



TAXING STRATEGIES

ALWAYS CUTTING PRICES, WAL-MART ATTEMPTS TO
ROLLBACK TAXES

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Like many large corporations, Wal-Mart has been actively pursuing a strategy to limit its state tax burden. In nine states where these activities have been more focused, an analysis of campaign contributions given by Wal-Mart and its fiscal consultant Ernst & Young reveals that:

- 65 percent of Wal-Mart's contributions — or almost \$2.5 million — were given in those nine states;
- Wal-Mart favored Republicans while Ernst & Young favored Democrats;
- Winning candidates or incumbents not up for re-election received 92 percent of Wal-Mart donations and 84 percent of Ernst & Young's, an indication that access — no matter the party — was paramount.

The details of efforts by Wal-Mart to reduce its state taxes have come to light in the form of court papers filed as the company defends itself against a North Carolina lawsuit challenging the use of real estate investment trusts (REITs) to avoid some state taxes.¹ The internal correspondence indicates that Wal-Mart hired the firm of Ernst & Young to develop state-specific strategies for exploiting tax loopholes.² From 2000 to 2006, Wal-Mart³ contributed \$3.8 million in 43 states and Ernst & Young nearly \$1.1 million in 13 states, to state-level candidates and party committees.⁴

In 2001, Wal-Mart sought bids from accounting firms on strategies for reducing state taxes in eight states: Arizona, California, Florida, Illinois, Indiana, Michigan, Minnesota and Pennsylvania.⁵ State-level candidates and party committees in those states received \$2.2 million from Wal-Mart between the years of 2000 and 2006, with committees in California collecting more than half of the contributions. The California tax code is considered one of the “most stringent in the country.”⁶

Wal-Mart gave an additional \$205,622 in Texas, where Ernst & Young set up a limited partnership that allowed much of a company's earnings to be transferred out of state.⁷ This practice was used by enough companies that the Texas legislature has since changed the law.⁸

Candidates and party committees in North Carolina, where Wal-Mart's use of REITs is being questioned, received \$27,750. The Attorney General, who brought the case against Wal-Mart,⁹ collected \$4,000 from Wal-Mart in January of 2005 even though he was not up for re-election in 2006.

¹ Jesse Drucker, “Inside Wal-Mart's Bid to Slash Taxes: Ernst & Young Devises Complex Strategies; California Pushes Back,” *Wall Street Journal*, Oct. 23, 2007, sec A, p. 1.

² *Ibid.*

³ This analysis does not include contributions from individuals associated with Wal-Mart.

⁴ Wal-Mart also contributed \$1.2 million to ballot measure committees from 2004 to 2006 but those contributions are not included in this analysis.

⁵ Jesse Drucker, “Inside Wal-Mart's Bid to Slash Taxes: Ernst & Young Devises Complex Strategies; California Pushes Back,” *Wall Street Journal*, Oct. 23, 2007, sec A, p. 1.

⁶ *Ibid.*

⁷ *Ibid.*

⁸ *Ibid.*

⁹ *Ibid.*

Wal-Mart's contributions in the nine states where it considered reducing its share of state taxes totaled almost \$2.5 million, or 65 percent of its contributions from 2000 to 2006.

WAL-MART CONTRIBUTIONS IN STATES WHERE IT PURSUED A TAX-REDUCTION STRATEGY, 2000-2006

STATE	TOTAL
California	\$1,499,392
Florida	\$395,514
Texas	\$205,622
Illinois	\$152,831
Indiana	\$117,077
Pennsylvania	\$65,200
North Carolina	\$27,250
Arizona	\$3,650
Michigan	\$6
TOTAL	\$2,466,542

Party committees received 55 percent of Wal-Mart contributions in the nine states, or \$1.36 million. The top recipient of Wal-Mart funds was the California Republican Party, whose more than \$1 million in receipts comprised 41 percent of Wal-Mart contributions among the nine states.

State legislators, who are responsible for making tax law, collected almost \$929,000 accounting for 38 percent of the donations. Legislators in California, which was “a key state for Ernst & Young’s project,”¹⁰ received 44 percent of Wal-Mart’s contributions to legislators in the nine states where it aimed to reduce its share of state taxes.

WAL-MART CONTRIBUTIONS BY OFFICE IN STATES WHERE IT PURSUED A TAX-REDUCTION STRATEGY, 2000-2006

OFFICE	TOTAL
Party Committee	\$1,361,251
State Legislature	\$929,020
Governor/Lt. Governor	\$131,050
Other Statewide	\$45,221
TOTAL	\$2,466,542

In the nine states where it pursued a strategy of tax minimization, Wal-Mart contributed \$2.17 million to Republican candidate and party committees and \$293,106 to their Democratic counterparts.

Wal-Mart contributed overwhelmingly to candidates who won their races or incumbents who were not up for re-election. Losing candidates received just 8 percent of Wal-Mart’s donations to candidates.

¹⁰ Jesse Drucker, “Inside Wal-Mart’s Bid to Slash Taxes: Ernst & Young Devises Complex Strategies; California Pushes Back,” *Wall Street Journal*, Oct. 23, 2007, sec A, p. 1.

Wal-Mart supported incumbents with 88 percent of its contributions to candidates in the nine states where it pursued a tax-reduction strategy.

