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Trump Tax Law and the Health Care Industry: A $100 Billion Bonanza

<u>Report of the Senate Finance Committee Democratic Staff</u>

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Introduction

Instead of focusing their tax law on providing relief to middle class families, Donald Trump and Congressional Republicans chose to pay for massive corporate tax cuts by repealing a pillar of the Affordable Care Act. This choice is expected to leave 13 million more Americans uninsured and raise premiums on millions more.

While working families are worrying about the rising cost of doctor visits, hospital stays and prescription drugs, the health care industry is expected to receive $100 billion in tax benefits over the next decade.

Trump Tax Law Puts Corporate Profits over Patients by Showering Major Health Companies with $100 Billion in Tax Windfalls

Senate Majority Leader Mitch McConnell openly admitted that Republicans chose to effectively repeal the ACA because "that revenue… would provide us, for example, the opportunity to do a couple things – to make permanent the corporate tax rate – so it would extend beyond the ten year window…"

The official Congressional Budget Office (CBO) estimates that, because of this choice, the Trump tax law will increase health insurance exchange premiums by 10 percent a year over the next decade. According to CBO's April 2018 Budget Outlook, the average increase in 2018 premiums for the second-lowest-cost "silver" plan in the ACA's health insurance marketplaces will be 34 percent.

Meanwhile, the White House is touting record-breaking profits for health insurance companies. According to a March 2018 report from the White House Council of Economic Advisors, "all health insurers can expect to become more profitable this coming year due to the recent tax reform."

In earnings calls and supporting documents, 20 of the 37 Fortune 500 health care companies provided projections of how the tax law will increase their 2018 earnings. These projections add up to over $10 billion in tax benefits for these 20 companies in 2018.

Because the Trump tax law permanently slashed the corporate tax rate from 35 percent to 21 percent, the health care industry will receive major tax savings every year through the next decade. That means the roughly $10 billion in yearly tax benefits received by these 20 companies will translate to approximately $100 billion in tax benefits over the next ten years.

Health Companies Raked in Financial Benefits from Trump's Sweetheart Deal for Multinational Tax Dodgers and Massive Cuts to Corporate Tax Rate

While these 20 health care companies are set to enjoy $10 billion in annual tax savings in 2018 and beyond, end-of-year 2017 filings for the full set of 37 Fortune 500 health care companies show the industry has already recorded tens of billions of dollars in financial benefits from the Trump tax law. These 2017 financial benefits came from two categories: a tax break on offshore holdings and remeasurement of deferred taxes.

Trump and Congressional Republicans gave a sweetheart deal to companies that had previously stockpiled earnings overseas to avoid paying U.S. taxes. Under prior law, U.S. corporations were taxed at up to a 35 percent statutory rate on their worldwide income. However, U.S. companies were allowed to defer paying taxes on their offshore earnings until the earnings were repatriated to the United States. Multinational corporations exploited this deferral regime to indefinitely postpone paying U.S. tax, accumulating trillions of dollars in offshore jurisdictions. The Trump tax law imposed a one-time transition tax on these previously-deferred foreign earnings at a rate between 8 percent and 15.5 percent, lower than the new corporate tax rate of 21 percent and far lower than the previous 35 percent rate the earnings would have been subject to had they not been deferred at the time they were accumulated.

If Republicans had chosen to tax offshore income at the new 21 percent domestic corporate tax rate, they could have raised over $20 billion more in revenue from Fortune 500 health care companies. If offshore earnings had been taxed at the 35 percent statutory rate that was law at the time they were earned, it would have resulted in over $80 billion in additional revenue from just these 37 companies. To put this tax windfall in perspective, $20 billion in revenue could have funded an extra $150 tax cut in 2018 for every middle class taxpayer earning under $100,000. $80 billion in revenue could have funded an extra $600 tax cut in 2018 for every one of these middle class taxpayers.[1]

The 37 Fortune 500 health care companies also reported, on net, nearly $40 billion in financial benefits to their 2017 books due to remeasurement of deferred tax assets and liabilities. The reduction of the corporate income tax rate from 35 percent to 21 percent reduces the cost of existing deferred liabilities when calculated at the new rate, resulting in greater future financial benefits. Similarly, the corporate rate reduction reduces the future financial benefits of existing deferred tax assets.

Despite Stunning Gaps between CEO and Employee Pay, Health Companies Are Funneling Their Tax Cuts into Bigger Pay-Outs for CEOs

Since the passage of the Trump tax plan, corporate CEOs have dedicated over $250 billion in savings from Trump's corporate tax cuts to stock buybacks. These financial schemes are designed to boost stock prices, thereby increasing CEOs' stock-based compensation and enriching foreign shareholders.

5 of the 37 Fortune 500 health care companies have authorized stock buybacks since the passage of the Trump tax law. Together, these 2018 buyback authorizations add up to $28 billion. Meanwhile, recent corporate filings verify, for the first time, that corporate CEOs are being paid hundreds of times more than their median employees. Across these 5 companies, CEO-to-employee pay ratios filed to date range from 127-to-1 up to 388-to-1.

