



University of  
New Haven

University of New Haven

Digital Commons @ New Haven

---

Accounting Faculty Publications

Accounting

---

2023

## Current Trends in Corporate Tax Inversions

James N. Mohs

Martin A. Goldberg

Rajendra Shrestha

Follow this and additional works at: <https://digitalcommons.newhaven.edu/accounting-facpubs>



Part of the [Accounting Commons](#), and the [Taxation Commons](#)

---

### Comments

This [article](#) was originally published in the journal, "*Accounting and Taxation*," volume 15, number 1, 2023.

# CURRENT TRENDS IN CORPORATE TAX INVERSIONS

James N. Mohs, University of New Haven  
Martin A. Goldberg, University of New Haven  
Rajendra Shrestha, University of New Haven

## ABSTRACT

*The objective of this paper is to describe how changes in corporate tax rates affect the relocation of Corporations to lower tax jurisdictions. Historically, there was a direct correlation between high tax rates and the relocation of Corporations to lower tax jurisdictions. By further examining the relationships that tax rate cuts may have on future onshoring relocations and how changes in government tax policies will affect the relocation of multinational corporations to avoid or minimize tax liabilities. This paper extends the work of Mohs, Goldberg, Butler, and Heath (2016), which noted that there is a correlation between divergent tax rates. By analyzing existing tax legislation, Treasury regulations, and tax rates, this paper develops a framework for supporting strategic global tax efficiencies and initiatives. The conclusions, recommendations, and implications reached are generalizable and appropriate for developing best practices in tax efficiency and fiscal policy.*

**JEL:** G14, G38, H25

**KEYWORDS:** Tax Inversion, Tax Rate Changes, Reorganizations, Onshoring, and Inversion Cases

## INTRODUCTION

As discussed by Mohs et.al, 2016 corporate inversions which are also called tax inversions, is a tax-planning technique that arose in effect from Globalization and a distinctive feature of the United States tax code. A tax inversion is a corporate reorganization and as such may take on many different forms. The most common format is a statutory merger between a domestic and foreign corporation that would be tax-free at the corporate level organization pursuant to section 368 of the Internal Revenue Code. In this form of reorganization, the roles of the entities invert. The international subsidiary of the former domestic parent becomes the parent corporation, and the U.S. parent becomes the wholly owned subsidiary. Once the U.S. corporation becomes a subsidiary of a foreign parent, the foreign-earned income of that parent would not be subject to U.S. income taxes. The resultant inversion would then eliminate U.S. taxation on foreign-earned income as well.

As discussed in a subsequent section the inversion may subject the shareholder to a de facto liquidation which may subject the shareholder to recognize a potential capital on the transaction without actually disposing of the equity position. With the decrease in the level of tax inversions and corporate reorganization discussions, caused by decreasing tax rates, corporate inversion strategies have begun to move from the forefront of public and Congressional attention. Compounding political concerns with the supply chain issues emanating from the reliance on China's manufacturing capacity and lower tax rates more attention is being paid to onshore sourcing.

On March 9, 2023, President Biden released the fiscal year 2024 budget for the United States. The multi-trillion-dollar budget contained tax changes that are aimed at corporations paying their fair share. One of

the proposed tax changes would be to raise the corporate marginal rate from the TCJA rate of 21 to 28 percent. This paper will examine the implications that tax changes have on potential corporate inversions as well as the impact of other economic considerations.

## LITERATURE REVIEW

In this section, we will briefly discuss the history of tax inversions, the trends, and the correlation between the increase and decrease in tax rates and the causal effect of related policy decisions.

### Tax Inversion a Historical Perspective

Ranish, Menz, and Mohs (2015) discussed various base erosion and income-shifting methods that corporate entities utilize to reduce their tax burdens and increase value. These strategies have existed since the start of global corporate taxation. Amongst these strategies are transfer pricing, inversions, and other profit-shifting techniques. The increase in globalization gave rise to an opportunity to accelerate the tax inversion strategy and reduce the corporation's overall tax expense. Listed below in table 1 is a historical presentation of the Marginal tax rates in the United States. These are the Federal marginal rates, and it should be noted that where applicable there are also State taxes that are not part of this analysis. Table 2 shows the corporate inversions from 1983 to 2014 by county. In each inversion, the tax rate in the new domicile was less than those reflected in the United States.

