

Johnson & Johnson

Pfizer

abbvie

MERCK

GILEAD

Lilly

AMGEN

Biogen

Celgene

Bristol-Myers Squibb

The Pharma Big 10: Price Gougers, Tax Dodgers



THE PHARMA BIG 10: PRICE GOUGERS, TAX DODGERS

CREDITS

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Americans for Tax Fairness is a diverse coalition of 425 national and state endorsing organizations that collectively represent tens of millions of members. The organization was formed on the belief that the country needs comprehensive, progressive tax reform that results in greater revenue to meet our growing needs. ATF is playing a central role in Washington and in the states on federal tax-reform issues.

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Table of Contents

| | |
|---|-----------|
| Introduction & Key Findings | 4 |
| Pharma Big 10 Price Gouging | 6 |
| Figure 1: Increase in Select Prescription Drug Prices for Medicare, Medicaid & Retail Customers, 2011–2015 .. | 7 |
| Table 1: Price Increases on Selected U.S. Prescription Drugs Purchased Through Medicare, 2011-2015 | 8 |
| Table 2: Price Increases on Selected U.S. Prescription Drugs Purchased Through Medicaid, 2011-2015 | 9 |
| Table 3: Retail Price Increases on Nine Top-Selling U.S. Prescription Drugs, 2011-2015 | 10 |
| Drug Industry Profits Rise with Prices | 11 |
| Figure 2: Worldwide Profits of Top 10 U.S. Drug Companies Increased 42%, 2011-2016 | 11 |
| Figure 3: Pharmaceutical Industry Holds 22% of \$2.6 Trillion in Untaxed Offshore Profits | 12 |
| Table 4: Untaxed Offshore Profits of Top 10 U.S. Drug Companies | 13 |
| Figure 4: Growth of Untaxed Offshore Profits of Top 10 U.S. Drug Companies, 2011-2016 | 14 |
| Figure 5: Top 10 U.S. Drug Companies Revenue & Profits Provide Evidence of Profit Shifting | 14 |
| Table 5: Savings from Proposed Reductions in Tax Rate on Offshore Profits | 16 |
| Figure 6: \$78 Billion Tax Savings on Offshore Profits for Pharma Big 10 from Senate Bill | 17 |
| Price Gouging + Tax Dodging = High Stock Prices & Shareholder Payouts | 18 |
| Table 6: Stock Price Gains of Top 10 U.S. Drug Companies, 2011-2015 | 18 |
| Table 7: Dividends, Stock Buybacks and R&D Expenditures of Top 10 U.S. Drug Companies, 2011-2016 | 19 |
| Company Profiles | |
| Johnson & Johnson | 20 |
| Pfizer | 21 |
| Merck & Co. | 22 |
| Gilead Sciences | 23 |
| AbbVie | 24 |
| Amgen | 25 |
| Eli Lilly & Co. | 25 |
| Bristol-Myers Squibb | 26 |
| Biogen | 27 |
| Celgene | 27 |
| Appendix A: 30 Fortune 500 Corporations with the Most Profits Offshore includes | |
| 9 Pharmaceutical Companies | 29 |
| Appendix B: Calculations of Corporations' Savings from Proposed Tax Cut on | |
| Offshore Profits | 30 |
| Appendix C: Estimate of Pfizer's U.S. Tax Owed on Offshore Profits | 31 |
| Endnotes | 32 |

INTRODUCTION & KEY FINDINGS

President Trump and the GOP Congress are working overtime to provide a massive tax cut to corporations on their accumulated offshore profits and rewrite the way offshore profits are taxed in the future. Drug companies will be among the biggest winners if this effort succeeds—but it's hard to imagine less deserving beneficiaries.

Like a boxer in a lab coat, America's prescription drug industry has for years been clobbering working families with a devastating, one-two punch to their health and economic well-being.

First, the pharmaceutical industry gouges the public with outrageous prescription-drug prices and runaway profits, straining the budgets of consumers and public health systems alike—sometimes even pricing patients out of a cure.

Then through offshore tax dodging, the drug industry avoids paying tens of billions of dollars in U.S. taxes on those inflated profits. This widespread tax avoidance threatens funding of public services—such as health care—that working families, small businesses and local communities need to survive and thrive.

Rather than crack down on pharmaceutical-company tax dodging, the House and Senate GOP tax plans reward drug firms—along with about 50 other multinationals—for their offshore tax avoidance by providing them with two huge tax windfalls:

- Deeply discounting the taxes owed on \$506 billion in offshore profits held by the top 10 drug companies examined in this report. It is estimated that these companies owe about \$133 billion on their untaxed offshore profits and under the House and Senate tax legislation will pay about \$55 billion in taxes on them—giving the corporations a tax cut of nearly \$80 billion.
- Creating a “territorial” tax system that will charge U.S. corporations a much lower tax rate on their foreign profits than on domestic profits. This will provide even more incentives than exist today to ship profits, investment and jobs offshore.

Corporations do not deserve such special treatment—least of all drug companies that price-gouge consumers and taxpayer-supported healthcare programs like Medicare and Medicaid.

Key findings about the 10 biggest U.S. pharmaceutical companies, known here as the Pharma Big 10, include:

DRUG PRICE GOUGING

- **Between 2011 and 2015, the Pharma Big 10 jacked up the prices charged to consumers and Medicare and Medicaid for 31 of their most widely-prescribed drugs by at least 40% and as much as 71%—at least 4 times the rate of prescription-drug inflation and up to 14 times the general rate of inflation:**
 - **Medicare drug prices:** Jumped by an average of 44% for all 24 of the companies' drugs for which pricing data for 2011 to 2015 is available on Medicare's drug spending dashboard. This price hike is 4 times the rate of prescription drug inflation (11%) and 9 times the rate of general inflation (5%) during that period.

- **Medicaid drug prices:** Rose by an average of 40% for all 13 of the companies' drugs for which 2011-15 pricing data is available on Medicaid's drug spending dashboard. This price hike is nearly 4 times the rate of prescription drug inflation and 8 times the rate of general inflation.
- **Retail prices:** Nine of their most widely-prescribed drugs for older Americans spiked by an average of 71%—about 6.5 times the rate of prescription drug inflation and 14 times the rate of general inflation.
- During those five years, more than \$120 billion was spent on this sample of prescription drugs through Medicare and Medicaid.

CORPORATE PROFITS AND OFFSHORE TAXES OWED

- **Worldwide corporate profits of the Pharma Big 10 jumped by 39% over that same 2011-2015 period, from \$58.8 billion to \$81.5 billion (and to \$83.4 billion, or by 42%, between 2011 and 2016).** Worldwide sales, which neared \$300 billion in 2015, were up only 5% over that timeframe, indicating drug companies were squeezing more profit from every sale.
- **The Pharma Big 10 had \$506 billion in untaxed profits stashed offshore in 2016.** These profits increased by 65% from 2011, as drug prices soared. U.S. tax law allows companies to indefinitely delay paying federal taxes on profits booked and kept offshore.
- **The Pharma Big 10 owe an estimated \$133 billion on their \$506 billion in offshore profits if they are repatriated to the U.S. at the 35% rate less credit for foreign taxes paid.** The tax bills passed by the House and Senate would slash the tax rate on these profits to 14% in the House and to 14.5% in the Senate (rates are based on cash assets, and would be much lower if based on non-cash assets such as plants and equipment). That means they would pay an estimated \$55 billion in taxes on the profits, for a tax cut of nearly \$80 billion.
- **Healthcare companies, primarily pharmaceuticals, own 22% of the total \$2.6 trillion in untaxed profits U.S. corporations hold offshore.** They claim the second biggest share after the information technology industry. Drug companies comprise 9 of the top 30 profit-offshoring corporations.
- **Drug companies are particularly adept at shifting profits offshore.** By manipulating their valuable intellectual property—principally, drug formulas—pharmaceutical companies can easily shift profits made here to offshore tax havens. Among the evidence of such profit shifting: in 2016, the Pharma Big 10 made 57% of their sales in the U.S. but only booked 23% of their profits here.
- **Wall Street has rewarded drug companies' aggressive price gouging with booming stock prices.** The stock-price increases of all but one of the Pharma Big 10 firms exceeded the gains in the benchmark S&P 500 from 2011 to 2015, in most cases by double or more.
- **Rather than use their big tax cuts to invest in new drug treatments, drug companies are more likely to enrich shareholders and CEOs with stock buybacks and dividend payouts.** From 2011 to 2016, the Pharma Big 10 spent more than 100% of their net income on dividends and stock buybacks and 80% of their net income on research and development. This suggests that a large portion of a corporate tax cut will be used to enrich already wealthy shareholders and well-paid executives rather than to research new cures.

PHARMA BIG 10 PRICE GOUGING

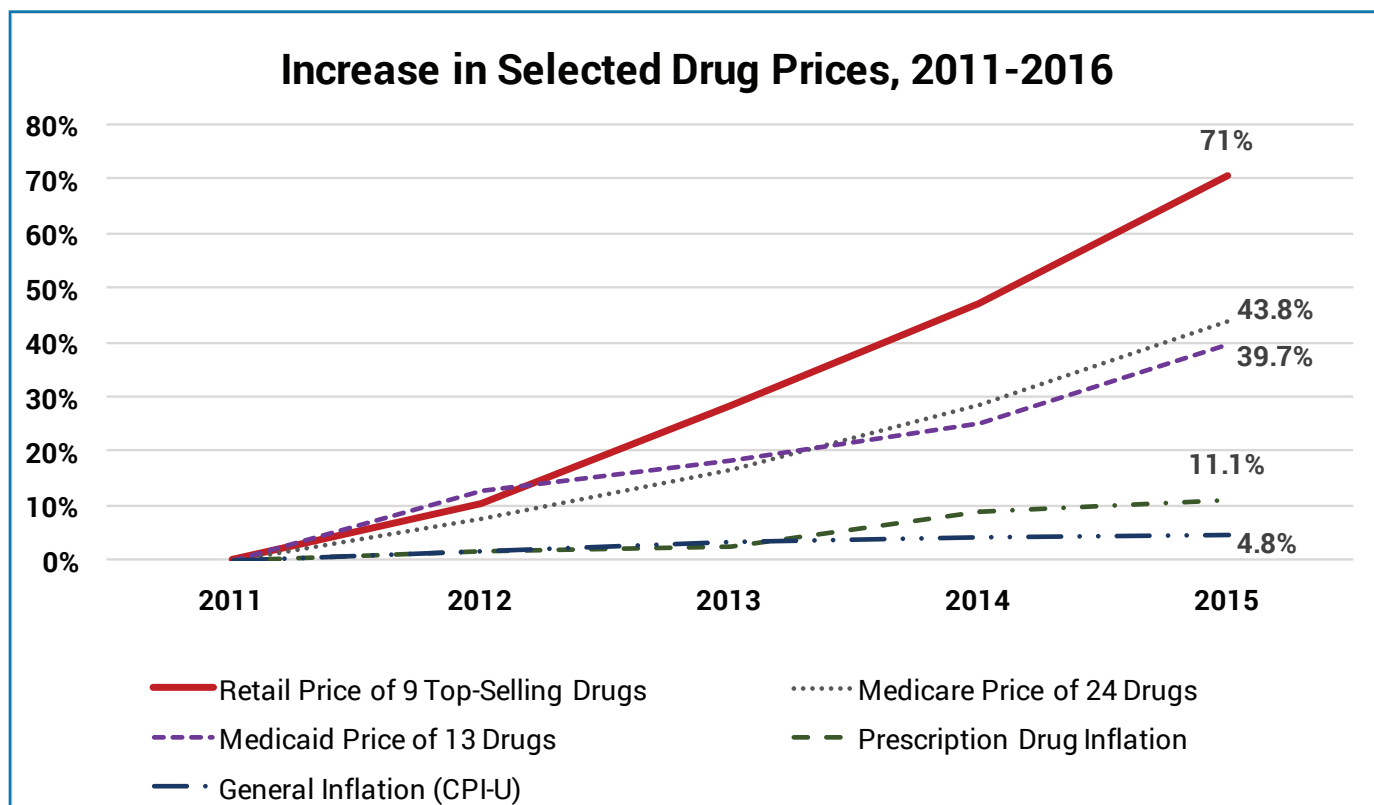
This report examines price increases between 2011 and 2015 (the latest year for which data is consistently available) for some of the top-selling prescription drugs of the Pharma Big 10 purchased by consumers and by the big public-health programs Medicare and Medicaid. Pricing of 31 unique drugs is examined—the total number of price changes calculated and presented here is greater because many drugs appear on more than one list. The breakdown by purchasers is as follows:

- **Medicare:** The Centers for Medicare & Medicaid Services (CMS) provides [multi-year pricing information](#) on 80 drugs purchased through its Part B and Part D programs, selected by several spending criteria.¹ Of those, 30 are sold by the Pharma Big 10, of which 24 have been on the list since 2011. Medicare spent a total of \$96 billion on these 30 drugs from 2011 to 2015.²
- **Medicaid:** CMS provides similar [information on 70 drugs](#) chosen by the same criteria.³ Of those, 18 are produced by the Pharma Big 10, of which 13 have been on the list since 2011. Medicaid spent a total of \$25 billion on these 18 drugs between 2011 and 2015.⁴ The total five-year cost of the 34 drugs that are on the Medicare and/or Medicaid lists was more than \$120 billion.
- **Retail customers:** AARP provided the authors of this report with five-year price-change information for nine drugs made by the Pharma Big 10 heavily prescribed for older Americans. AARP [periodically surveys annual price changes](#) of hundreds of drugs widely used by seniors, including drugs from both domestic and foreign manufacturers.⁵ The nine drugs in this ATF report are the top-selling drugs in the most recent AARP survey from six of the Pharma Big 10 companies. Six of the nine drugs are among the 25 top-selling drugs from all manufacturers in the AARP survey.⁶

The findings about drug price increases are as follows and shown in Figure 1:

- The price of 24 Medicare drugs increased by 44%—4 times the rate of prescription drug inflation and 9 times the rate of general inflation. Prescription drug inflation increased by 11% between 2011 and 2015 and general inflation rose by under 5%.
- The price of 13 Medicaid drugs rose by 40%—nearly 4 times the rate of prescription drug inflation and 8 times the rate of general inflation.
- The retail price of 9 top-selling drugs shot up by 71%—more than 6 times the rate of prescription drug inflation and 14 times the rate of general inflation.

Figure 1. Increase in Select Prescription Drug Prices for Medicare, Medicaid & Retail Customers, 2011–2015



Sources: AARP, CMS Medicare and Medicaid Prescription Drug Spending Dashboards, Bureau of Labor Statistics

MEDICARE DRUG PRICES ROSE 44% IN FOUR YEARS

The federal government has recently begun sharing with the public pricing information on drugs purchased through its two big public health programs, Medicare and Medicaid. Medicare provides [multi-year pricing data on 80 drugs](#), chosen based on their overall cost to the agency, high per-unit or per-user cost, and/or big price changes.⁷ (The drugs chosen include those purchased under the Medicare Part D prescription drug benefit, in which patients contribute payments.) Medicaid provides pricing [information on 70 drugs](#), selected using the same criteria.⁸ Many drugs are on both lists.

This report examines 26 heavily-prescribed drugs purchased by Medicare and/or Medicaid that were made by the Pharma Big 10 for which data was available between 2011 and 2015.

Of these drugs, the cost of the 24 that have been on Medicare's list from 2011 through 2015 increased by 44% on average. That's 4 times the 11% rate of prescription drug inflation during those years and 9 times the 5% rate of general inflation. [Table 1]

Cumulatively, Medicare spent \$32.7 billion on the 30 drugs made by the Pharma Big 10 that made the list in 2015. That's 20% of the [\\$162 billion](#) spent on all prescription drugs by Medicare Parts B and D for that year.⁹

Gilead's two hepatitis C medications, Harvoni and Sovaldi, accounted for a combined \$8.3 billion of 2015 Medicare spending—however, neither drug had yet been introduced in 2011 so they are not included in the cost-increase figure.

Table 1. Price Increases on Selected U.S. Prescription Drugs Purchased Through Medicare, 2011-2015

| Company | Drug | Condition Treated | Total Spending 2015 | Unit Cost 2011 | Unit Cost 2015 | % Increase 2011-2015 |
|--|-----------------|---------------------------------|-------------------------|-------------------|-------------------|-------------------------|
| Johnson & Johnson | Prezista | HIV | \$412,709,302 | \$16.61 | \$35.51 | 114% |
| Pfizer | Lyrica | Epilepsy, nerve pain | \$1,766,473,720 | \$2.68 | \$5.10 | 90% |
| Eli Lilly | Forteo | Osteoporosis | \$430,210,944 | \$434.35 | \$821.90 | 89% |
| Amgen | Enbrel | Arthritis | \$1,385,143,655 | \$440.43 | \$792.87 | 80% |
| AbbVie | Humira | Arthritis, psoriasis | \$1,662,291,827 | \$902.31 | \$1,618.48 | 79% |
| Bristol-Myers Squibb | Orencia | Arthritis | \$452,295,188 | \$20.70 | \$34.36 | 66% |
| Merck | Januvia | Diabetes | \$2,131,952,446 | \$6.84 | \$11.05 | 62% |
| Pfizer | Prevnar 13 | Pneumococcal disease | \$914,629,739 | \$99.60 | \$158.79 | 59% |
| Biogen | Tysabri | Multiple Sclerosis | \$288,824,658 | \$10.26 | \$15.70 | 53% |
| Johnson & Johnson | Xarelto | Blood clots | \$1,524,438,227 | \$7.44 | \$10.71 | 44% |
| Amgen | Neulasta | Infections from Chemotherapy | \$1,259,962,339 | \$2,615.20 | \$3,550.86 | 36% |
| Celgene | Revlimid | Cancer | \$2,077,425,469 | \$366.93 | \$489.91 | 34% |
| Gilead Sciences | Atripla | HIV | \$589,704,409 | \$55.39 | \$73.81 | 33% |
| Gilead Sciences | Letairis | Pulmonary hypertension | \$463,087,773 | \$195.62 | \$252.66 | 29% |
| Amgen | Aranesp | Anemia | \$294,317,556 | \$3.06 | \$3.94 | 29% |
| Johnson & Johnson | Invega Sustenna | Psychosis | \$662,757,174 | \$1,083.30 | \$1,354.81 | 25% |
| Gilead Sciences | Truvada | HIV | \$687,356,001 | \$36.38 | \$45.44 | 25% |
| Johnson & Johnson | Remicade | Arthritis | \$1,242,943,447 | \$60.88 | \$75.21 | 24% |
| Merck | Isentress | HIV | \$396,644,959 | \$16.52 | \$20.29 | 23% |
| Biogen | Rituxan | Non-Hodgkin's Lymphoma | \$1,561,299,193 | \$608.27 | \$724.59 | 19% |
| Eli Lilly | Alimta | Cancer | \$547,767,946 | \$52.71 | \$59.95 | 14% |
| Johnson & Johnson | Velcade | Cancer | \$505,294,177 | \$40.75 | \$45.84 | 12% |
| Eli Lilly | Erbix | Cancer | \$244,141,566 | \$50.03 | \$52.43 | 5% |
| Celgene | Abraxane | Breast Cancer | \$276,806,046 | \$9.40 | \$9.57 | 2% |
| SUBTOTAL, 24 DRUGS | | | \$21,778,477,761 | \$7,136 | \$10,264 | 44% |
| Amgen | Prolia; Xgeva | Osteoporosis | \$916,068,305 | n/a* | \$15 | n/a |
| Biogen | Tecfidera | Multiple Sclerosis | \$875,583,352 | n/a* | \$93 | n/a |
| Bristol-Myers Squibb | Yervoy | Melanoma | \$217,123,682 | n/a* | \$133 | n/a |
| Gilead Sciences | Sovaldi | Hepatitis C | \$1,318,386,247 | n/a* | \$1,008 | n/a |
| Gilead Sciences | Harvoni | Hepatitis C | \$7,030,633,486 | n/a* | \$1,127 | n/a |
| Johnson & Johnson (Also sold by AbbVie) | Imbruvica | Lymphoma/leukemia | \$590,946,242 | n/a* | \$104 | n/a |
| SUBTOTAL, 6 DRUGS | | | \$10,948,741,314 | | | |
| TOTAL SPENDING | | | \$32,727,219,075 | | | |

Source: CMS Medicare Drug Spending Dashboard

* Note: Product not on market or not on Medicare dashboard in 2011

MEDICAID DRUG PRICES ROSE 40% IN FOUR YEARS

Medicaid has also spent significant amounts on some of the same drugs purchased through Medicare as well as others sold by the Pharma Big 10. The unit cost prices of the 13 medications for which prices were available from Medicaid's list from 2011 to 2015 rose by 40% on average. That's nearly 4 times the rate of prescription drug inflation and 8 times the general inflation rate. [Table 2]

Seventeen drugs made by the Pharma Big 10 were on Medicaid's 2015 price list (five only came on the market after 2011), and they cost \$9 billion that year—about one-sixth of the [\\$57 billion](#)¹⁰ spent by Medicaid on all prescription drugs. As with Medicare, a large portion (\$2.8 billion) of this spending in 2015 was on Gilead's hepatitis C medications, Harvoni and Sovaldi.

