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### **Tax Inversion: Background**

Walgreens, an Illinois-based pharmacy chain, is considering renouncing its U.S. corporate citizenship after its merger with Switzerland-based pharmacy chain Alliance Boots is finalized.<sup>1</sup> This move would be just one example of the growing trend of corporate restructuring known as tax inversion or foreign reincorporation. This process occurs when a U.S.-based corporation purchases a foreign, usually smaller, corporation. Then, the U.S.-based company typically merges with the foreign company and reincorporates as a new company in that non-U.S. country, often to take advantage of that country's lower corporate taxes.<sup>2</sup> Interestingly, under existing law, U.S. stockholders of the former company can still own as much as 79 percent of the shares of the new company, meaning that it is essentially a U.S.-owned company except for its place of incorporation.

Tax inversions are relatively transparent attempts by corporations to reduce their U.S. tax bills while still maintaining many of the advantages of being a U.S.-based company, including preserving access to U.S. markets and a U.S. workforce. However, while these companies wish to escape certain provisions of U.S. law, they continue to remain politically active in an attempt to influence other aspects of U.S. policy.

### **Inverted Corporations Continue to Spend on Political Activity**

The House Ways and Means Committee compiled a list of American companies that have undergone tax inversion since 1983.<sup>3</sup> According to a Public Citizen analysis of Center for Responsive Politics lobbying and campaign finance data, of the 76 companies published by the Ways and Means Committee, 29 have spent money engaging in lobbying activities since they reincorporated. Combined, those 29 companies have spent more than \$120 million on lobbying expenses. Table 1 breaks out these expenditures by industry. The Appendix lists the lobbying and PAC expenditures of all companies that have undergone tax inversions since 1983 that have made such expenditures.

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<sup>1</sup> Paul Ziobro, *Walgreen Weighs Riding Tax-Inversion Wave*, WALL STREET JOURNAL (July 15, 2014), <http://on.wsj.com/1r3N3TI>.

<sup>2</sup> Thomas L. Hungerford, *Corporate Inversions Are All About Avoiding Taxes, Congress Should Act Now*, ECONOMIC POLICY INSTITUTE (July 17, 2014), <http://bit.ly/1trurN5>.

<sup>3</sup> *List of Tax Inversions*, HOUSE WAYS AND MEANS COMMITTEE (viewed July 18, 2014), <http://1.usa.gov/1tgllkh>.

**Table 1: Post-Inversion Lobbying Expenses, by Industry, Since 1998**

<b>Industry</b>	<b>Lobbying Expenses, Post Inversion</b>
Business Services	\$56,713,771
Pharmaceuticals/Health Products	\$29,050,985
Oil & Gas	\$12,065,000
Electronics Manufacturing & Services	\$11,162,900
Miscellaneous Manufacturing & Distributing	\$7,470,000
Construction Services	\$1,900,000
General Contractors	\$1,800,000
Chemical & Related Manufacturing	\$240,000
Insurance	\$180,000
Computers/Internet	\$180,000
Other	\$100,000
Miscellaneous Energy	\$66,000
<b>Total</b>	<b>\$120,928,656</b>

Source: Public Citizen analysis of Center for Responsive Politics (<http://www.opensecrets.org/>) lobbying disclosure data. Industry designations are drawn from Center for Responsive Politics classifications. Lobbying expenses are only calculated for the companies listed by the House Ways and Means Committee. Lobbying by subsidiaries of those companies was not included in the company's total. Spending during the year the company was inverted is included in the total.

Additionally, 15 of the 76 companies maintained political action committees (PACs), which have cumulatively spent more than \$11 million on political activity since undergoing inversion. Table 2 provides a summary of PAC expenditures by industry.

**Table 2: Post-Inversion PAC Expenditures, by Industry, Since 1998**

<b>Industry</b>	<b>PAC Expenditures, Post Inversion</b>
Business Services	\$5,996,735
Pharmaceuticals/Health Products	\$1,808,112
General Contractors	\$1,768,114
Miscellaneous Manufacturing & Distributing	\$1,290,882
Electronics Manufacturing & Services	\$492,251
Oil & Gas	\$263,701
Construction Services	\$93,806
Miscellaneous Energy	\$29,276
Chemical & Related Manufacturing	\$7,300
<b>Total</b>	<b>\$11,750,177</b>

Source: Public Citizen analysis of Center for Responsive Politics (<http://www.opensecrets.org/>) political action committee data. Industry designations are drawn from Center for Responsive Politics classifications. Political action committee contributions made during the same cycle as the inversion were included.

