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U.S. CORPORATE INVERSIONS AND ANALYSIS OF EARNINGS STRIPPING

ALAYNA AUERBACH
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Reviewed and approved* by the following:

Lou Gattis
Professor of Finance
Thesis Supervisor

Brian Davis
Professor of Finance
Honors Adviser

* Signatures are on file in the Schreyer Honors College.

ABSTRACT

This study examines the current U.S. corporate inversion environment, accompanied by the history of U.S. corporate inversions to date. A corporate inversion occurs when a U.S.-incorporated firm merges or acquires a foreign-incorporated firm and a new foreign parent is created. The new foreign parent owns both the former U.S.-incorporated and foreign-incorporated firms as subsidiaries. Upon inverting, the former U.S.-incorporated firm gives reasons such as a lower effective tax rate because the firm can avoid U.S. tax on foreign earnings. This study explores the current environment by creating a comprehensive list of inversions completed between 2005 and the end of 2015 and analyzing the effective tax rate changes pre- and post-inversion of forty-five companies that completed inversions between 2005 and 2013. The effective tax rates of these companies are lower post-inversion. This study also examines the evidence of "earnings stripping," a tax strategy used by inverted U.S. firms to avoid U.S. tax on U.S. earnings by issuing intercompany debt to shift earnings abroad. This strategy is not acknowledged publicly by inverting firms. A case study of the company Eaton Corporation plc finds evidence of the use of intercompany debt and increased in net income from earnings stripping.

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Chapter 1

Literature Review

As of 2014, the U.S. has the highest corporate income tax rate among the thirty-four Organization for Economic Cooperation and Development (OECD) country members at 39.1 percent (Pomerleau, 2014). Expanding the comparison to 163 countries, the U.S. has the third-highest corporate income tax rate in the world, exceeded by Chad and the United Arab Emirates (Pomerleau, 2014). In 2011, a report combining the results of thirteen unique studies of the effective tax rate on corporate investment concluded that the U.S. has the highest effective corporate tax rate and statutory rate in the world (Dittmer, 2011).

Despite the disadvantageous high U.S. tax rate faced by U.S. firms, firms employ various strategies to avoid taxes. As of 2013, 72 percent of the Fortune 500 firms had subsidiaries in tax haven jurisdictions (Phillips, 2014). By operating foreign subsidiaries, U.S. firms can attribute earnings to these foreign subsidiaries and avoid U.S. income taxes on the earnings. However, these foreign subsidiaries have few employees, minor business activity and act only as "shells." Six percent of the Fortune 500 firms are responsible for 60 percent of the reported offshore profits totaling $1.2 trillion overseas profits in 2013 (Phillips, 2014). Fifty-five of the firms disclosed that they would expect to collectively pay $147.5 billion in additional 2013 U.S. federal taxes if they could not report offshore earnings (Phillips, 2014). For example, the technology company, Apple, has reported more offshore profits than any other U.S. company, totaling $111.3 billion (Phillips, 2014). Apple would have to pay an additional $36.4 billion in taxes to the U.S. if Apple was not able to attribute these earnings to its foreign subsidiaries

(Phillips, 2014). Some corporations have disclosed fewer tax haven subsidiaries, but have increased offshore cash. For example, Citigroup went from reporting 427 tax haven subsidiaries in 2008 to reporting 21 in 2013 yet reported holding two times the amount of cash offshore (Phillips, 2014).

The two most common strategies to shift earnings outside of the U.S. are through transfer pricing and debt. Transfer pricing is the price a firm uses for intercompany transactions when the two parties (although a part of the same larger entity) are considered separate entities. The reported transfer prices are required to be similar to market prices, but often times the intercompany transactions do not occur commonly in the marketplace and therefore, firms have no true market price to use as guidance for the transfer price. This is how firms manipulate and take advantage of the transfer price to shift income from U.S. to foreign subsidiaries. The use of intercompany debt is a second strategy to shift income. This occurs when one entity issues debt to second entity within the same larger entity. The U.S. entity is able to report inflated interest expenses to reduce its U.S. taxable income. However, the larger entity is not actually incurring any interest expense because the issuance of debt is completely intercompany. Both of these strategies are used in connection with inversions.

The extent to which U.S. firms execute the strategy of corporate inversions is fascinating. This topic is currently so captivating due to the high level of criticism and response it is receiving from the public and U.S. government. It mixes legality, ethics and patriotism in the setting of capital markets.

When first thinking about the incentive to invert the topic of why firms do not just incorporate in the lower-tax foreign jurisdiction at time of incorporation arises. Eric J. Allen and Susan C. Morse completed a study in the National Tax Journal titled "Tax-Haven Incorporation

For U.S.-Headquartered Firms: No Exodus Yet." Allen and Morse studied firms that conducted initial public offerings (IPOs) in the U.S. in 1997 through 2010 and found that U.S.-headquartered multinational corporations (MNCs) rarely incorporate parent corporations in tax havens prior to an IPO.

Allen and Morse supported their evidence-based reasons firms invert with the factor that firms may consider potential future changes in U.S. tax law as a reason to invert (Allen and Morse, 2013). They explain that using a parent that is incorporated in a lower-tax jurisdiction rules out the possibility of being negatively affected if the U.S. changes laws about shifting profits. However, since this study was published, the U.S. Treasury has issued legislation notice that would affect firms' ability to shift earnings with foreign parents. Mihir Desai and James Hines completed a study in 2002 in the National Tax Journal titled "Expectations and Expatriations: Tracing the Causes and Consequences of Corporate Inversions" which is cited in the majority of literature written after 2002 regarding corporate inversions. Desai and Hines employ the use of three types of evidence to analyze the determinants of inversions. First, Desai and Hines find the analysis of market reaction to one firm's inversion shows that the market expects the inverting firm to have lower tax liabilities on U.S. source income. Second, statistical evidence shows large firms with extensive foreign assets and debt are more likely to invert and third, share prices rise in response to inversion announcements. One problem Desai and Hines explained in their 2002 study is "this task is complicated by the fact that inversions, while growing in popularity, are still quite uncommon, so it is possible to obtain reliable information on only two dozen or so inverting companies" (Desai & Hines, 2002). Another study completed by Bryan Cloyd, Connie Weaver, and Lillian Mills in 2003 finds that there is a market non-reaction to inversion announcements (Cloyd, 2003). The study is also criticized later in 2003 in

The Journal of American Taxation Association by Ira Weiss because the study's sample size is small at twenty firms (Weiss, 2003). Weiss also claims the size is "direct evidence that there may be hidden costs from inversions" and that "it might be premature to conclude that there are large benefits to inverting" (Weiss, 2003).

Jim A. Seida and Wiliam F. Wempe completed a study titled "Effective Tax Rate Changes and Earnings Stripping Following Corporate Inversion" in 2004 that also used a small sample of inverting firms (twelve firms). Seida and Wempe's study cited the primary benefits of inversions being potential reduction in corporate income taxes, reduction in financial statement effective tax rates (ETRs) and inversion-related tax savings on the avoidance of the U.S. tax on foreign-earnings and U.S. earnings. They find that inverted firms had larger increases in foreign income and profit margin and larger decreases in U.S. profit margin and ETRs than control firms (Seida & Wempe, 2004). Seida and Wempe find that inversion-related ETR reductions are due to U.S. earnings stripping through the mechanism of intercompany debt (Seida & Wempe, 2004). Earnings stripping "is said to occur when an excessive portion of the corporate earnings of a U.S. subsidiary is paid out as interest to the foreign parent corporation (or one of its foreign subsidiaries) and claimed as a deduction against the corporate income of the U.S. subsidiary" (Hufbauer and Assa, 2003, p. 5). The analysis of Desai and Hines also finds "limited foundation for fears that expatriations may be associated with the desire, and the expectation, that U.S. tax obligations on U.S.-source income will be reduced subsequent to an expatriation," otherwise known as what Seida and Wempe refer to and find evidence of in their study as earnings stripping (Desai & Hines, 2002, p. 411).

To "more definitively determine whether observed inversion-related ETR reductions are attributable to earnings stripping", Seida and Wempe reduce their sample size intentionally to four inverted firms and uses information exploited from the four firms' consolidating schedules' intercompany debt. The key to analyzing the intercompany debt is determining what portion of it is attributable to U.S. subsidiaries. The study finds that all four firms have large increases in total and long-term intercompany debt after the completed date of the inversion. The study ignores the state income tax consequence and assumes U.S. income is subject to 35 percent corporate tax rate. Seida and Wempe also calculate the tax revenue loss by the four firms in the earnings stripping study to total $700 million over 2002 and 2003 (Seida & Wempe, 2004).

The U.S. Department of the Treasury issued a report to Congress titled, "Earnings Stripping, Transfer Pricing and U.S. Income Tax Treaties" in 2007 examines the evidence for the existence of earnings stripping by foreign-controlled domestic corporations (FCDCs) by comparing their profits and debt to domestic-controlled corporations' (DCCs) profits and debt. The study claims it is unable to quantify the extent of earnings stripping by FCDCs. In turn, it extends Seida and Wempe's analysis by examining seven of the twelve firms in the study but differs as it compares the control firms to more than twenty-four control non-inverted firms used in Seida and Wempe's study. The U.S. Department of the Treasury explains "the differences in methodology help provide independent confirmation of the conclusions" (U.S. Department of Treasury, 2007). The study finds that inverted corporations shift all of their income out of the U.S., primarily through interest payments (U.S. Department of Treasury, 2007). The study also references Seida and Wempe's data as evidence legislation must be changed to stop the tactic of earnings stripping (U.S. Department of Treasury, 2007). Grubert, Goodspeed, and Swensen completed a study in 1993 titled "Explaining the Low Taxable Income of Foreign-Controlled Companies in the U.S." and Grubert completed another study in 1999 titled "Another Look at the Low Taxable Income of Foreign-Controlled Companies in the U.S." that both find evidence that

FCDCs report lower taxable earnings than DCCs and do not directly find evidence that it is due to income manipulation but offer that the idea is possible. A 1997 study by Collins, Kemsley and Shackelford titled “Transfer Pricing and Persistent Zero Taxable Income of Foreign-Controlled U.S. Corporations” finds no evidence that the low earnings are due to income manipulation (Seida & Wempe, 2004). A 2004 study by Mills and Newberry titled “” finds results consistent with Seida and Wempe that U.S. companies that become FCDCs through inversion manipulate income and pose the idea that intercompany debt is used in earnings stripping.

Seida and Wempe’s 2004 study uses a sample of firms that inverted between February 16, 1994 and June 26, 2002. The U.S. Department of Treasury’s 2007 study’s sample uses firms that inverted in 2004. These are all inversions that occurred prior to the heavy 2004 regulations. For this reason, this study will look at the effective tax rate changes of the companies that inverted between January 1, 2005 and December 31, 2013. To do this, a comprehensive list of all inversions completed between January 1, 2005 and March 16, 2015 must be compiled because a complete list does not exist in pre-existing literature. This will help address the sample size problem faced in prior studies and determine if more inversions have occurred since these studies. Then, to analyze and explain the current method used in the most recent wave of inversions through mergers from beginning to end, a case study that specifically looks at former U.S.-incorporated Eaton Corporation’s acquisition of Ireland-incorporated Cooper Industries for $11.8 billion that closed on November 30, 2012 will be used. To extend prior literature’s analysis of earnings stripping, an examination of the current environment of earnings stripping used by inverted companies will be created by researching the comprehensive list of firms. Examination of evidence of shifting income to foreign jurisdictions will potentially exploit one or more inverted company’s publically available financial data to trace the use of earnings stripping. The hypothesis of this study is that (i) the sample size of inverted U.S. firms is larger today than in previous studies, (ii) the effective tax rate of inverted U.S. firms still decreases in post-inversion years compared to pre-inversion years despite new regulation and (iii) the use of earnings stripping through intercompany debt to decrease taxable earnings has contributed to U.S. tax revenue loss and avoidance of U.S. tax on U.S.-earnings.

Chapter 2

Background

History of Inversions and Regulation

A corporate inversion occurs when a U.S.-incorporated firm merges or acquires a foreign-incorporated firm and a new foreign parent is created. The new foreign parent owns both the former U.S.-incorporated and foreign-incorporated firms as subsidiaries. Upon inverting, the former U.S.-incorporated firm gives reasons such as a lower effective tax rate because the firm can avoid U.S. tax on foreign earnings. The first U.S. firm to incorporate was McDermott International (MDR), a construction company incorporated in New Orleans, U.S. that completed the change of incorporation to a lower-tax jurisdiction, Panama, in December 1982 under the tax advisory of the tax lawyer, John Carroll Jr. (Mider, 2014). The reasoning for the inversion by McDermott sounds similar to the reasoning used by multinational corporations today that are still inverting. McDermott's problem was that the majority of its income at the time was being earned abroad, but McDermott still had to pay taxes of 46 percent of the income to the U.S., an annual total of $220 million in taxes (Mider, 2014). By reincorporating outside of the U.S., McDermott avoided U.S. corporate income tax. McDermott publicly stated, "the principal purpose of the reorganization is to enable the McDermott Group to retain, reinvest and redeploy earnings from operations outside the United States without subjecting such earnings to United States income tax. This will enable the McDermott Group to compete more effectively with foreign companies by taking advantage of additional opportunities for expansion which require long-term commitments, the redeployment of assets and the reinvestment of earnings" (The University of Chicago Law School, 2013, p. 6). The U.S. Internal Revenue Service challenged McDermott for seven years, but a federal appeals court upheld the U.S. Tax Court decision in support of the inversion (Mider, 2014).