[1] The non-partisan Tax Policy Center's 2018 distributional model of the TCJA conference report (T17-0317) projects 130,400,000 taxpayers in 2018 earning under $100,000.

Appendix: Methodology and Data Tables

Projected Tax Benefits for 2018 and Rest of Decade

The 20 companies examined in the first section of the report meet the following three conditions. First, the companies are members of the Fortune 500. Second, the companies are categorized by Fortune as members of the "health care sector." This subset of the Fortune 500 can be viewed by visiting the online list and filtering by "sector," and then by "health care." Third, the companies provided a projection of 2018 earnings benefit attributable to the tax law in their earnings calls or supporting materials. To meet this condition, companies must have explicitly attributed earnings increases to the tax law. As mentioned in the first section, of the 37 Fortune 500 companies in the health care sector, 20 provided these 2018 projections in their earnings calls. The 17 companies that did not provide 2018 projections were excluded from this portion of the report.

Senate Finance Democratic staff analyzed 2017 Q4 earnings calls, 2018 Q1 earnings calls, accompanying earnings call slides, and published 2018 guidance for Fortune 500 companies in the health care sector. 12 of the 20 companies analyzed in the first section directly provided, in absolute dollar terms, a projected 2018 earnings benefit attributed to the tax law. 8 of the 20 companies in the section provided an increase in 2018 earnings per share (EPS) attributed to the tax law. For those companies that provided a projected range of 2018 shares outstanding, the EPS increase attributed to the tax law was multiplied by the lowest figure in that range. For those companies that did not provide a projected range of 2018 shares outstanding, the EPS figure attributed to the tax law was multiplied by the companies' number of outstanding shares, as reported by NASDAQ on April 10, 2018. When both GAAP EPS and non-GAAP EPS were provided in earnings calls, GAAP EPS was used.

This method yields a total of $10.12 billion in 2018 tax benefits for these 20 companies. As a point of comparison, the Joint Committee on Taxation estimated that U.S. corporations would, on net, pay $129.3 billion less in taxes in 2018 under Title II of the Republican tax law. In providing guidance to investors on the benefits of the tax law, companies noted they view these tax benefits as sustainable over the long-term, as the bulk of the benefits are derived from the permanent reduction in the corporate income tax rate from 35 percent to 21 percent. As a result, staff assumed that, over the next decade, the yearly tax benefit from the Republican tax law for each of the 20 Fortune 500 health care companies analyzed in this section would, on average, remain equal to their 2018 tax benefit.

Benefit from Tax Cut on Offshore Earnings

Under prior law, U.S. corporations were taxed at up to a 35 percent statutory rate on their worldwide income, but were permitted to defer paying taxes on their offshore earnings until the earnings were repatriated to the United States. This deferral regime allowed multinational companies to indefinitely postpone U.S. taxation on accumulated foreign earnings. The Trump tax plan made major changes to the taxation of foreign earnings of U.S. corporations by moving the U.S. away from a worldwide tax system and toward a territorial tax system. It imposed a mandatory one-time transition tax on accumulated foreign earnings that had previously been subject to deferral. The mandatory transition tax rate was set at between 8 percent (for accumulated earnings held in illiquid assets) and 15.5 percent (for accumulated earnings held in cash or cash equivalents). The transition tax's favorable rate provided a significant benefit to companies with large accumulated foreign earnings. Many companies, including pharmaceutical companies with operations and valuable intellectual property in low-tax jurisdictions such as Ireland and Puerto Rico, utilized this system to significantly lower their effective tax rates below the 35 percent statutory rate.

According to their 2017 10-K filings, Fortune 500 health care companies will pay over $60 billion in repatriation taxes, which can be spread out over the next eight years. Staff conservatively assumed that all of the reported transition taxes were paid at a 15.5 percent rate, rather than the lower 8 percent. If those offshore earnings had been taxed at the 35 percent statutory rate in effect at the time the earnings were accumulated, the tax bill on these same offshore earnings would have been over $140 billion, for a tax savings of $80 billion on offshore earnings. Furthermore, it should be noted that the transition tax rate on offshore earnings is also favorable when compared to the new low 21 percent rate Republicans chose to apply to all other corporate earnings. Had corporate offshore earnings been taxed at the 21 percent rate now applicable to all other corporate earnings, the health care industry's offshore tax bill would have been over $85 billion, meaning the preferential transition rate resulted in a tax break of over $20 billion on offshore earnings.

Remeasurement of Deferred Tax Assets and Liabilities

For financial reporting purposes, Accounting Standards Codification 740 requires changes in tax law to be recognized at the time of enactment, including making necessary adjustments in deferred tax liabilities and assets. 25 of the 37 Fortune 500 health care companies reported a benefit from the remeasurement of their deferred tax assets and liabilities. 12 of the 37 companies reported expenses associated with the remeasurement of their deferred tax assets, but these were outweighed by the benefit received by the industry as a whole. On net, the 37 Fortune 500 health care companies together reported a $39.4 billion financial benefit from remeasurement of deferred tax assets.

