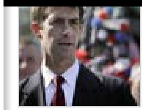
TOP STORIES IN POLITICS AND POLICY

12



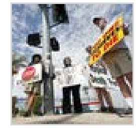
Senate Prospects Brighten for GOP

2 of 12

Congress Reaches Deal to Help Fix VA

3 of 12

U.S. Says Images Show Direct Russian Ro...



Secrecy Ove Executions Fac Challenges

POLITICS AND POLICY

Obama Urges Quick Action to Stop 'Inversions'

More Companies Taking Advantage of Rule Allowing Them to Reincorporate Overseas to Lower Tax Bills

Email Print 64 Comments

By JOHN D. MCKINNON and SIOBHAN HUGHES CONNECT

Updated July 24, 2014 7:40 p.m. ET

Speaking on the economy at Los Angeles Trade-Technical College on Thursday, President Barack Obama pushed for action to stop tax inversions, which allow U.S. firms to reincorporate overseas and lower their tax bills. *Jewel Samad/AFP/Getty Images*

RECOMMENDED STORIES OPEN

and urging Congress to stop them through quick-fix legislation.

Such corporate relocations, known as inversions, could become a wild card in Washington in the coming weeks, particularly if more big companies announce plans to move before the midterm elections in November.

A senior administration official said this week that as many as 30 inversion transactions could be moving through the deal-making pipeline.

But despite the president's call for action, legislation appears unlikely to pass soon. Republicans view a short-term fix skeptically, believing it could worsen U.S. firms' competitive position and encourage more foreign takeovers.

For lawmakers of both parties, it also could steal momentum from the push for a broad

Popular Now What's This?

ARTICLES

1 Villages Traumatized by MH17 Crash

2 Islamic State Erases Iraq's Cultural Heritage

tax rewrite. Republicans who hope to take over the Senate in November have seen little incentive so far to reach a deal before the election.

★★★★★ CAPITAL JOURNAL ★★★★★

- U.S. Stands to Lose Billions From Corporate Tax Inversions
- In Opposing Tax Inversions, Treasury's Lew Calls For 'Economic Patriotism'
- Congress Is Split on Taxing of Corporate Inversions
- Tax Inversions Turn Into Campaign Fodder
- Opinion: Tax Inversions Must Be Stopped Now
- Obama Administration Urges Immediate Action on 'Inversions'
- The Short Answer: Inversion Deals: Who, Where and Why?
- 5 Things to Know About Inversions
- **Sign Up:** Get Capital Journal Daybreak

Speaking Thursday at Los Angeles Trade-Technical College, Mr. Obama accused the firms involved of "cherry-picking the rules" and damaging the country's finances and the economy.

"My attitude is I don't care if it's legal, it's wrong," Mr. Obama said. He and other Democrats increasingly have cast the issue in terms of economic patriotism, questioning the loyalty of firms that take advantage of American infrastructure and services, then take their profits elsewhere.

He also blamed Republicans, accusing them of "directly blocking policies that would help millions of Americans," including his own ideas for overhauling the tax code, and instead focusing on preserving tax breaks for the wealthy and big businesses.

He said Republicans and Democrats should work together to change the rule where companies are "declaring they're based someplace else, even though most of their operations are here."

A spokesman for House Speaker John Boehner (R., Ohio) countered that Democrats have been slow to move on more-specific GOP plans for a tax-code overhaul.

"Under President Obama, the United States has the highest corporate tax rate in the developed world," spokesman Michael Steel said. "It doesn't have to be that way: Comprehensive tax reform would reduce deductions and lower tax rates for everyone."

Corporate inversions have been on the upswing. About 50 have occurred during the past decade, but the pace has accelerated in the past couple of years. Most involve U.S. corporations merging with smaller foreign firms.

Lawmakers from both parties have sought to address the problem unsuccessfully through a broad tax overhaul over the past couple of years. Now some Democrats are calling for tightening existing restrictions on the moves quickly, worried that the trickle of departures could turn into a steady stream.

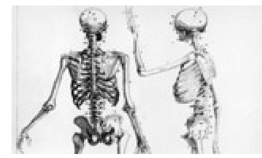
Mr. Obama advocates a legislative proposal that would in essence say that if more than half of the new firm is owned by the old U.S. firm's shareholders, the inversion won't be recognized for tax purposes. The administration proposed such curbs on inversions in its budget earlier this year.

On a conference call with reporters Thursday, senior administration officials said the president continues to support a long-term rewrite of the tax code to make the U.S. a more attractive place to locate businesses, jobs and investment. But they said it is important to move quickly with separate anti-inversion legislation, in part to keep the U.S. corporate tax base from eroding. Administration officials said they are particularly worried about what they termed "a bandwagon effect," in which one firm in a sector inverts, raising pressure on other companies in the sector to invert as well.

