

COVER

PFIZER: PRICE GOUGER, TAX DODGER

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[Americans for Tax Fairness](http://www.AmericansForTaxFairness.org) is a diverse coalition of 425 national and state endorsing organizations that collectively represent tens of millions of members. The organization was formed on the belief that the country needs comprehensive, progressive tax reform that results in greater revenue to meet our growing needs. ATF is playing a central role in Washington and in the states on federal tax-reform issues.

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PFIZER: PRICE GOUGER, TAX DODGER

KEY FINDINGS

Pfizer, one of the world's [largest pharmaceutical companies](#)¹ and [more profitable companies](#),² is attempting to permanently dodge tens of billions of dollars of U.S. taxes it currently owes through a merger with fellow drug firm Allergan, based in the tax haven of Ireland. While technically not a corporate inversion, this maneuver will provide Pfizer with the same tax advantages as one.

In effect, Pfizer will renounce its American identity, 166 years after being founded in New York City. The shift to Ireland will be largely a change of address to dodge U.S. taxes, as the combined company will still be primarily owned by Pfizer's current shareholders and will continue to be directed and managed from Manhattan.

Pfizer's maneuver, if successful, will be the culmination of many years of overseas tax avoidance that has reduced the company's tax bill to a fraction of what it should be paying.

In addition to dodging its fair share of taxes, Pfizer—maker of Celebrex, Lipitor, Lyrica, and Viagra, among many other health-care products—has also been aggressively raising prescription drug prices, thereby straining patients and our health care system and in some cases putting needed medications out of reach.

By dodging taxes while boosting prescription drug prices, Pfizer squeezes American families and communities from two sides at once. In the company's biggest insult to America yet, Pfizer's merger will allow it to go on enjoying all the benefits of being based here—everything from a publicly educated workforce to an excellent communications infrastructure to a reliable patent system—without adequately paying to support them.

Following are this report's key findings:

- **Through its proposed Allergan merger, Pfizer would be able to permanently dodge an estimated \$35 billion in U.S. taxes owed on about \$148 billion in profits it currently maintains offshore.** This figure is derived from two sources:
 - Pfizer's filings with the Securities and Exchange Commission (SEC) that it had \$21.2 billion in cumulative deferred tax liability on unrepatriated foreign earnings in 2014; ATF estimated that meant Pfizer had an additional \$74 billion in offshore profits that were not publicly reported.
 - An estimate by Citizens for Tax Justice that Pfizer owes about \$14 billion (allowing for foreign taxes already paid) on another \$74 billion in Permanently Reinvested Earnings offshore that Pfizer has reported to the SEC.

- **Pfizer's tax dodge has a human cost.** The estimated \$35 billion in taxes Pfizer will dodge could, if collected fund the National Cancer Institute for almost seven years, provide high-quality preschool for all low- and moderate-income four-year olds for nearly five years, or provide free tuition for two years of community college for up to nine million students over five years.
- **Pfizer has routinely hiked the prices of dozens of prescription drugs at 10 times or more the rate of inflation each year since 2012.** Seven of Pfizer's top selling drugs had their prices hiked an average of 39% over two years—from 2013 to 2015—under the Medicare program, four times the prescription drug inflation rate. Lipitor, Pfizer's widely-prescribed cholesterol treatment, jumped 35% during that period. Pfizer's nerve medication Lyrica spiked 77% between 2010 and 2014, under the same program.
- **If Pfizer wants to be an Irish company to cut its taxes but still be based in America, then it should charge American patients the same much lower drug prices it charges Irish consumers.** Pfizer charges 12 times as much on this side of the Atlantic under the Medicare program for the same seven top-selling drugs as it charges in Ireland.
- **Pfizer also contributes to sky-high drug prices by suppressing cheap generic alternatives to its pricey brand-name drugs.** It keeps generics off the market through repetitive patenting and lengthy litigation.
- **While Americans suffer from lost tax revenue and high drug prices, Pfizer thrives.** Over the last five years, Pfizer has had sales averaging more than \$50 billion a year, with earnings averaging \$9.4 billion for a robust profit margin of nearly 18%. Pfizer's 2015 earnings margin of 18.8% is up nearly 50% since 2011.
- **Pfizer got \$5 billion in federal contracts over a recent five-year span.** Even as the company avoids paying its rightful share of taxes to America, the U.S. is paying the company about a billion dollars a year for prescription drugs. Federal government contracts represent about 5% of the company's total U.S. sales.
- **Pfizer was fined \$2.3 billion in 2009, including the biggest criminal fine up to that point in U.S. history, for promoting untested uses of a medication.** In the nation's largest health care fraud settlement at the time, Pfizer acknowledged illegally marketing a painkiller that was subsequently withdrawn over safety concerns. Pfizer has been fined and lost lawsuits over its drug marketing several other times in recent years.
- **Taxpayers provided Pfizer with \$591 million in tax breaks over the last five years through federal research and experimentation tax credits and domestic manufacturing tax deductions.** This is a costly taxpayer subsidy to a company that is charging customers exorbitant prices.

- **American taxpayers have spent up to \$21 million over the last three years subsidizing huge paydays for Pfizer’s top executives.** Because of a loophole for “performance pay,” Pfizer is able to write off unlimited amounts of executive pay despite a rule meant to bar tax deductions for excessive compensation.
- **Recommendations for preventing Pfizer from dodging \$35 billion in taxes and for preventing other corporate inversions.** The Obama Administration should immediately take executive action to close the loophole that Pfizer will exploit with its merger to dodge \$35 billion in taxes. The Treasury Department should revise its 2014 notice that prohibits “hopsotch loans,” which are used by inverted corporations to dodge U.S. taxes on offshore profits at the time of the inversion. The current notice prohibits such loans for any inverted U.S. company whose shareholders wind up with more than 60% of the new merged entity. The threshold should be lowered to 50%. Under Pfizer’s proposed merger, its shareholders will own 56% of the new foreign-parent company, enabling the company to exploit this loophole.

