The Effect of the 2017 U.S. Tax Reform
on U.S. Acquisitions of Foreign Firms

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Abstract

The Tax Cuts and Jobs Act (TCJA) of 2017 is the most significant tax reform that the U.S. has experienced in decades, changing incentives for many corporate decisions. We emphasize the key tax reform provisions altering incentives for outbound investment and examine changing patterns in outbound acquisitions by U.S. firms before and after the TCJA. We find a decreased probability that a foreign target is acquired by a U.S. firm after the TCJA, particularly those that hold IP, exhibit high profitability or are located in low-tax or low-growth markets. We also find a decreased probability that a U.S. firm with untaxed (by the U.S.) foreign earnings closes a foreign M&A deal after the reform, but an increased probability if the firm had no significant foreign presence or constrained access to public debt markets prior to the TCJA. Taken together, our results suggest that the TCJA was effective in reducing tax distortions to outbound M&A activity implied by the old worldwide tax system and in improving the competitiveness of a subset of U.S. firms in the global M&A market.

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1. Introduction

Prior to the Tax Cuts and Jobs Act of 2017 ('TCJA'), the U.S. corporate tax system was perceived as placing U.S. firms at a competitive disadvantage relative to firms in countries with more beneficial tax regimes (Business Roundtable, 2015). A high corporate income tax rate of 35 percent, combined with a U.S. tax levied on the repatriation of foreign-source income, distorted foreign investment decisions by U.S. multinational corporations (MNCs) (Desai and Hines, 2003). The incentive to postpone the repatriation of foreign profits, for example, led to substantial amounts of cash being held abroad (Foley et al., 2007; Gu, 2017) that was, in part, being spent on less profitable foreign acquisitions (Edwards et al., 2016; Hanlon et al., 2015; Harford et al., 2017). In this study, we examine whether and to what extent the 2017 tax reform altered the incentives of U.S. firms to engage in foreign investment. More specifically, we investigate the effect of the TCJA on U.S. firms' acquisitions of foreign targets and evaluate the foreign investment impact of key reform provisions.

Signed into law by President Trump on December 22, 2017, the TCJA is the most extensive overhaul of the U.S. corporate tax code since the Tax Reform Act of 1986, changing a number of domestic and international tax provisions. For instance, the old worldwide tax system, under which foreign profits were subject to a U.S. repatriation tax, was replaced by a 'quasi' territorial tax system. Under the new system, future profits earned abroad are no longer subject to U.S. tax upon repatriation (Dharmapala, 2018) but a one-time transition tax is levied on past earnings accumulated abroad. This change was complemented by a substantial U.S. rate reduction, lowering the federal corporate income tax rate from 35 percent to 21 percent. Both changes reflect the main objective of the TCJA which was to increase the competitiveness of the U.S. tax system (Morse, 2018). Contemporaneously, two anti-abuse provisions (GILTI and BEAT) and a tax subsidy on export sales (FDII) were put in place to deter the

outbound profit shifting that was occurring prior to the TCJA and to limit shifting incentives induced by a 'quasi' territorial tax system (Markle, 2016).[1]

The TCJA is a powerful setting to investigate outbound investment responses to changes in the tax law because the passage of the reform was a relatively exogenous event (Carrizosa et al., 2019; Wagner et al., 2018). Although the probability of reform increased after the 2016 U.S. election, the reform framework was not presented until September 2017 and the reform itself was passed only three months later (Gaertner et al., 2020), limiting the opportunities for anticipatory actions. In addition, the TCJA did not cause significant tax-policy responses at the international level. Other than expected (Chalk et al., 2018), major U.S. trading partners did not substantially change their tax rules in response to the TCJA.[2] The lack of strategic responses alleviates concerns that changes to other countries' tax systems could cloud the economic effects of the TCJA, strengthening the inferences drawn from the reform.

The carrot-and-stick approach of the TCJA, combining substantial tax benefits with new anti-abuse provisions, might change the incentives for outbound M&A in various ways. For instance, the repeal of the repatriation tax reduces the expected tax rate on foreign earnings and thereby lowers the marginal cost of investing abroad (Liu, 2018). This change might incentivize foreign M&A activity because U.S. firms are no longer tax-disadvantaged owners of foreign targets (Desai and Hines, 2003; Feld et al., 2016). Conversely, the repeal of the repatriation tax removes an internal capital market friction (Beyer et al., 2017a). By eliminating the tax cost of repatriating foreign earnings, the TCJA raises the opportunity cost of reinvesting profits abroad (Albertus et al., 2018; Edwards et al., 2016), which weakens the incentives for some foreign acquisitions.[3] Further, a lower corporate income tax rate provides U.S.

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[1] The two anti-abuse provisions are the Global Intangible Low-Tax Income ('GILTI') and the Base Erosion Anti-Abuse Tax ('BEAT). The tax subsidy on export sales is the Foreign-Derived Intangible Income ('FDII') provision. We discuss each of these provisions in detail in Section 2.

[2] Four of the five majors trading partners of the U.S. (i.e., China, Canada, Mexico, and Germany), for instance, did not change their corporate tax rates between 2017 and 2019. The only exception is Japan, which decreased its statutory corporate tax rate by a modest 0.2 percentage points in 2019. The same is true for the G7 countries where only France reduced its corporate tax rate by 2 percentage points in 2019. The remaining countries did not respond to date.

[3] We expect the one-time transition tax on foreign earnings accumulated in the past to have little effect in our setting because firms can elect to pay this tax in eight 'back-loaded' annual installments with the majority of the payments being made in the final three years. Firms do not incur any interest charge when selecting this option.

firms with more after-tax cash flow in the U.S. (Dyreng et al., 2020) that can be used to fund foreign acquisitions. Finally, while the GILTI regime is designed to discourage the acquisition of low-taxed foreign targets with substantial intellectual property (IP), FDII might encourage domestic investment at the cost of foreign acquisitions. Collectively, these arguments suggest that the overall effect of the reform on foreign M&A activity is ex-ante unclear and therefore an empirical question.

Studying the impact of the TCJA on foreign M&A activity is important for several reasons. First, cross-border mergers and acquisitions are a major channel for foreign direct investment (FDI). From 1990 to 2017, the value of foreign acquisitions by U.S. firms grew on average by 14.2 percent each year, and, in 2017, foreign acquisitions accounted for 38 percent of total U.S. outward FDI (UNCTAD, 2019). Hence, investigating M&A activity sheds light on the implications of the tax reform for U.S. outbound FDI. Second, in contrast to assessing capital expenditures in existing foreign affiliates (Beyer et al., 2017b), cross-border M&A provides insights into the extensive margin of foreign investment responses to the reform and we may assess how the TCJA affected the extent to which U.S. firms are economically active abroad. Third, cross-border M&A takes place in competitive markets where U.S. firms compete with a large set of foreign acquirers. Thus, our setting allows us to test whether the reform changed the competitiveness of U.S. firms in the global M&A market. Fourth and more broadly, the Joint Committee on Taxation estimates that the tax exemption of future foreign profits will reduce corporate tax revenues by $224bn over the next ten years (JCT, 2017), and total U.S. corporate tax revenues will fall below one percent of gross domestic product (GDP) (Clausing, 2020). Thus, the TCJA has important implications for the U.S. federal budget, underlining the need to assess the impact of the reform on firms and their economic decisions.

We employ multiple empirical strategies to identify the effect of the TCJA on foreign M&A activity. In a first set of tests, we analyze foreign targets and examine whether the reform changed the likelihood that a foreign target is acquired by a U.S. firm. This test provides insights into the impact of the TCJA on U.S. firms' activity in foreign M&A markets. Moreover, we can test whether the reform changed the incentives of U.S. firms to acquire certain types of targets. We collect data on cross-border

acquisitions completed between 2011 and 2019 from Bureau van Dijk's Zephyr database. Our global sample includes 3,266 targets, located in 46 countries. By including target country and target industry fixed effects, we exploit over time variation in the probability that a target is acquired by a U.S. firm within each target industry and country. We then compare the probability in the period after the TCJA to the probability before the reform.

While we find that the likelihood that a foreign target is acquired by a U.S. firm does not vary in the years prior to the TCJA, the probability significantly decreases after the reform. In economic terms, our estimates suggest a drop by 3.7-4.5 percentage points. This result, which holds across multiple specifications, provides initial indication that foreign targets are less likely to be acquired by a U.S. firm after the TCJA. Hence, the reform weakened the incentives of U.S. firms to engage in foreign M&A activity. We conduct several cross-sectional tests to assess whether this response varies across different types of foreign targets and to isolate the impact of key reform provisions. We find that the decrease in the probability is concentrated in targets that hold IP, exhibit high profitability, or are located in low-tax countries. We attribute these results to the adoption of the GILTI regime. Moreover, we find a stronger reduction for targets located in low-growth markets, which is likely driven by the repeal of the repatriation tax.

One drawback of the target-level analysis is that identification relies on over-time changes in the probability that foreign targets are acquired by U.S. firms. Thus, country-level trends in M&A activity of non-U.S. acquirers could affect our results. To address this concern, we follow Feld et al., (2016) and employ an alternative identification strategy. More specifically, we test in a difference-in-differences (DiD) design whether the likelihood that the acquirer of a foreign target is located in the U.S. changed in response to the TCJA, relative to the likelihood that the acquirer is located in any other country in our sample. Our result indicate similar trends in acquirer location prior to the reform, supporting the main identifying assumption of the DiD design. Most importantly, we find a lower probability that the acquirer of a foreign target is located in the U.S. after the reform, corroborating the results from the target-level analysis.

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While the above results indicate that the TCJA weakened the incentives of U.S. firms to make foreign acquisitions, our theoretical arguments suggest that the tax reform could affect potential U.S. acquirers in various ways. To test whether the investment responses documented in our target-level analysis vary across different types of potential U.S. acquirers, we combine our dataset on cross-border deals with financial-statement data from Compustat. This yields a sample of potential U.S. acquirers with data on the annual number of outbound acquisitions as well as the associated deal values. We then define multiple treatment and control groups and conduct several DiD tests to identify heterogeneous investment responses. We include firm fixed effects in all tests to control for time-invariant firm characteristics and to base our inferences on within-firm variation in the incentives for and the extent of foreign M&A activity.