Shortly after the McDermott transaction in 1984, the IRS added Section 1248(i) to the Internal Revenue Code that focused on making earnings and profits of any foreign corporation for any taxable year determined according to rules “substantially similar to those applicable to domestic corporations” (Cornell University of Law School, 2014). This section had the intention of curbing corporations’ ability to invert and avoid taxes like McDermott accomplished. This was attempted by imposing a corporate level tax. However, there was still room for tax creativity.

The second U.S. inversion occurred in 1994 and was accomplished similarly to how inversions are completed today but did not go without strict reaction from the Treasury. The company Helen of Troy, headquartered in Texas at the time, formed New Helen of Troy, a parent that would be incorporated in Bermuda. New Helen of Troy of Bermuda formed Helen of Troy MergerCo, a U.S. company, that merged with the original company Helen of Troy that was a reorganization under section 367(a)(2)(E). First, the shares of Helen of Troy MergerCo were converted into Helen of Troy shares. Second, the Helen of Troy shares were converted into shares of New Helen of Troy, incorporated in Bermuda. The assets were sold to New Helen of Troy in a transaction not taxable by the U.S. (The University of Chicago Law School, 2013, p.9). The Treasury reacted with policy through Treasury Regulation §1.367(a)-3(c), which imposed a tax on shareholders in the transaction. The policy made transactions taxable to U.S. shareholders unless “(i) shareholders of US public receive 50% or less of acquiring corporation; (ii) resulting non-US corporation has a 3 year active business and has no plan or intent to dispose of that business; (iii) transferee foreign corporation greater than or equal to the value of the US target;

and (iv) GRA in 5% circumstances" (The University of Chicago Law School, 2013, p. 9). Section 367(a) applies a gain recognition rule if the former owners in an inversion own more than 50 percent of the stock of the new foreign parent company (Thompson, 2014).

In 1996 to 2004, the inversion technique became extremely popular evidenced by a Bloomberg-compiled list of twenty total U.S. inversions; thirteen of which had top executives based in the U.S. and seven with top executives based outside of the U.S. (Mider, 2014). Of these twenty inversions, the most popular relocation country of the inversions was Bermuda with eight U.S. firms reincorporating there and three to Cayman.

Table 1: Inversions Completed 1996-2004.

Current Name	Year completed	Previous U.S. incorporation	New foreign incorporation	Execs. based in U.S. (U) or foreign (F)
Triton Energy Ltd.	1996	Texas	Cayman	U
Loral Space & Communications Ltd.	1996	New York	Bermuda	U
Tyco International Plc	1997	New Hampshire	Ireland	U
Gold Reserve Inc.	1998	Washington	Canada	U
XOMA Ltd.	1998	California	Bermuda	U
Transocean Ltd.	1999	Texas	Switzerland	F
Fruit of the Loom Ltd.	1999	Kentucky	Cayman	U
White Mountains Insurance Group Ltd.	1999	Vermont	Bermuda	U
PXRE Group Ltd.	1999	New Jersey	Bermuda	U
Arch Capital Group Ltd.	2000	Connecticut	Bermuda	F
Everest Re Group Ltd.	2000	New Jersey	Bermuda	U
APW Ltd.	2000	-	Bermuda	U
Foster Wheel AG	2001	New Jersey	Switzerland	F
Ingersoll-Rand Plc	2001	New Jersey	Ireland	U
GlobalSantaFe Corp.	2001	Texas	Cayman	F
VistaPrint NV	2002	Massachusetts	Netherland	F
Cooper Industries Plc	2002	Texas	Ireland	U
Weatherford International Ltd.	2002	Texas	Ireland	F
Noble Corp. Plc	2002	Texas	England	F
Nabor Industries Ltd.	2002	Texas	Bermuda	U

Source: Bloomberg.com

In 2004, the Internal Revenue Code Section 7874 was enacted by the American Jobs Creation Act to inhibit inversion transactions that "permit corporations and other entities to continue to conduct business in the same manner as they did prior to the inversion" (Internal Revenue Service, 2014, p. 3). Meaning, Section 7874 only wanted to stop companies from reincorporating if there was no substantial shift from U.S. to foreign ownership. This was accomplished in two ways: first, if the new company was still owned by 80 or more percent of the former owners (ownership does not change by 20 percent), then the new foreign parent company will be treated as a domestic company regarding U.S. tax policy and will lose certain tax credits (but not foreign tax credits) and net operating losses (Barrage & Sambur, 2006). Second, if the new foreign parent company is owned by 60 to 80 percent of the former owners (ownership does not change between 20 to 40 percent), the new foreign parent company is treated as a foreign entity but must respond to U.S. tax policy over the firm's gains up to the time the inversion transaction is completed (Barrage & Sambur, 2006). One of the most important aspects of Section 7874 was that when determining the percent ownership change, certain stock would be disregarded: stock of the parent held by the subsidiary, affiliate owned stock and stock sold in a public offering related to the transaction (Barrage & Sambur, 2006). Overall, these two rules do not apply if the new foreign parent company has substantial business activities in the foreign parent's country or if the new foreign parent company is owned by under 60 percent of the former owners (foreign ownership exceeds 40 percent) (VanderWolk, 2010). Section 7874(a)(1) also imposed that the annual taxable income of an inverted company cannot be less than the inversion gain of the inverted company (Barrage & Sambur, 2006). In total, Section 7874 in 2004 intended to impose higher penalties than any policy up to that point. However, Section 7874 only referred to public offerings, which left room for inversion transactions through private buyouts (Herzfeld, 2014).

Table 2: IRS Section 7874 Rules.

Percentage of Foreign Holding Company Stock Held by Shareholders of U.S. Corporation	Applicable Rules
51 percent through 59 percent	Section 367(a) gain recognition rule
60 percent through 79 percent	Section 367(a) gain recognition rule and the section 7874 inversion gain rule
80 percent or more	The foreign holding company is treated as a U.S. corporation

Source: Thompson, 2014.

It should also be understood that these new anti-inversion regulations in 2004 were not taken lightly or silently by firms. For example, Lazard Ltd., an investment bank that re-incorporated to Bermuda in 2005 was threatened with a December 2005 adjustment to the 2004 regulations to disallow foreign partnerships (Mider, 2014). Lazard used four lobbyists, one of which was someone who previously held a Treasury position, Barbara Angus, to successfully stop the Treasury, and Lazard was the last of the companies allowed to shift incorporation to Bermuda (Mider, 2014).

To address the issue of private buyouts, Notice 2009-78 was released to identify certain stock of the new foreign parent company that does and does not count toward ownership in the "Ownership Condition" of Section 7874(c)(2)(b) regardless of if it was described or not in Section 7874(c)(2)(b) (Internal Revenue Service, 2009). This was done in the notice by announcing intention to issue regulations to consider "public offering" as shares issued for cash, marketable securities or any other property acquired in the transaction with a purpose of avoiding Section 7874 rules (Herzfeld, 2014). These regulations apply to acquisitions completed on or after September 17, 2009 (Internal Revenue Service, 2009).

Despite regulations, companies find ways around inversion regulations. For example, in order to satisfy the substantial business activity condition and avoid regulation penalties, firms reincorporated to countries where the company has substantial business activity but the country still has lower corporate income tax rates than the U.S's corporate income tax rate. This explains the decrease in number of companies reincorporating to zero corporate income tax rate countries such as Bermuda or Cayman. An example of this is AON, an insurance company originally incorporated in Chicago, Illinois that completed an inversion to the U.K. in April 2012 via the substantial business activity exemption (Marples, 2014). In 2012, the Internal Revenue Service released a temporary Section 1.7874-3T that adjusted the definition of what qualifies as "substantial business activities." The temporary regulation requires that the number of employees, employee compensation, group assets and group income in the foreign country is at least 25 percent of the company's total aforementioned groups and also rules that certain items will not be considered in the aforementioned groups (Cornell University, 2012). The temporary regulation applies to transactions completed on or after June 7, 2012 and expires on June 5, 2015 (Cornell University, 2012). Since this temporary regulation, inversions via the substantial business activity exemption have decreased.

Current Inversion Landscape and Regulation

Today, the popular type of inversion transaction in occurrence is the merging of a U.S. company (the acquirer) with a foreign company (the target) while still abiding by Section 7874 rules (the former owners own less than 80 or 60 percent of the shares of the new foreign parent company) (Thompson, 2014). The U.S. company and the foreign company then become wholly-owned subsidiaries of a new foreign parent company through the restructuring. This is different than inversions that took place earlier than 2012 because these prior inversions involved a new foreign parent company owning a real U.S. corporation (Thompson, 2014).

However, the government is not holding back on regulations. On September 22, 2014, the Treasury Department and Internal Revenue Service issued Notice 2014-52, a clear intention to issue regulations that will limit inversion transactions on or after the date of issuance. PwC, one of the world's largest professional services firm, issued a Tax Insights advisory post detailing the complexities of Notice 2014-52 and explained, "companies and tax practitioners considering these types of transactions (inversions) will need to carefully consider the full scope, coordination, and possible adverse U.S. consequences arising from the application of these new rules" (PricewaterhouseCoopers, 2014). The Notice was centered on four main actions: prevent "hopscotch" loans, prevent "de-controlling" strategy, prevent transfer of property to parent to avoid U.S. tax and prevent companies from inflating new parent ownership (U.S. Department of the Treasury, 2014). For a period of ten years after an inversion, certain U.S. tax planning opportunities will be eliminated to inverted U.S. companies.

The first action of preventing "hopscotch" loans is accomplished by the Notice. Currently, U.S. multinationals must pay U.S. tax on the earnings of their controlled foreign companies (CFCs), but do not do so until the earnings are paid to the U.S. parent firm as a dividend, which are then considered deferred earnings. Inverted companies avoid paying tax on this dividend by having the CFC make a loan to the new foreign parent and this loan is not considered U.S. property so it is not taxed as a dividend. The loan is repaid to the CFC by the new foreign parent but since it is an intercompany loan, the terms are irrelevant and completely decided on the basis of the situation since no cash is actually transferred and is reported as zerosum on financial statements. The Notice prevents these “hopscotch” loans by counting the aforementioned loans as U.S. property which are therefore taxable.

Secondly, the targeted “de-controlling” strategy is accomplished when an inverted company avoids paying U.S. tax on its CFC’s earnings by having the new foreign parent purchase enough CFC stock to own the CFC. The new foreign parent can then access the earnings of the CFC without paying taxes. The Notice prevents the “de-controlling” strategy by treating the new foreign parent’s ownership as ownership in the former U.S. parent, not the CFC. Therefore, the CFC would still have to pay U.S. tax on its earnings.

Thirdly, prior to the Notice, an inverted company’s new foreign parent could sell its stock in the former U.S. parent to its CFC in exchange for the CFC’s cash or property. This transaction bypassed the U.S. parent and therefore the repatriation of cash or property would not be U.S. taxable. The Notice eliminates this strategy.

Fourthly, the Notice targets the Section 7874 requirement that former owners of the U.S. company own less than 80 percent of the new combined companies by altering what qualifies as ownership. This is done in three ways. First, the Notice eliminates passive assets or “cash boxes” that are not a part of the company’s daily business functions from counting in the foreign acquirer’s ownership size. Banks and other financial service companies are exempted from this. Second, the Notice eliminates the recognition of extraordinary dividends made by the U.S. company prior to the inversion in calculation of the ownership requirement. Prior to the notice, a U.S. company could make “skinny-down” extraordinary dividends to reduce its size prior to the inversion. Third, the Notice eliminates the practice of a “spinversion,” in which a U.S. company avoids U.S. tax liabilities by transferring a portion of its assets to a new foreign corporation and then spins off the corporations to its public shareholders. The Notice treats the spun-off company as a domestic corporation, and the U.S. company regains the U.S. tax liabilities.

On the date of Notice 2014-52, there were eight U.S. companies with pending inversion deals (information compiled from publicly available information):

Table 3: Status of Pending Inversions since 9/22/2014

U.S. company (acquirer)	Foreign company (target)	Announcement date	Deal size	New location	Status (as of 3/16/2015)
AbbVie Inc.	Shire plc	7/18/2014	$54 billion	U.K.	Terminated 10/21/2014 termination fee $1.64 billion
Applied Materials Inc.	Tokyo Electron Ltd.	9/25/2013	$29 billion	Netherlands	Pending
Auxilium Pharmaceuticals Inc.	QLT Inc.	6/26/2014		Canada	Terminated 10/9/2014 termination fee $28.4 million
Burger King	Tim Hortons	8/26/2014	$11 billion	Canada	Completed 12/15/2014
Chiquita Brands International Inc.	Fyfees plc	3/10/2014	$1.07 billion	Ireland	Terminated 10/24/2014 Termination 23.84 million
Medtronic Inc.	Covidien plc	6/15/2014	$49.9 billion	Ireland	Completed 1/26/2015
Mylan Inc.	Abbott Laboratories	7/14/2014	$5.3 billion	Netherlands	Pending (expected to close Q1 2015)
Salix Pharmaceuticals Ltd.	Cosmo Pharmaceuticals SpA	7/9/2014	$2.7 billion	Ireland	Terminated 10/3/2014 termination fee $25 million to Cosmo

Treasury Secretary Jacob Lew regarding the Notice explained, “this action will significantly diminish the ability of inverted companies to escape U.S. taxation. For some companies considering deals, today’s action will mean that inversions no longer make economic sense” (Rubin, 2014, p. 7). Less than one month after the issuance of Notice 2014-52, AbbVie Inc. and Shire plc terminated the year’s biggest potential deal at $52 billion. In its press release, AbbVie claimed “the decision was based upon its assessment of the September 22, 2014 notice issued by the U.S. Department of Treasury, which re-interpreted longstanding tax principles in a uniquely selective manner designed specifically to destroy the financial benefits of these types of transactions" (PRNewswire, 2014). In addition, half of the pending firms at the time of the Notice have since terminated the deals, indicating that the Treasury's Notice was effective.