The current form of inversion has been active since 1982. In general, the first major inversion of this era was the 1983 McDermott International relocated to Panama. After that, in 1993, followed by U.S. cosmetics company Helen of Troy became a subsidiary of a Bermuda-based shell corporation (Mohs et. al, 2016). As the inversion trend started to rise, in 1996 the U.S. government tried to restrict U.S. companies from moving abroad solely to avoid U.S. taxes. Comparing the marginal tax rates in table 1 to table 4 will illustrate the differentials which would quantify tax savings from a potential inversion. In the same period, the Treasury Department introduced the "check the box" regulation which allows U.S. companies with Controlled Foreign Corporations (CFCs) to opt those subsidiaries out of Subpart F with sufficient tax planning (Henchman, 2011). As noted in Bloomberg, in 2002 when additional regulations were issued making inversion ineffective. The practice of inversion was completely stopped but only for a short period. It was further noted, that since the anti-inversion bill passed in 2004, there have been more than 40 corporate inversions till then.

In order to further discourage the practice of inversion, Congress enacted Section 7874 of the Internal Revenue Code. Section 7874 provided in part that if 80% of a foreign company's shareholders are U.S. based, in the U.S., it would be considered a U.S. corporation for tax purposes. This would in effect eliminate any benefit from the tax inversion. The section further provided that additionally if the inverted corporation does not have substantial foreign operations and sixty percent of the shareholders are domiciled in the U.S., then the inverted foreign corporation would be subject to U.S. taxes. Another drawback to the 2004 legislation is the surrogate foreign corporation provision that in effect taxes transfers of assets out of the U.S. if the assets are transferred out of the U.S. before the expiration of a ten-year holding period.

Despite the 2004 legislation, the corporate inversion rate reached its pre-section 7874 level by 2008, and as a result, Congress strengthened the ownership test in 2009 by clarifying the statutory language in Notice 2009-78 (Fichtner and Michaluk, 2015). In September 2014, Treasury announced regulations increasing the cost of corporations seeking to leave the United States. September 22, 2014, Notice describes future regulations that can be separated into two categories: (I) Special rules regarding ownership threshold requirements (ii) Rules targeting certain tax planning after an inversion, primarily to access foreign earnings of the U.S. acquired corporation (DeNovio et al. 2014). The main purpose of these regulations was to reduce the tax benefits available to companies that have inverted, while also creating difficulties for making new

inversions. Again, on November 19, 2015, Treasury announced another new regulation in which the non-U.S. company is artificially made bigger before a merger to follow that 80% threshold. It is said that these rules build on existing tax laws that prevent companies from escaping the U.S. tax system unless they merge with a foreign firm (Rubin, 2015).

During the announcement of the guideline for Corporate Tax Inversion on April 04, 2016, Treasury Secretary Jacob Lew said the actions would "further rein in" inversions but said that only legislation in Congress could prevent such deals (Calmes, 2016). In this new guideline, along with the guidelines announced in September 2014 and November 2015, Treasury is also proposing tackling the practice of post-inversion earnings stripping with new limits on related-party debt for U.S. subsidiaries. The main purpose of this continuous effort is to eradicate the Corporate Tax loophole that exists in this Country. It is believed these guidelines will be able to create tougher restrictions for U.S. companies to invert. The current U.S. corporate tax rate is 21 percent. Before the enactment of the Tax and Jobs Act of 2017, the federal was 35 percent with the highest marginal of 39 percent. Appendix A reflects the U.S. Tax rates that were in effect since 1982. It should be noted that in the United States, corporations may be subject to State and local income taxes as well. The State liability if any may also be considered.

According to Lyon (2020), the Tax Cuts and Jobs Act (TCJA) made significant revisions to the existing corporate tax and the international tax rules, along with some specific revisions to discourage future inversions. The most substantial revision was reducing the corporate tax rate from 35 percent to 21 percent. This reduction had the effect of creating parity in tax rates with the rest of the world. The TCJA provisions will sunset if not renewed in 2025.

## **METHODOLOGY AND DATA**

Subsequent to the enactment of the 2017 TCJA inversions remained relatively stable. Total business acquisitions remained stable between 2017 and 2018 but inversions dropped significantly between 2018 and 2019, the majority of the declines were accounted for in Ireland and the Netherlands (Bureau of Economic Analysis, 2019). Lyon (2020) indicated that foreign acquisitions of U.S. firms dropped by 25% in 2018 and 2019, compared to 2016 and 2017, while U.S. acquisitions of foreign firms rose by 50%. Attributing this change to other provisions of the TCJA which include increased domestic deductions and changes in the sourcing of foreign income. (Lyon, 2020). As noted in Table 1 the U.S. corporate income tax rate also decreased to a historical low of 21 percent in 2018. In comparing this to the Table 3 marginal tax rates the U.S. tax rate, with the exception of Switzerland the United States has a lower overall rate.

