Medtronic PLC and Corporate Tax Inversions

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and
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Medtronic PLC and Corporate Tax Inversions

Abstract

This case deals with the very topical subject of tax inversions. In the case, students are initially introduced to the concept of the tax inversion, the process by which a U.S. company reincorporates in another country, often as part of a corporate acquisition. Case participants, (students) will learn one of the goals of such a corporate maneuver is to reduce the company’s income tax burden. In the first section of the case, students are led through the actual structuring of the 2014 Medtronic/Covidien inversion. They will be challenged initially to explain the inversion process, the purported benefits, and the likely tax treatment of the companies and shareholders. The student objectives are threefold in section two of the case. First, the students are charged with actually calculating Medtronic effective income tax rates before and after the inversion to attempt to prove a benefit from a decrease in the effective tax rate. Second, case participants will be immersed in the non-GAAP measures the company uses to explain inversion tax benefits. Finally, students are charged with preparing a pro-forma quantification of tax savings for the Medtronic/Covidien inversion and developing an argument as to whether or not it is actually a benefit and sustainable.

Case Description

This case is based upon Medtronic Inc.’s acquisition of Covidien PLC. By looking at this particular transaction, students will be able to see the mechanics of an acquisition structured as a corporate tax inversion. The case has two parts, the first part leads students through the structure of a corporate tax inversion, as well as outlines the potential benefits of corporate tax inversion. In addition to these concepts, the case has students research the current tax literature regarding
corporate tax inversions. The second part of the case leads students through the calculation of one of the purported benefits of tax inversions which is a decrease in the effective income tax rate of the surviving entity. The case also introduces students to corporate use of non-GAAP financial measures.

In part one, after answering general questions regarding corporate tax inversions, students will be asked to analyze the transaction between Medtronic Inc. and Covidien PLC. Students will be expected to apply the information presented in the initial general conceptual review to the specifics of the Medtronic inversion. Finally, students will be required to ascertain the inversion tax impact on shareholders of Medtronic Inc. and Covidien PLC at the time of the transaction.

The solutions to the initial case questions can be accessed by students using the internet or a tax data source (e.g. RIA Checkpoint). Additionally, the research cited in the accompanying reference section of this paper is instructive. The articles referenced herein provide background information on the two companies, Medtronic Inc. and Covidien PLC, as well as inversion transactions.

This case is particularly relevant to accounting students and professionals given the recent changes to the tax regulations regarding corporate tax inversion. The United States Treasury Department under the Obama administration issued temporary regulations on April 4, 2016. These temporary regulations were accompanied by proposed regulations that specifically address earnings stripping, one of the potential benefits of corporate tax inversions. The federal government is attempting to make structuring corporate tax inversions more difficult in order to increase federal tax revenue. As the rules and regulations regarding corporate tax inversions change, this case will help students understand the motives for undergoing a corporate tax
inversion, as well as why the federal government is trying to prevent companies from reincorporating in another country.

**Case Synopsis**

You are analyzing the potential tax benefits of a corporate tax inversion, specifically the acquisition of Covidien PLC by Medtronic Inc. You will first be asked to describe a corporate tax inversion and discuss the motives companies have for entering into such transactions. You will then be asked to research current tax literature regarding corporate tax inversions. After gathering this information, you will be asked to apply your knowledge to the specific transaction that resulted in the creation of Medtronic PLC.

**The Case:**

Medtronic PLC is a global healthcare solutions company now headquartered in Dublin, Ireland. The company was founded in 1949 by Earl Bakken and Palmer Hermundslie as a medical equipment repair shop. In 1957 Bakken created a battery-powered pacemaker. At the time, existing pacemakers were bulky and required an electrical outlet to work properly. A power outage hit the University of Minnesota Hospitals, putting many patients at risk due to the inability to operate their pacemakers. This prompted Bakken to develop a portable pacemaker, which he accomplished in just four weeks. The development of this product boosted the profits of Medtronic, allowing the company to expand their product line beyond pacemakers. However, a financial crisis in the 60’s slowed the company’s growth. As a result, Medtronic sold stock to a local venture capital company while simultaneously developing the company’s mission which is still followed today. This boosted the company, enabling them to continue researching medical
technology and ultimately expand their product line from solely pacemakers to therapies that treat more than 40 medical conditions. Medtronic is no stranger to international expansion; the company has had international offices since as early as 1967. However, Medtronic’s prior international business activities are small compared to the inversion with Covidien PLC (Medtronic, 2014).

