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Editorial

## Postcards From a Tax Holiday

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PepsiCo recently followed in the footsteps of Hewlett-Packard, Pfizer and other big American corporations by initiating layoffs - even as it takes advantage of a huge tax break that was supposed to generate cash for hiring.

The tax break, passed by Congress last year as part of the American Jobs Creation Act, lets American companies bring foreign-held profits back to the United States this year at a discount of up to 85 percent off the normal tax rate. So far, nearly 100 companies have announced repatriations totaling more than \$200 billion, all of which will be eligible for the cut-rate of 5.25 percent, instead of the usual top rate of 35 percent. As its critics warned at the outset, the so-called tax holiday has proved to be a bigger gift to shareholders than to employees and job seekers.

PepsiCo, for instance, plans to give pink slips to 200 to 250 employees in its Frito-Lay unit a few weeks before Christmas. The company expects that the severance payments for laid-off workers and other belt-tightening measures will cost up to \$85 million in 2005. But the company will save several times that amount in taxes this year by repatriating up to \$7.5 billion in profits it has stashed abroad. So in effect, the Frito layoffs, like those at other companies with repatriated profits, are supported by taxpayers.

And that's not the only way that investors benefit from the tax holiday that was billed as a way to create more




opportunities for workers. A recent report in The Wall Street Journal documented that even as American companies were repatriating huge sums under the cut-rate regime, they were using more cash than ever to buy back their own stock. Reducing the number of shares outstanding gives each remaining shareholder a bigger ownership stake in the company. Hewlett-Packard has announced a repatriation of \$14.5 billion, layoffs of 14,500 workers and stock buybacks of more than \$4 billion for the first half of 2005, about three times the size of its buybacks in the period a year earlier.

Since stock repurchases are not a legal use of repatriated funds, companies are claiming that the convergence of big buybacks and huge repatriations is a mere coincidence. Be that as it may, Congress wrote the law in a way that gives companies tremendous leeway to them spend profits as they fit.

Companies cannot be blamed for doing whatever is allowed to cut taxes, increase profits and reward shareholders. The real villains are members of Congress who use phony labels like "job creation" - and, more recently, "economic growth" - to justify excessive tax cuts that increasingly serve to concentrate wealth among the few.

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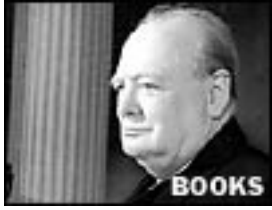
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