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May 4, 2023

MEMORANDUM

SUBJECT: Analysis of Large Pharmaceutical Corporation Tax Data

This memorandum is a response to your request of April 27, 2023, for analyses of tax data for large pharmaceutical corporations. There are two tables below summarizing different sets of information related to these companies.

Table 1 reports the worldwide and U.S. average effective tax rates using generally accepted accounting principles (“GAAP”) for three different groups of large corporations: non-manufacturing, manufacturing (excluding pharmaceutical corporations), and pharmaceutical (four-digit NAICS code of 3254). The data underlying the tax rate calculation are drawn from the Compustat database, which is populated from financial statements (*e.g.*, Form 10-K) filed with the Securities and Exchange Commission (“SEC”). The sample is limited to U.S. headquartered companies that appeared in the Compustat database in each year from 2014 to 2020 (*i.e.*, a balanced panel), had positive pre-tax income from foreign operations in at least one of those years, and had at least \$100 million in assets in 2016. The effective tax rates presented here are weighted by income and calculated using observations with positive pre-tax income. The worldwide effective tax rate is calculated as worldwide taxes paid divided by worldwide pre-tax income as reported on Form 10-K. The domestic effective tax rate is calculated as federal taxes paid divided by domestic pre-tax income. The years 2017 and 2018 are excluded from the table as the payment of section 965 repatriation taxes create anomalous results.¹

¹ Section 965 imposed a one-time transition tax on a U.S. shareholder’s pro-rata share of certain of undistributed and previously untaxed post-1986 foreign earnings and profits earned by a specified foreign corporation at the end of such specified foreign corporation’s last taxable year beginning before January 1, 2018. The transition tax constituted an additional tax expense for financial reporting that increased effective tax rates reported on Form 10-K in 2017 and 2018 (in some cases by more than 50 percent).

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Table 1.—Worldwide and U.S. GAAP ETRs for Large Corporations

	Worldwide Effective Tax Rates		Domestic Effective Tax Rates	
	2014-2016	2019-2020	2014-2016	2019-2020
Non-Manufacturing	27.9	16.7	25.7	11.3
Manufacturing	24.1	17.4	25.7	15.4
Pharmaceutical	19.6	11.6	27.0	15.7

Source: Compustat and JCT Staff calculations

Table 2 reports information on the share of activity these corporations report occurring outside of the United States, constructed from fields on Form 1120, *U.S. Corporation Income Tax Return*, and Form 8992, *U.S. Shareholder Calculation of Global Intangible Low-Taxed Income*. The numerator is the sum of subpart F income, global intangible low-taxed income, and section 78 gross up deemed dividend amounts reported on Form 1120, as well as the net deemed tangible income return from Form 8992. The denominator is the sum of taxable income, section 250 deductions, and net operating loss deductions from Form 1120, as well as the net deemed tangible income return from Form 8992. Here, the numerator provides an estimate of the total foreign income subject to U.S. tax, and the denominator provides a rough estimate of the worldwide taxable income of the U.S. taxpayer. There are several components of a corporation's foreign income that would not be captured by this measure (*e.g.*, particularly branch income for foreign sales and differences in consolidation between tax measures and financial accounting measures). Mimicking the presentation of the first table, each ratio is reported separately for non-manufacturing, manufacturing (excluding pharmaceutical corporations), and pharmaceutical corporations. Firms included in this analysis had at least \$100 million in assets in 2016, were in the sample each year from 2014 to 2020, were not majority foreign owned, and had multinational operations. Ratios are reported as the average for years 2019 and 2020.

Table 2.—Foreign Share of Taxable Income

Non-Manufacturing	0.22
Manufacturing	0.45
Pharmaceutical	0.75

Source: SOI and JCT Staff calculations