Congress should turn this proposed executive rule into law, and also deny inverted status to any U.S. company that is not at least 50% foreign-owned or that continues to be managed and controlled from the United States. Congress should also close the earnings stripping loophole that lets corporations shift taxable profits from the U.S. to low-tax countries, and impose an exit tax on offshore profits to ensure corporations pay what they owe before they desert America for a tax haven.

INTRODUCTION

In a November 2015 report, [Pfizer’s Tax Dodging Rx: Stash Profits Offshore](#), Americans for Tax Fairness estimated that Pfizer had twice as much in untaxed profits stashed offshore as it had earlier revealed to the SEC: that the total in truth was [about \\$148 billion](#).³ Pfizer subsequently [confirmed roughly this figure](#) to *The New York Times*.⁴ ATF also determined that Pfizer’s 2014 worldwide corporate tax rate—which the company advertised as 25.5% and held up as a rationale for its tax-avoiding inversion—was really only 7.5%. This figure was confirmed by [The Wall Street Journal](#).⁵ ATF’s report estimated Pfizer’s worldwide tax rate to be only an average of 6.4% between 2010 and 2014, as opposed to the company’s claim of 24%.

Pfizer owes U.S. taxes on all its offshore profits (less any foreign taxes paid), but because of a tax loophole called “deferral” it can delay paying until it brings the money home as dividends to the corporation. However, if it sheds its American identity through its proposed merger, Pfizer will lock in the benefits of keeping those profits offshore, permanently avoiding \$35 billion in U.S. taxes.

Pfizer has imposed enough on the American people: besides tax dodging and price gouging, over the years it has pursued illegal drug marketing and exploited public subsidies. Though announced last November, Pfizer’s merger will not be finalized until the middle of 2016. President Obama and Congress have the time to act, and they should act now.

PFIZER'S \$35 BILLION TAX DODGE

If Pfizer completes its merger with Allergan, it would dodge \$35 billion in U.S. taxes it currently owes on its offshore profits, according to an estimate made by Citizens for Tax Justice for Americans for Tax Fairness. This would be the final chapter in an ongoing story of Pfizer avoiding its fair share of U.S. taxes by holding earnings overseas.

Pfizer would accomplish this by exploiting a loophole in a Treasury Department notice meant to stop this kind of tax avoidance. The notice prevents inverted U.S. corporations from using internal loans to shift their existing offshore profits to the post-inversion foreign parent company without paying U.S. taxes. But having structured the Allergan deal so that Pfizer's percentage ownership of the new company would stay below a trigger threshold, Pfizer could evade the rule and avoid the tax (see next section for more details).

Estimating the size of Pfizer's potential tax dodge is only possible with an accurate measure of its offshore profits. The full extent of those holdings was not publicly known until ATF calculated in its earlier report that Pfizer had about \$148 billion in profits stashed offshore, twice the \$74 billion amount stated in the company's official filings.⁶

This \$148 billion offshore profit total is comprised of two approximately equal parts: one that is publicly disclosed in Pfizer's SEC filings, the other only indirectly discernable from those reports.

Pfizer discloses \$74 billion in profits indefinitely reinvested outside the United States—what are known as Permanently Reinvested Earnings, or PRE. Ordinarily these profits are taxed by the U.S.—with a credit for any foreign tax paid—when the company brings them home. After the merger though, Pfizer would be able to loan these earnings tax-free to its new foreign parent because of the loophole it hopes to exploit in the Treasury Department's notice.

It is estimated that the merger will let Pfizer dodge \$13.9 billion in U.S. taxes on its \$74 billion in PRE profits. (Table 1) This figure comes from subtracting the average foreign tax rate (16.3%) Pfizer has already paid on these offshore profits over the last 10 years from the 35% U.S. corporate tax rate. (U.S. companies get a credit for foreign taxes paid when figuring their domestic taxes.) That leaves a tax rate of 18.7% that is owed, which on \$74 billion equals \$13.9 billion.

Table 1. Estimate of Taxes Owed by Pfizer on its Offshore Profits

	Taxes Owed \$ Billions
Permanently Reinvested Earnings (PRE)	\$74.0
10-Year Average Foreign Tax Rate	16.3%
Estimated Repatriation Tax Rate Based on 35% Tax Rate	18.7%
Estimated Tax Owed on PRE @ 18.7%	\$13.9
Deferred Tax on Unremitted Earnings	\$21.2
Total Estimated Tax Owed on Offshore Profits	\$35.0

Sources: Pfizer's Form 10-K report filed with the Securities and Exchange Commission⁷
Foreign tax rate data: see Appendix 1 of this report.

The other half of Pfizer's offshore profits—the half that wasn't publicly disclosed until ATF uncovered it—is not deemed by the company as “permanently reinvested.” Because of the more temporary offshore status of these earnings, accounting rules require Pfizer to state in its SEC reports that it has created a tax reserve against any U.S. tax that would ultimately be due if Pfizer should choose to “repatriate” those earnings, which appears to be unlikely.

Pfizer has not actually paid any U.S. tax on these profits, but it estimated in its 2014 SEC filing it would owe \$21.2 billion. From that estimate, ATF calculated that Pfizer has a second \$74 billion in untaxed profits offshore. So in addition to the \$74 billion of PRE profits, Pfizer has a second \$74 billion with which to make a tax-free loan to its new foreign parent.

Combining the reported \$21.2 billion tax reserve with the \$13.9 billion estimated as due on the company's PRE profits, brings the total U.S. taxes dodged by the proposed merger to \$35 billion.

THE TAX LOOPHOLE PFIZER IS EXPLOITING

In response to a flurry of corporate inversions in recent years, the Obama Administration formulated new rules meant to curb the practice. Recognizing that one of an inversion's biggest attractions is the ability to dodge U.S. taxes on accumulated offshore profits—such as the \$35 billion Pfizer owes on its \$148 billion in earnings held overseas—the [Treasury Department issued a “notice” in September 2014](#) intended to prohibit the process by which those taxes are avoided.⁸

The 2014 notice was really an update to an existing anti-tax-dodging rule. Corporations had in the past tried to avoid taxes on repatriated offshore earnings by structuring those repatriations

as loans. [Congress had shut down that scheme](#)⁹ through [Section 956 of the Internal Revenue Code](#),¹⁰ which declared such loans [subject to tax just like any other form of repatriation](#).¹¹

But inversion offered a new wrinkle: after a company inverted, its foreign subsidiaries would loan their untaxed offshore profits to the new foreign parent created by the inversion or, in Pfizer's case, the merger. These "hopscotch loans" (so-called because the loan "hops" over the old U.S. parent and is made directly to the new foreign parent) were the target of Treasury's 2014 anti-inversion notice: it made them subject to tax also.