Covidien PLC began as The Kendall Company in 1903. The Kendall Company, ran by Henry P. Kendall, produced cotton products. The company later expanded into health and hygienic products. The demands of two World Wars bolstered the need for surgical dressings and cotton gauze, the primary products of the company. After the war, the company expanded their product line to include various other cotton products. These products helped the company sustain growth throughout the mid-twentieth century. In 1972, The Kendall Company was acquired by Colgate-Palmolive. This relationship led to significant growth both domestically and internationally. In 1988, Colgate-Palmolive sold its Kendall subsidiary to Clayton & Dubilier. In 1994, The Kendall Company was acquired by Tyco International, Ltd. and combined with Tyco’s other medical companies. The Covidien name was adopted in 2007 when the company became an independent publicly traded company after Tyco spun off its medical businesses (Covidien, 2015).

Covidien PLC was acquired by Medtronic, Inc. on January 26, 2015. The acquisition, valued at $49.9 billion, was initially announced on June 15, 2014. The transaction was partially financed by a $16 billion note Medtronic issued specifically for the purpose of completing the inversion. This external financing (as opposed to an internal financing) was completed due to a tax ruling from the U.S. Government that prevents foreign subsidiaries from granting loans to their related American companies to finance inversion deals. The inversion involved Medtronic,
Inc., Covidien PLC, Kalani I Limited ("New Medtronic"), Makani II Limited ("IrSub"), and Aviation Acquisition Co., Inc. and Aviation Merger Sub, LLC ("MergerSub"). Medtronic, Inc., Aviation Acquisition Co., Inc., and Aviation Merger Sub, LLC were all Minnesota based corporations prior to the transaction. Covidien, New Medtronic, and IrSub were all Ireland based entities before and after the inversion. New Medtronic and its wholly owned subsidiary IrSub acquired Covidien PLC. MergerSub merged with Medtronic, with Medtronic surviving the merger. Following this, both Medtronic and Covidien became indirect subsidiaries of New Medtronic (Securities and Exchange Commission [SEC], 2016). See the diagrams below for a visual representation of the transaction.

The merged entity is the largest standalone medical technology development company in the world. It is composed of four business groups that develop and manufacture devices and therapies for various chronic diseases. These four groups are cardiac and vascular, restorative therapies, minimally invasive therapies, and diabetes. The company employs over 85,000 individuals in over 155 countries (Medtronic, 2014).
Prior to the inversion:

- Medtronic Inc.
- Covidien PLC

Visual Representation:

- American Company
- Irish Company

    Kalani I Limited ("New Medtronic")
    
    Makani II Limited ("IrSub")
    
    Aviation Acquisition Co.
    
    Aviation Merger Sub, LLC ("MergerSub")
The Inversion:

Covidien is acquired by "IrSub":

```
+-------------------+ 100% Owned
| Kalani I Limited  |
| ("New Medtronic")|

+-------------------+ 100% Owned
| Makani II Limited |
| ("IrSub")        |

+-------------------+ 100% Owned
| Covidien PLC      |

Medtronic merges with "Merger Sub" - Medtronic survives the merger:

```
+-------------------+ 100% Owned
| Aviation          |
| Acquisition Co.   |

+-------------------+ 100% Owned
| Aviation Merger   |
| Sub, LLC ("MergerSub") |

+-------------------+ 100% Owned
| Medtronic Inc.    |
The resulting company structure:

- **Kalani I Limited ("New Medtronic")**
  - 100% Owned
  - **Aviation Acquisition Co.**
    - 100% Owned
    - **Medtronic Inc.**
  - 100% Owned
- **Makani II Limited ("IrSub")**
  - 100% Owned
  - **Covidien PLC**
Part 1: Questions

1) What is a tax inversion?

2) What are the potential benefits of an inversion?

3) Summarize the current U.S. income tax rules regarding corporate inversions. What three criteria must be met before the post-merger inverted corporate structure will be recognized for tax purposes?

4) Review the case handout which summarizes the acquisition of Covidien by Medtronic.

What were the tax implications of the acquisition for the shareholders of Medtronic and Covidien?

5) What benefits does the transaction between Medtronic and Covidien provide to the new company, Medtronic PLC? How does the transaction impact the effective tax rates of Medtronic?
Part 2: Questions and Solutions:

6) What is meant by a corporation’s effective income tax rate and how is it calculated?

7) Access the income statements in the 2016 Medtronic form 10-K (filed June 26, 2016) for the pre-inversion year of 2014 and the post inversion years of 2015 and 2016. Calculate the effective income tax rate for each year.

