www.pwc.com/us/nes

Estimated Effect of Selected FY22 Revenue Proposals on the Pharmaceutical Industry

Estimated Effect of Selected FY22 Revenue Proposals on the Pharmaceutical Industry

September 2021

Prepared for

The Pharmaceutical Research and Manufacturers of America

pwc

Contents

I. Introduction

The Pharmaceutical Research and Manufacturers of America engaged PricewaterhouseCoopers LLP ("PwC") to estimate the effect of selected provisions of the Administration's fiscal year 2022 revenue proposals on Federal income tax payments of the pharmaceutical industry for fiscal years 2022-2031. The corporate income tax proposals analyzed are:

- The increase in the corporate income tax rate to 28 percent,
- The revisions to the global minimum tax regime ("GILTI"), disallowance of deductions attributable to exempt income, and limitation on inversions,
- The repeal of the base erosion anti-abuse tax ("BEAT") and replacement with the Stopping Harmful Inversions and Ending Low-Tax Developments ("SHIELD") rule, and
- The imposition of a 15-percent minimum tax on book earnings of large corporations.

The selected proposals are estimated to increase Federal income tax payments of the pharmaceutical industry by **$164.9 billion** for fiscal years 2022-2031. This represents approximately **8.5 percent** of the $1,929.7 billion total revenue effect of these four proposals. The increase in tax payments is primarily attributable to revisions to the GILTI regime and related proposals that are estimated to increase taxes on the pharmaceutical industry by more than $95 billion and the increase in the corporate income tax rate to 28 precent, which raises pharmaceutical industry taxes by an estimated $40.7 billion.

In addition to the selected proposals above, PwC also analyzed the effect of an increase in the corporate income tax rate to 25 percent. PwC's preliminary estimate is that a 25 percent corporate income tax rate would increase tax payments of the pharmaceutical industry by $23.7 billion. Assuming no other interactions with the three other selected proposals,[1] the total effect on the pharmaceutical industry under this alternative scenario is to increase tax payments by **$148.0 billion** for fiscal years 2022-2031, or approximately **9.4 percent** of the total revenue effect on all corporations.

Our modeling approach draws upon the revenue estimates of the US Treasury Department's Office of Tax Analysis as published in the Administration's Fiscal Year 2022 budget. Revenue estimates by the Joint Committee on Taxation ("JCT") on the Administration's budget have not yet been released. JCT estimates frequently differ from Treasury's estimates and may be smaller for certain provisions. The estimate of the increase in taxes on the pharmaceutical industry is modeled by our allocating the Treasury estimates to the industry based on publicly available data as published by the Statistics of Income ("SOI") Division of the Internal Revenue Service ("IRS") and the Bureau of Economic Analysis ("BEA") and company financial statements. Because industry-level data necessary to estimate some of the proposals are limited and require projections over the 10-year budget period, these estimates are subject to uncertainty.

[1] In general, one would expect some interactions with the three other selected proposals, which may on net reduce the overall revenue from the other three proposals although the magnitude and direction of the effect would vary for each proposal.

II. Revenue Proposals Modeled

Proposals analyzed

PwC analyzed the effect of selected provisions of the Administration's fiscal year 2022 revenue proposals on Federal income tax payments of the pharmaceutical industry for fiscal years 2022-2031. The corporate income tax proposals analyzed are:

- The increase in the corporate income tax rate to 28 percent,
- The revisions to the global minimum tax regime ("GILTI"), disallowance of deductions attributable to exempt income, and limitation on inversions,
- The repeal of the base erosion anti-abuse tax ("BEAT") and replacement with the Stopping Harmful Inversions and Ending Low-Tax Developments ("SHIELD") rule, and
- The imposition of a 15-percent minimum tax on book earnings of large corporations.

In addition to the selected proposals above, PwC also analyzed the effect of an increase in the corporate income tax rate to 25 percent.

Brief description of proposals

Increase in the corporate income tax rate to 28 percent
The proposal would increase the income tax rate for C corporations from 21 percent to 28 percent. The proposal would be effective for taxable years beginning after December 31, 2021.