Unfortunately, the Treasury left a big loophole in its notice by the way it defined "inversion." A principal way inversions are different from regular mergers and acquisitions—what's "inverted" about them—is that the supposedly "acquired" U.S. company winds up with a bigger ownership stake in the merged entity than the allegedly "acquiring" foreign company. Logic indicates that a merger resulting in the "acquired" U.S. corporation owning anything more than 50% of the new foreign company should qualify as an inversion. But the Treasury rule sets the threshold at 60%.

Pfizer is attempting to capitalize on that discrepancy by structuring its deal so that its shareholders [wind up with 56% of the inverted company](#)¹²: that is still enough to control the merged firm, but below the 60% threshold that would prohibit tax-free repatriation of offshore profits. Pfizer would have full access to its \$148 billion in offshore profits without paying any of the \$35 billion it owes in U.S. taxes.

More details about the tax loophole Pfizer is hoping to exploit—and how it can be closed—are available in this [ATF press release](#).¹³

PFIZER'S TAX DODGE HAS A HUMAN COST

Pfizer's tax dodge is not simply a matter of tax fairness in this time of tight budgets and intense competition for precious federal resources. The estimated \$35 billion in taxes Pfizer is trying to dodge could do a lot of good here at home, as shown in Table 2.

Table 2. Pfizer's \$35 Billion Tax Dodge Could ...

	Annual Cost \$ Billions
Serve one million kids and pregnant women in the Head Start program for four nearly four years ¹⁴	\$9.2 ¹⁵
Fund the National Cancer Institute for almost seven years	\$5.2 ¹⁶
Provide around seven million households with home energy assistance under the LIHEAP program for 10 years ¹⁷	\$3.4 ¹⁸
Ensure five years of nutritional assistance to 8.5 million participants in the Women, Infants and Children (WIC) program	\$6.6 ¹⁹
Provide high-quality preschool for all low- and moderate-income four year olds for nearly five years	\$7.5 ²⁰
Provide two years of free tuition at community college for at least five years benefitting 9 million students	\$6.0 ²¹
Expand the Earned Income Tax Credit to include childless workers and non-custodial parents for at least five years	\$6.0 ²²

Sources: See endnotes

GOUGING AMERICAN CONSUMERS WITH SKY-HIGH PRESCRIPTION DRUG PRICES

NOTE: Comprehensive prescription drug pricing data is hard to get. Manufacturers view their prices as proprietary information and independent pricing data is only available from specialized publishers catering to large institutions. But it is possible to piece together an informative picture of Pfizer's recent pricing policies from the following comparisons made by several organizations for different brands and dosages of drugs over varying time periods.

Pfizer has in recent years aggressively raised prescription drug prices, making it more difficult for patients to obtain the medicines they need while straining family budgets and the nation's health care system. In just the first weeks of 2016, [the company raised list prices an average of 10.6%](#) on more than 60 of its biggest selling brands, according to *The Wall Street Journal*.²³ Those boosts were on top of [10% hikes on 133 of its drugs in 2015](#) reported by Bloomberg.²⁴

Seven of Pfizer's top-selling drugs posted an average price increase of 39% over two years—2013 to 2015—according to data collected by the Centers for Medicare and Medicaid Services and reported by CQ. [Table 3 and Appendix 2] This was 23 times the nation's inflation rate of 1.7% over that period and 4 times the prescription drug inflation rate of 9%.

Price increases for the company's most popular drugs include the nerve-pain medication Lyrica (up 43%), anti-inflammatory Celebrex (46%), high-cholesterol treatment Lipitor (35%), and erectile dysfunction pill Viagra (41%).

Table 3. Price Hikes for Seven Top-Selling Pfizer Drugs, 2013-2015

Drug	Average Price of Various Dosages 7/1/2013	Average Price of Various Dosages 6/1/2015	Percent Change Over Two Years	Amount Price Increase Exceeds 1.7% Inflation Rate	Amount Price Increase Exceeds 9% Rx Drug Inflation Rate
Celebrex	\$4.76	\$6.92	45.6%	27 times	5 times
Lipitor	\$6.00	\$8.10	34.9%	20 times	4 times
Lyrica	\$3.59	\$5.13	42.9%	25 times	5 times
Premarin	\$2.78	\$3.85	37.7%	22 times	4 times
Sutent (a)	\$213.07	\$268.95	26.2%	15 times	3 times
Viagra	\$25.81	\$36.39	41.1%	24 times	4 times
Zyvox	\$58.56	\$85.13	45.4%	27 times	5 times
AVERAGE			39.1%	23 times	4 times

(a) 25mg only

Sources: [Statista.com. Pfizer's Top Products Based on Revenues](#)²⁵
[CQ.com. The Drug Trade](#)²⁶; [Bureau of Labor Statistics](#)²⁷

A big share of the nation's drug purchases is made through Medicare, the federal health care program for the elderly and disabled. Lyrica purchases under Medicare's Part D prescription drug program added up to more than \$1.4 billion in 2014, at which point Pfizer's price per unit was 77% higher than it had been in 2010. [Table 4] Inflation measured only 8.4% over those four years and the prescription-drug inflation rate was just 13.8%.