However, some intricacies and other instances exist. For example, two companies who terminated transactions directly after the Notice have since entered into new agreements. First, Auxilium cancelled its deal with Canadian firm QLT, but it completed a deal with Ireland-incorporated firm, Endo International plc, in which Auxilium was acquired for $2.6 billion on January 29, 2015. The deal was announced the same day (10/9/2014) that the deal with QLT was cancelled. This transaction allows former U.S.-domiciled Auxilium to be incorporated in Ireland. Second, on March 16, 2015, Valeant Pharmaceuticals International, Inc., a Canadian-domiciled firm announced a merger with U.S.-domiciled Salix Pharmaceuticals, Ltd. Salix terminated their prior transaction with Cosmo directly following the Notice, but is moving forward with the $15. 8 billion deal with Valeant that is expected to close April 1, 2015. This transaction allows Salix to be incorporated in Canada.

Other firms pending at the time of the Notice have since completed the transaction, despite the new rules. First, Medtronic Inc., a medical equipment company with a market capitalization of $100 billion, completed the acquisition of Covidien plc on January 26, 2015 valued at $49.9 billion. In the transaction, Medtronic, Inc. and Covidien plc are now combined wholly-owned subsidiaries under Medtronic plc, incorporated in Ireland. On October 1, 2014, Medtronic announced it was restructuring the financing for the acquisition of Covidien. Prior to Notice 2014-52, Medtronic intended to use "hopscotch loans" by using cash held abroad to avoid paying taxes. After Notice 2014-52, Medtronic is using $16 billion in external financing (Gelles, 2014). However, Medtronic's chief executive, Omar Ishrak, stated that "despite the additional expense of the new financing, the strategic benefits of the transaction remain compelling," which explains why the deal was later completed despite the new regulations (Medtronic, 2014, p.4). A second transaction was completed shortly prior between Burger King and Tim Hortons, allowing U.S.-domiciled Burger King to reincorporate to Canada.

In addition to deals closing, more deals have been announced since the Notice. First, lodging company Civeo Corp. announced on September 29, 2014 that it will execute a "self-directed re-domiciling" to Canada. Second, on October 13, 2014 U.S. medical technology company Steris Corp announced it will buy Synergy Health plc for $1.9 billion that will allow Steris to reincorporate to the U.K. The deal is still pending as the U.S. Federal Trade Commission has asked both companies to provide "additional information and documentary material, often referred to as a second request" as reported by Steris in Form 8-K on January 15, 2015.

Why Invert?

An important aspect to identify is exactly why these U.S. corporations are spending money and risking public criticism by inverting. In the eyes of U.S. corporations, such as Actavis Inc. that recently, completed a $5 billion acquisition of Warner Chilcott plc, "we're at a competitive disadvantage in a global marketplace because of the U.S. tax structure" and that "means unfortunately for the U.S. taxpayer and the job seeker, that we're forced to move more jobs overseas so we can get a lower tax rate and be competitive with the ex-U.S. companies," stated by the $79 billion firm's chief executive officer, Paul Bisaro (Armstrong, 2013). The acquisition allowed Actavis to reincorporate in Ireland and "level the playing field" by taking advantage of the “icing on the cake” stated by Bisaro regarding tax benefits (Armstrong, 2013). There are two parts of U.S. taxation that incentivizes U.S. corporations to invert:

First, The U.S. corporate income tax rate is the highest out of the 34 Organization for Economic Cooperation and Development (OECD) countries’ rates. For the full list of rates 2000 through 2014 and two average calculation tables, see Appendix A, B and C respectively. As seen below, both the average corporate income tax rate and average combined corporate income tax rate of the OECD countries excluding the U.S. has decreased every year since 2000 through 2014 (except for 2013 corporate income tax rate), while the U.S. corporate income tax rate and combined corporate income tax rate has hovered at the same rate (35% and 39% respectively) for the last fourteen years (OECD, 2014). The average corporate income tax rate of the OECD countries excluding the U.S. has decreased in 2000 to 2014 from 30.48% to 23.68% and from 32.38% to 23.38% respectively (OECD, 2014). As U.S. firms become more international, yet still have to face the non-changing high U.S. corporate income tax rate as other countries’ rates decrease dramatically, the incentive to invert becomes obvious.

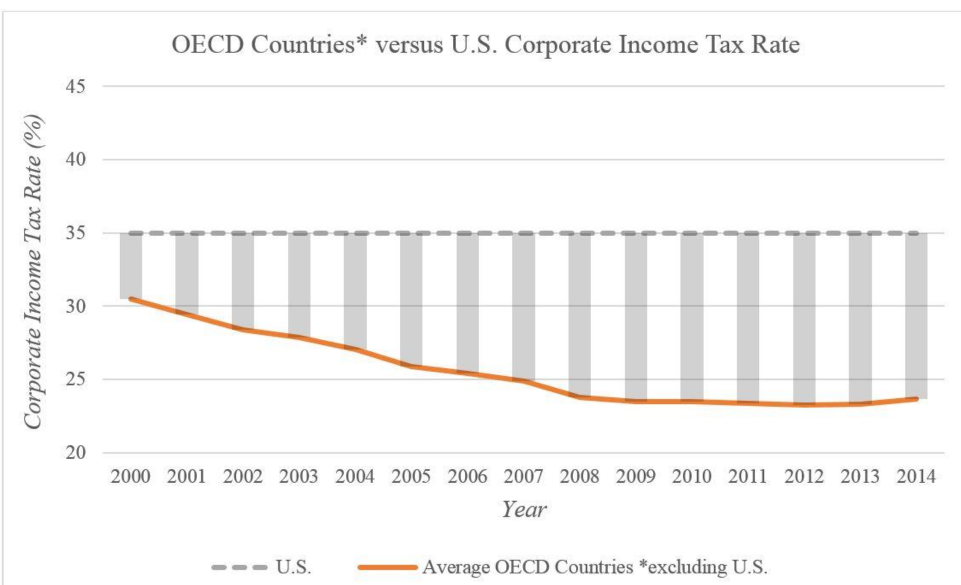

Figure 1: OECD Countries versus U.S. Corporate Income Tax Rate.

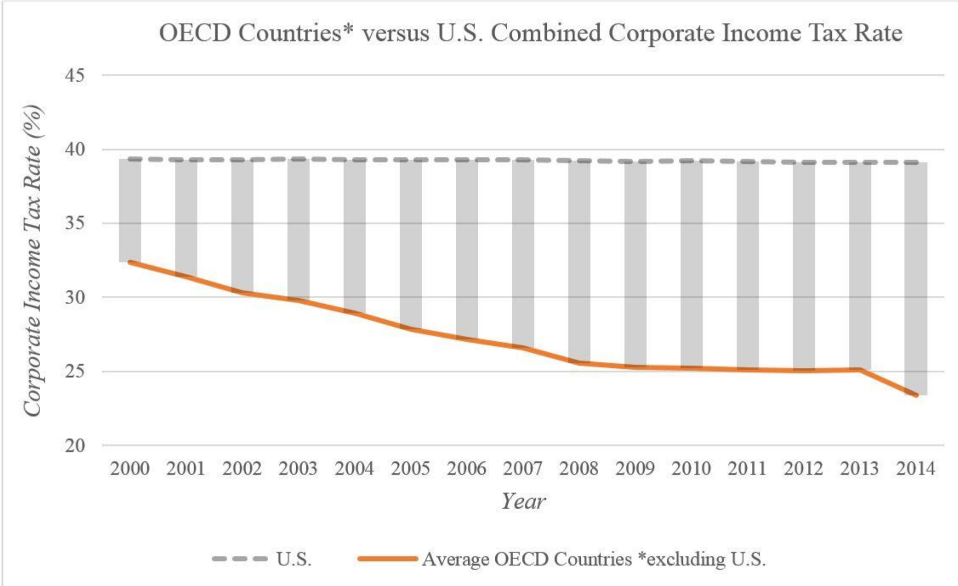

Figure 2: OECD Countries versus U.S. Combined Corporate Income Tax Rate.

Second, the U.S. not only has the highest corporate income tax of 35 percent in the industrialized world, but also stands as the single G-7 country to tax corporate profits earned in foreign country (Ohlemacher, 2014). This means U.S. corporations are taxed by the U.S. on their earnings whether those are foreign or domestic earnings. Every other industrialized country only taxes income earned domestically and does not tax foreign earnings. Therefore, U.S. corporations are at a disadvantage to their foreign competitors. Under the rule of the IRS, U.S. firms and individuals are taxed on a worldwide basis, meaning foreign earnings are taxed at the same rate U.S. earnings are taxed. However, some qualify to claim a foreign earned income exclusion up to $100,800 for 2015 by meeting the requirements of having foreign earned income, a tax home in a foreign country and meet either the bona fide residence or physical presence test. Otherwise, the distinguishing of foreign earned income from U.S. earned income is irrelevant because everyone must pay U.S. tax on foreign earned income. Foreign earned income is income an individual or firm receives for services performed in a foreign country during the period that the tax home is in a foreign country.

The U.S. has the highest 2014 corporate income tax rate (the basic central government statutory (flat or top marginal) corporate income tax rate) and highest 2014 combined corporate income tax rate (the basic combined central and sub-central (statutory) corporate income tax rate given by the adjusted central government rate plus the sub-central rate) amongst the G-7 countries.

Table 4: G-7 Countries 2014 Tax Rates

Country	Corporate income tax rate	Combined corporate income tax rate
U.S.	35.00%	39.10%
France	34.40%	34.40%
Japan	28.10%	37.00%
Italy	27.50%	27.50%
U.K.	21.00%	21.00%
Germany	15.80%	30.20%
Canada	15.00%	26.30%

U.S. Tax System

In order to understand the context of the 35% U.S. corporate tax rate, it is important to understand the taxation process. The U.S. has a “worldwide” system of corporate taxation. Corporations and all individuals must pay 35 percent on both U.S.-earnings and foreign-earnings to the U.S. government.

The U.S. taxes U.S.-earnings simply with the 35 percent rate. However, the taxation on foreign earnings requires the U.S. firm to pay income taxes on the foreign earnings to the respective foreign countries depending on the countries’ rates. Next, the IRS gives U.S. firms a foreign tax credit equal to the tax paid to foreign countries on foreign earnings. Then, the U.S. firm pays the difference to the U.S. The U.S. firm only pays the tax when the foreign earnings are "repatriated," meaning brought back to the U.S., and can delay paying the tax through deferral. Deferral includes investing the earnings in ongoing activities (Pomerleau, 2014). However, "passive" foreign earnings is taxed immediately regardless of when it is repatriated. The U.S. is one of the six OECD countries that taxes its firms through a worldwide system (Barrasso, 2014).

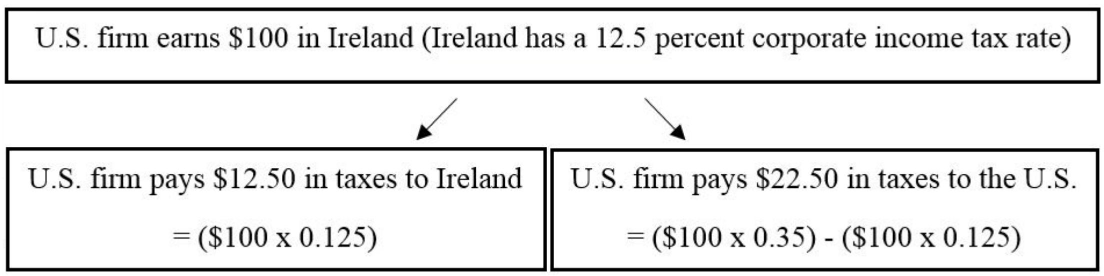

Figure 3: U.S. Foreign Tax Credits.

Benefits of Inversions to Corporations

There are two distinct benefits of inversions: avoidance of U.S. tax on foreign-earnings and avoidance of U.S. tax on U.S.-earnings. If a U.S. firm inverts, it no longer is taxed twice on foreign-earnings and is only taxed once by its new foreign home country. When a U.S. firm inverts, it still earns profit in the U.S. and is subject to taxes. However, an inverted firm can also achieve tax avoidance on U.S.-earnings through multiple complex strategies.

Inverting U.S. firms also make public statements about reasoning for the transaction in the announcement of the deal. For example, Endo's announcement to acquire Paladin Labs in 2013 claimed "operational and tax synergies as a result of the transaction are expected to total at least $75 million of after tax savings on an annual basis" (Endo, 2013). In Perrigo's announcement to acquire Elan Corporation in 2013, it claimed "creates opportunity for substantial after-tax annual operating expense and tax savings of more than US$150 million" (Perrigo, 2013).