Table 2. Price Increases on Selected U.S. Prescription Drugs Purchased Through Medicaid, 2011-2015

| Company | Drug | Condition Treated | Total Spending 2015 | Unit Cost 2011 | Unit Cost 2015 | % Increase 2011-15 |
|---------------------------|--------------------------------------|-------------------------------|------------------------|----------------|-----------------|--------------------|
| Johnson & Johnson | Invega/Invega Sustenna/Invega Trinza | Psychosis | \$726,297,317 | \$331.96 | \$803.50 | 142% |
| Johnson & Johnson | Prezista | HIV | \$334,742,618 | \$16.38 | \$37.91 | 131% |
| Pfizer | Lyrica | Epilepsy, nerve pain | \$503,093,905 | \$2.75 | \$5.37 | 95% |
| Eli Lilly | Humalog | Diabetes | \$355,593,188 | \$11.82 | \$21.87 | 85% |
| AbbVie | Humira | Arthritis, psoriasis | \$805,458,621 | \$889.00 | \$1,577.02 | 77% |
| Amgen | Enbrel | Arthritis | \$437,474,118 | \$436.81 | \$771.88 | 77% |
| Gilead Sciences | Atripla | HIV | \$603,023,281 | \$55.25 | \$74.48 | 35% |
| Celgene | Revlimid | Cancer | \$144,095,513 | \$361.01 | \$478.95 | 33% |
| Gilead Sciences | Truvada | HIV | \$736,377,749 | \$35.97 | \$46.48 | 29% |
| Amgen | Neulasta | Infections from Chemo-therapy | \$281,953,812 | \$4,452.74 | \$5,728.30 | 29% |
| Merck | Isentress | HIV | \$231,419,271 | \$16.36 | \$20.69 | 26% |
| Gilead Sciences | Complera | HIV | \$313,442,459 | \$62.96 | \$74.44 | 18% |
| Johnson & Johnson | Remicade | Arthritis | \$188,694,622 | \$583.02 | \$496.10 | -15% |
| SUBTOTAL, 13 DRUGS | | | \$5,661,666,474 | \$7,256 | \$10,137 | 40% |
| AbbVie | Viekira | Hepatitis C | \$210,251,894 | n/a* | \$957 | n/a |
| Biogen | Tecfidera | Multiple Sclerosis | \$218,542,810 | n/a* | \$283 | n/a |
| Gilead Sciences | Stribild | HIV | \$455,245,057 | n/a* | \$86 | n/a |
| Gilead Sciences | Harvoni | Hepatitis C | \$2,175,155,839 | n/a* | \$1,145 | n/a |
| Gilead Sciences | Sovaldi | Hepatitis C | \$618,445,599 | n/a* | \$979 | n/a |
| SUBTOTAL, 5 DRUGS | | | \$3,677,641,199 | | | |
| TOTAL SPENDING | | | \$9,339,307,673 | | | |

Source: CMS Medicaid Drug Spending Dashboard

*Product not on market by 2011.

SELECT RETAIL DRUG PRICES ROSE 71% IN FOUR YEARS

ATF could not afford to purchase a database that would provide multi-year pricing information on all of the drugs produced by the Pharma Big 10. However, AARP provided price information for nine leading drugs from six of these manufacturers, including six products that are among the 25 top-selling medications for seniors among all prescription drugs. (Drugs from foreign firms were excluded because this report is examining the connection between drug-price gouging and tax dodging by U.S. firms.)

The retail price of the 9 drugs shot up by 71% from 2011 to 2015—more than 6 times the rate of prescription drug inflation and 14 times the general inflation rate. [Table 3]

Table 3. Retail Price Increases on Nine Top-Selling U.S. Prescription Drugs, 2011-2015

| Company | Drug | Treatment | Yearly Cost 2011 | Yearly Cost 2015 | % Increase 2011-2015 |
|-------------------|------------------|------------------|------------------|------------------|----------------------|
| Pfizer | Celebrex | Arthritis | \$1,542 | \$3,136 | 103% |
| Pfizer | Lyrica | Nerve Pain | \$1,959 | \$3,911 | 100% |
| Eli Lilly | Humalog Kwik-Pen | Diabetes | \$3,009 | \$5,720 | 90% |
| Merck | Zetia | High Cholesterol | \$1,548 | \$2,905 | 88% |
| Merck | Januvia | Diabetes | \$2,580 | \$4,441 | 72% |
| AbbVie | AndroGel Pump | Low Testosterone | \$3,921 | \$6,468 | 65% |
| Eli Lilly | Evista | Osteoporosis | \$1,622 | \$2,466 | 52% |
| Johnson & Johnson | Xarelto | Blood Clots | \$2,741 | \$4,080 | 49% |
| Gilead Sciences | Ranexa | Angina | \$3,090 | \$4,435 | 44% |
| TOTAL | | | \$22,012 | \$37,562 | 71% |

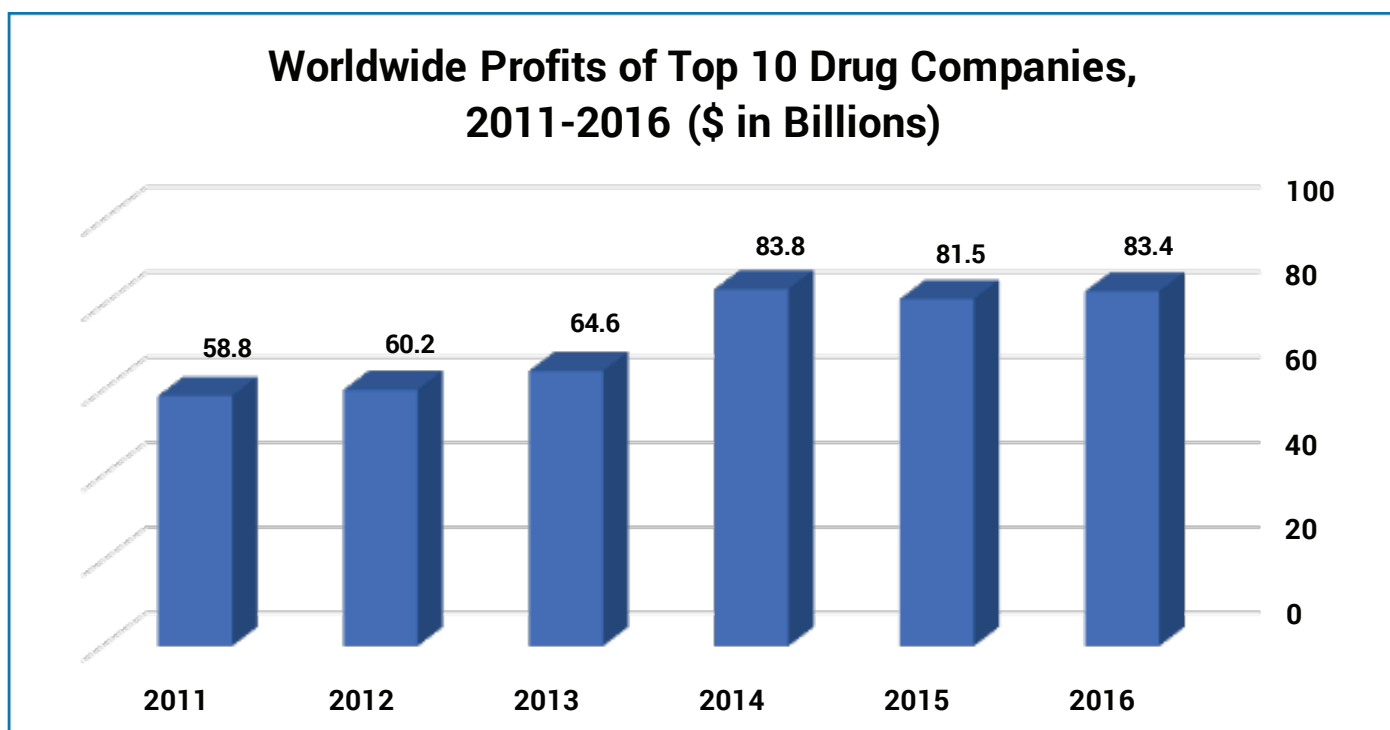
Source: ATF analysis of data provided by AARP

DRUG INDUSTRY PROFITS RISE WITH PRICES

The profits of the Pharma Big 10 have shot up in tandem with its drug-price increases. Between 2011 and 2016, total worldwide net income of these companies rose from \$58.8 billion to \$83.4 billion, a 42% increase over five years. [Table 4] The increase from 2011 to 2015 was 39%.

Over this same period, the worldwide sales of the Pharma Big 10 increased by only 5%, from \$276 billion to \$291 billion, indicating that the profit increase was not a result of sales skyrocketing, but of the companies increasing their profit margins. Worldwide sales were up to \$305 billion in 2016, an 11% increase over 2011.¹¹

Figure 2. Worldwide Profits of Top 10 U.S. Drug Companies Increased 42%, 2011-2016



Source: Institution on Taxation and Economic Policy (ITEP) analysis of companies' 10-K filings with the Securities and Exchange Commission (SEC)