Table 4. Price Per Unit Paid for Pfizer's Lyrica Under Medicare Part D, 2010-2014

2010	2014	Total % Increase	Amount Price Increase Exceeds 8.4% Inflation Rate	Amount Price Increase Exceeds 13.8% Rx Drug Inflation Rate
\$2.42	\$4.28	77%	9 times	6 times

Sources: [Medicare Drug Spending Dashboard](#)²⁸ and [Bureau of Labor Statistics](#)²⁹

Pfizer twice last year [raised the list price of Lyrica for all customers](#) by 9.4%, according to Bloomberg.³⁰ Before that, between mid-2012 and mid-2015, Pfizer boosted the price by 51.7%, according to estimates made by investment research firm SSR and reported by Bloomberg. The same analysis determined Pfizer had increased the price of Viagra by 72% over the same three-year period. The inflation rate over this period was 3.2%; it was 9.9% for prescription drugs.³¹

Between 2012 and 2013, Pfizer hiked the price of Lipitor by more than 18% and the price of Celebrex by almost 20%, according to an AARP study.³² [Table 5] The inflation rate over that year was only 1.5%, and the prescription-drug price inflation was less than 1%.³³ These price boosts in 2013 were above average among 227 prescription drugs primarily serving the elderly

studied by AARP. Pfizer had the most drugs of any pharmaceutical company in the AARP study (24); the company’s average price increase was 16.6%.³⁴

Table 5. Recent Price Hikes of Pfizer’s Lipitor & Celebrex

Medication	Lipitor	Lipitor	Lipitor	Lipitor	Celebrex
Dosage	10 mg	20 mg	40 mg	80 mg	200 mg
Price Hike, 2012-13	17.9%	18.5%	18.4%	18.3%	19.5%
Price Hike, 2013-15	32.6%	34.0%	35.3%	37.6%	43.3%

Sources: 2012-2013: AARP, [Rx Price Watch Report November 2014](#)³⁵
2013-2015: CQ, [The Drug Trade](#)³⁶

In a separate study of specialty drugs, which are very expensive medications administered by injection, AARP found that the price of Pfizer’s pulmonary hypertension medication Revatio had [risen almost 16% in 2013](#), to over \$65 a day.³⁷ It is among the 30 most prescribed specialty drugs for the elderly.

PLANNING TO PAY IRISH TAXES? THEN CHARGE IRISH PRICES

If Pfizer wants to become an Irish company in order to pay rock-bottom Irish tax rates while still enjoying all the benefits of being based in America, then, by all rights, it should charge American patients the much lower prices it charges consumers for its drugs in Ireland. But Pfizer’s unlikely to adopt such a plan, since it makes billions of dollars charging 12 times as much on this side of the Atlantic as in Ireland for the exact same pills. [Table 6 and Appendix 3]

Table 6. Comparison of Pfizer’s U.S. and Irish Drug Prices

Drug	Average U.S. Price of Various Doses June 1, 2015	Average Irish Price of Various Doses Feb. 2016	Percent Amount U.S Price Exceeds Irish Price	How Many Times More Costly U.S. Prices Are
Celebrex	\$6.51	\$0.58	1,022%	11 Times
Lipitor	\$8.10	\$0.29	2,693%	28 Times
Lyrica	\$5.13	\$1.05	388%	5 Times
Premarin	\$3.86	\$0.12	3,117%	32 Times
Sutent	\$201.08	\$78.29	157%	2.5 Times
Viagra	\$36.39	\$5.33	583%	7 Times
Zyvox	\$164.70	\$64.07	157%	2.5 Times
AVERAGE			1,160%	12 Times

Sources: [CQ.com. The Drug Trade Database](#)³⁸ and [Irish Medicines Formulary](#)³⁹

Among seven of Pfizer’s top selling drugs, the smallest discrepancy between the two countries is in the price of the cancer medication Sutent—and even there the company still charges Americans more than twice what it charges the Irish. At the other end of the spectrum is the estrogen treatment Premarin, which costs the equivalent of around a dime a dose in Ireland, but nearly four dollars here.

BLOCKING GENERICS TO PRESERVE PROFITS

Pfizer fought [a decade-long legal battle](#) to block the introduction of less expensive generic alternatives to its anti-inflammatory Celebrex.⁴⁰ When a court threw out one of its patents on the drug—paving the way for cheaper generics to reach market sooner—the company went back to the U.S. patent office and obtained a nearly identical replacement patent. When another court [invalidated the new patent](#),⁴¹ Pfizer appealed, [only to lose again](#).⁴²

All this litigation was purely [intended to delay the introduction of generic alternatives](#) to Celebrex, according to a health-care benefits organization that sued Pfizer early last year.⁴³ Pfizer stood to [lose billions of dollars in annual sales](#) once its brand name drug had to compete with cheaper generics.⁴⁴

Pfizer’s delaying tactics were a further source of pain for the users of Celebrex, principally arthritis sufferers. After one of the company’s [short-term patent victories](#), *The Wall Street Journal* noted that Costco charged over \$100 for 30 Celebrex pills, while generic prices were generally “80% to 90% lower than the original branded drug price.”⁴⁵

FAT PROFIT MARGINS FROM PRICE GOUGING AND TAX DODGING

While American families have suffered from Pfizer’s price gouging and tax dodging, the company has prospered. Over the last five years, Pfizer has had sales of more than \$50 billion a year on average, with earnings averaging \$9.4 billion, for a robust profit margin of nearly 18%. Pfizer’s 2015 profit rate of 18.8% is up nearly 50% since 2011. [Table 7]

Table 7: Pfizer Revenues, Net Income & Profit Margin, 2011-2015

\$ Billions

	2011	2012	2013	2014	2015	Total	Average
Sales/Revenue	\$65.3	\$54.7	\$51.6	\$49.6	\$48.9	\$270.1	\$54.0
Net Income	\$8.4	\$9.0	\$11.4	\$9.1	\$9.2	\$47.1	\$9.4
Profit Margin	12.9%	16.5%	22.1%	18.3%	18.8%	17.4%	17.7%

Source: [MarketWatch](#)⁴⁶

One telling peculiarity of Pfizer's finances is that it reported losing \$16.3 billion in the United States from 2010 through 2014, while it earned \$78.1 billion offshore, according to SEC data analyzed in ATF's earlier Pfizer report.⁴⁷ That's puzzling because in 2014 the company had 38% of its sales and 48% of its assets in America, the largest and most lucrative prescription drug market in the world. The answer to the puzzle lies in Pfizer's ability to shift profits from the U.S. parent company to its extensive network of 151 subsidiaries spread across 10 overseas tax havens.

