Name (Ticker)	Announce. Date	Segment Data	Geo. Seg. Data	Destination	Business Description	Transaction Detail
McDermott International Inc. (MDR)	10/28/82	1	1	Panama	McDermott builds deepwater and subsea oil and gas production facilities as well as nuclear reactor components for the U.S. Navy and industrial equipment such as heat exchangers. A separate subsidiary making power generation systems has filed for Chapter 11 protection because of asbestos liabilities.	Taxable Stock Transfer
Flextronics International Ltd. (FLEX)	05/31/90	1	0	Singapore	Flextronics International offers design, manufacturing, and distribution services to original equipment manufacturers in the communications, computer, consumer and medical industries.	Leveraged Buyout
Core Laboratories NV (CLB)	12/09/93	1	0	Netherlands	Core Laboratories, Inc. is one of the largest service providers of core and fluid analysis in the petroleum industry. Their specialties include basic rock properties, special core analysis, and PVT characterization of reservoir fluids.	Asset
Helen of Troy Ltd. (HELE)	12/30/93	1	0	Bermuda	Helen of Troy sells licensed personal care products and accessories under the Vidal Sassoon and Revlon brand names, as well its own WIGO, Karina, and Helen of Troy brands. Hair care items include hair dryers, curling irons, brushes, rollers, and mirrors; other products include women's shavers and foot massagers (Dr. Scholl's, Carel, Hotspa).	Taxable Stock Transfer
Loral Space & Communications Ltd. (LORL)	01/07/96	1	0	Bermuda	Loral Space & Communications is a satellite communications company. It was formed in 1996 from the remnants of Loral Corporation when Loral divested its defense electronics and system integration businesses to Lockheed Martin.	Subsidiary Spin-Off
Triton Energy Ltd. (OIL)	02/08/96	0	0	Cayman	Triton Energy Limited is a Dallas-based international oil and gas exploration and production company with major oil and gas assets in West Africa, Latin America and Southeast Asia.	Taxable Stock Transfer
Chicago Bridge & Iron Co. NV (CBI)	12/18/96	1	0	Netherlands	Chicago Bridge & Iron makes flat-bottom tanks, cryogenic tanks, pressure vessels, natural gas processing plants, and elevated tanks for the petroleum, chemical, and water industries.	Subsidiary IPO
Tyco International Plc (TYC)	03/17/97	1	1	Ireland	Conglomerate Tyco International's makes electrical connectors, conduits, and printed circuit boards; security and fire-protection systems; healthcare products (bandages, crutches, and respiratory care equipment); undersea fiber-optic cable; and offers financial services through CIT Group.	Taxable Stock Transfer (M&A-related)
Santa Fe International (GSF)	06/01/97	0	0	Cayman	GlobalSantaFe is a leading offshore drilling contractor and was formed by the combination of Global Marine and Santa Fe International. The company provides both turnkey drilling and drilling management services. Government-owned Kuwait Petroleum owns 29% of GlobalSantaFe.	Subsidiary IPO
Fruit of the Loom Ltd. (FTL)	02/11/98	0	0	Cayman	Apparel maker, Fruit of the Loom, provides mostly basic underwear but other products include activewear, casual wear, and children's underwear sold under the brand names Funpals, Fungals, and Underoos. Berkshire Hathaway rescued the company from bankruptcy in 2001.	Taxable Stock Transfer
Playstar	05/05/98	0	0	Antigua	PlayStar Corporation, an Internet gaming and gambling startup, operates an online cyber-casino where players can wager using a point system of virtual chips purchased via credit card in such games of chance as blackjack, draw poker, baccarat, and roulette. The company licenses its games to other online casino operators and hopes to license sports pool software to third parties.	Financial Reorganization
XOMA Ltd. (XOMA)	11/24/98	1	1	Bermuda	XOMA, a drug developer, is working closely with Baxter International and Genentech on treatments for childhood meningococemia, Crohn's disease, rheumatoid arthritis, head and neck cancer therapy and a vascular inflammation fighter.	Asset
Gold Reserve Inc. (GLDR)	11/24/98	0	0	Canada	Gold Reserve's primary asset is the Brisas mine, which contains an estimated 9.9 million ounces of gold and about 1.1 billion pounds of copper. Gold Reserve has agreed to combine the Brisas project with the neighboring Las Cristinas property (owned by Placer Dome and the Venezuelan government) to form the world's sixth-largest gold mine.	Taxable Stock Transfer
