

U.S. Firms With Irish Addresses Get Breaks Derided as ‘Blarney’

By Zachary R. Mider
Bloomberg News

May 5, 2014 – Randall Hogan chairs the Federal Reserve Bank of Minneapolis. Sandy Cutler ran the Greater Cleveland Partnership. Tony Petrello donated \$5 million to the Texas Children's Hospital.

They're all chief executive officers who have given back to their communities. They oversee thousands of American workers. And they run companies that have opted out of the U.S. tax system.

The technique these companies use to lower their tax bills – shifting legal addresses to low-tax Switzerland, Ireland, and Bermuda – was in the spotlight last week. Pfizer Inc., the largest U.S. drugmaker, said it's seeking a British address, a move that might save more than \$1 billion a year in U.S. taxes.

Pfizer is the biggest company yet to follow a growing trend. At least 15 publicly traded U.S. companies have taken steps to reincorporate abroad in the past two years. Most of their CEOs didn't leave. Just the tax bills did.

"In the normal, common sense way of looking at things, that's a lot of blarney," said Robert McIntyre, director of Citizens for Tax Justice, a Washington-based advocacy group that says corporations don't pay enough. "They want to



Pfizer Inc., the largest U.S. drugmaker, said it's seeking a British address, a move that might save more than \$1 billion a year in U.S. taxes.
Photographer: Chris Ratcliffe/Bloomberg

have all the joys of being American and none of the burdens."

Hogan, who runs Pentair Ltd. from suburban Minneapolis, and Cutler, who works in Ohio and runs Eaton Corp., declined to comment. Petrello, the Houston boss of Nabors Industries Ltd., didn't return calls. Cutler said last year the move would save his company \$160 million annually.

Bermuda Shift

Dennis Kozlowski, who shifted Tyco International Ltd.'s address to Bermuda when he was CEO in 1997, said Congress should focus on revamping the tax code to make U.S. companies more competitive, rather than penalizing moves like his.

"If your counterpart has a tax advantage and

you don't, that makes competing that much more difficult," Kozlowski said in a telephone interview last week. "The entire tax code needs to be looked at to keep the U.S. competitive."

For the past 20 years, Congress and the Internal Revenue Service have repeatedly targeted the practice, which tax experts call inversion. Each rulemaking effort has made inversions more difficult though not impossible.

Nowadays, most companies use an exception to a 2004 anti-inversion law that allows them to take a foreign address during the course of a merger with a non-U.S. partner that's at least 25 percent of their market value.

Highest Rate

Congressional leaders now say they want to address inversion as part of broader tax-code changes. The U.S. corporate income tax rate of 35 percent is the highest among developed countries, and lawmakers in both parties advocate lowering it.

"The last few weeks have presented a textbook for why tax reform is so important," Senator Ron Wyden, an Oregon Democrat and chairman of the tax-writing Finance Committee, told reporters last week.

With the two parties deadlocked over how to proceed on a tax revision, however, any change probably won't occur this year, leaving a window for Pfizer and others considering a move.

Some Democrats are proposing narrow anti-inversion rules that have gotten little support in Congress. The Obama administration unveiled a plan in March to curtail future inversions that it estimates would prevent \$17 billion from escaping the U.S. Treasury over the next decade.

Democratic lawmakers including Jeanne

Shaheen, a New Hampshire senator, have submitted bills to tax corporations based on where their managers work, rather than where they're incorporated. Those have gone nowhere. One concern with that idea is that companies might respond by moving their CEOs abroad.

U.S. Roots

At least 31 publicly traded companies with U.S. roots and executive offices in the U.S. are incorporated overseas, according to an informal tally by Bloomberg News. They're listed on U.S. exchanges including the New York Stock Exchange. Almost all obtained their foreign address through an inversion, rather than by initially incorporating overseas.

Pfizer is seeking the U.K. address through a \$105.6 billion acquisition of AstraZeneca Plc. Mark Purcell, a Barclays Plc analyst in London, estimated in a note last week that every percentage point Pfizer can lower its effective tax rate would amount to savings of about \$200 million a year.