Revisions to the GILTI regime, disallowance of deductions attributable to exempt income, and limitation on inversions
The proposal would eliminate the exemption from GILTI for qualified business asset investment. It would increase the tax rate under the GILTI regime from 10.5 percent (13.125 percent after 2025) to 21 percent. The foreign tax rate at which no residual US tax is owed on GILTI would increase from 13.125 percent (16.406 percent after 2025) to 26.25 percent. It also would change the method for calculating a U.S. shareholder's global minimum tax from an overall or global basis to a per-country or jurisdiction-by-jurisdiction basis and the foreign tax credit limitation would be determined separately for each foreign jurisdiction. The proposal would repeal the high-tax exception to subpart F income and repeal the cross-reference to that provision in the GILTI rules. The revisions would be effective for taxable years beginning after December 31, 2021.

The proposal would also expand the application of section 265 for taxable years beginning after December 31, 2021, and broaden the definition of an inversion transaction for transactions that are completed after the date of enactment.

Replace the BEAT with the SHIELD
The proposal would repeal the BEAT and replace it with a new rule disallowing deductions to domestic corporations or branches of foreign multinationals by reference to all gross payments that are made (or deemed made) to low-taxed members of a financial reporting group. A member of a financial reporting group is considered low-taxed if it has income subject to an effective rate of tax that is below 21 percent.[2] A financial reporting group is any group of business entities that prepares consolidated financial statements and that includes at least one domestic corporation, domestic partnership, or foreign entity

---

[2] If a Pillar Two agreement is reached by the Organization for Economic Cooperation and Development Inclusive Framework before the SHIELD is in effect, the effective tax rate threshold will be the rate agreed to under Pillar Two.

with a US trade or business. A financial reporting group member's effective tax rate is determined based on the income earned (both related and unrelated party income) and taxes paid or accrued with respect to income earned in that jurisdiction by financial reporting group members. The rule would apply to financial reporting groups with greater than $500 million in global annual revenues. The proposal would be effective for taxable years beginning after December 31, 2022.

Imposition of a 15-percent minimum tax on book earnings of large corporations
The proposal would impose a 15-percent minimum tax on worldwide book income of a corporation with such income in excess of $2 billion. A corporation's book tentative minimum tax would be equal to 15 percent of worldwide pretax book income (determined after subtracting book net operating loss deductions). General business credits and foreign tax credits would be allowed against book tentative minimum tax. Book income tax is the excess, if any, of tentative minimum tax (less credits) over regular tax (less credits). A book tax credit would be allowed against regular tax in future years but could not reduce regular tax liability below book tentative minimum tax in that year. The proposal would be effective for taxable years beginning after December 31, 2021.

III. Results

The selected proposals are estimated to increase Federal income tax payments of the pharmaceutical industry by **$164.9 billion** for fiscal years 2022-2031. This represents approximately **8.5 percent** of the $1,929.7 billion total revenue effect of these four proposals. The increase in tax payments is primarily attributable to revisions to the GILTI regime and related proposals that are estimated to increase taxes on the pharmaceutical industry by more than $95 billion and the increase in the corporate income tax rate to 28 precent, which raises pharmaceutical industry taxes by an estimated $40.7 billion. The $164.9 billion increase would be approximately an 85-percent increase in the industry's income tax liability over the 10-year budget period relative to present law.[3]

In addition to the selected proposals above, PwC also analyzed the effect of an increase in the corporate income tax rate to 25 percent. PwC's preliminary estimate is that a 25 percent corporate income tax rate would increase tax payments of the pharmaceutical industry by $23.7 billion. Assuming no other interactions with the three other selected proposals,[4] the total effect on the pharmaceutical industry under this alternative scenario is to increase tax payments by **$148.0 billion** for fiscal years 2022-2031, or approximately **9.4 percent** of the total revenue effect on all corporations.

IV. Methodology

Our modeling approach draws upon the revenue estimates of the US Treasury Department's Office of Tax Analysis as published in the Administration's Fiscal Year 2022 budget. Revenue estimates by the Joint Committee on Taxation ("JCT") on the Administration's budget have not yet been released. JCT estimates frequently differ from Treasury's estimates and may be smaller for certain provisions.

