Committee Name:
Senate Committee – Economic Development, Job Creation and Housing (SC–EDJCH)

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A MEMBER OF THE NATIONAL ASSOCIATION OF CHILD ADVOCATES

Shifting to "Single Sales Factor" Taxation of Corporations (SB 197)

The Wisconsin Council on Children and Families opposes the enactment of a large tax cut for 1.5 percent of companies doing business in Wisconsin, without making that change part of a much broader rewrite of corporate tax laws in the state. We have the following concerns about SB 197:

1. This Is the Wrong Time to Enact a Large Tax Cut.

In light of the state's severe budget problems, single sales factor (SSF) apportionment should not be enacted without coupling that change with legislation to close corporate tax loopholes. Linking the SSF apportionment change with the enactment of combined reporting, as Governor Thompson recommended, has two critical advantages. First, it can be done in a cost-neutral way. Second, as we explain below, it can avoid broadening corporate tax loopholes in unanticipated ways. Avrum Lank, who covers business issues for the Milwaukee Journal Sentinel wrote last October that adoption of single-factor taxation in isolation "is as good as repeal" of the corporate income tax.

The state's current fiscal problems were caused to a large degree by the structural deficit created by previous budgets. Unfortunately, the formidable challenge of balancing this budget has led to a number of budget maneuvers that will cause a significant structural deficit again in the next biennium. A phased-in corporate tax cut would exacerbate that problem.

2. Only 1600 businesses (1.5 percent) will benefit from this tax break. 3,900 (3.7 percent) will pay more taxes.

The latest analysis by the Department of Revenue concluded that shifting to single-sales factor apportionment would benefit about 1900 corporations, which is just 1.5 percent of all corporations doing business in the state. Those corporations would pay about $85 million less in taxes. That reduction in state revenue would be partially offset by increased taxes paid by an estimated 3,900 corporations – more than 3.7 percent of the businesses in the state – who would pay roughly $40 million more. Almost 95 percent of corporations doing business in Wisconsin would not be affected.

3. Adoption of this legislation will accelerate the steady decline in the proportion of state taxes paid by corporations.

The share of state taxes paid by corporations has dropped very substantially over the past decade several decades. In 1968, corporate income taxes constituted 12.1 percent of total state general fund revenue. That dropped to 8.8 percent in 1988 and to just 5.0 percent of GPR in fiscal year 2002. According to the January revenue estimates form the LFB, under current law corporate income taxes in FY 2003 would be $490 million, or just 4.8 percent of total GPR. That will drop even further in future years if the states phases in singles sales factor apportionment.

4. The SSF formula is likely to cause some corporations not to locate jobs in Wisconsin.

Proponents of the single sales factor formula argue that it could promote the creation of jobs in Wisconsin because it removes the factors in the apportionment formula for multi-state corporations that potentially discourage them from locating employees and facilities in Wisconsin. What has not been noted is that the SSF formula would also discourage the creation of jobs here. For many multi-state corporations it would increase their state taxes.

The DOR analysis referred to above found that the number of corporations adversely affected by this tax change would be almost 2.5 times greater than the number benefited. Specifically, if a corporation's percentage of sales in Wisconsin is greater than the sum of its percentage of employees and property in our state, it would be better off under the current double-weighted formula than under a formula based solely on its sales in Wisconsin.

Take the hypothetical example of a very large drug company that is considering setting up a bio-tech research facility at the UW-Madison research park or near a campus in another state. The company currently has substantial sales in Wisconsin, but pays no taxes here because it does not have any physical presence ("nexus") in our state. If you accept the premise of SB 197 that taxes are a significant factor in a corporation's business location decisions (although most studies indicate otherwise), the drug company would be better off locating its new facility in a state that uses the current three-factor formula rather than a single-sales-factor formula.

