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GIANT SUCKING SOUND OF INVERSION

Free markets are not naturally occurring processes, resulting in cross-border mergers making the US economy stronger by enabling US companies to invest overseas and encouraging foreign investment to flow into the United States. President Ronald Reagan, the Father of Globalization, thought that international trade would become more cost-effective and began demolishing national barriers to trade and the flow of capital, resulting in globalization of capitalism[(2)].

Neoliberalism[(3)] is promoted as the mechanism for global trade and investment supposedly for all nations to prosper and develop fairly and equitably. Margaret Thatcher, the Mother of Globalization, suggested that “There Is No Alternative (TINA)” to this. Neoliberalism, in theory, is essentially about making trade between nations easier. It is about freer movement of goods, resources and enterprises in a bid to always find cheaper resources, to maximize profits and efficiency.

To help accomplish this, neoliberalism requires the removal of various controls deemed as barriers to free trade, such as Tariffs; Regulations; Certain standards, laws, legislation and regulatory measures; and Restrictions on capital flows and investment. The hope is that the free market balances itself via the pressures of market demands, which is a key to successful market-based economies and the rule of the market freedom for capital, goods and services to “trickle down.” It also includes the deunionizing of labor forces to remove any impediments to capital mobility.

The freedom for the economy is from the government control, which includes reducing wasteful tax burden of public expenditure for social services that benefit the taxpayers, such as health and education that would increase the living standards, and create healthy population and intellectual capital; deregulation to allow market forces, i.e., corporations, to act without restrictions; privatization of public enterprise (from air and water to the internet) increasing the cost of living; and changing perceptions of public and community good to individualism and individual responsibility.

The Father of Globalization had cultivated the unnatural evolution of the marketplace, and he left two legacies in the field of international trade: 1) seeds of integration with neighbors Canada and Mexico, which ultimately resulted in the North American Free Trade Agreement (NAFTA) (1994)[(4)] and the replacement of World War II era General Agreements on Tariffs and Trade (GATT)[5] with a comprehensive rule-making body, the World Trade Organization (WTO) (1995)[6]. Reagan effectively used the international institutions such as the International Monitory Fund (IMF) and World Bank to control the third world economies, by brandishing a big stick citing, from the American perspective, the shortcomings of governments that didn't sign on to his formula for economic and social development.

Reagan’s legacy includes yet another boon for the world, the Hatch-Waxman. Thirty two years ago, Reagan signed into law the Drug Price Competition and Patent Term Restoration Act of 1984, which has established the process for the Abbreviated New Drug Applications (ANDA)[7]. This law, championed by Senator Orrin Hatch and Representative Henry A. Waxman, made it easier for the third world generic drugs to enter the market by greatly expanding the third world generic companies’ access to the globalized American generic drug market, generating more than $1.2 trillion in savings to the health care system.

That is why since 1999, Gallop has found that the Father of Globalization was the most popular president in the polls in 2001, 2005, 2011, and 2012 and declared the “***Greatest President of All Time***.” Reagan changed the world forever, and gave a chance to globalize, especially for the so-called “Emerging Markets” or “Brazil, Russia, India, China and South Africa (BRICS).” President Barak Hussein Obama, by following the Greatest President of All Times, signed into law the Patient Protection and Affordable Care Act (Affordable Care Act), on March 23, 2010[8].

Thanks to our “Greatest President of All Times,” our world economy experiences greater globalization today. While FDA is committed to working to ensure that the American public can be assured of the products’ safety, it has become increasingly important and difficult for FDA to allocate its resources based on potential risk around the globe, while the principles of neoliberal free market require reduction of the federal budget (includes FDA budget, but not military budget). More than 80 percent of the ingredients used to make our drugs now come from overseas suppliers, which used be made in the USA. Obama’s Generic Drug User Fee Amendments (GDUFA) of 2012[9] funding helps FDA address global inspections and monitoring of production across the globe, and increases the federal wasteful use of taxpayer’s money and increases the government regulatory intervention reaching into the global neoliberal free market economy that is supposed to be free of any government regulation.

Thus, bolstered and dampened simultaneously by Obama Care and GDUFA, the dreams of our beloved Parents of Globalization based on British economist Adam Smith, the Father of Modern Free Market Capitalism(10), came true based on the fundamental principles of 1) Free markets without government "interference" would be the most efficient and socially optimal allocation of resources, 2) Economic globalization would be beneficial to everyone, and 3) Privatization removes inefficiencies of public sector, which at the international level translates to: 1) Freedom of trade in goods and services, 2) Freer circulation of capital, and 3) Freer ability to invest. This dream of our Parents of Globalization and Great Grand "Father of Modern Free Market Capitalism" provides incentives to corporations to shut their factories, lay off their workers, erect new plants in Asia, produce their goods there, and bring them back free of any tariff to sell to consumers and kill the companies in countries where the corporate taxes are high and labor is expensive, which is the essence of neoliberal free market.