According to the Congressional Research Service, 47 U.S. corporations have reincorporated overseas through corporate inversions from 2004 to 2014, far more than during the previous 20 years combined. In total, 75 U.S. corporations have inverted since 1994 – with one other inversion occurring in 1983. Table 2 reflects the results from a May 2014 Congressional Research Service report that shows a gradual rise in the inversion trend from 1994 to 2002 and then from 2004 to 2014 clearly showing the rapid rise in the number of corporations that are reincorporating overseas seeking to lower their taxes. So, it adds urgency to a legislative solution to control this trend (Rubin, 2015).

Similarly, the data presented in Table 2 shows until 2015 the inversion trend continued with U.S. companies shifting their place of incorporation to another country and tended to pick ones with low or no corporate income taxes. From the data in Table 3, it would appear that Bermuda, the Cayman Islands, and Ireland were the most popular destinations a decade ago. Bermuda and the Cayman Islands are considered to be tax havens since there is no tax on corporate earnings, but it should be noted that other U.S. Tax sourcing policies may apply.

Table 1: Historical United States Corporate Tax Rates

| Year          | Marginal Tax Rate |
|---------------|-------------------|
| 1982 and 1983 | 40%               |
| 1984-1986     | 46%               |
| 1987          | 42%               |
| 1988-1992     | 39%               |
| 1993-2017     | 35%               |
| 2018-2022     | 21%               |
| 2023-2025     | Unless repealed   |

*This table reflects the statutory marginal corporate tax rates from 1982 to 2025. Source: Internal Revenue Code (Title 26 USC) as amended*

Table 2: United States Tax Inversions from 1983 to 2015

| Current Name                           | Previous U.S. Headquarters | New Headquarters | Year Completed |
|--|----------------------------|------------------|----------------|
| Cyberonics Inc.                        | Texas                      | England          | 2015           |
| Wright Medical Group Inc.              | Tennessee                  | Netherlands      | 2015           |
| Steris Corp.                           | Ohio                       | England          | 2015           |
| Civeo Corp.                            | Texas                      | Canada           | 2015           |
| Mylan Inc.                             | Pennsylvania               | Netherlands      | 2015           |
| Medtronic Inc.                         | Minnesota                  | Ireland          | 2015           |
| Burger King Worldwide Inc.             | Florida                    | Canada           | 2014           |
| Horizon Pharma Inc.                    | Illinois                   | Ireland          | 2014           |
| Theravance Biopharma Inc.              | California                 | Cayman           | 2014           |
| Endo International Plc                 | Pennsylvania               | Ireland          | 2014           |
| Tower Group International Ltd.         | New York                   | Bermuda          | 2013           |
| Liberty Global Plc                     | Colorado                   | England          | 2013           |
| Perrigo Co. Plc                        | Michigan                   | Ireland          | 2013           |
| Actavis Plc                            | New Jersey                 | Ireland          | 2013           |
| Tronox Ltd.                            | Oklahoma                   | Australia        | 2012           |
| Rowan Cos. Plc                         | Texas                      | England          | 2012           |
| Aon Plc                                | Illinois                   | England          | 2012           |
| Eaton Corp. Plc                        | Ohio                       | Ireland          | 2012           |
| Jazz Pharmaceuticals Plc               | California                 | Ireland          | 2012           |
| Stratasys Ltd.                         | Minnesota                  | Israel           | 2012           |
| D E Master Blenders 1753 NV            | USA                        | Netherlands      | 2012           |
| Alkermes Plc                           | Massachusetts              | Ireland          | 2011           |
| Valeant Pharmaceuticals Intl. Inc.     | California                 | Canada           | 2010           |
| Altisource Portfolio Solutions         | USA                        | Luxembourg       | 2009           |
| Tim Hortons Inc.                       | Canada                     | Canada           | 2009           |
| Invitel Holdings A/S                   | Washington                 | Denmark          | 2009           |
| Ensco Plc                              | Texas                      | England          | 2009           |
| Altisource Portfolio Solutions SA      | USA                        | Luxembourg       | 2009           |
| Argo Group International Holdings Ltd. | Texas                      | Bermuda          | 2007           |
| Western Goldfields Inc.                | USA                        | Canada           | 2007           |
| Lazard Ltd.                            | New York                   | Bermuda          | 2005           |
| Nabors Industries Ltd.                 | Texas                      | Bermuda          | 2002           |

