Senate Finance Committee
Ranking Member Ron Wyden

# PFIZER'S COLOSSAL TAX AVOIDANCE:

## How Pfizer Used "Round Tripping" Scheme to Avoid Billions in Taxes on U.S. Drug Sales

A Democratic Staff Investigation

March 2025

**MEMORANDUM**
**Fr: Ron Wyden, Ranking Member, Senate Committee on Finance**
**Re: Pfizer used "round-tripping" scheme to book $0 in U.S. income on 2019 tax returns**

## Executive Summary

An investigation by the Democratic staff of the Senate Finance Committee ("the Committee") uncovered that after passage of the 2017 Republican tax law, Pfizer carried out potentially the largest tax-avoidance structure in the history of big pharma. Even though Pfizer sold $20 billion in drugs to U.S. customers in 2019, it reported $0 in taxable U.S. profits on its 2019 tax returns by claiming to the IRS that 100 percent of its income was earned offshore. This offshore tax dodge allowed Pfizer to avoid paying billions of dollars in federal income taxes on U.S. drug sales. Pfizer even signed nondisclosure agreements with the governments of Singapore and Puerto Rico on special tax deals arranged with those jurisdictions, to keep the details of how Pfizer avoids billions in taxes hidden from the U.S. Congress.

Pfizer's 2019 cross-border tax avoidance structure is larger than those previously discovered by Senator Wyden's staff investigation, including AbbVie, Amgen and Merck. Pfizer joins a growing list of massively-profitable pharmaceutical corporations that show little-to-zero U.S. profits on tax returns, even though the U.S. is big pharma's largest customer market. [1] Senator Wyden's ongoing investigation fully exposes how big pharma abuses "round-tripping" schemes to skirt income taxes on U.S. drug sales as it charges U.S. customers higher drug prices than any other country in the world.

## Background

The Democratic staff of the Committee is conducting an investigation into the tax practices of large pharmaceutical corporations. This investigation examines how U.S. drug companies use subsidiaries in jurisdictions treated as foreign for tax purposes to avoid paying the 21 percent corporate income tax rate on profits from drug sales to U.S. patients.

As part of this investigation, the Democratic staff of the Committee obtained tax return information from Pfizer, Inc. ("Pfizer") regarding how much of the company's income was booked in foreign subsidiaries for tax purposes, generally referred to as "controlled foreign corporations" (CFCs) in tax parlance.[2] Knowing how much of a company's income is reported by CFCs provides a window into how much of a company's income is reported offshore on tax returns. The data provided by Pfizer exposes the extraordinary extent to which Pfizer shifted taxable income out of the U.S., despite making most of its profits by looting the pocketbooks of U.S. customers.

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[1] *Interim Report: Big Pharma Tax Avoidance*, Senate Finance Committee Chair Ron Wyden, July 2022, available online at https://www.finance.senate.gov/imo/media/doc/Pharma%20Tax%20Report.pdf; *American Patients, American Companies, Offshore Profits*, Senate Finance Committee Democratic Staff Memorandum, May 11, 2023, available online at https://www.finance.senate.gov/imo/media/doc/pharma_public_release_final_51123.pdf.
[2] A Controlled Foreign Corporation (CFC) is a foreign corporation that is majority owned by U.S. shareholders that own at least 10 percent of the foreign corporation.

The 2017 Republican tax law created a new incentive to maximize how much income a U.S. company shifts offshore. After slashing the corporate tax rate by nearly 40 percent, from 35 percent to 21 percent, Republicans went even further to help boost offshore tax avoidance by large corporations. The Republican controlled Congress and first Trump administration created the global intangible low-taxed income (GILTI) system, which cut the tax rate on foreign income down to just 10.5 percent. Thanks to this policy, every dollar that big pharma can shift out of the U.S. gets its tax rate cut in half. In addition to cutting the rate in half, the GILTI system includes other designs – such as the use of "global blending" – to help large multinationals further minimize their U.S. taxes. These design flaws were detailed by the Committee in 2018 and again in 2021.[3]

