

Pfizer and Allergan to Merge in \$160 Billion Deal

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On November 23, 2015, pharmaceutical giant Pfizer, Inc. announced a \$160 billion merger [deal](#) with Allergan Plc that will create the world's largest drug maker by sales, keeping pace with the [unprecedented surge](#) in healthcare mergers and acquisitions in 2015.

The combined entity will be renamed Pfizer Plc and its headquarters will be in Ireland, where the corporate tax rate is 12.5 percent, compared to 35 percent for a comparably sized company in the U.S. Post-merger, Pfizer shareholders are expected to own about 56 percent of the combined company, with the remaining 44 percent owned by Allergan shareholders. Expected to close in the latter half of 2016, the transaction is subject to certain closing conditions, including receipt of regulatory approvals in the U.S. and the European Union and the receipt of Pfizer and Allergan shareholders' votes.

This maneuver bears a functional resemblance to corporate tax inversions, which involve transactions where a U.S. corporation merges with a foreign company resulting in a foreign-owned company on paper while leaving its domestic operations untouched. In other words, corporate inversions are a means for corporations to downsize their tax bills by offshoring their legal residence to jurisdictions with lower tax rates.

The enormous gap between corporate tax rates in the U.S. and the rest of the world incentivizes U.S. multinationals to follow Pfizer's example. Despite attempts of President Obama and the Democrats to overhaul the tax code to prohibit inversion look-a-likes, the Republican-controlled Congress is yet to hear the bills proposed in the House and the Senate last year. In the absence of Congressional action, the effectiveness of the [Treasury Department's new technical rules](#) limiting the ability of U.S. corporations to acquire foreign firms to avoid corporate taxes is anybody's guess.