
Iowa Fiscal Partnership

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Leveling the Playing Field Plugging Wal-Mart Loophole Would Save Iowa Millions

IOWA CITY, Iowa (April 11, 2007) – A tool to close corporate tax loopholes could save Iowa up to \$100 million a year and even the playing field for Iowa businesses competing against multistate companies such as Wal-Mart.

“Iowa businesses and Iowa’s treasury would both benefit from a simple change in Iowa law that eliminates schemes that multistate companies have used to avoid paying Iowa taxes that should have been paid all along,” said Peter Fisher, research director of the nonpartisan Iowa Policy Project and author of a new report for the Iowa Fiscal Partnership.

“Corporations that earn income in Iowa are supposed to pay corporate income taxes. But multistate companies have used tax avoidance schemes to shelter profits from Iowa taxes under current law, giving them an unfair advantage,” Fisher said.

Gov. Chet Culver – like Gov. Tom Vilsack before him – has proposed adopting “combined reporting,” a corporate-tax accountability tool adopted by four neighboring states and 20 overall.

Fisher said the change is needed.

“We all have responsibilities to pay taxes because we all benefit from public services,” Fisher said. “That goes for corporations, too.”

“This change would provide a way to combat the aggressive attempts to avoid taxes that are employed by big companies.”

Among those companies is Wal-Mart, which *The Wall Street Journal* recently reported has avoided about \$350 million in tax payments to various states by creating a so-called Real Estate Investment Trust, or REIT, in Delaware.

“With a REIT, Wal-Mart effectively charges itself rent for its own stores in local communities,” Fisher said. “The rental charge reduces the income for each store. The profits go to the REIT but are exempt from tax in Delaware.”

“Eventually, the profits reach Wal-Mart headquarters, but as dividends that are free of state taxes in its home state of Arkansas.”

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Such tax avoidance profit-shifting strategies could be blocked by combined reporting, which requires all corporations in an affiliated group to combine income and expenses in calculating their income taxes. Illinois, Nebraska, Minnesota and Kansas are among 20 states that either have or have approved combined reporting.

“It doesn’t mean states get to tax a company’s income from out-of-state business – it just means the company can’t hide its income by using tax avoidance schemes to shift its profits to a no-tax state,” Fisher said. “For Iowa, business taxes are based on income from sales in Iowa. This would not change. What would change is that profit from all Iowa sales would be more accurately determined for tax purposes. Big companies based outside of Iowa couldn’t hide their taxable Iowa profits so easily.”

Fisher said plugging such loopholes for multistate firms would be business-friendly for those who want to see businesses locate or expand in Iowa.

“Iowa-focused firms selling the same products or services as the big multistate firms would no longer be at a competitive disadvantage,” he said.

The Iowa Department of Revenue has found this change would boost revenues and not harm Iowa-based businesses:

- An additional \$99 million in corporate income tax revenue would have been generated in tax year 2002 if combined reporting had been in effect, and \$62 million in tax year 2003.

- In both years, 99 percent of the increased revenue would have come from firms headquartered outside the state.

The Iowa Fiscal Partnership is a joint tax- and budget-analysis initiative of two nonpartisan, nonprofit Iowa-based groups, the Iowa Policy Project in Iowa City/Mount Vernon and the Child & Family Policy Center in Des Moines.

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