**Pfizer reported $0 in U.S. income on its 2019 tax return**

The Democratic Committee staff investigation obtained tax return information from Pfizer revealing that Pfizer booked 100 percent of its income in offshore subsidiaries on its 2019 federal tax filings.[4] That year Pfizer recorded over $21 billion in global income, yet not a single dollar was reported as income earned in the United States for tax purposes.[5]

Pfizer's tax returns expose a massive discrepancy between where Pfizer has its customer base and where the profits from those sales are taxed. Pfizer in 2019 sold more than $20 billion worth of prescription drugs in the United States, accounting for a majority of the company's global sales revenue.[6] The United States is Pfizer's largest customer market, yet Pfizer was able to book every single dollar of the profits from those U.S. sales in foreign subsidiaries. This was not a one off for Pfizer. Pfizer also reported no taxable income in the U.S. in 2018 or 2020.[7] That means that for the three years immediately following the passage of the 2017 Republican tax law, Pfizer did not treat a single dollar of profit as earned in the U.S. for tax purposes.

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[3] *Trump's Tax law and International Tax: More Complexity, Loopholes and Incentives to Ship Jobs Overseas,* Senate Committee on Finance, July 18, 2018, available online at https://www.finance.senate.gov/imo/media/doc/Wyden%20Report%20-%20Trumps%20Tax%20Law%20and%20International%20Tax%20071818.pdf.
*Overhauling International Taxation*, Senate Finance Committee Chair Senator Ron Wyden, Senator Sherrod Brown, Senator Mark Warner, April 2021, available online at https://www.finance.senate.gov/imo/media/doc/040121%20Overhauling%20International%20Taxation.pdf.

[4] Letter from Pfizer, Inc. to Senator Ron Wyden, Chairman, Senate Committee on finance, Oct. 21, 2024 (At pg. 3, According to 2019 federal income tax return information provided by Pfizer, Pfizer's "U.S. taxable income excluding income from controlled foreign corporations" was a loss of $1.29 billion."). The committee notes that this means that 100% of Pfizer's taxable income was reported by Pfizer's controlled foreign corporations in jurisdictions treated as foreign for tax purposes.

[5] *Id.* at pg. 3, According to 2019 federal income tax return information provided by Pfizer, Pfizer reported $16.94 billion in GILTI Income (line 17 of Form 1120, Schedule C), $1.12 billion Subpart F Income (line 16a, b, and c on Form 1120, Schedule C), $2.65 billion Section 78 Gross Up (line 18 of Form 1120, Schedule C) and $0.57 billion in foreign income exempt from tax (form 8892, Part II, line 4).

[6] Pfizer, Inc., *2019 form 10-K*, available online at https://s28.q4cdn.com/781576035/files/doc_financials/2019/AR/Pfizer-2019-Financial-Report.pdf

[7] Letter from Pfizer, Inc. to Senator Ron Wyden, Chairman, Senate Committee on finance, Oct. 21, 2024 (At pg. 3, Pfizer reported losses of $7.97 billion , $1.29 billion and $0.62 billion in the U.S. on its 2018, 2019, and 2020 federal income tax returns, respectively). The Committee notes that this means that 100% of Pfizer's taxable income was reported by Pfizer's controlled foreign corporations in jurisdictions treated as foreign for tax purposes those years.

That Pfizer was able to send all of the profits from U.S. drug sales to subsidiaries in foreign tax jurisdictions exposes the need to end the abuse of "round-tripping" strategies by big pharma and other large multinational corporations.

Pfizer's round-tripping scheme is designed to exploit the flawed GILTI system created by the 2017 Republican tax law. By booking 100 percent of its taxable income in foreign subsidiaries, none of Pfizer's income was subject to the U.S. corporate tax rate of 21 percent, but instead the much lower GILTI rate on foreign profits of 10.5 percent created by the Republican tax law. Pfizer could lower its tax rate even further through the use of generous tax incentive agreements with the governments of low-or-zero tax jurisdictions, including Puerto Rico and Singapore, and utilization of flaws in GILTI's design, such as global blending. Pfizer also appears to book large amounts of profits in subsidiaries in Ireland, joining a trend of large multinational U.S. corporations that are exploiting subsidiaries in Ireland to capitalize on heavily favorable tax treatment.[8]

