U.S. Disallows $2.86B in Deductions Taken by Tyco

The Associated Press

The U.S. tax agency has informed Tyco International Ltd. that it has disallowed roughly $2.86 billion in interest and deductions recognized by the company in its tax returns for the 1997-2000 tax years, according to a filing with the Securities and Exchange Commission.

The move stems from a finding by the Internal Revenue Service that several of the Swiss fire protection and security company's former subsidiaries owe $883.3 million in taxes and $154 million in penalties.

Tyco noted that it has been able to resolve substantially all of the issues raised by the IRS for periods beginning with the 1997 tax year, but it has not been able to resolve matters related to the treatment of intercompany debt transactions during that period.

The company said it strongly disagrees with the IRS' claims and intends to contest the proposed tax adjustments with the U.S. tax court.

"We believe that we have meritorious defenses for our tax filings, that the IRS positions with regard to these matters are inconsistent with the applicable tax laws and existing Treasury regulations, and that the previously reported taxes for the years in question are appropriate," Tyco said in the filing.

The company said it isn't required to make any payments until the dispute is definitively resolved, noting that could take several years.

Even so, Tyco warned that the ultimate resolution of the dispute is uncertain and could have a material impact on the company's financial condition.

For example, if the IRS' claim prevails, it would likely affect some $6.6 billion in interest deductions related to intercompany debt and taken by the company in subsequent tax years.

Tyco said it shares obligations on the issue with several companies that it spun off in recent years: Covidien PLC, TE Connectivity, ADT and Pentair.

Tyco spun off its Covidien health care and Tyco Electronics units in 2007 in a series of moves aimed at recovering from a high-profile scandal that led to the convictions of its former CEO L. Dennis Kozlowski and ex-Chief Financial Officer Mark Swartz for fraud. Tyco Electronics subsequently changed its name to TE Connectivity Ltd.

In 2012, it again separated into three public companies, forming The ADT Corp. and

Pentair Ltd., along with Tyco International.

The tax-sharing agreement calls for Covidien to share 42 percent of any tax liabilities, while TE Connectivity's share is 31 percent, Tyco said.

Under its agreement with Pentair and ADT, the companies would also be responsible for covering a share of Tyco's tax liability. Pentair would share between 20 percent and 42 percent of the tax liabilities, while ADT would be responsible for 27.5 percent to 58 percent, Tyco added.

Pentair and ADT's share depends upon whether Tyco's tax liability for 2012 exceeds $500 million or $725 million.

Tyco International moved its global headquarters to Switzerland from Bermuda in 2009. It maintains its U.S. headquarters. Covidien moved its global headquarters to Switzerland from Bermuda in 2008. TE Connectivity and Pentair are likewise Swiss-based. ADT is based in the U.S.

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