New York-based insurance company Assurant Inc. is combining operations with Chicago's The Warranty Group under a Bermuda parent, though Assurant says the deal has nothing to do with taxes.

Assurant has agreed to acquire The Warranty Group, a portfolio company of private equity firm TPG Capital, in a cash and stock transaction valued at $2.5 billion that will leave Assurant shareholders with roughly 77 percent of the combined entity, according to an October 18 release.

Under the parties' agreement, Assurant will merge with a wholly owned subsidiary of TWG Holdings Ltd., a Bermuda company, to become Assurant Ltd.; Assurant Inc. shares will be converted into Assurant Ltd. shares on a one-for-one basis. The deal is expected to close in the first half of 2018.
The combination will create substantial operating synergies, "generating more diversified and predictable earnings and furthering product innovation on a global scale," according to Assurant CEO Alan Colberg. By the end of 2019, Assurant expects to generate $60 million in pretax operating synergies, according to the release.

The news quickly sparked the presumption that Assurant is abandoning its U.S. domicile and high corporate tax rate for a tax haven. The move is the latest example of "the continued drain of American businesses overseas at the expense of our workers and our economy," according to an October 18 statement from the press office of House Speaker Paul Ryan, R-Wis.

"Today another American business announced that it will move its operations offshore," the statement says. The Warranty Group will be acquired by Assurant, "which will in turn invert to Bermuda," it says, attributing the merger to the high U.S. corporate tax rate and unlevel playing field between companies headquartered in America and those based abroad.

An Assurant spokesperson told Tax Analysts that the company has no plans to move any business offshore. The company will pay the same amount of U.S. taxes as they do now, the spokesperson said, adding, "It's not at all about taxes."

Assurant had a 33.4 percent effective income tax rate in 2016, up from 29.6 percent in 2015, according to the company's most recent annual report.

Asked during an October 18 investor presentation about recent U.S. Treasury measures to curb inversions and their tax benefits, Colberg said: "It just happened, as we were looking for companies that fit what we wanted to really strengthen our franchise, that The Warranty Group is Bermuda-domiciled." The transaction "positions us really well for the future evolution of lifestyle; that's why we're doing the deal," he said.

"To be clear, we've assumed no tax-related benefit in the transaction," Colberg said, adding that Assurant used the company's current tax rate in modeling. "We firmly support tax reform, but we have no current plans to move any of our business offshore, and we certainly aren't moving any jobs offshore," he said.

Although Assurant will continue to be governed by Delaware law under the merger agreement, and will thus be subject to U.S. corporate tax, the transaction presents several opportunities for the company to reduce its U.S. tax burden going forward, according to Robert Holo of Simpson Thacher & Bartlett LLP.

Assurant can interest or royalty strip, subject to the limitations of section 385 regulations, Holo said. Over time, the company may also be able to move any of its controlled foreign corporations out of the U.S. tax net and up to the Bermuda parent, he said, though that process takes time and might involve some tax cost.
Also, to the extent that Assurant's business plan involves growing its business outside the U.S., that growth - whether it's increasing its global business presence or making other acquisitions - can be done underneath the Bermuda parent, Holo said.

Assurant currently has a market presence in 16 countries, while The Warranty Group has operations in over 35 countries. In its most recent annual report, Assurant said its undistributed foreign earnings for which it has not provided deferred taxes totaled approximately $246 million.

"These post-inversion planning techniques are the subject of significant attention," said Bret Wells of the University of Houston Law Center. "By making the rules more complicated and by not leveling the playing field, the Treasury has created artificial winners and losers and highly specialized areas of tax planning," he said.