Costs of Inversions to Corporations

Inversion transactions also have costs aside from the price paid in the transaction. The new company incurs costs such as investment banking, legal and other professional fees (such as consulting services). Firms that invert may also see an increase in their cost of capital due to maintaining non-business assets in foreign countries (Allen & Morse, 2013). The direct burden of tax planning costs such as the expense of creating foreign structure and maintaining multiple subsidiaries within that structure also exist when firms choose to invert (Allen & Morse, 2013).

Public Opinion of Inversions

Political viewpoints on inversions stand strong which is evidenced through direct quotations and legislation. In 2014, Obama stated "My attitude is, I don't care if it's legal. It's wrong" (Mider, 2014, p. 5). Obama also believes, "They are renouncing their citizenship even though they're keeping most of their business here. They shouldn't turn their back on the country that made their success possible" (Ohlemacher, 2014, p. 9). In response to the cancellation of the biggest potential transaction of the year between AbbVie and Shire, Representative Sander Levin of Michigan, a Democrat on the House's tax committee, noted that the Treasury had "done its part" (Chen & Koons, 2014). Representative Levin and his brother Senator Levin co-sponsored the "Stop Corporate Inversions Act of 2014" in May, but it was rejected due to lack of

Republican support (Walsh, 2014). The bill would lock out benefits of inversions after 5/8/2014 unless new foreign ownership exceeds 50 percent of the combined company (currently, the law requires 20 percent) (Chen & Koons, 2014).

Despite recent strict Treasury regulation that clearly shows that the Treasury is devoted to stopping inversions, the Counselor to the Secretary of the U.S. Treasury appointed on January 16, 2015 is Antonio Weiss. Weiss was global head of Lazard Ltd., an investment bank, and led the merger of Burger King Worldwide Inc. and Tim Hortons Inc. that was completed December 15, 2014 and allowed Burger King to re-incorporate to lower-tax jurisdiction Canada. Lazard also shifted its incorporation to Bermuda through its initial public offering in 2005. This obvious evidence of mixed signals on the topic of inversions shows that controversy exists between corporations and politics as Weiss led an $11 billion inversion that closed a month before he started working for the Treasury (Campbell, 2014).

Another instance of the U.S. administration "swapping staff with industry" is five people since 2000 that have left the international tax counsel post at the Treasury to join private law or accounting firms (Mider, 2014). For example, Hal Hicks was a government tax lawyer for four years and then returned to private practice in the work of inversions at Skadden Arps Slate Meagher & Flom LLP, a law firm that has helped more firms invert than any other law firm. Hicks worked on the 2009 re-incorporation of Ensco International Inc., a company with $1.9 billion in sales, to the U.K. Hicks' former boss at the IRS, Nicholas DeNovio, is another example as he left the IRS and recently worked with Actavis Inc.'s inversion to Ireland through the $5 billion acquisition of Warner Chilcott (Mider, 2014).

Some corporate executives have also gotten involved in directly voicing their opinions. Tim Cook, Apple's CEO, has spoken at a Senate hearing urging firms to bring back earnings to the U.S. and stop shifting earnings abroad to lower their taxes (Kang, 2013). However, Apple reported that it has $157.8 billion in earnings abroad as of 2015 (Petroff, 2015). In Stratasys's and Objet's merger announcement, they claimed "the combined company expects to achieve between $3 and $4 million in annual tax savings also beginning 18 months after the transaction closes" (Stratasays, 2012).

U.S. Government Costs of Inversions

Since 1982, inversions as a whole have cost more than $9.8 billion in inflation-adjusted dollars estimated by Bloomberg. U.S. companies that have already inverted are expected to cost the government $2.2 billion in lost tax revenue in 2015 compared to $1 billion in 2014, estimated by Bloomberg calculations (Mider, 2014). However, this $1 billion is only 0.06 percent of total corporate income tax revenue of $164.84 billion (Bureau of the Fiscal Service, 2014). A congressional study estimated that future inverted companies will cost the government $2 billion a year for the next ten years (Mider, 2014). An important aspect to consider in costing the tax revenue loss is the tax revenue still being lost each year from companies that were allowed to invert since the beginning in 1982. The losses do not only come from direct inversions, but subsequent acquisitions by the inverted company in the future. For example, the company Actavis Plc reincorporated from the U.S. to Ireland in 2013 and since has acquired four U.S. competitors that will also see a decrease in their effective tax rates due to only one inversion (Mider, 2014). In comparison, Representative Charles Boustany of Louisiana, a senior Republican stated "we want to promote American competiveness, not hurt it" (Ohlemacher, 2014, p. 10).

Inversions also cost the U.S. government through the requirement for regulation and court battles. As of the end of 2014, the companies Medtronic Inc., Covidien Plc, Eaton Corp., Abbott Laboratories and Ingersoll-Rand Plc are in legal dispute with the Internal Revenue Service regarding income attributed to low-tax countries (Drucker, 2014). Together, the five companies have $67 billion in foreign earnings that are not taxed by the U.S (Drucker 2014).

Public Opinion of How to Stop Inversions

Some people believe that the recent regulations to stop inversions is not the way to incentivize U.S. corporations to remain U.S.-domiciled (The Economist, 2014). This viewpoint believes that the U.S. tax system needs “fundamental reform, not new complications” (The Economist, 2014, p. 3). The following four items are different public viewpoints on ways to address inversions:

1. <u>Lower the corporate tax rate</u>

Some tax analysts are skeptical that simply lowering rates would work (Kang, 2013). Obama proposed a reform to cut the corporate tax rate to 28% and keep the worldwide system. Congressman Dave Camp proposed to cut the corporate tax rate to 25%, the OECD average, and change to a territorial system.

2. <u>Eliminate tax breaks</u>

3. <u>Change from worldwide system to territorial system</u>

The U.S. operates with a worldwide tax system. However, twenty-eight of the thirty-four OECD member countries operate with a territorial tax system. A territorial tax system is one in which foreign-earnings is exempt from home corporate taxation. A report prepared by PwC for the Technology CEO Council found that the number of current OECD member countries with territorial tax systems has doubled since 2000. Two OECD member countries (Finland and New Zealand) switched from territorial to worldwide, but have since switched back to territorial taxation. The six OECD member countries that use the worldwide tax system have used it since at least 1945, indicating that the system is obsolete. PwC also found that based on OECD-based companies on the Forbes 500 list, those companies headquartered in a territorial tax system's share of sales has increased from 11 percent in 1985 to 59 percent in 2012 (PricewaterhouseCoopers, 2013).

4. Implement a minimum tax on corporate foreign earnings to prevent tax avoidance

As of January 31, 2015, Barack Obama is proposing in his 2016 budget that U.S.-based firms pay a minimum 19 percent tax on foreign earnings and a 14 percent one-time mandatory tax on $2 trillion in foreign earnings being held overseas by companies such as General Electric, Microsoft, Pfizer, Merck, Johnson & Johnson, Google and IBM (Petroff, 2015).

Chapter 3

Comprehensive Inversion List and ETR Analysis

To compile a comprehensive list of U.S. firms that completed inversions between January 1, 2005 and December 31, 2015, I used reliable sources that compiled lists (none were comprehensive) including Bloomberg, government's public online sources and the Washington Post. I then used Dealbook and the Wall Street Journal to look up news of completed mergers or acquisitions in which a U.S. company reincorporated to a lower-tax jurisdiction by becoming a wholly owned subsidiary of the a newly formed foreign parent. To see the comprehensive list from 2005 to 2015, view Appendix D. The list resulted in fifty-four U.S. companies inverting in the indicated time period, three of which were spin-offs or "spin-versions." A "spin-version" is structured like a corporate tax inversion, but instead of the U.S. firm acquiring a foreign firm, the U.S. firm acquires a portion of a foreign firm that is spun off (Grocer, 2014).

Below is a table indicating the number of inversions completed in each year. The most inversions were completed in 2009.

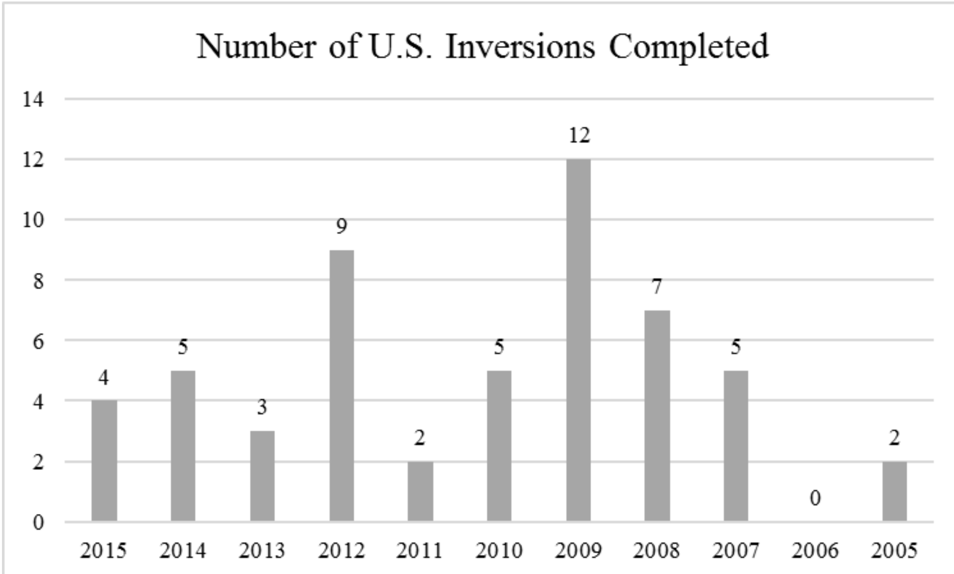

Figure 4: Inversions Completed 2005-2015

Below is a table indicating the foreign location of reincorporation. The most popular place of reincorporation between 2005 and 2015 was Ireland, with 24 percentage points of inversions re-incorporating. The second and third most popular location was Canada with 16 percentage points and Switzerland with 11 percentage points.

Table 5: Inversions Reincorporation Locations 2005-2015

Country	Number of New Incorporations by U.S. Inversions	Percent of New Incorporations by U.S. Inversions
Ireland	13	24.07%
Canada	9	16.67%
Switzerland	6	11.11%
U.K.	5	9.26%
Bermuda	5	9.26%
Netherlands	3	5.56%
Cayman Islands	3	5.56%
BVI	3	5.56%
Marshall Islands	3	5.56%
Israel	1	1.85%
Luxembourg	1	1.85%
Denmark	1	1.85%
Australia	1	1.85%
Total	0	100.00%

In order to analyze the effective tax rate changes of inversions completed between 2005 and 2015, the time period had be readjusted to inversions completed between January 1, 2005 and December 31, 2013 to allow for at least two post-inversion years of financial data to be available (post-inversion period for firms that completed inversions in 2013 includes only the inversion completion year and 2014). The pre-inversion period is defined as the three years prior to the inversion effective year. The post-inversion period is defined at the inversion effective year and two years after the inversion effective year. To see the comprehensive list of firms inverted between 2005 and 2013, see Appendix E.

Due to the limitation of only using publically accessible financial data, not all of the forty-five inversion firms were able to be analyzed. For example the eight firms of Stratasys, 2020 ChinaCap Acquirco, Ideation Acquisition, Patch International, Star Maritime, Fluid Media Networks, Western Goldfields and Luna Gold stopped filing annual Form 10-Ks and started filing Form 6-Ks as foreign private issuers after the inversion. For this reason, these eight firms' effective tax rate changes from pre- to post- inversion were not able to be identified. Six other firms of DE Master Blenders 1753, Plastinum Polymer Tech., Alpha Security, Alyst, Arcade and Western Goldfields' effective tax rate changes were also unobservable due to a variety of reasons. As a result, thirty-one inversion firms' effective tax rate changes from pre- to post-inversion periods were able to be observed.

The effective tax rate was retrieved through being explicitly stated by the firm in Form 10-Ks or by using the typical calculation of total income tax expense divided by total income before taxes for each year. These numbers were also retrieved from firm's Form 10-Ks.

The average pre-inversion period ETR using the thirty-nine available calculated averages is 13.44 percentage points. The average post-inversion period ETR using the thirty-four available calculated averages is 10.56 percentage points. This shows a 2.88 percentage point decrease in ETR from pre- to post-inversion. However, to be more accurate and offer another method of calculation, the average pre- to post-inversion period ETR change of the thirty-one inversion firms whose both pre- and post-inversion numbers are available is a decrease in ETR by 4.64 percentage points. To see the ETRs and calculations of the total forty-five inversion sample, view Appendix F.

Chapter 4

Case Study of Inversion Transaction

Eaton and Cooper History

Eaton Corporation, was founded in 1911 as Tobensen Gear and Axle Company in Newark, New Jersey as a power management company. Eaton completed its first merger in 1922 and continued growing through multiple acquisitions of automotive companies. By 1937, Eaton became "international" as it built a manufacturing plant in Canada. Throughout the years, Eaton continued appeasing its appetite through acquisitions in the electrical, manufacturing, power control, power distribution, defense electronics and aerospace industries. By 1965, the company has 31 international divisions, subsidiaries and associated companies in Europe, Central and South America Australia. In 1999, Eaton has 63,000 employees and 195 manufacturing sites in 23 countries. Eaton's habit of entering new markets through acquisitions continues on. However, one year after Eaton celebrates its 100th anniversary, it completes its largest acquisition to date of Cooper Industries plc, but this time the objective is not to enter a new market.