The result of these arrangements is that Pfizer has paid tax rates that are unacceptably low. In 2019 Pfizer paid a tax rate of just 5.4 percent, followed by rates of 5.3 percent, 7.6 percent and 9.6 percent between 2020 – 2022.[9] In fact, Pfizer pays a lower tax rate than millions of working American families.[10]

**<u>Pfizer hides sweetheart tax deals with NDAs</u>**

Disturbingly, it appears that Pfizer has signed non-disclosure agreements (NDAs) regarding the terms of its sweetheart tax deals to exempt it from income taxes in Singapore and Puerto Rico.[11] In response to this inquiry, Pfizer stated that it could not provide Senator Wyden with information about its tax agreement with the government of Singapore because the "agreements with the government of Singapore contain non-disclosure agreements that prevent

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[8] *This Country Won the Global Tax Game, and is Swimming in Money, Ireland is setting a sovereign wealth fund filled with tax revenue from U.S. tech and pharma companies,* The Wall Street Journal, Oct. 10, 2023, available online at https://www.wsj.com/economy/global/this-country-won-the-global-tax-game-and-is-swimming-in-money-57c3c70

[9] Pfizer, Inc., *2022 form 10-K*, available online at https://www.sec.gov/Archives/edgar/data/78003/000007800323000024/pfe-20221231.htm (at pg. 35 discussion on effective tax rates); Pfizer, Inc., *2020 form 10-K*, available online at https://www.sec.gov/Archives/edgar/data/78003/000007800321000038/pfe-20201231.htm (at pg. 38 discussion on effective tax rates).

[10] IRS 2023 marginal tax rates for individuals, 22% for incomes between $44,726 to $95,375 ($89,451 to $190,750 for married couples filing jointly) available online at https://www.irs.gov/filing/federalincome-tax-rates-and-brackets

[11] Pfizer, Inc., *2022 form 10-K*, available online at https://www.sec.gov/Archives/edgar/data/78003/000007800323000024/pfe-20221231.htm (At. pg. 69: "We benefit from Puerto Rican tax incentives pursuant to a grant that expires during 2053. Under such grant, we are partially exempt from income, property and municipal taxes. In Singapore, we benefit from incentive tax rates effective through 2048 on income from manufacturing and other operations.")

Pfizer from disclosing specific information about such agreement."[12] Pfizer also stated that the "confidential nature" of its tax incentives with Puerto Rico and Singapore must be "protected". [13]

Senator Wyden does not believe that sweetheart deals between giant pharmaceutical corporations and foreign governments to send tax revenue offshore instead of to the U.S. should be concealed. The U.S. Congress must not be kept in the dark regarding the extent to which U.S. territories are being used to execute multi-billion-dollar corporate tax shelters. As the U.S. Congress debates major changes to the international tax system, the terms of these tax incentive agreements are essential information.

**Pfizer uses "round-tripping" strategy that is widespread in pharmaceutical industry**

Pfizer is using an egregious tax gimmick known as "round-tripping." In a round-tripping strategy, a U.S. company makes sales to U.S. customers, but manages to have the income from those sales treated as foreign for tax purposes. Instead of being subject to the 21 percent corporate tax rate, the income only is subject to the lower 10.5 percent GILTI tax rate, and any resulting tax liability can also be offset by taxes paid to foreign jurisdictions. A round-tripping strategy can be achieved in a multitude of ways, including the use of offshore manufacturing, shifting intellectual property rights to tax havens, aggressive transfer pricing, complex partnership arrangements, and others. Regardless of the specific design, the end result is the same – less income in the U.S. where customers are, more income sent offshore to tax havens.

Pfizer is hardly alone when it comes to exploiting the use of round-tripping to avoid paying taxes by sending profits from U.S. drug sales to overseas subsidiaries. Senator Wyden's investigation has already uncovered several examples of round-tripping by big pharma.

