REQUIRED: Answer the following six questions concerning the repatriation of foreign earned income. The case is worth 25 points and is to be worked on and completed by each student. You may discuss the case with other students but the final write-up of the case should be your own work. In cases in which two or more students work appears similar, each student will receive half of the overall score. You should hand in a 2 to 3 page typed solution to the case.

Grading is based on a 25 point scale with the following criteria taken into account:

a. Content - clearly stated purpose, logical development, supported conclusions, appropriate references
b. Organization – for each question adequate introduction, body and conclusion, good topic sentences and paragraphs
c. Style-Language Use - concise, correct and precise word choice, clear meaning
d. Style-Mechanics - proofread, polished, correct grammar, punctuation, spelling

Summary: The case requires you to answer six questions concerning a specific issue of deferred taxation, namely the accounting treatment of foreign earned income. Attached is an article from the Wall Street Journal to help you gain some basic understanding of the subject. However, this article alone will not be enough to answer the six questions. The article discusses how much some companies are repatriating, and what they are doing with the funds, and the tax change that was designed to encourage repatriation of foreign earnings.

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Question 1: What does it mean to “repatriate foreign profits”? Is this new “cash” that companies are obtaining? How much foreign income was repatriated in all of 2005? What tax law change encouraged corporations to repatriate earnings?

Question 2: What was the reason that lawmakers enacted tax relief to encourage repatriation of profits?

Question 3: Currently, what are the two proper methods of accounting the taxes associated with foreign earned income? What accounting standard requires this treatment?

Question 4: Why did PepsiCo Inc.’s third quarter profit “get hammered” by the companies repatriation of earnings? In your answer, identify how quarterly financial reports must present unusual items that affect earnings.

Question 5: Bruce Kasman, head of economic research at J.P. Morgan Chase, is quoted in the article discussing effective tax rates on these repatriated funds. Define the terms effective tax rates and statutory tax rates. What are these rates on the earnings repatriated under this year’s tax law?

Question 6: An accounting analyst at Bear Stearns says “since cash is fungible, there’s really no way to track it [the ultimate effects of this incentive to repatriate earnings].” On the other hand, economist Allen Sinai and Daniel Clifton, executive director of American Shareholders Association, argues that there are ways to observe the ultimate effects of this tax incentive to repatriate earnings. Which view do you believe is correct? Support your answer, including addressing points in favor of the opposing side of your argument.