Table 2: United States Tax Inversions from 1983 to 2015 (continued)

|                                      |               |             |      |
|--------------------------------------|---------------|-------------|------|
| Noble Corp. Plc                      | Texas         | England     | 2002 |
| Weatherford International Ltd.       | Texas         | Ireland     | 2002 |
| Cooper Industries Plc                | Texas         | Ireland     | 2002 |
| Vista Print NV                       | Massachusetts | Netherlands | 2002 |
| GlobalSantaFe Corp.                  | Texas         | Cayman      | 2001 |
| Ingersoll-Rand Plc                   | New Jersey    | Ireland     | 2001 |
| Foster Wheeler AG                    | New Jersey    | Switzerland | 2001 |
| APW Ltd.                             | New York      | Bermuda     | 2000 |
| Everest Re Group Ltd.                | New Jersey    | Bermuda     | 2000 |
| Arch Capital Group Ltd.              | Connecticut   | Bermuda     | 2000 |
| PXRE Group Ltd.                      | New Jersey    | Bermuda     | 1999 |
| White Mountains Insurance Group Ltd. | Vermont       | Bermuda     | 1999 |
| Fruit of the Loom Ltd.               | Kentucky      | Cayman      | 1999 |
| Transocean Ltd.                      | Texas         | Switzerland | 1999 |
| XOMA Ltd.                            | California    | Bermuda     | 1998 |
| Gold Reserve Inc.                    | Washington    | Canada      | 1998 |
| Tyco International Plc               | New Hampshire | Ireland     | 1997 |
| Loral Space & Communications Ltd.    | New York      | Bermuda     | 1996 |
| Triton Energy Ltd.                   | Texas         | Cayman      | 1996 |
| Helen of Troy Ltd.                   | Texas         | Bermuda     | 1994 |
| McDermott International Inc.         | Louisiana     | Panama      | 1983 |

*This table lists the published inversions from 1983-2015. The second column identifies the pre-inversion domicile and column 3 indicates the destination domicile. Source: Congressional Research Service: Inversion Comparisons 1983 to 2015*

Table 3: Foreign Corporate Tax Rates from 1980-2022

| Country     | Marginal Tax Rates | Comments                  |
|-------------|--------------------|---------------------------|
| Australia   | 46-30%             |                           |
| Bermuda     | 0%                 | Considered a Tax Haven    |
| Canada      | 51-30%             | Excludes Provincial Taxes |
| Cayman      | 0%                 | Considered a Tax Haven    |
| England     | 52-19%             |                           |
| Ireland     | 45-12.5%           |                           |
| Israel      | 36-23%             |                           |
| Luxembourg  | 39.39-24.94%       |                           |
| Panama      | 50-25%             |                           |
| Netherlands | 48-25.8%           |                           |
| Switzerland | 21.6-14.87         | Includes Canton Surtaxes  |

*This table reflects the range of marginal tax rates with the left range being the most current. Multiple sources as follows: Sources: Statutory corporate income tax rates are from OECD, "Table II.1. Statutory corporate income tax rate," PwC, "Worldwide Tax Summaries"*

Table 4: Historical Tax Rates for Major Trading Partners from 1980-2022

| Country           | Marginal Tax Rates | Comments                  |
|-------------------|--------------------|---------------------------|
| China             | 55-25%             | Excludes Enterprise Zones |
| Indonesia         | 45-22%             |                           |
| India             | 60-30%             |                           |
| Republic of Korea | 31-27%             |                           |
| Mexico            | 42-30%             |                           |
| Viet Nam          | 28-20%             |                           |

*This table reflects the marginal tax rates for the U.S. trading partners as well as its competitors. Sources: Statutory corporate income tax rates are from OECD, "Table II.1. Statutory corporate income tax rate," PwC, "Worldwide Tax Summaries"*

## RESULTS

### Trends in Corporate Tax Inversion

As previously noted, a corporate inversion can be viewed as a transaction in which a U.S.-based multinational restructures so that the U.S. parent is replaced by a foreign parent to avoid high U.S. taxes. In 2017 the Tax Cuts and Job Act was enacted which in effect lowered the U.S. corporate tax rate to 21 percent and placed the U.S. in a favorable position making inversions not as attractive. It should be noted that if an inversion is for reasons other than tax considerations, such as supply chain or value chain concerns an inversion may still be viable.

The higher corporate tax rates in target countries caused many inversions which appeared to be based primarily on tax considerations subject to certain potentially adverse tax consequences. However, the continued occurrence of these transactions indicates that for many corporations these consequences were acceptable in light of the potential tax detriments. For example, one planned inversion by Assurant Inc. was revised to retain the headquarters in the United States. Ohio-based Dana, Inc. announced plans to merge and moved the headquarters to the U. K., although the merger would leave the U.S. shareholders with less than 60% ownership, and therefore not make them subject to anti-inversion penalties (Francis & Francis, 2018).