For example, a 2022 report published by Senator Wyden exposed how pharma giant AbbVie booked 99 percent of its taxable income offshore to avoid paying billions of dollars in taxes on U.S. prescription drug sales.[14] Despite being headquartered in the U.S. and generating 75 percent of its sales from U.S. patients, only 1 percent of AbbVie's taxable income was subject

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[12] Letter from Pfizer, Inc. to Senator Ron Wyden, Chairman, Senate Committee on finance, Oct. 21, 2024 (At. pg. 6, "Pfizer understands the Committee's request for information on the specific tax relationship between Pfizer and the governments of Puerto Rico and Singapore in Questions 7 and 8 of your letter, however, the requests implicate confidential arrangements between Pfizer and each jurisdiction, and the applicable agreements contain commercially sensitive information**. In particular, the agreements with the government of Singapore contain certain nondisclosure agreements that prevent Pfizer from disclosing specific information about such agreement**."

[13]Letter from Pfizer, Inc. to Ron Wyden, Chairman, Senate Committee on Finance, Jun. 17, 2024 ("Pfizer understands the Committee's request for information on the tax relationship between the Company and the governments of Puerto Rico and Singapore; however, the requests implicate confidential arrangements between Pfizer and each jurisdiction. Just as we are concerned about maintaining positive engagement with the Committee, we are also concerned about maintaining positive relationships with the U.S. states and territories in which we operate, including Puerto Rico. **To those ends, it is important that the confidential nature of Pfizer's tax incentive arrangements with the governments of Puerto Rico and Singapore are protected**.")

[14] *Senate Finance Committee Investigation Reveals Extent to Which Pharma Giant AbbVie Exploits Offshore Subsidiaries to Avoid Paying Taxes on U.S. Drug Sales*, U.S. Senate Committee on Finance, July 2022, available online at https://www.finance.senate.gov/imo/media/doc/Pharma%20Tax%20Report.pdf

to the U.S. corporate income tax rate of 21 percent.[15] As a result of this round-tripping structure using subsidiaries in Bermuda, Puerto Rico and elsewhere, virtually all of AbbVie's profits were taxed at the substantially lower GILTI rate of 10.5 percent.

Senator Wyden's investigation also uncovered how Merck used a round-tripping structure to ensure that all of the profits from U.S. sales of blockbuster cancer drug Keytruda would be taxed at the GILTI rate of 10.5 percent.[16] Between 2019 and 2022 Merck sold an astounding $37.1 billion worth of Keytruda in the United States, yet none of the profits generated by those sales were treated as earned in the U.S.[17]

Senator Wyden's investigation also obtained information from Merck indicating that this is because the intellectual property rights for Keytruda are exclusively located in the Netherlands and the drug is manufactured in Ireland. In a response to the Committee, Merck stated that with respect to Keytruda, "...because its patents have always been owned outside the United States, Merck's operating profit attributable to Keytruda IP rights is taxed in jurisdictions outside the United States."[18] Merck also added that as Keytruda sales increased by 55 percent from 2019 to 2021, Keytruda "became an even larger portion of Merck's overall profits and [Keytruda's] expansion increased the portion of Merck's overall income subject to tax outside the United States."[19]

The 2017 Republican tax law makes it very easy to successfully avoid taxes in round-tripping, and shutting off this spigot of abuse is not complex. Policies to help shut down aggressive round-tripping strategies were included in the Wyden-Brown-Warner international tax reform framework released in 2021, and international tax reform policies included in the Build Back Better Act passed by the House in 2021. Republicans are well aware the prevalence of the use of round-tripping by big pharma to avoid billions in U.S. taxes and have expressed an interest in legislative action to curb the abuse of round-tripping – at the time of the writing of this report, it is unknown if big pharma lobbying will prevent such key reforms from being included in any Republican tax plan.[20] Early versions of Republican international tax plans prior to 2017 also included language that would have limited big pharma's ability to use round-tripping, but

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[15] *Id.*

[16] *American Companies, Offshore Profits*, Senate Finance Committee Democratic Staff Memorandum, May 11, 2023, available online at https://www.finance.senate.gov/imo/media/doc/pharma_public_release_final_51123.pdf.

[17] Merck sales of Keytruda in the U.S. according to 10-K filings with the SEC: $6.3 billion in 2019, $8.4 billion in 2020, $9.8 billion in 2021 and $12.7 billion in 2022

[18] Letter from Robert Filippone, Vice President, U.S. Policy and Government Relations, Merck to Ron Wyden, Chairman, Senate Committee on Finance, Apr. 15, 2022 at pg. 3: "With respect to Keytruda, however, because it was discovered outside the United States and its patents have always been owned outside the United States, Merck's operating profit attributable to Keytruda-related intellectual property rights is taxed in jurisdictions outside the United States."