AVOIDING TAXES ON OFFSHORE PROFITS

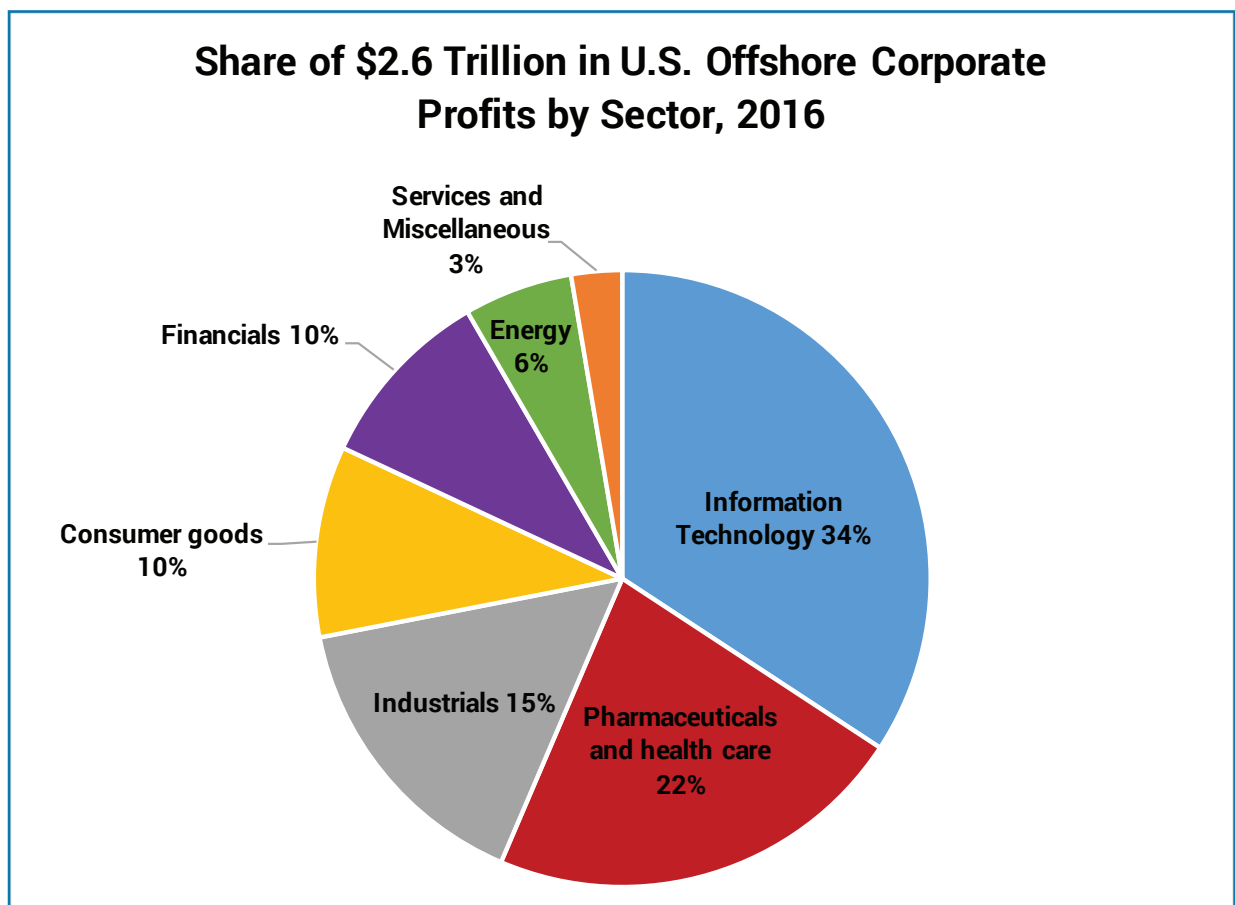
While aggressively hiking prices on their drugs, the Pharma Big 10 have been just as aggressive in exploiting tax loopholes to avoid paying tens of billions of dollars in taxes on their inflated profits. Among the special breaks that allow corporations to pay far below the official 35% tax rate,¹² the biggest one benefiting the pharmaceutical industry is the deferral of taxes on profits booked offshore.

U.S. corporations can indefinitely delay paying federal taxes on profits they book in their foreign subsidiaries until those profits are brought home, or “repatriated,” to the U.S. parent company. Multinational corporations exploit this loophole by using accounting maneuvers to shift billions in domestic profits to offshore tax havens—[avoiding up to \\$100 billion a year](#) in U.S. income taxes.¹³

PHARMACEUTICAL COMPANIES RANK #2 IN UNTAXED OFFSHORE PROFITS

U.S. corporations have accumulated [\\$2.6 trillion in untaxed offshore profits](#).¹⁴ Healthcare companies, primarily pharmaceuticals, own 22% of those profits, claiming a bigger share than any other industry except information technology. [Figure 1] Prescription drug companies comprise 9 of the top 30 profit-offshoring U.S. corporations. [Appendix A]

Figure 3. Pharmaceutical Industry Holds 22% of \$2.6 Trillion in Untaxed Offshore Profits



Source: ATF Analysis of U.S. PIRG & ITEP, “Offshore Shell Games 2017.” Available at <http://bit.ly/2hRS0R1>.¹⁵

THE PHARMA BIG 10 HAVE \$506 BILLION IN UNTAXED OFFSHORE PROFITS

Pharmaceutical firms are particularly well-positioned to dodge taxes by shifting profits to offshore tax havens. That's because many of their most valuable assets—mostly drug patents—are easily transferrable. The companies assign the patents to offshore subsidiaries located in low- or zero-tax jurisdictions, otherwise known as tax havens. Then the U.S. parent company licenses back use of the patents, often at inflated prices. This creates artificial costs that lower the net income, and thus the taxes, of the U.S. parent company, while creating income in jurisdictions where it will be taxed little if at all.

That profit shifting is reflected in the growing stash of foreign profits that the Pharma Big 10 report as being “permanently” or “indefinitely” reinvested, which is basically code for profits on which they have not paid U.S. taxes and have no intention of paying any time soon.

Between 2011 and 2016, roughly the same period that these companies were raising prices between 40% and 70% on some of their top drugs, nine of the companies had their total stash of untaxed offshore profits grow by 65%—rising from \$290 billion in 2011 to \$477 billion in 2016. AbbVie is excluded from the calculation as it was spun off from Abbott Laboratories and did not report independently about its untaxed offshore profits until 2013. [Table 4 and Figure 4]

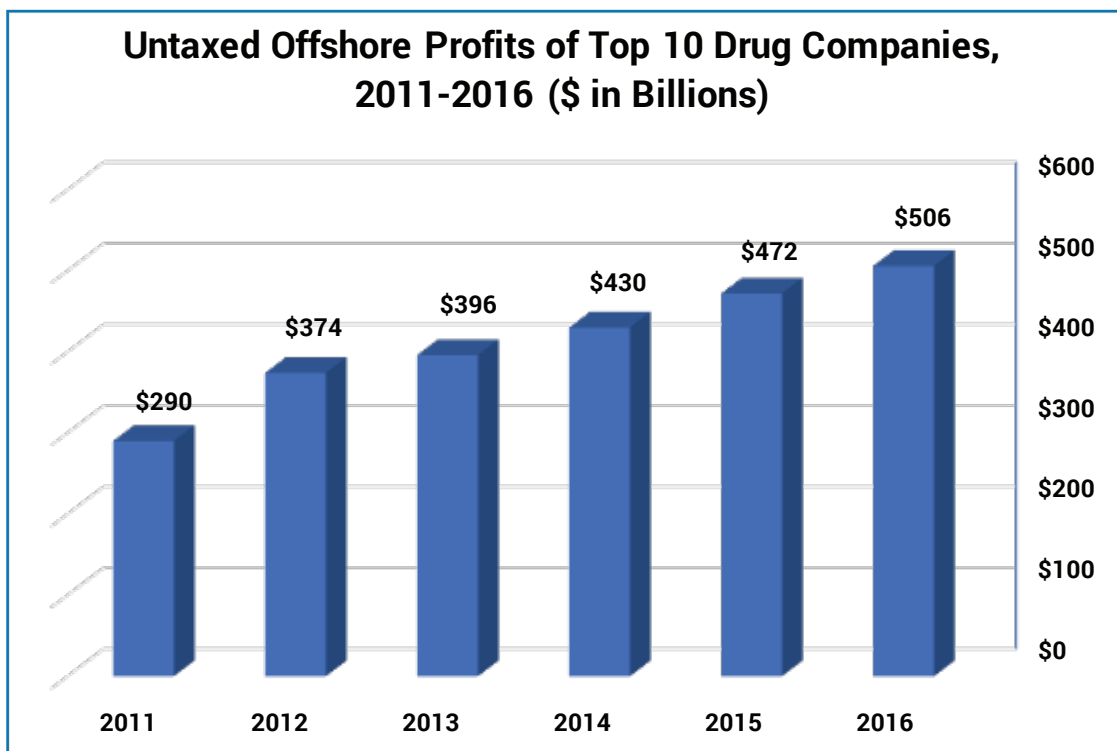
Table 4: Untaxed Offshore Profits of Top 10 U.S. Drug Companies (\$ in Millions)

| Company | Untaxed Foreign Profits 2016 | Untaxed Foreign Profits 2011 | % Increase 2011-2016 |
|---------------------------|---|---------------------------------|-------------------------|
| Pfizer | 198,944 | 132,922 | 50% |
| Johnson & Johnson | 66,200 | 41,600 | 59% |
| Merck | 63,100 | 44,300 | 42% |
| Gilead Sciences | 37,600 | 5,840 | 544% |
| Amgen | 36,600 | 19,500 | 88% |
| AbbVie Inc | 29,000 | n/a | n/a |
| Eli Lilly | 28,000 | 20,600 | 36% |
| Bristol-Myers Squibb | 25,700 | 18,500 | 39% |
| Celgene | 13,300 | 3,600 | 269% |
| Biogen | 7,600 | 2,700 | 181% |
| Total 10 Companies | 506,044 (19% of \$2.6 Trillion) | | |
| Total Minus AbbVie | 477,044 | 289,562 | 65% |

Source: U.S. PIRG & ITEP, “Offshore Shell Games 2017”

Note: There is no 2011 data for AbbVie, which was spun off from Abbott Laboratories in 2013.

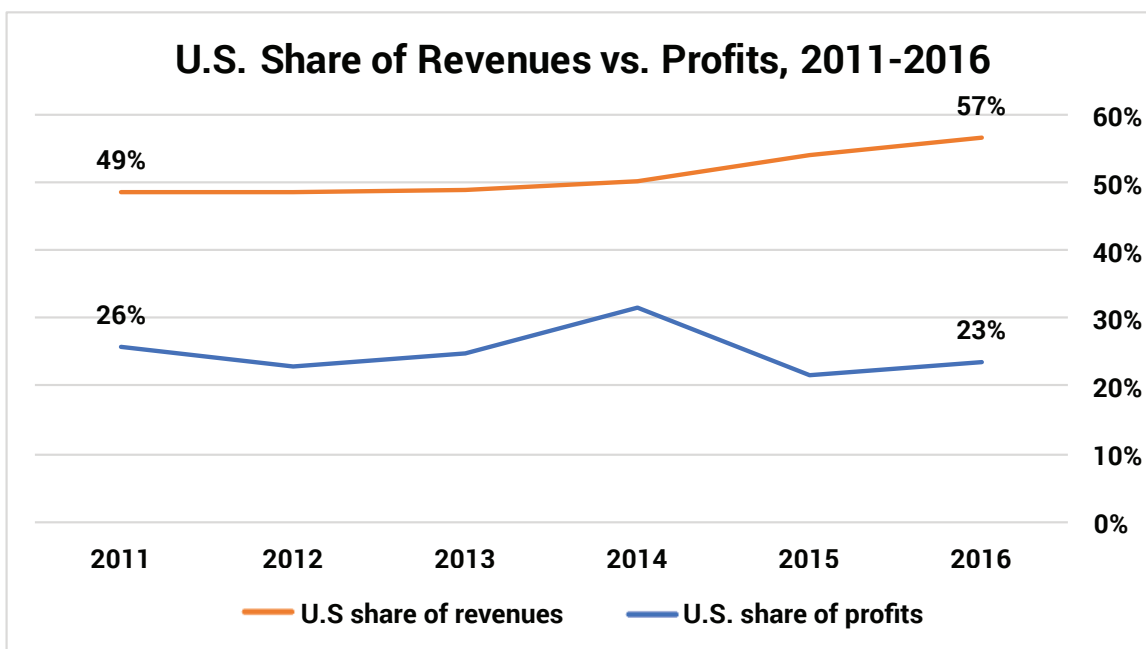
Figure 4. Growth of Untaxed Offshore Profits of Top 10 U.S. Drug Companies, 2011-2016



Source: ITEP analysis of companies' 10-K filings with the Securities and Exchange Commission
 Note: 2011 figure does not include AbbVie, which spun off from Abbott Laboratories in 2013

More evidence of the profit shift underway is found in Figure 5. The Pharma Big 10 consistently report a much smaller share of their profits as being earned in the U.S. compared with their share of U.S. sales—a disconnect that has grown a lot since 2011. In 2016, the Pharma Big 10 made 57% of their sales in the U.S., but only booked 23% of their profits here—a spread of 34 percentage points. In 2011 the spread was 23 percentage points.

