BAD MEDICINE:

How GOP Tax Cuts Are Enriching Drug Companies, Leaving Workers & Patients Behind

AMERICANS FOR TaxFairness

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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 leading role in Washington and in the states on federal tax-reform issues.

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KEY FINDINGS

America's 10 biggest prescription-drug corporations—the Pharma Big 10—are among the biggest winners from the Trump-GOP tax cuts but they are sharing few of the benefits with their employees and are offering no pricing relief to their customers. Instead they are mostly rewarding their CEOs and other wealthy shareholders with fat stock buybacks and dividend hikes, recent public announcements and analysis reveal.

Following is a summary of the report's findings, many of which are highlighted in Table 1 (data is current as of April 26, 2018):

THE PHARMA BIG 10 IS SAVING BILLIONS IN TAXES

- **Five of the Pharma Big 10 (the only corporations for which tax cut estimates have been publicly released) could save more than $6.3 billion in taxes in 2018 alone.** [Table 1]

- **The Pharma Big 10 will save $76 billion in taxes on their offshore profits alone.** The 10 firms had $506 billion in untaxed profits offshore in 2017, on which they owed nearly $134 billion under previous law. Under the Trump-GOP tax regime they will owe only about $57 billion—a tax savings of $76 billion—and they can stretch their tax payments over eight years. [Table 2] (An annualized version of this one-time savings has been included in the tax cut estimates provided in Table 1 for Amgen and Merck, as calculated by JUST Capital.)

THEY ARE SHARING LITTLE TAX SAVINGS WITH WORKERS AND CONSUMERS

- **Only two of the Pharma Big 10, Pfizer and Merck, have announced any quantifiable sharing of tax savings with existing employees through bonuses, wage hikes or fringe benefit improvements.** They are providing one-time bonuses worth a total of $169 million. The industry's estimated $6.3 billion in 2018 tax cuts is **37 times more** than what drug companies are giving workers. (AbbVie has announced it would "enhance compensation" but offered no details.)

- **None of the other seven corporations—Johnson & Johnson, Eli Lilly, Gilead Sciences, Amgen, Bristol-Myers Squibb, Celgene and Biogen—has announced plans to share their tax-cut wealth with employees.** However, many of these "Corporate Cheapskates" are doing share buybacks that will primarily benefit the wealthy, including their own CEOs.

- **The Pharma Big 10's CEOs received total compensation in 2017 that ranged from 94 to 452 times what the typical worker received.** For most of the companies, the CEO made over 100 times more than the typical worker; Johnson & Johnson's CEO made 452 times more.

Table 1. Big Pharma's Tax Cuts, Buybacks & Bonuses

Company	2018 Estimated Annual Tax Cut	One-Time Tax Cut on Offshore Profits	Stock Buybacks Announced Since November 28, 2017	2018 Stated or Estimated Cost of Promised Bonuses	CEO-to-Worker Pay Ratio***
AbbVie*	$1,316,950,210	$3,881,000,000	$10,000,000,000	$0	144-1
Amgen**	$987,400,000	$5,500,000,000	$10,000,000,000	$0	147-1
Biogen	No estimate	$1,060,400,000	None announced	$0	Not reported
Bristol-Myers Squibb	No estimate	$4,827,300,000	None announced	$0	169-1
Celgene	No estimate	$1,953,700,000	$5,000,000,000	$0	Not yet available
Eli Lilly*	$163,905,000	$4,492,000,000	None announced	$0	118-1
Gilead Sciences	No estimate	$7,000,000,000	None announced	$0	94-1
Johnson & Johnson	No estimate	$9,031,800,000	None announced	$0	452-1
Merck**	$2,728,900,000	$13,135,900,000	$10,000,000,000	$69,000,000	215-1
Pfizer*	$1,070,745,480	$25,503,000,000	$10,000,000,000	$100,000,000	313-1
TOTAL	**$6,267,900,690**	**$76,385,100,000**	**$45,000,000,000**	**$169,000,000**	**N/A**

Sources: Americans for Tax Fairness, https://americansfortaxfairness.org/trumptaxcuttruths/;
*2018 tax cut estimated by the Senate Finance Committee
**2018 tax cut estimated by JUST Capital
***Compiled by Bloomberg based on company reports to the SEC

- **Unlike utility companies, none of the Pharma Big 10 has announced any plans to use their tax savings to reduce prescription drug prices despite huge price hikes in recent years.** An AARP analysis found that the prices of 268 brand name drugs increased at least 15% a year from 2013 to 2015, the most recent data available. A recent ATF report found retail prices for a sample of leading American drugs had soared by 40% to 70%, or up to 14 times the rate of inflation, between 2011-2015. ATF found that over that same period profits for the Pharma Big 10 rose by almost 40%.