The engine of Pfizer's profits—development of patented new drugs—is heavily concentrated in America. But like many other companies with valuable patents and trademarks, Pfizer takes that intellectual property and registers it in a foreign tax haven that assesses little or no corporate income taxes. When a customer buys one of Pfizer's pills in the United States, the company sends a significant portion of the purchase price to the tax haven subsidiary to pay for the use of the patent, thereby shifting the profit offshore.

In addition to paying its own subsidiaries for the use of its own property, Pfizer charges the costs of management, research, marketing, and sales to its U.S. operations. This shell game leaves Pfizer's domestic operations with large, tax-deductible losses year after year.

DEFRAUDING THE GOVERNMENT, ENDANGERING PATIENTS

Pfizer is not just hurting the American people through rapid drug price increases: the company also has a history of endangering patients by promoting untested uses for its drugs—what are known as “off-label” uses. Of course, pushing off-label prescriptions also has a financial impact, since consumers and insurers often wind up paying for medications that don't actually or efficiently treat the targeted illness.

In 2009, the company paid [the biggest criminal fine in U.S. history](#) up to that time for promoting the off-label use of its painkiller Bextra,⁴⁸ which by then had been pulled from the market over safety concerns. In addition to the \$1.3 billion criminal penalty, Pfizer paid \$1 billion in civil penalties for pushing off-label uses of Bextra and three other drugs, making the total settlement the biggest ever till then in a health-care fraud case.

A federal prosecutor was quoted as saying, “Among the factors we considered in calibrating this severe punishment was [Pfizer's recidivism](#).”⁴⁹ The Bextra legal settlement was the company's fourth for illegal drug marketing in the previous seven years.

A final twist to the Bextra case—one revealing Pfizer's tendency towards shady corporate behavior—was that the company had a [dummy subsidiary take the fall for the criminal penalty](#), according to CNN. This enabled Pfizer to avoid becoming a convicted felon.⁵⁰ This was critical for Pfizer because if it had been convicted of a major health care fraud it would have been automatically excluded from Medicare and Medicaid contracts.

In 2004, a Pfizer subsidiary, Warner-Lambert, paid [a \\$430 million fine](#) for promoting the off-label use of its epilepsy medication Neurontin.⁵¹ The U.S. government determined Warner-Lambert had [published misleading information and suppressed negative findings about the drug](#).⁵² In one year more than a third of the prescriptions were for off-label uses or for higher than approved daily doses. The company’s salespeople had persuaded doctors that Neurontin could treat disorders ranging from Lou Gehrig’s disease to migraines, but one health-plan provider that picked up the tab for these scattershot prescriptions claimed the drug was no more effective than a placebo for such unapproved uses.⁵³

Six years later, Pfizer was successfully sued over its Neurontin marketing by several of these providers, under a corruption statute (RICO) [usually reserved for gangsters](#).⁵⁴ After losing at trial, [Pfizer appealed](#)⁵⁵ all the way to the [U.S. Supreme Court](#),⁵⁶ but the judgment was repeatedly upheld. The company wound up paying [\\$325 million in damages](#).⁵⁷

PFIZER DODGES U.S. TAXES WHILE BENEFITTING FROM U.S. CONTRACTS

Pfizer depends on government spending, paid for by American taxpayers, to succeed. The company raked in \$5.3 billion in federal contracts from 2010 to 2014 for its pharmaceutical products, or about \$1 billion a year. [Table 8] It was among the 70 top government contractors each year, and among the top three suppliers to the Health and Human Services department.

Table 8: Pfizer’s Federal Government Contracts, 2010-2014

\$ Millions

2010	2011	2012	2013	2014	Total	Average
\$1,051.0	\$1,239.8	\$1,143.1	\$966.1	\$862.7	\$5,262.7	\$1,052.5

Source: Federal Procurement Data System - Next Generation, [Top 100 Contractors Report, 2010-2014](#)⁵⁸

Pfizer’s U.S. revenue was about \$19 billion in 2014, which means that around 5% of its U.S. sales that year were to the federal government.⁵⁹ (Of course, billions more are paid to Pfizer directly by taxpayers as patients, or by their health insurers.)

Pfizer’s estimated 6.4% worldwide effective tax rate over the last five years shows the company does not come close to paying its fair share of taxes—something we should expect of all corporations, but especially those like Pfizer heavily dependent on taxpayer-funded programs. Pfizer’s dependence on federal contracts adds insult to the threatened injury from assuming an Irish identity in order to dodge \$35 billion in taxes on its existing offshore profits and to create a permanently low tax rate on future earnings booked in the tax haven of Ireland.

TAXPAYERS SUBSIDIZE PFIZER RESEARCH AND MANUFACTURING

Over the last five years, taxpayers have provided Pfizer and its shareholders with \$591 million in tax breaks through the Research and Experimentation tax credit and the Domestic Manufacturing tax deduction. That’s about \$118 million a year. [Table 9] (The breakdown of the

tax cuts from the two programs is generally not provided in company SEC filings.)

The R&E credit provides [a 20% offset for qualified research by businesses](#).⁶⁰ Its purpose is to boost investment in basic and applied research, though it has been [criticized as open to abuse](#).⁶¹

The Domestic Manufacturing tax deduction allows companies to deduct [up to 9% of the income generated from U.S. manufacturing activities](#).⁶² Activities that qualify for the deduction include manufacturing, mining, film production, energy, and construction.

Table 9: Pfizer's R&D and Domestic Manufacturing Tax Credits, 2010-2014

\$ Millions

2010	2011	2012	2013	2014	Total	Average
\$217.8	\$103.3	\$33.7	\$125.7	\$110.2	\$590.7	\$118.1

Source: Pfizer 10-K Annual Reports with the Securities and Exchange Commission⁶³

UNDERPAYING TAXES BY OVERPAYING EXECUTIVES

Taxpayers subsidize much of the cost of Pfizer's top executive pay. This is the result of a tax loophole that allows Pfizer and other corporations to deduct unlimited amounts from their federal income taxes for the cost of executive compensation—as long as it is in the form of stock options and other so-called “performance pay.”

