AMERICANS FOR TaxFairness

FOR IMMEDIATE RELEASE
July 13, 2016

New Report: Taxpayer-Supported Gilead Sciences Is Price Gouging the Public, Then Dodging Taxes on the Huge Profits

WASHINGTON, D.C.— A new investigative report finds that in the last two years Gilead Sciences has raked in billions in profits from exorbitantly priced hepatitis C medications that were developed with taxpayer dollars, and then shifted those profits to offshore tax havens where it dodges U.S. taxes.

"Gilead is making a fortune selling essential drugs to the very government and taxpayers that helped pay to develop them, and then dodging taxes on the resulting profits," said Americans for Tax Fairness executive director Frank Clemente. "Congress should stop this assault on the American people's health and pocketbooks by curbing the company's flagrant drug-price gouging and tax dodging."

U.S. Rep. Lloyd Doggett (D-TX), a senior member of the House of Representatives' tax-writing committee and chair of the House Prescription Drug Pricing Caucus, said, "Gilead is a world leader in tax dodging and price gouging of Americans. While exporting drug patents and profits to Ireland, it continues to charge Americans about twice as much as the Irish on at least one of its major drugs. Nor does its innovative spirit applied to tax avoidance extend to new pharmaceuticals. Currently, it is spending more on stock buybacks for executives and shareholders than on research and development. Gilead's formula for success: prices up, profits up, tax avoidance up. We don't need research to know this about drug effectiveness: an unaffordable drug is always 100% ineffective."

California-based Gilead is the sixth most valuable pharmaceutical corporation in the world, with a market value of $146 billion last year. Its enormous profits come primarily from two life-saving Hepatitis C (HCV) medications. When Gilead's first HCV drug launched in 2013 a full treatment cost $84,000, and a follow-on treatment cost nearly $95,000. And in late June the FDA approved a new version that will debut at $75,000. The cost of manufacturing the original drug was under $1,400.

The report found Gilead's sales and profits have soared since the drugs launched, while its tax rate has plummeted. Gilead's worldwide revenues recently *tripled*—from $11.2 billion in 2013 to $32.6 billion in 2015. Corporate pre-tax profits soared even more: rising from $4.2 billion to $21.7 billion from 2013 to 2015, a *five-fold* increase. But, over the same period Gilead's worldwide effective tax rate plummeted by 40%—dropping from 27.3% in 2013 to 16.4% in 2015.

A tax loophole has facilitated Gilead's three-fold increase in untaxed offshore profits during the same period, which rose from $8.6 billion in 2013 to $28.5 billion in 2015. The profits are most likely in Ireland, a tax haven, because the key HCV drug from which Gilead derives so many profits has been "domiciled" there since 2013 even though the patent is registered in the United States. Gilead reports to the Securities and Exchange Commission that it would owe $9.7 billion in taxes if it brought the $28.5 billion in profits home, which means it is paying a foreign tax rate of only 1%.

"This shifting of profits offshore and dodging of taxes for a drug whose discovery was partially financed by taxpayers is remarkable in its breadth and execution," said Clemente.

Other key findings from the report, *Gilead Sciences: Price Gouger, Tax Dodger*, include:

- **Taxpayers supported the development of Gilead's blockbuster Hep C drugs.** The report identifies at least $4.2 million in federal support for hepatitis-related research that appears to have aided in the development of Gilead's HCV treatments. Pharmasset, the company that originally developed the HCV drug Sovaldi, was founded by a nearly full-time federal employee, Raymond Schinazi, who personally received at least $2.7 million in U.S. taxpayer dollars for hepatitis-related research, including to develop HCV cures. Separately, Pharmasset received at least $1 million in hepatitis-related federal research grants, nearly all of it targeted at treating HCV, and about $500,000 in tax credits for Hepatitis C drug development.