First, we expect that the repeal of the repatriation tax weakened the incentives to engage in foreign M&A activity for firms that had untaxed (by the U.S.) foreign earnings prior to the reform.[4] These firms faced a tax incentive to hold cash abroad (Foley et al., 2007) and to reinvest foreign earnings in less profitable M&A transactions (Edwards et al., 2016; Hanlon et al., 2015). Eliminating the tax cost of repatriation increases the opportunity cost of reinvesting profits abroad. Second, we predict stronger incentives for foreign M&A activity for U.S. firms with no significant foreign operations prior to the reform. These firms are more likely to finance their foreign acquisitions through domestic funds where a lower corporate income tax rate provides additional after-tax cash flow for foreign investment and the repeal of the repatriation tax reduces the marginal cost of investing abroad (Liu, 2018). Finally, again due to a lower corporate income tax rate, we anticipate stronger incentives for foreign M&A for firms with constrained access to public debt markets. Given high borrowing costs (Faulkender and Petersen, 2006), these firms should benefit from cash-tax savings, which facilitates foreign M&A activity. We find

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

evidence consistent with each of these predictions in our empirical tests. These results indicate that the foreign investment responses to the TCJA vary across different types of potential U.S. acquirers.[5]

In supplementary tests, we examine whether the TCJA alleviated tax distortions to M&A activity. To this end, we re-examine the announcement return test from Hanlon et al., (2015), who showed that U.S. firms with a greater accumulation of untaxed foreign earnings engaged in *more* but *less optimal* foreign M&A activity. We find higher deal announcement returns after the TCJA for these firms, which suggests that the elimination of the tax incentive to hold cash abroad results in more value-enhancing M&A deals. In addition, we explore the effect of the TCJA on the domestic U.S. M&A market. Bird et al., (2017) found that the old worldwide tax system made it difficult for U.S. firms to compete with foreign bidders for U.S. targets. Our results suggest that the probability that a U.S. target is acquired by a U.S. firm is higher after the TCJA. This effect is concentrated in U.S. targets that own patents, have some foreign operations, and/or have some untaxed foreign earnings. We attribute these results to the adoption of the FDII regime and the repeal of the repatriation tax. Thus, by removing a tax disadvantage faced by U.S. bidders, the reform strengthened the incentives for domestic M&A activity.

Our study makes several contributions. First, we assess the effect of the 2017 tax reform on the foreign investment behavior of U.S. firms. While a concurrent study by Beyer et al., (2017b) fails to find evidence for changes in foreign capital expenditures, our results suggest that the TCJA influenced foreign investment behavior at the extensive margin by lowering the propensity of U.S. firms to acquire foreign targets. This result is consistent with weaker incentives for foreign M&A activity due to the repeal of the repatriation tax and the adoption of the GILTI regime, providing initial evidence for the investment implications of these provisions. Further, since we find that MNCs with untaxed (by the U.S) foreign earnings are less likely to acquire foreign targets after the reform while their deals become more value enhancing, our results suggest the TCJA alleviated tax distortions to foreign M&A. Finally, the positive

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[5] We note that pre-reform trends in foreign M&A activity are similar for treatment and control firms in all tests. To further corroborate our results, we compare the foreign investment behavior of U.S. firms to Canadian firms as the latter group was not directly affected by the reform (Carrizosa et al., 2019). In line with our target-level results, we find a significantly lower probability that a U.S. firm acquires at least one foreign target in a given year after the TCJA.

effect of the TCJA on foreign M&A activity by firms with no significant foreign operations and firms with constrained access to public debt markets indicates that the TCJA improved the competitiveness of these firms in the global M&A market. This effect is likely driven by the reduction of the corporate income tax rate and the move to a 'quasi' territorial tax system.

Second, our findings inform our understanding of the effect of the repatriation tax on outbound M&A activity. Prior research finds that the presence of a repatriation tax could either discourage (Feld et al., 2016) or encourage outbound acquisitions (Edwards et al., 2016; Hanlon et al., 2015). Our findings for the repeal of the U.S. repatriation tax indicate that prior to the TCJA this tax *encouraged* outbound M&A by firms that acquired foreign targets to reinvest earnings abroad but *discouraged* M&A activity by firms that financed their foreign acquisitions through domestic funds. Third and more broadly, our study adds to research on the effect of taxes on cross-border M&A activity. Prior work finds that corporate income taxes levied by the target country reduce the probability of observing an acquisition in that country (Arulampalam et al., 2019). Adding to this line of research, our findings suggest that domestic tax policy could have spillover effects on the activity of potential acquirers in foreign M&A markets.

2. Related literature and hypothesis development

2.1 Taxes and cross-border M&A

Studies that analyze cross border M&A often control for differences in taxation, but pay little attention to the role of taxation itself. For example, Bertrand et al., (2007) estimate a conditional logit model over 400 European cross-border acquisitions in the 1990s, and include tax among the explanatory variables. Other studies that focus on the role of taxation choose to focus on a particular aspect of taxation; there are a variety of taxes imposed on both buyers and sellers either at the time of the deal or on subsequent profits generated by the combined entity.

One distinction among studies that explore the impact of taxation on M&A is whether the focus is on the corporate income tax or on the personal income tax system. Some work explores subsidiary sales with a focus on the role of the *corporate* capital gains tax (Erickson, 1998; Erickson and Wang, 2000; Maydew et al., 1999; Todtenhaupt et al., 2020). Other studies focus on the role of the *personal* capital

gains tax (Ayers et al., 2007, 2004, 2003). Collectively, this work documents that taxes imposed on selling shareholders affect the probability of a deal occurring, the structure of the deal, and the acquisition premium. This literature focuses on purely domestic U.S. M&A with the exception of Todtenhaupt et al., (2020) who use cross-border M&A deals as a means to obtain variation in corporate capital gains tax rates.

Another distinction among studies is whether the focus is on the tax system faced by the target or the acquiring firm. With this distinction as the focus, the cross-border nature of M&A is relatively more important than for the studies mentioned above, because it is the difference in tax systems faced by various targets and acquirers that matters. The most commonly explored aspect of taxation is the statutory tax rate in the country of the target (Arulampalam et al., 2019; Coeurdacier, 2009; di Giovanni, 2005; Erel et al., 2012; Herger et al., 2016). This literature generally finds a negative elasticity of M&A activity with respect to target country taxation. Along these lines, Bradley et al., (2018) find that the introduction of a patent box in the target country increases the likelihood of targets being acquired; but only when no additional nexus requirements are imposed in the target country. Huizinga et al., (2012) find that non-resident dividend withholding taxes imposed by the target country dampens cross-border M&A.

The studies most closely related to ours are those that focus on the tax system faced by the acquiring firm. In the economics literature, the ownership neutrality concept introduced by Desai and Hines (2003) describes a tax system that does not distort the ownership of assets. Capital ownership neutrality thus requires a level playing field between any bidder that pursues a foreign acquisition. Several studies have recognized that when an acquirer is located in a country with a worldwide tax system, cross-border M&A can trigger additional taxation of the target's income in the acquirer country (Huizinga et al., 2012; Huizinga and Voget, 2009; Voget, 2011). This effect is primarily relevant for foreign acquisitions financed through domestic funds where a repatriation tax imposes an additional tax cost on future income earned by the target (Liu, 2018). Thus, a repatriation tax could handicap the acquisition of foreign targets by acquirers expecting to face these repatriation tax burdens.

Only three major acquiring countries in the cross-border M&A market have imposed potentially significant repatriation tax burdens on a foreign target's income – the UK, Japan and the U.S. Feld et al., (2016) include acquirers from all three countries and found that the repeal of the repatriation tax in Japan and in the UK increased the number of foreign acquisitions, with a much larger effect in Japan than in the UK. The authors simulated a similar policy switch in the U.S. to increase the number of cross-border acquisitions by 11 percent. With the U.S. as the only major economy left, until recently, that imposes worldwide taxation, it is natural to extend this type of analysis to the U.S. tax reform in 2017.

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

Bird et al., (2017) test a similar hypothesis but turn their attention to the U.S. domestic M&A market. They find that U.S. firms with greater amounts of locked-out earnings are more likely to be acquired by foreign firms located in countries with a territorial tax system than by U.S. companies because foreign acquirers can avoid the repatriation tax on U.S. targets' foreign profits. Similar to Feld et al., (2016), they corroborate these results by looking at countries that switched from a worldwide to a

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

territorial system (i.e., the UK and Japan). After the switch, Bird et al., (2017) document that acquirers from switching countries increase their preference for U.S. targets with significant amounts of locked out earnings.

2.2   *Overview of pertinent TCJA reforms*

Many of the core provisions in the TCJA were geared towards addressing the allegedly uncompetitive nature of the U.S. corporate tax system and its perceived role in so-called inversion transactions that had gained public attention in the period leading up to the enactment of the TCJA.[7] The TCJA is undoubtedly one of the most significant tax reforms that the U.S. has experienced in recent decades, thereby changing incentives for many corporate decisions. One of the challenges for empiricists interested in the impact of the TCJA is that the legislation contains multiple important policy changes that cannot be viewed in isolation. We focus first on describing tax policy changes that are expected to have the most significant impact on the incentives for outbound M&A by U.S. firms. In the section that follows, we then consider the implications of these reforms and develop predictions for our empirical tests.

2.2.1   *Change in the U.S. federal statutory tax rate for corporate income*

One of the key domestic provisions in the TCJA was the reduction in the U.S. federal statutory corporate tax rate from 35 percent to 21 percent. This change impacts all existing and potential U.S. operations because it increases firms' expected after-tax cash flows (Dyreng et al., 2020). In particular, the reduction of the corporate income tax rate to 21 percent may increase *outbound* M&A activity if increased after-tax cash flows attenuate financial constraints and provide additional liquidity that can be used to acquire foreign targets.[8]

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

[8] We do not anticipate that a reduced tax rate would necessarily result in greater *inbound* M&A because the selling shareholder would presumably capture the increased value from the after-tax cash flow of the U.S. domiciled business.

Several other provisions (described below) can increase or decrease the U.S. effective tax rate for any given level of U.S. income, depending also on the characteristics of the firms' foreign activities. Finally, the corporate alternative minimum tax has been repealed and there is no sunset provision, making the statutory corporation income tax rate changes permanent.

