Does Acquisition by Non-U.S. Shareholders Cause U.S. Firms to Pay Less Tax?

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1. Introduction

This paper tests whether the domicile of an acquirer affects the post-acquisition taxable income of its target. Prior studies (e.g., Grubert, Goodspeed and Swenson, 1993, and Grubert, 1999) have documented that foreign-controlled U.S. companies report less taxable income than similar companies with American shareholders. However, these studies and others (e.g., Collins, Kemsley and Shackelford, 1997) have been unable to definitively link the differences in taxes to more aggressive tax planning by foreign firms.

An inherent weakness of the settings investigated in the extant studies is that shareholder domicile cannot be randomly assigned among firms. Consequently, it is difficult to distinguish among competing explanations for the differences in taxable income. For example, if non-U.S. acquirers are relatively inept in the market for control of U.S. firms and buy “lemons” disproportionately, then foreign-controlled domestic firms (FCDCs) may pay less tax. However, the lower taxes are a consequence of poor performance, not tax management. In fact, these lemons likely have always paid less U.S. tax than competitors and would have paid less tax if an American firm had acquired them or if they had remained independent. In short, without controlling for the underlying differences between FCDCs and domestic-controlled U.S. firms, differences in taxable income may be erroneously attributed to tax planning.

This paper employs a research design that better isolates the influence of domicile on taxes. Specifically, we compare the actual corporate tax returns of U.S.-domiciled companies before and after their acquisition by foreign firms with the actual corporate tax returns of similar U.S.-domiciled companies before and after their acquisition by other U.S. firms. By conditioning on pre-acquisition taxable income, this difference-in-differences approach controls for firm-specific tax and non-tax factors that predate the acquisition, enhancing the power of our tests to assess whether taxes vary between foreign and domestic shareholders.

Among the 1996 acquisitions in excess of $50 million, we locate corporate tax returns for 31 firms that were acquired by non-U.S. shareholders. We then match these foreign-controlled firms with 31 targets of similar size, industry, and compensation (stock-for-stock versus cash purchase) that were acquired by U.S.-domiciled firms. We compare target taxable income in the two years preceding the acquisition (1994 and 1995) to the two years following the acquisition (1997 and 1998). We find that taxable income increased following acquisition for both foreign firms and domestic firms, a finding likely attributable to increased corporate profitability in the late 1990s. However, contrary to claims that foreign acquisitions lead to lower tax revenues than domestic acquisitions, we find that the increase in taxable income for foreign firms exceeds the increase in taxable income for domestic targets, although the difference is not statistically significant at conventional levels.

Besides the scholarly contribution concerning the role of taxes in international business and the market for corporate control, this paper also should interest policymakers. Recent Congressional hearings and debates both in and out of the government have asserted that foreign firms have developed unspecified tax avoidance strategies that undermine capital import neutrality.[1] For example, during Daimler-Benz's 1998 acquisition of Chrysler, government officials (e.g., Leblang, 1998) charged that Chrysler would pay less U.S. tax after its acquisition because the acquirer was foreign-domiciled. The findings in this paper imply that the change in tax payments would have been approximately the same if the acquirer had been General Motors,

[1] Capital import neutrality is the principle that U.S. investment faces the same American tax burden whether undertaken by U.S. or foreign investors.

Ford, or another American firm. In short, we find no evidence to support claims that foreign acquisitions result in disproportionate tax reductions compared with domestic acquisitions.

The reminder of this paper is organized as follows. The next section reviews the prior research concerning shareholder domicile and taxes. Section 3 details the sample selection. The subsequent three sections discuss the empirical findings. Closing remarks follow.

2. Extant Studies

To our knowledge, only one study, its extension, and a test of its implications have directly investigated the proposition that the domicile of the parent affects the taxable income of its subsidiary, using actual corporate tax returns.[2] Grubert, Goodspeed, and Swenson (GGS, 1993) examine U.S. corporate tax returns from 1980 to 1987 and find that FCDCs report lower levels of taxable income than domestic-controlled companies. They also report that the taxable incomes of FCDCs persist around zero for many years. Both findings are consistent with foreign-controlled U.S. companies avoiding taxes more than other U.S. companies.