With more attention placed on methods employed by Wal-Mart and other companies to avoid state taxes, numerous states are revising their laws to recoup lost tax dollars. Illinois and Texas, two states where Wal-Mart attempted to lower its share of taxes, have already implemented such changes.¹¹ Other states that passed legislation closing tax loopholes are Maryland, Kentucky, New York and Rhode Island.¹² Officials in Connecticut, Massachusetts and Oregon are also considering a revamp of their tax codes.¹³ See Appendix A for Wal-Mart contributions in all 50 states.

ERNST & YOUNG

Wal-Mart consulted with Ernst & Young on tax reduction strategies in at least four states — Arizona, California, Michigan and Texas; Ernst & Young contributed \$574,919 in three of those states. Again, California is the top recipient state accounting for the lion's share of the contributions: 97 percent.

ERNST & YOUNG CONTRIBUTIONS IN STATES WHERE IT PURSUED A TAX-REDUCTION STRATEGY FOR WAL-MART, 2000-2006

<u>STATE</u>	<u>TOTAL</u>
California	\$555,200
Texas	\$13,000
Michigan	\$6,719
TOTAL	\$574,919

Ernst & Young spread almost half of its contributions in the three states to state legislators. The other half was divided roughly equally among governors and lieutenant governors, other statewide officials and party committees.

¹¹ Jesse Drucker, "Inside Wal-Mart's Bid to Slash Taxes: Ernst & Young Devises Complex Strategies; California Pushes Back," *Wall Street Journal*, Oct. 23, 2007, sec A, p. 1.

¹² Jesse Drucker, "Inside Wal-Mart's Bid to Slash Taxes: Ernst & Young Devises Complex Strategies; California Pushes Back," *Wall Street Journal*, Oct. 23, 2007, sec A, p. 1. And Jesse Drucker, "Rhode Island Looks to End REIT Shelter," *Wall Street Journal*, April 27, 2007 [newspaper on-line]; available from <http://online.wsj.com/article/SB117768341127084843.html?mod=bolcnews>; Internet; accessed Oct. 24, 2007.

¹³ Jesse Drucker, "Rhode Island Looks to End REIT Shelter," *Wall Street Journal*, April 27, 2007 [newspaper on-line]; available from <http://online.wsj.com/article/SB117768341127084843.html?mod=bolcnews>; Internet; accessed Oct. 24, 2007. And Jesse Drucker, "States Move to Close Tax Shelter That Benefits Wal-Mart, Others," *Wall Street Journal*, March 7, 2007.

ERNST & YOUNG CONTRIBUTIONS BY OFFICE IN STATES WHERE IT PURSUED A TAX-REDUCTION STRATEGY FOR WAL-MART, 2000-2006

OFFICE	TOTAL
State Legislature	\$277,300
Governor/Lt. Governor	\$98,969
Other Statewide	\$97,350
Party Committee	\$97,000
Supreme Court	\$4,300
TOTAL	\$574,919

Unlike Wal-Mart, Ernst & Young contributed to Democratic candidates and party committees more often than to Republicans. Democrats received nearly two-thirds of Ernst & Young contributions in the three states, or \$375,869, compared to Republicans' \$196,750.

Ernst & Young contributed 84 percent of the money it gave to candidates to those who won their races or who were not up for re-election. Incumbents received 72 percent of Ernst & Young contributions to candidates in the three states where it sought to lower Wal-Mart's state taxes.

APPENDIX A

CONTRIBUTIONS FROM WAL-MART AND ERNST & YOUNG BY STATE, 2000-2006

STATE	FROM WAL-MART	FROM ERNST & YOUNG
Alabama	\$50,847	\$0
Alaska	\$0	\$0
Arizona*	\$3,650	\$0
Arkansas	\$211,796	\$0
California*	\$1,499,392	\$555,200
Colorado	\$7,800	\$0
Connecticut^	\$500	\$0
Delaware	\$23,150	\$0
Florida*	\$395,514	\$10,250
Georgia	\$93,550	\$62,800
Hawaii	\$0	\$1,991
Idaho	\$4,300	\$0
Illinois*^	\$152,831	\$1,000
Indiana*	\$117,077	\$0
Iowa	\$17,000	\$0
Kansas	\$14,898	\$0
Kentucky^	\$19,650	\$0
Louisiana	\$33,695	\$0
Maine	\$12,890	\$0
Maryland^	\$19,350	\$0
Massachusetts^	\$0	\$0
Michigan*	\$6	\$6,719
Minnesota*	\$0	\$0
Mississippi	\$18,500	\$0
Missouri	\$36,995	\$0
Montana	\$5,000	\$0
Nebraska	\$3,000	\$0
Nevada	\$41,500	\$0
New Hampshire	\$8,750	\$0
New Jersey	\$29,000	\$62,050
New Mexico	\$17,121	\$0
New York^	\$118,570	\$337,450
North Carolina	\$27,250	\$5,350
North Dakota	\$500	\$0
Ohio	\$76,500	\$500
Oklahoma	\$56,659	\$0
Oregon^	\$32,000	\$0
Pennsylvania*	\$65,200	\$35,275
Rhode Island^	\$0	\$0
South Carolina	\$24,500	\$20
South Dakota	\$0	\$0
Tennessee	\$32,200	\$0
Texas*	\$205,622	\$13,000
Utah	\$11,500	\$0

Vermont	\$5,800	\$0
Virginia	\$105,465	\$0
Washington	\$97,315	\$0
West Virginia	\$0	\$0
Wisconsin	\$120,625	\$0
Wyoming	\$5,000	\$0
TOTAL	\$3,822,429	\$1,091,605

*States where Wal-Mart pursued a tax-reduction strategy.

^States that have changed or are considering changing their tax laws.