

For Immediate Release
Monday,
April 16, 2007

For Information, Contact:
Bob McIntyre, Citizens for Tax Justice
202-299-1066 x22

New Research Shows Wal-Mart Rigs the System to Skip Out on \$2.3 Billion in State Taxes

WASHINGTON, DC — Wal-Mart appears to be skipping out on its fair share of taxes that most Americans have to pay to help support state governments. New research conducted in part by a leading non-partisan, non-profit tax organization reveals that Wal-Mart avoided \$2.3 billion in state income taxes, cutting its payment to state governments almost *in half* between 1999 and 2005:

- Over those seven years, Wal-Mart reported \$77.4 billion in pretax U.S. profits to its shareholders. But it reported a total state income tax bill of only \$2.4 billion, just 3.16% of those profits.¹
- Had Wal-Mart paid taxes at the statutory state corporate tax rates for the same period, it would have paid \$4.7 billion in state income taxes.²

Wal-Mart's Total State Income Taxes, 1999–2005

\$-millions	2005	2004	2003	2002	2001	2000	1999	7 years
Pretax U.S. profit	\$ 14,447	\$ 13,599	\$ 12,075	\$ 10,490	\$ 9,168	\$ 9,203	\$ 8,414	\$ 77,396
Tax at state rates (6.1% ave.)	945	828	738	616	533	544	503	\$ 4,707
Actual state taxes paid	449	627	319	214	285	277	277	\$ 2,447
Actual tax rate	3.1%	4.6%	2.6%	2.0%	3.1%	3.0%	3.3%	3.2%
Taxes avoided	496	201	419	401	248	267	226	\$ 2,260
% of taxes avoided	53%	24%	57%	65%	47%	49%	45%	48%

Note: Wal-Mart's fiscal years end on January 31 of the year following the years listed.

Source: Wal-Mart Annual Reports.

The research was compiled by Citizens for Tax Justice, along with Change to Win, a labor coalition that represents 6 million workers.

Corporations are not required to report what they pay in state taxes on a state-by-state basis, preventing a state-by-state breakdown of how Wal-Mart rigs the system. But one state, Wisconsin, does disclose the taxes that corporations pay annually, providing insight into how other states are individually hurt by Wal-Mart's \$2.3 billion in tax avoidance over the past seven years:

- On an estimated \$852 million in Wisconsin profits between 2000 and 2003, Wal-Mart paid only \$3 million in Wisconsin taxes.
- That's a tax rate of only 0.35 percent — a tiny fraction of the 7.9 percent statutory corporate tax rate which big corporations are supposed to pay in Wisconsin.

¹Figures on Wal-Mart's pretax U.S. profits and its state income tax payments are from Wal-Mart's annual reports. Taxes are reported current state income taxes, less reported tax benefits from stock options.

²Taxes that Wal-Mart would have paid without loopholes were calculated by applying each state's corporate tax rate to the estimated earnings before income taxes of Wal-Mart stores within each state. State-by-state profits were estimated based on Wal-Mart and Sam's Club square footage in each state (as disclosed by Wal-Mart) as a share of its total square footage nationwide, times its total pretax U.S. profit.

Interestingly, Wisconsin is one of 30 states that do not require “combined reporting” of corporate profits. This failure facilitates numerous corporate tax shelters, under which Wal-Mart and other large multi-state corporations take advantage of state laws to account for various subsidiaries as separate, unrelated corporations -- and shift profits (on paper) from states like Wisconsin to other states where those profits aren't taxed.

The *Wall Street Journal* reported in February 2007 that Wal-Mart has aggressively used a “captive Real Estate Investment Trust” or REIT, which is based in Delaware. It works like this: an individual buys a house, and then rents it back to himself to save on taxes – but a scheme like this would land ordinary Americans in jail for tax evasion. But by essentially paying rent to itself and then deducting that cost as a business expense in states where it should be paying taxes Wal-Mart has avoided paying \$2.3 billion.

\$-millions	2003	2002	2001	2000	4 years
Estimated Wal-Mart profit in state	\$ 258.0	\$ 224.6	\$ 190.1	\$ 179.7	\$ 852.4
Tax at 7.9% statutory rate	20.4	17.7	15.0	14.2	67.3
Actual tax paid	0.5	0.7	0.9	0.8	3.0
Actual tax rate	0.21%	0.31%	0.49%	0.47%	0.35%
Taxes avoided	19.8	17.1	14.1	13.3	64.3
% of taxes avoided	97%	96%	94%	94%	96%

Note: Walmart's fiscal years end on January 31 of the year following the years listed.

Sources: Profits were estimated based on Wal-Mart's annual reports. Actual taxes paid were obtained from the state of Wisconsin.

“Wal-Mart is rigging the system to avoid paying its fair share,” said Robert McIntyre, Executive Director of the independent, non-partisan Citizens for Tax Justice. “Wisconsin should serve as a wake-up call for states to update their laws and require corporations to report the combined nationwide profits of all their subsidiaries, so that schemes and loopholes don't disguise big corporations' real profits.”

By requiring “combined reporting,” Wisconsin would join the 20 states that have already adopted this comprehensive approach to fixing the system, including, California, Illinois, and Texas. Most recently, New York and West Virginia passed combined reporting legislation and several other states including Iowa, Michigan, Massachusetts, Maryland, and North Carolina are currently exploring ways to do the same.

“Wal-Mart is hurting working families in cash-strapped states by walking away with public money needed for emergency rooms and new schools,” said Greg Tarpinian, Executive Director of Change to Win. “Wal-Mart has been cutting legal and ethical corners on our backs, and its time for responsible businesses to join working families in calling on Wal-Mart to change.”

###

Citizens for Tax Justice is a nonpartisan research and advocacy group that fights for tax fairness at the federal, state and local levels. CTJ's studies of corporate tax avoidance are widely cited in the media and by lawmakers. Change to Win is a coalition of seven unions and six million workers committed to restoring the American Dream to workers in the 21st century.

Background Links:

Institute on Taxation and Economic Policy, “Combined Reporting: How Does Your State Stack Up?” April 2007, www.itepnet.org/crstates2007.pdf

Institute on Taxation and Economic Policy, “Combined Reporting of State Corporate Income Taxes: A Primer” www.itepnet.org/pb24comb.pdf

Wal-Mart's Wisconsin tax payments: Jack Norman, Institute for Wisconsin's Future, 414-405-6210 (cell); 414-384-9094 (office)