5. Some corporations may eliminate jobs in Wisconsin to avoid the adverse impact of the new formula.

For reasons similar to those noted above, some corporations may actually reduce or eliminate their Wisconsin-based employees. A large multi-state corporation that has a larger percentage of its sales in Wisconsin than its combined percentage of employees and property in the state will face a higher corporate income tax here if the proposed formula change is adopted. However, as a detailed analysis by the Center on Budget and Policy Priorities (CBPP) explains, federal law precludes a state from taxing corporations that do not have a physical presence within the state. Some of the nearly 4,000 businesses that would face more than $40 million in tax increases because of the formula change would probably eliminate employees or restructure their operations to take advantage of the federal law, and thereby totally eliminate the ability of Wisconsin to subject them to a corporate income tax.

6. Without also adopting combined reporting, the cost of the SSF tax cut could grow to be substantially more than currently estimated.

Adopting single sales factor apportionment without also addressing corporate tax loopholes is likely to encourage the growing use of those loopholes. A series of articles in the Capitol Times this spring vividly illustrated that many corporations operating in our state already dodge Wisconsin income taxes. Avrum Lank of the Milwaukee Journal Sentinel wrote in an October 10, 2002, article that the use of those loopholes would grow significantly if the SSF change is adopted. In fact, he said, "single-factor is as good as repeal" of the corporate income tax:

> *"That's because Wisconsin does not require companies to combine the earnings of all their operations on state income tax forms. Madison taxes only the profits of companies doing business here, not their out-of-state subsidiaries. ...Add a single-factor of sales to that mix, and the corporate tax base becomes spongier that a two-by-four being attacked by termites"*

Proponents of the SSF formula often point out that it is used in Minnesota, which has enjoyed a healthy economy. However, it should also be noted that Minnesota uses combined reporting as well, which helps avoid an increased loss of tax revenue as corporations exploit the new tax system by shifting profits to out-of-state subsidiaries.

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MMAC has another way to cut the tax rate

Last Updated: Oct. 9, 2002

Avrum D. Lank
E-MAIL | ARCHIVE

In its Blueprint for Economic Prosperity, the Metropolitan Milwaukee Association of Commerce stopped short of calling for the repeal of Wisconsin's corporate income tax.

Instead, it backed the use of Wisconsin sales as the single factor in determining how much of the earnings of multistate companies Madison can tax.

Don't worry, MMAC members. Single-factor is as good as repeal. That's because Wisconsin does not require companies to combine the earnings of all their operations on state income tax forms. Madison taxes only the profits of companies doing business here, not their out-of-state subsidiaries.

That loophole has been exploited by modern tax planners to let companies with subsidiaries in several states slice and dice their operations so that any part doing business in Wisconsin has few profits to tax. Add a single-factor of sales to that mix, and the corporate tax base becomes spongier than a two-by-four being attacked by termites.

With both Republican Gov. Scott McCallum and his Democrat opponent Attorney General Jim Doyle in favor of single-factor and against combined reporting, MMAC has a good chance of getting that part of its blueprint enacted soon.

But before the next governor and Legislature throw this sop to business, they would do well to consider two articles in State Tax Notes, a scholarly journal followed by tax professionals across the nation.

In the Sept. 9 issue, Charles E. McLure Jr. and Walter Hellerstein argue that single-factor apportionment violates international trade rules. McLure is a senior fellow at the Hoover Institution at Stanford University and Hellerstein is a professor of taxation at the University of Georgia Law School.

They say that basing corporate income taxes only on sales to state residents unfairly subsidizes exports. That is because the cost of untaxed out-of-state sales is lower to the manufacturer than in-state sales that are taxed. Such export subsidies are illegal under international trade rules.

It is hard to imagine the World Trade Organization taking action against Wisconsin for subsidizing the sale of motorcycles to Iowa. But an action for subsidizing sales of motorcycles to France is more imaginable, even if a bit farfetched.