GGS report that half of the difference between taxable income is attributable to observable non-tax factors, such as exchange rate fluctuation, firm size, and age. The remaining half cannot be assigned to any observable factor. The unaccounted portion may arise because of transfer pricing or other manipulation of FCDC's U.S. taxable income. Alternatively, non-tax reasons could explain the difference. For example, foreigners may be disadvantaged in the market for corporate control, accept lower returns to garner market share, or encounter more unanticipated losses.

[2] Kinney and Lawrence (2000) also investigate this research question, but they are severely constrained by data limitations. Lacking access to actual tax returns, they compare financial statement disclosures for publicly-traded U.S. firms with 10 to 50 percent foreign ownership with other publicly-traded U.S. firms. For a more general review of the research in this area, see Collins and Shackelford's (1999) discussion of taxes and cross-border

Grubert (1999) confirms that the GGS inferences hold for the period from 1987 to 1993. Besides the issues evaluated in GGS, Grubert (1999) considers significant, minority shareholdings (25-50%) by foreigners, transactions with offshore affiliates, different types of income, and alternative econometric specifications. One new finding is that FCDCs (most of which are 100 percent foreign-owned) exhibit similar levels of profitability as 25 to 50% foreign-controlled domestic firms.

Collins, Kemsley and Shackelford (CKS, 1997) attempt to link the GGS and Grubert (1999) findings that FCDCs' persist around zero taxable income to transfer price manipulation. They examine the U.S. tax returns of FCDC wholesale traders from 1981-1990, a sector whose production function is relatively simple and whose companies can manipulate taxable income by managing the prices between the foreign manufacturer and the U.S. distributor. CKS hypothesize that if FCDCs are managing taxable income, then sales (determined by external markets) and cost of goods sold (determined by internal prices) should decouple. When the distributor's U.S. taxable income rises above (falls below) zero, then the foreign parent increases (decreases) the costs of inventory. Contrary to this prediction, CKS find that the relations between sales and cost of goods sold in the tax returns of foreign-owned U.S. wholesalers maintaining near-zero taxable income do not differ from the relations found in the financial statements of other companies. CKS conclude that at least for wholesalers and inventory purchases, the GGS-documented persistence around zero taxable income cannot be linked to transfer pricing management. The failure to detect manipulation raises doubts about whether tax management explains GGS and Grubert's (1999) unaccounted differential.

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investments and for an even broader perspective, see Hines' (1997) and Shackelford and Shevlin's (2001) reviews of multinational tax research.

This paper attempts to determine whether the unexplained differences in taxable income identified in GGS and Grubert (1999) can be linked to the intervention of foreign shareholders in American corporations. Rather than comparing a large set of FCDCs with domestic-controlled firms that may differ along many facets, other than shareholder domicile, we carefully construct a matched sample of firms, similar along multiple dimensions before their acquisitions. We then compare their taxable income before their acquisition to their taxable income following their acquisition. Finally, we compare the changes in taxable income pre- and post-acquisition to assess whether the change in taxable income differs between foreign targets and domestic targets.

3. Sample

Using *Mergers and Acquisitions*, we identify 99 acquisitions in 1996 in which the acquirer is either domiciled outside the U.S. or held by shareholders who are domiciled outside the U.S. and the acquisition price exceeds $50 million.[3] We then attempt to locate the corporate tax returns of the targets of these foreign acquirers.[4] After conducting an exhaustive search of target tax returns, we drop 11 acquisitions because the target was already owned by a foreign parent, 10 because the target was acquired through a tax-free spinoff, six because the target return could not be located, five because the target is liquidated after the acquisition, and three

[3] We chose 1996 because when we began the study, corporate tax returns for years 1994 through 1998 were available on microfilm in the Statistics of Income's Washington, D.C. headquarters. By choosing 1996, we had access to multiple years before and after the acquisition. On an unrelated note, we further confirm that the shareholder is non-U.S. if Schedule K, line 7 of the U.S. corporate income tax return (Form 1120) is answered affirmatively. That question reads, "At any time during the tax year, did one foreign person own, directly or indirectly, at least 25% of (a) the total voting power of all classes of stock of the corporation entitled to vote or (b) the total value of all classes of stock of the corporation?" The question further requests the percentage owned and the owner's domicile.