8) Is a decrease in the effective income tax rate from pre-acquisition 2014 to post-acquisition 2015 and 2016 observable? How does Medtronic explain the trend in the calculated effective income tax rate for the three years?

9) What is a non-GAAP financial measure? Access Regulation G via https://www.law.cornell.edu/cfr/text/17/part-244 or equivalent source.
10) What are the general requirements related to non-GAAP disclosure by a company?

11) Access the financial statements in the 2016 Medtronic form 10-K (filed June 26, 2016) for the pre-inversion year of 2014 and the post inversion years of 2015 and 2016. What is the effective income tax rate calculated by Medtronic as a non-GAAP measure? Discuss the trend evidenced by the non-GAAP calculation of the effective income tax rate for the three year period 2014-2016.

12) Access the GAAP to Non-GAAP Reconciliation in the 2016 Medtronic form 10-K (filed June 26, 2016) for the pre-inversion year of 2014 and the post inversion years of 2015 and 2016. What is meant by the following company statement? “exclude the impact of charges or gains that contribute to or reduce earnings and may affect financial trends but which include charges or benefits that result from transactions or events that management believes may or may not recur with similar materiality or impact to our operations in future periods.”
13) Are non-GAAP financial measures, which are presented in a form 10-K, audited by the company’s external auditors? Why or Why not?


15) Answer one of the following two questions.

Today, your broker approached you with a “great” stock recommendation...buy Medtronic! She says the company is poised for success and (based on the calculation above) has a $250 million ongoing cost (tax) advantage to its competition. Do you agree? Why or why not?

Today, your politically active cousin approached you with a “great” idea to help close the Federal deficit...ban tax inversions! He says companies like Medtronic are escaping
paying their share of income taxes (to the tune of $250 million!) Do you agree? Why or why not?
References:


Regulation G. 17 CFR § 244 (2016).


Medtronic PLC and Corporate Tax Inversions

Instructor Notes

Case Objectives

This case deals with the very topical subject of tax inversions. In the case, students are initially introduced to the concept of the tax inversion, the process by which a U.S. company reincorporates in another country, often as part of a corporate acquisition. Case participants, (students) will learn one of the goals of such a corporate maneuver is to reduce the company’s income tax burden. In the first section of the case, students are led through the actual structuring of the 2014 Medtronic/Covidien inversion. They will be challenged initially to explain the inversion process, the purported benefits, and the likely tax treatment of the companies and shareholders. The student objectives are threefold in section two of the case. First, the students are charged with actually calculating Medtronic effective income tax rates before and after the inversion to attempt to prove a benefit from a decrease in the effective tax rate. Second, case participants will be immersed in the non-GAAP measures the company uses to explain inversion tax benefits. Finally, students are charged with preparing a pro-forma quantification of tax savings for the Medtronic/Covidien inversion and developing an argument as to whether or not it is actually a benefit and sustainable.

Case Administration

This case can be presented to an advanced business taxation class taught either at the undergraduate or graduate level. With supplemental coaching it could be used in a graduate
level (MBA) merger and acquisition class. The case is divided into two sections (Part 1 and Part 2) which are designed to be covered in two separate in-class guided sessions.

Part 1: The initial five questions are designed to familiarize the student with the concept of a tax inversion. A suggested method of guiding the class through Part 1 is to have the students access the articles listed in the reference section of the case either before or during completion of Part 1 of the case. Alternatively, the instructor may print out relevant sections of the articles and distribute them with the case. Written or oral responses to each question work well. Regardless of the form of response, a thorough question by question discussion, led by the instructor facilitates learning.

Part 2: The remaining ten questions are intended to guide students through calculations and disclosures corporations like Medtronic make when quantifying the key benefit of an inversion, that is, the decrease in the effective income tax rate. Most of the required calculations require access to the Medtronic 2016 10-K. Given the voluminous nature of the 10-K and the need for students to use browser search functions, online access is recommended when students complete Part 2. Like Part 1 of the case, a thorough question by question discussion, led by the instructor facilitates learning.

**Part 1: Analysis of Questions**

1) What is a tax inversion?

