

# Letter to the Editor

## To the Editor:

I would like to submit revised text and a Table to the article entitled “The Tax Cuts and Jobs Act of 2017 and the Pharmaceutical Industry” (46, no. 3 (2018):806–808). Due to a technical error in the financial inputs into my calculations, the results should be adjusted as follows: the top eight manufacturers earned a median of \$28.0 billion in gross revenue in 2016 (interquartile range [IQR] \$22.5–\$43.1 billion) (Table 1). Median income before taxes was \$8.1 billion (IQR \$5.6–\$11.1 billion), and a flat corporate tax on this amount at the statutory rate of 35% would have resulted in a median payment of \$2.8 billion per manufacturer (IQR \$2.0 – \$3.9 billion). By comparison, the median reported effective tax rate in 2016 was 17.7% (IQR 15.6–21.8%), resulting in a median of \$1.4 billion in taxes paid (IQR \$1.0–\$2.3 billion). Starting with a new statutory rate of 21% under the Act, the median effective tax rate for 2016 would have dropped to 10.6% (IQR 9.4–13.1%) based on 2016 tax deductions per company—an estimated median tax obligation of \$855 million (IQR

\$0.6–\$1.4 billion). The model therefore arrives at a median tax savings of \$570 million per company as a result of the Tax Cuts and Jobs Act. Of note, the effective tax rate includes only taxes on domestic revenue; manufacturers already obtain significant deductions on their US tax bill due to taxes paid to foreign governments;<sup>1</sup> a 2017 report found that these eight manufacturers held approximately 90% of all 2016 and 2017 cash holdings abroad.<sup>2</sup>

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## References

1. U.S. Government Accountability Office, Corporate Income Tax — Most Large Profitable U.S. Corporations Paid Tax but Effective Tax Rates Differed Significantly from the Statutory Rate, GAO-16-363 (2016), available at <<http://www.gao.gov/assets/680/675844.pdf>> (last accessed April 19, 2018).
2. Credit Suisse, US Biopharma Tax Analysis (2017), available at <<https://plus.credit-suisse.com/r/V7afe22AF-WEr8Cu>> (last accessed April 19, 2018).

Table 1

## Gross Revenues with Estimated and Reported Tax Burdens of Large Pharmaceutical Manufacturers

	Johnson & Johnson	Pfizer	Merck	Gilead Sciences	AbbVie	Amgen	Eli Lilly	Bristol-Myers Squibb	Median
<b>Total Revenue in 2016</b>	71,890	52,824	39,807	30,390	25,638	22,991	21,222	19,427	28,014
<b>Income Before Taxes in 2016</b>	19,803	8,351	4,659	17,097	7,884	9,163	3,374	5,915	8,118
<b>2016 Tax Obligation at Statutory Rate of 35%</b>	6,931	2,923	1,631	5,984	2,759	3,207	1,181	2,070	2,841
<b>2016 Actual Tax Paid (ETR)</b>	3,263 (16.5%)	1,123 (13.4%)	718 (15.4%)	3,609 (21.1%)	1,931 (24.5%)	1,441 (15.7%)	636 (18.9%)	1,408 (23.8%)	1,425 (17.7%)
<b>Estimated Taxes Owed Under TCJA (ETR)</b>	1,958 (9.9%)	674 (8.1%)	431 (9.3%)	2,165 (12.7%)	1,159 (14.7%)	865 (9.4%)	382 (11.3%)	845 (14.3%)	855 (10.6%)

\*All values in \$ millions