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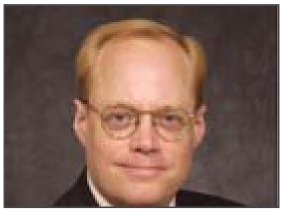

Robert W. Wood

THE TAX LAWYER

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# Why Pfizer & Other U.S. Firms Seek Foreign Mergers (Hint: Tina Turner Tax Benefits)

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Imagine that you are a bachelor or bachelorette. Further suppose you are considering marrying a non-U.S. person. Now, for our biggest leap of faith, suppose that by getting hitched you can stop paying U.S. taxes. Does that make you more likely or less likely to tie the knot?

Now suppose that you actually aren’t that interested in this foreign person. Still, he or she brings that rather astounding dowry to the table—not paying U.S. taxes. Might it be worth getting to know this person, just to see what develops? Answer honestly.

These questions may sound silly to some, and are surely rhetorical to many. But they are questions one could be asking about Pfizer, which is still after AstraZeneca. One could ask this about many other American companies too. In fact, odds are that a lot of these modern corporate style singles ads are being penned right now.

*Wedding cake (Photo credit: Wikipedia)*

The deals are called “inversions.” That’s when a U.S. company moves its domicile so that it is no longer subject to U.S. corporate taxes. It doesn’t work for actual U.S. earnings, of course. But the idea is to shield everything else around the world from the high 35% U.S. corporate tax rate. The how-to isn’t easy.

In fact, U.S. tax law started cracking down on these deals way back in 2004, and even before. As a result, one cannot simply move the company headquarters. And if you try, you may get stuck paying a lot of extra taxes, penalties and interest. As a result, the marriage idea sounds comparatively noble and is far more likely to work.

The matchmaking is surely not just about taxes, of course. Still, the foreign nature of the partner can be pretty alluring. If you can locate and buy a foreign company, that’s a start. But be sure to arrange it so the foreign company acquires the American one, or a holding company is formed to merge the two suitors.

The idea is to insure that more than 20% of the post marriage combination is owned by the foreigners when the smoke clears. If so, voila, the previously not terribly attractive American company effectively can get to start sporting a beret. No longer a sedentary American company with its feet firmly planted in the U.S. tax code, the now more sophisticated and global spouse can stop being domiciled in the U.S. And that means U.S. taxes go down materially.

Congress is already firing up its tax writers to go after these corporate Eduardo Saverin types. Section 7874 of the tax code already covers these deals, right? Yes and no. It's complex but really has teeth when the marriage is largely one of convenience, without substance. Real companies doing real marriages can, well, live happily ever after.

But that could change. Senate Finance Committee Chair Ron Wyden has already said he will introduce legislation to make the 20% rule for these inversions a whopping 50%! That would make sure that the foreign company would have to *really and truly* be the controlling buyer. If not, the dowry of slick tax benefits would be off. President Obama has suggested something similar, and both Sen Carl Levin, D-Mich., Rep. Sander Levin (D-Mich) are making similar waves.

Maybe there will be a run on marriage licenses? Oh, and no English speaking required.

*You can reach 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.*