MOST OF THE TAX SAVINGS ARE GOING TO CEOS AND WEALTHY SHAREHOLDERS

- **Five Pharma Big 10 firms have announced a total of $45 billion in stock buybacks since late 2017.** That's **266 times more** than the $169 million in announced worker bonuses. Stock buybacks overwhelmingly benefit wealthy shareholders, including top executives and foreign investors.

- **Pfizer is getting a nearly $1.1 billion tax cut, which is 11 times more than the $100 million in one-time worker bonuses it attributes to the new tax law.** Its tax rate will be just 17% in 2018. Pfizer has authorized spending $10 billion on stock buybacks this year—**100 times more** than it is sharing in bonuses—and raised its dividend by 6%.

- **Merck promised employees one-time bonuses estimated at $69 million, but it's receiving 39 times more in tax cuts—$2.7 billion—in 2018 alone.** The company is also buying back $10 billion in stock—**145 times more** than it is spending on bonuses.

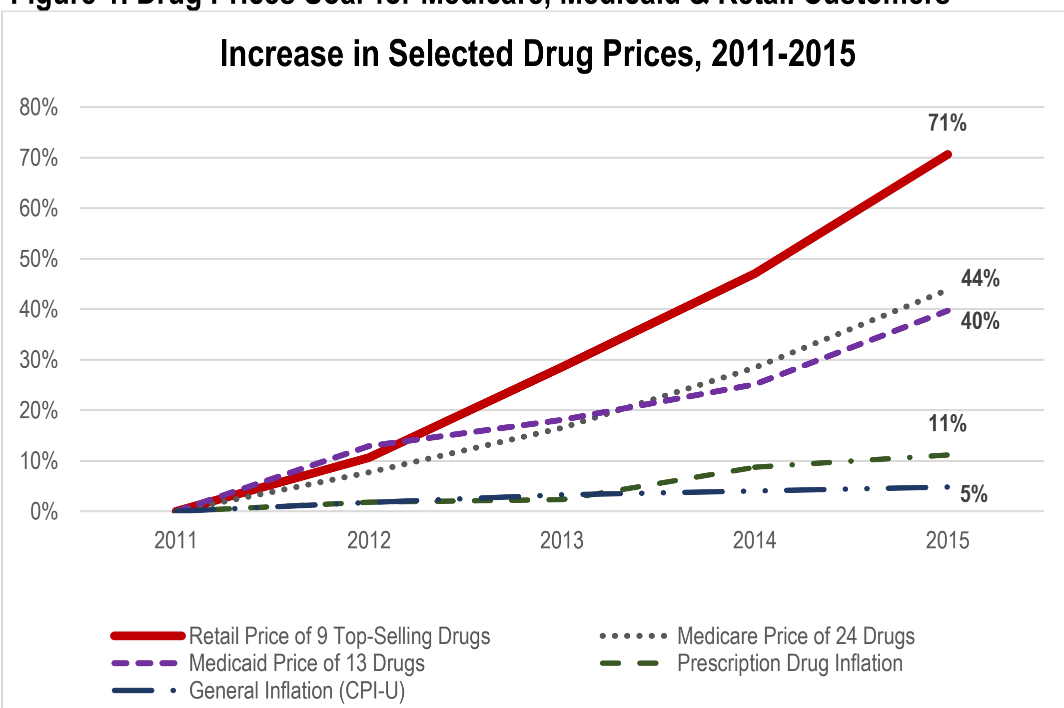
- **AbbVie's estimated tax cut is $1.3 billion in 2018—its resulting tax rate will be just 9%, lower than that of many working families.** While AbbVie has said it will "enhance non-executive employee compensation," it has not said by how much or for how many workers.

The big tax discount on accumulated offshore profits, combined with ongoing savings from the corporate tax-rate cut from 35% to 21% on domestic profits, and the even lower tax rate (one-half the domestic rate or less) that now applies to future offshore profits, will turbo charge profits in an industry already flush with cash. But so far, few benefits are filtering down to hard-working employees—and none to long-suffering patients.

