Pfizer's Tax Dodging Rx:
Stash Profits Offshore

AMERICANS FOR
TaxFairness

November 2015

Credits

Author: Frank Clemente, Executive Director, Americans for Tax Fairness

Research and Graphics: Nick Trokel, Researcher, Americans for Tax Fairness

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.

Americans for Tax Fairness
1825 K Street NW, Suite 400
Washington, D.C. 20006
www.AmericansForTaxFairness.org

PFIZER'S TAX DODGING Rx: STASH PROFITS OFFSHORE

Table of Contents

Key Findings

Pfizer, one of the world's largest pharmaceutical companies,[1] has announced that it has entered into preliminary discussions with the Irish corporation Allergan to effect a business combination, which most observers assume would be structured as an "inversion" transaction. An inversion would allow Pfizer to renounce its U.S. tax citizenship while retaining its current U.S. headquarters, management structure and facilities.

Pfizer executives have made no effort to hide that their latest inversion attempt is intended to dramatically cut its U.S. tax bill. The company's leaders say they believe that Pfizer's worldwide effective tax rate—which was reported as 25.5% in 2014—could be sharply reduced if the corporation's legal address is shifted to Ireland through an inversion with Allergan.

This report finds that Pfizer appears to be dramatically overstating its corporate tax rate, and that the company may be paying taxes on its worldwide profits that are effectively tax-haven rates. Thus, Pfizer does not appear to be at a competitive disadvantage operating under the U.S. tax system—if anything it is highly advantaged. An inversion would lock in these current advantages and extend them further.

With an inversion, Pfizer essentially would continue to enjoy all the benefits of being an American corporation but just not pay the taxes required for that privilege. Pfizer would not pay its fair share for its educated workforce; use of our transportation systems; the protections provided by our strong judicial, banking and regulatory systems; and so much more that makes America one of the top countries in the world in which to do business, ranking number three according to the World Economic Forum.[2]

Key findings in this report include:

- **ATF estimates that Pfizer's effective (i.e., economic) tax rate on its worldwide income was just 7.5% in 2014, compared with the 25.5% rate the company reported in its Securities and Exchange Commission (SEC) filings.** (This finding was also reported in The Wall Street Journal on Nov. 8, 2015.[3]) Moreover, **ATF estimates that Pfizer's effective tax rate on its worldwide income from 2010 to 2014 averaged just 6.4% when the company's filings reported a 24% tax rate.** Therefore, **up to 75% of Pfizer's reported taxes may be an accounting fiction.** The reason for the discrepancy in estimates is that Pfizer's numbers include very large provisions (reserves) for U.S. tax that will never actually be paid, unless Pfizer elects unilaterally in the future to incur the tax bill, which seems remote.

- **Pfizer had as much as $148 billion in profits parked offshore at the end of 2014, on which it has paid no U.S. income taxes.** Pfizer alone controls whether, when and how much of its foreign earnings might actually be repatriated and therefore taxed. This enormous sum is comprised of two piles of profits:
  - $74 billion in foreign "Permanently Reinvested Earnings" that Pfizer reports to the SEC —foreign profits on which Pfizer has neither paid U.S. tax nor provided a financial accounting liability for any ultimate U.S. tax due; and
  - Up to another $74 billion in "stealth" foreign profits (ATF estimate) on which Pfizer has not actually paid any U.S. tax, but has in its SEC reports created a tax reserve against any U.S. tax that would ultimately be due only if Pfizer should unilaterally choose to "repatriate" those earnings to the U.S., which appears to be unlikely.

- **The offshore stash of profits known as Permanently Reinvested Earnings alone has grown nearly three-fold since a repatriation tax holiday in 2004—from $27 billion in 2005 to $74 billion in 2014.** When the U.S. government gave companies the tax holiday, charging them just a 5.25% tax rate on offshore profits if they voluntarily brought them home and invested in job creation, Pfizer repatriated $37 billion (the most of any company), took $10 billion in tax savings and promptly laid off 10,000 American workers within two years. Pfizer is looking for a similar tax break on its current offshore profits.

- **Pfizer reported losing more than $16 billion in the United States from 2010 through 2014, while it earned $78 billion offshore.** This is a major feat that is likely attributable to profit shifting to tax havens, as the company had 38% of its sales and 48% of its assets in the U.S. in 2014. Pfizer has 151 subsidiaries in 10 tax havens. The engine of Pfizer's profits—development of new drugs—is heavily concentrated in America, as are its patents.

- **Pfizer pocketed $5.3 billion in federal contracts between 2010 and 2014,** while benefitting from low effective tax rates those years. About 5% of Pfizer's $20 billion annual U.S. revenue is from the federal government. Yet, Pfizer does not come close to paying its fair share, and it may desert America for a tax haven through an inversion.

- **Pfizer's R&D spending since 2002 has increased while its offshore stash of untaxed profits has skyrocketed, suggesting that the increase in Pfizer's offshore profits and the U.S. corporate tax rate are not stifling new drug investments.** Pfizer's R&D spending has climbed 1 percentage point since 2002, from 16% of revenue to 16.9% in 2014—while its offshore profits have nearly tripled, rising from $29 billion in 2002 to $74 billion in 2014. One would expect R&D to have plummeted during that time if these offshore profits were critical to financing new drug development.

