

NEW RISK ALERT: (MDT)

Medtronic Quarter Distorted by Tax Adjustments and Legal Charges

Tax adjustments in latest 10-Q helped boost Medtronic's net income by \$59 million for the quarter.

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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, according to research, underperform those that don't by 30-50 basis points per month for the following year.

Allowances, Audits, and Swiss Tax Law Changes Lift Medtronic

For the [quarter](#) ending January 29, 2021, Medtronic, a medical device company, realized a \$59 million gain in net income due to certain tax adjustments despite a rise in its effective tax rate. The company's effective tax rate increased from (21.5%) to (4.8%) due to operational results by jurisdiction and tax adjustments.

During the quarter, Medtronic recognized a net benefit of \$150 million due to:

- A net benefit of \$106 million associated with the resolution of an audit at the IRS appellate level for fiscal years 2012, 2013, and 2014
- A benefit of \$83 million related to the capitalization of certain research and development costs
- A net cost of \$27 million associated with an internal restructuring and intercompany sale of assets
- A cost of \$12 million and \$35 million for the three and nine months ended January 29, 2021, respectively, associated with the amortization of the previously established deferred tax assets from intercompany intellectual property transactions.
- A benefit of \$3 million for the nine months ended January 29, 2021 associated with the finalization of an intercompany sale of intellectual property

During the quarter, Medtronic recognized a net benefit of \$558 million due to:

- A benefit of \$558 million related to the release of a valuation allowance previously recorded against certain net operating losses.

- A net benefit of \$30 million related to U.S. Treasury's issuance of certain Final Regulations associated with U.S. Tax Reform
- A benefit of \$251 million for the nine months ended January 24, 2020 related to tax legislative changes in Switzerland that abolished certain preferential tax regimes the Company benefited from and replaced them with a new set of internationally accepted measures. The legislation provided for higher effective tax rates, but allowed for a transitional period whereby an amortizable asset was created for Swiss federal income tax purposes that will be amortized and deducted over a 10-year period

The net result, including jurisdictional operating changes, resulted in a \$59 million increase in net income in the quarter. The tax adjustments were offset, in part, by Medtronic's recognition of \$230 million in litigation charges in the quarter.