Today, Eaton is a $31.67 billion industrial manufacturer with offerings of "electrical products, systems and services for power transmission, distribution, control, lighting and wiring products, hydraulics components for industrial and mobile equipment, hydraulic and pneumatic systems for commercial and military use, aerospace fuel and automotive drivetrain and powertrain systems for vehicle performance and field economy" (Hoovers, 2015). More simply, Eaton's business has two sectors of electrical and industrial with 2014 revenue of $22.55 billion. Cooper Industries was a leading supplier of electrical equipment that operated in two business segments of energy and safety solution and electrical products group with revenue of $5.4 in 2011 prior to being acquired.

Why Cooper Industries?

Alexander Cutler, Eaton's chairman and chief executive officer explained Cooper's "complementary technologies further accelerate Eaton's growth as a global integrated power management company" and "this combination significantly expands our ability to better serve our customers with their demands for critical energy saving technologies as they address the impact of the world's growing energy needs" (Eaton, 2012, p. 6). Publically, Eaton's management executives claim that the reason for the acquisition is to increase the capabilities and geographic breadth.

However, Cooper Industries plc has an interesting history of incorporation that may be the true incentive for the transaction. On May 22, 2001, Coopers Industries Ltd. incorporated in Bermuda after becoming the successor to Cooper Industries, Inc. On June 4, 2009, Cooper Industries plc completed a re-domestication to Ireland after becoming the successor to Cooper Industries, Ltd. In the proxy statement, Eaton gives reasons for the incorporation in Ireland such as they will have a lower worldwide effective tax rate, the tax rules in the U.S. are competitively adverse and Irish tax rules are like those found in developed countries except the U.S. However, the prevailing reason Eaton provides in the proxy statement is that the "loss of these existing Cooper competitive advantages (from being incorporated in Ireland) would have caused a large dis-synergy that would have prevented the acquisition from occurring" (Eaton, 2012, p.7). In other words, this transaction would not have occurred if the benefit of being able to redomesticate to Ireland was not a part of the deal. This is an important piece to the puzzle as other firms have moved forward with inversion transactions despite damaging 2014 new Treasury regulation that have taken away many tax benefits of inverting, indicating that perhaps not all firms have the same viewpoint as Eaton.

Transaction Timeline

1. Initial Conversation between Eaton and Cooper CEOs – 5/3/2010

2. Eaton and Cooper Enter into Confidentiality Agreement – 8/9/2010

3. Eaton Board Meeting and Acquisition Proposal Sent to Cooper – 4/5/2012

4. New Parent is Formed – 5/10/2012

5. Acquisition Announcement – 5/21/2012

This day is important as it is the first time the two companies officially and publically acknowledge that they have entered into a "definitive agreement" that Eaton will acquire Cooper. This announcement is required under the Irish Takeover Rules and known as a "Rule 2.5 Announcement". This announcement also gives bulleted reasons why the deal will enhance shareholder value (complementary products, long-term growth, satisfy customers, generate $535 million annual synergies by 2016) and briefly details the financing for the deal (Eaton secured $6.75 billion fully underwritten bridge financing from Morgan Stanley Bank, Morgan Stanley Senior Funding and Citibank).

6. Eaton Files Original Form S-4 – 6/22/2012

This "Registration of Securities, Business Combinations", usually referred to as S-4, includes the "Joint Proxy Statement/Prospectus" that contains all details of the proposed merger and is over 250 pages long. All parties also entered into Amendment No. 1 to the Transaction Agreement

7. U.S. Antitrust Gives Regulatory Approval – 7/12/2012

8. U.S. Securities and Exchange Commission (SEC) Send Comments #1 on S-4 – 7/20/2012

This letter sent by the SEC to Eaton after the SEC reviews the filed S-4 and includes sixty-five comments. Each comment requires Eaton to either amend their S-4 or respond with a reason why they should not have to amend.

9. Eaton Files Amended Form S-4 #1 and Send Response to SEC – 8/1/2012

10. U.S. Securities and Exchange Commission (SEC) Send Comments #2 on S-4 – 8/15/2012

11. Eaton Files Amended Form S-4 #2 and Send Response to SEC – 8/20/2012

12. Eaton Files Amended Form S-4 #3 – 8/31/2012 and Send Response to SEC – 9/4/2012

13. Eaton Files Amended Form S-4 #4 (Final) and Send Response to SEC – 9/6/2015

This is the final version of the S-4 filed for the merger that is declared effective by the SEC.

14. Announcement of Upcoming Shareholders Meetings – 9/12/2012

Since the S-4 was declared effective by the SEC, Eaton can now go forth with this announcement that explains when the scheduled shareholder meetings will occur in connection with the proposed acquisition of Cooper by Eaton. After this announcement, Eaton and Cooper mail out a “Joint Proxy Statement/Prospectus” (the final S-4) to their shareholders that contains information about the proposed acquisition.

15. Shareholders Meetings – 10/26/2012

Two meetings of Cooper shareholders were held to seek shareholder approval of the transaction structure with Irish law and one meeting of Eaton shareholders was held to approve the merger. At these meetings, Cooper gained 99 percent of shareholder approval (the required is 75 percent) and Eaton gained 77.99 percent of shareholder approval (the required is 75 percent) which satisfied conditions necessary to complete the transaction. If a shareholder did not vote, it actually counts as a vote against the proposed merger so the companies but make sure they solicit proxies from their shareholders. On this day, both Eaton and Cooper filed a Form 8-K with the vote results.

16. Transaction is Completed – 11/30/2012

On this date, commonly referred to as "closing" or the "effective date," Eaton fully acquires Cooper and the transaction is completed. This can only be done once all the requirements to close are fulfilled by both Eaton and Cooper.

Transaction Structure

The merger transaction structured used by Eaton is the single popular structure used by most inverting firms. The structure is one in which a U.S.-incorporated parent becomes a subsidiary of a new foreign-incorporated parent company. The shares of the former U.S.-incorporated parent are converted to the new parent in a transaction that is taxable to shareholders of the new parent, old parent or both. No significant operational or physical shift typically occurs in this type of transaction.

Looking specifically at Eaton's structure, seven different parties are involved to make this structure work:

Table 6: Eaton Inversion Parties

Eaton Corporation:	an Ohio corporation.
Cooper Industries plc:	an Irish corporation
New Eaton:	a private limited company incorporated in Ireland formed on 5/10/2012 to hold Cooper, Eaton, Abeiron II and Turlock as wholly owned subsidiaries. On the completion of the transaction, New Eaton will be re-registered as a public limited company named "Eaton Corporation plc" and Eaton will be a wholly owned subsidiary of New Eaton. After the transaction, previous Eaton shareholders will own 73% of New Eaton and previous Cooper shareholders will own 27% of New Eaton.
Abeiron II Limited:	a private limited liability company incorporated in Ireland formed on May 17, 2012 for the sole purpose of the transaction and is a wholly owned subsidiary of New Eaton. After the transaction, Abeiron will be an Irish trading company.
Turlock B.V.:	a private limited liability company incorporated in the Netherlands formed on January 9, 2008 and is a wholly owned subsidiary of Aberion II. After the transaction, Turlock will be one of New Eaton's major holding companies.
Eaton Sub:	a company incorporated in Ohio, is a wholly owned subsidiary of Turlock and was formed on June 21, 2012. After the transaction, Eaton Sub will be the U.S. parent company of the Eaton U.S. group of companies.
Merger Sub:	a company incorporated in Ohio, is a wholly owned subsidiary of Eaton Sub and was formed on May 17, 2012.

When the transaction closes, Merger Sub will merge with Eaton and Eaton will be the surviving entity. The following two graphics are used in Eaton's Form S-4:

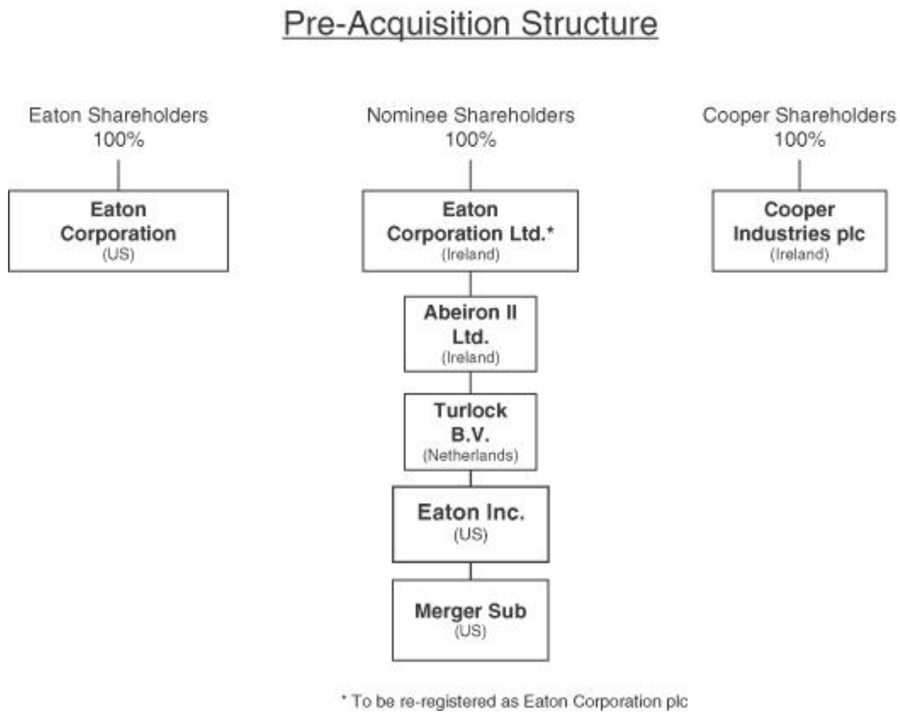

Figure 5: Eaton Pre-Acquisition Structure.

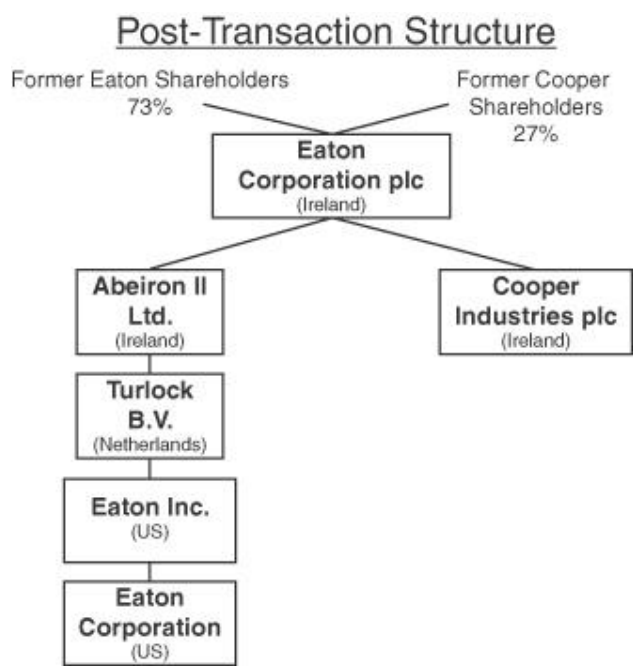

Figure 6: Eaton Post-Acquisition Structure.

Transaction Costs

Eaton paid each of its financial advisors (Citigroup Global Markets Inc. and Morgan Stanley) a transaction fee of $12 million plus an additional fee up to $3 million. Cooper paid its financial advisor (Goldman Sachs & Co.) a transaction fee of $27 million. The transaction also had a $300 million termination fee that Eaton would have had to pay Cooper if the agreement was terminated before closing.

Earnings Stripping

Consider the following simple example of "earnings stripping" through the inversion of a U.S. firm. If the U.S. firm takes out a $1 billion bank loan with 5% interest on the loan, the U.S. firm is entitled to $50 million deduction for interest payment on its taxable U.S. earnings. If the U.S. firm inverts and its new foreign parent takes the bank loan on itself, then its new foreign parent re-loans the $1 billion back to the U.S. firm (subsidiary) it now owns at 6%, the U.S. firm has $60 million interest paid deduction in its U.S. taxable earnings. The U.S. firm will pay its new foreign parent $60 million in interest, and the new foreign parent will pay the original bank $50 million. This results in $10 million tax-free transfer from the U.S. firm to the new foreign parent, even though the loan size remained the same (Sommers, 2003).

In the example above, since the U.S. firm is inverting it wants to shift its U.S. earnings to be considered foreign earnings to decrease the amount of U.S. taxable earnings it has. Issuing intercompany debt is one way to strip earnings abroad and accomplish this.

