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New Treasury Rules End Pfizer-Allergan Merger Plans

By Kevin Castillo, J.D. Candidate 2017 | April 14, 2016

On April 6, 2016, U.S. pharmaceutical firm Pfizer abandoned its $160 billion planned merger with its Irish counterpart Allergan. The two companies called off what would have been the largest merger in the pharmaceutical sector after the U.S. Treasury announced new rules restricting tax-avoiding "inversions."

An inversion is a corporate strategy to lower a company's tax burden by moving its U.S. corporate headquarters to another country with lower corporate tax rates. The U.S. corporate tax rate is currently 35 percent—the highest among developing countries. Ireland, by comparison, has a tax rate of only 12.5 percent. Most U.S. corporations invert overseas by merging with a smaller foreign company and moving overseas, which is exactly what New York-based Pfizer sought in merging with Dublin-based Allergan. Pfizer stood to save over $35 billion in taxes by relocating to Ireland.

President Barack Obama called the corporate maneuver one of the "most insidious tax loopholes out there," and commended the new U.S. Treasury rules aimed at curtailing the corporate practice.

To reap the full tax benefits of an inversion, shareholders of the former U.S. company should own less than 60 percent of the newly combined foreign company. When calculating the size of the new company, the new Treasury rules would exclude any mergers with U.S. companies done in the past three years.

For companies like Allergan, which made significant deals with U.S. companies in the past three years, this new three-year rule made the Dublin-based company "too small to be Pfizer's inversion partner."

After the failed deal, Pfizer agreed to pay Allergan a $150 million break-up fee.