## **Conclusion**

More and more, U.S. corporations are picking and choosing which rights they wish to maintain and which rights they want to discard. In an attempt to shed their obligation to pay U.S. taxes, many corporations are choosing to reincorporate in a foreign country. However, even after establishing their status as a foreign corporation, many corporations continue to spend significant sums of money on lobbying and politics in the United States..

Corporations choosing to reincorporate in foreign countries should be required to follow the existing stricter disclosure requirements for foreign governments and foreign political parties. Foreign corporations should not be able to exempt themselves and choose to register under the less robust disclosures under the Lobbying Disclosure Act

Congress should take swift action to pass S. 2360, the Stop Corporate Inversions Act. This legislation would lower the threshold at which foreign companies are considered “inverted” and thus treated as domestic for tax purposes. S. 2360 would reduce the threshold number that triggers the “inverted corporation” label to 50 percent ownership by previous U.S. shareholders. It also would add an additional analysis to capture as inverted those companies where management and control and significant business activities remain in the United States.

The deck is already stacked in favor of corporate interests. Let’s make sure that they cannot also pick and choose which laws apply to them.

## Appendix: List of Tax-Inverted Companies With PAC and Lobbying Expenditures

Company	PAC Money Since Inversion	Lobbying Expenses Since Inversion	Year Inverted	Industry
Accenture	\$4,035,206	\$38,326,358	2001	Business Services
Tyco International	\$1,961,529	\$18,387,413	1997	Business Services
Covidien	\$833,444	\$12,660,000	2008	Pharmaceuticals/Health Products
Tyco Electric	\$492,251	\$11,162,900	2008	Electronics Manufacturing & Services
Weatherford International	\$0.00	\$7,660,000	2002	Oil & Gas
Herbalife International	\$840,828	\$5,830,000	2002	Pharmaceuticals/Health Products
Ingersoll-Rand	\$48,500	\$3,216,000	2002	Miscellaneous Manufacturing & Distributing
Actavis / Warner Chilcott	\$30,690	\$2,691,590	2013	Pharmaceuticals/Health Products
Endo Health Solutions	\$103,150	\$2,490,000	2013	Pharmaceuticals/Health Products
Xoma	\$0.00	\$2,120,000	1999	Pharmaceuticals/Health Products
Cooper Industries	\$1,162,067	\$1,980,000	2002	Miscellaneous Manufacturing & Distributing
Nabor Industries	\$0.00	\$1,930,000	2002	Oil & Gas
Fruit of the Loom	\$80,315	\$1,904,000	1998	Miscellaneous Manufacturing & Distributing
Alkermes, Inc.	\$0.00	\$1,829,395	2011	Pharmaceuticals/Health Products
Chicago Bridge and Iron (CBI)	\$1,768,114	\$1,800,000	1996	General Contractors
Foster Wheeler	\$93,806	\$1,660,000	2001	Construction Services
McDermott International	\$263,701	\$1,275,000	1983	Oil & Gas
Jazz Pharmaceuticals / Azur Pharma	\$0.00	\$960,000	2012	Pharmaceuticals/Health Products
Transocean	\$0.00	\$700,000	1999	Oil & Gas
Noble Corporation	\$0.00	\$500,000	2002	Oil & Gas
Helen of Troy	\$0.00	\$370,000	1994	Miscellaneous Manufacturing & Distributing
Perrigo/Elan	\$0.00	\$310,000	2013	Pharmaceuticals/Health Products
Global Marine	\$0.00	\$240,000	2001	Construction Services
Tronox Inc	\$7,300	\$240,000	2012	Chemical & Related Manufacturing
Seagate Technology	\$0.00	\$180,000	2000	Computers/Internet
White Mountain Insurance	\$0.00	\$180,000	1999	Insurance
Mallinckrodt Pharmaceuticals	\$0.00	\$160,000	2009-2014	Pharmaceuticals/Health Products
Stratasys	\$0.00	\$100,000	2009-2014	Other

Source: *List of Tax Inversions*, HOUSE WAYS AND MEANS COMMITTEE (viewed July 18, 2014), <http://1.usa.gov/1n8ghiZ>. Public Citizen analyzed data provided by the Center for Responsive Politics ([www.opensecrets.org](http://www.opensecrets.org)). Lobbying and PAC expenditures begin in 1998.