[4] The authors have an assignment agreement under the Intergovernmental Personnel Act of 1970 between their employer and the IRS' Statistics of Income division. The agreement permits them access to actual corporate tax returns. They are subject to the same confidentiality requirements that bind IRS personnel.

because Internal Revenue Code section 338 was elected. Another 28 acquisitions are excluded from the study because the target was a subsidiary or division of another company. By limiting the sample to pre-acquisition, stand-alone firms, the pre-acquisition period avoids the measurement error associated with segregating a member firm from its consolidated group.

The remaining 36 foreign acquisitions are matched to similar domestic acquisitions in 1996. To have a match, four conditions must hold: First, the acquisition price of the domestic price must lie within a range from 50 percent to 150 percent of the foreign target's acquisition price. Second, if the foreign target is acquired using cash (stock), then the domestic match must be a cash (stock) deal. Three-quarters of the acquisitions are taxable cash purchases; the remainder is tax-free, stock-for-stock exchanges. Third, the foreign target and its domestic match must share the same one-digit SIC. Seventeen targets are manufacturers (SICs 2 and 3). Six are in the trade industry, SIC 5. Five are financial services firms in SIC 6. The remaining three firms are scattered across other SICs. Fourth, as with the foreign targets, all domestic targets must be pre-acquisition, stand-alone firms, again avoiding the measurement error associated with segregating a member firm from its consolidated group. Five foreign acquisitions are sufficiently distinctive that no match could be identified, leaving a final sample of 31 foreign acquisitions and their 31 domestic counterparts.

Unfortunately, we cannot avoid consolidated tax returns for the post-acquisition period. Most targets do not file in stand-alone, post-acquisition returns. Thirty (97 percent) domestic targets are included in their acquirer's consolidated group. Sixteen (52 percent) foreign targets are included in their acquirer's consolidated group.[5]

[5] The utilization of pre-acquisition net operating losses is complex and beyond the scope of this paper. However, the governing provisions (separate return limitation years rules and Section 382 loss limitation rules) can disadvantage post-acquisition, stand-alone, foreign-controlled firms, compared with the other firms in our sample. Thus, ceteris paribus, we would expect fewer firms with substantial, pre-acquisition net operating loss carryforwards to be

To obtain the post-acquisition tax data for the targets that are not stand-alone firms requires poring through detailed, supporting statements in acquirers' consolidated tax returns, which may consist of thousands of pages. By matching on employer identification numbers, we identify the portion of the consolidated groups' income and expenses attributable to the target firm. Taxable income is allocated across member firms in the consolidated group, but the actual tax liability is not allocated. General tests of reasonableness (e.g., comparing taxable income from the stand-alone, pre-acquisition target to the consolidated, post-acquisition target) and the fact that taxable income is a key measure in the tax return provide some assurance that the taxable income figure extracted from the consolidated statements is a reliable measure. We are less confident in more peripheral components of the tax return (e.g., total assets) because the data are typically before intra-group eliminations.

The laborious collection of data from the detail of large consolidated returns (involving several hundred man-hours) limits the sample size.[6] The scope of this study is further limited because the data in this study generally are neither available in computer-readable form nor easily located in a manual search through microfilm at the Internal Revenue Service. The time expended to collect these data (all research must be conducted on IRS premises) and the delay

purchased by non-U.S. shareholders outside of a consolidated group. Although the difference-in-differences approach in the empirical tests should control for such pre-acquisition differences, we are further assured by the failure to find that the amount of net operating losses carryforwards for the 15 post-acquisition, stand-alone, foreign targets are significantly less than for the other foreign targets or for the other targets, foreign and domestic. We would also expect that such firms would have greater incentives to generate taxable income and utilize their pre-acquisition net operating loss carryforwards. Unfortunately, the difference-in-differences approach is unable to control for this post-acquisition tax incentive, which biases against finding that FCDCs pay report lower taxable income following an acquisition. However, when we repeat the empirical analysis, excluding the four matches with stand-alone foreign firms, who have pre-acquisition net operating losses, inferences are unaltered. In short, the complex rules concerning pre-acquisition net operating losses do not appear to have a material impact on the findings in this study.