Transocean Ltd. (RIG)	03/15/99	1	0	Switzerland	Transocean, one of the world's leading offshore drilling contractors, specializes in deepwater drilling. The company was formed in 1999 when Transocean Offshore merged with Sedco Forex, which had been spun off from Schlumberger. It has expanded with the acquisition of rival R&B Falcon.	Taxable Stock Transfer
PXRE Group Ltd. (PXT)	07/07/99	0	0	Bermuda	PXRE Group provides reinsurance to primary insurers and other reinsurers on commercial and personal property and casualty risks, as well as marine and aviation risks. PXRE does some 75% of its business internationally.	Taxable Stock Transfer
Everest Re Group Ltd. (RE)	09/17/99	1	0	Bermuda	Everest Re Group underwrites property / casualty reinsurance and offers property / casualty, marine, aviation, surety, medical malpractice, directors and officers liability, and professional errors and omissions liability coverages. Everest Re markets to U.S. and international insurance companies directly and through independent brokers.	Taxable Stock Transfer
White Mountains Insurance Group Ltd. (WIM)	09/23/99	1	0	Bermuda	White Mountains Insurance Group operates a reinsurance company (Folksamerica) and provides property and casualty insurance (mostly auto) through such subsidiaries as American Centennial, Peninsula Insurance, and Waterford Insurance.	Asset
Trenwick (TWK)	12/19/99	0	0	Bermuda	Trenwick Group operates Trenwick America Reinsurance (treaty reinsurance for U.S. property & casualty), Trenwick International (treaty and facultative reinsurance), Canterbury Financial Group (reinsures U.S. property & casualty coverage), LaSalle Re (catastrophe coverage), and Chartwell Managing Agents (member of Lloyd's of London).	Asset (M&A-related)
Arch Capital Group Ltd. (ACGL)	01/18/00	1	1	Bermuda	Arch Capital Group Ltd., a Bermuda public limited liability company, writes insurance and reinsurance on a worldwide basis through operations in Bermuda, the United States, Canada, Europe, Australia and South Africa, with a focus on specialty lines.	Asset
Seagate Technology Plc (STX)	01/26/00	1	0	Ireland	Seagate Technology is a data storage firm that specializes in hard drive disks. It was initially named Shugart Technology; the name change occurred one year after its founding.	"Ab initio"
APW Ltd. (APW)	01/27/00	0	0	Bermuda	APW Ltd. provides design services and manufacturing of integrated electronic enclosure systems to original equipment manufacturers. The Company provides enclosures, power supplies, thermal management systems, backplanes, and cabling either as stand alone products and as an integrated custom system provided with product design, supply chain management, and assembly and test services.	Subsidiary Spin-Off
Tycom Ltd. (TCM)	03/10/00	1	1	Bermuda	Tycom, Ltd. provides undersea fiber optic networks and services, and engages in the design, engineering, manufacturing, installation, and maintenance of those networks.	Subsidiary IPO
R&B Falcon FLC (FLC)	08/21/00	0	0	Cayman	R&B Falcon Corporation operates the world's largest fleet of marine-based drilling rigs servicing the international oil and gas industry. R&B Falcon also provides turnkey and integrated services and operates mobile production units, internationally based land rigs and an offshore towing business.	Acquired by Foreign Entity
Foster Wheeler AG (FWC)	11/29/00	0	0	Switzerland	Foster Wheeler operates two businesses. (1) The Engineering and Construction group designs and builds chemical, petroleum, and industrial plants and provides environmental remediation services. (2) The Energy Equipment group makes steam generating units and related equipment for power and industrial plants, and also builds, owns, and leases cogeneration and independent power projects.	Taxable Stock Transfer
Cooper Industries Plc (COP)	06/11/01	1	0	Ireland	Cooper Industries makes electrical products, tools, hardware, and metal support products. The company's electrical products (more than 80% of sales) include electrical and control protection devices, residential and industrial lighting, and electrical power and distribution products from both utility companies	Taxable Stock Transfer

