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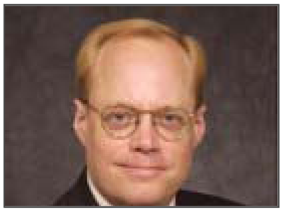

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Walgreens Stays At Corner Of Patriotic and Globally Taxable

Walgreens won’t invert, won’t go Swiss, will stay American. So says Frank Clemente, Executive Director of Americans for Tax Fairness. That group is crowing, and perhaps President Obama should too. Ditto for Sen. Dick Durbin of Illinois, Sen. Carl Levin and Rep. Sander Levin. They have championed the Stop Corporate Inversions Act.

Americans for Tax Fairness also credits the roughly 200,000 Americans who wrote to Walgreens CEO Greg Wasson to essentially threaten a boycott. The news prompting all this back-slapping is the preliminary report that Walgreens will not renounce American corporate citizenship to go Swiss. Walgreens shares dropped 9% after the decision was made public then rebounded slightly.

Walgreens is the U.S.’s largest pharmacy retailer with 8,200 stores spread across all 50 states. America’s drugstore, it has saturated the U.S. market. Most of Walgreens’ yearly $72 billion in sales and $2.5 billion in profits come from the U.S. and are taxed here. Yet the company was considering a controversial move to lower-taxed Switzerland.

Walgreens Store Miami (Photo credit: Phillip Pessar)

It wouldn't save taxes on U.S. profits, but it could cut U.S. taxes on foreign income, and that could really add up in the future. One report claimed that Walgreens could save $4 billion over five years by becoming a Swiss company. The news about Walgreens has not yet been officially announced by the company. See Walgreens Shuns Inversion In £5bn Boots Deal. The timing for the anti-inversion crowd couldn't be better.

Americans for Tax Fairness is also trumpeting the results of a new poll showing that Americans overwhelming disapprove of corporate inversions. The deals involve companies dissolving their U.S. corporate status and reincorporating in a low-tax country to avoid U.S. taxes. The poll found that about half of likely voters are aware of the issue.

Over two-thirds of likely voters disapprove of corporate inversions, including 86% of Democrats, 80% of Independents and 69% of Republicans. The poll was conducted from July 25-27 with a national sample of 1,752 likely voters. The margin of error is plus or minus 2%.

This election season, the issue is a hot button. Political candidates will be pushing it hard as it's likely that corporate inversions will be a hot topic with voters. If Walgreens announces that it will go ahead with plans to become a Swiss company after all, this issue could burn even hotter.

U.S. tax law already tried to stop inversions in 2004. Since then, Section 7874 of the tax code requires that more than 20% of the post-marriage combination must be owned by foreigners. But that hasn't stemmed the tide of deals. Now, Congress is trying to make inversions much more restrictive, upping the 20% to 50%.

We may be seeing a rush to get deals done before the law is changed, and the effective date of the proposed law is now itself controversial. Many U.S. companies that expect much of their sales growth outside the U.S.–say China or India–have a special reason to go offshore. Having all income taxed in the U.S. can make them vulnerable to competition.

The Walgreens deal dates to 2012, when Walgreens moved to buy Alliance Boots (AB), Europe's largest drug wholesaler and retailer. In 2012, Walgreens bought a 45% equity stake. In February 2015, Walgreens has an option to buy the remaining 55%, which could spell inversion. Some U.S. Activists Slam Possible Walgreen Tax Move as 'Unpatriotic', while AB had its own run-in with being called that, reincorporating from the United Kingdom to Switzerland in 2008.

Contact me at Wood@WoodLLP.com. This discussion is not intended as legal advice, and cannot be relied upon for any purpose without the services of a qualified professional.