- **The pay packages of Pfizer's top five executives doubled between 2004 and 2006, the time period when the repatriation tax holiday kicked in.** A major criticism of the 2004 tax holiday is that much of the money was spent to buy back corporate stock to boost share prices, which provided a windfall for corporate executives, but did little in terms of creating new jobs. The same is likely to happen if Congress provides future tax breaks on repatriated profits, as it has considered doing.

- **Congress can pass legislation that would prevent Pfizer from doing an inversion with Allergan in order to take advantage of the low tax rates in the tax haven of Ireland.** Two remedies will take away the tax advantages of an inversion:
  - **Close the earnings stripping loophole:** This would eliminate the ability of Allergan (Pfizer's new foreign parent under an inversion) to load up its new U.S. subsidiary (Pfizer) with excessive debt that would be owed to Allergan, debt that Pfizer could claim a hefty U.S. tax deduction on thereby reducing its U.S. tax bill and shifting taxable profits to Allergan in low-tax Ireland.
  - **Enact the Stop Corporate Inversions Act (S. 198 and H.R. 415):** These bills would make it very difficult for corporations to desert America for a tax haven, and they would raise $33.6 billion over 10 years, according to the Joint Economic Committee. The bills would not allow for an inversion unless the new foreign parent company acquiring the U.S. company comprised more than 50% of the shareholders. Moreover, the new smaller foreign parent and its U.S. subsidiary would have to pay U.S. taxes if its headquarters remains here and it is managed and controlled from U.S. soil.

PFIZER'S TAX DODGING Rx: STASH PROFITS OFFSHORE

Up to 75% of Taxes "Paid" by Pfizer May be Accounting Fiction

Pfizer executives have made no effort to hide that their latest attempt at an inversion, this time with Allergan, is to dramatically cut the company's U.S. tax bill.[4] The company's leaders say they believe that Pfizer's worldwide effective tax rate—which was reported as 25.5% in 2014—could be sharply reduced if the corporation's legal address is shifted to Ireland through an inversion (or through some other type of merger) with Allergan.

It is difficult to assess the validity of that claim as Pfizer's financial filings are very murky given the apparently large amount of income shifting the company does from the United States to its 151 subsidiaries in 10 tax havens across the globe.[5]

ATF, with the assistance of tax experts, has analyzed Pfizer's Securities and Exchange Commission (SEC) filings. A fair reading of those filings is that the company's reported income tax rates are largely an accounting fiction. Specifically, ATF estimates that Pfizer's worldwide tax rate was as low as 7.5% in 2014, rather than the 25.5% tax rate Pfizer reported to the SEC. Moreover, Pfizer's five-year tax rate between 2010 and 2014 averaged just 6.4%, as opposed to the 24% reported to the SEC. [Figure 1] That means the company's effective tax rate was about 75% lower than it has claimed.

Why do we suggest that Pfizer's true global tax rate was closer to 7.5% in 2014 and to 6.4% over the last five years? The answers require a deep dive into the arcana of financial accounting for taxes—in particular, deferred tax liabilities. A brief explanation is provided immediately below, with a fuller explanation after that.

As Figure 1 shows, in 2014 Pfizer reported $12.2 billion in worldwide pretax income, and a worldwide income tax provision of $3.1 billion. This computes to the 25.5% tax rate claimed by Pfizer. At the same time Pfizer reported in a tax footnote that the $3.1 billion tax liability in 2014 included $2.2 billion in "deferred" taxes to the U.S. These are taxes the company says it will pay sometime in the future, attributable to foreign profits it plans to repatriate to America. But it did not pay them in 2014 and there is no reason to believe that it will happen in the future.

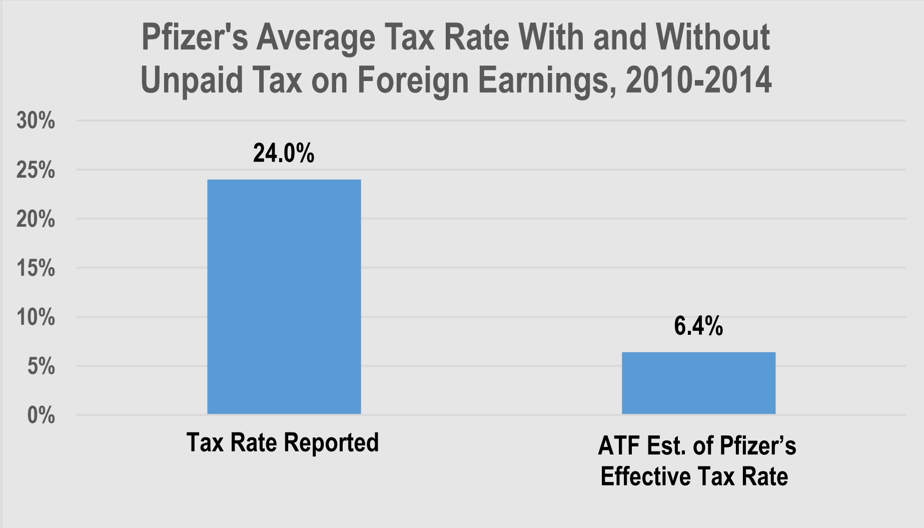
Figure 1. Pfizer's Effective Tax Rates, 2010-2014