### Current Issues on Tax Inversion

Many existing loopholes and flaws in the U.S. code have adversely affected the share of the government's revenue through corporate income tax. In addition to tax inversions, there are a variety of other vehicles that U.S. corporations can use to reduce or otherwise mitigate taxation in high-rate countries. These vehicles are collectively referred to as Base Erosions and Profit Shifting (BEPS) techniques. The Tax Cuts and Jobs Act was not able to fix these flaws, instead causing the corporate tax income of the government to fall to the lowest level since the 1930s despite skyrocketing corporate profits. Not only the tax cuts are responsible for the largest share of the loss in government revenue, but profit shifting has been more challenging to control for the government as well. No matter how many tax cuts are implemented, profit shifting to tax havens does not seem to be reduced by these tax codes.

Over the past several years, many corporations have been using different tools and techniques to shift income from the U.S. to lower-taxed countries and have been able to erode tax liability in the U.S. One of the examples is payment made under royalty, patent, and higher management fees. Mohs, Goldberg, Butler, and Heath (2016) further noted that international tax strategies have been around since the inception of the United States Tax Code due in part to a distinctive feature relating to the taxation of worldwide income.

As discussed at length in Mohs, Goldberg, and Buitrago (2017) base erosion typically occurs when multinational organizations engage in cross-border transactions that will shift income, expenses, or assets from one tax jurisdiction to another. The tax strategies employed to reduce an organization's overall tax burden give rise to a zero-sum game at the jurisdictional or county level, where one country will lose tax revenues, and another will gain revenues. The overall tax-shifting strategy is referred to as BEPS. The three predominant strategies embodied in the BEPS protocols center around transfer pricing, interest stripping, and supportive expenses. These strategies in part would act to increase the expenses for U.S.-based companies while increasing income for the foreign parent companies. Such income shifting to lower-taxed country benefits through lower tax liability for these corporations. To limit such income-shifting techniques, in a newly created IRC Section 59A, the Tax Cuts and Jobs Act added a new tax called base erosion and anti-abuse tax (BEAT).

The BEAT provisions impose a tax on base erosion payments, which include amounts a taxpayer pays or accrues to a related foreign party that the taxpayer may deduct such as transfer pricing or other income-shifting techniques. The taxpayer may be eligible to reduce BEAT liability by recovering costs as the cost of goods sold which are not deductions, by using the Uniform Capitalization Act. An exception to the potential BEAT liability applies to inversions that occur after November 9, 2017, where payments to a foreign parent or any affiliated firm for the cost of goods sold are included in BEAT.

Another modification is attribution rules. Under these rules, the constructive ownership rule for purpose of deciding 10% U.S. shareholders, whether a corporation is a CFC, and whether parties satisfy certain relatedness tests, was expanded in the 2017 tax revision. Specifically, this new rule treats stock owned by a foreign person as attributable to a U.S. entity owned by the foreign person (so-called “Downward Attribution”). As a result, the stock owned by a foreign entity may generally be attributed to (1) a U.S. corporation, 10% of the value of the stock of which is owned, directly or indirectly, by the foreign person; (2) a U.S. partnership in which the foreign person is a partner, and (3) certain U.S. trust if the foreign person is a beneficiary or, in circumstances, a grantor or a substantial owner.

### Recent Changes to the Law

President Biden in the 'Made in America Tax Plan', released in April 2021, anticipated the changes needed to strengthen the U.S. corporate tax and raise revenues. The reforms included in the 'Build Back Better framework' announced last October reflect these goals and would require an increase in corporate taxes. While the main goal of this plan is to increase tax revenues, it also has the effect of limiting profit-shifting trends. This plan appears to also be consistent with Organization for Economic Corporation and Development (OECD) agreement. Although President Biden's Build Back Better agenda passed the House of Representatives, it stalled in the Senate. The corporate tax provisions limiting profit shifting were not included scaled-down successor to the Build Back Better, Inflation Reduction Act of 2022.

After years of negotiations, 136 nations including all the largest economic countries were able to reach an agreement designed to rein in corporate tax avoidance and modernization of international tax rules. On October 8, 2021, the OECD was able to create a final framework named “Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalization of the Economy. This agreement would establish a global minimum tax rate for these multinational corporations and make other changes to limit the incentives to shift profits to lower tax jurisdictions. Table 4 illustrates the tax rates in Major U.S. trading partners. This agreement also ensures that countries where economic activities occur receive tax revenues commensurate with that activity.