   Tax inversions, often referred to as corporate inversions, are a method by which a U.S. business reincorporates in a foreign country, often as part of a corporate acquisition. As a result of the reincorporation, the company’s tax residence changes to a foreign jurisdiction. Inversions can be accomplished by employing several structures such as: a stock inversion, an asset
inversion, or a drop-down inversion which combines a stock and asset inversion. A stock inversion is completed when a foreign company purchased the stock of a U.S. company. An asset inversion occurs when a complete restructuring is done that makes the foreign company the new parent company of the merged entity. A drop-down inversion uses the asset inversion structure but transfers assets to the foreign company for stock. Shareholders of the U.S. corporation usually become shareholders of the merged entity once the transaction is completed. In most tax inversions, the corporation’s structure and physical location do not change (Lee, 2015).

2) What are the potential benefits of an inversion?

Research indicates there are at least three major potential benefits corporations can derive from a corporate inversion. The first of these is the most notable: decreasing corporate income taxes. The United States has one of the highest corporate income tax rates in the world. Additionally, the United States taxes U.S. based corporations on their worldwide income. Worldwide income includes both income earned domestically and abroad. This can create a much larger tax liability for corporations located in the U.S. compared to corporations in countries using a territorial tax system. A territorial tax system only taxes income earned in the country imposing the tax. By reincorporating to a nation with lower income tax rates and a territorial tax system, companies can save money on taxes (Scott, 2016).

The second potential benefit companies may realize by reincorporating through an inversion is earnings stripping. Earnings stripping is the process of a U.S. subsidiary paying interest to related third parties (such as a foreign corporate parent), thus lowering U.S. taxable income. In the case of an inversion, this is typically done when the foreign parent corporation issues debt (lends) to a U.S. subsidiary for operational expenses. The U.S. subsidiary then pays
interest on the loan. These interest payments can be deducted from the subsidiary’s taxable income, lowering the U.S. tax liability of the company (Schmidt, 2015).

The third key benefit derived from inversions is increased access to foreign earnings. U.S. corporations are only taxed on foreign earnings when they are repatriated to the United States. To avoid being taxed on these earnings, many companies leave the money in the foreign entities (off shore). However, reincorporating (as a non-U.S. corporation) via an inversion allows the corporation to use its foreign earnings without being subject to U.S. corporate income taxes (Scott, 2016).

3) Summarize the current U.S. income tax rules regarding corporate inversions. What three criteria must be met before the post-merger inverted corporate structure will be recognized for tax purposes?

The primary U.S. tax law related to corporate inversions is included in Section 7874 of the Internal Revenue Code. This section of code was enacted in 2004 and contains a provision that stipulates incorporation changes (such as inversions) will be ignored for federal income tax purposes unless specific criteria are met. Section 7874 applies when all three of its criteria are met. These criteria are an asset test, and ownership test, and a business activities test. The asset test is met if the foreign entity is acquiring “substantially all” of the assets of the U.S. corporation. The ownership test stipulates the foreign reincorporation is ignored for United States income tax (and the U.S. will continue to tax the company as a U.S. corporation) if the shareholders of the domestic company own more than 80% of the stock of the foreign entity after the inversion. If the shareholders of the U.S. company own 60-80% of the foreign entity after the inversion, the transaction is treated as a foreign reincorporation with limited tax benefits.
The business activities test requires the foreign entity to have substantial business activities in the country of reincorporation in order to avoid adverse tax consequences (Jackman, 2014).

In order to pass the business activity test, a corporation must satisfy three requirements. The first of these is the group employee requirement. This requires at least 25% of employees to be based in the new country of incorporation, post-acquisition. Additionally, one-fourth of the compensation paid to all employees must be paid to employees based in the country of incorporation. The second requirement concerns the assets of the newly merged corporation. At least one-fourth of the group assets of the company must be located in the foreign country on the date of the inversion. Group assets are tangible personal property or real property held for use in the active trade or business. These assets are only considered located in the relevant foreign country if they were present in the country at the end of the day the inversion occurred. The asset must also be physically located in the foreign country for the majority of the year-long testing period. The assets may be valued on a gross basis using fair values or adjusted tax bases. The third requirement of the business activity test pertains to the group income of the entity. At least 25% of the group income must come from the country of incorporation. This means one-fourth of the entity’s income must come from customers located in the relevant foreign country. This income is determined over a year-long testing period (Scott, 2016).

The Internal Revenue Service’s Notice 2014-52 adds new stipulations to the ownership test and restricts access to offshore earnings and cash of the U.S. company. If more than half of the total value of foreign group property is nonqualified property, a portion of the foreign acquirer’s stock will be ignored for purposes of the ownership test. Nonqualified property includes cash, cash equivalents, and certain other obligations. The notice also prevents
"skinning" transactions which are transactions which are part of a plan with a primary purpose of avoiding U.S. income tax by being considered an inversion (Jackman, 2014).