In 1993, Congress took action to discourage excessive executive compensation. The result was section 162(m) of the tax code, which caps the amount corporations can deduct from their income taxes for executive pay at no more than [\\$1 million per executive](#).⁶⁴

Without putting a ceiling on executive pay, this reform aimed to set a limit on what could be considered a reasonable business expense worthy of a tax deduction. But the law included a huge loophole exempting “performance-based” pay from the \$1 million limit. This quickly led to an explosion of tax-advantaged compensation, particularly in the form of stock options. The result: the more Pfizer pays its top executives, the less Pfizer pays in taxes.

According to an Institute for Policy Studies analysis of Pfizer's financial filings, the firm handed out nearly \$59 million in fully deductible “performance pay” to its four top executives between 2012 and 2014. That translates into a tax break worth \$21 million, or \$7 million a year on average, based on the statutory corporate tax rate of 35%. [Appendix 4]

More than 80% of the compensation pocketed by Pfizer's top executives during this period was structured to qualify for full deductibility under the “performance pay” loophole. Pfizer CEO Ian Read's pay accounted for half of the company's taxpayer subsidies for executive pay. In 2014 alone, Read received \$14.8 million in “performance pay,” representing 90% of his compensation. As this report makes clear, loopholes like unlimited deductions for executive

“performance pay” explain why Pfizer and many other major U.S. corporations’ effective tax rates are so low.

CONCLUSION AND RECOMMENDATIONS

Millions of American consumers have benefitted from Pfizer’s prescription drugs over the years. They have also paid dearly through high prices, which have made Pfizer a very profitable company. Also adding to Pfizer’s wealth have been our nation’s strong patent protections, federal contracts, research subsidies, and public education and transportation systems.

Now, Pfizer has decided to turn its back on American taxpayers. Its proposed merger with Allergan, which is based in the tax haven of Ireland, will let the company dodge \$35 billion in taxes owed on its \$148 billion in current offshore profits. In future years Pfizer will continue to slash its tax bill, as it permanently puts its offshore profits beyond the reach of the IRS.

Pfizer will be able to accomplish much of this because for years it has been engaged in a massive shell game, whereby U.S. profits are shifted offshore through transfer pricing and other means.

While Pfizer may be free to merge with a foreign company, U.S. taxpayers should not be asked to pay for it. The Obama Administration and Congress should act immediately to remove the tax breaks that make Pfizer’s merger so attractive and to block other companies from completing inversions that are nothing more than a tax dodge. The following measures are recommended:

Action by the Obama Administration

Federal law gives the Treasury Secretary power to “prescribe all needful rules and regulations for the enforcement” of the tax code and even “provide that any regulation may take effect or apply retroactively to prevent abuse.”⁶⁵ Acting under that broad authority, the Treasury Department should immediately revise its [2014 anti-inversion notice](#) so that it applies to Pfizer’s proposed merger.⁶⁶

The rule’s prohibition on “hopscotch loans,” which are used by inverted corporations to dodge U.S. taxes owed on offshore profits at the time of the inversion, should be applied to inversions where the former U.S. corporation’s shareholders own at least 50% of the new foreign parent. The current Treasury rule sets the threshold at 60%. Under Pfizer’s proposed merger, its shareholders will own 56% of the new foreign parent company, which will allow it to dodge its estimated \$35 billion in U.S. taxes.

Enact the Stop Corporate Inversions Act

Sponsored by Sens. Dick Durbin and Jack Reed ([S. 198](#))⁶⁷ and by Reps. Sander Levin and Lloyd Doggett ([H.R. 415](#)),⁶⁸ these bills would make it difficult for corporations to successfully desert America for a tax haven [by enacting some common sense definitions](#).⁶⁹

Currently, a company can be considered foreign if as little as 20% of the firm is owned by offshore interests. This legislation would require at least half the ownership to be foreign. And regardless of the percentage ownership, the new rules would define any company managed from the United States and with significant business activity here as an American company. Pfizer's desire to become an Irish company through its proposed merger would fail both tests.

Close the Earnings Stripping Loophole

Earnings stripping is often a primary motive for an inversion. It allows the new foreign parent to load up its new U.S. subsidiary with excessive debt, which is owed to the foreign parent. The U.S. subsidiary can claim a hefty U.S. tax deduction on the debt, thereby reducing its U.S. tax bill and shifting taxable profits to the low-tax country of the parent. This loophole can be addressed if the Treasury Department promulgates earnings stripping regulations, which it has been considering, or if Congress tightens the Code's current lax earnings stripping rules. Senator Chuck Schumer [made such a proposal \(S. 2786\)](#) in the last Congress.⁷⁰ Another measure—even stronger because [it applies to all companies](#), not just those that are inverting—has been introduced by Rep. Marc Pocan (D-WI).⁷¹

Impose an Exit Tax on Offshore Profits

When wealthy individuals renounce their American citizenship in order to dodge taxes, U.S. law requires them to immediately pay taxes they can ordinarily defer. For individuals, the “exit tax” is the capital gains tax on the value of appreciated assets, a tax they can normally avoid paying until they sell the assets. For corporations, the equivalent would be paying the income tax on untaxed foreign profits when they invert or merge with an offshore company. Exit tax legislation was introduced in the last Congress by Sen. Sherrod Brown ([S. 2895](#)) and by Rep. Lloyd Doggett ([H.R. 5549](#)).⁷²

Ban Federal Contracts to Corporations that Invert

For the past dozen years or so, Congress has made largely ineffective efforts to [deny government contracts to inverted corporations](#).⁷³ The contracting bans have left large loopholes that were easily exploited, such as allowing the subsidiaries of corporate inverters to gain government contracts and letting corporations determine for themselves whether they were in compliance with the law.

Then in 2014, Sens. Dick Durbin and Carl Levin and Reps. Rosa DeLauro and Lloyd Doggett introduced legislation, “No Federal Contracts for Corporate Deserters Act,” with real teeth. Rep. DeLauro [reintroduced the bill last year](#).⁷⁴ It defines an inverted company as one that's still 50% or more controlled by U.S. stockholders after reincorporating in a foreign country, and it applies the ban to companies that subcontract with inverted firms. If this proposal were law Pfizer would lose its average of \$1 billion a year in contracts from Medicare, Medicaid and other federal programs.

