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Report: Big firms dodge Iowa taxes via loopholes

But a state business group leader says the companies' tactics to reduce tax liability are appropriate

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Large multistate companies like Wal-Mart are able to avoid about \$100 million in Iowa taxes annually using loopholes that allow them to shift income and reduce Iowa profits and corporate income tax, according to an Iowa Policy Project report released Wednesday.

The Mount Vernon-based nonprofit group says Iowa needs to change its tax structure to prevent large corporations from avoiding state income taxes. Improved tax reporting would ensure "profits that are made to disappear in Iowa and reappear in other states would end up being counted in Iowa," said Peter Fisher, author of the report and a University of Iowa professor.

Tactics used to reduce corporate state income taxes include shifting income to sister corporations for expenses like rent, management fees and royalties, Fisher said. The states where the related companies are located require no taxes on that income.

But Mike Ralston, president of the Iowa Association of Business and Industry, said companies are not diving through "loopholes," but using appropriate legal strategies to reduce their tax liability. "Families go through the same process," he said.

Ralston said the proposed changes - called combined reporting - would equate to a new tax. "Some companies would pay more, some would pay less, but it would change a tax system that most think is already fair," said Ralston, whose statewide business group has 1,200 members.

Fisher said shifting income, mostly by large, multistate corporations, puts smaller Iowa-based companies that don't "cheat" on their tax bills at a competitive disadvantage. He said capturing Iowa's lost revenue could be used to lower taxes for all businesses and taxpayers.

But Ralston believes Iowa would see little gain from the proposed tax changes, with legal challenges and increased tax compliance enforcement. "The vast majority of our members - whether large or small, incorporated in Iowa or elsewhere - do not favor combined reporting. They must not feel like they're being abused."

An Iowa Department of Revenue report showed that changes to the state tax structure to count income in other states would have produced nearly \$100 million in 2002 and \$62 million in 2003 in state revenue. Seventy-five percent of all businesses filing a tax return would have been unaffected by the change, Fisher said.

He pointed to a Wall Street Journal report in February that said Wal-Mart avoided \$350 million in state taxes over four years using a special real estate trust to assume ownership of most stores and then charge each store rent.

Fisher said 16 of 18 Wal-Mart stores in Iowa he studied are owned by the same real estate trust. That income was eventually funneled to Wal-Mart and its executives as tax-free dividends, Fisher said.

Mike Simley, a Wal-Mart spokesman, said the real estate trust has tax advantages. It lowers Wal-Mart's business costs, savings the company passes on to customers. The trust, he said, also provides crucial property management and development services.

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