2.2.2   *One-time repatriation tax and future tax-free repatriation of foreign earnings*

One of the key international provisions was the abolishment of the U.S. repatriation tax. Prior to the TCJA, the U.S. MNC parent company faced a 35 percent U.S. corporate income tax (less applicable foreign tax credits) on the distribution of its untaxed foreign earnings. As a result, U.S. MNCs generally preferred to retain earnings in no- or low-tax countries offshore—this practice was commonly referred to as the 'lock-out effect'. As part of the transition to the new system that exempts foreign dividends from U.S. taxation, the U.S. imposed a one-time tax on U.S. MNCs untaxed foreign earnings accumulated in the past.

U.S. MNCs were required to include their accumulated foreign earnings, measured as of November 2, 2017 or December 31, 2017—whichever date yields a greater amount, in their income in its taxable year that ends with or within the last taxable year of the foreign subsidiaries beginning before January 1, 2018. The U.S. MNC's income inclusion is subject to U.S. tax at the rate of 15.5 percent for cash and cash equivalents, and 8 percent for non-cash assets. The tax law allows U.S. MNCs to elect to pay the one-time 'transition' tax liability in eight 'back-loaded' annual installments (with the majority of the payments made in the final three years) and without any interest charge. Even if this option was chosen, an immediate distribution of the accumulated foreign earnings will be tax-free and did not accelerate the tax liability.[9]

Aside from the one-time transition tax, the distribution by a foreign subsidiary of its earnings to its U.S. parent will no longer give rise to U.S. tax. This provision was enacted to address the lock-out

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

effect and to encourage companies to repatriate foreign earnings and invest them domestically or to invest them abroad without tax frictions. We expect the repeal of the repatriation tax to affect incentives for outbound M&A in multiple ways. For instance, by eliminating the lock-out effect, the reform increases the opportunity cost of reinvesting profits abroad, which might weaken the incentives for foreign M&A. Conversely, the repeal of the repatriation tax reduced the marginal cost of funding foreign acquisitions through domestic funds, which could facilitate investment abroad (Liu, 2018). Thus, depending on a U.S. MNC's investment opportunities and the marginal source of funding for foreign investment, the elimination of the repatriation tax could result in expansion of either the domestic or the foreign operation, including through acquisitions. In the short-term, the payment of the transition tax may be more onerous for some firms, particularly those with non-cash assets abroad, prompting an initial contraction of their operations (or increase in borrowing).

2.2.3   Global intangible low-taxed income (GILTI)

The TCJA was heralded as incorporating 'territoriality' into the U.S. tax system – that is, income earned by foreign subsidiaries of U.S. firms would not be subject to U.S. taxation, either when earned or distributed to the U.S. parent, similar to the practices followed by other developed countries. The reality is more like 'partial' or 'quasi' territoriality. First, the Subpart F deemed inclusion rules (going back to 1962) are retained and subject *passive* foreign earnings in low-tax jurisdictions to an immediate U.S. tax. Second, the TCJA introduced a GILTI tax regime that may subject some *active* foreign earnings to an immediate U.S. tax. This rule is an anti-abuse provision to prevent U.S. companies from aggressively stripping income out of the U.S. to low-tax countries under the 'quasi' territorial system.

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

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

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

2.2.4   Foreign-derived intangible income (FDII)

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

In broad terms, the FDII regime also operates in two parts. First, a U.S. corporation's earnings in excess of 10 percent of its depreciable U.S. tangible property is considered 'intangible income' and is potentially eligible for the reduced U.S. tax rate. Second, the share of U.S. income related to the export of goods or services is determined as the share of the U.S. tax base eligible for the reduced rate.[10] Thus, the FDII regime is intended to be a tax incentive to generate sizable U.S. profits from serving foreign

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

markets. As these sizable profits are deemed to be related to the use of IP (though this is not measured directly) the FDII regime is an attempt to reverse the intangible asset migration observed by U.S. firms over the past two decades.

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

2.2.5   *Base erosion and anti-abuse tax (BEAT)*

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

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

provisions lower incentives to invest abroad to the extent that the investment will generate outbound

payments from the U.S.

2.3   Hypothesized effects of the TCJA on outbound M&A activity

In combination, the above provisions have the ability to significantly alter the incentives of U.S.

MNCs to acquire foreign targets. Figure 1 summarizes the various hypothesized incentive effects from

each of the TCJA provisions. The carrot-and-stick approach that the TCJA adopted with respect to cross-

border business activities means that the incentives driving cross-border M&A are less clear than under

pre-reform law and certainly do not point in a single direction, making the effect of the TCJA on foreign

M&A activity an empirical question. For example, all else equal, the lower U.S. statutory tax rate should

increase outbound M&A activity by increasing cash available to invest abroad. At the same time,

however, the FDII and BEAT provisions, all else equal, should decrease outbound activity because both

provisions change the relative cost of operating in the U.S. versus abroad to be more favorable to

operating in the U.S.

Indeed, how M&A activity by any particular firm is impacted by the reform also depends on how

each provision interacts with firm-specific facts. Therefore, our empirical tests also consider how changes

to the U.S. tax regime might alter incentives for foreign M&A conditional on relevant firm (both target

and acquirer) characteristics. For instance, the elimination of the repatriation tax could increase or

decrease outbound acquisitions by U.S. firms depending on the marginal source of funds and access to

capital, as well as foreign investment opportunities. Similarly, the GILTI provisions could decrease

outbound acquisitions by U.S. firms that we observe in targets with significant intangible assets and in

targets located in low-tax countries.

3.   Empirical Setup, Data, and Descriptive Statistics

3.1   Empirical Setup

Our empirical strategy is based on two sets of tests. First, we examine foreign targets and assess

whether their likelihood to be acquired by a U.S. firm changed in response to the TCJA (target-level

analysis). This approach sheds light on the effect of the reform on the extent to which U.S. firms are

active in foreign M&A markets and on whether the reform changed the incentives to acquire certain types

of targets. Second, we examine U.S. firms and test whether the reform changed the probability to acquire

a foreign target conditional on the characteristics of the potential acquirer (acquirer-level analysis). That

is, we explore whether investment responses documented at the target level vary across different types of

potential U.S. acquirers. Our setup allows us to consider some of the more nuanced effects of the TCJA

outlined in Figure 1.

3.1.1   Likelihood that a Foreign Target is acquired by a U.S. Firm (Target-Level Analysis)

To test for the effect of the TCJA on the likelihood that foreign target i is acquired by a U.S. firm,

we estimate the following linear probability model:[11]

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

where *USAcq* is an indicator variable equal to one if foreign target i has a U.S. acquirer, and zero

if it is acquired by a non-U.S. firm.[12] Our independent variable of interest, *Post*, is an indicator variable

equal to one if target i is acquired after the TCJA, i.e., in the years 2018 or 2019, and zero otherwise, i.e.,

between 2011 and 2017. β_1 captures the effect of the TCJA on the probability that a foreign target has a

U.S. acquirer. A negative (positive) coefficient on β_1 suggests that the tax reform reduced (increased) the

probability of being acquired by a U.S. firm.

We include target industry fixed effects (α_j), defined at the one-digit NACE industry level, and

target country fixed effects (α_c). These fixed effects absorb the impact of time-invariant target industry

and country characteristics. By including these fixed effects, we exploit over time variation in the

probability that foreign targets are acquired by U.S. firms within each target industry and country, and

compare this probability in the post-TCJA period to the probability before the reform. In a robustness

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

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

tests, we replace the separate fixed effects with target country-industry fixed effects and find consistent results (see column (5) of Table 2).

In addition to these industry- and country-level controls, we follow Bird et al., (2017) and control for target characteristics that could influence the likelihood of having a U.S. acquirer. More specifically, we include the natural logarithm of target total assets to control for target size (*LN(Assets)*). We also control for profitability based on earnings before interest and taxes (*ROA*), non-current liabilities (*Leverage*), and intangible assets (*Intangibles*), all scaled by total assets. These variables control for differences in income-shifting strategies between U.S. and non-U.S. acquirers (Markle, 2016) that could affect the relative attractiveness of a foreign target.

Finally, we add *Loss* as an indicator variable equal to one if target *i* incurs a financial-statement loss. Losses could alter the future effective tax rates faced by the target and thus affect its attractiveness for acquirers (Bird, 2015). Aside from these tax aspects, most of our control variables also proxy for future target performance (Bird et al., 2017). We lag all variables by one year to capture target characteristics in the year prior to the deal. In untabulated tests, we replace the annual values of our variables with their three-year averages (Bradley et al., 2018) and find consistent results. We define the variables and outline the respective data sources in Appendix A.

3.1.2   Likelihood that a U.S. Firm acquires a Foreign Target (Acquirer-Level Analysis)

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

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

(2)

The dependent variable, *ForAcq*, is an indicator variable equal to one if firm *i* acquires at least one foreign target in year *t*, and zero otherwise. In line with Equation (1), *Post* takes the value of one for years after the TCJA, and zero for years prior to the reform. Vector *Treated* includes a set of treatment indicators (*RepatTaxCost*, *Domestic*, and *NonInvGradeRating*) to identify differential responses in M&A

activity to the reform conditional on the characteristics of firm *i*. First, *RepatTaxCost* is an indicator

variable equal to one if firm *i* reports repatriation tax costs (i.e., the firm has untaxed foreign earnings)

prior to the TCJA (treated firms), and zero if repatriation tax costs are zero (control firms).[13] Second,

Domestic is an indicator variable equal to one if firm *i* is classified as domestic (i.e., without a significant

foreign presence) prior to the TCJA (treated firms), and zero if the firm is classified as a multinational

(control firms).[14] Third, *NonInvGradeRating* is an indicator variable equal to one if firm *i* has no or a non-

investment grade credit rating prior to the reform (treated firms), and zero if firm *i* has an investment

grade rating (control firms).[15] [16]

We separately interact all treatment indicators with *Post*. We expect a negative coefficient on β_3

for *RepatTaxCost*. The repeal of the repatriation tax reduces the tax cost of distributing foreign funds to

the U.S. parent, making the repatriation of foreign profits relatively more attractive while increasing the

opportunity cost of reinvesting profits abroad. This mechanism should weaken the incentives of firms

with untaxed (by the U.S.) foreign earnings to engage in foreign M&A activity. Conversely, we predict

positive coefficients on β_3 for *Domestic* and *NonInvGradeRating*. Domestic firms are more likely to

finance their foreign acquisitions through domestic funds, where a lower corporate income tax rate

provides additional after-tax cash flow and the repeal of the repatriation tax reduces the marginal cost of

investing abroad. Similarly, firms with constrained access to debt markets (*NonInvGradeRating*) should

benefit from domestic cash-tax savings, which facilitates foreign M&A activity.

