Written by Bob Adelmann on May 9, 2014

# Michigan Senator Wants to Close "Tax Inversion" Loophole

The recent bid by pharmaceutical giant Pfizer to acquire British-based drug maker AstraZeneca has given the senior senator from Michigan, Carl Levin, just the opening he has been seeking: to offer his bill to prevent such "tax inversions" from taking place. Said Levin:

> 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.

If the deal between Pfizer and AstraZeneca (currently in doubt) actually takes place, the tax inversion would allow Pfizer to consider Great Britain as the company's domicile, allowing it to pay taxes at a much lower rate than it does here. According to the Department of the Treasury,

> The term inversion is used to describe a broad category of transactions through which a U.S.-based multinational company restructures its corporate group so that after the transaction the ultimate parent of the corporate group is a foreign corporation.

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Although many recent such inversions have taken place for competitive reasons, the number has been increasing greatly thanks to the predictable result of the Obama administration's raising of corporate tax rates to the highest in the world, approaching 40 percent. For instance, Michigan-based Perrigo's recent acquisition of Irish biotech company Elan will allow it to pay taxes in Ireland of just 17 percent, compared to the 30 percent it was paying the United States, saving an estimated $118 million a year in taxes. Omnicom's merger with Netherlands-based Publicis will save it about $80 million a year, while Liberty Global's purchase of Virgin Media, located in England, will lower its tax bill significantly, thanks to the 21 percent corporate tax rate there.

There have been nearly 20 companies either making the move, or considering it, since 2012. In the past, other well-known companies have done inversions, saving taxes while retaining essential control in the United States. McDermott International, an oil and gas company, is now incorporated in Panama while remaining headquartered in Houston, Texas. Foster-Wheeler has its headquarters in the United Kingdom but its registered office for tax purposes is in Switzerland. Tyco International operates out of Princeton, New Jersey, but for tax purposes it also is incorporated in Switzerland. In 2009, Accenture (the primary contractor behind Healthcare.gov) moved its place of incorporation from Bermuda to Ireland, claiming, among reasons, "Ireland's stable political and economic environment with the financial and legal infrastructure to meet Accenture's needs."

In 2013, pharmaceutical company Actavis has its global headquarters located in Dublin, Ireland, but its administrative headquarters are located in New Jersey. Last year, Chiquita merged with Irish company

Fyffes, making it now the largest banana grower in the world while also significantly reducing its tax liabilities.

Walgreen's recent purchase of pharmaceutical wholesaler Alliance Boots, located in Switzerland, has put the company under pressure from some of its stockholders to pull an inversion as well, which would reduce the company's tax rate, estimated currently to be 37.5 percent, down to just 20 percent, boosting earnings per share by 75 percent.

Levin, sporting one of the Senate's most liberal voting records, has been presenting similar bills to rein in tax inversions in every one of the six Congresses in which he has served. Last September he explained why such a bill was necessary and, the process, revealed his worldview that those profits really belong to the government and not to the companies that earned them:

> Mr. President, I am introducing today, along with my colleagues Senators Whitehouse, Begich and Shaheen, the Stop Tax Haven Abuse Act [S. 1533], legislation that is geared to stop the estimated $150 billion yearly drain on the U.S. treasury caused by offshore tax abuses. Offshore tax abuses are not only undermining public confidence in our tax system, but widening the deficit and increasing the tax burden for the rest of American families and businesses.

It's the government's money he's after, and this is just the way to get those greedy companies to fess up and pay up. But in a massive display of hypocrisy, he then explained that the money wasn't going to be returned to American taxpayers after all, but would be used for more government spending: "This bill eliminates incentives to send U.S. profits and jobs offshore, combats offshore tax abuses, and raises revenues needed to fund our national security and essential domestic programs."

Levin has enlisted the assistance of another hard-left liberal, Senator Ron Wyden (D-Ore.), who said that if enough companies take advantage of this so-called loophole, it could "hollow out the American tax structure," making it even harder to keep up with all the progressive spending plans they have in mind.

The response to Levin's announcement from Republicans was tepid, to say the least. House Ways and Means Committee Chairman Dave Camp, also from Michigan but miles away from Levin in political philosophy, said Levin's bill has essentially no chance of even being heard in the House, despite the promise by Levin's brother, Rep. Sandy Levin (D-Mich.), that he would present identical legislation there. Camp said the real answer lies in revamping the labyrinthine tax code itself so that America can reestablish its former competitive advantage in the world: "I think you really have to have this be part of a proposal that actually gets us some economic growth and jobs and higher wages."

There are other reasons Levin's bill will once again fail to see the light of day: It's an election year, and Levin has announced he won't be running for his seventh term. As a lame duck, all Levin appears to be doing is seeking to retire in a blaze of progressive glory, offering yet another solution to a problem created by the government: high tax rates forcing companies such as Pfizer and others to seek tax refuge elsewhere rather than allowing and inviting them to stay in the United States.

The solution, as always, is to reduce corporate tax rates in the short run, on the road to eliminating them altogether in the long run. After all, corporations don't really pay taxes: They are just conduits for taxes paid by consumers doing business with them.

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