Ingersoll-Rand Plc (IR)	10/16/01	1	1	Ireland	Ingersoll-Rand, known for having made the tools and machinery that carved the faces on Mount Rushmore, makes refrigeration equipment, locks and security systems, construction and industrial equipment used for infrastructure improvements, and industrial equipment used to increase productivity.	(M&A-related) Taxable Stock Transfer
Nabors Industries Ltd. (NBR)	01/02/02	1	0	Bermuda	Nabors Industries is one of the world's largest drilling contractors, with more than 530 land drilling rigs and 930 land workover rigs and includes 44 offshore platform rigs, 15 jack-ups, and three barge drilling rigs. Nabors also provides oil field hauling, engineering, and construction services.	Taxable Stock Transfer
Noble Corp. Plc (NE)	01/31/02	1	1	England	Noble Drilling provides deepwater oil and gas contract drilling services through a fleet of 53 offshore rigs, including three submersibles, three drillships, 13 semisubmersibles, and 34 jack-ups. Subsidiary Triton Engineering provides engineering and consulting services.	Taxable Stock Transfer
Stanley Tools (SWK)	02/08/02	0	0	Bermuda	The Stanley Works is the leading toolmaker in the US, making hand tools, mechanics' tools, pneumatic tools, and hydraulic tools, as well as hardware and a variety of door products. Its brand names include Bostitch, Jensen, Husky, Stanley, and Vidmar.	Taxable Stock Transfer
Weatherford International Ltd. (WFT)	04/05/02	1	0	Bermuda	Weatherford is an oil and gas service company. It provides products and services for drilling, evaluation, completion, production and intervention of oil and natural gas wells, along with pipeline construction and commissioning.	Taxable Stock Transfer
Herbalife Ltd. (HLF)	04/10/02	1	1	Cayman	Herbalife International is a global nutrition company that develops, markets and sells nutrition, weight management and skincare products. It was acquired by Whitney & Co. and Golden Gate Capital in 2002. In 2014, the FTC opened an investigation into Herbalife after allegations that the company constituted a pyramid scheme.	Asset
Vistaprint NV (VPR)	04/29/02	0	0	Bermuda	Vistaprint produces customizable marketing materials and promotional items. In 2009, Vistaprint changed its country of incorporation to the Netherlands. It changed its name to Cimpress in 2014.	Taxable Stock Transfer
Michael Kors Ltd. (KORS)	01/29/03	1	0	Hong Kong	Michael Kors produces a range of products through its Michael Kors and MICHAEL Michael Kors labels, including accessories, footwear, watches, jewelry, men's and women's ready-to-wear, eyewear and a full line of fragrance products. The brand was founded in 1981 but did not open retail stores until 2006.	Asset
Lazard Ltd. (LAZ)	05/04/05	1	0	Bermuda	Lazard is a financial advisory and asset management firm that engages in investment banking, asset management, and other financial services.	"Ab initio"
Sensata Technologies Holding NV (ST)	01/09/06	1	1	Netherlands	Sensata supplies sensors and controls for use in automotive, appliance, aircraft, industrial, military, heavy vehicle, heating, air conditioning, data, telecommunications, recreational vehicle and marine applications. It was formerly the Sensors & Controls business of Texas Instruments Incorporated.	Asset
Travelport Worldwide Ltd. (TVPT)	06/30/06	1	0	Bermuda	Travelport is a leading travel commerce platform that provides distribution, technology, and payment solutions to travel providers, agencies, and corporations. It was acquired by the Blackstone Group in 2006.	Asset
Freescale Semiconductor Ltd. (FSL)	09/15/06	1	0	Bermuda	Freescale designs and produces embedded hardware and software for the automotive, networking, industrial and consumer markets. Its products include microprocessors, sensors, and microcontrollers. It was acquired by the Blackstone Group in 2006.	Asset
Argo Group International Holdings Ltd. (AGII)	03/14/07	1	1	Bermuda	Argo Group is an international underwriter of specialty insurance and reinsurance products in areas of the property and casualty market.	Taxable Stock Transfer (M&A-related)
Western Goldfields Inc. (WGI)	03/27/07	0	0	Canada	Western Goldfields, together with its subsidiaries, engages in the exploration and production of precious metals primarily gold in North America. It was acquired by New Gold, Inc. in 2009.	Taxable Stock Transfer
Covidien Plc (COV)	06/07/07	1	1	Ireland	Covidien is a healthcare products company and manufacturer of medical devices and supplies. It was formerly the healthcare division of Tyco International and was purchased by Metronic Plc in 2015.	Subsidiary Spin-Off
TE Connectivity Plc (TEL)	06/07/07	1	1	Switzerland	TE Connectivity Ltd. designs and manufactures connectors and sensors for the automotive, industrial equipment, data communication systems, aerospace, defense, and energy industries, among others. TE Connectivity was formerly the electronics division of Tyco International.	Subsidiary Spin-Off