APPENDIX

Appendix 1. Pfizer's Foreign Income and Foreign Tax Payments, 2005-2014

\$ Billions

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	TOTAL
Foreign Profit Before Taxes	\$9.8	\$9.8	\$9.0	\$11.5	\$14.5	\$11.9	\$15.0	\$16.9	\$17.4	\$17.0	\$132.6
Current Foreign Taxes	\$2.0	\$1.9	\$2.2	\$2.1	\$1.5	\$2.2	\$2.2	\$2.6	\$2.5	\$2.3	\$21.6

Source: Citizens for Tax Justice Analysis of Pfizer's 10-K SEC Filings

Appendix 2. Prices of Eight Top Selling Pfizer Drugs, 2013-2015

Note: data from this source only covered July 2013 to June 2015.

Drug	Price on 7/1/2013	Price on 6/1/2014	Price on 6/1/2015	Percent Change Over Two Years	Average Annual Change	Approx. Amount Two-year Price Increase Exceeds 9% Rx Drug Inflation Rate
CELEBREX						
50mg	\$1.59	\$1.95	\$2.33	46.8%	23.4%	5 times
100mg	\$3.42	\$4.19	\$4.97	45.5%	22.7%	5 times
200mg	\$5.62	\$6.89	\$8.05	43.3%	21.7%	5 times
400mg	\$8.41	\$10.30	\$12.33	46.8%	23.4%	5 times
AVERAGE	\$4.76	\$5.83	\$6.92	45.6%	22.8%	5 times
LIPITOR						
10mg	\$4.57	\$5.30	\$6.07	32.6%	16.3%	3.5 times
20mg	\$6.54	\$7.65	\$8.76	34.0%	17.0%	4 times
40mg	\$6.49	\$7.46	\$8.78	35.3%	17.7%	4 times
80mg	\$6.40	\$7.60	\$8.80	37.6%	18.8%	4 times
AVERAGE	\$6.00	\$7.00	\$8.10	34.9%	17.4%	4 times
LYRICA						
25mg	\$3.59	\$4.22	\$5.05	40.5%	20.3%	4.5 times
50 mg	\$3.59	\$4.30	\$5.15	43.5%	21.7%	5 times
75 mg	\$3.60	\$4.31	\$5.16	43.5%	21.7%	5 times
100 mg	\$3.59	\$4.30	\$5.15	43.5%	21.7%	5 times
150mg	\$3.60	\$4.31	\$5.16	43.5%	21.7%	5 times
225mg	\$3.59	\$4.30	\$5.16	43.5%	21.7%	5 times
300mg	\$3.59	\$4.27	\$5.11	42.3%	21.2%	5 times
AVERAGE	\$3.59	\$4.29	\$5.13	42.9%	21.4%	5 times

Drug	Price on 7/1/2013	Price on 6/1/2014	Price on 6/1/2015	Percent Change Over Two Years	Average Annual Change	Approx. Amount Two-year Price Increase Exceeds 9% Rx Drug Inflation Rate
NORVASC						
2.5mg	\$2.84	\$3.25	N/A	N/A	14.4%	N/A
5mg	\$2.87	\$3.29	N/A	N/A	14.6%	N/A
10mg	\$3.93	\$4.50	N/A	N/A	14.5%	N/A
AVERAGE	\$3.21	\$3.68	N/A	N/A	14.5%	N/A
PREMARIN						
.3mg	\$2.79	\$3.25	\$3.89	36.7%	18.4%	4 times
.45mg	\$2.79	\$3.26	\$3.82	36.7%	18.3%	4 times
.625mg	\$2.79	\$3.25	\$3.89	39.5%	19.8%	4 times
.9mg	\$2.79	\$3.25	\$3.80	36.3%	18.2%	4 times
1.25mg	\$2.74	\$3.19	\$3.83	39.5%	19.8%	4 times
AVERAGE	\$2.78	\$3.24	\$3.85	37.7%	18.9%	4 times
SUTENT						
12.5mg	N/A	\$118.56	\$133.20	N/A	12.3%	N/A
25mg	\$213.07	\$239.38	\$268.95	26.2%	13.1%	3 times
AVERAGE	\$213.07	\$239.38	\$268.95	26.2%	13.1%	3 times
VIAGRA						
25mg	\$25.70	\$30.48	\$36.50	42.0%	21.0%	4.5 times
50mg	\$25.53	\$30.27	\$36.25	42.0%	21.0%	4.5 times
100mg	\$26.19	\$30.42	\$36.43	39.1%	19.6%	4.5 times
AVERAGE	\$25.81	\$30.39	\$36.39	41.1%	20.5%	4.5 times
ZYVOX						
100mg	\$3.82	\$4.42	\$5.55	45.4%	22.7%	5 times
600mg	\$113.29	\$131.30	\$164.70	45.4%	22.7%	5 times
AVERAGE	\$58.56	\$67.86	\$85.13	45.4%	22.7%	5 times
AVERAGE OF TOP 7 DRUGS				39.1%	18.9%	4 times

Sources: [Statista.com. Pfizer's Top Products Based on Revenues](#)⁷⁵; [CQ.com. The Drug Trade Database](#)⁷⁶
[CQ.com. The Drug Trade Database](#)⁷⁷ and [Bureau of Labor Statistics](#)⁷⁸

Appendix 3. Comparison of U.S. and Irish Prices for Seven of Pfizer's Top-Selling Drugs

Note: Irish prices have been converted from euros to dollars at an exchange rate of 1.13:1

