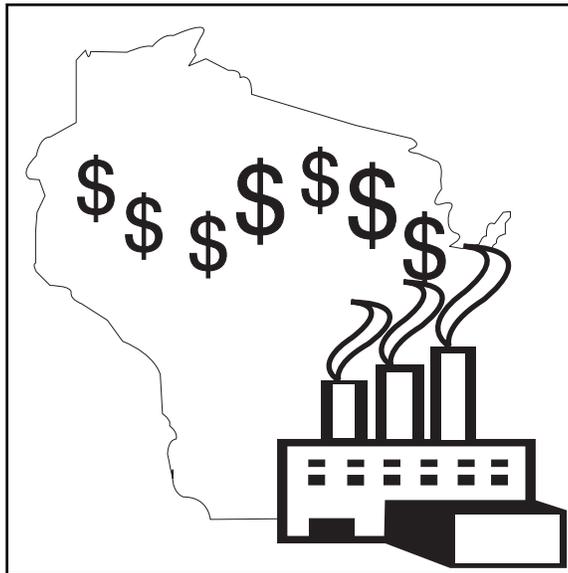


A TAXING DILEMMA

JAMES S. HANEY

Multi-state corporations doing business in Wisconsin are on the horns of a dilemma. They are squarely in the cross hairs of a pro-business Governor and his Department of Revenue advisors who want them to pay more taxes. It isn't as though they aren't paying a lot already. Multi-state companies make up only about 22% of corporate tax filers, but currently pay about 55% of the total corporate tax liability in Wisconsin. And it isn't as if the state needs the money. Administration officials acknowledge that we start the state's fiscal year with nearly a \$500 million surplus.

Here is the dilemma. For many years, business organizations like Wisconsin Manufacturers and Commerce have argued that Wisconsin's corporate tax structure tends to disadvantage companies who sell products and services around the globe, but who have chosen to invest in plant, equipment, and jobs in Wisconsin. Because of the way Wisconsin requires companies to apportion income for state income tax purposes, multi-state companies pay a premium if they maintain large payrolls or plants in the state. After nearly all of the states around Wisconsin corrected this tax



policy flaw, the Governor agreed that moving to a single factor apportionment formula — basing tax liability on sales in Wisconsin — was sound tax policy and good for economic development. Multi-state companies and their Wisconsin suppliers applauded. It is typical of the things this Governor has done to keep Wisconsin competitive and our job climate good.

Then came the bad news. Rather than use surplus revenue to reduce the tax burden on Wisconsin companies, the Governor proposed moving Wisconsin to “combined reporting,” which can simplistically be described as requiring a business to include net income from all of its unitary business activities anywhere in the country in determining its Wisconsin taxable income. This means that Wisconsin will be taxing the profits of subsidiaries that may have no plant, no payroll and not even any sales in Wisconsin. While such a concept has been a favorite of state tax collectors for years, only 16 states require combined reporting, and the trend has been away from the concept. In fact, four states —

James S. Haney is President of Wisconsin Manufacturers & Commerce.

Washington, Nevada, Wyoming and South Dakota — have taken truly bold steps in eliminating their corporate income tax completely!

The Governor and other proponents of combined reporting say that in addition to raising the revenue necessary to offset the single sales apportionment formula tax cut, this change will close a tax shelter that they believe is growing every year. The change, they say, “prevents Wisconsin’s tax base from eroding,” and “discourages multi-state corporations from ‘hiding’ Wisconsin revenue in other states.” Interesting rhetoric to describe corporate tax planning designed to keep Wisconsin companies healthy and competitive! Almost all of us structure our financial affairs in an effort to minimize tax liability — but now such behavior is being associated with disloyalty to Wisconsin, at best, and at worst, dishonesty! It reflects a mindset that assumes we all work for the government, and should be able to keep only what it decides is reasonable. High taxes are not a good strategy for economic growth and development.

Wisconsin has historically been a high taxing/high spending state. With personal income traditionally running at or below the national average, our tax effort has ranged anywhere from 15 to 37 percent above the national average. WMC has set a goal of trying to get Wisconsin out of the top ten taxing states in the union — which means we need to limit the growth in state and local government spending in order to reduce the tax burden on Wisconsin citizens and businesses.

Here are the tax principles adopted by the WMC Board of Directors:

- State and local government spending and taxes should take a continually declining proportion of the personal income of Wisconsin residents.
- Tax policy should encourage savings and investment over consumption.
- Wisconsin tax laws should encourage investment in job creating business and industry.

- Wisconsin tax laws should encourage the establishment of corporate headquarters and major operations in the state.
- Wisconsin tax laws and tax exemptions should be uniformly and fairly enforced.
- Wisconsin tax laws, regulations and paperwork requirements should minimize the difficulty and cost of taxpayer compliance.
- User fees should only increase where the amount of fee paid is commensurate with the benefit received by the payer of the fee.
- Penalties and fines imposed by regulators should revert to the general fund to prevent regulators from having a direct financial interest in the amount of fines and penalties assessed.
- Public employee wages and benefits should be no more generous than what is available for similar work in the private sector.
- Wisconsin should fund the statutorily created counter-cyclical budget stabilization (rainy day) fund to manage the volatility in state tax revenues caused by the business cycle.

Combined reporting is not consistent with many of these principles. Corporations doing business in Wisconsin cherish tax stability and predictability. Precipitous changes in corporate tax laws inevitably lead to changes in taxpayer behavior. A change as significant as combined reporting will generate all sorts of litigation as taxpayers attempt to define or redefine their unitary business and as they take other steps to minimize tax liability. And the competitive nature of business today requires that they do just that. Since taxes are a cost of doing business — in most, but not all states — higher taxes mean higher prices for goods and services, fewer dollars available for wages and benefits, or reduced dividends to shareholders — all of which diminish the competitiveness of businesses in Wisconsin. Excessive taxes kill jobs.

Wisconsin has been on an economic roll for more than a decade. As multi-state corporations have prospered in Wisconsin, so have hundreds of other Wisconsin businesses that

supply goods and services to those companies. That means jobs. And jobs mean income that government can tax, property ownership that government can tax, and sales to consumers that government can tax. The Wisconsin econ-

omy is strong. Combined reporting is bad tax policy that threatens to erode the base on which this remarkable economy is built. We hope the Governor will reconsider his plan — or that the legislature will reject it.