



KICKING THE CAN DOWN THE ROAD *with CIVILITY*

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COLUMNISTS

Playing Louisiana for a patsy

What if your neighbor had the same job and income as you but your state tax bill was significantly higher? Doesn't seem right, does it? But that's an everyday occurrence in Louisiana's business world. Local businesses selling the same products often pay higher corporate income taxes than multistate competitors.

Here's a hypothetical example. A locally owned hardware store sells the same electric drill for the same price at the same profit margin as a national superstore in the same city but owes more state income tax than its big-box competitor. Why? Because a store that is part of a multistate retail chain has ways of gaming the tax code to shift some of its income made in Louisiana to a low- or no-tax state.

One of the most common techniques is setting up a subsidiary corporation in a low-tax state that does centralized purchasing for the chain. The subsidiary buys the electric drill from the manufacturer at the going rate then marks up the price when it "resells" it to the stores. That reduces the profit of the stores in higher-tax states and shifts it onto the books of the purchasing

subsidiary in the low-tax state. This strategy need not impose significant costs on the corporation; the manufacturer ships its



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wares directly to the stores just as it would in the absence of the purchasing arm.

This maneuvering hurts Louisiana in two ways. First, by shifting income out of state that was earned here, the state

doesn't get income taxes otherwise owed. Such tax shelters cost the state \$30 million to \$60 million last year, Louisiana Budget Project analysis estimates. This means less money available for education, public safety, health care, transportation and other services crucial to Louisiana's future prosperity. Cuts it is making in these areas are deeper than they would otherwise have to be.

Second, this income shifting creates an unlevel playing field. Big, multistate firms get state services without paying for them while local businesses unable to use this tax break end up paying full freight. Their costs of doing

business, relative to their multistate competitors, are higher, making them less competitive.

Other states have changed their laws to ban this tax avoidance. Corporations in those states are required to pay taxes based on all state-related income of in-state and out-of-state parts of their operation, so there are no tax benefits from shifting income from the former to the latter. This is called "combined reporting"; 23 states use it. Studies show companies operating in combined reporting states have just as strong a bottom line as those that don't, so there's no argument for keeping our current system as a way to make the state more hospitable to business.

Without combined reporting, Louisiana is still being played for a patsy by large, multistate corporations. We need to wake up and get rid of this unfair tax loophole next legislative session. The benefits are clear: much-needed revenue for the public good, fewer cuts to vital services and a more level playing field for Louisiana businesses.

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