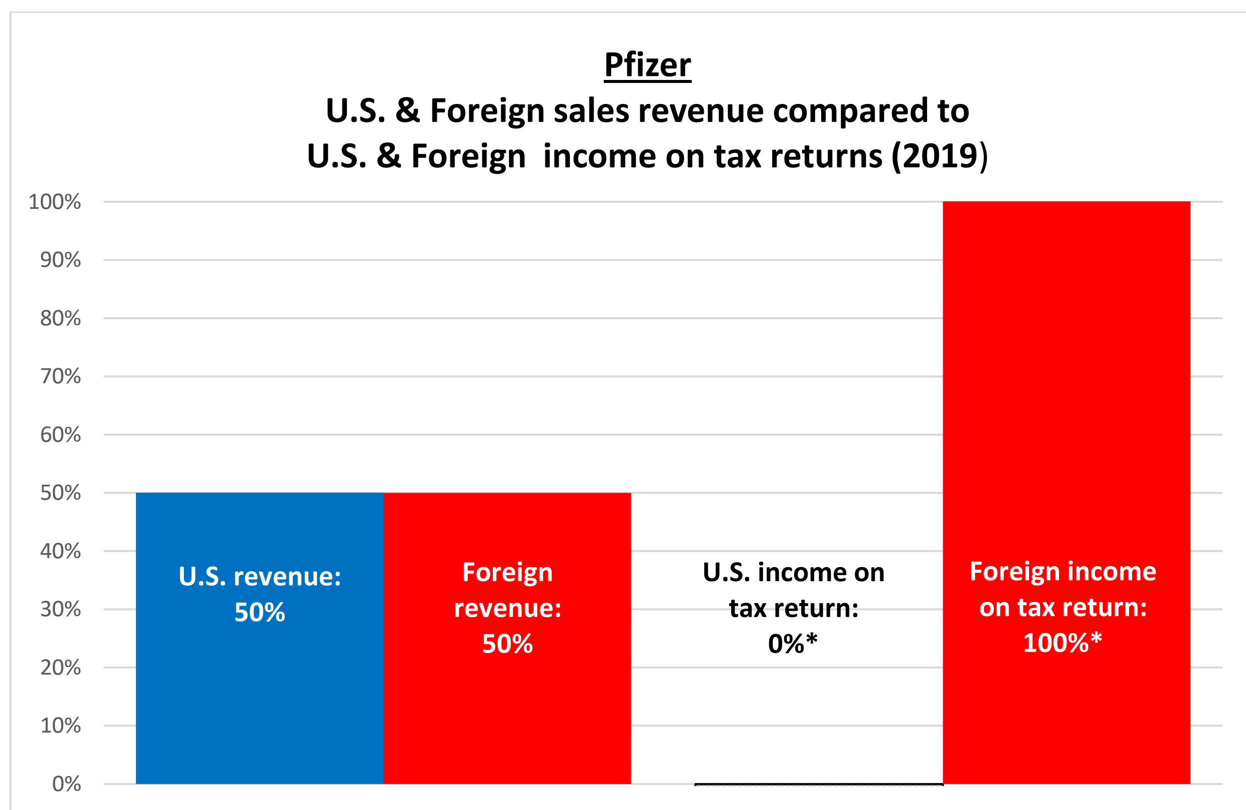
[19] *Id* at pg. 4: "As illustrated on page 53 of Merck's 2021 Form 10-K, Keytruda sales increased 55% from 2019 to 2021. This increase was substantially greater than Merck's overall revenue growth of 24% over the same period. Consequently, Keytruda became an even larger portion of Merck's overall income subject to tax outside of the United States."