James River Group (JRV)	06/11/07	1	0	Bermuda	James River Group is a Bermuda-based insurance holdings company. It offers services to small- to medium-sized businesses in excess and surplus lines, specialty admitted insurance, and casualty reinsurance.	Asset
Convatec Healthcare B.S.a.r.l.	05/02/08	0	0	Luxembourg	ConvaTec is a global medical products and technologies company, offering products and services in the areas of wound and skin care; continence and critical care; and infusion devices. It is owned by Nordic Capital and Avista Capital Partners.	Asset
Invitel Holdings A/S (INVHY)	11/28/08	1	1	Denmark	Invitel Holdings is a telecommunications firm that provides internet, television, and phone services to Hungary. Invitel, a Danish company, was formerly a subsidiary of Hungarian Telephone and Cable Corp, a Delaware company.	Taxable Stock Transfer
Altitource Portfolio Solutions SA (ASPS)	05/13/09	1	1	Luxembourg	Altitource provides financial services including debt collection and asset management to the real estate, mortgage and consumer debt industries. Formerly a subsidiary of the Florida-based Ocwen Financial Corporation, Altitource spun off in 2009.	Subsidiary Spin-Off
Tim Hortons Inc. (THI)	06/29/09	1	0	Canada	Tim Hortons Inc. is a Canadian multinational fast casual restaurant known for its coffee and doughnuts. In 1995, the company merged with Wendy's, although Tim Hortons continued to operate as a separate subsidiary. The two companies split with Tim Hortons' IPO in 2006. In 2014, Burger King announced its intent to acquire Tim Hortons.	Taxable Stock Transfer
Delphi Automotive Plc (DLPH)	07/26/09	1	1	Jersey	Delphi Automotive is an automotive parts manufacturing company. Delphi was formerly the Automotive Components Group, a subsidiary of General Motors. Delphi filed for bankruptcy in 2005. Its businesses were purchased in 2009, re-forming the company.	Financial Reorganization (Bankruptcy)
Samsonite SA (SAMC)	09/02/09	0	0	Luxembourg	Samsonite International S.A. is the world's largest travel luggage company, principally engaged in the design, manufacture, sourcing and distribution of luggage, business and computer bags, outdoor and casual bags, and travel accessories throughout the world. Its primary brands include the Samsonite, American Tourister, High Sierra, Hartmann, Lipault, and Speck brand names.	Financial Reorganization (Bankruptcy)
EnSCO Plc (ESV)	11/09/09	1	0	England	EnSCO Plc is an international provider of offshore oil, gas, and well drilling services to energy companies and others in the petroleum industry.	Financial Reorganization
Global Indemnity Plc (GBLI)	02/16/10	0	0	Ireland	Global Indemnity Group is the parent company of United America Indemnity. It offers insurance services through the Penn- America Group, Diamond State Group, United National Group, American Reliable Insurance Company, J.H. Ferguson & Associates, Collectibles Insurance Services, and Global Indemnity Reinsurance Company.	Taxable Stock Transfer
Trinseo SA (TSE)	03/02/10	1	0	Luxembourg	Trinseo is a world leader in the production of plastics, latex and rubber. Trinseo (formerly Styron) was part of The Dow Chemical Company ("Dow") until 2010.	Asset
Valeant Pharmaceuticals Intl. Inc. (VRX)	06/21/10	1	1	Canada	Valeant Pharmaceuticals International, Inc. is a publicly traded pharmaceutical company based in Montreal, Canada. The company focuses on neurology, dermatology and infectious disease.	Merger (Tax-Free)
Alkermes Plc (ALKS)	05/09/11	1	0	Ireland	Alkermes plc (a merger of Alkermes Inc. and Elan Drug Technologies) is a biopharmaceutical company that focuses on central nervous system (CNS) diseases. Alkermes has more than 20 commercial drug products and candidates that address serious and chronic diseases such as addiction, schizophrenia, diabetes and depression.	Taxable Stock Transfer (M&A-related)
Jazz Pharmaceuticals Plc (JAZZ)	05/19/11	1	0	Ireland	Jazz Pharmaceuticals PLC (a merger of Jazz Pharmaceuticals and Azur Pharma PLC) is a biopharmaceutical company which specializes of identifying, developing and commercializing pharmaceutical products.	Taxable Stock Transfer (M&A-related)
Tronox Ltd. (TROX)	09/26/11	1	1	Australia	Tronox Limited is a global leader in the mining, production and marketing of inorganic minerals and chemicals. The company operates two vertically integrated divisions: Titanium dioxide (TiO2) and Alkali Chemicals. Tronox also has an electrolytic and specialty chemicals division that provides innovative products to the energy storage, paper, automotive, and pharmaceutical industries.	Taxable Stock Transfer
Mallinckrodt Plc (MNK)	12/15/11	1	1	Ireland	Mallinckrodt Pharmaceuticals develops, manufactures, and distributes specialty pharmaceuticals that are used in the treatment of pain, autoimmune diseases, and central nervous system disorders. It was a part of until 2013 and has headquarters in Missouri.	Subsidiary Spin-Off
Aon Plc (AON)	01/13/12	1	1	England	Aon plc is a British multinational corporation that provides risk management, insurance and reinsurance brokerage, human resource solutions and outsourcing	Taxable Stock

