The greater is the fraction of a firm’s cash held overseas, the lower shareholders value that cash. This goes beyond a pure tax effect—the repatriation tax friction disrupts the firm’s internal capital market, distorting its investment policy. Firms underinvest domestically and overinvest abroad. Our findings are more pronounced when firms are subject to higher repatriation tax rates, higher costs of borrowing, and more agency problems. Overall, our evidence suggests that a combination of taxes, financing frictions, and agency problems leads to a valuation discount for foreign cash and documents real effects of how foreign earnings are taxed.

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