BEFORE DEEP TAX CUTS, COMPANIES WERE ALREADY ROLLING IN PROFITS DUE TO RAMPANT PRICE-GOUGING

Pharmaceutical companies have been racking up huge profits in recent years on the backs of consumers and public health programs like Medicare and Medicaid through rampant drug-price gouging. An ATF report in December found that the Pharma Big 10 had from 2011 to 2015 jacked up prices on their most widely prescribed medications by 40% to 71%, depending on the customer (Medicare, Medicaid, or individuals). General inflation over that period was just 5%.

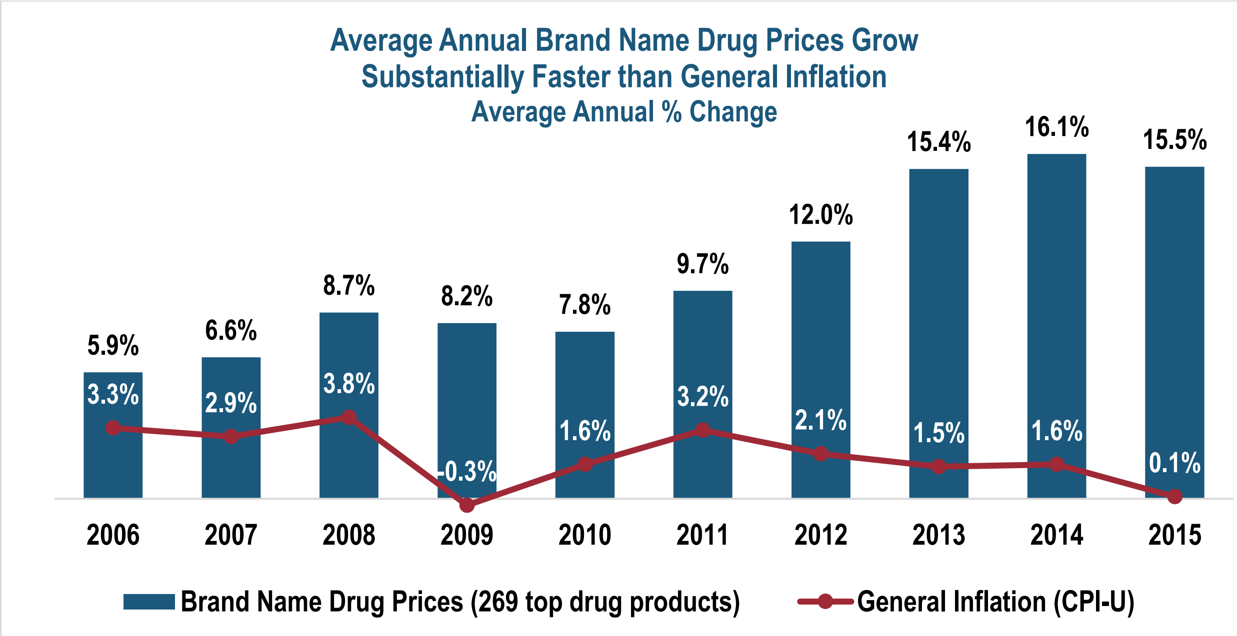
Figure 1. Drug Prices Soar for Medicare, Medicaid & Retail Customers



Sources: AARP, CMS Medicare and Medicaid Prescription Drug Spending Dashboards, Bureau of Labor Statistics

The prices of 268 brand name drugs increased at least 15% a year from 2013 to 2015, per the AARP figures below. (This is the most recent data available.) These drug-price hikes have far outpaced inflation every year. Many of these are commonly prescribed drugs used to treat widespread chronic conditions like high blood pressure, glaucoma, and arthritis.

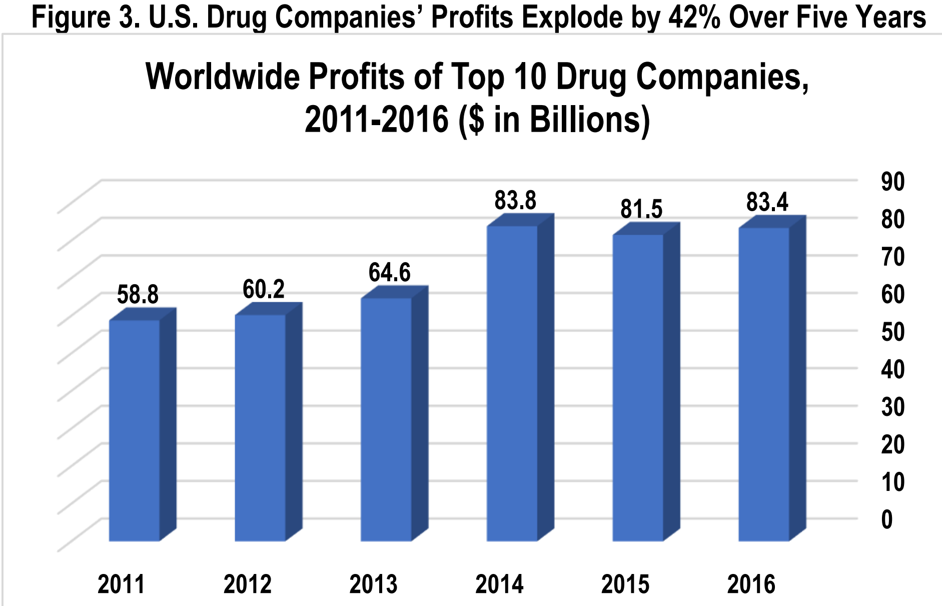
Figure 2. Drug Prices Have Greatly Outpaced Inflation for Past Decade