[6] Although the data extraction for sample firms is a nontrivial exercise, the greatest time is expended searching multiple possible returns for targets, particularly those whose post-acquisition outcome is uncertain. Our intention was to minimize the number of targets for whom we could not determine their eventual status. Of the original population of 99 foreign targets, we never located 6 firms.

associated with waiting for another year of tax returns precludes low-cost expansion of the sample.[7]

4. Descriptive Statistics

The mean (median) purchase price for the foreign deals is $837 million ($315) with a standard deviation of $1013 million.[8] The domestic matches are slightly smaller with a mean (median) purchase price of $585 ($258) million and a standard deviation of $797 million.

The foreign acquirers hail from a diverse set of countries. Eight are domiciled in the United Kingdom; five in the Netherlands; three each in Ireland and Japan. The remainder is spread across ten countries.

Table 1 provides descriptive statistics collected from the corporate tax returns of both targets and acquirers. Data are averaged across the two tax years before acquisition (1994 and 1995), summed across the two tax returns during the year of acquisition (1996) and averaged across the two tax years after the acquisition (1997 and 1998).[9] The mean (median) foreign target reported $1 ($4) million of taxable income (i.e., taxable income less net operating loss carryforwards and special deductions, such as the dividends-received deductions) before the acquisition on revenues of $691 million and total assets of $1,193 million.[10] Contrary to claims that taxable income falls following an acquisition, we find a post-acquisition *increase* in taxable

[7] On a more positive note, the results (detailed below) suggest that to the extent a larger sample would simply add power to the tests, inferences concerning the alternative hypothesis that foreign domicile reduces U.S. taxes would not change. On the other hand, as with all empirical research, if the sample is not representative of the population (a conjecture for which we have no support) and additional years of data would rectify the bias, then a larger sample would be fruitful.
[8] Throughout the study, the median observation refers to the mean of the three observations lying in the center of the distribution. This modification is required to meet IRS confidentiality standards.
[9] The target's 1996 activity is included in two tax returns: the final, "short-year" return for the pre-acquisition, stand-alone target and the acquirer's consolidated tax return, in which the target is included for only the post-acquisition period.

income by foreign targets. Mean (median) taxable income increased to $20 ($6) million with sales of $796 and total assets of $1,270. However, this increase is likely attributable to a general rise in corporate profits during the 1990s and thus this finding may not extrapolate to other periods.[11]

Domestic targets show a similar increase in taxable income after acquisition. Pre-acquisition, domestic targets report mean (median) taxable income of $11 ($5) million on sales of $1,040 millions and total assets of $3,526 million. Post-acquisition, domestic targets report mean (median) taxable income of $40 ($5) million with sales of $369 and assets of $1,134.[12]

Table 1 indicates that domestic acquirers are substantially larger than foreign acquirers with mean pre-acquisition revenue (assets) [taxable income] of $7.3 ($16.7) [0.4] billion compared with $2.5 ($3.0) [0.1] billion for foreign acquirers. However, the comparison is misleading. Most foreign acquirers in this study are U.S. holding companies. In several cases, the size of the ultimate foreign parent is substantially larger than the amounts reported for its U.S. holding company.

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[10] The SOI truncates taxable income (line 30) at zero. To recognize the full extent of net operating losses and special deductions, we define taxable income, as taxable income before net operating losses (line 28) less net operating losses (line 29a) and special deductions (line 29b).