($ In Millions)	Total or Average 2010-2014	2014
Total Provision for Taxes on Worldwide Income	$14,421	$3,120
U.S. Tax Expense Booked for Unrepatriated Foreign Earnings ("Deferred Taxes")	$11,300	$2,200
Tax Expense Excluding Unpaid U.S. Tax on Foreign Earnings /or/ Other Tax Expense	$3,864	$920
Worldwide Pre-Tax Income	$60,150	$12,240
Avg. Reported Effective Tax Rate (Including Unpaid U.S. Tax on Foreign Earnings)	**24.0%**	**25.5%**
Avg. Effective Tax Adjusted to Exclude Unpaid Tax on Foreign Earnings	**6.4%**	**7.5%**
Deferred Tax Liability for Unrepatriated Foreign Earnings (Unremitted Earnings)		**$21,174**

Sources: Form 10-K reports filed with the Securities and Exchange Commission, 2010-2014

Subtracting the $2.2 billion from reported worldwide taxes of $3.1 billion leaves about $920 million in actual taxes paid in 2014, which is 7.5% of the $12.2 billion in worldwide income. Figure 1 makes a comparable calculation for the full five-year period of 2010 to 2014.

Figure 2



Source: Form 10-K reports filed with the Securities and Exchange Commission, 2010-2014

DETAILED EXPLANATION OF PFIZER'S EFFECTIVE TAX RATE

Most U.S. multinationals elect to designate all of their offshore business profits as indefinitely reinvested outside the United States, which are known as Permanently Reinvested Earnings, or PRE. Under financial accounting rules, if a U.S. firm declares that its offshore profits will be indefinitely reinvested outside the United States (i.e., PRE) then financial accounting treats the foreign income taxes paid as the final taxes on that income. As a result, a company making the PRE designation is not required to create any U.S. deferred tax liability at all with respect to those offshore earnings, because the presumption is that the earnings will not be repatriated as cash to the United States, and therefore will never become subject to U.S. tax.

Pfizer has done just this—it has designated $74 billion in accumulated foreign profits as PRE (see next section).Unlike many other companies, however, Pfizer has *not* made the PRE designation with respect to many billions of dollars of *additional* foreign income each year. As a result, Pfizer must provide a financial deferred tax liability (a tax reserve) for the U.S. corporate income tax that theoretically might one day be paid on those offshore profits not designated as PRE.

This is reflected in Pfizer's 2014 financials, for example, by the disclosure deep in the tax footnotes that Pfizer's $3.1 billion tax liability in 2014 for financial accounting purposes includes $2.2 billion in "deferred taxes"—taxes the company says it will pay sometime in the future—attributable to foreign profits it plans to repatriate to the United States at some later date.[6]

Normal deferred tax liabilities simply record differences in timing between financial and tax accounting: the deferred tax liability will ripen into a cash tax liability with the simple passage of time. However, when a deferred tax liability is attributable to foreign profits that are not actually subject to current U.S. tax, that deferred tax liability is purely speculative and may very well never be paid. While Pfizer said in its annual report for 2014 that someday it will pay $2.2 billion when the foreign profits are repatriated, there is no reason to believe that will happen. The event that would actually trigger the Pfizer tax bill would be Pfizer's unilateral decision to repatriate offshore cash, over which Pfizer exercises complete control—in contrast to the ordinary deferred tax liability, which will ripen into a cash tax bill without the firm's ability to control it.

The company has made a very similar statement in each of the last five years. Since 2010, Pfizer has claimed that it would eventually pay a total of $11.3 billion in U.S. taxes on foreign profits when these profits are eventually repatriated. During this period, the company's cumulative deferred tax liability for unrepatriated foreign earnings has increased from $9.5 billion to $21.2 billion [Figure 1 and Appendix 1]. Pfizer has *not* paid any actual U.S. tax on this $21.2 cumulative liability, *and need not do so in the future*.

In effect, Pfizer created a second "stealth" PRE account that amounts to a pure accounting reserve for U.S. taxes that may never be paid. By our estimate, this second stealth PRE account is roughly as large as Pfizer's explicit designation of permanently reinvested earnings—i.e., another $74 billion as explained below.

That means up to $148 billion in profits are parked offshore on which Pfizer has not paid and may never pay any U.S. taxes.

This second stealth PRE account is estimated as follows:

- Pfizer has $21.2 billion in cumulative deferred U.S. tax liability on offshore profits, which is a liability for U.S. taxes that might be paid in the future. [Figure 1 and Appendix 1: Cumulative Deferred Tax Liability for Unrepatriated Foreign Earnings] Pfizer has not elected to designate these profits as Permanently Reinvested Earnings.
- Divide that $21.2 billion by the difference between the statutory U.S. tax rate of 35% and Pfizer's 2010-14 effective tax rate of 6.4%, which excludes this accounting tax charge for offshore earnings that might never be paid to the IRS. This yields a U.S. tax rate of 28.6% (after claiming a tax credit for foreign taxes paid at the assumed rate of 6.4%).
- $21.2 billion in taxes is about 28.6% of $74 billion in profits.

