

ATF/Frank Clemente's Response to the Tax Foundation

The [Tax Foundation's critique](#) of our report, [Offshoring America's Drugstore](#), is wrong and misleading on several counts.

First, overseas profits are taxed only once – not twice as the Tax Foundation claims. If the host country charges any income tax, it is credited against the American company's U.S. tax bill. Second, corporations defer huge amounts of taxes on income sitting offshore – but much of that is not invested in “ongoing overseas business activity,” as the Tax Foundation asserts. Corporations have \$2 trillion sitting offshore now, and they use many channels to reinvest the money back in the U.S. without paying taxes on it. The [Senate Permanent Subcommittee on Investigations](#) found that corporations had invested about half of their offshore deferred profits in U.S. assets.

With respect to taxing Walgreens income after it changes its address to Switzerland, a tax haven, the company has several tools it is likely to use to make it look like the profits it is generating in the U.S. are being generated in the tax haven. It is likely to load up the new company with lots of debt attributed to its U.S. operations, thereby dramatically lowering its U.S. tax obligations. Alliance Boots has used this strategy when it left the U.K. to reincorporate in Switzerland. Last year it paid (and likely deducted from its taxable income) £ 373 million (more than \$600 million) in interest and financing costs. This could also be supplemented with additional intra-group lending by Swiss-controlled entities to the United States subsidiary, further leveraging the U.S. operations.

Additionally, as a [Congressional Research Service report](#) on inversions notes, inversions provide significant opportunities for aggressive transfer pricing on intra-group transactions, which in this case could come from the pricing of Alliance Boots brand products and other intra-group transactions (already a large source of revenue).

I think the equities analysts that closely follow Walgreens got it right – Walgreens inversion would generate a massive tax dodge, which ATF estimates at as much as \$4 billion. The Tax Foundation got it wrong.

The Tax Foundation continues to advocate for a broken tax system that benefits corporations and places too much of the burden on small business owners and average Americans. Multinational corporations should not be allowed to use loopholes, including inversions, as a way of avoiding their fair share of taxes.