

Frank Clemente: Big Pharma's blockbuster tax cuts

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The biggest losers from the GOP tax plans now before Congress would be the **87 million middle-class families** facing higher taxes, plus the 13 million people who would lose their healthcare. The biggest winners? Millionaires and corporations, of course.

Chief among those corporations: America's top drug makers. Pharmaceutical firms will get tens of billions of dollars in tax cuts on their offshore profits alone, while continuing to gouge consumers with ever-higher prices.

A new **report** from my organization finds that the nation's 10 biggest drug companies—what we call the Pharma Big 10—jacked up the prices on some of their most widely prescribed drugs by 40% to 70% over a recent four-year period, depending on the buyer. That upper figure was 14 times the rate of inflation.

Meanwhile, those 10 big drug firms have stashed \$500 billion in profits offshore, mostly in tax havens, on which we estimate they owe \$133 billion in unpaid U.S. taxes.

How does their offshore tax dodge work?

First, they shift control of a drug formula to a foreign subsidiary, say in Ireland or Bermuda. Then they license the formula back to the U.S. parent at a steep price. This increases the parent company's costs, thereby reducing its profits and thus its taxes. Meanwhile, profits are artificially booked where they'll be taxed little if at all.

Their highly mobile patents make drug companies particularly adept at this kind of "profit shifting."

But rather than crack down on Big Pharma's tax dodging, the Republican tax plans would reward drug companies with a tax cut we estimate at nearly \$80 billion on their half trillion dollars of offshore profits.

Our report examines the pricing of 31 of some of the most widely-prescribed drugs from U.S. pharmaceutical companies between 2011 and 2015 (the most recent data available). We found that the average retail price of nine of the drugs most frequently prescribed for older Americans—blockbusters like Pfizer's arthritis medication Celebrex and Merck's diabetes treatment Januvia—leaped by 71%.

Dozens of drugs purchased through Medicare and Medicaid rose by an average of 44% and 40%, respectively.

Among the biggest spikes: the retail price of Pfizer's nerve medication Lyrica doubled, while the price paid by Medicaid for Johnson & Johnson's HIV treatment Prezista was up 131%.

What happened to all the profits from these outrageous price hikes? Were they productively invested? Of course not. The earnings were shifted to offshore tax havens to avoid U.S. taxes. How patriotic.

Between 2011 and 2016, basically the same period in which they were strenuously jacking up drug



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prices on consumers and taxpayers, the Pharma Big 10 increased their offshore profits by two-thirds, to around \$500 billion.

The firms owe an estimated \$133 billion in U.S. taxes on those profits under current rules. But the GOP tax bills in Congress would slash the tax rate on those earnings from 35% now to 14%. The new discounted tax they would owe is just \$55 billion—a tax cut of nearly \$80 billion.

That lost revenue could pay for a year-and-a-half of Medicaid prescription drug spending, or five years of healthcare for nine million kids under the Children's Health Insurance Program (CHIP).

What's worse, the proposed corporate tax giveaways that will so generously reward big drug firms will likely be paid for by cuts to Medicare and Medicaid, the very programs that Big Pharma is price gouging.

The attack has already begun. The Senate GOP's tax plan would help cover the **cost of its \$1.4 trillion in tax cuts** for corporations and the wealthy by repealing a core part of the Affordable Care Act, losing 13 million people their healthcare and raising premiums on millions more.

Separately, the deficit caused by the tax cuts will trigger **automatic cuts to Medicare of \$25 billion** next year and \$400 billion over a decade.

And before the tax bill has even become law, Republicans have been calling for more cuts to Medicare, and even to Social Security, to reduce the growing national debt, which their tax plan will accelerate.

That's not surprising. After all, the **GOP budget blueprint** earlier this year called for a \$1 trillion cut to Medicaid and a \$473 cut to Medicare in anticipation of needing to pay for the massive tax cuts for the wealthy.

Unless the Republican tax plan is rejected, the Pharma Big 10 will get a massive tax cut on profits made price gouging consumers and taxpayer-funded health programs for essential drugs. And the GOP calls this "reform."

Frank Clemente is executive director of Americans for Tax Fairness.



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