In sum, Pfizer has $74 billion of acknowledged Permanently Reinvested Earnings, which are profits Pfizer is reporting are never coming back. It has another $74 billion or so of "stealth" PRE—profits Pfizer is pretending it will bring back and pay taxes on to make the corporation look respectable to tax authorities, lawmakers and the financial industry. There is no real meaningful difference between these two piles of profits even though they are reported much differently.

Why would Pfizer make this odd decision to provide a U.S. tax charge for repatriating such a large amount of offshore earnings, and then not follow through on it by actually bringing the cash back to the U.S. parent?

One possible reason is that this choice makes it appear that the company is paying a substantial tax rate when it is not. If we take Pfizer's word that it will eventually pay these taxes, then its effective worldwide tax rate over the past five years seems respectable: on $60.2 billion of pretax income, it has claimed a tax bill of $14.4 billion, for a 24% worldwide tax rate. But if the apparently-fictional deferred taxes on foreign profits are subtracted, Pfizer's remaining tax bill for these five years is just $3.9 billion, for a 6.4% five-year effective tax rate.

If true, with tax rates this low it seems odd that Pfizer would once again be trying to change its corporate address to a tax haven. One explanation is that the company is looking for a long-term solution to slash its tax bill. At some point the IRS may catch up with what appears to be very aggressive transfer pricing and profit shifting, and it would be better to establish a friendlier platform from which to dodge billions of dollars in taxes.

Another possibility is that Pfizer wants to engage in earnings stripping—the ability to strip taxable income out of the United States by introducing internal indebtedness running from the U.S. company to a new foreign parent. Here the new foreign parent (Allergan) would load up its new U.S. subsidiary (Pfizer) with excessive debt that would be owed to Allergan, partly as a result of the inversion. Pfizer could claim a hefty U.S. tax deduction on the new debt, which would significantly reduce its U.S. tax bill and shift taxable profits to Allergan in low-tax Ireland. Given Pfizer's claimed financial accounting losses in the United States, this motivation may be less strong in this case than in many other inversions.

Another reason may be that a combined company could get its hands on Pfizer's up to $148 billion of untaxed offshore cash and distribute those earnings as a big payday for shareholders and corporate executives. To do this would require a "non-inversion inversion:" former Pfizer shareholders would have to end up owning less than 60% of the combined company. That's because of a Notice issued by the Treasury Department in September 2014 that required taxes to be paid when an inverted U.S. corporation provided a so-called "hopscotch" loan to its new foreign parent in order to give it tax-free access to the U.S. firm's untaxed offshore profits.[7] Whether Pfizer in fact can pull this off depends on the relative size of the two companies when they invert, and the highly technical interpretations of that September 2014 Notice limiting transactions through which Pfizer might seek to pay its own shareholders in cash rather than in stock of the continuing corporation.

Pfizer Shifts Profits to Tax Havens to Dodge Taxes

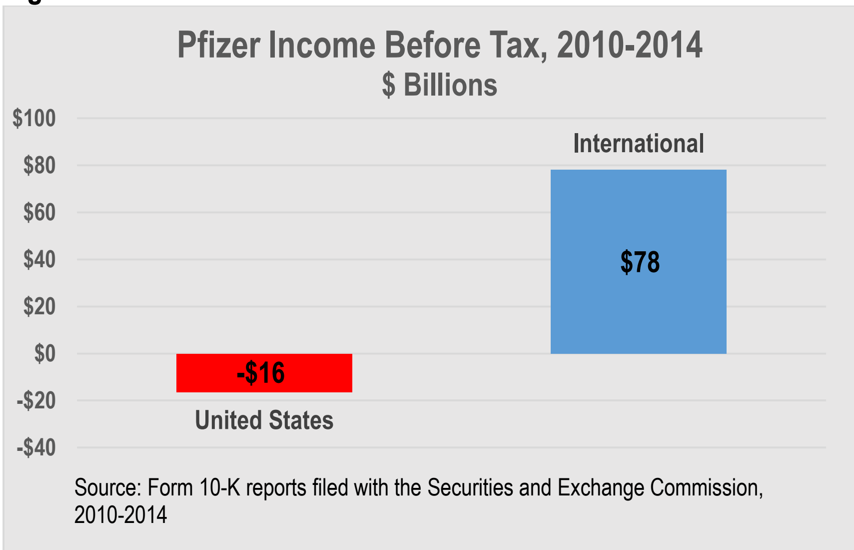
Pfizer reported losing $16.3 billion in the United States from 2010 through 2014, while it earned $78.1 billion offshore. [Figure 3 and Appendix 2]

This is a major feat that may largely be attributable to profit shifting to tax havens, as the company had 38% of its sales and 48% of its assets in the United States in 2014, the largest and most lucrative prescription drug market in the world. [Appendix 2] The engine of Pfizer's profits—development of new drugs—is heavily concentrated in America, as are its patents.

How does Pfizer do it? Most likely through accounting techniques that let it shift the location of its taxable profits to its extensive network of 151 subsidiaries located in 10 tax havens.[8] Tax haven locations include the Cayman Islands (1), Channel Islands (8), Costa Rica (3), Hong Kong (8), Ireland (27), Luxembourg (38), Netherlands (52), Panama (4), Singapore (5), and Switzerland (5).