[11] One measure of profitability is the Department of Treasury's total corporate net income, when approximates taxable income from all C, S, limited liability and other corporate tax filings. The corporate net income per return rose from $133 thousand in pre-acquisition 1994 to $194 thousand in post-acquisition 1997, the last year for which data are available. Another measure of profitability is the gross domestic product. The Department of Commerce report that during the pre-acquisition period (1994 and 1995), GDP grew 11.4 percent. During the post-acquisition period (1997 and 1998), GDP grew at 12.5 percent. A third measure consistent with overall corporate improvement during the investigation period is the Standard and Poor's 500 index. During the pre-acquisition period from January 1, 1994 through December 31, 1995, the index increased 32 percent from 466 to 616. During the post-acquisition period from January 1, 1997 through December 31, 1998, the index rose 66 percent from 741 to 1229. To the extent, taxable income and the equity markets are correlated, the strength of the corporate sector during the post-acquisition period could explain the increased taxable income post-acquisition.

[12] Note that mean revenue and total assets fall considerably from the pre-acquisition period to the post-acquisition period while median revenue and total assets change little. The sizable decline in mean sales for the domestic targets is attributable to eliminations in the consolidated, post-acquisition statements for a few large targets. The decline in total assets relates to the liquidation of inactive subsidiaries for a few large firms. For these and other reporting discrepancies in the components and supporting statements of the corporate tax returns, we place limited reliance on specific items in the corporate tax return (other than taxable income itself) and as discussed below, scale taxable income in the empirical tests by a figure unaffected by these possible inconsistencies, the acquisition price.

Table 1 also presents target tax return data from 1996, the year of the acquisition, for completeness. However, these figures should be interpreted with caution. Besides aggregating two tax returns (the target's final "short-year" return and its portion of the acquirer's 1996 consolidated return), 1996 includes non-recurring, acquisition-related income and expenses that may distort the firm's long-term, post-acquisition tax position. Thus, the remainder of the empirical analysis focuses solely on the years before and after the acquisition.

5. Comparison of Changes in Taxable Income for Foreign and Domestic Targets

Table 2 presents the primary findings in this study. To compare firms of different size, we scale taxable income by the target's acquisition price. The purchase price has at least two advantages, compared with tax return data, such as revenue or total assets. First, the acquisition price is a market price, unaffected by incentives to manage the tax return. Second, unlike sales and total assets, which are not provided in a few firms' tax returns and may be accounted for differently because the preparers of the pre- and post-acquisition tax returns differ, the acquisition price is available for every target and not subject to preparer discretion.

For the foreign targets, the mean (median) taxable income post-acquisition is 4.03 (3.11) percent of the acquisition price, which is significantly greater than zero with a *t*-statistic of 2.84.[13] This compares with 0.78 (2.43) percent before the acquisition, which is not significantly different from zero.[14] The mean increase in taxable income of 3.25 percent is not significant at conventional levels (*t*-statistic of 1.56).

[13] This *t*-statistic assumes all observations are independent. Since each of the 31 foreign targets are represented twice in the post-acquisition period (1997 and 1998), the assumption of independence may be violated. However, the *t*-statistic remains significantly greater than zero, if only 31 observations are independent.
[14] The pre-acquisition distribution is skewed to the left because a few corporations have unusually large taxable losses.

As noted above, domestic targets also experienced an increase in taxable income. The mean (median) taxable income for the domestic targets after the acquisition is 3.18 (2.92) percent of the acquisition price, which is significantly greater than zero with a *t*-statistic of 2.99. This is up from 2.33 (2.11) percent before the acquisition, which is marginally significantly greater than zero (*t*-statistic of 1.79). As with the foreign targets, the mean increase of 0.85 percent around the acquisition is not significant (*t*-statistic of 0.38).[15]

A *t*-test of the mean differences between taxable income for the foreign targets and taxable income for the domestic targets reveals a statistically significant difference during neither the period before nor the period after the acquisition (*t*-statistics of 0.31 and –0.63, respectively). Given the similarities in taxable income for the two groups during the two periods, it is not surprising that the increases after the acquisition for the foreign targets are not significantly different from the increases for the domestic targets (*t*-statistics of 0.74).[16] Using a non-parametric comparison, the foreign targets experienced a greater increase (or smaller decrease) in taxable income (scaled by the acquisition price) in fifty-five percent of the matches, a percentage that is insignificantly different from half. Furthermore, results are robust to the exclusion of any matched pair from the analysis.

