

# Achieving a Broadly-Shared Prosperity in TN

History shows us that a strong middle-class is not the natural outcome of a mature economy. It takes large-scale planning and public investments such as the GI Bill, home mortgage deductions, public education for all, and small business loan programs. How our tax policy works to the advantage of one group or another is part of that equation as well.

Unfortunately, our tax system limits the potential of the middle-class, and of Tennessee as a state. Instead of promoting a broadly-shared prosperity, our tax system gives large, multi-state corporations an unfair advantage over locally-owned businesses. At the same time, our sales tax, and particularly the tax on food, falls more heavily on those least able to afford it.

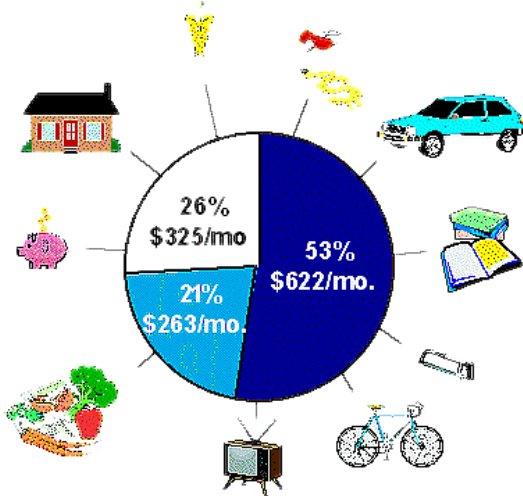
Working together, we can change these laws and create a state where prosperity is broadly-shared and the middle class is strong. That's what the Food & Business Tax Fairness Act is about.

## Cutting the Food Tax is Key to Making Our Tax System More Fair

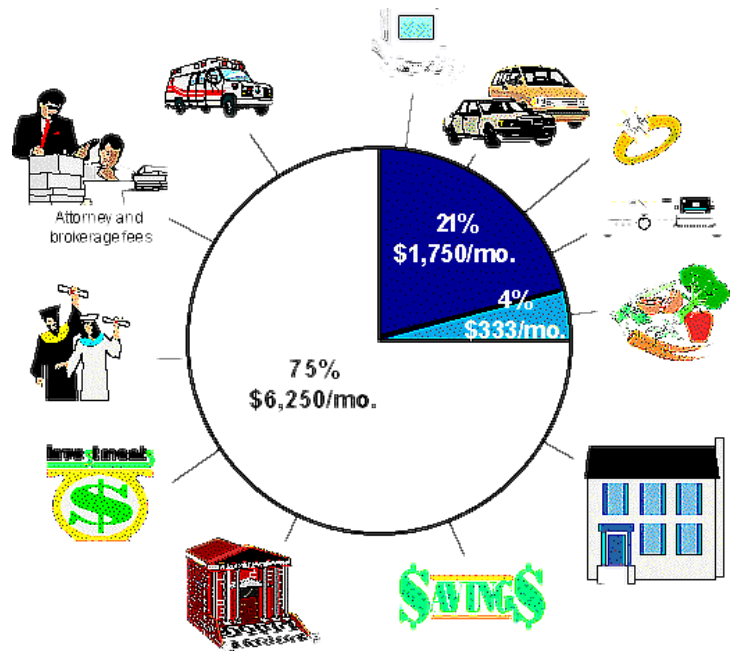
Because the sales tax applies to food, clothing, cars, and appliances, but not investments or most services, it hits low- and middle-income families harder than high-income families who only spend a small portion of their income on taxable items.

The tax on food is one of the most unfair parts of Tennessee's sales tax. Why? Because groceries represent over 20% of the budget of a typical low-income family, while they represent only 4% of a high-income family's budget according to data from the US Bureau of Labor Statistics.

Pie chart at left represents a family with \$15,000 / year take-home pay.



Pie at right represents a family with \$100,000 / year take-home pay.

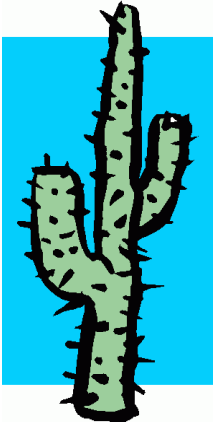


## About the Food & Business Tax Fairness Act

Key elements of the Food & Business Tax Fairness Act, SB3158 by Sen. Tim Burchett (R-Knoxville) / HB3182 by Rep. Craig Fitzhugh (D-Ripley):

- ★ Require full combined reporting for all multi-state corporations, putting an end to the most common tax-avoidance schemes used by multi-state corporations.
- ★ Create a more level playing field between small and large businesses.
- ★ Reduce the state food tax and promote a broadly-shared prosperity.





# In Nevada, there are over 130,000 corporations with no employees.

Meanwhile in Delaware, there are an unbelievable 500 corporate headquarters squeezed in on the 13th floor of a single office building.

So what do these phantom companies do? They exist only on paper as part of an elaborate shell game played by large, multi-state corporations to avoid paying state taxes, leaving others to pick up the tab for supporting key public services.

## Understanding the Shell Game

One of the most legendary players of this shell game is Toys-R-Us. It set up a subsidiary in Delaware that owns its corporate logo and trade name. Their motivation? Delaware does not tax income from corporate trademarks.

So now when Toys-R-Us turns a profit in Tennessee, it sends much of those profits to the Delaware subsidiary for the “rights” to use the logo, leaving little or no income to be taxed under Tennessee’s business excise tax, or Delaware’s.

In addition to Toys-R-Us, some of the other companies that are known to use such “Passive Investment Corporations (PICs)” include Burger King, CompUSA, Gap, Home Depot, Kmart, Kohl’s, Long John Silver’s, Staples, Sherwin-Williams, and The Limited.

These PICs, and a host of other tax-avoidance schemes, have one thing in common; they involve the use of subsidiaries to shift money back and forth in order to avoid paying taxes.

### The Problem is Not Toys-R-Us

### The Problem is the Law

In fairness, Toys-R-Us is just doing what its stockholders expect it to do, make the greatest amount of profit it can while staying within the letter of the law.

The problem is the law, a law that allows one group to avoid paying its fair share while others pick up the tab.



## Going to the Root of the Problem

States across the nation are getting wise to the shell game. As a result, 21 states have closed this growing loophole by enacting combined reporting statutes. In doing so, these states now require multi-state corporations to combine all their related affiliates into one company for tax purposes, essentially negating all these loopholes at once.

**Closing these loopholes will help level the playing field between small and large businesses.**