### The Current Thoughts and IRS Position concerning Tax Inversion

Treasury introduced new rules to restrict the ability of American companies for inversion just to lower their tax bills. These rules mainly focus on two parts to limit internal corporate borrowing that shifts profits out of the United States.

First, the government focused on the companies that have engaged in multiple inversion transactions, addressing "Serial Inverters". The rules would disregard three years of past mergers with U.S. corporations in determining the size of the foreign company. Treasury's action restricts serial inversions by not counting inversions or foreign acquisitions of U.S. firms occurring within the last three years when applying the formula that determines whether an inversion is subjected to penalties or blocked by existing tax code rules (Zeints and Hanlon, 2016). That means that companies cannot use a recent inversion or a recent foreign acquisition to enable an inversion and avoid triggering penalties. After a merger, to get around the US Treasury's rule that a company that is still 80% US-owned following a takeover cannot be domiciled in another country. If they own at least 60%, some restrictions apply but the company is still considered foreign (Rubin, 2016). That would lead companies to keep their inversions below 60% and prompted the government to propose rules halting various techniques for doing so.

Second, the government issued regulations against earnings stripping. Earning striping is the moves done after an inversion or after a foreign company buys a U.S. firm, which erodes the U.S. corporate tax base and puts other firms at a competitive disadvantage. Treasury addresses earnings stripping by modifying certain related-party interest payments as dividends that cannot be deducted – in other words, preventing debt that doesn't finance new investments in the United States from receiving a tax break (Zeints & Hanlon, 2016). The rules would give the government more authority to treat those debt transactions as equity movements under the tax code. During the announcement of new rules, Treasury has said that it will continue reviewing its authority under existing law to limit, and where possible stop, corporate inversions.

### The Treasury's Reaction to Corporate Tax Inversion

Two days after the regulation was issued, Pfizer withdrew from its merger with Allergan, an Irish-based company that was an inverted firm. It appears that this merger was affected by the multiple-entity rule, which has come to be called "serial inversion" (American for Tax Fairness, 2016). But recently, Pfizer's CEO has shown that deals are still on hold generally while tax reform is being considered. The CF industries merger with OCI NV (based in the Netherlands) was also called off. However, some mergers still stayed active and new mergers were announced, there have been such mergers between Shire (Ireland-based) and Basalta, and between HIS and Mark, it Group inc. (U.K. based) went forward. A merger between Konecranes (a Finnish firm) and Terex was scaled down to an acquisition of a share of Terex with the U.S. firm owning 25%, thus avoiding the effect of the regulation (American for Tax Fairness, 2016).

In May 2016, Cardtronics Inc. announced a plan to move to the U.K. using the substantial business activities tests. Also in 2017, Praxair, a U.S. gas company, announced its plan to move out through a merger with Linde AG, a German gas and technology company, owning half of the new company. Even though statistical data suggest a decrease in the rate of inversions from 2015 to 2016, and again from 2016 to 2017, the new inversion process was still being announced and some old inversions remain active.

Under the 2017 legislation, a corporate's existing untaxed income held in a foreign country is taxed under a deemed repatriation rule, but at a lower rate (8% for earnings reinvested in noncash assets and 15.5% for earnings held as cash or cash equivalents). A special recapture rule applies to deemed newly inverted repatriated corporate firms. This recapture rule applies to a firm when it becomes an expatriated entity at any time during the 10 years beginning on December 22, 2017. In such a case, the tax rate will increase from 8% and 15.5% to 35% for the entire deemed repatriation with no foreign tax credit allowance for the

increase in the tax rate. This additional tax is due in full amount in the first tax year in which the entity becomes an expatriated entity.

### Corporate Reaction after New Tax Inversion Policy

There are different reactions to this tax inversion policy. Robert Holo, a tax partner at Simpson Thatcher & Bartlett LLP, called the regulations a "significant escalation of the attack on inverted companies." The first two sets of rules "made inversions a little harder but didn't fundamentally change the calculation," he said. "This one is much more aggressive. Not only does it attack the ability to invert but puts the single greatest benefit of doing so -- earnings stripping -- on the chopping block" (Mider, Z, 2017). Similarly, Kevin Kedra, an analyst at Gabelli & Company expressed the new policy as funny since the new policy almost fit perfectly with Pfizer and Allergan's deal (Merced and Pickler, 2016).