We include firm fixed effects (α_i) and year fixed effects (α_t). Firm fixed effects control for the

effect of time-invariant firm characteristics on the likelihood of acquiring a foreign target in year *t*. Year

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[13] We calculate a firm's repatriation tax costs in a given year (*RepatTax*) following the approach in Foley et al., (2007). We set missing values for repatriation tax costs to zero. Our results are robust to excluding firms that report non-zero or non-missing foreign income taxes but missing or zero foreign pre-tax income in a given year.

[14] We classify a firm as domestic if foreign pre-tax income is zero or missing.

[15] We calculate all three measures over the three-year period 2014 to 2016. We compute long-run measures to alleviate endogeneity concerns (Klassen and Laplante, 2012). Moreover, we choose 2016 as an end point, because the TCJA was enacted in December 2017. Hence, the year 2016 is the last fiscal year that was unaffected by the reform.

[16] We note that *NonInvGradeRating* is negatively correlated with *Leverage* (p < 0.01). Thus, firms in our sample with no or a non-investment grade rating exhibit lower leverage ratios than firms with an investment grade rating, consistent with the former group having constrained access to debt markets (Faulkender and Petersen, 2006).

fixed effects absorb the impact of economic shocks and of the business cycle on foreign M&A activity. With this research design, we test how the probability of acquiring foreign targets changed due to the reform within treated firms relative to control firms. As a result, we draw our inferences from within-firm and within-year variation in the incentives for and the extent of foreign M&A activity.

Following prior research (Hanlon et al., 2015; Harford, 1999), we control for several determinants of foreign M&A activity. More specifically, we include annual sales growth (*SalesGrowth*), non-cash working capital (*WorkingCapital*), and long-term debt (*Leverage*). *WorkingCapital* and *Leverage* are both scaled by total assets. Moreover, we add the market-to-book value of equity (*MTB*) to capture differences in frim-level growth opportunities and the natural logarithm of total assets (*Size*) to control for firm size.[17] Consistent with Equation (1), we lag control variables by one year to capture firm characteristics in the year prior to foreign M&A activity. We define the variables and outline the respective data sources in Appendix A.

3.2   Sample Selection and Descriptive Statistics

3.2.1   'Global Sample' of Foreign Targets

We first construct a 'Global Sample' of M&A deals using Bureau van Dijk's Zephyr database. This database provides deal-level data on domestic and cross-border M&A deals, including information on the seller, the acquirer, and the target involved in an M&A transaction. The deals included in Zephyr concern publicly listed and private targets (Bradley et al., 2018; Feld et al., 2016). The details of our sample selection are outlined in Appendix B and discussed below. We construct this sample in a fashion that allows us to test whether the TCJA had an effect on the probability that a foreign target is acquired by a U.S. firm, and whether this effect varies in the cross-section based on characteristics of the foreign target.

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[17] Since we exploit repatriation costs prior to the reform (*RepatTaxCost*) in a treatment indicator, we do not include annual repatriation tax costs (*RepatTax*) as a control variable. However, our results are qualitatively similar when controlling for *RepatTax*, consistent with Hanlon et al., (2015).

In Zephyr, we identify all acquisitions with non-missing deal value that were completed between 2010 and 2019.[18] Since we collect a 'Global Sample', we do not restrict deals in terms of location. We choose 2010 as a starting point to mitigate the impact of the global financial crisis. Our final sample is limited to acquisitions completed between 2011 and 2019, because we lag target-level controls by one year in the multivariate analysis. Following Bird et al., (2017), we focus on deals in which the acquirer ends up with a majority stake (> 50 percent) in target i. In addition, we require the target and the acquirer to be classified as corporations and demand non-missing country and industry information for both parties. These requirements yield an initial sample of 68,465 acquisitions.

In a next step, we link all targets and acquirers in our sample to the Orbis database, using the identifiers provided by Bureau van Dijk. From Orbis, we extract financial-statement data for each target and ownership data for each acquirer. Ownership information enables us to identify the global ultimate owner (GUO) of the acquirer and to determine its location. With this data at hand, we may identify, for instance, acquisitions by foreign subsidiaries of U.S. firms. We obtain ownership data for 33,401 acquisitions in our sample. We delete targets with implausible financial-statement values, such as negative sales, negative employees, negative fixed assets, or negative total assets, and transactions with a deal value of less than €100,000.[19]

Since we are interested in the impact of the tax reform on outbound M&A activity, we exclude all deals with a U.S. target (relaxed in supplementary tests). We also drop acquisitions with insufficient data to compute target-level control variables. Finally, to restrict our sample to target countries with an active M&A market, we drop observations from target countries with less than 15 deals (i.e., domestic and cross-border deals) completed during our sample period. These requirements yield a final sample of 3,266 cross-border deals (i.e., target and acquirer are located in different countries). In addition, we obtain 4,909

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[18] We exported the data from Zephyr on December 11, 2019.
[19] Excluding micro deals from the sample is consistent with the approach in Bird et al., (2017). Our results are similar when relaxing this requirement.

domestic deals (i.e., target and acquirer are located in the same country), which we include in a robustness test (see column (6) of Table 2). As discussed above, all deals involve non-U.S. targets.

Table 1 shows the distribution of cross-border deals by target country with, not surprisingly, the larger more developed countries serving as primary target hosts (panel A). Most targets are profitable, with a mean (median) return on assets of 2.5 (4.7) percent, low leverage, and a low level of capitalized intangibles held on the balance sheet (panel B).

3.2.2 'U.S. Sample' of Potential Acquirers

To study the impact of the TCJA on potential U.S. acquirers, we construct a 'U.S. Sample' by combining our sample of cross-border M&A deals from Zephyr with financial-statement data from Compustat. The details of our sample selection are again outlined in Appendix B and discussed below. We construct this sample in a fashion that allows us to test the effect of the TCJA on the probability that a U.S. firm acquires a foreign target conditional on characteristics of the potential U.S. acquirer.

We first obtain a sample of firms incorporated in the U.S. with data available in Compustat (fiscal years: 2010-2018).[20] Following Hanlon et al., (2015), we exclude financial firms (SIC codes: 6000-6999) and utilities (SIC codes: 4900-4949) from the sample. To facilitate the identification of firm-years affected by the TCJA, we drop observations with non-December fiscal year-ends (Beyer et al., 2017b). Moreover, we drop firms with 'LP' or 'TRUST' in their name to exclude flow-through entities not subject to firm-level taxes (Dyreng et al., 2008). Consistent with prior research (Chay and Suh, 2009; Hoberg et al., 2014), we delete observations with negative sales or negative total assets, and with book equity below $250,000 or total assets below $500,000. Finally, we drop observations with insufficient data to compute regression variables. These selection criteria result in a sample of 11,975 firm-year observations.

In a final step, we merge the M&A data from our 'Global Sample' with the Compustat sample. More specifically, for each acquirer in the 'Global Sample', we determine whether its GUO is a U.S. firm. We then aggregate the deal-level data per GUO-year to obtain the number of foreign acquisitions by a

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[20] We obtain financial-statement data for the years 2010 to 2018, because acquirer-level controls are lagged by one year in the multivariate analysis (see Section 3.1.2).

U.S. GUO in year *t*. We also compute the annual value of these transactions. We link this data to the Compustat sample using the GUO's International Securities Identification Number (ISIN) as reported in Orbis.[21] In the combined sample, 626 firm-years exhibit foreign acquisitions, representing 717 distinct deals. Panel C of Table 1 presents descriptive statistics for the U.S. sample. Overall, we observe that approximately 5 percent of the firm-years in our sample report at least one acquisition of a foreign target.

4. Empirical Results

4.1 Probability that a Foreign Target is acquired by a U.S. Firm

4.1.1 Target-Level Analysis

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

In economic terms, the estimates on *Post* in columns (4) and (5) indicate a reduction in the probability of being acquired by a U.S. firm between 3.5 and 4.5 percentage points. Since the

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[21] Compustat does not provide information on ISIN. However, ISIN as reported in the Orbis database can be transformed into the Committee on Uniform Securities Identification Procedures Number (CUSIP) by extracting the final six digits of ISIN. Since CUSIP is available in Compustat, we use this variable to merge our M&A data with financial-statement information from Compustat.

unconditional probability of being acquired by a U.S. firm prior to the TCJA is equal to 20.77 percent, our estimates imply a relative reduction by 16.8 to 21.7 percent. Thus, the tax reform generally weakened the incentives of U.S. firms to engage in foreign M&A activity.

One concern with these tests is that differences in the pre-reform trends in M&A activity between U.S. and non-U.S. acquirers rather than the reform itself could explain our results. To address this concern, we re-estimate the regression in column (4) after replacing *Post* with a full set of year indicators. We constrain the estimate to zero for the year 2017 in order to estimate the coefficients for the year indicators relative to the base year 2017, i.e., the year the TCJA was passed.[22] We graphically depict the regression results in Figure 2a. As evident, the coefficients for the year indicators are insignificant in the pre-reform period (all $p > 0.26$). We also test for their joint significance, and for the significance of their sum, and cannot reject the null in both tests ($p = 0.83$ and 0.44). These results suggest that pre-reform differences in M&A activity between U.S. and non-U.S. acquirers are unlikely to explain our findings. We note that the reduction in the probability of being acquired by a U.S. firm is strongest in 2019 while it is less pronounced in 2018. Since the completion of cross-border deals takes time, it is reasonable to observe the effect of the TCJA on foreign M&A activity with some time lag.