Like many other companies with valuable patents and trademarks, Pfizer takes that intellectual property and registers it in a foreign tax haven that assesses little or no corporate income taxes. When a customer buys one of Pfizer's pills in the United States, the company sends a significant portion of the purchase price to the tax haven subsidiary to pay for the use of the patent. The profit from the sale winds up in the tax haven where it pays little or no taxes, while a lot of the costs of management, research, marketing, and sales remain in the United States. This leaves Pfizer's domestic operations with large losses year after year.

Figure 3



In 2012, the SEC launched an inquiry into how Pfizer could generate 40% of its sales here and yet not report any U.S. profits for four straight years.[9] Pfizer responded by saying "The geographical mix of revenues is not a good indicator of the split between domestic and international pre-tax earnings for purposes of financial statement presentation, especially for a multinational company that manages its operations on a global basis. … we do not believe that disclosure regarding the reasons for the geographical split of pre-tax earnings would be meaningful or useful to investors."[10]

Pfizer's Growing Pile of Untaxed Offshore Profits

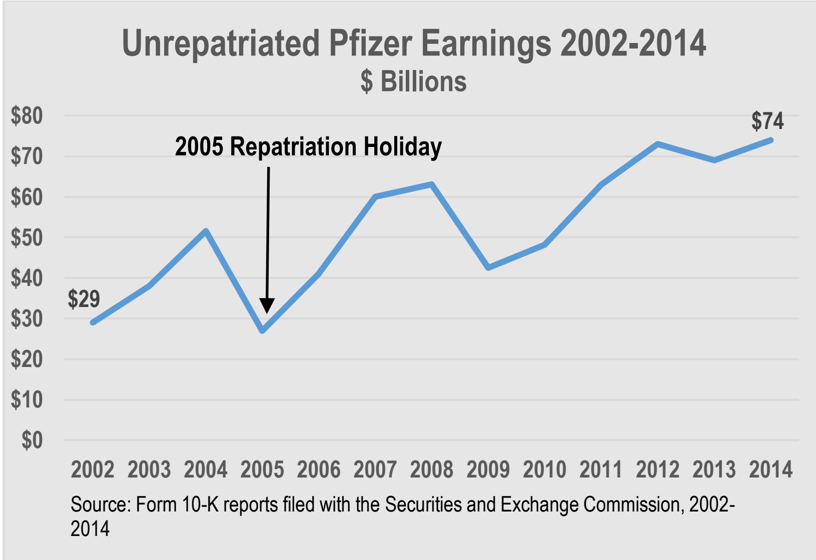
A major reason Pfizer had such a low tax rate in recent years is because it had $74 billion in profits (known as Permanently Reinvested Earnings) parked offshore at the end of 2014, on which it paid no U.S. income taxes. Pfizer ranks fourth in the amount of untaxed profits it has offshore among Fortune 500 companies.[11]

This stash has grown nearly three-fold since a repatriation tax holiday in 2005 after which Pfizer had $27 billion in profits offshore. [Figure 4]

Pfizer was the biggest beneficiary of the American Jobs Creation Act, which created the tax holiday and offered corporations a deeply discounted 5.25% tax rate on profits stashed offshore that they brought back (repatriated) to the United States.[12] The idea was that companies would invest the windfalls from this "tax holiday" in creating new American jobs. Pfizer brought home $37 billion (the most of any company) and pocketed more than $10 billion in tax savings. Within two years of the windfall, Pfizer had laid off 10,000 workers.

A major criticism of the 2004 tax holiday is that much of the money was spent to buy back corporate stock—even though that was prohibited—which boosted share prices but did little in terms of new investments and creating jobs.[13] The same is likely to happen if Congress provides future tax breaks on repatriated profits, as it has considered doing.

Figure 4



For many corporate executives the repatriation tax holiday provided a windfall. The pay packages of Pfizer's top five executives doubled between 2004 and 2006, the time period that bookended the tax holiday. [Figure 5 and Appendix 4]

Over the years Pfizer has been a strong advocate of another repatriation tax holiday for its offshore profits. Its huge buildup in offshore profits has probably been in anticipation of such a tax break. But since chances for another one have dimmed in Congress in recent years, Pfizer turned to a more permanent solution—a corporate inversion.

Figure 5

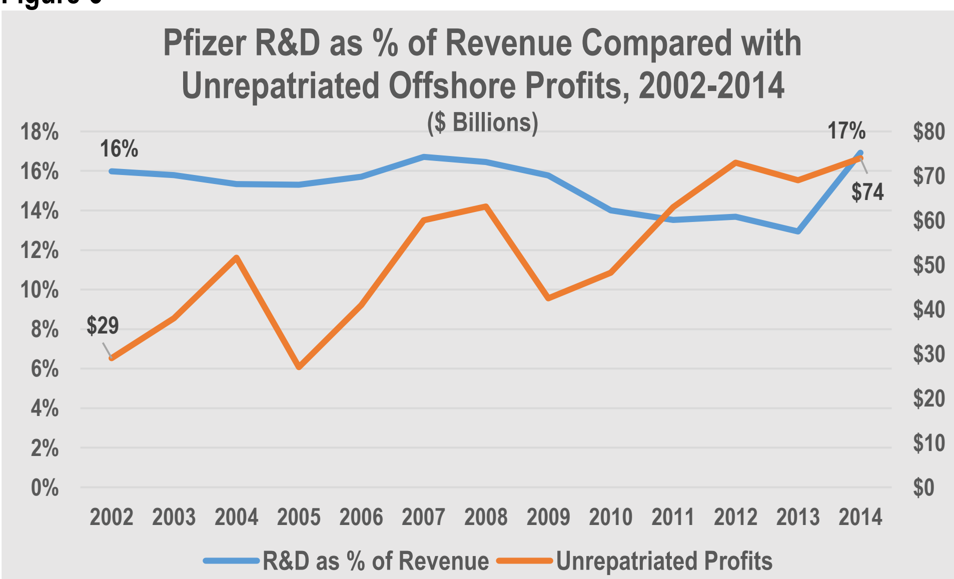
Pfizer Gives a Dubious Rationale for a Repatriation Tax Break