Rowan Cos. Plc (RDC)	02/28/12	1	0	England	services. Aon has approximately 500 offices worldwide, serving 120 countries with 65,000 employees. Rowan is a global provider of offshore contract drilling services. Its fleet includes four ultra-deepwater drillships and 30 jack-up rigs. It operates worldwide in the Gulf of Mexico, Trinidad, North Sea, Southeast Asia, Mediterranean, Middle East and Southeast Asia.	Transfer Taxable Stock Transfer
Pentair Ltd. (PNR)	03/28/12	1	1	Ireland	Pentair is a global water, fluid, thermal management, and equipment protection partner with industry leading products, services, and solutions. It works to provide solutions to new problems within the energy, food & beverage, industrial, infrastructure, and energy & commercial fields.	Merger (Tax-Free)
Stratasys Ltd. (SSYS)	04/16/12	1	1	Israel	Stratasys manufactures 3D printing equipment and materials used to create models and prototypes for new product design and testing, to build finished goods in low volume, for research purposes, and for personal or entertainment use.	Taxable Stock Transfer (M&A-related)
Eaton Corp. Plc (ETN)	05/21/12	1	1	Ireland	Eaton is a power management company that provides energy- efficient solutions to help its customers effectively manage electrical, hydraulic and mechanical power more efficiently, safely and sustainably.	Taxable Stock Transfer (M&A-related)
D E Master Blenders 1753 NV (DEMBF)	05/31/12	0	0	Netherlands	D.E. Master Blenders is a multinational tea and coffee company operating out of the Netherlands. It recently merged with CoffeeCo, the tea and coffee branch of the Sara Lee Corporation.	Taxable Stock Transfer (Spin-Off-related)
Tower Group International Ltd. (TWGP)	07/30/12	0	0	Bermuda	Tower Group Companies is a provider of property and casualty insurance products and services in the United States. It provides personal and commercial insurance for small to medium-sized businesses.	Taxable Stock Transfer (M&A-related)
Axalta Coating Systems Ltd. (AXTA)	08/29/12	1	0	Bermuda	Axalta, formerly DuPont Performance Coating, develops, manufactures, and sells coatings for vehicles and industrial applications. It is the leading global company focusing exclusively on coatings and is headquartered in Philadelphia.	Asset
Liberty Global Plc (LBTY)	02/05/13	0	0	England	Liberty Global plc ("Liberty Global", "Liberty") is the largest international cable company with operations in 14 countries. Liberty Global's consumer brands include Virgin Media, UPC, Ziggo, Unitymedia, Kabel BW, Telenet, VTR, and Liberty Puerto Rico.	Taxable Stock Transfer (M&A-related)
Theravance Biopharma Inc. (TBPH)	04/25/13	1	0	Cayman	Theravance Biopharma is a R&D-based biopharmaceutical business that focuses on the discovery, development and commercialization of small molecule medicines across a number of therapeutic areas including bacterial infections, pain, respiratory disease and gastrointestinal motility dysfunction. Theravance Inc., from which Theravance Biopharma separated in 2014, continues to focus on maximizing the value of the company's respiratory assets.	Subsidiary Spin-Off
Actavis Plc (ACT)	05/20/13	1	1	Ireland	Actavis plc (NYSE: ACT) is a global pharmaceutical company focused on developing, manufacturing and commercializing branded pharmaceuticals, generic and over-the-counter medicines, and biologic products. On March 17, 2015, Actavis completed the acquisition of Allergan, creating a \$23 billion diversified global pharmaceutical company.	Taxable Stock Transfer (M&A-related)
Allegion Plc (ALLE)	06/17/13	1	0	Ireland	Allegion Plc is a provider of security products and solutions for homes and businesses. It makes 27 global brands including CISA, Interflex, LCN, Schlage and Von Duprin. The \$2 billion company employs around 8000 people and sells products in more than 120 countries across the world.	Subsidiary Spin-Off
Perrigo Co. Plc (PRGO)	07/29/13	1	1	Ireland	Perrigo Company plc is a leading global healthcare supplier that develops, manufactures and distributes over-the-counter (OTC) and generic prescription (Rx) pharmaceuticals, infant formulas, nutritional products, animal health, dietary supplements, active pharmaceutical ingredients (API), and medical diagnostic products	Taxable Stock Transfer
Paragon Offshore Plc (PGN)	09/24/13	1	0	England	Paragon Offshore is a leading provider of standard specification offshore drilling units serving the oil and gas industry. Its fleet consists of 32 jackup rigs, 4 drillships, and 2 semisubmersible ships.	Subsidiary Spin-Off
Applied Materials Inc. (AMAT)	09/24/13	1	0	Netherlands	Applied Materials supplies the equipment, services and software necessary for the manufacture of semiconductor, flat panel display, WEB, and solar products. If approved, Applied Materials' intended merger with Tokyo Electron would be the world's largest supplier of semiconductor processing equipment.	Taxable Stock Transfer (M&A-related)
Endo International Plc (ENDP)	11/05/13	1	1	Ireland	Endo International develops, manufactures, markets, and distributes specialty pharmaceuticals, generic products, and medical devices. It focuses on a variety of fields including allergies, men's and women's health, infectious disease, pain, insomnia, and orthopedics.	Taxable Stock Transfer
Horizon Pharma Inc. (HZNP)	03/19/14	0	0	Ireland	Horizon Pharma is a specialty biopharmaceutical company that develops and markets products intended to treat arthritis, pain, and inflammatory diseases.	Taxable Stock Transfer (M&A-related)
Medtronic Inc. (MDT)	06/15/14	1	0	Ireland	Medtronic is the world's third-largest medical device company. It specializes in cardiac and vascular, diabetes, and restorative therapy treatments. Its executive headquarters are in Ireland and its operations are headquartered in Minnesota.	Taxable Stock Transfer (M&A-related)
C&J Energy Services Ltd. (CJES)	06/25/14	1	1	Bermuda	C&J Energy Services, Inc. combined with Nabors Industries Ltd.'s completion and production services business to form C&J Energy Services Ltd., a leading provider of well construction, well completions and well services to the oil and gas industry. C&J offers services including cementing, directional drilling, fracturing, rig services and fluids management.	Taxable Stock Transfer (M&A-related)
Mylan Inc. (MYL)	07/14/14	1	1	Netherlands	Mylan is the second-largest generic and specialty pharmaceuticals company in the world. Mylan also specializes in prescription drug development and production of active pharmaceutical ingredients (APIs).	Taxable Stock Transfer (M&A-related)
Burger King Worldwide Inc. (BKW)	08/26/14	0	0	Canada	Burger King Worldwide operates the independent restaurant chains of Tim Hortons and Burger King. The Tim Hortons brand is a Canadian coffee and donut chain, while the Burger King brand is an American fast food restaurant.	Taxable Stock Transfer (M&A-related)
Civeo Corp. (CVEO)	09/29/14	1	1	Canada	Civeo is a spin-off from Oil States International. It is a global workforce accommodation specialist, meaning it provides housing and other services to the employees of its clients who are working away from home.	Financial Reorganization
Steris Corp. (STE)	10/13/14	1	0	England	STERIS is a global infection prevention, decontamination, and surgical and critical care company. It operates in three different segments: healthcare (including research), life sciences, and STERIX Isomedix (customer-focused services).	Taxable Stock Transfer (M&A-related)
Wright Medical Group Inc. (WMGI)	10/27/14	1	0	Netherlands	Wright Medical Technology is a manufacturer of specialty orthopedic implants and offers extremity implants for the foot, ankle, hand, elbow, and shoulder as well as both synthetic and tissue-based bone graft substitute materials. Wright also engages in new product research and development.	Taxable Stock Transfer (M&A-related)

