COLORADO FISCAL
POLICY INSTITUTE

Prepared Testimony in support of H.B. 1093 for House Finance Committee
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Mr. Chairman, members of the House Finance Committee:

My name is Laura Oldright, and I am the Tax Policy Analyst at the Colorado Fiscal Policy Institute. The Fiscal Policy Institute is a nonprofit, nonpartisan project of the Colorado Center on Law and Policy. We promote justice and economic security for *all* Coloradans, and are leading the effort to help resolve some of Colorado's biggest fiscal challenges. As both a resource and catalyst, the Institute works for changes in public policy through timely, credible and accessible fiscal policy analysis, education, advocacy and coalition building.

I am here today to testify in support of House Bill 1093.

The Colorado Fiscal Policy Institute strongly believes in efficient and accountable fiscal policies, and that, in these difficult economic times, as the state faces mounting budget problems, we must do everything we can to preserve revenue and increase reporting and accountability around tax expenditures.

Large corporations, like Wal-Mart and Auto Zone use REITs (Real Estate Investment Trusts) as a vehicle to create tax deductions that have no economic substance, and reduce state income tax liabilities across the country. According to the Wall Street Journal, Wal-Mart has avoided $350 million dollars in state taxes over a four year period due to a $7.3 billion dollar rent expense paid by Wal-Mart and Sam Club Stores to the company's REIT.[1] Many states such as New York, Kentucky, Wisconsin, North Carolina, and Maryland have taken action to stymie the loss of revenue from these improper related party transactions.

While other corporations use this tax evasion technique as well, the Wal-Mart story is well documented and illustrates how REITS shelter income to help companies avoid paying their fair share. Wal-Mart has transferred its stores in 27 states to captive REITs. The stores are charged a rent expense by REIT, and then the corporation takes a rent deduction for this "expense". The REIT pays out the rental income received from the stores back to Wal-Mart via dividend for which it receives an income tax deduction.

This bill strengthens accountability, disclosure and might help to narrow a revenue gap at a time when the state faces an estimated $1 billion budget shortfall over the next 18 months.

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[1] Jesse Drucker, "Friendly Landlord: Wal-Mart Cuts Taxes by Paying Rent to Itself," *Wall Street Journal*, February 1,2007, page A-1.

We feel strongly that corporations should pay their fair share of tax liability. It's simply not fair to hard working small businesses of Colorado who have to compete with Wal-Mart or to the citizens of Colorado who pay the majority of General Fund dollars. These difficult times require us to set priorities, and corporate welfare should not be among them.

Lastly, as the debate over Colorado's budget and economic outlook evolves, we urge state leaders and policymakers to recognize that when state investment is cut, when loopholes go unchecked, and when revenue gaps widen, the economy suffers. We know government is not the only answer, nor is it the silver bullet solution to all our ills. But we do know—because it is fact—that state government investment supports job creation, economic activity, and, amid a growing economic crisis perhaps most importantly, a vital safety net for unemployed workers and vulnerable Colorado families.

We ask for your support on H.B. 1093 because Coloradans deserve a fair, equitable, and accountable tax system, as well as a state government that works for all Coloradans. This legislation moves us one step closer to that goal.

Thank you Mr. Chairman.

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