Medtronic Announces Massive Deal to Lower Corporate Taxes

The announcement earlier this week that Medtronic is buying up Covidien in a $43 billion “tax inversion” deal confirms that momentum is building for more and more companies to use this strategy as a way to avoid high U.S. corporate tax rates. Medtronic, a huge medical device maker headquartered in Minneapolis, Minnesota (headquarters shown), will buy Covidien, a smaller company in the same business. Although Covidien is run out of Mansfield, Massachusetts, it has been incorporated for tax purposes in Ireland since 2009.

Once the deal is complete, a new company will emerge with a much lower income tax liability because the corporate tax rate in Ireland is just 12.5 percent compared to the United States’ 39.1 percent rate, the highest in the world. The management of both companies will remain in place and the factories will stay where they are. The only thing that will change is the name of the company — New Medtronic — and the company’s ability to keep its current stash of cash, estimated to be about $14 billion, away from Uncle Sam’s tax man.

Back in May it was estimated that 20 companies had made a similar move since 2012, but that number has been revised sharply upward: Forty-four companies have made the move, with more waiting in the wings. So far this year these “cross-border” purchases for tax purposes have totaled more than $117 billion, and that doesn’t count the largest deal, in which American pharmaceutical giant Pfizer offered to acquire British drug maker AstraZeneca for $100 billion. That deal, at present, hasn’t come together, but others have, illustrating the predictable consequences of Washington’s anti-capitalist mentality reflected in its creation of the highest corporate tax rates in the world.

Here’s a partial list of those successfully escaping Uncle Sam’s grasp in just the last few years:

- Perrigo’s acquisition of Irish biotech company Elan
- Omnicom’s merger with Netherlands-based Publicis
- Liberty Global’s purchase of Virgin Media, located in England
- McDermott International, located in Houston, is incorporated in Panama
- Foster-Wheeler, headquartered in Great Britain, is registered for tax purposes in Switzerland
- Tyco, located in New Jersey, is also incorporated in Switzerland
- Accenture moved from Bermuda to Ireland
- Actavis, located in New Jersey, has its profits taxed in Ireland
- Chiquita merged with Fyffes in Ireland

• Walgreen's recent acquisition of Alliance Boots, located in Switzerland, has stirred speculation that there will be a tax inversion there as well. And the list goes on.

Perhaps the most telling example of how distorted the U.S. corporate tax code is revolves around Covidien. In 1997, former Tyco CEO Dennis Kozlowski did one of the first tax inversions by turning his conglomerate into a subsidiary of a small Bermuda-based security firm called ADT Limited. As Howard Gleckman, writing in *Forbes*, put it: "ADT took Tyco's name. Tyco took ADT's Bermuda address. And the new firm was firmly ensconced in a tax haven."

Ten years later, Kozlowski was convicted of bilking his company out of $150 million and the new management spun off Tyco's healthcare unit into a separate company, calling it Covidien. In 2009, Covidien changed its location for tax purposes from Bermuda to Ireland while Tyco moved from Bermuda to Switzerland. Finally, just a few months ago, Tyco reregistered itself in Ireland.

All of these musical chair dances around the tax codes have raised the ire of progressives who see the vanishing tax liabilities as somehow stealing from the U.S. Treasury. A prime example is the senior senator from Michigan, Carl Levin, who said:

> It's become increasingly clear that a loophole in our tax laws allowing these inversions threatens to devastate federal tax receipts. We have to close that loophole.

Levin has offered legislation in every one of the six Congresses in which he has served to close that loophole that he says is "costing" the U.S. Treasury millions. The last time he offered his bill, he said:

> Mr. President, I am introducing today … the Stop Tax Haven Abuse Act that is geared to stop the estimated $150 billion yearly drain on the U.S. Treasury caused by offshore tax abuses.

That bill isn't likely to see the light of day for several reasons, not the least of which is that Levin is retiring at the end of this term. This being an election year, tax reform of any kind is likely to be ignored.

There's another reason, too, why any effort to change the tax law to prevent these tax inversions will come to naught. One of the most well-known crony capitalist operators in Washington, with the closest of ties to the Obama administration, is General Electric. With $110 billion of retained earnings held offshore in order to avoid U.S. taxation, any legislation would also capture taxes from GE. So, for the moment at least, the nearly $2 trillion in estimated offshore profits held by American companies is safe from taxation or confiscation.

What Congress should do, instead, is to declare a tax holiday, allowing repatriation of those funds without tax. The benefits would be enormous, including saving huge amounts of legal and accounting fees to create these tax inversion deals. It would allow upper management to concentrate on their core businesses and would make the United States more competitive.

The biggest advantage to a tax holiday, however, would be the momentum such a move would create to make such a holiday permanent. Then America would become once again the magnet for capital and talent that it used to be. Instead of punishing capital and capitalists, the tax code should reward success by allowing companies and the people who own and run them to keep their profits rather than siphoning them off into the coffers of the IRS.

Photo: AP Images

A graduate of Cornell University and a former investment advisor, Bob is a regular contributor to The

New American *magazine and blogs frequently at www.LightFromTheRight.com, primarily on economics and politics. He can be reached at badelmann@thenewamerican.com.*

Related article:

Michigan Senator Wants to Close "Tax Inversion" Loophole