Pfizer's rate is about seven points higher than AstraZeneca's, he said. Pfizer could potentially save as much as \$1.4 billion a year by lowering its rate to the level of the British firm over time.

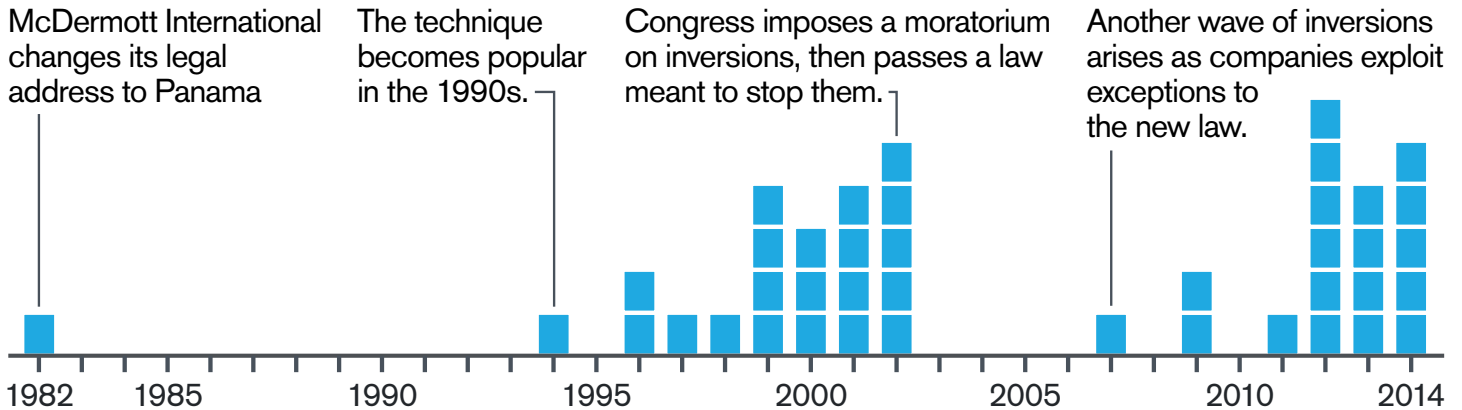
AstraZeneca has rejected Pfizer's offer, setting the stage for a hostile takeover battle. If successful, Pfizer said its management team, led by Chief Executive Officer Ian Read, would remain in New York.

Loves' Jersey

Paul Bisaro, the chief executive officer of Actavis Plc, faced the same decision. The U.S. drugmaker shifted its legal domicile to Ireland when it bought Warner Chilcott Plc last year. The

U.S. Companies Resume Quest for Low-Tax Addresses

■ One inversion completed, or scheduled to be completed



Source: Data compiled by Bloomberg

deal valued Warner Chilcott, incorporated in Ireland and run from Rockaway, New Jersey, at about 30 percent of Actavis's market value, just over the 25 percent threshold needed to win the tax advantage.

"Everybody loves New Jersey too much," Bisaro told analysts on a conference call announcing the deal. "Nobody's willing to go." His office remains in Parsippany.

Petrello, the Nabors CEO, was company president when the oil and gas driller switched its address from Houston to Bermuda in 2002. Petrello stayed put. According to the Houston Press, Petrello owns a 17,000-square-foot mansion in Houston's oak-lined Shadyside enclave.

Swiss Address

In Minnesota, Hogan scored a Swiss address for Pentair through a 2012 merger with a unit of Tyco, which had obtained a foreign domicile under Kozlowski years earlier. The same year, Hogan was chosen the Minneapolis/St. Paul Business Journal executive of the year. He ascended to chairmanship

of the regional Fed bank in 2014. His company makes pumps, valves, and filters and employs more than 30,000.