Drug	U.S. Price June 1, 2015	Irish Price Feb. 2016	Percent Amount U.S Price Exceeds Irish Price	How Many Times More Costly U.S. Prices Are
CELEBREX				
100mg	\$4.97	\$0.38	1,207.9%	13 times
200mg	\$8.05	\$0.77	945.5%	10 times
AVERAGE	\$6.51	\$0.58	1,022.4%	11 times
LIPITOR				
10mg	\$6.07	\$0.14	4,235.7%	43 times
20mg	\$8.76	\$0.23	3,708.7%	38 times
40mg	\$8.78	\$0.37	2,273.0%	23 times
80mg	\$8.80	\$0.43	1,946.5%	20 times
AVERAGE	\$8.10	\$0.29	2,693.1%	28 times
LYRICA				
25mg	\$5.05	\$0.53	852.8%	9 times
50 mg	\$5.15	\$1.06	385.8%	4 times
75 mg	\$5.16	\$1.01	410.9%	5 times
100 mg	\$5.15	\$1.24	315.3%	4 times
150mg	\$5.16	\$1.24	316.1%	4 times
300mg	\$5.11	\$1.24	312.1%	4 times
AVERAGE	\$5.13	\$1.05	388.6%	5 times
PREMARIN				
.625mg	\$3.89	\$0.11	3,436.4%	35 times
1.25mg	\$3.83	\$0.12	3,091.7%	31 times
AVERAGE	\$3.86	\$0.12	3116.7%	32 times
SUTENT				
12.5mg	\$133.20	\$52.35	154.4%	2 times
25mg	\$268.95	\$104.23	158.0%	2 times
AVERAGE	\$201.08	\$78.29	156.8%	2.5 times
VIAGRA				
25mg	\$36.50	\$4.46	718.4%	8 times
50mg	\$36.25	\$5.21	595.8%	6 times
100mg	\$36.43	\$6.33	475.5%	5 times

AVERAGE	\$36.39	\$5.33	582.7%	7 times
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Drug	U.S. Price June 1, 2015	Irish Price Feb. 2016	Percent Amount U.S. Price Exceeds Irish Price	How Many Times More Costly U.S. Prices Are
ZYVOX				
600mg	\$164.70	\$64.07	157.1%	2.5 times
		AVERAGE	1,159.6%	12 times

Sources: [CQ.com. The Drug Trade Database](#)⁷⁹ and [Irish Medicines Formulary](#)⁸⁰

Appendix 4. Tax Subsidies for Pfizer Executive Pay, 2012-2014

Executive Officer	Fiscal Years	Total Taxable Compensation in Year Surveyed	Portion of Compensation that is "Performance-based"	Value of Pfizer's Executive Pay Subsidy
Ian Read <i>Chairman and CEO</i>	2014	\$16,658,709	\$14,843,709	\$5,195,298
	2013	\$13,932,077	\$12,155,827	\$4,254,539
	2012	\$7,464,087	\$5,726,587	\$2,004,305
	Subtotal	\$38,054,873	\$32,726,123	\$11,454,143
Geno Germano <i>Group President, Global Innovative Pharma Business</i>	2014	\$4,111,890	\$2,961,890	\$1,036,662
	2013	\$3,608,140	\$2,681,890	\$938,662
	2012	\$3,080,592	\$2,186,842	\$765,395
	Subtotal	\$10,800,622	\$7,830,622	\$2,740,718
Mikael Dolsten <i>President, Worldwide Research and Development</i>	2014	\$4,543,446	\$3,365,946	\$1,178,081
	2013	\$4,554,696	\$3,405,946	\$1,192,081
	2012	\$4,245,833	\$3,123,333	\$1,093,167
	Subtotal	\$13,343,975	\$9,895,225	\$3,463,329
John Young <i>Group President, Global Established Pharma Business</i>	2014	\$4,286,430	\$3,246,430	\$1,136,251
	2013	\$2,613,006	\$1,802,931	4631,026
	Subtotal	\$6,899,436	\$5,049,361	\$1,767,276
Amy Schulman <i>EVP and General Counsel</i>	2012	\$4,134,769	\$3,216,019	\$1,125,607
	TOTAL	\$73,233,675	\$58,717,350	\$20,551,073

Source: Pfizer proxy statements filed with the U.S. Securities and Exchange Commission

Methodology for Calculating Taxpayer Subsidies for Pfizer Executive Pay

1. Executive Officers

Employees covered by Internal Revenue Code Section 162(m) include the CEO and the three other highest-paid executive officers, excluding the CFO.

2. Total Taxable Compensation in Year Surveyed

The forms of pay that were taxable for the corporation in the years surveyed include: salary, bonus, non-equity incentives, perks, and the value of options realized and vested stock. Corporations do not deduct the expense of stock options until the year in which they are exercised and do not deduct the expense of stock award grants until the year they “vest” (i.e., become the property of the employee).

3. Portion of Compensation that is "Performance-based"

Internal Revenue Code Section 162(m) imposes a \$1 million deduction limit for compensation to top executives, unless the compensation is “performance-based” and provided under a plan that has been approved by the shareholders. Section 162(m) treats specific compensation package components as follows:

Bonus: The type of compensation labeled “bonus” in the summary compensation table of corporate proxy statements is generally not considered performance-based because it is typically a cash payout awarded at the board’s discretion rather than pursuant to a written plan approved by shareholders. However, some companies indicate in their proxies that they have configured this portion of compensation to be 162(m)-compliant.

Non-equity incentive plan compensation: Similar to a bonus, but paid under a written plan and thus generally considered “performance-based.”

Stock options: Considered “performance-based.” This analysis includes the value of options exercised, rather than the estimated value of a stock options grant, since options are not taxable until an executive exercises them.

Stock grants: Considered “performance-based” under 162(m) only when tied to specific performance benchmarks. Pfizer executives had three forms of stock grants that vested in the last three years: 1) time-based restricted stock units that do not qualify as “performance-based” under 162(m); 2) total shareholder return units that do qualify; and 3) performance shares that also qualify. Like stock options, stock grants are not taxable in the year they are granted, but rather when they vest.

Salary, perks, pensions, and nonqualified deferred compensation are not considered “performance-based.”

4. Value of Pfizer’s Executive Pay Subsidy

To compute the tax break on qualifying “performance pay,” the federal statutory corporate tax rate of 35% was applied. As this report makes clear, Pfizer’s effective tax rate is much lower, after all credits and deductions for things like “performance pay” are taken. As with most tax matters, there is some gray area when it comes to deductions for executive compensation. Some companies note in their proxy statements that the IRS may challenge some of a firm’s

claimed deductions. Unfortunately, due to lack of transparency in corporate taxation, such challenges are not public information.

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