

NEW RISK ALERT: (EW)

## Edwards Lifesciences Facing \$180 Million Tax Bill Over Transfer Pricing

Edwards suggests IRS is straying from previously agreed upon transfer pricing methodologies.

By [Nick Winkler](#)  
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*This alert compares the language used in the company's latest filing with the period before. [Research](#) suggests changes in language, particularly in the risk factor section, is a powerful indicator of future performance. Companies that change filing language underperform those that don't by 30-50 basis points per month for the following year.*

### Edwards Convinces IRS to Reduce Tax Bill \$20 Million, Still On Hook For \$180 Million

In the second quarter, Edwards Lifesciences, a manufacturer of medical devices that treat heart disease, received a Notice of Proposed Adjustment (NOPA) from the IRS for the 2015-2017 tax years relating to transfer pricing involving certain Surgical/ Transcatheter Aortic Valve Replacement (TAVR) intercompany royalty transactions between the company's U.S. and Switzerland subsidiaries.

The IRS, according to filings, believes Edwards owes an additional \$200 million over the tax years in question. In its latest [10-Q](#), Edwards revealed it convinced the IRS to reduce the adjustment by \$20 million:

*“During the third quarter of 2021, the Company completed its review of the NOPA and provided comments to the IRS and **the IRS subsequently revised the NOPA**. The revised NOPA proposes an increase to the Company's U.S. taxable income which could result in **additional tax expense for this period of approximately \$180 million** and represents a significant change to previously agreed upon transfer pricing methodologies for these types of transactions.”*

The adjustment, if Edward's ultimately pays it, is the equivalent of 4.1% of the company's 2020 sales and 21.8% of net income. Edward's is not the first company to accuse the IRS of straying from previously agreed upon transfer pricing methodologies. In April, we published a New Risk Alert that revealed Coca-Cola may owe the IRS \$12 billion in back taxes related to transfer pricing disagreements:

- [Coca-Cola Says It Was Double-Crossed, May Owe IRS \\$12 Billion](#)

Edwards says it has also received the final Revenue Agent's Report for the tax years under scrutiny, which suggests the IRS is done negotiating. Edwards has filed a formal protest to the IRS Independent Office of Appeals and suggests it may be years before the matter is resolved.

Expect the matter to possibly worsen for Edwards as certain Surgical/TAVR intercompany royalty transactions for tax years 2015-2021 that were not resolved under its Advanced Pricing Program (APA)— which covers many but not all transfer pricing matters— remain subject to IRS examination.

The IRS dropped a not so subtle hint last year that increased transfer pricing scrutiny was on the horizon. In April 2020, the IRS issued [guidance](#) outlining best practices and common mistakes in preparing transfer pricing documentation.