Source: [AARP Public Policy Institute], Dec. 2016.

The profits of the Pharma Big 10 have shot up in tandem with their drug prices. Between 2011 and 2016, total worldwide net income of these companies rose from $58.8 billion to $83.4 billion, a 42% increase over five years. The increase from 2011 to 2015 was 39%.

Figure 3. U.S. Drug Companies' Profits Explode by 42% Over Five Years



Source: Institute on Taxation and Economic Policy (ITEP) analysis of companies' 10-K filings with the Securities and Exchange Commission (SEC)

Those profits will now be taxed much more lightly by the U.S., allowing drug firms to keep even more of the profits derived from their aggressive price gouging.

LITTLE TAX SAVINGS GOING TO WORKERS, NONE TO PATIENTS

Five of the Pharma Big 10 alone—AbbVie, Amgen, Eli Lilly, Merck, and Pfizer—are projected to save nearly $6.3 billion in taxes just in 2018 thanks to the Trump-GOP tax cuts. [Table 1] Tax savings for AbbVie, Eli Lilly and Pfizer were estimated by the Senate Finance Committee minority staff based on the companies' announcements of projected earnings boosts. The tax savings for Amgen and Merck were estimated by JUST Capital based on the companies' profits and effective tax rates in prior years, plus an annualized portion of the long-term tax savings on their accumulated offshore profits. Estimates for the other five corporations are not available. See the Methodology section for more details on these estimates.

Even as drug companies reap tens of billions of dollars in tax savings under the new tax law, they retain a free hand to continue jacking up prescription drug prices. And contrary to "trickle down" claims that huge tax cuts will benefit the employees of these pharmaceutical giants, evidence so far shows the companies are sharing relatively little with their workers. Instead, they are shoveling even more profits to their wealthy shareholders, including their already overpaid CEOs.

Only Pfizer and Merck have announced specific employee benefits related to their tax cut, and in both cases, the payouts are one-time bonuses, not permanent wage hikes. Pfizer has said that it will spend $100 million on its bonuses, and ATF estimates that Merck's bonuses could total up to $69 million. [Table 1] AbbVie has only said it will "enhance nonexecutive employee compensation," but it hasn't said for how many workers or by how much.

While obviously welcome to the workers getting them, the bonuses paid by Pfizer and Merck pale in comparison to their tax savings. Pfizer's estimated tax cut of nearly $1.1 billion in 2018 is 11 times larger than the one-time bonuses it will pay out this year. Merck's more than $2.7 billion tax cut this year is worth 39 times its estimated one-time bonuses.

The other seven firms in the Pharma Big 10 are "Corporate Cheapskates"—unwilling so far to pass along any of their tax savings to their workers.

And none of the Pharma Big 10 has announced any plans to use their tax cuts to reduce prescription drug prices.

In contrast, utility companies across the country have been announcing that they will be passing on at least a portion of their tax savings to their customers in the form of rate reductions. These announcements are less related to the utilities' commitment to corporate social responsibility than the fact that state and federal regulators will be making sure the companies' cost reductions result in lower utility bills for customers. Unfortunately, the pharmaceutical industry lacks this kind of consumer-price protection.

Though the utility-cost savings for an average family will be modest—perhaps a few dollars a month—nevertheless 17 of the nation's largest utility companies will reduce their customers' bills by a total of over $2 billion, according to estimates by JUST Capital. The analysts at JUST

Capital find that these utilities will pass on between one-third and 100% of their estimated tax savings. Big Pharma could take a cue from the utility industry and share corporate tax savings with customers by reducing exorbitant drug prices, if only a little.