Note: The entries above repeat information reported in Table 1 of Desai and Hines (2002) and extend the reporting through 2014. The columns Segment Data and Geographic Segment Data detail whether the firm discloses any segment data and geographic (domestic vs. non-domestic) data. Not all firms that report geographic segment are included in all regression specifications as they may not report employment and capital expenditures in all years or may not report this data for enough years to be included in the specifications that employ firm fixed effects and focus on the post-inversion period.

Table 2: Sample Comparison, January 1980 – February 2015 (\$Billions)

	Obs	Mean	P25	P50	P75	P90
<b>Full Sample</b>						
Total Assets	316,564	5,098	17.88	121.3	814.7	4,180
Total Long-term Debt	315,420	895.1	0.03	7.15	135.9	889.6
Total Revenue	314,358	1,624	10.63	75.45	490.2	2,393
Net Income	314,938	88.22	-1.76	1.54	20.91	134.5
<b>Segment Sample</b>						
Total Assets	227,238	3,353	17.07	104.0	711.9	6,872
Total Long-term Debt	226,805	766.1	0.12	7.16	240.6	1,511
Total Revenue	226,543	1,753	13.67	92.22	571.8	2,724
Net Income	226,539	91.83	-1.40	1.54	22.11	144.1
<b>Geographic Segment Sample</b>						
Total Assets	50,965	6,102	48.19	302.5	1,816	8,370
Total Long-term Debt	50,847	1,559	0.14	28.17	479.0	2,054
Total Revenue	50,926	3,002	34.89	224.9	1,197	5,157
Net Income	50,927	172.8	-3.77	4.31	56.73	303.1
<b>Regression Sample</b>						
Total Assets	4,319	4,017	16.92	98.00	759.2	4,387
Total Long-term Debt	4,305	1,032	0.00	2.60	119.4	953.5
Total Revenue	4,319	2,379	17.16	90.21	731.7	3,475
Net Income	4,319	1722.2	-2.70	1.07	23.77	220.7