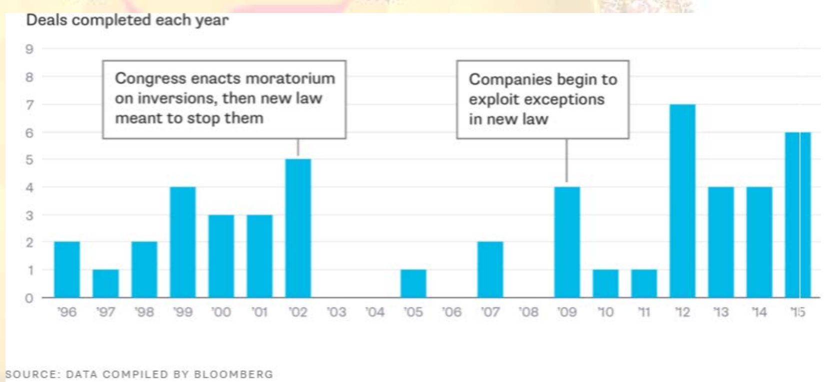
Alas, Ross Perot's warning came true. Twenty years ago, Ross Perot warned that NAFTA would create a "giant sucking sound," draining millions of jobs from the American heartland. It is not just NAFTA, but the Globalization as whole, created the "giant sucking sound," now called "Inversion[11]," not from Mexico, but from Europe, from India, from Asia, from South America, and South Africa. Obama's tactics to curb the "Giant Sucking Sound of Inversion" through anti-neoliberal-free-market government interference has only increased the burden of regulation and tax on poor corporations that were already laying off employees to please the shareholders in compliance with the free market rules, adding further incentives to increase the number of fleeing American companies through the Rupture of Giant Sucking Sound of Inversion in the space-time continuum of global economy, never to comeback.

In the United States, the federal government taxes the corporation on its income and taxes the shareholders on any dividends they receive. The US corporate income tax rate, 35 percent, is the highest in the developed world. The US is also one of the few countries that makes its companies pay that rate on all their worldwide income, although they can defer the bill on profits attributed overseas until they bring the money home(12), allowing multinational firms to accumulate over $2 trillion locked away in low-tax countries, with a US tax liability hanging over their heads if ever they repatriate these earnings.

The United States is home to a large share of the Forbes Global 2000 list of the world's most important corporations, which are also world leaders in tax avoidance. Corporate profits as a share of GDP during 2012-2014 are as high as any point since the 1960s. More than 50 US companies have reincorporated in low-tax countries since 1982, including more than 20 since 2012, despite a 2004 law to end the practice by Bush administration and further rule-tightening by the Obama administration. Obama said, “We shouldn’t make it legal to engage in transactions just to avoid taxes,” ending the $152 billion merger between Pfizer and the Irish drug company Allergan. Interestingly, Pfizer’s effective tax rate was an astonishingly low 7.5%, before the proposed merger with Irish Allergan(13), while in Ireland, the standard corporation tax is 12.5% and 25% on trading and non-trading incomes, respectively.

The rejected cash-and-stock bid by Pfizer in 2014, which valued AstraZeneca at about $119 billion, would have created the world’s largest drug company. Pfizer’s final offer valued the company at nearly £70 billion, when AstraZeneca’s market capitalization was roughly £55 billion, second to Glaxo Smith Kline among British drug makers. Such inversion would have allowed Pfizer to escape a higher American corporate tax rate and free its overseas earnings from any claims by United States tax collectors.

Undaunted Pfizer tried and failed again, this time with the Dublin-based drug maker Allergan, a $152 billion merger with Allergan, after the Obama administration introduced rules that would make the deal much less attractive. The new rules target foreign companies that have completed multiple deals with American companies in a short period, called serial inverters. The rules would apply to that inversion and any transactions that close after April 4, 2016. Allergan is a serial inverter because the Dublin-based Actavis acquired Allergan in 2015, taking the Irish domicile. This change applies not just to inversions but to any foreign company that has acquired an American entity and used this technique to achieve lower taxes.



Eighteen months ago, a similar US intervention was successful in halting AbbVie inversion proposal. AbbVie Inc. and Shire PLC officially agreed to terminate their $54 billion deal, the biggest agreed-upon merger in 2014, a win to the Obama administration, which has fought overseas merger deals to avoid US tax. The deal's end follows new tax rules from the US Treasury Department aimed at deterring US companies from moving their legal headquarters to lower-tax countries. As a result of the termination, AbbVie agreed to pay Shire the breakup fee of about $1.635 billion(14). According to Congress's Joint Committee on Taxation, corporate inversions will cost the US Treasury as much as $40 billion over the next ten years(15).