To summarize, median taxable income before and after acquisition is similar for both foreign and domestic targets. The mean foreign target records a larger increase in taxable income after the acquisition, but the difference is not significantly different from zero. These findings are consistent with shareholder domicile not being a determinant of taxable income.

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[15] The changes for the firms experiencing the largest swings in taxable income are also similar. Untabulated results show that the three foreign targets with the largest increase in taxable income rose 11 percent, on average, compared with 17 percent for the domestic targets. The three foreign targets with the largest decrease in taxable income fell 26 percent, on average, compared with 23 percent for the domestic targets.

[16] Results are qualitatively unaltered when the sample is limited to matched pairs where both foreign and domestic targets have positive taxable income during both the pre- and post-acquisition periods.

The results in this study suggest that if FCDCs report lower taxable income than U.S.-controlled domestic firms, the difference does not arise until more than two years following the acquisition.

6. Regression Analysis

Even though the preceding results indicate similar post-acquisition increases in taxable income for a matched sample of foreign and domestic targets, it is possible that the comparison in the preceding section is flawed because it omits an important distinction between the two groups. To mitigate such possibilities, we regress the changes in taxable income (as a percentage of the acquisition price) for both foreign and domestic targets on various, potential variants. To no surprise, the regression analysis supports our inference that the sample's taxable income does not differ with stockholder domicile.

The variable of interest in the regressions indicates that the firm is a foreign target. Its coefficient is never significantly different from zero. It remains insignificant even when the regression includes interactions of this categorical variable with the other regressors. Besides including the variable of interest (i.e., foreign target), the other regressors include measures that were collected from the tax returns, such as:

- measures of size for both target and acquirer, including intangible and total assets, revenue, and gross income,
- measures of leverage, including interest expense, debt, and debt-to-asset ratio,
- age of the target,
- a categorical variable distinguishing cash and stock acquisitions,
- a categorical variable indicating manufacturing targets,
- a categorical variable indicating that the acquisition price exceeds the median firm's acquisition price,
- a categorical variable for targets acquired by U.K. firms.

Although the coefficients for a few of these variables are statistically significant in certain specifications, the categorical variable denoting foreign domicile of the acquirer is never significant at conventional levels regardless of the mixture of regressors, providing further confirmation that taxable income does not vary with the shareholder's domicile.

7. Conclusion

This study employs a difference-in-differences approach to overcome research design limitations that have potentially prevented prior studies from linking U.S. corporate taxable income to a shareholder's domicile. We compare taxable income, before and after 1996 acquisitions, for a carefully constructed sample of 31 matched pairs of firms, half acquired by foreign-controlled companies and half acquired by American-controlled firms. Contrary to both claims in the business and popular press that foreigners pay less tax and reasonable inferences from prior studies (e.g., Grubert, Goodspeed and Swenson, 1993, and Grubert, 1999), we find no evidence that taxable income declines more after a non-U.S. shareholder acquires a U.S.-domiciled firm than after a U.S. shareholder acquires a U.S.-domiciled firm. In that regard, this study is similar to Collins, Kemsley and Shackelford (1997) who also were unable to link aggressive tax avoidance to foreign-controlled firms using a unusually powerful research setting. We infer from this study that either the tax avoidance of foreign firms, compared with domestic firms, have been exaggerated or that the avoidance strategies are of such a subtle nature to escape a detailed analysis of corporate tax filings.

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Table 1

Descriptive Statistics (millions $)

	Foreign Targets								
	Before Acquisition			Year of the Acquisition			After Acquisition		
	1994 & 1995			1996			1997 & 1998		
	Mean	Median	Std Dev.	Mean	Median	Std Dev.	Mean	Median	Std Dev.
Revenue	691	383	881	759	452	1,114	796	326	1,144
Gross Income	256	95	391	315	121	493	301	123	438
Taxable Income before NOL	6	7	92	23	5	104	48	9	144
Taxable Income	1	4	90	(36)	0	196	20	6	194
Tax after credits	6	1	12	n/a	n/a	n/a	n/a	n/a	n/a
Book Income	17	5	88	50	3	258	25	6	113
Intangible Assets	69	4	216	235	17	513	358	23	705
Total Assets	1,193	311	2,835	1,157	417	1,945	1,270	430	2,587
Stockholders Equity	408	98	802	436	127	923	557	129	1,366

