

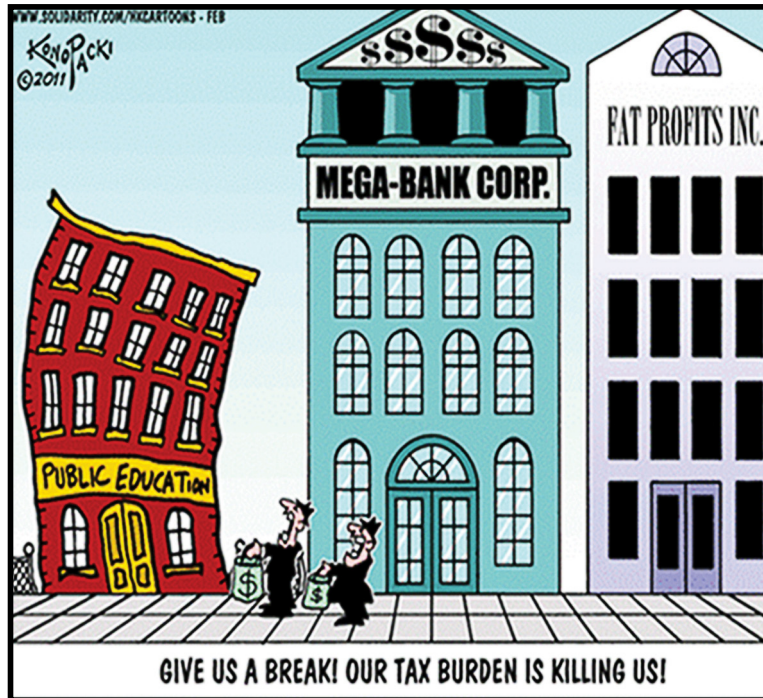
Who Does Not Pay Taxes?

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New state budget slashes corporate income tax; handcuffs Department of Revenue

In the final days of debate over the new state budget, Sen. Glenn Grothman (R-West Bend) inserted a tax cut that virtually eliminates the corporate income tax on manufacturers and agricultural businesses by 2017. In stages, the income tax would fall from 7.9% of profits down to 0.4%. It will ultimately cost the state \$129 million yearly, according to the Legislative Fiscal Bureau.

Wisconsin already has the fourth lowest taxes in the US for new business investments. (See report by Ernst & Young and the Council on State Taxation www.cost.org/WorkArea/DownloadAsset.aspx?id=78442.)



The budget also created two new loopholes for multi-state corporations. One—that will help the new owners of M&I bank—is discussed elsewhere in this newsletter. The other will prohibit the Department of Revenue from challenging certain tax-avoidance strategies by firms, and will retroactively kill any such challenge that's started since January 2009. It means that large corporations will be able to group

subsidiaries for tax reporting solely for the purpose of avoiding taxes even if there is no other business purpose for the grouping.

Associated Bank — Where are your state income taxes?

Associated Bank is the most profitable and biggest bank based in Wisconsin. Why doesn't it pay state income tax?

From 2001 through 2008, Green Bay-based Associated Bank made \$2.6 billion in pre-tax profits. Total state income tax paid on those profits: \$0.00. (See table.)

The bank is the biggest subsidiary of the corporate parent known as Associated Banc-Corp. The tax picture for the the Banc-Corp is no prettier. During 2001-2008, total state income tax was \$0.00, despite billions in profits. Associated lost money in recessionary 2009, so for that year it makes sense not to pay income tax.

Only one of Associated's many subsidiaries, Associated Investment Services, appears to pay any Wisconsin income tax. And its biggest tax bill was only \$50,376 (in 2006).

Associated makes most of its profits in Wisconsin. Of \$17 billion in deposits in 2010, 71% came from in-state residents. Shouldn't Associated be paying income tax on the profits it makes from Wisconsin customers?

Associated Bank avoids state tax		
Year	State income tax	Pre-tax income
2001	\$0	\$180,722,000
2002	\$0	\$212,906,000
2003	\$0	\$286,457,000
2004	\$0	\$300,819,000
2005	\$0	\$470,690,000
2006	\$0	\$431,174,000
2007	\$0	\$402,011,000
2008	\$0	\$290,368,000
2009	\$0	(\$278,038,000)

M&I: Low taxes in the past; no taxes in the future?

Until the recession, M&I Marshall & Ilsley was a growing and profitable bank, which nevertheless managed to pay less than 1% of its profits to Wisconsin income tax. In coming years, M&I's new Canadian owners will likely pay no tax at all, thanks especially to a provision put in the state budget by Gov. Scott Walker.

From 2002 to 2007, Milwaukee-based M&I Marshall & Ilsley Bank made **\$3.9 billion** in pretax profits, according to the Federal Deposit Insurance Corp. Its total state income tax: \$29 million.

That may seem like a lot, but it is an **effective tax rate of only 0.7%** on profits. The actual state income tax rate is **7.9%**, ten times larger. In other words, M&I's profit

reported to state tax collectors was only one-tenth the profit reported to federal regulators and shareholders.

One method M&I may have used to reduce its Wisconsin

profits is the so-called 'Las Vegas loophole,' in which banks transfer profit-making assets to tax-free Nevada. In 2003, the Revenue Department said nearly all banks in the state did that.

So the state clamped down. By 2007, it said it had won \$42 million in back-settlements from 180 banks. No other details have been released.

But M&I—and Associated Bank—continued to pay low (or zero) taxes. Are they still using the Las Vegas loophole? M&I's parent company has fifteen distinct corporate subsidiaries in Nevada, mostly housed in a single office in Las Vegas. Associated has four Las Vegas subsidiaries. Neither bank advertises any customer services in Nevada.

The new state budget will cut taxes even further for M&I's new owner, BMO Financial Group (Bank of Montreal). That's because of how the budget lets M&I use the big loss it took in recessionary 2008.

Under old law, companies can use losses from 2008 to offset profits in the future. But the new budget adds a loophole for big firms like M&I. Under the old law, the loss in 2008 at the bank, M&I Marshall & Ilsley Bank, could offset future profits only at the bank, not at sister subsidiaries in the M&I corporate family. The new law, though, lets the 2008 loss at the bank be used to offset profits at any member of the corporate family.

For example, the Marshall & Ilsley Trust Company has

been paying about \$2 million yearly in Wisconsin income tax. With the new law, the Trust Company's future taxes may be wiped out by carrying forward losses from the M&I Bank.

M&I's taxes tiny compared with profits

	Pretax profit	State income tax	Effective tax rate (official rate: 7.9%)
2002	\$602,998,000	\$3,716,112	0.6%
2003	\$579,162,000	\$5,464,139	0.9%
2004	\$672,438,000	\$5,330,200	0.8%
2005	\$711,997,000	\$4,874,132	0.7%
2006	\$787,261,000	\$4,656,194	0.6%
2007	\$590,576,000	\$4,934,012	0.8%

The Legislative Fiscal Bureau says about 400 other firms will also see lower future taxes because of the new law.

Foreign aid, Badger style?

Millions of dollars that could have been tax revenue in Wisconsin instead will go to shareholders in one of Canada's biggest banks. That's a result of a new tax loophole in the state budget.

Sources: Profit data and other corporate information from firms' web sites and 10-K reports to the U.S. Securities and Exchange Commission. Tax data from the Wisconsin Department of Revenue. Banking data from the Federal Deposit Insurance Corp. Tax data first appeared in the *Milwaukee Labor Press* and *Union Labor News* (Madison).



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