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Thursday

INSIGHT OPINION

It's time to put end to corporate welfare

By Sharon Kayne

In his recent column, Harold Morgan completely mischaracterized the purpose of state House Bill 51, which would require combined reporting for corporate income tax purposes.

In "Tax Hit Dodged," from Jan. 31, Morgan implies that Rep. Peter Wirth's bill would have had the effect of double-taxing multi-state corporations that do business in New Mexico through subsidiaries.

The truth is, mandatory combined reporting, or MCR, would allow the state to collect corporate income tax from companies that do business here but are currently not paying corporate income tax on their profits.

How do they get away with such a thing? We let them. We allow them to shield their New Mexico profits by shifting them to a "passive investment company," which is most likely nothing more than an office in Delaware.

Didn't make any profits in New Mexico? Then you don't owe us any corporate income tax payments. Sounds like a very good deal for the Wal-Marts and Sonics of the state. It costs the rest of us some $90 million a year in revenue lost through what is really just corporate welfare.

The state's Taxation and Revenue Department understands these things perfectly. That's why they took Wal-Mart and K-Mart to court a few years back and won multi-million dollar settlements.

The discount giants can't avoid paying income tax here by sending their profits out of state anymore, but other mega-corporations still can. Tax and Revenue is now looking at computer retailer Dell. Taking the big boys all to court is a slow and expensive way to make them pay up, but that's the only option the state has until the Legislature steps up.

Here is how MCR really works: it requires that a corporation doing business in more than one state "combine" its income from all states. A formula is then used to determine how much the corporation owes to each state. Every state west of the Mississippi that collects corporate income tax — except New Mexico and Oklahoma — requires combined reporting.

So while Sonic is allowed to pretend it doesn't make any money here, it's paying on the profits it makes in our neighboring states. So much for Morgan's assertion that MCR would kill New Mexico's chances of luring more big corporations to New Mexico, thereby stalling our economic development. It has hardly hurt California's economic development. Or Washington's. Or Oregon's.

As compelling a reason as that is, HB 51 is about more than collecting money that's due the state. It's also about equity. Corporations that do business solely in New Mexico can't take advantage of this tax setup.

That puts them at a competitive disadvantage. It also means that the bill for the public services these multi-state corporations use gets paid by the rest of us. Big corporations would hardly do business in New Mexico without services like police and fire protection, paved roads, access to utilities, even public education (an uneducated consumer is not likely a well-paid consumer).

As one local business owner put it, "You mean I have to pay to pave the road in front of my business and the road in front of Wal-Mart?" In essence, yes. In fact, we all do. The rest of us also have to either make up the $90 million the state fails to collect or we make do with fewer services.

Wirth has carried MCR legislation before, and we've always supported him. That legislation has also sought to lower the corporate income tax rate for everyone while still bringing in more revenue.

Morgan did get one thing right in his column: "HB 51 might rise again in this session."

We hope so. And when it does, we'll be in the room to support it. Because, really, a state with the second-highest poverty rate in the nation can't afford to dole out $90 million in corporate welfare.

Kayne is communications director for advocacy group New Mexico Voices for Children.