An argument debunked

The second article, by Michael J. McIntyre, a law professor at Wayne State University in Detroit, is more broad-ranging.

In "Thoughts on the Future of the State Corporate Income Tax" in the Sept. 23 issue, McIntyre argues that the pendulum allowing businesses to gut state corporate income taxes is about to swing the other way.

"The state corporate income tax very clearly is under pressure from powerful and cunning enemies," he writes. "But times may be changing. We have already seen a sea change over the past year in the public reputation of the major accounting firms" that help companies avoid state taxes and lobby for law changes to help the process along.

In the article, McIntyre takes on a major argument of those favoring a reduction or even elimination of corporate taxation - that customers, not businesses, actually pay the tax.

"This claim is at best misleading," he says. "Everyone in the tax business understands that the corporate income tax is paid out of revenues received from customers. The . . . question is whether the tax results in higher prices to customers, lower after-tax profits to the corporation, or lower payments to workers or suppliers."

To McIntyre the answer is clear: The taxes come out of corporate profits, which is why companies fight so hard to lower taxes. Were it not so, prices would fall when taxes do, and that does not happen.

That also explains why corporate lobbyists fight for lower business taxes. "From their actions, it is clear they believe (corporate taxes are) paid by their clients and not passed forward to consumers or backward to workers and suppliers," McIntyre writes of the lobbyists. "They may be wrong, although most intelligent people . . . tend to be right about their own narrow self-interest."

Reform requires risk

Corporate lobbyists consistently argue that combined reporting is bad for a state's business climate, as it sends an unfriendly message to entrepreneurs.

McIntyre is not so sure.

"Big accounting firms and their corporate clients hate combined reporting with a passion," he writes. "The reason is simple - combined reporting works. . . . It has been sanctioned by the U.S. Supreme Court. It rests on the unassailable theory that substance should prevail over form and that a corporate group should not be able to change its tax liability by incorporating its branches."

Given all of this, McIntyre argues that the time has come to reverse the pendulum and swing it back toward a corporate income tax with teeth.

"Declining revenue has always been a precondition for tax reform," he notes. "That precondition is now being met in almost every state in the union," including most emphatically Wisconsin, where the next governor faces an estimated budget deficit of $2.8 billion.

To McIntyre, adoption of combined reporting by every state would be a good start. But, he adds, "reform will require serious people taking serious political risk."

Wisconsin's leaders fail on both of those requirements, which is why the MMAC can be so confident that its proposal for single sales factor has a good chance of passing.

Appeared in the Milwaukee Journal Sentinel on Oct. 10, 2002.

Avrum D. Lank Archive

About Avrum D. Lank

Avrum D. Lank is business and financial columnist for the Milwaukee Journal Sentinel. He joined the Milwaukee Sentinel, a predecessor to the Journal Sentinel, in 1974 and has covered business issues in Milwaukee and Wisconsin since 1982.

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TED KANAVAS

STATE SENATOR

Date: **Friday, June 13, 2003**

To: **Members of the Senate Economic Development, Job Creation and Housing Committee**

From: **Senator Kanavas**

Re: **Testimony in support of Senate Bill 197 - "Single Sales Factor"**

Background:

Wisconsin's tax formula allocates corporate income to the state by comparing the corporation's sales into Wisconsin with its total sales, its payroll in Wisconsin with its total payroll and its property in Wisconsin to its total property. Currently, a multi-state corporation in Wisconsin is taxed 50% on its sales and 25% on its property and payroll each. This bill will change the allocation to be based solely on the sales factor (100% sales) instead of the current three-factor combination of sales, property and payroll. The bill also has a 3-year phase-in component starting in the next biennium so there will be no fiscal effect during these tight fiscal times.