BIG PHARMA'S TAX SAVINGS ARE MOSTLY GOING TO WEALTHY SHAREHOLDERS

Five of the Pharma Big 10—AbbVie, Amgen, Celgene, Merck and Pfizer—have announced increased stock buybacks since late last year when the tax bill was being considered in Congress: a total of $45 billion flowing to mostly wealthy shareholders, including CEOs, other top executives, and lots of foreign investors. [Table 1] That's 266 times more than the $169 million in one-time bonuses that is being paid to workers by two drug firms—Merck and Pfizer.

Buybacks decrease the number of shares outstanding, increasing the value of those left in investors' hands. Dividends and share buybacks mostly enrich the already wealthy because rich people own most corporate stock. While only about half of U.S. adults own stock in any form, the wealthiest 10% of households own 84% of shares, the top 1% owns more than 40%.

In recent years, more than half of CEO compensation has been in the form of stock or stock options. Foreign investors own more than a third of all U.S. corporate shares.

$76 BILLION IN TAX CUTS ON OFFSHORE PROFITS

The Pharma Big 10 had $506 billion in untaxed profits offshore in 2017, based on their Securities and Exchange Commission (SEC) filings. ATF estimates that the collective tax bill owed on those offshore profits was reduced by the new law from nearly $134 billion to about $57 billion—a tax savings of $76 billion. [Table 2]

Table 2. Big Pharma's U.S. Tax Cut on Accumulated Offshore Profits

Company	Profits Held Offshore ($ millions)	U.S. Tax Rate on Offshore Profits	Estimated U.S. Tax Bill on Offshore Profits Under Old Law at 35% Less Foreign Tax Credit ($ millions)	Tax Under New Law ($ millions)	Tax Cut on Offshore Profits ($ millions)
Pfizer*	198,944	20%	40,703	15,200	25,503
Johnson & Johnson**	66,200	28.9%	19,132	10,100	9,032
Merck**	63,100	28.9%	18,236	5,100	13,136
Amgen***	36,600	35%	12,800	7,300	5,500
Gilead Sciences***	37,600	35%	13,100	6,100	7,000
AbbVie**	29,000	28.9%	8,381	4,500	3,881
Eli Lilly**	28,000	28.9%	8,092	3,600	4,492
Bristol-Myers Squibb**	25,700	28.9%	7,427	2,600	4,827
Celgene**	13,300	28.9%	3,844	1,890	1,954
Biogen***	7,600	27%	2,050	990	1,060
Total	**506,044**	**26.4%**	**133,765**	**57,380**	**76,385**

Sources: Data on offshore profits from Institute on Taxation and Economic Policy (ITEP), "Offshore Shell Games 2017" (October 2017), derived from corporations' 10-K filings with the Securities and Exchange Commission. Estimates of current tax owed based on methodology from ITEP, "Multinational Corporations Would Receive $413 Billion in Tax Breaks from Congressional Repatriation Proposal" (Dec. 16, 2017).
* See methodology section for an explanation of Pfizer's estimated U.S. tax liability under the old law.
** Because the company did not report to the SEC its estimated U.S. tax liability on accumulated offshore profits under the old tax law, the amount has been estimated here by applying the 28.9% average U.S. rate that was reported by 58 Fortune 500 companies that did report this information, as analyzed by ITEP.
*** Estimated U.S. tax bill under the old law as reported by the company to the SEC.

All the Pharma Big 10 companies reported the estimated tax they will pay on their offshore profits under the new law in their 2017 10-K filings with the SEC. The law allows them to pay this tax in increments over 8 years. Estimates of the taxes they owed under the old law in Table 2 are explained in the Methodology section.

Under previous law, American corporations owed U.S. taxes at the standard corporate rate on all their worldwide profits every year. But due to a loophole called "deferral," they could indefinitely delay paying those taxes on profits booked and kept offshore. Only when foreign profits were brought back to America (repatriated) did corporations have to pay the U.S. tax bill, less a dollar-for-dollar credit for any foreign taxes paid.
Deferral encouraged corporations to stash trillions of dollars of profits offshore, mainly in havens that charged little or no local tax. The new tax law abolishes deferral, lowers corporate taxes on future foreign profits, and requires corporations to pay a one-time tax on their accumulated offshore earnings—whether they bring them home—at a steeply discounted rate of just 15.5% on cash and a mere 8% on non-cash assets.