There is evidence of intercompany notes being issued between Eaton and its new foreign parent in the financing of the acquisition. The majority of the financing for the $11.8 billion price of Cooper comes from a 364-day bridge loan credit agreement in the amount of $6.75 billion with various banks (see Appendix E for issuance document). The initial borrower of the loan is Merger Sub, an entity formed for the sole purpose of the transaction and incorporated in Ohio. Upon completion of the transaction, Merger Sub will lend the $6.75 billion to Eaton Inc., incorporated in the U.S. and a wholly-owned subsidiary of the new foreign parent. Eaton Inc. then subscribes for a number of the new foreign parent shares (the number is determined by subtracting a predetermined number of new foreign parent shares from the number of outstanding Eaton Corporation shares on date of close) in exchange for consideration in the form of a promissory note to pay the new foreign parent the price of the shares. On November 20, 2012, the new foreign parent issued the senior notes totaling $4.9 billion to finance the acquisition and on November 30, 2012 (closing date), the new foreign parent borrowed the rest through the bridge facility. Here, the new foreign parent has taken on the loan under its own name, issued intercompany debt to its subsidiary and overall will be able to charge a higher interest rate to Eaton Inc. that will result in larger interest tax deductions to U.S. earnings.

Earnings Stripping Consolidating Data Analysis Method

To analyze and find evidence of the use of intercompany debt by Eaton Corporation plc (the new foreign parent) that now owns Eaton and Cooper as subsidiaries, I will use parts of the method used by Seida and Wempe in their 2004 exploitation of four firms' consolidated financial statements to trace deductions in effective tax rates to the use of intercompany debt for earnings stripping. By examining Eaton plc's Form 10-Ks for the years ended 2014, 2013, 2012, 2011, 2010 and 2009. The inversion effective date is November 30, 2012. The study looks at pre-inversion period which is defined as the 3-year period prior to the inversion effective year and the post-inversion period which is defined as the inversion effective year plus the 2 years following the inversion. For the purpose of the Eaton study, the pre-inversion period includes 2009, 2010 and 2011 and the post-inversion period includes 2012, 2013 and 2014. First, looking at the change in total intercompany debt changes from the pre- to post-inversion periods, the total intercompany debt (intercompany payables plus intercompany loans payable) increases by $43 billion, decreased by $6 billion and then increased $21 billion in the inversion effective year, 2013 and 2014 respectively. The average increase in total intercompany debt in the pre- to post-inversion period is $46 billion. The long-term intercompany debt (intercompany loans payable) increased by $35 billion, decreased by $6 billion increased by $21 billion in the inversion effective year, 2013 and 2014 respectively. The average increase in long-term intercompany debt in the pre- to post-inversion period is $38 billion. The amount of intercompany interest expense and fees increased by $237 million, $397 million and $412 million in the inversion effective year, 2013 and 2014 respectively. The average increase in intercompany interest expense and fees is $639 million in the pre- to post-inversion period. Next, determining what portion of that total intercompany debt, long-term intercompany debt and intercompany interest expense and fees is attributable to U.S.-based entities is important because this shows that a portion of U.S. earnings may be shifted to foreign jurisdictions.

The new foreign parent (Eaton plc) and "Eaton plc's principal 100% owned subsidiaries" are considered the "guarantors" of the senior notes issued prior to the closing of the transaction, which is likely referring to Eaton Inc. that issued the promissory note in consideration for the shares. Because Eaton Inc. is a U.S. entity, the "Guarantors" are most likely U.S.-based entities, but since this is not cannot be determined definitively, I cannot include the "Guarantors" portions of intercompany debt as being attributable to the U.S. Eaton Corporation's numbers in the consolidating financial statements will be considered U.S. attributable numbers because it is definitively known that Eaton Corporation was the U.S.-based parent prior to the inversion. Because the Guarantors cannot be definitively attributed to the U.S., the amount of intercompany debt attributable to the U.S. may be represented here as a significantly smaller number than it most likely is.

By using the numbers allocated to Eaton Corporation in the consolidating financial statements, it shows that there is an amount of total intercompany debt, long-term intercompany debt and intercompany interest expense and fees attributable to the U.S.

Next, using the ratio analysis method used by Seida and Wempe in 2004, the impact of the evidence of intercompany debt and potential earnings stripping be quantified. The intercompany interest expense and fees is represented by A and found in the 10-K. The average foreign tax rate (Ireland statutory rate used for purposes of this study) is represented by B. The estimated stripping-related U.S. tax savings is represented by C and calculated by multiplying intercompany interest expense and fees (A) by the U.S. statutory rate of 35% minus the average foreign tax rate (B). The reported tax expense or (benefit) is represented by D and is found in the 10-K. The stripping-adjusted tax expense is found by adding the estimated stripping-related U.S. tax savings (C) and reported tax expense (D). The total pre-tax income is represented by F and found in the 10-K. The effective tax rate can be found in the 10-K or by dividing reported tax expense (D) by total pre-tax income (F). The reported net income is found in the 10-K and represented by G. The stripping-adjusted new income is found by subtracting the estimated stripping-related U.S. tax savings (C) from reported net income (G) and is represented by H. The percentage increase in net income from stripping is found by dividing the estimated stripping-related U.S. tax savings (C) by the stripping-adjusted new income (H).

Through the use of these inputs and ratios, the first item to look at is Eaton's effective tax rate changes pre- to post-inversion. The ETR reduced (consistent with management's claim that it would) from the pre- to post- inversion period. In 2011, the year prior to the inversion, the ETR was 12.94% and dropped to 2.48 percentage points, 0.58 percentage points and negative 2.39 percentage points in the years 2012, 2013 and 2014 respectively. The total pre-tax income increased each year following the inversion except for 2012 as the foreign revenue share decreased each year following the inversion. Although the foreign pre-tax income is not available in any financial statements post-inversion, in Eaton's Form 10-K, they explain that "the difference (decrease) in effective tax rate for 2013, compared to 2012, was primarily attributable to the effects associated with the acquisition of Cooper, along with greater levels of income in lower tax jurisdictions and additional foreign tax credit utilization." Although the actual percent of foreign income share cannot be obtained in public data, from this statement one can definitively infer that the foreign income share increased from 2013 to 2012. While acknowledging that the foreign revenue share decreased and the foreign income share increased, one can infer that the foreign revenue is not the reason that the foreign income share increased and for that reason there must be income manipulation to have this occur. This is where the case for earnings stripping is clearly shown by Eaton. Coupled with the extreme increases in intercompany debt, the probability of intercompany debt being the mechanism for this income shifting is high.

By using the aforementioned ratios with Eaton's pre- to post-inversion periods, the estimated stripping-related U.S. tax, stripping-adjusted tax expenses, stripping-adjusted ETRs, stripping-adjust new income and percentage increase in net income from stripping for 2012, 2013 and 2014 can be calculated as seen below:

Table 6: Eaton Corp. plc Earnings Stripping Analysis

in millions	**2014**	**2013**	**2012**
Estimated stripping-related US tax savings	$ 104.6	$ 63.4	$ 23.7
Stripping-adjusted tax expense	$ 62.6	$ 74.4	$ 54.7
Stripping-adjusted ETR	3.55%	3.95%	4.37%
Stripping-adjusted new income	$ 1,698.4	$ 1,809.6	$ 1,196.3
Percentage increase in net income from stripping	6.16%	3.50%	1.98%

Eaton Corp. plc
Effective Tax Rates, Pre-tax Income and Revenue Sources, and Foreign and US Profit Margins: Pre- and Post- Inversion Periods
Inversion effective date: 11/30/2013
Pre-inversion period: 3 year period prior to inversion effective year
Post-inversion period: inversion effective year + 2 following years using whatever data are available

in millions	2014	2013	2012	2011	2010	2009
Pre-tax income (A)	1,761.00	1,884.00	1,251.00	1,553.00	1,036.00	303.00
US pre-tax income (loss) (B)	*Not available*			375.00	114.00	(298.00)
Foreign pre-tax income (C)	*Not available*			1,178.00	922.00	601.00
Ireland	(332.00)	184.00	0.00	-	-	-
Foreign	2,093.00	1,700.00	1,251.00	-	-	-
Total revenue (D)	22,552.00	22,046.00	16,311.00	16,049.00	13,715.00	11,873.00
Total US revenue (E)	11,701.00	11,092.00	7,789.00	7,165.00	6,166.00	5,574.00
Total foreign revenue (F)	10,851.00	10,954.00	8,522.00	8,884.00	7,549.00	6,299.00
Canada	*1,113.00*	*1,154.00*	*918.00*	*815.00*	*666.00*	*562.00*
Latin America	*1,988.00*	*2,113.00*	*1,588.00*	*1,952.00*	*1,629.00*	*1,159.00*
Europe	*5,074.00*	*5,112.00*	*3,997.00*	*4,092.00*	*3,532.00*	*3,157.00*
Asia Pacific	*2,676.00*	*2,575.00*	*2,019.00*	*2,025.00*	*1,722.00*	*1,421.00*
Total tax (adjusted) (G)	(42.00)	11.00	31.00	201.00	99.00	(82.00)
Effective tax rate (G/A)	**-2.39%**	**0.58%**	**2.48%**	**12.94%**	**9.56%**	**-27.06%**
Foreign income shares (C/A)	*Not available*			**75.85%**	**89.00%**	**198.35%**
Foreign revenue shares (F/D)	**48.12%**	**49.69%**	**52.25%**	**55.36%**	**55.04%**	**53.05%**
Foreign profit margin (C/F)	*Not available*			**13.26%**	**12.21%**	**9.54%**
US profit margin (B/E)	*Not available*			**5.23%**	**1.85%**	**-5.35%**

Figure 7: Eaton Corp. plc Financial Data

Eaton Corp. Plc Estimated US Tax Savings and Financial Statement Effects of Earnings Stripping Through Reported Intercompany Interest Expense and Fees						
Inversion effective date: 11/30/2012						
Pre-inversion period: 3 year period prior to inversion effective year						
Post-inversion period: inversion effective year + 2 following years using whatever data are available						
in millions	2014	2013	2012	2011	2010	2009
Total intercompany debt (intercompany payables + intercompany loans payable)	59,108.00	37,467.00	43,980.00	-	-	-
Amount attributable to U.S.	6,848.00	5,847.00	4,195.00	-	-	-
Long-term intercompany debt (intercompany loans payable)	50,426.00	29,313.00	35,037.00	-	-	-
Amount attributable to U.S.	2,723.00	2,113.00	1,401.00	-	-	-
Intercompany interest expense and fees	1,046.00	634.00	237.00	237.00	-	-
Amount attributable to U.S.	263.00	155.00	237.00	224.00	-	-
Total assets	33,529.00	35,491.00	35,810.00	17,873.00	17,252.00	16,282.00
Intercompany interest expense and fees (A)	1,046.00	634.00	237.00	237.00	-	-
Average foreign tax rate (B) -- Ireland statutory tax rate	25.00%	25.00%	25.00%	-	-	-
Estimated stripping-related US tax savings (C) [A*(0.35-B)]	**104.60**	**63.40**	**23.70**	-	-	-
Reported tax expense (benefit) (D)	(42.00)	11.00	31.00	201.00	99.00	(82.00)
Stripping-adjusted tax expense (E) [C+D]	**62.60**	**74.40**	**54.70**	-	-	-
Total pre-tax income (F)	1,761.00	1,884.00	1,251.00	1,553.00	1,036.00	303.00
ETR [D/F]	**-2.39%**	**0.58%**	**2.48%**	**12.94%**	**9.56%**	**-27.06%**
Stripping-adjusted ETR [E/F]	**0.04**	**0.04**	**0.04**	-	-	-
Reported net income (G)	1,803.00	1,873.00	1,220.00	1,352.00	937.00	385.00
Stripping-adjusted new income (H) [G-C]	**1,698.40**	**1,809.60**	**1,196.30**	-	-	-
Percentage increase in net income from stripping [C/H]	**6.159%**	**3.504%**	**1.981%**	-	-	-

Figure 8: Eaton Corp. plc Full Analysis of Earnings Stripping

Chapter 5

Conclusion

My thesis statement was that (i) the sample size of inverted U.S. firms is larger today than in previous studies, (ii) the effective tax rate of inverted U.S. firms still decreases in post-inversion years compared to pre-inversion years despite new regulation and (iii) the use of earnings stripping to decrease taxable earnings has contributed to larger U.S. tax revenue loss than the four 2002 inverted firms in Seida and Wempe's study and avoidance of U.S. tax on U.S.-earnings, not foreign-earnings is a driven in inversions. In my studies, I found that fourty-five U.S. firms inverted in the period of 8 years (2005-2013) which provides a larger sample size than Seida and Wempe's study that found twelve inversion firms in the period of eight years (1994-2002). For purposes of relevance, I also found that fifty-four U.S. inverted in the period of ten years (2005-2015). Using the 2005-2013 sample, I found that the effective tax rate of inversion firms decreases in post-inversion years compared to pre-inversion years. This decline in ETR is smaller which may be attributed to firms inverting from zero-rate jurisdictions (Bermuda and Cayman Islands) to lower than U.S. rate jurisdictions (Ireland, etc.) due to legislation in 2004 that prevented firms from inverting to zero-rate jurisdictions. In my study, I found the use of earnings stripping to decrease taxable earnings by Eaton that has contributed to larger U.S. tax revenue loss in the size of $23 million, $63 million and $104 million for 2012, 2013 and 2014 respectively.

Despite the Treasury's continued efforts to reduce benefits of corporate inversions, the most recent efforts of Notice 2014-52 does not address earnings stripping. Notice 2014-52 does not include any text that reduces the ability of firms to decrease U.S. tax liability through intercompany interest expense and instead asks the public for suggested policy that can prevent the use of intercompany debt (PricewaterhouseCoopers, 2014).