Figure 5. Top 10 U.S. Drug Companies Revenue & Profits Provide Evidence of Profit Shifting



Source: ITEP's analysis of companies 10-K filings with the Securities and Exchange Commission

Table 4 provides a breakdown by company of these offshore profits. The Pharma Big 10 own nearly \$1 out of every \$5 in untaxed offshore profits. Pfizer alone has nearly 8% of those profits—it ranks #2 out of all Fortune 500 companies for having the most earnings offshore. [Appendix A]

Gilead Sciences' stash has risen an astonishing 544% in the last five years. That's because when Gilead's astronomically priced hepatitis C cures—Sovaldi and later Harvoni—entered the market in 2013, sales and profits took off. Unfortunately for American taxpayers, [in 2012 Gilead transferred the patent rights for Sovaldi](#), and its key ingredient that is also used in Harvoni, to Ireland, a tax haven.¹⁶ More details are provided in the company profiles section of this report.

PUSHING CONGRESS FOR A TAX BREAK ON OFFSHORE TAXES OWED

One reason corporations have been stashing more and more profits offshore is they've been counting on Congress eventually giving them a huge tax break on these profits. It's happened before. In 2004, Congress let companies repatriate their offshore earnings for a limited time at a [rate of only 5.25%](#)—an 85% discount compared to the official corporate tax rate of 35%.¹⁷ The rationale for this partial “tax holiday” was that companies would be encouraged to repatriate their offshore profits with low tax rates would invest the funds in new operations and hiring workers.

In fact, many of the companies that repatriated the most earnings—a group dominated by pharmaceuticals and tech companies—actually [reduced their workforces](#) in subsequent years. Pfizer, which repatriated \$37 billion, cut 10,000 jobs between 2005 and 2006, and Merck, which repatriated \$16 billion, eliminated 7,000 jobs over those two years.¹⁸

Where the repatriated profits wound up was in the pockets of big shareholders and top executives. Over the decade between 2003 and 2012, America's biggest corporations used [more than 90% of their profits to enrich their shareholders](#) through stock buybacks and dividends—rather than investing in new plants and equipment, better wages, or hiring.¹⁹

Furthermore, studies have shown that after the 2004 repatriation tax holiday, the companies that repatriated the most cash began increasing their offshore earnings even faster than they had before the temporary rate reduction.²⁰ This suggests they are expecting another “holiday” that will allow them to avoid the lion's share of what they owe in U.S. taxes on their offshore profits.

And drug company expectations may well be fulfilled. The tax plans recently passed by the House of Representatives and by the Senate offer huge discounts on the \$2.6 trillion in offshore profits. [The House version](#) would tax cash and other liquid assets at 14%, and illiquid assets at just 7%.²¹ Equivalent tax rates in [the Senate bill](#) are 14.5% and 7.5%.²² Both plans would raise less than \$300 billion, according to the Joint Committee on Taxation.

Corporations [owe an estimated \\$750 billion in U.S. taxes](#) on their \$2.6 trillion in offshore profits, according to the Institute on Taxation and Economic Policy.²³ This means both the House and Senate bills would provide them with a tax cut of about \$450 billion.

TAXES OWED ON DRUG COMPANY OFFSHORE PROFITS

This report estimates that the Pharma Big 10 owe about \$133 billion in taxes on their \$506 billion in offshore profits if they are repatriated to the U.S. at the 35% rate less a credit for foreign taxes paid. Under both the House and Senate tax bills, the Pharma Big 10 will get an estimated tax cut of nearly \$80 billion. [Table 5 and Figure 6]

These estimates are based on reports some of the companies provide to the Securities and Exchange Commission (SEC) and by using an average estimate for the other companies developed by ITEP and based on Fortune 500 company reports.

Gilead Sciences, Amgen, and Biogen collectively report to the SEC that they owe about \$28 billion in federal income taxes on nearly \$82 billion in offshore profits.²⁴ [Table 5 and Appendix B] Gilead and Amgen are paying virtually nothing in foreign taxes on those profits—meaning they are stashed in tax havens—and Biogen’s SEC report implies that it is paying just 8%.

Additionally, ITEP estimates that Pfizer owed \$40.7 billion on its \$199 billion in offshore profits in 2016, about half of which Pfizer reports to the SEC as being permanently reinvested offshore.²⁵ [See Appendix B and C for full details]

Those four firms would enjoy a tax cut of about \$40 billion or more, depending on the distribution of their offshore profits between liquid and illiquid assets.

The other six companies in this study, would save about \$38-39 billion from the tax legislation now before Congress. This is an estimate that applies a 28.9% tax rate to those offshore profits. This percentage is derived from ITEP’s study of 58 Fortune 500 companies that report to the SEC how much tax they would owe on their offshore profits upon repatriation at the 35% rate less foreign taxes paid.²⁶

Table 5: Savings from Proposed Reductions in Tax Rate on Offshore Profits (\$ in Millions)

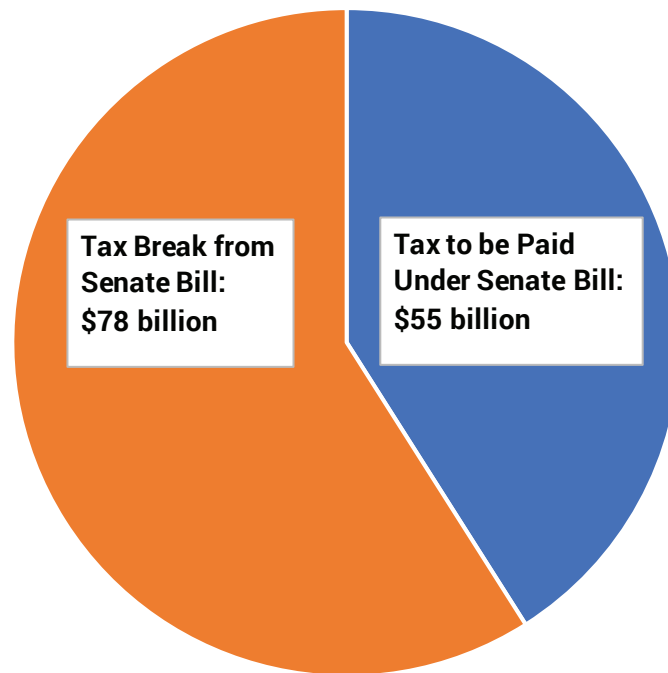
| Company | Untaxed Foreign Profits | Estimated U.S. Tax Bill on Offshore Profits | Implied Foreign Tax Rate | Tax Cut from a 14% Repatriation Rate (House Bill) | Tax Cut From a 14.5% Repatriation Rate (Senate Bill) |
|--------------------------|-------------------------|---|--------------------------|---|--|
| Pfizer | 198,944 | 40,703 | 14.5% | 24,422 | 23,840 |
| Amgen | 36,600 | 12,800 | 0.0% | 7,680 | 7,497 |
| Gilead Sciences | 37,600 | 13,100 | 0.2% | 7,860 | 7,673 |
| Biogen | 7,600 | 2,050 | 8.0% | 1,230 | 1,201 |
| Subtotal | 280,744 | 68,653 | 10.5% | 41,192 | 40,211 |
| All Other Pharma Big 10* | 225,300 | 65,112 | 6.1% | 39,067 | 38,137 |
| Grand Total | 506,044 | 133,765 | n/a | 80,259 | 78,348 |

Source: Calculations based on U.S. PIRG & ITEP²⁷

*Note: Tax owed on offshore cash for the six of the 10 companies that do not report to the SEC what they would owe in U.S. tax is estimated by applying the 28.9% rate that was reported by 58 Fortune 500 companies that do report this information, as analyzed by ITEP.²⁸

Figure 6: \$78 Billion Tax Savings on Offshore Profits for Pharma Big 10 from Senate Bill

Pharma Big 10 Tax Break on \$133 Billion in Offshore Profits Under Senate Tax Bill



Source: Table 5

PRICE GOUGING + TAX DODGING = HIGH STOCK PRICES & SHAREHOLDER PAYOUTS

The Pharma Big 10 price gouging and tax dodging strategy is richly rewarding their wealthy shareholders—including top executives. The stock-price gain of all but one of the 10 corporations in this study beat the benchmark S&P 500 over 2011 to 2015, most by double or more.

Table 6. Stock Price Gains of Top 10 U.S. Drug Companies, 2011-2015

| Company | Closing Stock Price, 1/3/11 | Closing Stock Price, 12/31/15 | Price Gain | Exceeds 61% Gain in Benchmark S&P 500 By |
|-------------------------|-----------------------------|-------------------------------|-------------|--|
| Biogen | \$61.90 | \$282.18 | 356% | 6 times |
| Celgene | \$30.01* | \$119.76 | 299% | 5 times |
| Amgen | \$55.55 | \$162.33 | 192% | 3 times |
| Gilead Sciences | \$36.58* | \$101.19 | 177% | 3 times |
| Bristol-Myers Squibb | \$26.58 | \$68.79 | 159% | 2.5 times |
| Eli Lilly | \$35.00 | \$84.26 | 141% | 2 times |
| Pfizer | \$17.68 | \$32.28 | 83% | 1.5 times |
| AbbVie | \$35.12** | \$59.24 | 69% | Exceeds |
| Johnson & Johnson | \$62.82 | \$102.72 | 64% | Exceeds |
| Merck | \$36.04 | \$52.82 | 47% | Lags |
| AVERAGE INCREASE | | | 159% | 2.5 times |

Source: MarketWatch²⁹

*Split adjusted

**The opening price listed is from AbbVie's first day of trading, Jan. 2, 2013.

THE PHARMA BIG 10 SPENDS MORE ON SHAREHOLDER PAYOUTS THAN RESEARCH & DEVELOPMENT

Proponents of tax cuts for drug companies claim the firms will invest their tax savings in research and development for new cures and treatments. However, the evidence shows the Pharma Big 10 devote more resources to enriching shareholders and corporate executives than to developing new drugs.

From 2011 to 2016, the Pharma Big 10 spent nearly \$379 billion on dividends and stock buybacks—more than 100% of their total net income. [Table 7] This means that some companies dipped into savings or even borrowed to fund shareholder payouts. On the other hand, these companies spent about \$288 billion on research and development—80% of their net income. This suggests that a large portion of a corporate tax cut will go to dividends and stock buybacks rather than to research into new miracle cures.