Table 3 presents several cross-sectional tests aimed at tying our main result to specific provisions of the TCJA. As discussed in Section 2.2.3, the TCJA created a disincentive to invest in foreign IP and in operations that generate sizable profits in low-tax jurisdictions. This disincentive is quite strong because the GILTI tax regime imposes a U.S. tax on 'intangible low-taxed income' on an immediate basis without regard to repatriation. Accordingly, we bifurcate the sample of foreign targets at the median based on the host country statutory corporate tax rate (*CorpTaxRate*) in columns (1) and (2). In addition, we split our sample based on the ownership of IP using data provided by Orbis on the target's stock of active patents granted (*Patents*) (columns (3) and (4)) and its stock of pending patent applications (*PatentsPending*) (columns (5) and (6)). We find strong evidence that the reduced likelihood of foreign targets being

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

acquired by a U.S. firm is concentrated in targets facing low tax rates and having active patents or

pending patent applications.[23] [24]

In untabulated analysis, we conduct additional cross-sectional tests based on target profitability. As discussed in Section 2.2.3, the GILTI regime imposes an immediate U.S. tax on foreign income in excess of 10 percent of depreciable foreign tangible property. Hence, we expect the GILTI provisions to discourage the acquisition of foreign targets with relatively high profitability. To this end, we bifurcate the sample of foreign targets at 10 percent of return on total assets and at 10 percent of return on tangible fixed assets, respectively. As expected, we find that the reduction in the probability of being acquired by a U.S. is concentrated in targets with a probability above the cut-off.[25] These results are consistent with the GILTI regime dis-incentivizing the acquisition of foreign targets that are highly profitable.[26]

Finally, as discussed in Section 2.2.2, the TCJA repealed the U.S. repatriation tax, making U.S. firms less tax-disadvantaged owners of foreign targets relative to non-U.S. firms. However, the elimination of the lockout effect also removes an internal capital market friction, making the repatriation of foreign earnings less costly and increasing the opportunity cost of investing abroad (Albertus et al., 2018). We therefore expect U.S. firms to become less likely to pursue low-growth investment projects abroad and predict a weaker incentive to acquire foreign targets in low-growth environments after the reform. When splitting the sample at the annual median of target country GDP growth (columns (7) and

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[23] We estimate a fully-interacted model to assess whether the coefficients on *Post* differ between subsamples (Allison, 1999). More specifically, we interact all independent variables with an indicator variable that identifies the subsamples and re-estimate the regression on the full sample. We then conduct a one-tailed t-test to assess whether the negative coefficient on *Post* is smaller in columns (1), (3), (5), and (7) than in columns (2), (4), (6), and (8), respectively. The p-values for these tests are provided in Table 3. A fully-interacted model allows all independent variables to have differential effects on the probability of being acquired by a U.S. firm in each subsample (Allison, 1999). Our results are qualitatively similar when only interacting *Post*.

[24] When we simultaneously split the sample based on target-level patents and tax rates, we find that the significant negative coefficient on *Post* is, as expected, concentrated in the low-tax rate patent subsample. However, our test of sample differences on *Post* is significant only when using active patents (and not pending patent applications) as a proxy for IP.

[25] We find qualitatively similar results when splitting the sample at the annual median of target profitability (again based on the return on total assets and the return on tangible fixed assets, respectively).

[26] In line with the tests based on patent holdings, we again simultaneously split the sample based on target-level profitability and tax rates. As expected, our results indicate that the negative effect of the TCJA on the probability of being acquired by a U.S. firm is concentrated in the low-tax rate but high profitability subsample. However, *Post* is only significant different between subsamples when splitting at 10 percent of the return on tangible fixed assets.

(8)), we find support for this conjecture. That is, the reduction in the likelihood of being acquired by a U.S. firm is concentrated in targets located in countries with low GDP growth.

4.1.2   Alternative empirical strategy (Feld et al., 2016)

One drawback of the target-level analysis is that we identify the effect of the reform from over-time changes in a target's probability of being acquired by a U.S. firm. Thus, country-level trends in M&A activity of non-U.S. acquirers rather than changes in foreign M&A activity of U.S. firms could drive our results. To address this concern, we apply an alternative empirical strategy based on Feld et al., (2016). More specifically, we use a conditional logit framework and model the likelihood that the acquirer of foreign target i is located in a given country. To account for the fact that the acquirer could be located in any country included in our sample, we duplicate each observation in the 'Global Sample'.

The dependent variable, *AcqCountry*, is an indicator variable equal to one for the actual acquirer country, and zero for all other countries in which the acquirer is not located. As an independent variable, we include the indicator variable *Reform*, which is equal to one for the U.S., and zero for all other potential acquirer countries. We again include *Post* and interact *Reform* with *Post*, yielding a DiD design. By including a fixed effect for each potential acquirer country, we exploit over-time variation in the taxation of potential acquirers located in the U.S. Moreover, since all other potential acquirer countries function as a control group, we test whether the likelihood that the acquirer of target i is located in the U.S. changed in response to the TCJA relative to the likelihood that the acquirer is located in any other country. In line with the target-level analysis, we expect a negative coefficient on *Reform*Post*, which indicates a lower likelihood that the acquirer of foreign target i is located in the U.S. after the reform.[27]

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[27] In line with Feld et al., (2016), we control for characteristics of each potential acquirer country (*LN(GDPCapita)*, *GDPGrowth*, *MarketValueEquity*, *ExchangeRate*) and each potential acquirer-target country pair (*NumberAcquistions*, *LN(Distance)*, *Neighboring*, *CommLanguage*, *Colony*, *SameCountry*). We include *MarketValueEquity* and *ExchangeRate* in a second step because data for these variables are not available for all potential acquirer countries, leading to a sizeable loss in sample size (see columns (2) and (4) in Table 4). We do not include target country characteristics and target country or year fixed effects because these variables do not vary across acquirers and hence are constant for all potential acquirer countries of target i. Since the conditional-logit regression is based on a fixed-effects (*within*) estimator for each target, these variables are absorbed in the estimation.

As expected, the coefficient on *Reform*Post* is negative and significant in column (1) of Table 4. We obtain similar results when including additional control variables in column (2) and when excluding observations from the year 2017 in columns (3) and (4). To assess whether the trends in the likelihood that the acquirer of a foreign target is located in the U.S. (or outside the U.S.) are similar prior the reform – which is the main identifying assumption of the DiD design – we replace *Post* with a full set of year indicators. When re-estimating the model in column (2), all coefficients on the interactions of the treatment indicator *Reform* with the year indicators are insignificant in the pre-reform period (all $p > 0.22$; see Figure 2b). The estimates are also jointly insignificant and their sum is not significantly different from zero ($p = 0.53$ and 0.63). These results corroborate the findings from the target-level analysis and provide additional evidence that U.S. firms are relatively less dominant in the global M&A market after the TCJA.

4.2   Probability that a U.S. firm acquires a foreign target

The next set of tests that we present includes all potential U.S. acquirers and examines the changing propensity to purchase a foreign target due to the TCJA. As noted under Equation (2), we identify differential responses to the reform based on pre-reform characteristics of potential U.S. acquirers in our 'U.S. Sample'. Table 5 considers whether a firm had untaxed foreign earnings prior to the passage of the TCJA, as indicated by *RepatTaxCost*. We examine both the likelihood that U.S. firm *i* acquires a foreign target in year *t* (columns (1) through (4)) and the total dollar amount spent on foreign acquisitions in the same year, measured by the natural logarithm of the total value of all completed deals (columns (5) and (6)). We exclude observations for the year 2017 in columns (3) and (4).[28]

Our results suggest that firms with untaxed foreign earnings prior to the reform (as measured by the existence of such earnings in columns (1) and (2) or the quartile rank of their amount in columns (3)

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[28] In untabulated tests, we re-run this and the subsequent tests after limiting the pre-period to the years 2016 and 2017. Our inferences are robust to using the shorter pre-reform period.

and (4)) exhibit a lower propensity to acquire a foreign target after the TCJA.[29] We also find that these firms spend a smaller amount on cross-border acquisitions in the years after the reform. In economic terms, our estimates in columns (1) and (5) suggest that a firm with untaxed foreign earnings exhibits a 3.2 percentage point lower probability to acquire a foreign target after the reform and spends 20.8 percent less on cross-border deals than a firm without such earnings. We again interact *RepatTaxCost* with year indicators to assess whether treatment and control firms exhibit parallel pre-reform trends in the likelihood of acquiring a foreign target. In Figure 2c, we find that the coefficients on the interactions are insignificant in the pre-period (all p > 0.13). The coefficients are jointly insignificant and their sum is not significantly from zero (p = 0.35 and 0.52), suggesting parallel pre-reform trends and supporting the validity of our DiD design.

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

The set of results presented in Table 6 considers the extent to which a U.S. firm had a significant foreign presence prior to the TCJA. The indicator *Domestic* captures the sub-set of potential U.S. acquirers with no significant foreign operation prior to the TCJA. We examine the probability that firm *i* acquires a foreign target in columns (1) and (2) and the total amount spent on cross-border acquisitions in column (3). We again exclude observations for the year 2017 in column (2). The positive and significant coefficients on *Domestic*Post* imply that a firm without a significant foreign presence prior to the TCJA

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

exhibits a higher probability to purchase a foreign target (by 3.6 percentage points) and spends more on cross-border acquisitions (by 24.5 percent) after the reform than a multinational firm. Figure 2d indicates that treatment and control firms again exhibit similar pre-reform trends in the probability of acquiring a foreign target, supporting the validity of our DiD estimation.[30]

Overall, while our previous analysis suggests firms with untaxed foreign earnings decreased their propensity to acquire foreign targets, the analysis in Table 6 suggests that the TCJA induced firms without any significant history of foreign operations to expand abroad. For this latter group, the repeal of the repatriation tax reduced the marginal cost of funding foreign acquisitions through domestic funds (Liu, 2018), making foreign acquisitions relatively more attractive. Moreover, a lower corporate U.S. income tax rate generates cash-tax savings that increase domestic funds available for foreign investment.

Table 7 provides additional evidence that the TCJA attenuated financing frictions that deterred some U.S. firms from investing abroad prior to the reform. Here we consider whether a U.S. firm had no or a non-investment grade credit rating prior to the TCJA as indicated by *NonInvGradeRating*. We examine the probability that firm *i* acquires a foreign target in columns (1) and (2) and the total amount spent on cross-border acquisitions in column (3); we exclude observations for the year 2017 in column (2). The results in column (1) suggest that a firm with limited access to public debt markets exhibits a 3.8 percentage point higher likelihood to buy a foreign target after the TCJA than a firm that could raise debt more easily (the coefficient is insignificant when using deal value in column (3)).[31] Again, a lower U.S. corporate income tax rate after the TCJA generates cash-tax savings that increase the domestic funds available for foreign investment, particularly for firms that could not easily borrow prior to the TCJA.