3 Is 7 Hours of Sleep Better Than 8?

4 Cease-Fire in Gaza Breaks Down

5 Google's Moonshot: the Human Body



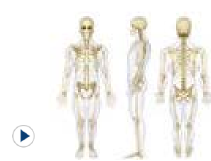
VIDEO

1 North Korea is Furious Over Seth Rogen's Movie, Rogen Not Surprised

2 Militants Blow Up Iraq's Shrine of Yunus Mosque

3 D.C. Metro Opens New Silver Line Rail in Virginia

4 Google Attempts to Map Human Body



5 Breaking Ball: A Pitch for Baseball Glory

The Obama administration waded into the growing debate again this month when Treasury Secretary Jacob Lew urged Congress to pass similar restrictions immediately. But Thursday's remarks were Mr. Obama's highest-profile public push to date on the issue.

Some lawmakers worry, for example, that a potential decision by Walgreen Co. WAG +0.29% to reincorporate overseas could raise pressure on other drugstore chains—such as Rhode Island-based CVS Caremark Corp. CVS +0.29% —to do the same.

Walgreen is expected to decide by late July or early August what steps to take with regard to Alliance Boots, a European drug retailer and wholesaler in which it owns a 45% stake. Walgreen has the option to buy the portion of Alliance Boots that it doesn't already own as soon as February 2015—an option that opens up the possibility of reincorporating in Europe and benefiting from a lower tax rate.

At the same time, Democratic lawmakers and the administration are raising complaints about companies that want to move offshore but continue to benefit from U.S. services, infrastructure and legal protections.

When a company inverts, it can reduce or avoid U.S. corporate taxes, "but they still generally take advantage of all the services and advantages" of being located in the U.S., a senior administration official said. "They just won't be paying for it. Someone else will be."

The Obama administration also wants a retroactive effective date for any quick-fix legislation, to minimize a rush to the exits by U.S. corporations ahead of congressional action.

Republicans also are concerned about the inversion trend. However, they say a comprehensive rewrite of the tax code would address the underlying problems—for example, the relatively high U.S. corporate tax rate of up to 35% and the U.S. system's unusual global reach. Republicans also generally don't like the idea of a retroactive provision to block inversions that already have been announced.

The mounting political pressure around inversions has some deal makers on edge, especially for transactions not yet signed. Most experts say anti-inversion legislation is unlikely this year, but could be passed next year and potentially apply to deals that close after Jan. 1, 2015, leaving buyers without the desired tax benefits.

"There is a rush to try to get a deal done by year-end, because nobody quite knows what's coming after that," said Gary Friedman, a tax partner with law firm Debevoise & Plimpton LLP. "There is clearly a risk."

Lately buyers have been protecting themselves by negotiating a "walkaway" right, should tax laws tighten. Medtronic Inc., MDT -0.60% for example, can terminate its deal to buy Irish medical-device maker Covidien COV -1.12% PLC if U.S. law changes in a way that would result in the combined company still being treated as a U.S. company.

Senate Finance Committee chairman Ron Wyden (D., Ore.) said Thursday he is pursuing a bill to restrict companies' ability to reincorporate elsewhere and then use financial techniques such as loans to "strip" earnings out of the U.S. That should diminish the appeal of inversions, a spokeswoman said. The change also would apply to companies that already have moved.

Write to John D. McKinnon at john.mckinnon@wsj.com and Siobhan Hughes at siobhan.hughes@wsj.com

WSJ In-Depth

Oil Prospectors Shift Back to Wealthy Lands

10,000 Bodies: Inside Assad's Crackdown

Life Insurers Seek Middle-Class Revival

Ryan Seeks to Merge Poverty Programs

Apple Readies Bet on Big-Screen Phones

Buffett's Achilles' Heel: Investing in Retail

Join the Discussion LOG IN TO COMMENT

There are 64 comments. 16 people watching.

Newest

Tom Wood

1) I am curious how President Obama would react about allowing inversions if someone told him "It's settled law" as he says about ACA.

2) Even if the law is changed to not allow inversions, I would really be against making it retroactive. How can you break a law that doesn't exist?

2 days ago

GORDON OTIS

Virtually every policy Obama has put in place over the psst 6 years has worked against businesses and job growth, now he complains when businesses react to the negative business environment he has created.

2 days ago

Jack Janzen

Early on, Obama claimed to be more concerned with "fairness" than boosting the economy or even increasing tax revenue. These policies have truly made the economy sluggish and unemployment high. The country has needless suffered under these policies.

The greed and covetousness of the Democrats knows no bounds.

3 days ago

SHOW MORE COMMENTS