CORPORATE STORIES: INDIVIDUAL COMPANIES' TAX CUTS & HOW THEY'RE BEING USED

PFIZER

Pfizer, the maker of Lipitor, Lyrica and Viagra, predicts a tax cut of over $1 billion in 2018 alone—it's announced that its 2018 tax rate will be just 17%, a lower rate than many working families pay. On top of this, Pfizer will pocket a $25 billion tax savings on its offshore profits over the next 8 years. Before the new tax law, Pfizer owed an estimated $40 billion on its $199 billion in accumulated overseas earnings; now it owes just $15 billion.

Two days before the law's final passage, but after the tax law's enactment was assured, Pfizer announced $10 billion in stock buybacks and a 6% hike in the company's dividend, all of which primarily benefit wealthy shareholders, including top executives and foreign investors.

Pfizer's executives certainly weren't hurting before the tax cuts: in 2017, its CEO was paid nearly $28 million, or 313 times the company's median worker's compensation of $89,000.

Pfizer upped that average worker's compensation for 2018 by also announcing a company-wide one-time bonus of $100 million. Spread among its roughly 90,200 employees, that's about $1,100 a worker. Pfizer has said nothing about permanently increasing employee salaries or wages, including raising entry-level pay. Pfizer's 2018 tax savings are nearly 11 times what it's giving to its workers in bonuses.

The biggest way Pfizer claims to be sharing its tax savings with its employees is through a $500 million contribution to its pension plan. But that doesn't boost workers' take-home pay—it helps the company fulfill a contractual obligation. And even after the extra contribution, Pfizer's plan will remain seriously underfunded.

According to an analysis from Citigroup, Pfizer's pension system was among the 25 most underfunded corporate plans in the S&P 500. As of the end of 2015, the company owed its current and future retired workers nearly $6 billion more than it had put aside to pay them. Assuming the funding gap hasn't changed much since then, its planned contribution will make up just about 8% of the shortfall. Moreover, the planned $500 million contribution this year is only half of the $1 billion in contributions Pfizer has made in each of the past 2 years, so the tax cut has hardly accelerated Pfizer's funding of its pension plan.

Finally, increasing pension-plan funding most immediately benefits employers, not employees. Contributions made last year and for most of 2018 will give companies an extra savings on their taxes, provide a good guaranteed return on investment, and even facilitate shutting down their pensions altogether.

JOHNSON & JOHNSON (J&J)

Best known to most Americans for its Band-Aids, baby oil, and other over-the-counter health and beauty products, J&J is also the nation's largest pharmaceutical company.

No public estimate of J&J's 2018 tax savings is available, but it is poised to save over $9 billion in taxes long-term on the $66.2 billion of profits it has stashed offshore.

Though Johnson has so far made no announcement of how it would use its tax cut, a Bloomberg analyst predicted that much of the company's "tax windfall" would go to dividends and "substantial share buybacks." Another analyst has interpreted statements early this year from J&J about its tax-cut plans (along with those from Eli Lilly & Co. and Merck & Co.) to mean "a lot of money will go back to shareholders in the form of dividends and buybacks."

After paying its discounted tax bill on its accumulated offshore profits, Johnson said it would be using its overseas earnings pile to "fund U.S. operations, primarily by paying down debt"—no mention of new investments or increased employee compensation.

A lot of that debt, by the way, was run up buying back company stock in order to further enrich shareholders. This is another case of offshore drug-company profits freed up by the new tax law being used to benefit—in this case indirectly—wealthy investors, not workers.

As a shareholder, J&J's CEO will reap some of this benefit, even though he already made *452 times* what a typical worker at the company was paid in 2017 - $29.8 million versus $66,000.

MERCK

The producer of Januvia, Gardasil and Singulair could get a tax cut of over $2.7 billion in 2018. In addition, its tax savings on its $63 billion in accumulated offshore earnings will amount to over $13 billion.

Merck announced that it would give a "one-time, long-term incentive award" to certain employees, but has not declared the size of the award or said how many employees would get it. Assuming all its 69,000 worldwide employees get a $1,000 bonus (the most common bonus amount companies have announced in the wake of the tax law's passage), the bonuses would cost Merck about $69 million. This means that Merck's 2018 tax cut is 39 times what it may give to its employees.

Merck increased its stock buyback program by $10 billion just a few days before the Senate passed its tax bill. A stock analyst has interpreted statements made early this year by Merck (along with J&J and Eli Lilly) about their tax-cut plans to mean "a lot of money will go back to shareholders in the form of dividends and buybacks."