Finally, to further corroborate our results, we expand the 'U.S. Sample' to include both U.S. and Canadian firms. In a sample of potential acquirers from both countries, we may examine the overall shift

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[30] All coefficients on the interactions of *Domestic* with the year indicators are insignificant in the pre-period (all $p > 0.14$). These coefficients are also jointly insignificant and their sum is not different from zero ($p = 0.83$ and 0.45).
[31] Figure 2e indicates that treatment and control firms exhibit similar pre-reform trends in the probability of acquiring a foreign target. All coefficients on the interactions of *NonInvGradeRating* with the year indicators are insignificant in the pre-period (all $p > 0.19$). Further, these coefficients are jointly insignificant and their sum is not different from zero ($p = 0.62$ and 0.84).

in the likelihood that U.S. firms acquire a foreign target relative to Canadian firms. We choose Canadian firms as a control group because these firms are economically comparable to U.S. firms. However, Canadian firms were not directly affected by the reform (Carrizosa et al., 2019).[32] In Table 8, we define the treatment indicator *US* to capture potential acquirers located in the U.S. We then examine the probability that firm *i* acquires a foreign target in columns (1) and (2) and the total amount spent on cross-border acquisitions in column (3). We exclude observations for the year 2017 in column (2).

The negative and significant coefficients on *US*Post* indicate a relative decline after the TCJA in the probability that a U.S. firm acquires a foreign target and in the amount spent by U.S. firms on cross-border acquisitions. Further, the coefficients on the interactions of the treatment indicator *US* with the full set of year indicators are insignificant in the pre-period (all $p > 0.26$; see Figure 2f). Thus, U.S. and Canadian firms exhibit similar pre-reform trends in the probability of acquiring a foreign target.[33] Collectively, these results suggest that the TCJA had a negative effect on foreign M&A activity of potential U.S acquirers, which corroborates the findings from our target-level analysis. These results provide additional evidence that our target-level analysis and our acquirer-level analysis are unlikely to capture a random, non-TCJA related event.

5.   Additional Analyses

5.1   Announcement returns

As discussed in Section 2.2.2, the U.S. repatriation tax was abolished to address the lock-out effect and to encourage firms to repatriate foreign earnings and invest them domestically or to invest them abroad without tax frictions. Relatedly, Hanlon et al., (2015) showed that U.S. firms with a greater accumulation of foreign cash due to repatriation tax avoidance were more likely to engage in a foreign acquisition prior to the TCJA. However, due to potential agency conflicts over how to employ foreign

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

[33] These coefficients are jointly insignificant and their sum is not different from zero ($p = 0.63$ and 0.87).

cash, investors placed a valuation discount on the announcement of these deals. In Table 9, we re-examine the announcement returns analysis from Hanlon et al., (2015), before and after the tax reform.

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

5.2   *Domestic U.S. acquisitions*

Although our paper is primarily concerned with the effect of the TCJA on the incentives of U.S. firms for outbound acquisitions, we consider the Bird et al., (2017) analysis that focuses on the domestic U.S. M&A market. In their study, they hypothesized that foreign firms located in a territorial tax system would be tax-favored acquirers of U.S. targets because the old U.S. worldwide tax system made it difficult for U.S. bidders to compete for U.S. targets, particularly those with large stocks of untaxed foreign earnings. In Table 10, we re-run our target-level analysis on a sample of U.S. deals and examine the effect of the TCJA on the probability that U.S. target *i* is acquired by a U.S. firm.[34] Since this analysis focusses on U.S. deals only, we do not include target country fixed effects. In columns (1) and (2), we find a positive and significant coefficient on *Post*. We note that the coefficient on *Post* remains positive but becomes marginally insignificant when we eliminate deals completed in 2017 (p = 0.17; column (3)) and when we limit the pre-period to the years 2016 and 2017 (p = 0.13; column (4)), respectively. These

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

results suggest that the TCJA had a positive effect on the domestic M&A activity of U.S. firms, by removing a tax disadvantage faced by U.S. bidders prior to the reform.

To further investigate the impact of the TCJA on the U.S. M&A market, we consider various attributes of U.S. targets that would make them relatively more attractive to U.S. acquirers after the TCJA. In Table 11, we find that the increase in the probability that a U.S. target is acquired by a U.S. firm is concentrated in targets that own patents, have some foreign operations, and/or have some untaxed foreign earnings (again measured through the presence of repatriation tax costs).[35] The increased interest of U.S. firms in U.S. targets with patents is consistent with the incentives created by the FDII provisions. The increased interest in multinational U.S. targets and U.S. targets with untaxed foreign earnings is consistent with the elimination of the tax friction implied by the repatriation tax.

6. Concluding Remarks

Prior to the Tax Cuts and Jobs Act of 2017, the U.S. corporate tax system was perceived as placing U.S. firms at a competitive disadvantage relative to non-U.S. firms. This was due to the high corporate income tax rate of 35 percent and, for multinationals, the U.S. repatriation tax on foreign-source income levied upon repatriation. A substantial body of prior work describes how the old system distorted foreign investment decisions by U.S. MNCs (Desai and Hines, 2003), including but not limited to holding large amounts of cash abroad (Foley et al., 2007; Gu, 2017) and making less optimal foreign acquisitions (Edwards et al., 2016; Hanlon et al., 2015; Harford et al., 2017). In this study, we examine whether and to what extent the 2017 tax reform altered the incentives for outbound M&A activity by U.S. domiciled firms. We also evaluate the impact of key reform provisions on the foreign M&A activity of U.S. firms.

To highlight our main results, we find a decreased probability that a foreign target is acquired by a U.S. firm after the TCJA, particularly those that hold IP, exhibit high profitability, or are located in low-tax or low-growth markets. These results are consistent with weaker incentives for outbound acquisitions

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[35] Consistent with the target-level analysis based on the 'Global Sample', we obtain patent data for U.S. targets by merging the deals in Zephyr with Orbis. We follow the approach underlying *Domestic* and *RepatTaxCost* to classify a U.S. target as having foreign operations and as having untaxed foreign earnings, respectively.

created by the repeal of the repatriation tax and the adoption of the GILTI regime. In this regard, our study provides initial evidence on the impact of these provisions on corporate M&A activity. We also find a decreased probability that a U.S. firm with untaxed foreign earnings prior to the reform closes a foreign M&A deal after the TCJA, but an increased probability if the firm had no significant foreign presence or constrained access to public debt markets prior to the TCJA. Taken together, our results suggest that the TCJA was effective in reducing tax distortions to outbound M&A activity induced by the old worldwide tax system and in improving the competitiveness of a subset of U.S. firms in global M&A markets.

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Appendix A: Variable Definitions

Variable	Description	Source
Target-Level Analysis (Global Sample)		
Prob(USAcq)	Indicator variable with the value of one if foreign target *i* is acquired by a firm that has an ultimate owner located in the U.S., and zero otherwise.	Zephyr Orbis
Post	Indicator variable with the value of one if the deal involving foreign target *i* is completed after 2017, and zero otherwise.	Zephyr
LN(Assets)	The natural logarithm of total assets of target *i* in the year prior to the deal.	Orbis
ROA	Earnings before interest and taxes of target *i* in the year prior to the deal, scaled by total assets.	Orbis
Leverage	Non-current liabilities of target *i* in the year prior to the deal, scaled by total assets.	Orbis
Intangibles	Intangible assets of target *i* in the year prior to the deal, scaled by total assets.	Orbis
Loss	Indicator variable with the value of one if the earnings before interest and taxes of target *i* in the year prior to the deal are negative, and zero otherwise.	Orbis
Additional Variables (for Partitioning)		
CorpTaxRate	Statutory corporate income tax rate in the country of target *i* in the year prior to the deal.	EY Corporate Tax Guides
Patents	Number of active patents of target *i*.	Orbis
PatentsPending	Number of pending patent applications of target *i*.	Orbis
GDPGrowth	Annual GDP growth in percent in the country of target *i* in the year prior to the deal.	Worldbank
Feld et al., (2016) Approach (Global Sample)		
Prob(AcqCountry)	Indicator variable with the value of one for the country in which the ultimate owner of the firm that acquires foreign target *i* is located, and zero for all other potential acquirer countries.	Zephyr Orbis
Reform	Indicator variable with the value of one if the ultimate owner of the firm that acquires foreign target *i* is located in the U.S., and zero otherwise.	Zephyr Orbis
LN(GDPCapita)	Natural logarithm of the GDP per capita in the potential acquirer country in the year prior to the deal.	Worldbank
NumberAcquisitions	Number of deals in the one-digit NACE industry of target *i* in the year prior to the deal with acquirers from the potential acquirer country.	Zephyr
LN(Distance)	Natural logarithm of the simple distance between the country of target *i* and the potential acquirer country.	CEPII
Neighboring	Indicator variable with the value of one if the country of target *i* and the potential acquirer country share a common border, and zero otherwise.	CEPII
CommLanguage	Indicator variable with the value of one if the country of target *i* and the potential acquirer country share a common language, and zero otherwise.	CEPII

Colony	Indicator variable with the value of one if the country of target *i* and the potential acquirer country were ever in a colonial relationship, and zero otherwise.	CEPII
SameCountry	Indicator variable with the value of one if the country of target *i* and the potential acquirer country were ever part of the same country, and zero otherwise.	CEPII
MarketValueEquity	Market capitalization of listed domestic companies as a percentage of GDP in the potential acquirer country in the year prior to the deal.	Worldbank
ExchangeRate	National currency in the potential acquirer country in the year prior to the deal, expressed in U.S. dollar per national currency unit.	OECD
Acquirer-Level Analysis (U.S. Sample)		
Prob(ForAcq)	Indicator variable with the value of one if U.S. firm *i* acquires at least one foreign target in year *t*, and zero otherwise.	Zephyr Compustat
LN(Value of For Acq)	Natural logarithm of the total deal value of foreign acquisitions by U.S. firm *i* in year *t*.	Zephyr
SalesGrowth	Sales growth of firm *i* in year *t-1* as sales (SALE) in year *t-1* less sales (SALE) in year *t-2*, scaled by sales (SALE) in year *t-2*.	Compustat
WorkingCapital	Working capital of firm *i* in year *t-1* as total current assets (ACT), less debt in current liabilities (DLC), less cash and short-term investments (CHE), and scaled by total assets (AT).	Compustat
Leverage	Leverage of firm *i* in year *t-1*, as long-term debt (DLTT), scaled by total assets (AT).	Compustat
MTB	Market-to-book ratio of firm *i* in year *t-1*, as market value of equity (PRCC*CSHO, scaled by stockholder's equity (SEQ).	Compustat
Size	Size of firm *i* in year *t-1*, as the natural logarithm of total assets (AT).	Compustat
Additional Variables (for Partitioning)		
RepatTaxCost	First, indicator variable with the value of one if firm *i* has positive repatriation tax costs in the year 2016, and zero otherwise. Second, quartile rank of positive repatriation tax costs in the year 2016. We set observations with no repatriation tax costs to zero. We calculate repatriation tax costs by taking the 3-year average of *RepatTax* for the years 2014-2016.	Compustat
Domestic	Indicator variable with the value of one if firm *i* is a domestic firm in the year 2016, and the value of zero if firm *i* is a multinational in the year 2016. We classify a firm as domestic if its pre-tax foreign earnings (PIFO) for the years 2014-2016 are either zero or missing.	Compustat
NonInvGradeRating	Indicator variable with the value of one if firm *i* has no or a non-investment grade credit rating in the years 2014-2016,	S&P Credit Ratings