Table 7: Dividends, Stock Buybacks and R&D Expenditures of Top 10 U.S. Drug Companies, 2011-2016, \$ Millions

| | Net income | Dividends & Stock Buybacks | R&D Expenditures | Buybacks & Dividends as Share of Net Income | R&D Expenditures as Share of Net Income |
|------------------------------|----------------|----------------------------|------------------|---|---|
| AbbVie | 25,707 | 26,674 | 20,199 | 104% | 79% |
| Amgen | 32,928 | 29,002 | 22,837 | 88% | 69% |
| Biogen | 13,661 | 8,770 | 9,878 | 64% | 72% |
| Bristol-Myers Squibb | 16,258 | 18,559 | 26,868 | 114% | 165% |
| Celgene | 9,825 | 15,387 | 16,149 | 157% | 164% |
| Eli Lilly | 20,658 | 17,384 | 30,604 | 84% | 148% |
| Gilead Sciences | 52,181 | 34,313 | 16,075 | 66% | 31% |
| Johnson & Johnson | 82,628 | 82,046 | 50,031 | 99% | 61% |
| Merck | 37,126 | 56,726 | 48,146 | 153% | 130% |
| Pfizer | 69,892 | 89,892 | 46,796 | 129% | 67% |
| TOTAL, 2011-2016 | 360,864 | 378,753 | 287,583 | 105% | 80% |

Source: ATF analysis of companies' 10-K filings with the Securities and Exchange Commission

COMPANY PROFILES

All drug price information discussed below is from Tables 1 to 3. Unless otherwise noted, all data on corporate revenues, profits, and taxes are from ITEP's corporate tax database, shared with the authors by ITEP staff. All information in the database is based on corporations' 10-K filings with the Securities and Exchange Commission.

JOHNSON & JOHNSON (J&J)

J&J was [founded in 1886](#) by Robert Wood Johnson and his two younger brothers. Best known to most Americans for its Band-Aids, baby oil, and other over-the-counter health and beauty products, Johnson has through its Janssen subsidiary grown into the nation's largest pharmaceutical company. Among its best-selling drugs is the immune-disorder treatment Remicade and the schizophrenia medication Risperdal. The parent corporation employs over 125,000 workers in 60 countries³⁰—its stock is one of the 30 components of the [Dow Jones Industrial Average](#).³¹ Johnson is headquartered in New Brunswick, NJ.

Price Gouging

Between 2011-15, J&J boosted the retail price of a drug widely used by older Americans, the blood thinner Xarelto, by 49%, to a yearly cost of over \$4,000. Overall inflation measured less than 5% over that period, and even prescription drugs in general rose by only 11%.

Several Johnson drugs are among the most purchased through Medicare and Medicaid, and nearly all of them have seen big bumps in price. The cost of HIV treatment Prezista purchased through Medicare shot up 114% between 2011-15, while its Medicaid price jumped a huge 131%.

Various versions of the anti-psychotic medication Invega rose in price by 25% when bought through Medicare, and ballooned by a staggering 142% when Medicaid was picking up the tab. The Medicare cost for Xarelto was up 44% and for the arthritis drug Remicade, 24%. More than \$1.2 billion and \$1.5 billion were spent through Medicare on, respectively, Remicade and Xarelto in 2015 alone.

In 2013, Janssen introduced a hepatitis C cure, Olysio, priced at [\\$66,000 for a single course of treatment](#), alarming public health officials about their ability to provide the drug to all who needed it.³² Gilead Sciences (see below) came out with its own Hep C cure, Sovaldi, at the same time at an even steeper price. For a while, Olysio and Sovaldi were [prescribed as a pair](#),³³ raising the total price even more.

J&J's profits leaped by 66%, to nearly \$20 billion, during the 2011-15 period in which it was sharply raising its drug prices. Its stock price shot up by a similar 64%. [Table 6]

Tax Dodging

Among all U.S. corporations, Johnson has the sixth most [untaxed profits stashed offshore](#)—a hefty \$66 billion as of last year, up 59% from 2011. [Table 4] The company maintains 60 subsidiaries in well-known tax havens, including 18 in Switzerland alone.³⁴ There's good reason to believe that a lot of that profit is accumulated in those tax havens rather than productively invested.

The company reports paying an average worldwide tax rate over the past five years of just 16.8%, less than half the U.S. statutory rate of 35%. It is impossible to know the actual U.S. tax rate paid by J&J. The nation's leading independent organization analyzing corporate taxes includes J&J among 15 big corporations (one third of them drug companies) it claims [misrepresent their U.S. and foreign tax rates](#).³⁵ The firms distort the rates, the Institute on Taxation and Economic Policy (ITEP) argues, by offering "obviously ridiculous"

breakdowns of where, between the U.S. and abroad, they make their profits. Exaggerating how much is made offshore leads to distorted tax rates if those offshore profits have been ascribed to nations with low or nonexistent corporate taxes.

Over the past five years, J&J has reported that about 48% of its sales were made in the U.S., but reports only 37% of its profits were earned here. This suggests that some of the income from its domestic sales was moved into its offshore subsidiaries to lower its tax bill. Over the same time, J&J received \$605 million in tax subsidies through its use of a deduction for “domestic manufacturing.”

In 2012, J&J used a complicated maneuver to avoid paying U.S. taxes on nearly \$20 billion of that offshore cash it used to buy a Swiss medical device maker. Rather than bring the profits home and pay the U.S. tax bill as part of the deal, the company had an Irish subsidiary make the purchase with J&J stock, with Wall Street bankers JP Morgan Chase and Goldman Sachs acting as intermediaries. Even the company admitted the IRS might [question the propriety of the deal](#), and observers expected the tax agency to close the loophole J&J had exploited.³⁶

Other Misdeeds

In 2013, Johnson [paid more than \\$2.2 billion](#) to settle federal and state criminal and civil charges that it promoted the unapproved use of its schizophrenia drug Risperdal in particularly vulnerable populations: mentally ill people, nursing home residents and children. The charges included providing kickbacks to doctors and other health care providers.³⁷

That same year, the company announced that federal and state officials were investigating its [marketing of a hip replacement device](#) that was subsequently recalled.³⁸

Johnson is one of several pharmaceutical corporations under investigation by the Internal Revenue Service for possible [criminal abuse of patient-assistance charities](#). These charities help patients pay for expensive prescription drugs. Drug companies are not allowed to directly subsidize the purchase of their drugs through Medicare or other government programs, since such “contributions” to patients encourage the continued use of overpriced drugs, the bulk of whose cost is picked up by the government. The government is investigating whether pharmaceutical companies used money donated to ostensibly independent patient-assistance charities to indirectly subsidize purchase of their own drugs.³⁹

PFIZER

Charles Pfizer and a cousin [founded the company in 1849](#) in Brooklyn, NY.⁴⁰ It’s now headquartered across the East River in Manhattan. Some of its [best known prescription drugs](#) are Celebrex, Lipitor, Lyrica and Viagra—it also makes Advil, Robitussin and ChapStick.⁴¹ Pfizer is one of the 30 iconic American corporations whose stocks make up the [Dow Jones Industrial Average](#).⁴²

Price Gouging

Pfizer doubled the retail prices of its nerve medication Lyrica and anti-inflammatory drug Celebrex between 2011-15. The general inflation rate over that period was less than 5%, and even the prescription-drug inflation rate was only 11%.

Lyrica’s price increase was hardly moderated when purchased through Medicare or Medicaid: it was still a spike of around 90%. The two programs spent a combined \$2.2 billion on the drug in 2015 alone. Nearly a billion dollars more was spent through Medicare on Pfizer’s pneumonia vaccine Prevnar 13 in 2015—by which time the drug cost 59% more than it did in 2011.

Pfizer's drug prices weren't the only thing rising during this period: its stock price shot up by 83%. [Table 6]

Tax Dodging

Pfizer trails only Apple among U.S. companies in the amount of its untaxed earnings booked offshore: [almost \\$200 billion](#)—up 50% from 2011. [Table 4] Those profits are held primarily in [157 subsidiaries located in international tax havens](#), including 64 in the Netherlands.⁴³

Even though 43% of Pfizer's sales were in the U.S. from 2007-16, its aggressive use of profit shifting allowed the company to report [no taxable U.S. income](#) over that entire decade,⁴⁴ despite nearly \$110 billion in worldwide profits.

In 2015, Pfizer tried to permanently [dodge \\$35 billion in U.S. taxes](#) on its offshore profits by renouncing its American identity and merging with an Irish company.⁴⁵ The company later [called off its maneuver](#) when the Obama administration issued new financial rules that made using such mergers to dodge taxes more difficult.⁴⁶

Pfizer brought home \$37 billion—more than any other company—under a 2004 partial tax amnesty on offshore profits meant to boost employment. Then, it [laid off 10,000 workers](#) over the next two years.⁴⁷

Federal Contracting

Even as Pfizer has actively avoided paying the tax bill it owes the federal government, the U.S. has been paying Pfizer, in the form of government contracts. Between 2011-15, Pfizer received [over \\$5 billion in federal contracts](#).⁴⁸

MERCK & CO.

Merck was [founded in 1891](#) and is based in Kenilworth, NJ.⁴⁹ It is best known for its diabetes medication Januvia, but also makes the osteoporosis medication Fosamax, the HPV vaccine Gardasil, the nasal spray Nasonex, and the asthma drug Singulair. Merck is one of three pharmaceutical companies to be included in the [Dow Jones Industrial Average](#).⁵⁰

Price Gouging

Merck raised the retail price of its widely prescribed diabetes treatment Januvia by roughly 72% between 2011-15. A diabetic who spent around \$2,500 a year on the drug in 2011 would spend close to \$4,500 just four years later. Merck jacked up the retail price of its cholesterol medication Zetia by even more, 88%. Prices for other goods and services, as measured by the general inflation rate, increased by less than 5% over that period, and the average prescription drug increase was 11%.

The price of Januvia purchased through the Medicare program didn't rise as fast, but the drug was still 62% costlier in 2015 than it was in 2011. Over \$2 billion was spent on Januvia through Medicare in 2015 alone. The price of the HIV medication Isentress jumped 23%—twice the prescription-drug inflation rate—when purchased through Medicare; Medicaid paid 27% more in 2015 than in 2011.