Subsequent to the announcement of the new inversion policy of April 2016, New York-based Pfizer plans to domicile in Ireland by buying Allergan, a U.S.-run pharmaceutical company with an Irish tax domicile, and the companies expect to complete their merger in the second half of 2016. But this deal was stopped due to a new inversion rule announced by Treasury Department in April. The proposed \$150 billion deal between Pfizer and Allergan, which would create the world's largest drug maker, prompted renewed strategies. In a joint statement, Pfizer and Allergan said they would review the Treasury policy but would not speculate on its possible effects (Dunsmuir & O'Donnell, 2016). The absence of any additional inversion cancellation data would suggest that the effect of tax rate reductions TCJA, has brought a temporary session in inversions solely for tax purposes.

### Path Forward

On March 9, 2023, President Biden released the fiscal year 2024 budget for the United States. The multi-trillion-dollar budget contained tax changes that are aimed at corporations paying their fair share. One of the proposed tax changes would be to raise the corporate marginal rate from the TCJA rate of 21 to 28 percent. Whether the budget clears the legislative process in its current form is a matter of political debate and a variable worth consideration.

Inversion studies are extremely costly and time-consuming. The benefits are often further subject to subsequent legislative changes. Future tax savings at the corporate level may not offset the costs. (Marples and Gravelle, 2021). The data reflected in this paper suggests that tax savings alone should not be the sole catalyst for the inversion decision. The de facto liquidation at the shareholder level causing potential capital gains and supply and value chain issues also need to be factored in and considered. By using cost-benefit analysis and other techniques an informed inversion decision can be made.

### **CONCLUDING COMMENTS**

There are many reasons why organizations may want to consider a corporate inversion. Two forms of corporate tax policies are particularly relevant to the corporation's motivation for tax inversion decisions: the corporate income tax rate and territorial taxation of foreign source earnings. Other reasoning may be related to supply chain or value chain propositions such as freight, labor, the acquisition of natural resources, or proposed legislation.

From this analysis it becomes intuitively obvious that lowering the corporate tax rate could have a huge impact on the inversion decision, it further indicates it would that the level of tax rate reduction could prevent these activities. The data suggests that the lower the home country's tax rate decreases the less beneficial an inversion would be. Conversely raising the home country's rate may make inversions more beneficial. If revenue neutrality is a goal of the current fiscal year, there may not be enough base area to

spread tax to offset revenue cuts in corporate income for the government. Even though such areas were found, they might have their limitations and other negative consequences. Reducing corporate tax rates without a proper base simply results in chronic budget deficits for the government.

## REFERENCES

American for Tax Fairness. (April 5, 2016). New treasury dept. Anti-inversion rule would Prevent Pfizer's estimated \$35 billion tax break. <https://americansfortaxfairness.org/issue/new-treasury-dept-anti-inversion-rule-would-prevent-pfizers-estimated-35-billion-tax-break>

Calmes, J. (2016), A Treasury secretary at the center of Obama's most pressing policies. The New York Times. <https://www.nytimes.com/2016/04/08/business/the-treasurysecretary-steps-reluctantly-into-the-limelight>

Congressional Research Service. (May 2021), The budget reconciliation process: The senate's "Byrd Rule". Congressional Research Service Report <https://sgp.fas.org/crs/misc/RL30862.pdf>

Dawson, C and Francis, T (March 9, 2018), Despite the U.S. tax overhaul, Ohio-based Dana considers a move abroad. Wall Street Journal. <https://www.wsj.com/articles/dana-to-take-over-gkns-automotive-driveline-business-1520614366>

DeNovio N., Stein, L., Doyle D and Murphey L. (2014), Treasury announces inversion regulations; Reach extends to other cross-border M&A. Client Alert Commentary No 1747. <https://www.lw.com/thoughtLeadership/lw-inversions-new-regulations>.

Dunsmuir, L and O'Donnell, C. (April 04, 2016), New rules on tax inversions threaten the Pfizer-Allergan deal. Reuters. <https://www.reuters.com/article/us-usa-tax-inversions/new-u-s-inversion-rules-threaten-pfizer-allergan-deal-idUSKCN0X1299>

Fichtner J., Michaluk C and Michel A. (2015), Locking out prosperity: The Treasury Department's misguided regulation to address the symptoms of corporate inversions while ignoring the cause. Mercatus Center, George Mason University. <https://www.mercatus.org/publications/government-spending/locking-out-prosperity-treasury-department-misguided-regulation>

Feyman, Y. (April 6, 2016), Tax inversions don't destroy US jobs. CNBC. <https://www.cnbc.com/2016/04/06/tax-inversions-dont-destroy-us-jobs-commentary.html>

