

09 Nov 2016 | **Analysis**

Pharma Is Ready And Waiting For A Tax Holiday Under Trump

by **Jessica Merrill**

US biopharmas are holding billions in cash overseas to avoid paying America's high corporate tax rate, so the prospect of a US tax holiday – or broad tax reform – will be welcomed by industry.

The last time the US granted a tax holiday on corporate cash held overseas was more than a decade ago, so the prospect of a Donald Trump presidency paving the way for billions of ex-US cash to be brought back into the country at a lower tax rate will be welcomed by industry.

The opportunity for a tax holiday – or potentially broad tax reform – are significantly greater under a Trump presidency than they would have been had Hillary Clinton won the US election Nov. 8.

“Last night’s surprising GOP sweep of the White House and Congress has created significant – and mostly positive – landscape changes for healthcare investors,” Leerink analyst John Sullivan said.

Many multinational US biopharmas hold the majority of their cash overseas to avoid paying America's high 35% corporate tax rate, but doing so greatly limits the ways it can be used.

An analysis by the investment bank Evercore ISI released Nov. 9 found that six of nine US biopharmas covered by the bank's analysts held more than 70% of cash outside the US, with

[Amgen Inc.](#) holding the most, 91% of cash, and [Pfizer Inc.](#) holding the least, 49%. The report notes that the analysis does not include every updated 10-Q, including Pfizer's, and that not every company releases the percentage.

The actual amounts of cash are enormous. For example, Amgen has \$34bn held offshore, while [Gilead Sciences Inc.](#) has \$25.2bn and [Merck & Co. Inc.](#) \$21bn.

Evercore ISI analyst John Scotti pointed out that while ex-US cash can be a good proxy for the amount of cash companies might choose to repatriate, the amount could be much larger in the case of a tax holiday or tax reform.

At the last repatriation holiday in 2005, under which the US granted a 5.25% tax rate on earnings brought back into the country, Pfizer repatriated \$37bn even though it only had \$24bn of cash and equivalents on the books at the end of 2004, he said.

“Company treasuries can have access to low-cost financing overseas just for the purpose of repatriation, and companies can repatriate historical earnings that previously were generated ex-US but were not brought to the US,” he explained. Unpaid taxes on historical earnings are reflected as deferred tax liability on the balance sheet.

The biopharma industry has also been advocating in favor of broad tax reform that would lower the corporate tax rate, which they say would make companies operating in the US more competitive with non-US corporations. Pfizer CEO Ian Read has been a particularly outspoken opponent of the current corporate tax system, and has actively sought to re-

How Much Cash Is At Stake?

- Amgen\$34bn
- Gilead\$25.2bn
- Merck\$21bn
- Pfizer \$10bn
- Bristol\$7bn
- Lilly\$7bn
- AbbVie\$6bn
- Biogen\$5bn
- Celgene\$4.9bn

Source: Evercore ISI

More On The Election's Implications

The 2016 US election could significantly impact the biopharma industry. See below for our perspectives in the first 24 hours post-election:

- (Also see "[Trump's ACA Repeal: What's In It For Biopharma?](#)" - Scrip, 9 Nov, 2016.)

domicile the country's top pharma outside the US via acquisition because of it.

While the prospect of a Trump presidency brings many uncertainties because his policies are so undefined, the general thinking is that a Republican president, aligned with a Republican-held Congress and Senate, will present corporate benefits that Clinton would not have offered.

“Last night’s surprising GOP sweep of the White House and Congress has created significant – and mostly positive – landscape changes for healthcare investors,” Leerink analyst John Sullivan said. “Our operating assumption is that President Trump will be pro-business, pro-financial markets and his campaign’s trade threats will be minor.”

He predicted that repatriation will increase the largest healthcare firms’ financial flexibility and the odds of consolidation in healthcare.

- (Also see "[California’s Prop 61 Fails, But More Pricing Measures Could Be Ahead](#)" - Scrip, 9 Nov, 2016.)
- (Also see "[Trump Victory: What Impact For Pharma In A Post-Referendum EU?](#)" - Scrip, 9 Nov, 2016.)
- (Also see "[President Trump And Drug Pricing: What To Expect](#)" - Scrip, 9 Nov, 2016.)

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