

**Tax analysis for Pfizer 99**

Statutory US Federal Tax	35.00%		page 49	
Earnings before income taxes		4,448		
US Tax on all income	35.00%	x 4,448	=	1,556.8
Operations in Puerto Rico	(1.50)%	x 4,448	=	(66.7)
Effect of international operations	(4.80)%	x 4,448	=	(213.5)
All other net	(0.70)%	x 4,448	=	(31.1)
	28.00%	x 4,448	=	1,245.4

There are three types of taxes expense/paid/to be paid

<b>1</b> Income Tax Expense			
Provision for Taxes on Income			1,245
Total Provision for Taxes on Income			
Effective income tax rate			= 28.00%

**2** Taxes payable in 1999 - means taxes that are paid in 1999 or 2000 for 1999 income.

**A Income Statement Approach** [from note 9 page 49]

Taxes payable =	Income Tax Expense -	Deferred Tax		
	1,245	- (72)	- 51	= 1,266

**B Balance Sheet Approach**  
 (Do not use what is in balance sheet. Companies redistribute deferred taxes to many accounts. See page 50 bottom first column)

Taxes payable =	Income Tax Expense -	Increase in Net Deferred Tax Liability	
	1,245	- [ (626) - (638) ]	= 1,233

**3 Taxes paid in 1999 - means taxes that are paid in the year.**

**A Cash Flow Statement Approach**  
 (US GAAP requires a separate footnote to CF statement)

Taxes payable =	(from cash flow statement bottom)	1,293
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**B**

Taxes payable	-	Increase in taxes payable (from the balance sheet)	
1,266	- [ 869	- 1,162 ]	= 1,559
1,233	- [ 869	- 1,162 ]	= 1,526

There are other pieces of information about Pfizer that we can get from the tax note.

<b>International income tax rate</b>	Consolidated	US	Non US
Earnings before income taxes	4,448	2,557	1,891
Statutory US Federal Tax	35% x 1,557	895	662
International income additional tax			(214)
		895	448
<b>International income tax rate</b>	448 /	1,891 =	23.71%

**Depreciation for tax purposes**

Depreciation and amortization	542.0	From the CF statement
Amortization of goodwill and other intangibles	43.0	From note 8
Depreciation for financial statements	499.0	

From note 9

Property, plant and equipment	1999	1998	Increase	Tax rate
Deferred Tax Liability	514 -	433 =	81	
Tax depreciation - Reported Depreciation		81 /	28.70% =	282.2

Depreciation for reporting purposes	499
Difference between tax and book depreciation	282
<b>Depreciation for tax purposes</b>	<b>781</b>

The rate to use for deferred taxes is	28.70%	Effective Tax Rate
why not marginal tax rate	35.00%	Statutory US Federal Tax Rate

- > If the difference is due to actual rate differences like international tax rate differences, US State taxes, jurisdictional differences (Puerto Rico) then if Pfizer counts additional \$1 for tax depreciation, it will gain at the effective tax rate.
- > If the difference is due to tax credits, tax exempt income sources then if Pfizer counts additional \$1 for tax depreciation, it will gain at the Statutory US Federal Tax Rate.
- > Here we use the effective tax rate.

**Puerto Rico share of Pfizer income**

Assume Puerto Rico tax rate is half US mainland rates

Effect of Operations in Puerto Rico	(67) =	50.00% of taxes of Puerto Rico operations
Taxes of Puerto Rico operations at US tax rate	67 x 2 =	133
Puerto Rico operations pretax income	133 ÷ 35% =	381
Puerto Rico share of Pfizer income	381 ÷ 4,448 =	8.57%

**Tax exempt income**

31 / 28.70% = 108

**Pretax income**

US, Total	2,557
Puerto Rico operations	381
US taxable	2,176

<b>Check</b>	Earnings before income taxes	Share	Tax rate
Puerto Rico	381	8.57% x	17.50% = 1.50%
US, not Puerto Rico	2,176	48.92% x	35.00% = 17.12%
International Operations	1,891	42.51% x	23.71% = 10.08%
Total taxable	4,448	100.00%	28.70%