Last year, Merck's CEO—who will benefit handsomely from the boosted stock price resulting from the buyback program—received $17.6 million in total compensation. This is 215 times Merck's median worker pay of $82,000.

ABBVIE

The company behind the blockbuster arthritis drug Humira announced that thanks to the new tax law, it expects to pay just a 9% income tax rate this year, far below what many middle-income workers will pay. Its tax savings in 2018 could top $1.3 billion and it will get another long-term tax cut of nearly $3.9 billion on its $29 billion in offshore profits.

It will use some of its savings to "enhance non-executive employee compensation," but it doesn't say by how much. These pay increases likely won't substantially narrow the pay gap between executives and average workers. Last year, AbbVie's CEO was paid $22.6 million—144 times more than the company's median worker compensation.

AbbVie also said it will "accelerate pension funding" by $750 million, but that is not an immediate boon to employees. As noted above, in many ways companies benefit more than their workers from accelerated pension contributions.

For its wealthy shareholders, AbbVie says it will "accelerate the growth of its stock dividend and repurchase more of its shares."

ELI LILLY

The producer of Prozac and Cialis could get a tax cut of almost $164 million this year, in addition to the $4.5 billion long-term tax cut on the $28 billion in profits it has stashed offshore.

Lilly has specifically announced it would use its tax savings to finance new mergers and acquisitions. One goal of consolidation is to gain pricing power, which pushes up consumer medication costs and further squeezes the budgets of patients and public health systems. A stock analyst has interpreted statements made early this year by Lilly (along with J&J and Merck) about their tax-cut plans to mean "a lot of money will go back to shareholders in the form of dividends and buybacks."

While it hasn't announced any benefits for workers, Lilly's CEO is sure to benefit. Last year, the CEO received $15.8 million in total compensation, or 118 times more than Lilly's median worker. This ratio is understated for 2017, as Lilly reports that the compensation for its median employee included a pension enhancement as part of an early retirement program, which if excluded would bring the ratio up to 171:1.

AMGEN

The company that produces the rheumatoid arthritis treatment Enbrel could see its 2018 tax bill slashed by almost a billion dollars due to the Trump-GOP tax law. This estimate includes an annualized portion of the tax savings—some $5.5 billion—Amgen is expected to achieve on its $36.6 billion in accumulated overseas profits.

In February, Amgen announced that it would return $10 billion to shareholders via stock buybacks. Yet it has announced no concrete plans to share its tax cuts with existing employees through bonuses or higher wages.

Last year, Amgen's CEO received $16.9 billion in salary, stock incentives, bonuses and other compensation. This is 147 times what the company's median worker took home.

CELGENE

The maker of a leading cancer treatment, Revlimid, could save nearly $2 billion in taxes on its $13.3 billion in offshore profits due to the Trump-GOP tax cuts. An estimate of its 2018 tax savings from the new law is not available, but the law's passage has prompted the company to go on a corporate shopping spree. In February, it announced it would buy back $5 billion of its own stock. It's also spending as much as $16 billion purchasing two other drug companies. Corporate mergers tend to decrease market competition and thus drive up prices.

GILEAD SCIENCES

The maker of exorbitantly priced Hepatitis C treatments Sovaldi and Harvoni—which together cost Medicare and Medicaid over $11 billion in 2015—will get a $7 billion tax break on the $37.6 billion in profits that it has kept offshore to avoid taxes.

The company has made no public announcements about sharing its tax cut bounty with workers, but has suggested it will likely use the extra cash on mergers and acquisitions and paying down debt.

Gilead paid its CEO $15.4 million in total compensation last year—94 times what it paid its median worker.

BRISTOL-MYERS SQUIBB

The manufacturer of the blood thinner Coumadin could pocket a tax cut of $4.8 billion on its $25.7 billion offshore profit stash.

BMS has not announced any specific plans, but has said it will use its tax savings to continue its current strategy of returning capital to shareholders, financing acquisitions and developing new products.

The company's CEO took home a total of $18.7 million in pay last year, or 169 times the compensation of BMS' median employee.

BIOGEN

The company that makes multiple sclerosis drugs Tysabri, Tecfidera and Avonex had $7.6 billion in profits stashed offshore before the Trump-GOP tax cuts were signed into law. Biogen reported that it would have owed about $2 billion in U.S. taxes on these profits under the old tax law. Under the new regime, it will pay only $990 million—a tax cut of over $1 billion. Biogen has indicated it will likely use some of its tax cuts on shareholder payouts through stock buybacks and may consider acquisition opportunities, but has said nothing about increasing pay or benefits for its workers.

