US Treasury ramps up war on tax-evading mergers

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The US Treasury announced new measures Thursday to block "inversion" mergers designed to let companies avoid US taxes, placing a possible obstacle to Pfizer's potential $150 billion mega takeover of Ireland-based Allergan.

Treasury Secretary Jacob Lew said the aim of the new rules is to "further reduce the benefits of an inversion and make these transactions even more difficult to achieve."

They aim to deny tax benefits to US companies buying up smaller foreign firms and then relocating to the home base of those firms, or to a low-tax third country, mainly to lower their corporate tax bills.

"US companies are currently taking advantage of an environment that allows them to move their tax residence overseas to avoid paying taxes in the US, without making significant changes in the nature of their overall operations," Lew said.

"It's the Treasury's responsibility to protect the US tax base. We have repeatedly stated that we will use all of our existing administrative authority to address inversions."

The new rules deny tax benefits to inversion-type mergers that set up the combined company's official domicile in a third country.

They also make it harder to use asset transfers to evade rules that say that if the US company's shareholders own 80 percent or more of the merged company's shares, it remains a US firm for tax purposes no matter where the headquarters are.

Pressure on Pfizer deal

The new rules are in addition to those announced a year ago that aimed to stymie a raft of inversion deals.

With US corporate taxes as high as 35 percent—though few companies pay nearly that much—many corporate chiefs see moving to other countries with sharply lower statutory rates as a way to boost profitability and competitiveness.

Because of its ultra-low corporate tax rate of 12.5 percent, Ireland has been the preferred destination for inversion-based mergers.

But last year's rules had limited effect. The year saw several significant deals, like Burger King's takeover of Canada's Tim Horton in which the US chain then moved its base to Canada.

The most recent proposed deal further highlighted the weaknesses: pharmaceutical giant Pfizer's move last month to take over much smaller Allergan and rebase its corporate operations in Allergan's home base of Ireland.

The first proposal valued Allergan at $113 billion. With the new Treasury rules in the air, sources close to the deal said Wednesday that Pfizer had boosted the price it would pay to about $150 billion in hopes of getting the merger done faster.

Late Thursday, The Wall Street Journal reported that the deal had taken another turn: it would be structured as much-smaller Allergan buying

Pfizer.

"The move could make it easier for the companies to sidestep a government crackdown on so-called inversion deals," the Journal said.

Lew admitted that the Treasury could not bring inversion deals fully to a halt: Congress needs to reform US tax law for that, he said.

Nevertheless, he added, "We continue to explore additional ways to address inversions—including potential guidance on earnings stripping—and we intend to take further action in the coming months."