A primary rationale that Pfizer gives for wanting to do an inversion is "to have more resources to accomplish our purpose of bringing more innovative therapies to patients."[14] For a pharmaceutical company that primarily means research and development to discover new medicines.

But Pfizer's history with the repatriation tax holiday and its accumulation of offshore profits in recent years suggest that taxes have little to do with how much Pfizer invests in R&D. Pfizer's R&D spending since 2002 has increased while its offshore stash of untaxed profits has skyrocketed, suggesting that the increase in Pfizer's offshore profits and the U.S. corporate tax rate are not stifling new prescription drug investments.

Pfizer's R&D spending has climbed 1 percentage point since 2002, from 16% of revenue to 16.9% in 2014—while its offshore profits have nearly tripled, rising from $29 billion in 2002 to $74 billion in 2014. [Figure 6] One would expect R&D to have plummeted during that time if these offshore profits were critical to financing new drug development.

Figure 6



Source: Form 10-K reports filed with the Securities and Exchange Commission, 2002-2014

Pfizer Gets Lucrative Federal Contracts While Dodging Federal Taxes

Pfizer depends on American consumers and our tax dollars to succeed. The company raked in $5.3 billion in federal contracts from 2010 to 2014 for its pharmaceutical products. [Figure 7] It is among the 70 top government contractors each year.

Pfizer's annual U.S. revenue is about $20 billion [Appendix 2], which means that about 5% of its U.S. sales are paid by the government; billions more are paid directly by taxpayers or their insurers.

Given Pfizer's estimated 6.4% effective tax rate over the last five years, the company does not come close to paying its fair share—something we should expect of all corporations, but especially those heavily dependent on taxpayer-funded programs. It adds insult to injury to have Pfizer plan to desert America for a tax haven through a corporate inversion.

Figure 7. Pfizer's Federal Contracts, 2010-2014
($ in Millions)

Total	2014	2013	2012	2011	2010
$5,262.7	$862.7	$966.1	$1,143.1	$1,239.8	$1,051.0

Source: Federal Procurement Data System, Top 100 Contractors Report, 2010-2014
https://www.fpds.gov/fpdsng_cms/index.php/en/reports/62-top-100-contractors-report3.html

Solutions to Prevent a Pfizer Inversion

Pfizer's negotiations with Allergan over a possible inversion represent the fourth time in the last 18 months the company has tried to find a smaller partner in a low-tax jurisdiction with which to become a subsidiary of in order to dodge paying its fair share of taxes. Pfizer's persistence is notable given that it already appears to be paying tax-haven tax rates.

There are simple steps Congress can take to make it very difficult for U.S. companies to become foreigners for tax purposes, yet benefit from America's strong business environment, large consumer and government markets, educated workforce and so many other things that make us proud and productive Americans.

Solutions include:

Close the Earnings Stripping Loophole. Earnings stripping is often a primary motive for an inversion. Under an inversion, it allows the new foreign parent to load up its new U.S. subsidiary with excessive debt, which is owed to the foreign parent. The U.S. subsidiary can claim a hefty U.S. tax deduction on the debt, thereby reducing its U.S. tax bill and shifting taxable profits to the low-tax country of the parent. This loophole can be addressed if the Treasury Department promulgates earnings stripping regulations, which it has been considering, or if Congress tightens the Code's current lax earnings stripping rules. Senator Chuck Schumer made such a proposal (S. 2786) in the last Congress.

Enact the Stop Corporate Inversions Act. Sponsored by Sens. Dick Durbin and Jack Reed (S. 198) and by Reps. Sander Levin and Lloyd Doggett (H.R. 415), these bills would make it difficult for corporations to desert America for a tax haven for two reasons:

- Currently a U.S. company can complete an inversion if the shareholders of the foreign company own 20% or less of the new combined corporation. The legislation would require at least 50% ownership by the shareholders of the foreign company ensuring that if a company wants to be considered foreign for tax purposes then at least half of its shareholders should in fact be foreign.

- Regardless of the percentage of ownership in the new combined corporation, the legislation would require both the U.S. firm and the new smaller foreign parent to be regarded as U.S. tax residents as long as the new company is managed and controlled in the United States and if it engages in significant business activity here. It is highly unlikely that Pfizer or any other U.S. corporation with a sizable U.S. headquarters, research and marketing staff would find the tax savings worth the disruption to its business to shift its headquarters and personnel offshore.

