



CAMPAIGN TO SUPPORT TAX FAIRNESS AND THE PUBLIC SECTOR

Over the past few years, the Wisconsin State AFL-CIO has taken the lead in a campaign called the *Alliance to Protect the Public Good* to build support for public structures and the revenue needed to fund them. Public structures include the physical and social infrastructure that we all rely on for a quality of life: education (K-12, technical college, UW System), public safety (police, firefighters, corrections and the courts), transportation (highways, roads and public transit), health care, senior assistance, child protective services, workforce training, economic development, snow removal, disaster assistance, water quality, waste treatment and recycling, parks and recreation, and much more that state and local governments provide for the common good.

The goal of this campaign is to raise the revenue needed for quality public services, while at the same time making Wisconsin's tax system fairer to working families. To accomplish this goal, the Wisconsin State AFL-CIO and its affiliated unions have worked closely with the Institute for Wisconsin's Future (IWF), a state public policy research and community education center which we helped create in 1994. **IWF conducted groundbreaking research on Wisconsin's tax system to document and expose a major shift of the income tax and property tax burden from the corporate sector to individuals and homeowners:**

- **Income Tax.** Of the largest corporations that earned profits from sales in Wisconsin, 62 % pay *zero* in corporate income taxes by using corporate tax loopholes. Some examples are: Microsoft, Sears, Merck, Toys "R" Us, Kimberly-Clark, McDonald's, Manpower, and PepsiCo Inc. ("Wisconsin's Revenue Gap: An Analysis of Corporate Tax Avoidance", Institute for Wisconsin's Future, December 2007)
- **Property Tax.** The property tax burden has shifted significantly over the years from the corporate sector (manufacturing and commercial) to homeowners. The share of property taxes paid by residential taxpayers went from 50.6% in 1970 to 71% in 2007. The share of property taxes paid by the corporate sector fell from 37.2% in 1970 to 24.4% in 2007. ("Property Tax Level in Wisconsin", Legislative Fiscal Bureau, January 2009)

The corporate sector relies on substantial taxpayer investment in infrastructure to help businesses thrive. It is reasonable to expect the corporate sector to contribute its fair share in taxes as well. The efforts of the Wisconsin State AFL-CIO and allied groups to expose Wisconsin's unfair, outdated tax structure and raise more revenue to support public structures have paid off. **We worked with state policymakers to make a number of breakthroughs to close corporate tax loopholes, including the following:**

- **Closed the Newark Decision Loophole:** We were able to stop this corporate tax windfall before it was widely used. The *Newark Decision* was a court ruling in favor of a paperboard manufacturer in Milwaukee owned by the Newark Group of New Jersey. It vastly expanded the interpretation of a property tax exemption for waste treatment facilities and pollution abatement equipment that Wisconsin enacted in 1953. Based on the broader exemption, the state Department of Revenue calculated that an additional \$1.8 billion worth of manufacturing property could be removed from the local tax rolls. This would result in another substantial shift of the property tax burden to residential property owners or necessitate severe cuts in vital local services. Working with IWF on a statewide campaign to publicize this potential tax shift, we were able to get legislation passed and signed during the 2007-08 session which clarifies the original intent of the 1953 law so that the tax exemption cannot be used as yet another corporate income tax loophole. **Revenue Value: Prevented the loss of an estimated \$1.8 billion in corporate property tax value statewide. Any community with a manufacturing base would have been especially hard hit.**

- **Closed the Las Vegas Loophole:** Wisconsin's system of corporate taxation had allowed multi-state companies to establish headquarters and hide profits in states where there is no corporate income tax, like Nevada. Eighty percent of Wisconsin banks took advantage of this tax dodge and it became known as the *Las Vegas Loophole*. Early in the 2009-10 Session, we successfully passed and signed into law a revised system for corporate taxation called "combined reporting" which requires corporations and their subsidiaries to file a single tax return. This will prevent the use of this tax avoidance scheme in the future. **Revenue Value: Estimated \$215 million in each two-year state budget cycle.**

- **Closed the Wal-Mart REIT Loophole:** Large companies like Wal-Mart were using the Real Estate Investment Trust (REIT) as a vehicle to substantially reduce their corporate income tax liability. For example, Wal-Mart would designate one subsidiary to operate as a real estate company to manage all of its stores. The stores then pay substantial rent to the REIT and, with the resulting tax deduction this rent provides, Wal-Mart could substantially reduce its tax liability in Wisconsin, despite making millions of dollars on sales here. During the 2007-08 session, we successfully passed legislation which limits the way the rent deduction can be used and closes this loophole for Wal-Mart and other companies using such REITs for tax avoidance purposes. **Revenue Value: Estimated \$15 million in each two-year budget cycle depending on the number of companies that use REITs to manage groups of income-producing properties.**

The Tax Fairness Campaign also had success in moving the state toward a more progressive individual income tax system by raising taxes on higher-income taxpayers with the greatest ability to pay:

- **Created a New Top Bracket for the Richest:** The 2009-11 Biennial State Budget includes a fifth individual income tax bracket with a tax rate of 7.75% which is 1 percentage point above the current top bracket. This will apply to taxable income exceeding \$300,000 for

married joint filers and \$225,000 for single individuals. **Revenue Value: Estimated \$287.3 million in each two-year budget cycle.**

- **Reduced the Capital Gains Tax Exclusion:** The 2009-11 Biennial State Budget reduces from 60% to 30% the amount of capital gains from the sale of stocks, real estate and non-productive assets like artwork and antique cars that can be excluded from taxable income. (However, income from the sale of a primary residence up to \$500,000 is excluded altogether.) Currently, income from wages is taxed more than income from stock and real estate speculation. Reducing Wisconsin's capital gains exclusion moves the state toward greater fairness in the treatment of income for tax purposes. **Revenue Value: Estimated \$242.5 million in each two-year budget cycle.**

The enforcement of Wisconsin's tax code and collection of delinquent taxes will be enhanced as well:

- **Increased staff for the state Department of Revenue:** Over 30 auditors and agents will be added to collect a larger portion of the \$1.3 billion in delinquent taxes, fees and interest currently owed to the state. The Wisconsin Legislative Fiscal Bureau reported that large-case auditors who examine the records of major companies to find unpaid taxes can each bring in up to \$1.9 million per year. The Institute for Wisconsin's Future issued a report based on the experience of Minnesota which demonstrated the efficacy of that state's investment in a well-staffed Revenue Department. By the middle of 2008, Minnesota collected over \$900 million from increased funding for audit and enforcement actions that began in the 2001-03 biennium. ("Investing in Revenue: How Wisconsin can profit by using the Minnesota model for closing the tax gap", Institute for Wisconsin's Future, January 2009)

There is still more to do to modernize Wisconsin's tax system, make it fairer to working families, and ensure essential funding for the public structures that state and local governments provide, but we have made great progress toward that goal.

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Sources for Fiscal Notes: The Institute for Wisconsin's Future (www.wisconsinsfuture.org) and the Wisconsin Council on Children and Families (www.wccf.org), based on information supplied by the Wisconsin Legislative Fiscal Bureau.

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