Pension Funding Strategies: Close Loopholes First

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Examples of Prevailing Strategies to Close Pension Funding Gap

- Cut Benefits
- Increase Employee Contributions
- Convert Defined Benefit Pension Plans into Do it Yourself Defined Contribution Plans
- Cut Cost of Living Adjustments for Retirees
Instead of pursuing the strategies that not only harm members to whom pensions were promised, but also harm local businesses and economies, why not close tax loopholes first.

I’ll speak about what these loopholes are, how they work and what you can do as you work toward preserving and enhancing public pensions.
Who Pays Taxes in Louisiana?

➥ Small Business and People pay Taxes.
➥ A family of 4 making $21,000 will pay $33 in Louisiana Income tax.
➥ Individual rates are between 4% and 6%.
➥ Corporate EFFECTIVE tax rates are below 1%.
➥ Insurance Companies pay no income tax.
➥ There are special breaks for car companies, coal companies, banks, airlines, oil companies, and many others.
Is Big Business Paying a Fair Share?

♫ In 2010, 2230 companies doing business in Louisiana made more than $815 billion in Federal Taxable income and did not pay one cent in Louisiana corporate income tax.

♫ Those companies made $8.4 billion in Louisiana income. If that income was taxed at 6% it would produce almost $500 million in additional revenue.

♫ In 2010, of the 109,970 corporations in Louisiana, 91,693, or 83% paid no corporate income tax.
Corporate Loopholes: Most Companies Have Paid Nothing

Corporate Taxpayers in 2010

- Paid Zero
- Paid Something
Corporate profit/GDP is in double digits

Market Realist

Source: Trading economics
Companies Making BIG Money Pay Zero

In 2010, of the 4871 corporations that made over $5 million in revenue, 45% paid zero Louisiana Corporate Income Tax.

Of the companies making more than $10 million dollars, 43% paid zero Louisiana Corporate Income Tax.

Of the companies making more than $25 million dollars, over 46% paid zero Louisiana Corporate Income Tax.
Of the largest 150 Louisiana corporations by payroll, 99 of them paid zero tax.
The Add-Back Gimmick: Shifting Louisiana Income To No-Tax States

PIC makes Dividend payment To West Coast Parent

Payment for trademark (deducted as expense)

Parent makes Dividend payment To Louisiana Company. Dividend Is tax free.
Who is doing this and how much is it costing us?

- In 2003 Exxon made $89 million in Alabama and paid Zero income tax.
  - They deducted $418 million in payments to themselves.
  - They deducted 6 times the Federal Depletion allowance.
  - Deducting 6 times the Federal Depletion Allowance allows Exxon to deduct more than the oil and gas is worth.

  - Source: Records on file with the Alabama Department of Revenue from a publically filed challenge to tax assessments.
Are These Loopholes Widespread?

- **Lowes Inc.** deducted $833 million in payments to itself and reduced its Alabama income by $25 million.
- **McDonalds Corp.** deducted $500 million in payments to itself and reduced its Alabama income by 55%.
- **Abercrombie & Fitch** deducted over $200 million in royalty payments to itself and reduced its income by almost 90%.
- **Talbots** income tripled after add-backs by State auditors.
- **Rheem’s** income rose by 2200% after add-backs.

Source: Records on file with the Administrative Law Division of the Alabama Department of Revenue.
Is This Really Tax Avoidance or is There Some Business Purpose?

- In one case, nine related companies of the Limited, Inc. received payments from their affiliates of $423,098,963 in one year.

- The nine Limited companies had no employees, and shared office space, equipment, and supplies.

- The primary office space used by the nine Companies was also the primary office address for more than 650 other companies.
Using REIT Strategies to Avoid Louisiana Income Tax

- **Nevada REIT**
  - Rent paid to REIT (deducted as expense)
  - REIT makes Dividend payment To Related Company

- **Louisiana Corporation**
  - Related Company makes Dividend payment To Louisiana Company. Dividend Is tax free.

- **Related Corporation in Delaware**
Wal-Mart used the REIT Tax Shelter.

- In the late 1990’s Wal-Mart transferred ownership of its stores to Captive REITs and rented from those REITs

- REITs pay no corporate income tax

- In one four-year period, Wal-Mart saved $230 million in State Taxes, by paying rent to itself.

- Wal-Mart deducted the rent payments even though they never left the company.

Source: Wall Street Journal, Jessie Drucker, 2-01-07
Paying Taxes to the Boss

• 16 states allow companies to effectively keep their employees’ state personal income taxes

• 2,700 companies named in database

• Loss to states ~$700M/year
2015: Good Time for Closing Tax Loopholes

- State and local revenues still depressed
- No more stimulus relief
- Jobs issue highly politicized
- Taxpayers hungry for government transparency
WHAT ARE YOUR OPTIONS?

- Pass Combined Reporting.
- Examine Nexus and Apportionment Issues
- Oil and Gas Depletion and Severance Issues.
- High-income surcharges for $200,000 +
- Limit Loss deducts for Corps. and Indiv.
- Services Taxes (38 states do it).
- Digital Property definitions for sales tax.
MORE OPTIONS. . .

- Examine and End ineffective job subsidies.
- Decouple from new any Federal changes that lose you money.
- On-Demand Cable Taxes.
- Mobile Communications Taxes.
- Floor on Property Taxes—Examine 4 year or 2 year Appraisal in down years.
- PLAY DEFENSE!!!!!!
<table>
<thead>
<tr>
<th>State</th>
<th>Annual employer normal pension costs</th>
<th>Annual cost of corporate subsidies and tax breaks/loopholes</th>
<th>Annual pension costs as a share of subsidies + tax breaks/loopholes</th>
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<tbody>
<tr>
<td>Arizona</td>
<td>$474,524,688</td>
<td>$552,108,211</td>
<td>86%</td>
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<tr>
<td>California</td>
<td>$6,822,294,460</td>
<td>$9,701,000,000</td>
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<td>Colorado</td>
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<td>Florida</td>
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<td>Illinois</td>
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<td>Louisiana</td>
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<td>Michigan</td>
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<td>TOTAL</td>
<td>$13,216,436,368</td>
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<td>51%</td>
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Source: Good Jobs First, 2014
Subsidy Tracker

First-ever searchable national database of company-specific subsidy data
Website with Many Tools @ www.goodjobsfirst.org