Appendix A

2014 OECD Corporate Income Tax Rates

PART II. Taxation of Corporate and Capital Income (2014)

Table II.1. Corporate income tax rate [1]

Country	Central government			Sub-central government corporate income tax rate [4]	Combined corporate income tax rate [5]	Targeted corporate tax rates [6]
	Corporate income tax rate [2]	Statutory corporate income tax rate exclusive of surtax	Adjusted corporate income tax rate [3]			
Australia*	30.0		30.0		30.0	Y
Austria	25.0		25.0		25.0	N
Belgium*	33.9	33.0	34.0		34.0	Y
Canada	15.0		15.0	11.30	26.3	Y
Chile	20.0		20.0		20.0	Y
Czech Republic	19.0		19.0		19.0	Y
Denmark	24.5		24.5		24.5	N
Estonia*	21.0		21.0		21.0	
Finland	20.0		20.0		20.0	N
France*	34.4	33.3	34.4		34.4	Y
Germany*	15.8	15.0	15.8	14.35	30.2	N
Greece	26.0		26.0		26.0	Y
Hungary*	19.0		19.0		19.0	Y
Iceland*	20.0		20.0		20.0	Y
Ireland	12.5		12.5		12.5	Y
Israel*	26.5		26.5	0.00	26.5	Y
Italy*	27.5		27.5		27.5	N
Japan*	28.1	25.5	26.2	10.82	37.0	Y
Korea	22.0		22.0	2.20	24.2	Y
Luxembourg*	22.5	21.0	22.5	6.75	29.2	Y
Mexico	30.0		30.0		30.0	Y
Netherlands*	25.0		25.0		25.0	Y
New Zealand*	28.0		28.0		28.0	N
Norway	27.0		27.0		27.0	Y
Poland*	19.0		19.0		19.0	N
Portugal*	30.0	23.0	30.0	1.50	31.5	Y
Slovak Republic*	22.0		22.0		22.0	N
Slovenia	17.0		17.0		17.0	
Spain	30.0		30.0		30.0	Y
Sweden	22.0		22.0		22.0	N
Switzerland*	8.5		6.7	14.45	21.1	N
Turkey	20.0		20.0		20.0	N
United Kingdom*	21.0		21.0		21.0	Y
United States*	35.0		32.8	6.29	39.1	Y

Source: OECD

Appendix B

Corporate Income Tax Rate OECD Averages 2000–2014

Corporate Income Tax Rate: shows the basic central government statutory (flat or top marginal) corporate income tax rate. Where surtax applies, the statutory corporate rate exclusive of surtax is shown in round brackets ( ).		
Year	**Average OECD Countries *excluding U.S.**	**U.S.**
2000	30.4842	35.0
2001	29.4644	35.0
2002	28.3638	35.0
2003	27.8600	35.0
2004	27.0392	35.0
2005	25.8959	35.0
2006	25.3856	35.0
2007	24.8726	35.0
2008	23.7765	35.0
2009	23.4965	35.0
2010	23.4662	35.0
2011	23.3514	35.0
2012	23.2605	35.0
2013	23.3262	35.0
2014	23.6760	35.0

Source: OECD

Appendix C

Combined Corporate Income Tax Rate OECD Averages 2000–2014

Combined Corporate Income Tax Rate: shows the basic combined central and sub-central (statutory) corporate income tax rate given by the adjusted central government rate plus the sub-central rate.		
Year	**Average OECD Countries *excluding U.S.**	**U.S.**
2000	32.3839	39.34
2001	31.4100	39.271
2002	30.3147	39.297
2003	29.7896	39.323
2004	28.9370	39.316
2005	27.8261	39.29
2006	27.1567	39.303
2007	26.6141	39.271
2008	25.5709	39.251
2009	25.2818	39.16
2010	25.2363	39.206
2011	25.1154	39.186
2012	25.0215	39.134
2013	25.0744	39.134
2014	23.3820	39.1

Source: OECD

Appendix D

Comprehensive List of U.S. Inversions 2005–2015

No.	Company (U.S.)	Company (Other)	"New" Parent Company	Completion Date	"New" Domicile
1	Mylan Inc. (spin off)	Abbott Laboratories	Mylan N.V.	2/27/2015	Netherlands
2	Auxilium Pharmaceuticals	Endo International plc		1/29/2015	Ireland
3	Medtronic Inc.	Covidien plc		1/26/2015	Ireland
4	Burger King	Tim Hortons		12/15/2014	Canada
5	Tower Group International Ltd.	ACP Re or Canopius Holdings Bermuda Ltd.		10/15/2014	Bermuda
6	Forest Laboratories, Inc.	Actavis plc		7/1/2014	Ireland
7	Theravance Biopharma Inc. (spin off)	Theravance, Inc.	Theravance Biopharma Inc.	6/1/2014	Cayman Islands
8	Cadence Pharmaceuticals Inc.	Mallinckrodt plc		3/19/2014	Ireland
9	Endo International plc	Paladin Labs Inc.	Sportwell Limited (IrishCo)	2/28/2014	Ireland
10	Perrigo Co. plc (US)	Elan Corporation, plc (Ireland)	Perrigo Company plc	12/18/2013	Ireland
11	Actavis (US)	Warner Chilcott plc (Ireland)		10/1/2013	Ireland
12	Liberty Global Plc (US)	Virgin Media Inc. (UK)		6/7/2013	U.K.
13	Stratasys Ltd.	Objet Ltd.		12/3/2012	Israel
14	Eaton Corp. Plc (US)	Cooper Industries plc (Ireland)		11/30/2012	Ireland
15	Spin off - Pentair Ltd. (US)	Spin off - Tyco (Switzerland)	Pentair plc	9/28/2012	Switzerland
16	SXC Health Solutions	Catalyst Health Solutions	Catamaran Corporation	7/2/2012	Canada
17	Tronox Inc.	Exxaro Resources Limited	"New Tronox" (AUS holding company) Trono	6/15/2012	Australia
18	Rowan Cos. Plc		Rowan Companies plc ("Rowan UK")	4/16/2012	U.K.
19	Aon Corporation		Aon plc	4/2/2012	U.K.
20	DE Master Blenders 1753 B.V. (spin off)	Sara Lee		2/27/2012	Netherlands
21	Jazz Pharmaceuticals, Inc. (us)	Azur Pharma plc (dublin)	Jazz Pharmaceuticals plc	1/18/2012	Ireland
22	Alkermes, Inc. (US)	Elan Drug Technologies (Ireland)	Alkermes plc	9/15/2011	Ireland
23	Pride International (US)	Ensco	ESV (Pride stopped trading)	5/31/2011	U.K.
24	Valeant Pharmaceuticals Intl. Inc.	Biovail Corporation	Valeant Pharmaceuticals International, Inc.	9/28/2010	Canada
25	Seagate Technology		Seagate Technology PLC	7/3/2010	Ireland
26	United America Indemnity, Ltd. (US)	Global Indemnity plc (Ireland)	Global Indemnity plc	7/2/2010	Ireland
27	Plastinum Polymer Tech Corp.	PPT Holding B.V.		7/1/2010	Netherlands
28	The Mortgage Partnership of America, LLC (US)	Altisource Portfolio Solutions SA		2/12/2010	Luxembourg
29	Ensco International Inc.		Ensco International plc	12/23/2009	U.K.
30	2020 ChinaCap Aquirco	Windrace International Company Limited	Exceed Company Ltd.	10/1/2009	BVI
31	Ideation Acquisition Corp.		SearchMedia	10/1/2009	Cayman Islands
32	Tim Hortons Inc. (THI USA)	THI Mergo	New THI (Tim Hortons Inc.)	9/28/2009	Canada
33	Alpha Security Group Corp.		Alpha Bermuda	6/25/2009	Bermuda
34	Tyco Electronics		as of 2011 TE Connectivity	6/23/2009	Switzerland
35	Vantage Energy Services Inc.		Vantage Drilling	5/1/2009	Cayman Islands
36	InterAmerican Acquisition Group		CNC Development Ltd.	5/1/2009	BVI
37	Hungarian Telephone & Cable Corp.		Invitel Holdings AS ... Magyar Telecom BV	2/26/2009	Denmark
38	Foster Wheeler			2/10/2009	Switzerland
39	Weatherford Intl.		Weatherford International Ltd.	2/1/2009	Switzerland
40	Alyst Acquistion Corp.		CH Holdings	1/1/2009	BVI
41	Covidien		Covidien plc	12/23/2008	Ireland
42	Transocean Inc. (Cayman)	Transocean Ltd. (Swiss)		12/18/2008	Switzerland
43	Arcade Acquisition Group		Conbulk Corp.	9/1/2008	Marshall Islands
44	Energy Infrastructure Acquisiton Corp.		Energy Merger	7/1/2008	Marshall Islands
45	ACE Limited			7/1/2008	Switzerland
46	Ascend Acquisition Corp.		ePAK International Ltd.	4/1/2008	Bermuda
47	Patch International Inc		Patch International Inc	3/1/2008	Canada
48	Star Maritime Acquisition Group		Star Bulk Carriers Corp.	11/1/2007	Marshall Islands
49	Lincoln Gold Corp.		Lincoln Gold Corp.	10/1/2007	Canada
50	Argo Group International Holdings, Ltd.	Subsidiary of PXRE Group, Ltd.	Argo Group International Holdings, Ltd.	8/7/2007	Bermuda
51	Fluid Media Networks, Inc.		Fluid Media Networks	7/1/2007	Canada
52	Western Goldfields Inc.	New Gold Inc.	Western Goldfields	3/1/2007	Canada
53	Luna Gold Corp.		Luna Gold	9/1/2005	Canada
54	Lazard Ltd.			5/1/2005	Bermuda

Appendix E

Comprehensive List of U.S. Inversions 2005–2013

No.	Company (U.S.)	Company (Other)	"New" Parent Company	Completion Date	"New" Domicile
1	Perrigo Co. plc (US)	Elan Corporation, plc (Ireland)	Perrigo Company plc	12/18/2013	Ireland
2	Actavis (US)	Warner Chilcott plc (Ireland)		10/1/2013	Ireland
3	Liberty Global Plc (US)	Virgin Media Inc. (UK)		6/7/2013	U.K.
4	Stratasys Ltd.	Objet Ltd.		12/3/2012	Israel
5	Eaton Corp. Plc (US)	Cooper Industries plc (Ireland)		11/30/2012	Ireland
6	Spin off - Pentair Ltd. (US)	Spin off - Tyco (Switzerland)	Pentair plc	9/28/2012	Switzerland
7	SXC Health Solutions	Catalyst Health Solutions	Catamaran Corporation	7/2/2012	Canada
8	Tronox Inc.	Exxaro Resources Limited	"New Tronox" (AUS holding company) Tronox I	6/15/2012	Australia
9	Rowan Cos. Plc		Rowan Companies plc ("Rowan UK")	4/16/2012	U.K.
10	Aon Corporation		Aon plc	4/2/2012	U.K.
11	DE Master Blenders 1753 B.V. (spin off)	Sara Lee		2/27/2012	Netherlands
12	Jazz Pharmaceuticals, Inc. (us)	Azur Pharma plc (dublin)	Jazz Pharmaceuticals plc	1/18/2012	Ireland
13	Alkermes, Inc. (US)	Elan Drug Technologies (Ireland)	Alkermes plc	9/15/2011	Ireland
14	Pride International (US)	Ensco	ESV (Pride stopped trading)	5/31/2011	U.K.
15	Valeant Pharmaceuticals Intl. Inc.	Biovail Corporation	Valeant Pharmaceuticals International, Inc.	9/28/2010	Canada
16	Seagate Technology		Seagate Technology PLC	7/3/2010	Ireland
17	United America Indemnity, Ltd. (US)	Global Indemnity plc (Ireland)	Global Indemnity plc	7/2/2010	Ireland
18	Plastinum Polymer Tech Corp.	PPT Holding B.V.		7/1/2010	Netherlands
19	The Mortgage Partnership of America, LLC (US)	Altisource Portfolio Solutions SA		2/12/2010	Luxembourg
20	Ensco International Inc.		Ensco International plc	12/23/2009	U.K.
21	2020 ChinaCap Aquirco	Windrace International Company Limited	Exceed Company Ltd.	10/1/2009	BVI
22	Ideation Acquisition Corp.		SearchMedia	10/1/2009	Cayman Islands
23	Tim Hortons Inc. (THI USA)	THI Mergo	New THI (Tim Hortons Inc.)	9/28/2009	Canada
24	Alpha Security Group Corp.		Alpha Bermuda	6/25/2009	Bermuda
25	Tyco Electronics		as of 2011 TE Connectivity	6/23/2009	Switzerland
26	Vantage Energy Services Inc.		Vantage Drilling	5/1/2009	Cayman Islands
27	InterAmerican Acquisition Group		CNC Development Ltd.	5/1/2009	BVI
28	Hungarian Telephone & Cable Corp.		Invitel Holdings AS … Magyar Telecom BV	2/26/2009	Denmark
29	Foster Wheeler			2/10/2009	Switzerland
30	Weatherford Intl.	x	Weatherford International Ltd.	2/1/2009	Switzerland
31	Alyst Acquistion Corp.		CH Holdings	1/1/2009	BVI
32	Covidien		Covidien plc	12/23/2008	Ireland
33	Transocean Inc. (Cayman)	Transocean Ltd. (Swiss)		12/18/2008	Switzerland
34	Arcade Acquisition Group		Conbulk Corp.	9/1/2008	Marshall Islands
35	Energy Infrastructure Acquisiton Corp.		Energy Merger	7/1/2008	Marshall Islands
36	ACE Limited			7/1/2008	Switzerland
37	Ascend Acquisition Corp.		ePAK International Ltd.	4/1/2008	Bermuda
38	Patch International Inc		Patch International Inc	3/1/2008	Canada
39	Star Maritime Acquisition Group		Star Bulk Carriers Corp.	11/1/2007	Marshall Islands
40	Lincoln Gold Corp.		Lincoln Gold Corp.	10/1/2007	Canada
41	Argo Group International Holdings, Ltd.	Subsidiary of PXRE Group, Ltd.	Argo Group International Holdings, Ltd.	8/7/2007	Bermuda
42	Fluid Media Networks, Inc.		Fluid Media Networks	7/1/2007	Canada
43	Western Goldfields Inc.	New Gold Inc.	Western Goldfields	3/1/2007	Canada
44	Luna Gold Corp.		Luna Gold	9/1/2005	Canada
45	Lazard Ltd.			5/1/2005	Bermuda

Appendix F

U.S. Inversions 2005–2013 ETR Analysis

Key:	
	Rate not available for specified reason. 6-K refers to time when firm started reporting Form 6-K for foreign private issuers.
	Rate not available for unspecified reason.
	Change in rate is not able to be fully calculated.

