OFFSHORING AMERICA'S DRUGSTORE

Walgreens May Move its Corporate Address to a Tax Haven to Avoid Paying Billions in U.S. Taxes

EXECUTIVE SUMMARY

Walgreen Co. is the nation's largest pharmacy retailer with 8,200 stores and locations in all 50 states. It is America's drugstore, and Walgreens pharmacies play a key role in providing healthcare to our communities.

Yet Walgreens recently stated that it may soon renounce its American "corporate citizenship" by offshoring its place of incorporation to Switzerland, a tax haven. The reason for doing this is clear: to avoid paying its fair share of taxes. (The drug maker Pfizer recently made headlines by pursuing a similar reincorporation with AstraZeneca in Great Britain for the same tax purpose.)

This reincorporation would take place primarily on paper – essentially a change of its corporate address. In all likelihood, Walgreens would not move its headquarters, employees or supply chains to Switzerland. But it could cost U.S. taxpayers $4 billion over five years, leaving other businesses and American families to pick up the tab.

This tax maneuver is made possible by a loophole that allows American companies to reincorporate offshore, typically in a tax haven, when just 20% of its stock is owned outside of the United States. This process is known as an *inversion*. Walgreens may be able to meet this criterion through its merger with the Swiss company Alliance Boots (AB), Europe's largest pharmaceutical wholesaler and retailer. AB has itself been criticized widely for aggressively avoiding taxes, especially by reincorporating from the United Kingdom to Switzerland in 2008.

If Walgreens renounces its American corporate citizenship in an inversion, it would continue to take full advantage of all the benefits it gets from operating in America, where almost all of its $72 billion in annual sales and nearly $2.5 billion in profit are generated.

Our research shows that Walgreens relies heavily on the U.S. taxpayer for its profits, and that an inversion would deprive our country of significant resources while giving the company an unfair advantage over its competitors:

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- **If Walgreens changes its corporate address to Switzerland, it could cost U.S. taxpayers more than $4 billion in lost tax revenue over five years.** Analysts at equity research firms have said that the company's income tax rate could be cut to 20%; Walgreens currently pays about a 30% tax rate. This lost tax revenue is enough to pay for one-and-a-half years of prescriptions for the entire veterans population at the V.A., or pay for health coverage for 3.5 million children for a year.

- **Walgreens receives a quarter of its income from taxpayers through government programs.** Of Walgreens' $72 billion in 2013 sales, an estimated $16.7 billion, or 23%, came from Medicare and Medicaid.

- **Walgreens' corporate inversion would affect Illinois taxpayers. In 2012, the state awarded Walgreens $46 million in tax breaks over 10 years.** But an inversion could reduce the company's already low state income tax rate.

- **U.S. taxpayers spent $11 million subsidizing executive bonuses at Walgreens over the last five years.** Walgreens' top executives have collectively earned more than $60 million in compensation over the last five years. Because of a loophole that allows certain "performance-based" stock and incentive compensation to be tax deductible, it cost U.S. taxpayers $11 million to subsidize Walgreens' executive bonuses.

- **By changing its country of incorporation to Switzerland, Walgreens will have an unfair advantage over its competitors.** Walgreens average U.S. tax rate was 31% from 2008 to 2012. Its chief competitor, CVS Caremark, paid a higher tax rate of 34% over those same years, but it has made no move to reincorporate offshore.

President Obama has proposed legislation to make it very difficult for U.S. companies to reincorporate overseas, and several leading members of Congress have recently proposed similar measures to end this tax avoidance scheme.

Corporate tax avoidance is facing growing opposition this year as Walgreens executives and then the company's shareholders make critical decisions about whether Walgreens will continue to be an American corporation. For the company, it is a public relations dilemma and potentially a challenge to its business. When Walgreens abandons America, will American consumers abandon Walgreens?