These new stipulations have effectively already stopped one large merger from completing: the Pfizer-Allergan merger. The merging companies mutually terminated the transaction, citing "adverse changes in tax law" as the reason. Pfizer's publicity team released a statement on April 6th, 2016 to announce the termination. This announcement came just two days after the United States Department of Treasury announced plans to make further changes to the tax law regarding this type of merger (Pfizer, 2016).

4) Review the case handout which summarizes the acquisition of Covidien by Medtronic.

What were the tax implications of the acquisition for the shareholders of Medtronic and Covidien?

The shareholders of Medtronic, Inc. received one ordinary Medtronic PLC share for each share of Medtronic, Inc. common stock they owned on the date of the inversion. Shareholders of Covidien PLC were required to exchange each ordinary share of Covidien PLC stock owned on the date of the inversion for .956 shares of new Medtronic PLC stock plus $35.19 in cash. The inversion resulted in a taxable transaction for shareholders of Medtronic, Inc. and Covidien PLC since U.S. shareholders owned more than half of the stock of Medtronic PLC after the inversion (Schmidt, 2015). U.S. tax law imposes a capital gains tax on individual shareholders when an inversion transaction involves the acquiring company holding more than 50% of the shares of the purchased company. The shareholders could be subjected to a capital gains tax as high as 33% when considering both federal and state taxes (Medtronic, 2015).
5) What benefits does the transaction between Medtronic and Covidien provide to the new company? How does the transaction impact the effective tax rates of Medtronic?

According to Medtronic, the transaction "should generate significant free cash flow" which "can be deployed with much greater flexibility." However, the tax benefits typical of tax inversions are not as easily attainable as one might think. In the case of the Medtronic/Covidien inversion, the increased cash flow will initially come only from Covidien. This is because Medtronic's international earnings are difficult to access without incurring a U.S. income tax liability. In order to avoid paying U.S. corporate income taxes, profits from the new foreign subsidiaries can be used to fund dividends and other cash outflows of the company.

Additionally, Medtronic can move low profit assets to foreign subsidiaries that are U.S. tax exempt without paying a heavy tax burden. This is because the company will only be taxed on the fair values of those assets. Since the assets are not producing large profits for the company, Medtronic can argue the assets have no or low value, thus avoiding a large tax liability when the assets are moved. Eventually, the company can close down the foreign subsidiaries owned prior to the inversion without incurring a significant tax liability because these subsidiaries are now a lower percentage of the world-wide revenue. In summary, Medtronic sees an immediate benefit of Covidien's cash flows but will have to engage in complex transactions to reap the majority of the tax benefits that can be derived from the inversion (Walker, 2014).

The company also cites a lower effective tax rate as a benefit of the inversion. A more complete explanation of this benefit follows in Part 2 of the case.

Part 2: Analysis of Questions
6) What is meant by a corporation’s effective income tax rate and how is it calculated?

A corporation’s effective income tax rate is the average income tax rate for the corporation for a given year. It is calculated by dividing total income tax expense as reported on the income statement by pretax income as reported on the income statement.

7) Access the income statements in the 2016 Medtronic form 10-K (filed June 26, 2016) for the pre-inversion year of 2014 and the post inversion years of 2015 and 2016. Calculate the effective income tax rate for each year.

2014: \( \frac{640}{3705} = 17.3\% \)

2015: \( \frac{811}{3486} = 23.3\% \)

2016: \( \frac{798}{4336} = 18.4\% \)

(amounts above are in $ millions)

8) Is a decrease in the effective income tax rate from pre-acquisition 2014 to post-acquisition 2015 and 2016 observable? How does Medtronic explain the trend in the calculated effective income tax rate for the three years?

No. Medtronic’s effective income tax rate actually increased in 2015 when compared to 2014. Medtronic’s effective income tax rate decreased in 2016, when compared to 2015, but the 2016 rate is still greater than the 2014 rate. No downward trend is detected when the analysis is based on GAAP figures.
In addition to the effective tax rate calculated in accordance with GAAP, Medtronic provides a supplemental recalculation of the effective income tax rate calculated as a non-GAAP financial measure.


A non-GAAP financial measure is a numerical measure of a company’s historical or future financial performance, financial position or cash flows that:

(i) Excludes amounts, or is subject to adjustments that have the effect of excluding amounts, that are included in the most directly comparable measure calculated and presented in accordance with GAAP in the statement of income, balance sheet or statement of cash flows (or equivalent statements) of the issuer; or

(ii) Includes amounts, or is subject to adjustments that have the effect of including amounts, that are excluded from the most directly comparable measure so calculated and presented.