	and the value of zero if firm *i* has an investment grade credit rating in these years.	
US	Indicator variable with the value of one if firm *i* is incorporated in the U.S. (FIC=USA), and the value of zero if firm *i* is incorporated in Canada (FIC=CAN).	Compustat
Additional Variables (U.S. Sample)		
CAR	Cumulative abnormal return around the announcement of the deal involving foreign target *i*. We calculate the return for a five-day window around the announcement date (days: *t-2* to *t+2*). We calculate the market return using a value-weighted market portfolio.	CRSP
RepatTax	Repatriation tax costs of firm *i* in year *t-1*, as pre-tax foreign income (PIFO) multiplied by 0.35 less foreign income taxes (TXFO). The difference is scaled by total assets (AT). We set missing values for *RepatTax* to zero.	Compustat
LN(DealValue)	Natural logarithm of the deal value for target *i*.	Zephyr
Diversifying	Indicator variable with the value of one if foreign target *i* operates in a different one-digit NACE industry than the ultimate owner of the firm that acquires foreign target *i*, and zero otherwise.	Zephyr
PublicTarget	Indicator variable with the value of one if foreign target *i* is a publicly listed firm, and the value of zero if foreign target *i* is an unlisted firm.	Orbis
LN(MarketCap)	Natural logarithm of the market capitalization of target *i* in year *t-1,* as market value of equity (PRCC*CSHO).	Compustat

Appendix B: Sample Selection

<div align="center">Sample Selection (Global Sample)</div>

Sample Selection	Acquisitions
All acquisitions with non-missing deal value completed between 2011 and 2019. We require the acquirer to hold a majority stake (> 50 percent) in the target after completion of the deal. In addition, we require the acquirer and the target to be corporations and demand non-missing country and industry information (Source: Zephyr).	68,465
Less: Acquisitions with missing country information for the global ultimate owner of the acquirer (Source: Orbis).	(35,064)
Less: Acquisitions of targets with negative sales, negative employees, negative fixed assets, and negative total assets.	(10)
Less: Acquisitions with a deal value of less than EUR 100,000.	(1,266)
Less: Acquisitions where the target is located in the U.S.	(6,250)
Less: Acquisitions with missing information to compute target-level control variables.	(17,557)
Less: Acquisitions in target countries with less than 15 deals during the sample period.	(143)
Total Sample	**8,175**
# of cross-border acquisitions	**3,266**
# of domestic acquisitions	**4,909**

Note: This table shows the sample selection for the global sample. We obtain deal-level data from Bureau van Dijk's Zephyr database and target-level financial statement data from Bureau van Dijk's Orbis database.

<div align="center">Sample Selection (U.S. Sample)</div>

Sample Selection	Firm-Years
Observations of firms incorporated in the U.S. (FIC = 'USA') for fiscal years 2010 to 2018 (Source: Compustat).	81,212
Less: Observations of financial firms (SIC codes: 6000-6999) and utilities (SIC codes: 4900-4949).	(36,811)
Less: Observations with fiscal year end other than December, 31st.	(13,117)
Less: Observations of firms with 'LP' or 'TRUST' in their name.	(740)
Less: Observations with negative sales (SALE < 0) or negative total assets (AT < 0).	(8)
Less: Observations with book equity below \$250,000 (CEQ < 0.25) or total assets below \$500,000 (AT < 0.5)	(5,284)
Less: Observations with insufficient data to compute regression variables.	(13,277)
Total Sample	**11,975**

Note: This table shows the sample selection for the U.S. sample. We obtain acquirer-level financial statement data from Compustat.

Figures and Tables

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

TCJA Provision	Outbound acquisitions by U.S. firms – Incentive effects
Lower corporate income tax rate	• U.S. firms make more foreign acquisitions because of increased after-tax cash flow available to invest abroad
Elimination of repatriation tax	• U.S. firms make more foreign acquisitions because they are no longer tax-disadvantaged owners of foreign targets • U.S. firms make fewer foreign acquisitions because the lock-out effect is eliminated and they repatriate foreign cash to the U.S.
GILTI	• U.S. firms make fewer acquisitions of foreign targets with significant IP • U.S. firms make fewer acquisitions of foreign targets located in low-tax countries
FDII	• U.S. firms make fewer acquisitions of foreign targets because they are incentivized to invest domestically
BEAT	• U.S. firms make fewer acquisitions of foreign targets because intra-firm outbound payments may be subject to an additional tax burden

Note: This figure summarizes the hypothesized incentive effects of the individual TCJA provisions for the foreign M&A activity of U.S. firms.

Figure 2: Plots of Annual Coefficient Estimates

(a)

(b)

(c)

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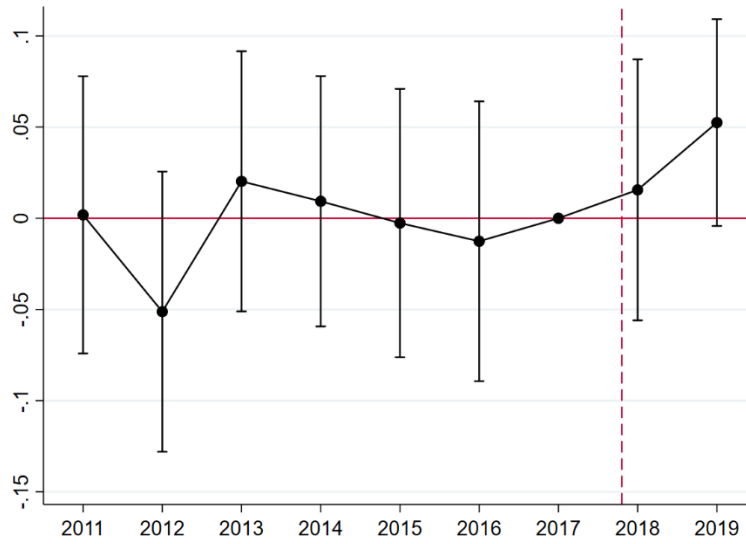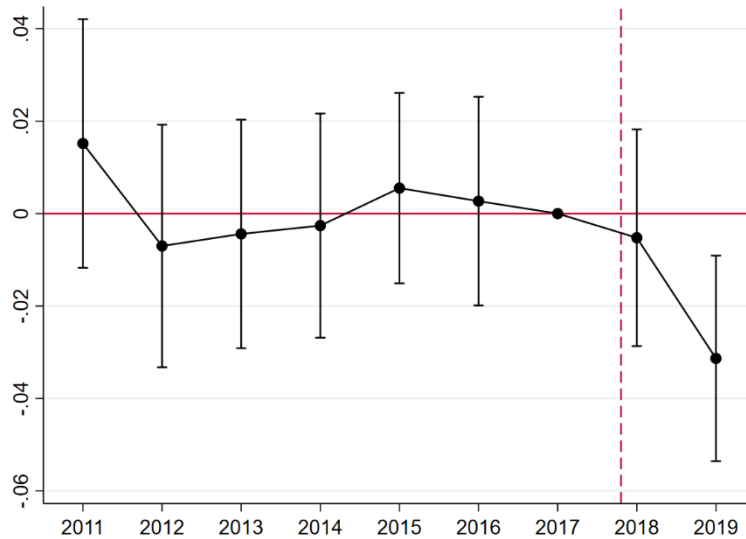
Note: This figure plots annual coefficient estimates. Figure a presents results for the likelihood that a foreign target is acquired by a U.S. firm. Figure b presents results for the likelihood that the acquirer of a foreign target is located in the U.S. Figure c (d) [e] presents results for the likelihood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

Table 1: Descriptive Statistics

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

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

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

Variables	N	Mean	SD	Q1	Median	Q4
LN(Assets)	3,266	10.480	2.043	9.079	10.450	11.820
ROA	3,266	0.025	0.257	-0.015	0.047	0.131
Leverage	3,266	0.189	0.264	0.008	0.076	0.267
Intangibles	3,266	0.077	0.156	0.000	0.005	0.060
Loss	3,266	0.317	0.465	0.000	0.000	1.000
CorpTaxRate	3,266	0.251	0.067	0.200	0.250	0.300
Patents	3,266	28.480	258.200	0.000	0.000	1.000
PatensPending	3,266	26.870	260.900	0.000	0.000	1.000
GDPGrowth	3,206	2.331	2.317	1.352	2.139	3.063

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

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

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

Table 2: Target-Level Analysis (Global Sample)

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

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

Table 3: Cross-Sectional Tests (Global Sample)