Wall Street rewarded Merck for its drug-price gouging, raising the price of the company's stock by almost half. [Table 6]

Tax Dodging

Merck has the third most untaxed profits stashed offshore of any drug company, over \$63 billion worth—up 42% since 2011. [Table 4] Some portion of those earnings undoubtedly reside in the 115 offshore subsidiaries the company maintains in notorious tax havens, including 23 in Switzerland.⁵¹

In 2009, despite \$5.8 billion in U.S. profits, Merck paid zero federal income taxes (in fact, it received benefits that worked out to a tax rate of *negative* 1%).⁵²

Federal Contracting

Merck's ongoing efforts to avoid paying its federal taxes hasn't stopped it from securing the very government contracts that tax revenues make possible. Over 2011-15, the company received [almost \\$7 billion in federal contracts](#).⁵³

Other Misdeeds

In 2011, Merck paid nearly \$1 billion to settle federal criminal and civil charges that it had promoted unapproved uses for its pain medication Vioxx.⁵⁴

GILEAD SCIENCES

Gilead was [founded in 1987](#) in Foster City, CA. It has 9,000 employees.⁵⁵ It's best known for its expensive hepatitis C cures, Sovaldi and Harvoni. Among its other drugs are Ranexa, which treats angina, and a collection of HIV treatments.

Price Gouging

Between 2011-15, Gilead boosted the retail price of the 500 mg. dosage of Ranexa by 44%, or four times the prescription-drug inflation rate. The 1,000 mg. dose went up 27%. General inflation over that period was less than 5%.

More is spent by far on Gilead's drugs through Medicare and Medicaid than on those from any other U.S. company. In 2015, participants in Medicare spent over \$10 billion and Medicaid spent almost \$5 billion. The Medicare system spent a staggering \$7 billion on Harvoni alone, more than three times as much as was spent on any other drug from a U.S. firm.

Medicaid spent more than \$2 billion on Harvoni, well over double the amount spent on any other American drug. In both programs the price per pill was about \$1,100. The retail price of a full course of treatment of Harvoni was about \$95,000 when the drug was first introduced.⁵⁶

Harvoni is an enhanced version of Sovaldi, the original breakthrough drug. The actual manufacturing costs for a full course of Sovaldi has been estimated by its developer to be no more than \$1,400,⁵⁷ and pegged as low as \$68 by outside researchers.⁵⁸

Gilead's sky-high hepatitis-drug prices have forced public health agencies to ration their use—including among veterans—sparking government inquiries and public-interest lawsuits.⁵⁹

Medicaid is also a big purchaser of Gilead's HIV drugs, spending a combined \$2.1 billion on Atripla, Complera, Stribild and Truvada in 2015. By that year, the prices Medicaid was paying for three of those drugs had risen since 2011 by a weighted average of 27%. Atripla and Truvada purchases through Medicare totaled almost \$1.3 billion in 2015—their respective prices had spiked by 33% and 25% from four years earlier.

Medicare spent nearly another half billion dollars on Gilead's pulmonary hypertension medication Letairis in 2015, the price of which had climbed 29% since 2011.

Gilead's sales and profits soared on the back of its high-priced HCV drugs: worldwide revenues tripled to \$32.6 billion in 2015, from \$11.2 billion in 2013; while profits did even better, increasing five-fold, from \$4.2 billion to \$21.7 billion, over that period. Gilead's stock price rose 177% between 2011-15. [Table 6]

Tax Dodging

Despite these booming profits, Gilead's worldwide effective tax rate actually fell between 2013 and 2015 from 27.3% to 16.4%.⁶⁰ The reason is that the company was furiously shifting earnings from the U.S. to offshore tax havens. Its accumulated untaxed offshore profits grew from \$5.8 billion in 2011 to almost \$38 billion in 2016—a staggering 544% jump. [Table 4]

We know that most or all of those profits wound up in one or more of Gilead's 13 tax-haven subsidiaries, because the company reported foreign tax rates over those years of nearly zero—last year, just 2.8%. Another indicator the company's paid little or nothing in taxes to foreign governments is that Gilead reports owing \$13 billion in U.S. taxes on its offshore profits. [Table 5] Corporations receive a dollar-for-dollar tax credit on their federal returns for foreign taxes paid; Gilead's estimated U.S. tax bill indicates it's entitled to hardly any credit at all and instead owes the statutory U.S. rate of 35% on nearly the whole amount.⁶¹

A sign that these profits are being shifted offshore and not made there is that since the company's huge HCV revenues started rolling in, it has reported anywhere from two-thirds to almost three-quarters of its sales in the United States. Yet it's been reporting less than half its profits as made here—implying the company is using accounting maneuvers to shift domestic profits offshore, strictly to dodge U.S. taxes.

ABBVIE

AbbVie was spun off from Abbott Laboratories in 2013, taking with it the pharmaceutical business of the parent company.⁶² AbbVie is best known for its blockbuster arthritis medication Humira, which has been the top-selling drug in the U.S. for the past five years.⁶³ The Chicago-based company has 29,000 employees.⁶⁴

Price Gouging

Between 2011-15, Abbott and then AbbVie raised the retail price of its testosterone treatment, AndroGel Pump, by 65%, outstripping the general rise in prescription-drug prices by almost six times, and the overall inflation rate by 13 times.

A combined \$2.5 billion was spent on Humira in the Medicare and Medicaid systems in 2015. The price in each program had shot up almost 80% since 2011.

Investors evidently approved of AbbVie's aggressive pricing, bidding its stock up nearly 70% from its premiere as an independent company at the beginning of 2013 to the end of 2015. [Table 6]

Tax Dodging

AbbVie has \$29 billion in untaxed profits offshore, placing it among the top 30 of all American corporations with overseas earnings. [Appendix A] Despite over \$50 billion in domestic sales over the past four years, the company claims to have lost money in the United States each of those years, resulting in a negative U.S. tax rate.

Other Misdeeds

In July of this year, a jury in Chicago hit AbbVie with a \$150 million punitive judgment, ruling that the company had [fraudulently misrepresented the risks](#) of AndroGel. This was one of 6,000 pending lawsuits claiming damages from use of the drug.⁶⁵

AMGEN

Amgen was [founded in 1980](#). It has 20,000 employees and is headquartered in Thousand Oaks, CA.⁶⁶ The company's best-known drug is the arthritis medication Enbrel.

Price Gouging

In 2015, \$3.8 billion was spent through the Medicare system on four Amgen drugs. The price of Enbrel—on which Medicare participants spent \$1.4 billion—was 80% higher than it was in 2011. Infection fighter Neulasta and anemia treatment Aranesp were up 36% and 29%, respectively, over that 2011-15 span. (The price of the osteoporosis formula denosumab, sold as both Prolia and Xgeva, rose more modestly over the three years it was available.)

Medicaid paid 77% more for Enbrel in 2015 than it did in 2011, and 29% more for Neulasta.

The general inflation rate over that period was less than 5%, and the rate for prescription drugs was 11%.

Between 2014-16, Amgen's domestic profits tripled from \$1.5 billion to \$4.4 billion. Between 2011-15, its stock price also nearly tripled. [Table 6]

Tax Dodging

The nation's leading independent organization analyzing corporate taxes includes Amgen among 15 big corporations (one third of them drug companies) it claims [misrepresent their U.S. and foreign tax rates](#).⁶⁷ The firms distort the rates, ITEP argues, by offering "obviously ridiculous" breakdowns of where, between the U.S. and abroad, they make their profits.

Amgen has claimed for the past decade that on average less than 40% of its profits are made in the U.S., despite recording nearly 80% of its revenues here. That big profit shift has allowed the company to achieve worldwide tax rates averaging only 9.5% over the past 10 years, as it was paying a mere 5.2% in foreign taxes.

Amgen is among the top 20 corporations stashing untaxed profits offshore, with \$36.6 billion sitting beyond the reach of the IRS—up 80% since 2011. [Table 4] Amgen reports owing \$12.8 billion in U.S. taxes on those profits, which means it is paying a 0% tax rate offshore. [Table 5]

Amgen has also received a \$418 million tax subsidy for research and development over the past four years.

ELI LILLY & CO.

Lilly was founded [over 140 years ago](#) in Indianapolis, where it is still based. Among its more famous drugs are Prozac and Cymbalta (both treat depression), Humalog (for managing diabetes), and Cialis (for erectile dysfunction). It made \$3.5 billion in profit from \$21 billion of sales in 2016. It has over 40,000 employees.⁶⁸

Price Gouging

Between 2011-15, Lilly jacked up the average retail price of two drugs widely prescribed for older Americans: the diabetes treatment Humalog KwikPen, and Evista, which prevents and treats osteoporosis in postmenopausal women. The yearly cost for users of the KwikPen almost doubled (up 90%), jumping from around \$3,000 to more than \$5,700. Evista users saw their yearly cost go up by more than half (52%), from about \$1,600 to nearly \$2,500.

The general inflation rate over that period was about 5%. Even prescription-drug prices as a whole rose at only an 11% rate.

The costs of leading Lilly drugs through Medicare and Medicaid also outpaced prescription-drug inflation between 2011-15. Medicare prices for Forteo, another osteoporosis treatment, went up by 89%. Cancer drug Alimta was up almost 14%. Nearly a billion dollars was spent through Medicare on those two drugs in 2015 alone. Medicaid paid out over \$350 million for Humalog in 2015, at which point the price of the drug was 85% higher than it was in 2011.

In December 2015, Lilly introduced a new cancer drug, Portrazza, to fight a particularly deadly form of lung cancer, [pricing it at almost \\$11,500 a month](#).⁶⁹ Four months earlier, cancer researchers had argued in a leading medical journal that a “value-based” price for the drug—one that considered its relatively slight contribution to patient longevity—[would be roughly \\$1,750](#), or about six times less.⁷⁰

Lilly’s stock price has even outpaced its drug prices, rising 141% between 2011-15. [Table 6]

Tax Dodging

Over a recent eight-year span, Lilly paid the lowest U.S. tax rate among three leading American pharmaceutical companies included in a survey: [just 17%](#), less than half the official corporate rate of 35%.⁷¹

Lilly has \$28 billion in untaxed profits booked offshore, the 25th most of any American corporation. [Appendix A] Its stash is up 36% since 2011. [Table 4] Some portion of that money is in its 35 subsidiaries located in known tax havens, such as the Cayman Islands.⁷²

Other Misdeeds

In 2009, Lilly paid the largest amount in U.S. Justice Department history up to that time to [settle civil and criminal charges](#) that it had promoted unapproved uses for its antipsychotic medication Zyprexa.⁷³

BRISTOL-MYERS SQUIBB

The Squibb company was founded in 1858 in Brooklyn by Navy doctor Edward Robinson Squibb. Nearly 30 years later, William McLaren Bristol and John Ripley Myers began their pharmaceutical partnership, also in New York State. After a century as competitors in, among other products, penicillin, [the two companies merged in 1989](#).⁷⁴ The company is headquartered in New York City.

Among the company’s [more famous drugs](#) are the blood thinner Coumadin; and heart attack and stroke preventative Plavix.⁷⁵ BMS had over \$19 billion in worldwide sales last year, on which it made a profit of nearly \$6 billion.

Price Gouging

The price of BMS’s arthritis medication Orencia purchased through the Medicare drug program jumped by two-thirds between 2011-15. Medicare purchases of the drug totaled almost half a billion dollars in 2015.