Note: Each panel reports the means of the nominal values of the variables as reported by Compustat in billions of U.S. dollars. The top panel refers to the entire Compustat database of annual financial filings between January and February 2015. The second panel restricts the sample to firm-years that are successfully matched between Compustat annual financials and the Compustat Historical Segments data. The third panel further restricts the sample to firms that invert and non-inverting firms that report export data for at least half of the years they are in the Compustat database. The bottom panel further restricts the sample to firms that report exports sales data for at least half of the years that Compustat provides their 10-K financial data.

Table 3: Post-Inversion Foreign Employment Share

	(1) Time FE	(2) Time, Firm FE	(3) Added Controls	(4) Pre-2004	(5) Post-2004
Inversion	0.04 (0.03)				
Inversion * Post	0.44*** (0.04)	0.11*** (0.03)	0.12*** (0.03)	-0.08 (0.09)	0.12*** (0.04)
Log(Total Assets)			0.00 (0.01)	0.04*** (0.02)	0.22*** (0.01)
Debt-to-Asset Ratio			0.21*** (0.03)	-0.10** (0.04)	-0.22*** (0.06)
Year FE	Y	Y	Y	Y	Y
Firm FE	N	Y	Y	Y	Y
Constant	0.33 (0.54)	0.43** (0.20)	0.10 (0.32)	-0.08 (0.20)	-2.03*** (0.16)
Observations	4,319	4,319	4,304	2,038	1,906
Firms	775	775	775	683	372
R-squared	0.19	0.36	0.37	0.10	0.48

Note: For each regression above the dependent variable is the share of employees attributed to a non-domestic segment. Column one includes only year fixed effects. Column two adds firm fixed effects. Added controls, the natural log of total assets and the ratio of total long-term debt to total assets, are added in column three. Columns four and five split the sample between years prior to 2004 and the years after 2004 (omitting 2004 data). All regressions are weighted by average total assets by firm. Robust standard errors are reported in parentheses with the following signifiers: \*\*\* p<0.01, \*\* p<0.05, \* p<0.1

Table 4: Post-Inversion Foreign Investment (CAPX) Share

	(1)	(2)	(3)	(4)	(5)
	Time FE	Time, Firm FE	Added Controls	Pre-2004	Post-2004
Inversion	0.02 (0.03)				
Inversion * Post	0.42*** (0.04)	0.08** (0.03)	0.06* (0.03)	-0.42*** (0.06)	0.21*** (0.04)
Log(Total Assets)			0.00 (0.01)	0.02* (0.01)	-0.02 (0.01)
Debt-to-Asset Ratio			0.23*** (0.03)	0.11** (0.04)	0.04 (0.05)
Year FE	Y	Y	Y	Y	Y
Firm FE	N	Y	Y	Y	Y
Constant	0.28*** (0.03)	-0.05*** (0.02)	-0.10* (0.05)	-0.07 (0.08)	0.61*** (0.13)
Observations	4,230	4,230	4,222	2,539	1,376
Firms	761	761	761	705	274
R-squared	0.13	0.37	0.37	0.37	0.22