Biogen's CEO grossed $17.7 million in pay in 2017, but the company did not report the ratio of CEO pay to median worker compensation. Given what the other Pharma Big 10 corporations have reported, it is likely over 100-to-1.

CONCLUSION

Big drug firms were among the biggest beneficiaries of the new tax law. But little of their tax-cut bonanza is trickling down to employees, and none is being used to lower sky-high prescription drug prices. As expected, the great bulk of the tax savings realized by pharmaceutical giants is being used to reward CEOs and wealthy shareholders through stock buybacks and higher dividends. Another portion will finance mergers and acquisitions, further forcing up drug prices by decreasing competition in the marketplace.

The Trump-GOP tax plan was just what the doctor ordered for the Pharma Big 10 and their shareholders and executives, but it is a bitter pill to swallow for workers and patients.

METHODOLOGY

CORPORATIONS' 2018 TAX SAVINGS

Corporations are not required to publicly disclose their estimated savings from the Trump-GOP tax law, but some have done so anyway, and in other cases, outside organizations have made their own estimates. The estimates in this report come from two sources. The tax savings for AbbVie, Eli Lilly, and Pfizer are from the Senate Finance Committee (SFC) Democratic staff, who based their estimates on the expected increase to earnings (or earnings per share) from the new tax law that companies have reported in quarterly earnings reports and investor earnings calls. The methodology is explained in more detail in the SFC report.

The tax savings for Amgen and Merck were estimated by JUST Capital, which applied the new lower rate to the firms' average taxable income in recent years and added an annualized figure for their tax discount on accumulated offshore profits. (Since the tax on these profits can be paid over 8 years, JUST Capital adds one-eighth of this amount to the 2018 tax cut estimate.) Further details about JUST Capital's methodology can be found here.

CORPORATIONS' TAX SAVINGS ON OFFSHORE PROFITS

Only three of the Pharma Big 10—Amgen, Biogen and Gilead Sciences—have reported how much they would have owed in U.S. taxes on their accumulated offshore profits under prior law if they were to repatriate those earnings. They would have owed 35% minus a credit for foreign taxes paid on those profits.

Pfizer reported its U.S. tax liability ($23.1 billion) on only about half of its offshore profits. It also reported that it had another $86 billion in "permanently reinvested earnings" booked with its foreign subsidiaries, on which it had not recorded any deferred tax liability. What it owed on these profits had to be inferred from what it paid in foreign taxes. The Institute on Taxation and Economic Policy (ITEP) determined that Pfizer's 10-year average tax foreign tax rate was 14.5%. Assuming this rate also applies to Pfizer's permanently reinvested earnings, we estimate that Pfizer would have owed $17.6 billion on these profits (35% minus 14.5% times $86 billion). Adding this to Pfizer's $23.1 billion reported deferred tax liability yields $40.7 in total tax liability.

Calculation of Pfizer's Estimated Tax Liability on Offshore Profits $ in Millions	
Permanently Reinvested Earnings (PRE)	$86,000
10-Year Average Foreign Tax Rate	14.5%
Estimated Repatriation Tax Rate Based on 35% Tax Rate	20.5%
Estimated U.S. Tax Owed on PRE	$17,595
Deferred Tax on Unremitted Earnings	$23,108
Total Estimated Tax Owed on Offshore Profits	**$40,703**

Source: ATF and ITEP analysis of Pfizer's 10K filings with the SEC

To estimate what the other six companies owed under the old tax regime, we applied the average estimated effective U.S. tax rate of 28.9% (the rate that would have applied after subtracting the foreign tax credit) on the repatriated offshore profits of the 58 Fortune 500 corporations that disclosed those figures to the SEC, as compiled in a recent ITEP study.

To determine the tax cuts Pharma Big 10 companies are getting from the reduction of the tax rate on accumulated offshore earnings, we subtracted what the companies have reported they will pay on those earnings in their latest 10-K filings with the SEC from the estimated amounts they would have owed under prior law.

CEO-TO-WORKER PAY RATIOS

Beginning this year, the SEC requires public corporations to report annually on the ratio of their CEO's total compensation (including salary, stock awards and options, cash bonuses, and retirement and other fringe benefits) to their median worker compensation. Eight of the Pharma Big 10 companies have released this information in their Definitive Proxy Statements (Schedule 14A) filed with the SEC for their 2017 fiscal years. Bloomberg has also compiled the information companies have reported thus far.