

Closing a state tax loophole

Report: Change could bring in \$100 million

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Closing a single corporate tax loophole could save Iowa close to \$100 million in tax revenue per year from large multistate corporations, according to a new report.

The loophole places small Iowa corporations at a disadvantage to the multistate corporations, the Iowa Fiscal Partnership report released Wednesday argues.

Iowa Gov. Chet Culver has proposed adopting “combined reporting,” a corporate tax reporting method employed by 20 states including Illinois, Minnesota, Kansas and Nebraska.

Report author Peter Fisher said combined reporting would benefit Iowa by preventing companies from shifting revenue to corporate entities set up in such a way that they don’t have to pay Iowa taxes.

In one example, Fisher cited a Wall Street Journal report that Wal-Mart has avoided paying about \$350 million in tax payments to various states by creating a real estate investment trust in Delaware.

“With a real estate investment trust, 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 real estate investment trust but are exempt from tax in Delaware.”

The profits reach Wal-Mart’s Bentonville, Ark., headquarters as dividends, which are exempt from state taxes in Arkansas, Fisher added.

Combined reporting would require all corporations in an affiliated group to combine income and expenses in calculating their income taxes.

Wal-Mart spokesman John Simley said whether to change Iowa’s tax regulations is a matter for the Iowa General Assembly. Simley defended Wal-Mart’s use of the Delaware-based real estate investment trust to own properties and collect rents, however.

The strategy is legal and is one of many Wal-Mart employs to keep prices low in its stores, Simley said.

Simley said the real estate investment trust structure is used by Wal-Mart even in states in which it does not provide a tax benefit. That is because it allows Wal-Mart to concentrate its real estate management in one focused organization, rather than burdening retail operations with

management of real estate.

The new tax regime would avoid the competitive disadvantage the system now creates for companies that don't have multistate operations, Fisher said.

In addition to closing the use of the loophole for payment of rents, Fisher said the combined reporting method also would close other uses of the loophole for things such as marketing royalties.

The \$100 million savings figure was developed in an Iowa Department of Revenue report released this month.

The Iowa Fiscal Partnership is a tax and budget analysis initiative of the Iowa Policy Project in Mount Vernon and the Child & Family Policy Center in Des Moines. Both are non-partisan, nonprofit groups

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