			Effective Tax Rates						Effective Tax Rate Averages		
			Post-Inversion Period			Pre-Inversion Period					
No.	**Company (U.S.)**	**Inversion Year**	**+2**	**+1**	**0**	**-1**	**-2**	**-3**	**Post Avg.**	**Pre Avg.**	**Change**
1	Perrigo Co. plc (US)	2013		24.70%	27.30%	23.20%	24.40%	27.30%	26.00%	24.97%	**1.03%**
2	Actavis (US)	2013		4.80%	-17.70%	59.90%	43.20%	26.90%	-6.45%	43.33%	**-49.78%**
3	Liberty Global Plc (US)	2013		-7.10%	67.65%	14.74%	41.35%	-17.11%	30.27%	12.99%	**17.28%**
4	Stratasys Ltd.	2012		6-K		34.20%	32.30%	33.40%		33.30%	
5	Eaton Corp. Plc (US)	2012	-2.40%	0.60%	2.50%	12.90%	9.50%	-27.20%	0.23%	-1.60%	**1.83%**
6	Spin off - Pentair Ltd. (US)	2012	22.60%	25.50%	46.00%	65.50%	32.40%	32.70%	31.37%	43.53%	**-12.17%**
7	SXC Health Solutions	2012	26.40%	25.70%	36.40%	33.60%	33.60%	32.30%	29.50%	33.17%	**-3.67%**
8	Tronox Inc.	2012	-180.00%	-48.00%	-12.00%	8.00%	30.00%		-80.00%	19.00%	**-99.00%**
9	Rowan Cos. Plc	2012	-55.91%	3.30%	-10.81%	-4.40%	25.60%	26.60%	-21.14%	15.93%	**-37.07%**
10	Aon Corporation	2012	18.90%	25.40%	26.10%	27.30%	28.40%	28.20%	23.47%	27.97%	**-4.50%**
11	DE Master Blenders 1753 B.V. (spin off)	2012									
12	Jazz Pharmaceuticals, Inc. (us)	2012	62.20%	29.30%	-47.20%	0.00%	0.00%	0.00%	14.77%	0.00%	**14.77%**
13	Alkermes, Inc. (US)	2011	29.50%	0.60%	2.10%	11.40%	0.40%	3.40%	10.73%	5.07%	**5.67%**
14	Pride International (US)	2011	13.60%	16.70%	15.90%	3.40%	17.40%	20.80%	15.40%	13.87%	**1.53%**
15	Valeant Pharmaceuticals Intl. Inc.	2010	4.00%	4.00%	4.00%	0.85%	13.00%	6.00%	4.00%	6.62%	**-2.62%**
16	Seagate Technology	2010	0.69%	11.74%	-2.55%	11.05%	5.04%	-62.75%	3.30%	-15.55%	**18.85%**
17	United America Indemnity, Ltd. (US)	2010	-20.30%	-7.80%	9.50%	5.80%	17.50%	15.80%	-6.20%	13.03%	**-19.23%**
18	Plastinum Polymer Tech Corp.	2010				0.00%	0.00%	0.00%		0.00%	
19	The Mortgage Partnership of America, LLC (US)	2010	7.00%	9.20%	-0.80%	30.90%	36.90%	18.90%	5.13%	28.90%	**-23.77%**
20	Ensco International Inc.	2009	15.90%	14.90%	19.20%	17.30%	20.40%	24.70%	16.67%	20.80%	**-4.13%**
21	2020 ChinaCap Aquirco	2009		6-K		0.70%	10.22%	0.00%		3.64%	**-3.64%**
22	Ideation Acquisition Corp.	2009	6-K		-23.56%	29.80%	39.80%		-23.56%	34.80%	**-58.36%**
23	Tim Hortons Inc. (THI USA)	2009	29.00%	23.70%	37.40%	32.80%	34.00%	28.00%	30.03%	31.60%	**-1.57%**
24	Alpha Security Group Corp.	2009									
25	Tyco Electronics	2009	22.00%	31.60%	15.40%	27.80%	0.00%	5.30%	23.00%	11.03%	**11.97%**
26	Vantage Energy Services Inc.	2009	-16.70%	-66.20%	18.24%	-1.39%	34.04%		-21.55%	16.32%	**-37.88%**
27	InterAmerican Acquisition Group	2009		revoked due to failure to make filings		8.50%	39.90%	0.00%		16.13%	**-16.13%**
28	Hungarian Telephone & Cable Corp.	2009	-7.95%	-60.30%	6.97%	-16.78%	-3.59%	-23.81%	-20.43%	-14.73%	**-5.70%**
29	Foster Wheeler	2009	24.90%	24.40%	20.60%	-15.56%	-25.73%	-23.77%	23.30%	-21.69%	**44.99%**
30	Weatherford Intl.	2009	73.00%	145.50%	30.80%	14.80%	23.00%	25.90%	83.10%	21.23%	**61.87%**
31	Alyst Acquistion Corp.	2009									
32	Covidien	2008	18.80%	47.90%	24.50%	138.20%	25.50%	30.80%	30.40%	64.83%	**-34.43%**
33	Transocean Inc. (Cayman)	2008	23.90%	19.20%	15.60%	12.50%	18.50%	16.80%	19.57%	15.93%	**3.63%**
34	Arcade Acquisition Group	2008									
35	Energy Infrastructure Acquisiton Corp.	2008		required to liquidate in 2008		0.00%	0.00%	0.00%		0.00%	
36	ACE Limited	2008	4.72%	6.04%	6.38%	18.24%	18.49%	20.98%	5.71%	19.24%	**-13.52%**
37	Ascend Acquisition Corp.	2008	0.00%	0.00%	0.00%	-124.50%	0.00%	0.00%	0.00%	-41.50%	**41.50%**
38	Patch International Inc	2008	6-K		1.90%	2.20%			1.90%	2.20%	**-0.30%**
39	Star Maritime Acquisition Group	2007		6-K		7.00%	17.00%	17.00%		13.67%	
40	Lincoln Gold Corp.	2007	30.00%	31.00%	0.00%	0.00%	0.00%		20.33%	0.00%	**20.33%**
41	Argo Group International Holdings, Ltd.	2007	17.49%	27.20%	35.31%	34.97%	0.85%		26.66%	17.91%	**8.75%**
42	Fluid Media Networks, Inc.	2007	6-K		0.01%	0.04%	0.00%		0.01%	0.02%	**-0.01%**
43	Western Goldfields Inc.	2007	6-K	47.20%	41.30%				44.25%		
44	Luna Gold Corp.	2005			6-K						
45	Lazard Ltd.	2005	19.30%	21.00%	17.20%	7.70%	8.40%		19.17%	8.05%	**11.12%**

Appendix G

Eaton Corp. Senior Unsecured Bridge Credit Agreement

Exhibit 10.1
EXECUTION COPY

$6,750,000,000

SENIOR UNSECURED BRIDGE CREDIT AGREEMENT

dated as of

May 21, 2012

among

TURLOCK CORPORATION,
which on the Closing Date will be merged with and into

EATON CORPORATION,
with Eaton Corporation surviving such merger as the Borrower,

ABEIRON LIMITED,
as Parent,

TURLOCK B.V.,
as Holdings 2,

The Other Guarantors from time to time party hereto,

The Banks from time to time party hereto,

and

MORGAN STANLEY SENIOR FUNDING, INC.,
as Administrative Agent,

CITIGROUP GLOBAL MARKETS INC. and
MORGAN STANLEY SENIOR FUNDING, INC.,
as Joint Lead Arrangers and Joint Book Managers,

and

CITIBANK, N.A.,
as Syndication Agent

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ACADEMIC VITA

ALAYNA AUERBACH

623 S. Allen Street State College, PA 16801
(609) 651–7098 | aia5292@psu.edu

EDUCATION

The Pennsylvania State University, Schreyer Honors College, Smeal College of Business — **University Park, PA**
Bachelor of Science in Finance — *Expected Graduation: May 2015*
Minors in Economics, Spanish

Shri Ram College of Commerce — **Delhi, India**
- Collaborated with 14 SRCC students on a cultural immersion project through Delhi — July–August 2012

RELEVANT EXPERIENCE

PwC Mergers & Acquisitions Advisory Team — **New York, NY**
Management Consulting Intern — June 2014–August 2014
- Supported Project Management Operations team of 6 to manage the full separation of client's $2.1 billion sale of a brand
- Built understanding of pre to post-deal process and role of divestiture, integration and due diligence M&A offerings
- Developed products and services industry background and cross-functional business knowledge

Schreyer Consulting Group — **University Park, PA**
President, Member — January 2013, January 2012–September 2014
- Managed 5 chairs and supported 4 divisions of workshops, networking, case study groups and hands-on consulting projects
- Presented over 30 sessions with the topics of frameworks, case studies, conference calls and firm events
- Developed a series of 6 workshops with alumni that guide students through the consulting career process

International Business Association — **University Park, PA**
Vice President, Member — September 2013, September 2012–May 2014
- Conducted and presented bi-weekly international market outlook updates for 30 members
- Launched and developed website with resource guide of tools to improve members' market research skills
- Provided professional development resources to members through event planning and mentorship

International Builders Show Residential Complex Competition — **Las Vegas, NV/University Park, PA**
Finance and Market Director Contestant – 6th place — August 2012–January 2013
- Teamed with 5 others in a 100-page residential construction project proposal for a $4.5 million site in Utah
- Created and presented a 10-year financial plan indicating phases of return to 3 capital investors and site owner
- Researched, analyzed and determined 3 market drivers to sustain a projected >12% per year home absorption rate

Global Microfinance Brigade — **Ipeti-Emberá, Panama**
Volunteer — March 2013
- Developed accounting and saving workshops for 10 businesses to form a community bank in the 300-person community

Penn State Investment Association — **University Park, PA**
Research Analyst, Materials Sector — Fall 2011, Spring 2013
- Contributed to quantitative and qualitative research and analysis to support investments in ~$161,000 holdings of the materials sector of the Nittany Lion Fund, a $7 million student-run mutual fund
- Engaged in weekly sessions to extend skillset in areas of outlook analysis, valuation ratios, and DCF's

CRITIQUE Magazine — **University Park, PA**
Finance Chair — January 2012–September 2012
- Transitioned into managing business department's 3 divisions and chairs of Ad Sales, Marketing, Treasury within 1 week
- Restructured business department to consolidate 2 divisions with overlapping processes to increase efficiency

LEADERSHIP & INVOLVEMENT

Penn State IFC/Panhellenic Dance Marathon (THON) — **University Park, PA**
Entertainment Captain — September 2014–March 2015
- DJ-ed 46-hour event for world's largest student-run organization with 15,000+ audience for first time in 24 years
- Worked in team of 8 to DJ 45+ events over the course of 5 months
- Dancer relations member 2013-2014, entertainment member 2012-2013, special interest organization member 2011-2012

Schreyer Honors College Career Development Program — **University Park, PA**
Mentor — September 2012–Present
- Counsel 4 mentees with workshops on professional development topics and direction on undergraduate plans

The Co.Space — **University Park, PA**
Resident — September 2013–May 2014
- Lived and participated in an organized house-network of 20 innovative students and mentors dedicated to social change

Vatsalya Children's Village — **Jaipur, India**
Volunteer — July 2012–August 2012
- Lived in a rural orphanage with 46 children contributing labor, domestic care, and daily English teaching at school

Eat Your View (Sustainable Local Food Production Organization) — **Doylestown, PA**
Founder, President — September 2009–June 2011
- Created structure, developed mission, raised awareness and managed projects to build an organization in collaboration with local food producers and the Doylestown Food Co-Op that is still in operation

SKILLS & INTERESTS

- Language: Spanish (basic)
- Skills: MS Excel VBA (basic) and macros (basic)
- Interests: International travel, animation, Barre3, reading