Table 1: Projected 2018 Tax Savings Attributed to Trump Tax Law

Company	Projected 2018 Tax Savings
AbbVie	$1,316,950,210
Aetna	$800,000,000
Anthem	$520,000,000
Becton Dickinson	$27,535,500
Centene	$280,000,000
Cigna	$425,000,000
CVS Health	$1,200,000,000
DaVita	$110,000,000
Eli Lilly	$163,905,000
Express Scripts	$864,000,000
HCA Holdings	$500,000,000
Humana	$550,000,000
Laboratory Corporation of America	$132,601,000
LifePoint Health	$30,000,000
Molina Healthcare	$59,000,000
Pfizer	$1,070,745,480
Quest Diagnostics	$180,000,000
UnitedHealth Group	$1,700,000,000
Universal Health Services	$142,000,000
WellCare Health Plans	$52,321,575
Total	**$10,124,059,065**

Table 2: 2017 Financial Benefits from Trump Tax Law

Company	Mandatory Repatriation Tax	Difference Between Tax Calculated at 21% and Tax Paid	Difference Between Tax Calculated at 35% and Tax Paid	Benefit (Loss) from Remeasurement of Deferred Taxes
Abbott Laboratories	$2,890,000,000	$1,025,483,871	$3,635,806,452	$1,430,000,000
AbbVie	$4,500,000,000	$1,596,774,194	$5,661,290,323	$4,100,000,000
Aetna	N/A	N/A	N/A	($99,000,000)
Amgen	$7,300,000,000	$2,590,322,581	$9,183,870,968	$1,200,000,000
Anthem	N/A	N/A	N/A	$1,108,000,000
Baxter International	$529,000,000	$187,709,677	$665,516,129	$283,000,000
Becton Dickinson	$561,000,000	$199,064,516	$705,774,194	$290,000,000
Biogen	$989,600,000	$351,148,387	$1,244,980,645	($184,000,000)
Boston Scientific	$1,044,000,000	$370,451,613	$1,313,419,355	$99,000,000
Bristol-Myers Squibb	$2,600,000,000	$922,580,645	$3,270,967,742	($285,000,000)
Celgene	$1,890,000,000	$670,645,161	$2,377,741,935	$621,000,000
Centene	$1,000,000	$354,839	$1,258,065	$126,000,000
Cigna	$88,000,000	$31,225,806	$110,709,677	($144,000,000)
Community Health Systems	N/A	N/A	N/A	($32,000,000)
CVS Health	N/A	N/A	N/A	$1,500,000,000
DaVita	N/A	N/A	N/A	$252,000,000
Eli Lilly	$3,600,000,000	$1,277,419,355	$4,529,032,258	$1,690,000,000
Express Scripts	$4,700,000	$1,667,742	$5,912,903	$1,381,000,000
Genesis Healthcare	N/A	N/A	N/A	($108,300,000)
Gilead Sciences	$5,800,000,000	$2,058,064,516	$7,296,774,194	$308,000,000
HCA Holdings	$127,000,000	$45,064,516	$159,774,194	($301,000,000)
Humana	$10,000,000	$3,548,387	$12,580,645	($123,000,000)
Johnson & Johnson	$10,100,000,000	$3,583,870,968	$12,706,451,613	($2,800,000,000)
Kindred Healthcare	N/A	N/A	N/A	$131,000,000
Laboratory Corporation of America	$5,000,000	$1,774,194	$6,290,323	$524,000,000
LifePoint Health	N/A	N/A	N/A	$18,000,000
Merck	$5,100,000,000	$1,809,677,419	$6,416,129,032	$779,000,000
Molina Healthcare	N/A	N/A	N/A	($54,000,000)
Pfizer	$15,200,000,000	$5,393,548,387	$19,122,580,645	$24,400,000,000
Quest Diagnostics	$9,000,000	$3,193,548	$11,322,581	$115,000,000
Quintiles IMS Holdings/IQVIA	$186,000,000	$66,000,000	$234,000,000	$1,583,000,000
Stryker	$785,000,000	$278,548,387	$987,580,645	($38,000,000)
Tenet Healthcare	N/A	N/A	N/A	($252,000,000)
UnitedHealth Group	N/A	N/A	N/A	$1,200,000,000
Universal Health Services	$11,300,000	$4,009,677	$14,216,129	$30,000,000
WellCare Health Plans	N/A	N/A	N/A	$56,100,000
Zimmer Biomet Holdings	$466,000,000	$165,354,839	$586,258,065	$557,400,000
Total	**$63,796,600,000**	**$22,637,503,226**	**$80,260,238,710**	**$39,361,200,000**

Table 3: 2018 Stock Buyback Authorizations and 2017 CEO Pay Ratios

Company	2018 Stock Buyback Authorization	2017 CEO-to-Median-Employee Pay Ratio
AbbVie	$10,000,000,000	144-to-1
Amgen	$10,000,000,000	127-to-1
Baxter International	$1,500,000,000	355-to-1
Celgene	$5,000,000,000	Not yet filed
QuintilesIMS Holdings/IQVIA	$1,500,000,000	388-to-1
Total	**$28,000,000,000**	