[20] *Tax Writers eyeing international tax break used by Pharma,* Politico Pro, available online at https://subscriber.politicopro.com/article/2024/11/tax-writers-eyeing-international-tax-break-used-by-pharma-00189546

this language was abandoned during the back-room, lobbyist-influenced process of drafting the 2017 Republican tax law.[21]

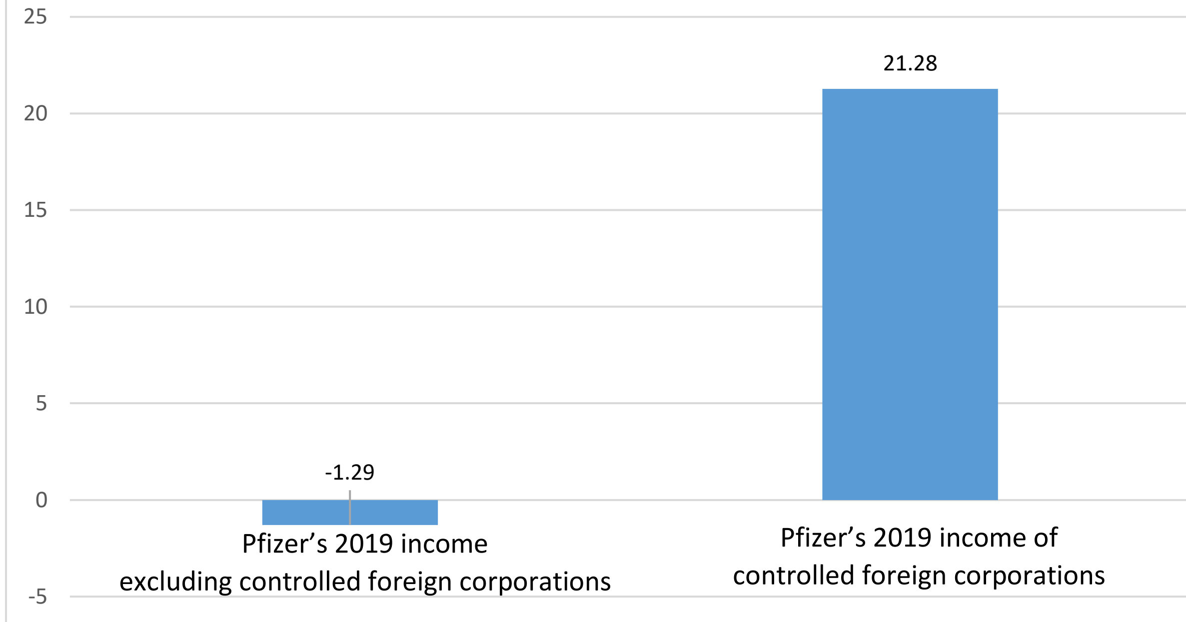
**Pfizer's tax avoidance structure may be the largest in the pharmaceutical industry**

Pfizer's 2019 cross-border tax avoidance structure may be the largest in the pharmaceutical industry, and certainly the largest discovered during Senator Wyden's investigation. The previous largest round-tripping scheme exposed by the Committee's investigation was that used by AbbVie in 2020, in which AbbVie booked 99 percent of its $9.5 billion in income in CFCs offshore. Pfizer's 2019 structure dwarfs that: 100 percent of profits show up offshore (the U.S. share was actually a loss, so *more than 100 percent* of profits went offshore), and offshore profits are more than double what AbbVie earned in the same year.




* U.S. operations showed a loss for tax purposes, so the U.S. income was technically negative-7 percent, and foreign income was 107 percent.

[21] H.R. 1, introduced by then-Ways and Means Committee chairman Camp in 2014, included the pre-cursor to GILTI and the corollary policy of foreign-derived intangible income (FDII). In this 2014 version, CFC income would have only benefitted from the lower rate if that income was "foreign-derived," i.e., it was "sold for use, consumption, or disposition outside the United States, or services provided with respect to persons or property located outside the United States." Under this definition, big pharma's sales to U.S. customers would not be able to access the lower rate that they are now able to access under GILTI as passed by Republicans in 2017. See sec. 4211 of H.R. 1, the Tax Reform Act of 2014, introduced Dec. 12, 2014. Available online at https://www.congress.gov/bill/113th-congress/house-bill/1/text.


Pfizer's income booked onshore and offshore
on 2019 tax returns (in billions USD)
25
20
15
10
5
0
-5
-1.29
21.28
Pfizer's 2019 income
excluding controlled foreign corporations
Pfizer's 2019 income of
controlled foreign corporations