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# The clampdown on tax inversions is only a start

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## Ever-growing offshore cash piles, endless transatlantic battles and lousy infrastructure suit no one

There are not many questions on which a man such as Tim Cook, chief executive officer of Apple, would agree with Donald Trump, the upstart Republican candidate. Corporate tax is one.

In recent years Apple, along with the rest of the tech sector, has been lobbying for a deal to enable the repatriation at a lower rate of tax of profits earned around the world and held overseas.

So far this has not produced tangible results. After all, the reason those overseas profit piles have swelled — to more than $2tn, if you count retained earnings, according to Bloomberg — is that companies such as Apple do not want to pay the 35 per cent tax they would incur on these funds.

A repatriation amnesty has been mooted but it has been repeatedly defeated by the political gridlock on Capitol Hill. Last year, for example, President Barack Obama proposed raising an additional $238bn in tax by imposing a one-off levy of 14 per cent on repatriated cash piles if they were used for infrastructure spending. This would be followed in future years by a 19 per cent tax on foreign earnings. The proposal was killed off in Congress.

But just look at how the US Treasury shocked markets this week by clamping down on corporate tax inversions, killing the $160bn Pfizer-Allergan merger. This came after a flurry of campaign rhetoric from politicians such as Mr Trump — as well as Hillary Clinton, the Democratic presidential candidate frontrunner — about the sins of inversions, mergers intended to cut a business's US tax bill by enabling it to move its headquarters to a low-tax jurisdiction such as Ireland.

So investors would do well to note that cash repatriation is a topic on which Mr Trump has also been articulate — and unusually precise. Notably, under his tax plan American companies would pay a one-off discounted rate of 10 per cent if they "bring their cash home and put it to work in America". Some of his advisers privately say this rate could be cut further — to, say, 5 per cent — if there was clear evidence of the cash being used to create jobs.

Now, it is easy to dismiss this as populist posturing. And it still seems hard to believe Mr Trump could ever reach the White House. But that is beside the point. In recent months he has shown himself to be brilliant at capturing the voter zeitgeist. And right now it looks as though the once-geeky debate over repatriation will end up squarely in the mainstream in the next year.

That might seem surprising. After all, populism is rising and angry voters do not normally like the idea of offering tax breaks to wealthy companies at such times. But if you look at the language of Mr Trump's campaign — and, increasingly, that of Mrs Clinton and Bernie Sanders, her rival for the Democractic nomination — a clear theme is becoming dominant. Talking about job creation, or the protection of US interests, is all the rage; as is the idea of a national infrastructure spending spree, comparable to the one unleashed by President Franklin Roosevelt many decades before.

So if tax repatriation is repackaged in nationalist language, those wonkish proposals that Mr Obama failed to launch might actually make more progress. Corporate America has a doubly strong incentive to back them. First, the release this week of the Panama Papers is fuelling a backlash against offshore tax havens. Second, business leaders such as Apple's Mr Cook are embroiled in bitter political fights with Brussels about whether EU states have a right to tax their overseas cash piles.

In an ideal world this is certainly not how an intelligent tax policy should be created. What the American economy needs is not on-off populist measures to ban tax inversions or repatriate overseas cash piles. When governments dictate how companies should spend money, on infrastructure or anything else, this tends to be wasteful. It would be much better to have an overarching reform package that would cut US corporation rates towards a more competitive global level (25 per cent, say) while removing the loopholes. That would remove the rationale for overseas hoarding.

But in the real world introducing a repatriation deal — even at a mere 10 per cent — would almost certainly be better than the dismal status quo: a world of ever-growing offshore cash piles, transatlantic tax battles and lousy infrastructure does not suit anybody.

Either way, the main point is this: investors would be foolish to assume that the seemingly endless logjam over tax repatriation will continue indefinitely. Populism can sometimes produce real policy surprises — and these are not always entirely bad.

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