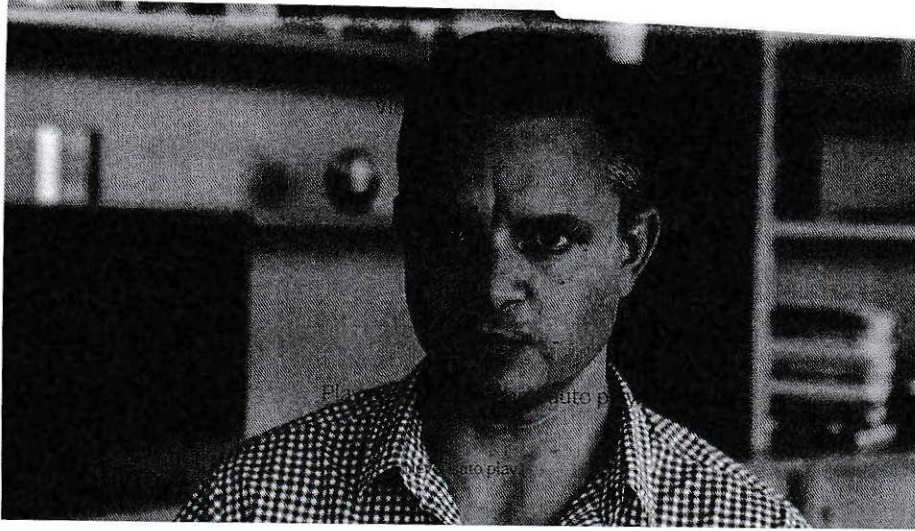


BUSINESS

Cancer drug giant's tax bill less than PM's

Nippert, 2016b

19 Mar, 2016 5:00am



Green party co-leader James Shaw on why and how the government should crack down on profit-shifting.



By: **Matt Nippert**

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Keytruda-maker insists NZ laws being followed but Greens co-leader says comparison shows something 'seriously wrong'.

The drug giant seeking \$30 million from the taxpayer for its cancer drug Keytruda paid less income tax in 2014 than Prime Minister John Key did on his salary.

Leisa Renwick, a melanoma sufferer who this month presented to Parliament a petition signed by 11,000 people demanding government funding for the drug, described the low tax bill as outrageous.

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A *Herald* investigation of more than 100 multinationals operating in New Zealand found pharmaceutical companies were the second-most aggressive industry in shifting profits out of New Zealand, behind only technology firms. The companies in question, including Facebook, Google, Pfizer and Pernod Ricard, said they followed New Zealand laws and differences in profitability between their New Zealand operations and elsewhere were the results of different business models. There is nothing to suggest the activity is illegal.

Ten pharmaceutical companies assessed reported profits at three times the rate of their New Zealand subsidiaries, and enjoyed effective tax rates of just 20 per cent on their offshore earnings - considerably less than the corporate income tax rate here of 28 per cent.

MSD (the initials stand for Merck, Sharp & Dohme), a pharmaceutical heavyweight lobbying the government to fund melanoma drug Keytruda, reported revenues in New Zealand of \$46.9 million in 2014, the most recent period for which financial information is available.

The company made income tax payments of just \$127,000.

By contrast, according to Inland Revenue calculators, the Prime Minister is subject to \$140,658 in annual PAYE deductions.

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Herald investigations reporter Matt Nippert outlines analysis that revealed twenty large multinational corporations paid no income tax in New Zealand despite making \$10 billion in revenues. He talks to former Inland Revenue manager Adam Hunt about the accounting tricks that allowed companies to minimise taxes.

In a statement yesterday MSD defended its level of tax payments and said the difference in margins was explained by the nature of its activities here. "MSD fully complies with all local and international tax laws and maintains a co-operative relationship with the Inland Revenue Department," the statement said.

Other drug companies approached by the Herald issued similar defences of their tax arrangements, with several saying they had agreements with Inland Revenue on the level of profits they should be reporting.

Inland Revenue's head of international audit John Nash said this week the sector was very difficult to police as, while the companies were wildly profitable, they undertook very little activity in New Zealand beyond distributing medicines.

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Renwick said her misgiving about drug companies was tempered by the need of cancer sufferers for their exclusively held medicines. "The fact is they can get away with it. Sure they need to make a profit, but they also need to be accountable for the huge prices they charge," she said.

Green Party co-leader James Shaw said MSD's seeking to skirt the Pharmac process by directly lobbying MPs to secure sales and their low tax payments demanded action.

"When the most profitable drug company pays less tax on its revenue than the Prime Minister does on his salary, something is seriously wrong and the Government needs to step in immediately," he said.

Last year the Australian Tax Office announced a crackdown on profit-shifting and singled out the pharmaceutical industry for scrutiny.

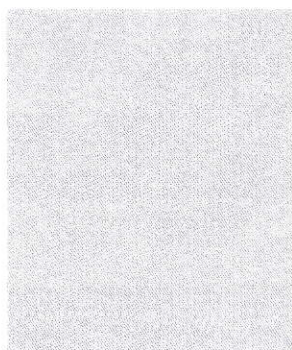
Minister of Revenue Michael Woodhouse yesterday backed Inland Revenue's handling of profit-shifting and said the pharmaceutical industry did not require special attention.

"Their biggest complaint is that we beat the price down so much through the Pharmac model that it's very difficult for them to make any money," he said.

"And we ... complain, while there might be several hundred million dollars of turnover for these big drug companies, they're not paying much tax? So you can't have it both ways."

- Additional reporting: Nicholas Jones

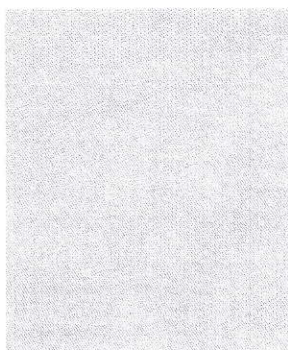
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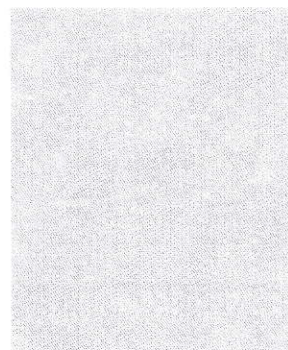
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