The inversion is to reduce taxes as much as possible by allowing the US Company to borrow large amounts of money from the now-foreign parent. The indebted American subsidiary will pay interest on that debt to the parent, which can be used to offset the American earnings. Under current law, following an inversion or foreign takeover, a US subsidiary can issue its own debt to its foreign parent as a dividend distribution. The foreign parent, in turn, can transfer this debt to a low-tax foreign affiliate. The US subsidiary can then deduct the resulting interest expense on its US income tax return at a significantly higher tax rate than is paid on the interest received by the related foreign affiliate. In fact, the related foreign affiliate may use various strategies to avoid paying any tax at all on the associated interest income.

When available, these tax savings incentivize foreign-parented firms to load up their US subsidiaries with related-party debt. It means that not only do inverted companies often lower their taxes; they also eliminate large chunks of the United States taxes they previously owed. Besides avoiding US tax on foreign-source earnings, an inverted firm can also avoid US tax on US earnings by shifting or stripping, US earnings to lower–tax jurisdictions.

This earnings-stripping option is available to any foreign company with earnings in the United States(16). Foreign–domiciled companies (whose foreign domicile was not established via an inversion) with tax rates less than the US rate have similar incentives to strip US earnings. US domiciled firms also have incentives to strip US earnings. However, their ability to do so is now severely limited by statutory interest expense allocation rules. An inverted structure increases the returns to stripping. US domiciled firms achieve only deferral of income when US earnings are stripped; while foreign-domiciled firms (including inverted firms) achieve permanent exclusion of income stripped from the US.

New rules aimed at serial inverters do not deter the pending merger between Johnson Controls and Tyco International. Tyco based in Ireland does not fit the profile of a serial inverter that has acquired several American companies within the past three years. However, the "earnings stripping" rule that would treat that debt as equity makes it more expensive for companies to move money after merger. During the fiscal year ending September 30, 2015, Johnson Controls posted revenue of $37.2 billion and net income of $1.56 billion, and total income tax expenditures were $600 million (38%) in fiscal 2015. In fiscal 2014, the company's net income was $1.22 billion on revenue of $38.75 billion, and the company's total income tax expenditures were $407 (32%) million in fiscal 2014. Johnson Controls expects to save $150 million annually in taxes due to the 12.5% corporate income tax rate in Ireland[17].

As can be seen from the below chart[18], in the past 32 years since the Father of Capitalism and the Greatest President of All Time initiated globalization of the economy leaving America vulnerable to Inversion, saddled with the highest corporate tax in world.

US Corporate Income Tax Rates

Year	US Corporate Income	Tax	President
1982-1988	Over $100,000	46.00%	Reagan, the Father of Globalization
1988-1992	$100,000-$335,000 +	39.00%	1st Bush
	Over $335,000	34.00%	
1993-2002	$50,000-$75,000	25.00%	Clinton
	$75,000-$100,000	34.00%	
	$100,000-$335,000	39.00%	
	$335,000-$10,000,000	34.00%	
	$10,000,000-$15,000,000	35.00%	
	$15,000,000-$18,333,333	38.00%	
	Over $18,333,333	35.00%	
2009-2016	$50,000-75,000	25%	Obama
	75,000-100,000	34%	
	100,000-335,000	39%	
	335,000-10,000,000	34%	
	10,000,000-15,000,000	35%	
	15,000,000-18,333,333	38%	

Over 18,333,333	35%

The Obama administration has further raised the burden of doing business in the US by increasing the liabilities and penalties, but did not reduce the tax to 12.5% to match with Ireland so that US corporations become competitive in the global economy and stay in the US.

Treasury has taken action twice[19] to make it harder for companies to invert. These actions took away some of the economic benefits of inverting and helped slow the pace of these transactions. Further, the president's framework[20] for business tax reform would impose a onetime toll charge of 14% on the more than $2 trillion of untaxed foreign earnings that US companies have accumulated overseas, raising nearly $300 billion. The President proposes to dedicate these transition revenues to a significant one-time infrastructure investment, which would be both progrowth and fiscally responsible.

American companies will continue to seek new and creative ways to relocate their tax residence to avoid paying taxes here at home, unless the tax rate for businesses in the US becomes comparable and competitive with rest of the world. "The Rupture of Giant Sucking Sound of Inversion in the Space-Time Continuum of Global Economy," created by the Parents of Globalization through WTO, remains to be a problem.

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Om! Asatoma Sadgamaya, Tamasoma Jyotirgamaya, Mrityorma Amritamgamaya, Om Shantih, Shantih, Shantih! (Aum! Lead the world from wrong path to the right path, from ignorance to knowledge, from mortality to immortality, and peace!)

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