S. 198 and H.R. 415 would raise $33.6 billion over 10 years, according to the Joint Committee on Taxation.

Appendix 1. Pfizer's Effective Tax Rates, 2010-2014

($ In Millions)	Total or Average 2010-2014	2014	2013	2012	2011	2010
Total Provision for Taxes on Income	**$14,421**	$3,120	$4,306	$2,221	$3,621	$1,153
U.S. Tax Expense Booked for Unrepatriated Foreign Earnings (Deferred Taxes)	**$11,300**	$2,200	$2,300	$2,200	$2,100	$2,500
Tax Expense Excluding Unpaid U.S. Tax on Foreign Earnings /or/ Other Tax Expense	**$3,864**	$920	$2,006	$362	$1,923	-$1,347
Worldwide Pre-Tax Income	**$60,150**	$12,240	$15,716	$11,242	$11,481	$9,471
Avg. Reported Effective Tax Rate (Including Unpaid U.S. Tax on Foreign Earnings)	**24.0%**	**25.5%**	**27.4%**	**19.8%**	**31.5%**	**12.2%**
Avg. Effective Tax Adjusted to Exclude Unpaid Tax on Foreign Earnings	**6.4%**	**7.5%**	**12.8%**	**3.2%**	**16.7%**	**-14.2%**
Deferred Tax Liability for Unrepatriated Foreign Earnings (Unremitted Earnings)		**$21,174**	$19,399	$17,077	$11,699	**$9,524**

Sources

Form 10-K reports filed with the Securities and Exchange Commission

2012-2014 from 2014 Pfizer Financial Report, Notes to Consolidated Financial Statements, pp. 78-80.

2011 from 2013 Pfizer Financial Report, Notes to Consolidated Financial Statements, Tax Matters, pp. 1-3.

2010 from 2012 Pfizer Financial Report, Notes to Consolidated Financial Statements, Tax Matters, pp. 1-3.

Methodology

In 2014, Pfizer reported $12.2 billion in worldwide pretax income, and a worldwide income tax provision of $3.1 billion. This computes to the 25.5% tax rate claimed by Pfizer. At the same time Pfizer reported in a tax footnote that the $3.1 billion tax liability in 2014 included $2.2 billion in “deferred” taxes to the U.S. These are taxes the company says it will pay sometime in the future, attributable to foreign profits it plans to repatriate to America. But it did not pay them in 2014 and there is no reason to believe that it will happen in the future. Subtracting the $2.2 billion from reported worldwide taxes of $3.1 billion leaves about $920 million in actual taxes paid in 2014, which is 7.5% of the $12.2 billion in worldwide income. A comparable calculation was done for the full five-year period. As a practical matter, the $2.2 billion in deferred taxes was most likely an arbitrary amount designed to make it look as if Pfizer's effective tax rate as reported to shareholders was much higher than it actually was. It appears that Pfizer has been doing this since at least 2010.

Calculation

1. Total Provision for Taxes on Income
2. Minus U.S. Tax Expense Booked for Unrepatriated Foreign Earnings
3. Equals Tax Expense Excluding Unpaid U.S. Tax on Foreign Earnings /or/ Other Tax Expense
4. Worldwide Pre-Tax Income Divided by Tax Expense Excluding Unpaid U.S. Tax on Foreign Earnings Equals the Effective Tax Rate

Appendix 2. Pfizer Income, Taxes, Sales & Assets, 2010-2014
($ in Millions)

Pfizer Income Before Taxes	2010-2014	2014	2013	2012	2011	2010
United States	-$16,337	-$4,744	-$1,678	-$5,148	-$2,254	-$2,513
International	$78,105	$16,984	$17,394	$16,812	$15,016	$11,899
Total	**$60,150**	**$12,240**	**$15,716**	**$11,242**	**$11,481**	**$9,471**

Pfizer Sales Based on Geography	2010-2014	2014	2013	2012	2011	2010
United States	**$173,880**	$19,073	$20,274	$21,313	$26,933	$28,855
Developed Europe, Developed Rest of World, Emerging Markets	**$290,328**	$30,532	$31,310	$33,344	$40,492	$38,202
Total	**$464,208**	**$49,605**	**$51,584**	**$54,657**	**$67,425**	**$67,057**
Share of Sales in U.S.	**37.5%**	**38.4%**	**39.3%**	**39.0%**	**39.9%**	**43.0%**

Pfizer Assets Based on Geography	2012-2014	2014	2013	2012
United States	$17,945	$5,575	$5,885	$6,485
Developed Europe, Developed Rest of World, Emerging Markets	$19,426	$6,186	$6,512	$6,728
Total	$37,371	$11,761	$12,397	$13,213
Share of Assets in U.S.	**48.0%**	**47.4%**	**47.5%**	**49.1%**

Detail of Pfizer Sales Based on Geography	2010-2014	2014	2013	2012	2011	2010
Developed Europe	$68,645	$11,719	$11,739	$12,545	$16,297	$16,345
Developed Rest of World	$46,715	$7,314	$8,346	$9,956	$11,091	$10,008
Emerging Markets	$58,520	$11,499	$11,225	$10,843	$13,104	$11,849
Total	**$173,880**	**$30,532**	**$31,310**	**$33,344**	**$40,492**	**$38,202**