Henchman J. Tax Foundation, (November 2011), Special Report No. 197. <http://taxfoundation.org/sites/taxfoundation.org/files/docs/sr197.pdf>

Lyon, A. (October 2, 2020), Insights on trends in U.S. cross-border mergers and acquisitions after the Tax Cuts and Jobs Act. Tax Notes, 497-507. <https://www.taxnotes.com/special-reports/cross-border-mergers-and-acquisitions/insights-trends-us-cross-border-ma-transactions-after-tax-cuts-and-jobs-act/2020/10/23/2d2m8>

Marples, D and Gravelle, J (June 17, 2021), Corporate expatriation, inversions, and mergers: Tax Issues, Tax Notes, Tax Issues 24(3568). <https://sgp.fas.org/crs/misc/R43568.pdf>

Merced, M and Picker, L (April 5, 2016), Pfizer and Allergan are said to end the merger as tax rules tighten. The New York Times. <http://www.nytimes.com/2016/04/06/business/dealbook/tax-inversion-obama-treasury>

Merle, R. (April 4, 2016), Treasury Dept. tries again to stop companies from giving up U.S. citizenship for lower taxes. The Washington Post. <https://www.washingtonpost.com/news/business/wp/2016/04/04/treasury-dept-tries-again-to-stop-companies-from-giving-up-u-s-citizenship-for-lower-taxes>

Mider Z, (March 2017), Tracking Tax Runways, Bloomberg, U.S. Edition. <https://www.bloomberg.com/graphics/tax-inversion-tracker>

Mohs, J. N., Goldberg, M. A., Butler, L. W and Heath, A. M., (2016) Corporate inversions: New challenges, new opportunities, International Journal of Accounting and Taxation, Volume 4, Issue 2, 25-35

Mohs, James, Goldberg, Martin, and Buitrago, David (2017). Base Erosion and Profit Shifting: Options, Opportunities and Alternatives, International Journal of Accounting and Taxation, 5(1), 10-21

Rainish, R. M., Mensz, P and Mohs, J. N. (2015), Global financial model for the value chain. Journal of Finance and Accountancy, 18,16

Rubin, R. (November 19, 2015). The U.S. unveils rules to make corporate inversions more difficult: Move intended to stop American companies from putting their addresses in foreign countries to reduce tax bills. Wall Street Journal, English Edition. <https://www.wsj.com/articles/u-s-unveils-rules-to-make-corporate-inversions-more-difficult-1447970935>

Tax Foundation, Sources of Government Revenue in the OECD, 2022, <https://taxfoundation.org/publications/sources-of-government-revenue-in-the-oecd>

Velarde A. (May 2016). Terex-Konecranes Merger Downsized After Lost Tax Benefits. Tax Notes, pp. 1032-1033. <https://www.taxnotes.com/search-page-list>

Zachary R. Mider, Z and Drucker, J. (March 2017). Tax Inversion: How U.S. companies buy tax breaks. Bloomberg. <http://www.bloombergview.com/quicktake/tax-inversion>

Zients, J. and Hanlon, S. (April 8, 2016). The corporate inversions tax loophole: What you need to know. The Whitehouse, 16.12(22). <https://www.whitehouse.gov/blog/2016/04/08/corporate-inversions-tax-loophole-what-you-need-know>

## **AUTHOR BIOGRAPHIES**

James N Mohs M.S.A., D.B.A., is an associate professor at the University of New Haven Pompea College of Business in West Haven Connecticut. Prior to embarking on a career in academia, he spent nearly 40 years in public accounting and large publicly traded corporations. His work has been published in the International Journal of Accounting and Taxation, Journal of Business and Economic Policy, Journal of Global Business Management, Journal of International Business and Economics, Review of Contemporary Business Research, Strategic Management Quarterly, Journal of Human Resource and Adult Learning, and the Journal of Finance and Accountancy. Articles to appear in Real Estate Taxation and Practical Tax Strategies.

Martin A. Goldberg J.D., LL.M. in Tax, is an associate professor at the University of New Haven Pompea College of Business in West Haven Connecticut. Prior to embarking on a career in academia, he spent 20 years in the practice of law. His work has been published in the International Journal of Accounting and Taxation and the Journal of International Business and Economics. Articles to appear in Real Estate Taxation and Practical Tax Strategies.

Rajendra Shrestha graduated from the University of New Haven in January of 2023 with an M.S. in Accounting. This publication is based in part on her graduate capstone research project with Dr. Mohs.