Note: For each regression above the dependent variable is the share of capital expenditures attributed to a non-domestic segment. Column one includes only year fixed effects. Column two adds firm fixed effects. Added controls, the natural log of total assets and the ratio of total long-term debt to total assets, are added in column three. Columns four and five split the sample between years prior to 2004 and the years after 2004 (omitting 2004 data). All regressions are weighted by average total assets by firm. Robust standard errors are reported in parentheses with the following signifiers: \*\*\* p<0.01, \*\* p<0.05, \* p<0.1

Table 5: Changes in Foreign Employment & Investment Shares After Inversion, Main Results

	Employment		Investment	
	(1) Whole Period	(2) Post-2004	(3) Whole Period	(4) Post-2004
Inversion * PostTwo	-0.03 (0.02)	0.09*** (0.04)	0.13 (0.16)	0.31*** (0.08)
Log(Total Assets)	0.04* (0.02)	0.25*** (0.08)	0.01 (0.02)	-0.02 (0.03)
Debt-to-Asset Ratio	0.27** (0.11)	-0.25 (0.16)	0.19* (0.10)	-0.12 (0.15)
Constant	-0.01 (0.39)	-2.55*** (0.89)	-0.19 (0.21)	0.49 (0.30)
Observations	4,195	1,861	4,123	1,346
Firms	757	363	748	268
R-squared	0.43	0.54	0.42	0.29

Note: The dependent variable is the share of employees (columns one and two) or the share of investment (columns three and four) attributed to a non-domestic segment. Columns one and three use observations from all years 1980 through 2014 while columns two and four are limited to observations after 2004 and only examine firms that invert after 2004. All regressions are weighted by average firm total assets and include year fixed effects, the natural log of total assets and the ratio of total longterm debt to total assets as controls. Robust standard errors are reported in parentheses with the following signifiers: \*\*\* p<0.01, \*\* p<0.05, \* p<0.1

Table 6: Changes in Foreign Employment & Investment Shares After Inversion, Robustness

	Employment		Investment	
	(1) Whole Period	(2) Post-2004	(3) Whole Period	(4) Post-2004
<i>A: Requiring More Frequent Exports Sales Data</i>				
Inversion * PostTwo	0.02 (0.02)	0.10*** (0.03)	0.16 (0.14)	0.29*** (0.07)
Log(Total Assets)	0.05*** (0.02)	0.23*** (0.05)	0.01 (0.03)	0.01 (0.01)
Debt-to-Asset Ratio	0.31*** (0.10)	-0.28 (0.17)	0.08 (0.06)	0.02 (0.03)
Constant	-0.75*** (0.25)	-2.64*** (0.65)	-0.05 (0.22)	0.05 (0.09)
Observations	1,956	803	2,050	602
Firms	390	158	404	121
R-squared	0.75	0.86	0.33	0.36
<i>B: Dropping the Most Leveraged Firms</i>				
Inversion * PostTwo	-0.03 (0.03)	0.09** (0.04)	0.12 (0.16)	0.33*** (0.09)
Log(Total Assets)	0.04 (0.02)	0.26*** (0.08)	0.01 (0.02)	-0.02 (0.03)
Debt-to-Asset Ratio	0.32** (0.13)	-0.35* (0.20)	0.29* (0.15)	-0.22 (0.25)
Constant	-0.34 (0.29)	-2.51*** (0.89)	-0.17 (0.23)	0.45 (0.27)
Observations	3,985	1,765	3,918	1,267
Firms	734	354	726	260
R-squared	0.43	0.55	0.42	0.30

Note: The dependent variable is the share of employees (columns one and two) or the share of investment (columns three and four) attributed to a non-domestic segment. Columns one and three use observations from all years 1980 through 2014 while columns two and four are limited to observations after 2004 and only examine firms that invert after 2004. The upper panel reports regression results from a sample where the non-inverting firms that serve as a comparison group for the inverting firms report export sales in at least 75 percent of the years they report other financial data to Compustat. The lower panel drops the five percent most leveraged firms as measured by their debt-to-asset ratio. All regressions are weighted by average firm total assets and include year fixed effects, the natural log of total assets and the ratio of total long-term debt to total assets as controls. Robust standard errors are reported in parentheses with the following signifiers: \*\*\* p<0.01, \*\* p<0.05, \* p<0.1