- **U.S. taxpayers are paying a lot—at least $5 billion a year—to treat patients with Gilead's overpriced HCV drugs while hundreds of thousands of patients go untreated because of the high prices.** In 2014, participants in Medicare Part D, the federally-subsidized drug insurance program for the elderly and disabled, spent $3.8 billion. Medicaid, the federal-state health program for the poor, spent $1.3 billion. Hundreds of millions of dollars more were spent by federal agencies caring for veterans and prisoners, two groups at particularly high risk for Hepatitis C. Despite those huge expenditures, hundreds of thousands of hepatitis C sufferers were denied treatment because public programs could not afford to pay Gilead's exorbitant prices.

- **As U.S. sales of its HCV drugs exploded, Gilead appears to have engaged in a massive shift of profits offshore to dodge U.S. taxes.** Four indicators trace the shift:
  - First, in 2013, Gilead transferred the economic rights to its U.S. patent for the drug Sovaldi to an Irish subsidiary, most likely creating a patent licensing arrangement enabling it to report lower U.S. profits and therefore pay much less in taxes.
  - Second, in 2015 Gilead's total revenues were about $20 billion higher than they were in 2013 and its *offshore profits* were about $17 billion higher, even though two-thirds of the company's *sales* were in the United States.
  - Third, during the same period, the company recorded more offshore profits than offshore revenues. For instance, in 2015, Gilead reported that it made $13.7 billion in foreign profits on $11.4 billion in foreign revenues.
  - Finally, the company reported the reverse on its domestic finances, claiming that over the last three years, the U.S. share of its overall revenues had grown far in excess of the U.S. share of its overall profits.

- **Gilead spends more enriching executives and shareholders than developing new drugs.** Between 2005 and 2014, the company spent *nearly 20% more* on stock buybacks ($17 billion) than it did on research and development ($14.4 billion).

- **Gilead's long-time CEO became a billionaire as the company reaped huge profits from its overpriced Hepatitis C drugs and through tax avoidance**. In 2014, John C. Martin was the fourth highest paid billionaire CEO in the country. His 2014 compensation of nearly $200 million reflected a huge surge in the company's stock price, inflated in part through stock buybacks, price gouging, and tax dodging.

- **Gilead has dodged $2 billion in taxes through a loophole that facilitates fat executive pay packages.** Gilead has avoided $1.3 billion in U.S. taxes in the last three years—and $2 billion altogether since 2006—by exploiting a tax break on issuing stock options to its executives. The loophole allows the company to take tax deductions for its option-based compensation in amounts greater than the compensation expenses actually shown on its books.

- **Gilead's offshore tax dodging is part of a much bigger problem.** Gilead is one of many American pharmaceutical corporations and other multinationals using tax havens to dodge their U.S. tax obligations. In 2015 alone, American corporations held $2.4 trillion in offshore profits, deferring payment of some $700 billion in U.S. taxes. Pharmaceutical corporations are the second biggest industry using this tax loophole—they hold an estimated 20% of the profits offshore.

- **Recommendation for ending Gilead's price gouging of essential HCV drugs and its offshore tax dodging.** The report cites proposals from experts who recommend that the federal government use its existing authority to infringe on private patents in the public interest to make Gilead's life-saving hepatitis drugs available to all who need them. It also urges Congress to end the deferral loophole, which allows Gilead and other U.S. corporations to defer paying taxes on their foreign earnings until that income is repatriated to America as dividends. It also recommends that Congress close the stock options tax loophole that saved Gilead an estimated $2 billion over the last 10 years.

"Despite all the benefits Gilead has received from American taxpayers, Congress maintains a loophole-ridden tax system that has allowed the corporation to dodge the taxes that pay for those benefits, leaving taxpayers to pick up its tab," Clemente explained. "It's time Congress took the side of average taxpayers, not protect the tax loopholes for a company that is a price gouger and a tax dodger."

For the full report, click here.

###

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.*

MEDIA CONTACT

Frank Clemente, Executive Director, Americans for Tax Fairness
fclemente@americansfortaxfairness.org
(202) 441-9818