The company’s stock rose almost 160% between 2011-15. [Table 6]

Tax Dodging

BMS has nearly \$26 billion in untaxed profits stashed offshore—up 39% since 2011—making it among the 30 U.S. corporations with most earnings overseas. [Table 4 and Appendix A] Some portion of that money is stored in the company’s 29 tax haven subsidiaries, including offshoots in Panama and Switzerland.⁷⁶

Even though BMS has reported that more than half of its sales were in the U.S. over the past five years, it claimed to have negative U.S. profits each year from 2012 through 2015. However, it had worldwide profits over those four years of nearly \$10 billion.

The company has also received significant taxpayer subsidies for research and manufacturing. From 2013 to 2016, it reduced its taxes by \$588 million through the research and development credit, and it saved another \$122 million in 2016 alone from using a deduction based on domestic manufacturing.

Other Misdeeds

In 2014, BMS and a former subsidiary company paid \$6.2 million to settle charges of [evading state and local income taxes](#) in New York.⁷⁷

BIOGEN

Biogen was founded in 1978 by a group of scientists and venture capitalists in Geneva, Switzerland. In 1982 it shifted its headquarters to Cambridge, MA. Biogen is best known for its multiple sclerosis (MS) treatments Avonex, Tysabri and Tecfidera.⁷⁸

Price Gouging

One of Biogen's MS treatments—Tysabri—purchased through the Medicare drug program jumped in price by 53% from 2011 to 2015. Meanwhile, the Medicare price of another MS treatment, Tecfidera, rose by over 20% between 2013 and 2015. That year, \$1.2 billion was spent through Medicare on the two drugs. Also that year, \$1.5 billion was spent in the program on Rituxan, a Biogen cancer medication, which cost 19% more in 2015 than it did in 2011—well above the 11% drug inflation rate.

The company's stock has been on an even bigger tear, priced nearly five times higher at the end of 2015 than at the beginning of 2011. [Table 6]

Tax Dodging

Biogen has \$7.6 billion in untaxed profits stashed offshore, on which it owes \$2 billion in U.S. taxes. [Table 5] It has paid just 8% foreign tax on those earnings, indicating that most of the money is distributed among the company's 14 tax-haven subsidiaries. Half are in Switzerland.⁷⁹

Over the past 4 years, Biogen has received over \$400 million in tax breaks from a deduction for domestic manufacturing.

Other Misdeeds

Biogen is one of several pharmaceutical corporations under investigation by the IRS for possible [criminal abuse of patient-assistance charities](#). These charities help patients pay for expensive prescription drugs. Drug companies are not allowed to directly subsidize the purchase of their drugs through Medicare or other government programs, since such "contributions" to patients encourage the continued use of overpriced drugs, the bulk of whose cost is picked up by the government. The government is investigating whether pharmaceutical companies used money donated to ostensibly independent patient-assistance charities to indirectly subsidize purchase of their own drugs.⁸⁰

CELGENE

Celgene was founded in 1986 and is headquartered in Summit, NJ.⁸¹ It specializes in cancer treatments; its leading drug, Revlimid, brings in over half the company's revenue.⁸²

Price Gouging

The cost of Celgene's cancer drug Revlimid purchased through Medicare and Medicaid jumped by one-third between 2011 and 2015. Revlimid purchases through Medicare topped \$2 billion in 2015, and Medicaid spent another \$144 million on the drug that year.

Celgene's stock was worth four times as much at the end of 2015 as at the beginning of 2011. [Table 6]

Tax Dodging

The nation's leading independent organization analyzing corporate taxes includes Celgene among 15 big corporations (one third of them drug companies) it claims [misrepresent their U.S. and foreign tax rates](#).⁸³ The firms distort the rates, ITEP argues, by offering "obviously ridiculous" breakdowns of where, between the U.S. and abroad, they make their profits.

In Celgene's case, the company claimed that only 12% of its profits from 2008-2015 were made in the U.S. versus 88% offshore, even though 60% of its revenue came from this country. That underreporting of domestic earnings leads to a purported U.S. tax rate of 39.5%—higher than the statutory rate. Its worldwide tax rate, however, was much lower—just 18%.⁸⁴

Celgene has more than \$13 billion in untaxed profits stashed offshore, much of it likely in its [32 tax-haven subsidiaries](#)—including 7 subsidiaries in zero-tax Bermuda.⁸⁵

APPENDIX A – 30 FORTUNE 500 CORPORATIONS WITH THE MOST PROFITS OFFSHORE INCLUDES 9 PHARMACEUTICAL COMPANIES

| Company | Amount Held Offshore (\$ millions) | Number of Tax Haven Subsidiaries |
|---------------------------------|------------------------------------|----------------------------------|
| Apple | 252,300 | 3 |
| PFIZER | 198,944 | 157 |
| Microsoft | 142,000 | 5 |
| General Electric | 82,000 | 22 |
| International Business Machines | 71,400 | 18 |
| JOHNSON & JOHNSON | 66,200 | 60 |
| Cisco Systems | 65,600 | 54 |
| MERCK | 63,100 | 115 |
| Google | 60,700 | 1 |
| Exxon Mobil | 54,000 | 38 |
| Procter & Gamble | 49,000 | 32 |
| Oracle | 47,500 | 5 |
| Citigroup | 47,000 | 137 |
| Chevron | 46,400 | 8 |
| Intel | 46,400 | 14 |
| PepsiCo | 44,900 | 133 |
| J.P. Morgan Chase & Co. | 38,400 | 170 |
| GILEAD SCIENCES | 37,600 | 13 |
| AMGEN | 36,600 | 9 |
| Coca-Cola | 35,500 | 14 |
| Qualcomm | 32,500 | 4 |
| Goldman Sachs Group | 31,240 | 905 |
| United Technologies | 31,000 | 30 |
| ABBVIE INC. | 29,000 | 40 |
| ELI LILLY | 28,000 | 35 |
| Wal-Mart Stores | 26,600 | 0* |
| Hewlett Packard Enterprise | 26,200 | 22 |
| BRISTOL-MYERS SQUIBB | 25,700 | 29 |
| ABBOTT LABORATORIES | 24,000 | 111 |
| Danaher | 23,000 | 29 |

Source: U.S. PIRG & ITEP⁸⁶

While Wal-Mart does not report to the SEC having any offshore subsidiaries in tax havens a 2016 report by ATF found It had 76 such subsidiaries.⁸⁷

APPENDIX B – CALCULATION OF CORPORATIONS' SAVINGS FROM PROPOSED TAX CUT ON OFFSHORE PROFITS

| SENATE TAX PLAN | | | | | | | | | |
|--------------------------------|------------------------------------|-----------------------------------|---|--------------------------|--|----------------------------|---|-----------------------|-----------------------|
| Company | Amount Held Offshore (\$ millions) | U.S. Tax Rate on Offshore Profits | Estimated U.S. Tax Bill on Offshore Profits (\$ millions) | Implied Foreign Tax Rate | Implied Foreign Tax Paid (\$ millions) | Tax at 14.5% (\$ millions) | Adjusted Foreign Tax Credit (\$ millions) | Net Tax (\$ millions) | Savings (\$ millions) |
| Pfizer | 198,944 | 20% | 40,703 | 14.5% | 28,927 | 28,847 | 11,984 | 16,863 | 23,840 |
| Amgen | 36,600 | 35% | 12,800 | 0.0% | 10 | 5,307 | 4 | 5,303 | 7,497 |
| Gilead Sciences | 37,600 | 35% | 13,100 | 0.2% | 60 | 5,452 | 25 | 5,427 | 7,673 |
| Biogen | 7,600 | 27% | 2,050 | 8.0% | 610 | 1,102 | 253 | 849 | 1,201 |
| Total | 280,744 | 24.5% | 68,653 | 10.5% | 29,607 | 40,708 | 12,266 | 28,442 | 40,211 |
| All Other Pharma Big 10 | 225,300 | 28.9% | 65,112 | 6.1% | 13,743 | 32,669 | 5,694 | 26,975 | 38,137 |
| Grand total | 506,044 | n/a | 133,765 | n/a | 43,351 | 73,376 | 17,960 | 55,417 | 78,348 |
| HOUSE TAX PLAN | | | | | | | | | |
| Company | Amount Held Offshore (\$ millions) | U.S. Tax Rate on Offshore Profits | Estimated U.S. Tax Bill on Offshore Profits (\$ millions) | Implied Foreign Tax Rate | Implied Foreign Tax Paid (\$ millions) | Tax at 14% (\$ millions) | Adjusted Foreign Tax Credit (\$ millions) | Net Tax (\$ millions) | Savings (\$ millions) |
| Pfizer | 198,944 | 20% | 40,703 | 14.5% | 28,927 | 27,852 | 11,571 | 16,281 | 24,422 |
| Amgen | 36,600 | 35% | 12,800 | 0.0% | 10 | 5,124 | 4 | 5,120 | 7,680 |
| Gilead Sciences | 37,600 | 35% | 13,100 | 0.2% | 60 | 5,264 | 24 | 5,240 | 7,860 |
| Biogen | 7,600 | 27% | 2,050 | 8.0% | 610 | 1,064 | 244 | 820 | 1,230 |
| Total | 280,744 | 24.5% | 68,653 | 10.5% | 29,607 | 39,304 | 11,843 | 27,461 | 41,192 |
| All Other Pharma Big 10 | 225,300 | 28.9% | 65,112 | 6.1% | 13,743 | 31,542 | 5,497 | 26,045 | 39,067 |
| Grand Total | 506,044 | n/a | 133,765 | n/a | 43,351 | 70,846 | 17,340 | 53,506 | 80,259 |

Source: ATF Calculations based on ITEP⁸⁸

Note: Tax owed on offshore cash for the six of the 10 companies that do not report to the SEC what they would owe in U.S. tax is estimated by applying the 28.9% rate that was reported by 58 Fortune 500 companies that do report this information, as analyzed by ITEP.⁸⁹

APPENDIX C – ESTIMATE OF PFIZER’S U.S. TAX OWED ON OFFSHORE PROFITS (\$ IN MILLIONS)

| | |
|---|---------------|
| Permanently Reinvested Earnings (PRE) | 86,000 |
| 10-Year Average Foreign Tax Rate | 14.5% |
| Estimated Repatriation Tax Rate Based on 35% Tax Rate | 20.5% |
| Estimated U.S. Tax Owed on PRE | 17,595 |
| Deferred Tax on Unremitted Earnings | 23,108 |
| Total Estimated Tax Owed on Offshore Profits | 40,703 |

Source: ATF and ITEP analysis of Pfizer’s 10K filings with the SEC

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would owe \$17.6 billion in U.S. tax on these profits. Additionally, Pfizer reports a deferred tax liability of \$23.1 billion on another portion of its foreign earnings, which it does not consider to be “permanently invested.” Adding these together gives an estimated \$40.7 billion that Pfizer owes on its offshore profits. See Appendix C for calculations.

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