Rebecca Osborn, a Pentair spokeswoman, said in a statement that the transaction with Tyco "necessitated" retaining the Swiss domicile. "More than two-thirds of our employees work outside the United States and at the time of the merger, 60 percent of the combined company's revenues were generated outside the U.S.," she said.

David Fettig, a spokesman for the Minneapolis Fed, said the bank reviewed the Pentair transaction with Tyco and found "no issues or concerns whatsoever" with Hogan's continued service on the board.

After Tyco's shift to the Bermuda address in 1997, Kozlowski kept his office in Exeter, New Hampshire.

"Little Time"

"I spent very little time in the home office. I was probably on the road three-quarters of the time," Kozlowski said. "When you have a multinational

company, you really are based wherever you are that day.”

After Kozlowski’s departure, the company moved its legal domicile to Switzerland. And it said last week it plans another shift, to Ireland, where about 100 of its 65,000 employees are based now.

Kozlowski was recently released after serving more than eight years in prison on charges unrelated to the Bermuda arrangement.

Sandy Cutler works at Eaton’s new corporate campus in the Cleveland suburbs. He oversees 101,000 employees around the world, making circuit breakers and truck transmissions. The Yale University graduate donated \$2.5 million to the Cleveland Museum of Art and helped lead a campaign to clean up the Cuyahoga County government after a corruption scandal.

As a member of the Campaign to Fix the Debt, a non-partisan organization that advocates cutting government spending and raising tax revenue, Cutler addressed the City Club of Cleveland last year. Ignoring the debt problem risks putting America on the path of Greece, he told a roomful of Ohioans.

‘Those Loopholes’

“The time to act is now,” Cutler said, according to a recording of his speech on YouTube. Any solution must include changing corporate tax rates to make the U.S. more competitive, he said. Tracing a tiny circle with an index finger, he said lawmakers must target “those loopholes in the tax system.”

When Cutler took the top job at Eaton in 2000, the company’s effective tax rate was about 30 percent. By 2011, it was less than 20 percent, partly because it used factories in tax-advantaged Puerto Rico, he told analysts that year.

The IRS maintains that Eaton improperly

reduced its taxes by inflating profits on circuit breakers built in Puerto Rico at the expense of its U.S. units. The agency is seeking \$127 million in extra taxes and penalties for the 2005 and 2006 tax years.

Contesting Claims

Eaton says the claims are without merit and is contesting them in U.S. Tax Court.

In 2012, Cutler shifted the company’s domicile to Ireland through an acquisition of Cooper Industries Plc, a company run from Texas that had gained a foreign address through a 2002 inversion. With the help of the new domicile, Cutler predicts his company’s tax rate will be about 5 percent this year.

In addition to the tax benefits, the Cooper acquisition was “a strategic decision to add scale and breadth to our global electrical business” that will result in \$475 million in annual cost savings and other benefits unrelated to taxes, said Scott Schroeder, a company spokesman.

A year ago, Cutler gave a speech at a conference in Florida. Someone in the audience asked whether he thought Eaton’s new, lower tax rate was “sustainable” in light of political pressure, pointing out that Apple Inc. CEO Tim Cook was being grilled by senators that day over his use of Irish subsidiaries.

Cutler said he wasn’t concerned.

“We are not a U.S. company employing offshore-type activities,” Cutler said. “We are an Irish company.”

*Editors: Jodi Schneider, Daniel Golden,
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While Companies Shift Addresses to Tax Havens, CEO's Stay Put