	Foreign Acquirers								
	Before Acquisition			Year of the Acquisition			After Acquisition		
	1994 & 1995			1996			1997 & 1998		
	Mean	Median	Std Dev.	Mean	Median	Std Dev.	Mean	Median	Std Dev.
Revenue	2,512	792	3,410	2,749	958	4,016	3,258	1,508	4,717
Gross Income	962	207	1,319	54	16	132	1,485	881	1,884
Taxable Income before NOL	57	25	78	42	13	176	153	17	526
Taxable Income	52	24	73	30	12	149	126	7	524
Tax after credits	14	9	17	14	5	31	52	4	170
Book Income	66	19	104	99	8	271	129	11	273
Intangible Assets	564	62	1,148	1,486	770	1,870	1,250	340	1,692
Total Assets	3,005	1,041	3,573	4,085	2,030	4,913	5,729	3,051	6,362
Stockholders Equity	1,074	386	1,413	1,456	327	2,557	2,394	401	3,315

Table 1, continued

	Domestic Targets								
	Before Acquisition			Year of the Acquisition			After Acquisition		
	1994 & 1995			1996			1997 & 1998		
	Mean	Median	Std Dev.	Mean	Median	Std Dev.	Mean	Median	Std Dev.
Revenue	1,040	200	3,784	415	308	417	369	179	390
Gross Income	306	89	940	260	129	559	281	70	819
Taxable Income before NOL	15	7	71	(6)	3	134	49	5	178
Taxable Income	11	5	68	(12)	2	133	40	5	169
Tax after credits	9	2	20	n/a	n/a	n/a	n/a	n/a	n/a
Book Income	20	9	172	16	4	92	40	3	141
Intangible Assets	72	4	189	59	5	109	68	1	134
Total Assets	3,526	258	16,960	1,085	240	3,630	1,134	275	3,540
Stockholders Equity	536	95	1,980	374	109	874	448	152	1,128

	Domestic Acquirers								
	Before Acquisition			Year of the Acquisition			After Acquisition		
	1994 & 1995			1996			1997 & 1998		
	Mean	Median	Std Dev.	Mean	Median	Std Dev.	Mean	Median	Std Dev.
Revenue	7,339	1,686	23,048	7,729	2,315	20,854	9,808	2,937	24,210
Gross Income	3,012	599	7,474	4,024	699	10,442	5,702	966	13,687
Taxable Income before NOL	410	84	716	530	117	892	700	82	1,350
Taxable Income	387	84	697	501	99	863	664	82	1,311
Tax after credits	88	28	143	109	31	172	168	28	310
Book Income	415	89	748	712	79	1,578	867	69	1,873
Intangible Assets	282	38	515	443	135	692	741	155	1,349
Total Assets	16,742	1,120	39,223	27,026	1,277	69,895	55,795	1,949	176,669
Stockholders Equity	4,777	713	8,444	6,783	752	15,331	11,457	1,241	26,780

Table 2

Comparison of Taxable Income, Scaled by Acquisition Price, for a Matched Sample of 31 Foreign and Domestic Targets from 1996 (expressed as percentages)

	(1)				(2)				(1)-(2)			
	After Acquisition				Before Acquisition				Increase			
	1997 & 1998				1994 & 1995				1997 & 1998 less 1995 & 1996			
Taxable Income / Acquisition Price	Mean	Median	Std Dev	*t*-stat	Mean	Median	Std Dev	*t*-stat	Mean	Median	Std Dev	*t*-stat
Foreign	4.03	3.11	11.17	2.84	0.78	2.43	7.06	0.87	3.25	0.80	11.61	1.56
Domestic	3.18	2.92	8.37	2.99	2.33	2.11	10.27	1.79	0.85	0.38	12.41	0.38
t-test of means	0.31				-0.63				0.74			