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AP Iowa News Story

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## Report: Businesses use loopholes to save millions in state taxes

By **DAVID PITT**

Associated Press Writer  
 DES MOINES, Iowa (AP) -  
 - Corporations are using tax loopholes that are costing the state tens of millions of dollars, according to a new report from a Mount Vernon-based nonprofit think tank.

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The Iowa Policy Project says some large businesses that operate in Iowa are using various tax avoidance tools, including shifting their profits to subsidiaries in non-taxing states to reduce their tax obligation.

The group says about 75 percent of corporate filers in Iowa pay taxes on all their income, but multistate companies with tax lawyers and accountants are often using the loopholes.

"They compete with Iowa companies that pay their taxes and that violates basic principles of fairness," says Peter Fisher, research director of the Iowa Policy Project and a professor of urban and regional planning at the University of Iowa.

Fisher says lawmakers could close those loopholes by passing a law that requires businesses to count all their profits when calculating their state taxes, including those profits that are shifted to non-taxing states.

The action, known as combined reporting, could add millions of dollars to state tax receipts, according to the think tank.

In the report, Fisher says combined reporting legislation would have produced an additional \$100 million in corporate income tax revenue in 2002, and \$65 million in 2003, almost all of it from non-Iowa corporations.

Twenty states have passed combined reporting laws, four of them in the past few years. Several other states - including Iowa - have recommended combined reporting as part of their current tax and budget proposals,

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according to the Center on Budget and Policy Priorities, a Washington-based nonprofit policy research organization.

The group cites several companies that transfer significant profits to subsidiaries in non-taxing states to save on their tax payments: Toys "R" Us Inc., K-Mart, Home Depot Inc. and Staples Inc.

Pro-business groups say that enacting combined reporting laws would have some harmful side effects.

"It's bad for job growth in Iowa," says John Gilliland, a spokesman for Iowa Association of Business and Industry.

He says there likely isn't support for the proposed legislation this year, but two bills that have been introduced could be addressed late in the session if lawmakers seek additional tax revenue.

Similar bills had been suggested by former Gov. Tom Vilsack but failed to gain enough support in the Legislature.

"I don't think the Democratic majority is interested in driving jobs and employers out of Iowa," Gilliland says. "I don't think it's a tax increase that they would pursue."

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On the Net:

Iowa Policy Project: <http://www.iowapolicyproject.org>

Center on Budget and Policy Priorities: <http://www.cbpp.org>

Iowa Association of Business and Industry: <http://www.iowaabi.org>

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