Detail of Pfizer Assets Based on Geography	2012-2014	2014	2013	2012
Developed Europe	$14,346	$4,606	$4,845	$4,895
Developed Rest of World	$2,129	$617	$696	$816
Emerging Markets	$2,951	$963	$971	$1,017
Total	**$19,426**	**$6,186**	**$6,512**	**$6,728**

Sources: Form 10-K reports filed with the Securities and Exchange Commission, 2014, 2011, 2010

Appendix 3. Pfizer R&D Spending and Unrepatriated Offshore Profits, 2002-2014

$ in Millions

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
R&D Expenditure	$5,176	$7,131	$7,513	$7,256	$7,599	$8,089	$7,945	$7,824	$9,392	$9,112	$7,482	$6,678	$8,393
Worldwide Revenue	$32,373	$45,188	$48,988	$47,405	$48,371	$48,418	$48,296	$49,629	$67,057	$67,425	$54,657	$51,584	$49,605
R&D as % of Revenue	16.0%	15.8%	15.3%	15.3%	15.7%	16.7%	16.5%	15.8%	14.0%	13.5%	13.7%	12.9%	16.9%
Unrepatriated Profits	$29.0	$38.0	$51.6	$27.0	$41.0	$60.0	$63.1	$42.5	$48.2	$63.0	$73.0	$69.0	$74.0

Source: Form 10-K reports filed with the Securities and Exchange Commission

Appendix 4. Pfizer Executive Compensation 2004-2006

Name	Position	2004	2006	Increase	% Increase
Henry McKinnell	Chairman and CEO	$4,292,181	$8,315,642	$4,023,461	94%
Karen Katen	Vice Chairman	$2,326,218	$4,061,804	$1,735,586	75%
David Shedlarz	Vice Chairman	$1,873,326	$3,255,375	$1,382,049	74%
Jeffrey Kindler	Vice Chairman and General Counsel	$792,561	$2,736,265	$1,943,704	245%
John LaMattina	Senior VP	$1,024,154	$2,235,835	$1,211,681	118%
		$10,308,440	**$20,604,921**	**$10,296,481**	**100%**

Source: U.S. Senate Permanent Subcommittee on Investigations, "Repatriating Offshore Funds: 2004 Tax Windfall for Select Multinationals,"
October 11, 2011 http://www.gpo.gov/fdsys/pkg/CPRT-112SPRT70710/pdf/CPRT-112SPRT70710.pdf

Endnotes

---

[1] PMLive, "Top 25 pharma companies by global sales" (accessed November 9, 2015). http://www.pmlive.com/top_pharma_list/global_revenues
[2] World Economic Forum, The Global Competitiveness Report 2014–2015, Table 3, p. 13. http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2014-15.pdf
[3] *The Wall Street Journal* (WSJ), "Pfizer Piles Profits Abroad" (November 8, 2015) http://www.wsj.com/articles/pfizer-piles-profits-abroad-1447031546?alg=y
[4] *WSJ, "Pfizer CEO Says U.S. Tax Regime Pushing Him to Seek Alternative" (October 29, 2015)*. http://www.wsj.com/articles/pfizer-ceo-says-u-s-tax-regime-pushing-him-to-seek-alternative-1446140269
[5] Citizens for Tax Justice (CTJ) and U.S. PIRG Education Fund, Offshore Shell Games: The Use of Offshore Tax Havens by Fortune 500 Companies (October 5, 2015). http://ctj.org/ctjreports/2015/10/offshore_shell_games_2015.php#.VkDoGberQ1k
[6] Pfizer Inc. 2014 Financial Report, "Notes to Consolidated Financial Statements," p. 79. https://www.sec.gov/Archives/edgar/data/78003/000007800315000014/pfe-12312014xex13.htm
[7] U.S. Department of the Treasury, "Fact Sheet: Treasury Actions to Rein in Corporate Tax Inversions" (September 22, 2014) http://www.treasury.gov/press-center/press-releases/Pages/jl2645.aspx
[8] CTJ, Offshore Shell Games, Downloadable Dataset/Appendix (XLS)
[9] Securities and Exchange Commission letter to Pfizer, Inc. (May 9, 2012). http://www.sec.gov/Archives/edgar/data/78003/000000000012024203/filename1.pdf
[10] Pfizer, Inc. response to Securities and Exchange Commission letter of May 9, 2012 (May 22, 2012), p. 2. http://www.sec.gov/Archives/edgar/data/78003/000115752312003038/filename1.htm See also, Bloomberg News, "Pfizer's U.S. Losses Questioned as Overseas Profit Soars" (October 5, 2012). http://www.bloomberg.com/news/articles/2012-10-05/pfizer-s-u-s-losses-questioned-as-overseas-profit-soars
[11] CTJ, Offshore Shell Games.
[12] Congressional Research Service, Tax Cuts on Repatriation Earnings as Economic Stimulus: An Economic Analysis (December 20, 2011), pp. 7-8. https://www.fas.org/sgp/crs/misc/R40178.pdf
[13] Ibid.
[14] WSJ, Nov. 8, 2015.