

Pfizer Contemplates Benefits Of Becoming Behemoth For Tax Purposes

By David Gomez, J.D. Candidate 2018 | November 9, 2014

Pfizer has recently engaged in talks to purchase Allergan. This deal would be the one of the largest in a year of large deals—Pfizer and Allergan combined would amount to over a \$330 billion market valuation. In the proposed scenario, these two large pharmaceutical companies would combine for the purposes of an [inversion deal](#).

An inversion deal is a transaction used by a company where it becomes a subsidiary of a new parent company in a different country for the purpose of falling under more beneficial tax laws than it had in its previously domiciled country. In this case, Pfizer would like to pay the lower taxes in Ireland, where Allergan is currently domiciled, instead of the tax rate of the United States where it is currently domiciled.

Pfizer attempted a similar deal with [AstraZeneca](#) last year but ultimately failed to close a deal due to disagreements over pricing. That deal spurred some changes by lawmakers responding to protest and heavy criticism from American citizens. The United States Treasury heavily tightened guidelines regulating inversion deals, but the current CEO of Pfizer, Ian Read, believes that there is still the possibility of inversion in the current climate using Allergan. Read has been very public regarding his contempt for the heavy corporate tax rates in the United States and believes it justifies the path that he intends to take. He believes that the higher tax rate puts his company at a disadvantage with foreign competitors and that buying up one of those foreign competitors is the solution. Currently, Pfizer has a 25% corporate tax rate in the United States, while Allergan pays about 5%. If Pfizer was successfully able to claim domicile in Ireland they would be able to have the same effective tax rate Allergan currently enjoys.

Critics of the inversion claim that it's a cheap attempt by the corporation to avoid paying its fair share in taxes. One such critic is Carl Icahn. Icahn is a billionaire investor and hedge fund manager who has been critical of the use of inversion deals to skirt taxes while continuing to take advantage of the United States' resources. He recently wrote a [letter](#) to United States Senators and Congressmen urging them to pass regulations that would prevent deals of this nature because of their detrimental nature to the tax yield and economy of the United States. Regarding the possibility of these deals becoming commonplace, Icahn wrote saying, “[t]he imminent planned exodus of many of our best companies is extremely dangerous, especially in our fragile economy, as it will cause the loss of thousands of jobs, as well as hundreds of billions of dollars of future tax revenue and investment in the United States.”

Icahn's words evoke fear of imminent economic dilemma. The fact that a company like Pfizer, part of United States history since being born here in 1849, could manipulate business deals to be able to claim domicile abroad is dangerous. Pfizer has benefited greatly from the United States in the past and continues to do so today. Moving its headquarters to evade taxes feels unfair and inappropriate to Icahn. Charles Tiefer of Forbes calls the move, “[greedy, sleazy and unpatriotic.](#)” He points out the fact that Pfizer continues to, “make much of their sales from Medicare,

Medicaid, and other taxpayer-funded government health care programs, pharma companies take much fuller advantage of the Treasury than the average company does.”

Whether or not this particular deal goes down, many are calling on Congress and the President to limit this type of business activity. They contend that companies should not be able to utilize the benefits, talent and resources of a country without giving back their fair share in taxes. This is especially relevant in the case of Pfizer who benefits particularly from government contracts in a lot of their dealings and is an unquestionably historically American company.