The estimate of the increase in taxes on the pharmaceutical industry is modeled by our allocating the Treasury estimates to the industry based on publicly available data as published by the Statistics of Income Division ("SOI") of the Internal Revenue Service ("IRS") and the Bureau of Economic Analysis ("BEA") and company financial statements. SOI tabulations of IRS data include information for tax year 2017 and 2018 for returns of active corporations other than those corporations filing Form 1120-S, Form

---

[3] By comparison, all corporate revenue proposals in the Administration's budget are estimated by the Administration to increase corporate income taxes by 56 percent over the 2022-2031 budget period.
[4] In general, one would expect some interactions with the three other selected proposals, which may on net reduce the overall revenue from the other three proposals although the magnitude and direction of the effect would vary for each proposal.

1120-REIT, and Form 1120-RIC. These data are also used to project the pharmaceutical industry's corporate income taxes over the 2022-2031 period. International statistics are drawn from other SOI sources including tabulations of data from Form 1118 (Foreign Tax Credit—Corporations), Form 8991 (Tax on Base Erosion Payments of Taxpayers with Substantial Gross Receipts), and Form 8992 (U.S. Shareholder Calculation of Global Intangible Low-Taxed Income). Certain information is also tabulated for all corporations. BEA data are for 2018 for majority-owned U.S. affiliates. Company financial statement data cover 2019 and 2020.

SOI tabulations of IRS data are classified by industry using the principal business activity code from which the company derives the largest percentage of its total receipts. These principal business activity codes are based on the North American Industrial Classification System ("NAICS"). Companies in the pharmaceutical and medicine manufacturing minor industry are those classified to NAICS code 32541. The same classification was used for company financial statement data. Some data are available at the minor industry level while other data are available only at the sector (e.g., manufacturing) level. Because industry-level data necessary to estimate some of the proposals are limited and require projections over the 10-year budget period, these estimates are subject to uncertainty.

Table 1.—Estimated Effect of Selected Administration's Fiscal Year 2022 Revenue Proposals on Federal Income Taxes Paid by the Pharmaceutical Industry, FY2022-2031
Millions of Dollars

Proposal	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2022-2031	% of Total Estimate[1]
Increase corporate tax rate to 28%	2,424	4,086	4,175	4,238	4,351	4,365	4,301	4,236	4,210	4,282	40,667	4.7%
Revise GILTI regime, etc.	5,310	9,152	9,651	10,157	9,846	9,742	9,983	10,149	10,369	10,655	95,015	17.8%
Repeal BEAT and replace with SHIELD	-	2,148	3,476	3,303	3,079	2,873	2,708	2,548	2,520	2,549	25,205	6.5%
Impose 15-percent minimum tax on book earnings	294	417	399	378	399	416	439	442	432	444	4,060	2.7%
Total Effect on Pharmaceutical Industry at 28% corporate rate[2]	**8,028**	**15,803**	**17,702**	**18,075**	**17,675**	**17,396**	**17,432**	**17,375**	**17,530**	**17,931**	**164,947**	**8.5%**
Supplementary information												
Increase corporate tax rate to 25%[3]	*1,396*	*2,286*	*2,389*	*2,440*	*2,560*	*2,591*	*2,546*	*2,511*	*2,483*	*2,535*	*23,738*	*4.7%*
Total Effect on Pharmaceutical Industry at 25% corporate rate[4]	*7,000*	*14,003*	*15,916*	*16,278*	*15,884*	*15,621*	*15,677*	*15,650*	*15,804*	*16,184*	*148,018*	*9.4%*

[1] Percent shown is the estimated share of the pharmaceutical industry relative to the total estimated by the Treasury Department of the proposal.
[2] The total effect on the pharmaceutical industry includes the increase in the corporate tax rate to 28%.
[3] The proposal to increase the corporate tax rate to 25% is not included in the Administration's proposals. The estimate for that proposal is provided here as supplementary information.
[4] The total effect on the pharmaceutical industry includes the increase in the corporate tax rate to 25% (instead of 28%) and assumes no interaction with the other selected proposals.
Note: Detail may not add to total due to rounding.
Source: PwC estimates.