(Regulation G, 2016)

10) What are the requirements related to non-GAAP disclosure by a company?

The company must accompany that non-GAAP financial measure with:

(1) A presentation of the most directly comparable financial measure calculated and presented in accordance with Generally Accepted Accounting Principles (GAAP); and
(2) A reconciliation (by schedule or other clearly understandable method), which shall be quantitative for historical non-GAAP measures presented, and quantitative, to the extent available without unreasonable efforts, for forward-looking information, of the differences between the non-GAAP financial measure disclosed or released with the most comparable financial measure or measures calculated and presented in accordance with GAAP.

The company shall not make public a non-GAAP financial measure that, taken together with the information accompanying that measure and any other accompanying discussion of that measure, contains an untrue statement of a material fact or omits to state a material fact necessary in order to make the presentation of the non-GAAP financial measure, in light of the circumstances under which it is presented, not misleading. (Regulation G, 2016)

11) Access the financial statements in the 2016 Medtronic form 10-K (filed June 26, 2016) for the pre-inversion year of 2014 and the post-inversion years of 2015 and 2016. What is the effective income tax rate calculated by Medtronic as a non-GAAP measure?

Discuss the trend evidenced by the non-GAAP calculation of the effective income tax rate.

2014: 19.2%

2015: 18.2%

2016: 15.8%

Relying solely on these calculations, there is clearly a downward trend in the effective income tax rates post-acquisition. Medtronic attributes this decrease to: the net tax impact of inventory
step-up, debt tender premium, acquisition-related items, certain tax adjustments, amortization of intangible assets, the impact from the acquisition of Covidien, operational tax benefits described below, and year-over-year changes in operational results by jurisdiction. (Medtronic, 2016)

12) Access the GAAP to Non-GAAP Reconciliation in the 2016 Medtronic form 10-K (filed June 26, 2016) for the pre-inversion year of 2014 and the post inversion years of 2015 and 2016. What is meant by the following company statement explaining the non-GAAP measures?

“exclude the impact of charges or gains that contribute to or reduce earnings and may affect financial trends but which include charges or benefits that result from transactions or events that management believes may or may not recur with similar materiality or impact to our operations in future periods.”

Medtronic has identified certain income and expense items in its GAAP results that have occurred in 2014, 2015, or 2016 that do not occur every year or if they do occur annually, they may involve a smaller amount in one year and a noticeably larger amount in another year(s). These items of income and expense have differing tax attributes (e.g. tax rates) and depending on the amount of these income and expense items and their related income tax expense, to leave them in the calculation of the effective income tax rate would have a noticeable effect on the effective rate. In response, Medtronic provides the non-GAAP calculations with these items
removed. Medtronic believes the non-GAAP measures provide useful information to investors.
(Securities and Exchange Commission, 2016)

13) Are non-GAAP financial measures which are presented in a form 10-K audited by the company’s external auditors? Why or Why not?

The external auditor’s opinion does not cover non-GAAP measures. This is because non-GAAP measures are not considered to be part of the company financial statements. External auditors render an opinion only on the financial statements.


$7,399,000,000 X (19.2% - 15.8%) = $251,566,000

15) Answer one of the following two questions.
Today, your broker approached you with a “great” stock recommendation...buy Medtronic! She says the company is poised for success and (based on the calculation above) has a $250 million ongoing cost (tax) advantage to its competition. Do you agree? Why or why not?

Today, your politically active cousin approached you with a “great” idea to help close the Federal deficit...ban tax inversions! He says companies like Medtronic are escaping paying their share of income taxes (to the tune of $250 million)! The harm companies like this do to the U.S. economy far outstrips the value they provide. Do you agree? Why or why not?

Answers will vary. Some respondents to either question may choose to disagree and take issue with the calculation of the $250 million amount. Arguments against the accuracy of the $250 million may include:

a) The amounts used in the calculations are not GAAP.

b) The amounts are unaudited and are prepared by the company.

c) The calculations involve applying 2014 data to 2016 data. 2014 is a pre-acquisition year reflecting Medtronic results and 2016 is a post-acquisition year and reflects Medtronic and Covidien results. The years may not be comparable.
Some respondents may take issue with the permanency of the $250 million savings. Buying a stock or striking down a law based on a tax savings which may go away may not be prudent given the fluid nature of tax law.

Some respondents may choose to agree with the statements.