	(1) Prob (USAcq)	(2) Prob (USAcq)	(3) Prob (USAcq)	(4) Prob (USAcq)	(5) Prob (USAcq)	(6) Prob (USAcq)	(7) Prob (USAcq)	(8) Prob (USAcq)
	< Median Tax Rate	> Median Tax Rate	Patents	No Patents	Patent Pending	No Patent Pending	< Median GDP Growth	> Median GDP Growth
Post	-0.052**	-0.007	-0.087**	-0.026	-0.097**	-0.019	-0.078***	0.000
	(0.022)	(0.030)	(0.037)	(0.018)	(0.038)	(0.017)	(0.025)	(0.025)
LN(Assets)	-0.002	-0.001	-0.011	0.001	-0.007	-0.001	0.002	-0.004
	(0.004)	(0.006)	(0.008)	(0.004)	(0.009)	(0.004)	(0.005)	(0.005)
ROA	-0.006	-0.021	-0.049	0.053	-0.023	0.036	-0.037	0.033
	(0.045)	(0.063)	(0.075)	(0.038)	(0.078)	(0.039)	(0.052)	(0.054)
Leverage	-0.010	-0.006	0.066	-0.011	0.054	-0.004	0.001	-0.018
	(0.032)	(0.047)	(0.075)	(0.028)	(0.085)	(0.027)	(0.039)	(0.038)
Intangibles	0.140**	-0.011	0.160	0.034	0.198	-0.005	0.060	0.104
	(0.069)	(0.070)	(0.124)	(0.051)	(0.124)	(0.050)	(0.065)	(0.076)
Loss	-0.019	0.007	-0.094**	0.032	-0.055	0.008	-0.006	-0.005
	(0.022)	(0.029)	(0.041)	(0.020)	(0.044)	(0.019)	(0.025)	(0.027)
Constant	0.203***	0.236***	0.428***	0.141***	0.392***	0.165***	0.213***	0.219***
	(0.046)	(0.062)	(0.094)	(0.041)	(0.094)	(0.041)	(0.052)	(0.057)
p-Value (*Post*)	Low < High: 0.115		Patents < No Patents: 0.078		Pending < No Pending: 0.031		Low < High: 0.012	
Observations	1,789	1,476	855	2,406	838	2,422	1,728	1,477
Industry-FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country-FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
R^2	0.130	0.068	0.136	0.096	0.121	0.094	0.084	0.124

Note: This table presents results for cross-sectional tests for the effect of the TCJA on the likelihood that a foreign target is acquired by a U.S. firm. The samples in all columns include cross-border acquisitions completed between 2011 and 2019. The sample in column 1 (2) includes acquisitions in target countries with a statutory corporate income tax rate below (above) the annual median. The sample in column 3 (4) includes targets with at least one granted patent (with zero granted patents). The sample in column 5 (6) includes targets with at least one pending patent application (with zero pending patent applications). The sample in column 7 (8) includes acquisitions in target countries with GDP growth below (above) the annual median. The dependent variable is an indicator variable with the value of one if a target is acquired by a U.S. firm, and zero otherwise (i.e., a target is acquired by a non-U.S. firm). All regressions are estimated as linear probability models. All regressions include target country and target industry fixed effects. We report heteroscedasticity-robust standard errors. We estimate a fully-interacted model to assess whether the coefficients on *Post* differ between subsamples (Allison, 1999). *, **, and *** represent significance levels of 0.10, 0.05, and 0.01, respectively (two-tailed).

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

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

	(1) Prob (ForAcq)	(2) Prob (ForAcq)	(3) Prob (ForAcq)	(4) Prob (ForAcq)	(5) Value of ForAcq	(6) Value of ForAcq
RepatTaxCost	Indicator	Quartiles	Indicator	Quartiles	Indicator	Quartiles
*RepatTaxCost*Post*	-0.032***	-0.012***	-0.030***	-0.011***	-0.208**	-0.071*
	(0.009)	(0.004)	(0.010)	(0.004)	(0.105)	(0.041)
SalesGrowth	0.004	0.004	0.005	0.005	0.050	0.050
	(0.003)	(0.003)	(0.003)	(0.003)	(0.034)	(0.034)
WorkingCapital	0.020	0.020	0.017	0.017	0.259	0.257
	(0.026)	(0.026)	(0.029)	(0.029)	(0.254)	(0.253)
Leverage	-0.040*	-0.039*	-0.033	-0.033	-0.429*	-0.428*
	(0.021)	(0.021)	(0.023)	(0.023)	(0.228)	(0.228)
MTB	0.002***	0.002***	0.002***	0.002***	0.020***	0.020***
	(0.001)	(0.001)	(0.001)	(0.001)	(0.006)	(0.006)
Size	-0.012**	-0.012**	-0.011*	-0.011*	-0.098*	-0.098*
	(0.006)	(0.006)	(0.006)	(0.006)	(0.056)	(0.057)
Constant	0.128***	0.127***	0.124***	0.123***	1.094***	1.086***
	(0.037)	(0.037)	(0.039)	(0.040)	(0.372)	(0.373)
Observations	11,975	11,975	10,476	10,476	11,975	11,975
Firm-FE	Yes	Yes	Yes	Yes	Yes	Yes
Year-FE	Yes	Yes	Yes	Yes	Yes	Yes
R^2	0.250	0.250	0.266	0.266	0.220	0.220

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

Table 6: Acquirer-Level Analysis – Domestic Firms
(U.S. Sample)

	(1) Prob (ForAcq)	(2) Prob (ForAcq)	(3) Value of ForAcq
Domestic*Post	0.036***	0.039***	0.245***
	(0.008)	(0.008)	(0.088)
SalesGrowth	0.006*	0.006	0.067*
	(0.003)	(0.004)	(0.037)
WorkingCapital	0.030	0.026	0.361
	(0.026)	(0.029)	(0.266)
Leverage	-0.038*	-0.028	-0.412*
	(0.022)	(0.025)	(0.245)
MTB	0.001**	0.001**	0.017***
	(0.001)	(0.001)	(0.006)
Size	-0.016***	-0.016**	-0.135**
	(0.006)	(0.006)	(0.059)
Constant	0.036***	0.039***	0.245***
	(0.008)	(0.008)	(0.088)
Observations	11,362	9,945	11,362
Firm-FE	Yes	Yes	Yes
Year-FE	Yes	Yes	Yes
R^2	0.251	0.267	0.220

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

Table 7: Acquirer-Level Analysis – Non-Investment-Grade Rating (U.S. Sample)

	(1) Prob (ForAcq)	(2) Prob (ForAcq)	(3) Value of ForAcq
NonInvGradeRating*Post	0.038*	0.040*	0.220
	(0.021)	(0.022)	(0.242)
SalesGrowth	0.004	0.005	0.052
	(0.003)	(0.003)	(0.034)
WorkingCapital	0.021	0.018	0.248
	(0.026)	(0.029)	(0.254)
Leverage	-0.041*	-0.034	-0.438*
	(0.021)	(0.023)	(0.231)
MTB	0.002***	0.002***	0.020***
	(0.001)	(0.001)	(0.006)
Size	-0.013**	-0.012**	-0.102*
	(0.006)	(0.006)	(0.057)
Constant	0.038*	0.040*	0.220
	(0.021)	(0.022)	(0.242)
Observations	11,791	10,313	11,791
Firm-FE	Yes	Yes	Yes
Year-FE	Yes	Yes	Yes
R^2	0.249	0.264	0.221

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

Table 8: Acquirer-Level Analysis
(U.S. and Canadian Sample)

	(1) Prob (ForAcq)	(2) Prob (ForAcq)	(3) Value of ForAcq
US*Post	-0.019***	-0.019***	-0.167**
	(0.007)	(0.007)	(0.071)
SalesGrowth	0.002	0.002	0.022
	(0.002)	(0.002)	(0.017)
WorkingCapital	0.009	0.011	0.128
	(0.019)	(0.021)	(0.190)
Leverage	-0.045***	-0.039**	-0.469***
	(0.016)	(0.018)	(0.178)
MTB	0.002***	0.002**	0.020***
	(0.001)	(0.001)	(0.006)
Size	-0.009*	-0.008	-0.048
	(0.005)	(0.005)	(0.047)
Constant	-0.019***	-0.019***	-0.167**
	(0.007)	(0.007)	(0.071)
Observations	16,293	14,318	16,293
Firm-FE	Yes	Yes	Yes
Year-FE	Yes	Yes	Yes
R^2	0.253	0.271	0.222

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

Table 9: Announcement-Return Analysis (U.S. Sample)

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

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

Table 10: Target-Level Analysis
(U.S. Targets)

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

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

	(1) Prob (USAcq)	(2) Prob (USAcq)	(3) Prob (USAcq)	(4) Prob (USAcq)	(5) Prob (USAcq)	(6) Prob (USAcq)
	Patents	No Patents	Multinational Targets	Domestic Targets	RepatTax	No RepatTax
Post	0.088*	0.013	0.122*	0.010	0.150**	0.014
	(0.050)	(0.038)	(0.065)	(0.039)	(0.075)	(0.035)
LN(MarketCap)	-0.005	0.001	0.012	-0.012	0.013	-0.008
	(0.011)	(0.012)	(0.017)	(0.010)	(0.020)	(0.009)
ROA	0.074	-0.105	-0.100	0.118	-0.339	0.063
	(0.161)	(0.181)	(0.215)	(0.149)	(0.260)	(0.131)
Leverage	-0.061	0.119	0.011	0.032	-0.003	-0.002
	(0.071)	(0.075)	(0.101)	(0.064)	(0.131)	(0.057)
Intangibles	0.052	-0.348**	-0.109	-0.114	-0.146	-0.028
	(0.098)	(0.136)	(0.133)	(0.099)	(0.157)	(0.079)
Loss	0.004	0.036	0.072	-0.023	-0.000	-0.014
	(0.062)	(0.046)	(0.078)	(0.049)	(0.110)	(0.044)
Constant	0.823***	0.835***	0.695***	0.933***	0.690***	0.920***
	(0.087)	(0.087)	(0.133)	(0.075)	(0.152)	(0.069)
p-Value (*Post*)	Patents > No Patents: 0.116		Multinational > Domestic: 0.068		RepatTax > No RepatTax: 0.048	
Observations	472	378	294	516	230	612
Industry-FE	Yes	Yes	Yes	Yes	Yes	Yes
R^2	0.035	0.130	0.039	0.110	0.049	0.081

Note: This table presents results for cross-sectional tests for the effect of the TCJA on the likelihood that a U.S. target is acquired by a U.S. firm. The samples in all columns include acquisitions completed between 2011 and 2019. The sample in column 1 (2) includes targets with at least one granted patent (with zero granted patents). The sample in column 3 (4) includes multinational (domestic) targets. The sample in column 5 (6) includes targets with repatriation tax costs (no repatriation tax costs) prior to the acquisition. The dependent variable is an indicator variable with the value of one if a target is acquired by a U.S. firm, and zero otherwise (i.e., a target is acquired by a non-U.S. firm). All regressions are estimated as linear probability models. All regressions include target industry fixed effects. We report heteroscedasticity-robust standard errors. We estimate a fully-interacted model to assess whether the coefficients on *Post* differ between subsamples (Allison, 1999). *, **, and *** represent significance levels of 0.10, 0.05, and 0.01, respectively (two-tailed).