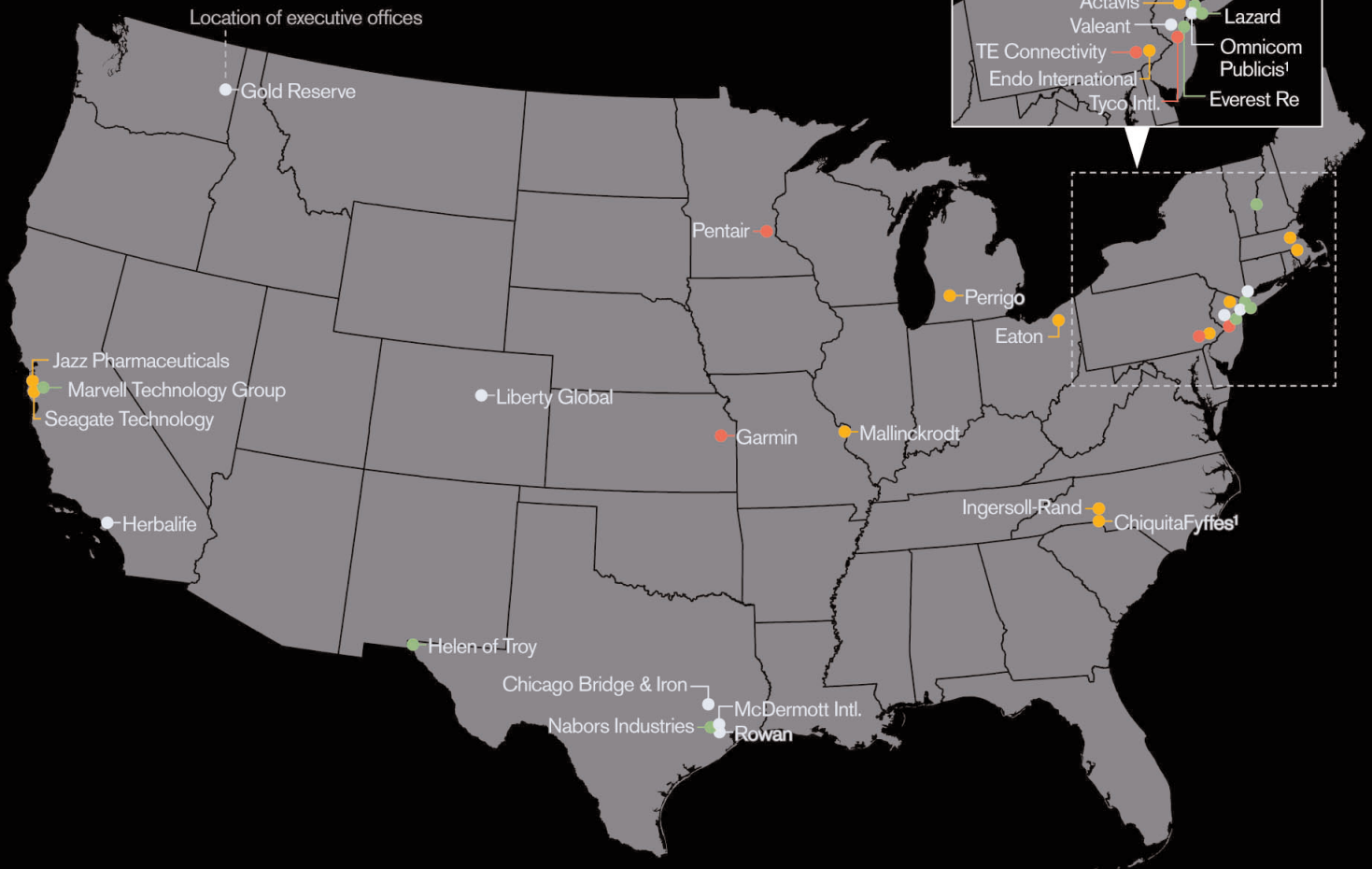
Dozens of large, publicly traded companies with American roots, and American executives, are actually incorporated in tax havens abroad. Most of them got the offshore address long after they started in business. Shifting an existing company's domicile out of the country is known as "inversion."

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Still Here, Just Without the Tax Bills

Dots on the map locate a company's executive office in the U.S. and are shaded to indicate the country where the company chose to incorporate.

Country of incorporation: ● Ireland ● Bermuda ● Switzerland ● Other



1 – Deals are pending. Top executive posts to be split between U.S. and non-U.S. offices

Source: Data compiled by Bloomberg

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