How do we compare to our neighbors? (MN taxes 75% on sales, MI taxes 90% on sales, while Iowa and Illinois are already at 100% sales or single sales factor)

- We must send the right message to manufacturers and businesses that are deciding on where to locate capital. Especially when our neighboring states are directly competing with us and already offering single sales factor apportionment.
- Every time a multi-state corporation adds jobs somewhere, Wisconsin is automatically at a huge disadvantage for those jobs because we do not offer single sales.
- State government should help promote not hinder economic growth, We in the Legislature can do a lot to promote technology and infrastructure, develop greater investment and venture capital incentives and allow businesses to locate, expand, grow and provide better, higher paying jobs.
- This component is an essential part of growing Wisconsin's economy. I've been working on a growth plan with other members of the Senate GOP that will focus on:
  - **INFRASTRUCTURE ENHANCEMENT & GROWTH**
    Manufacturing, Agriculture and Tourism Revitalization
    Increased Educational Opportunities Existing and Future Workforce
    Improve and Strengthen Telecommunications and Public Utility Infrastructure
  - **REGULATORY REFORM & TAX RELIEF**
    Streamline & Reform State Regulations on Businesses
    Streamline Permit Application Process
    Rethink Wisconsin's tax structure to remove competitive disadvantages with other states
  - **PROMOTE GREATER CAPITAL INVESTMENT**
    Tax credits for investments in venture capital and start up
    Incentives for bringing UW Technology to the market place to create Wisconsin jobs
    Enhance Development Zones/Development Clusters and Border Zones
- We want to show the rest of the country why Wisconsin is the place to grow and expand their business. And, to do this, we must be competitive.
- Republicans will lead by taking action on important legislation in June to add the spark plug to Wisconsin's economy including: phasing-in single sales factor, utility plant siting and financial modernization.

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REPRESENTING WISCONSIN BUSINESS

Wisconsin Manufacturers & Commerce

Memo

TO: Members of the Senate Economic Development, Job Creation Housing Committee

FROM: Joan Hansen, Director of Tax and Corporate Policy

DATE: June 13, 2003

RE: 2003 Senate Bill 197: Corporate Apportionment

Wisconsin Manufacturers and Commerce strongly supports Senate Bill 197 and has supported the move to single sales factor corporate apportionment the past several sessions. The business community is appreciative of the bi-partisan support this legislation has enjoyed for many sessions.

If a corporation does business in more than one state, its income must be fairly apportioned among the taxing states. In other words, no one state can tax the corporation's entire income. The current formula allocates income to the state by comparing the corporation's sales into Wisconsin with its total sales, its payroll in Wisconsin with its total payroll and its property in Wisconsin to its total property.

SB 197 proposes to make the allocation based on the sales factor only on a four-year phase-in basis. This is commonly referred to as the single sales factor apportionment method of taxation. This means multi-state corporations will be taxed based only on sales instead of the current combination of sales, property and payroll. For insurance companies, financial institutions and utilities, a similar approach would be used.

The adoption of SB 197 is important at this time for many reasons, but the most significant is the state of our economy -- it remains stagnant. According to the 2003 WMC survey of its Board of Directors, Wisconsin industry executives predict the state's economy will remain flat over the next 12 months. They sited their top business concern as the economic slowdown - and for good reason - Wisconsin has already lost 66,000 manufacturing jobs in the last three years and has the highest unemployment in nearly 20 years.

SB 197, however, sets the stage for positive fundamental reform that will enhance the climate for economic development and job creation in Wisconsin. It sends a clear message that Wisconsin can and will be competitive in attracting and maintaining jobs here. It sends a message to citizens that the jobs tax will be eliminated, increasing the potential for the creation of high-paying manufacturing jobs.

Under current law, and as ridiculous as it sounds, every time a multi-state business creates a job or expands their facility in Wisconsin they get a tax increase. Under SB 197 homegrown businesses would not be penalized for keeping and creating jobs in Wisconsin as they are under current law.

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A new feature of Wisconsin's single factor apportionment is that SB 197 also provides an added incentive for those businesses that create one-hundred new jobs immediately. They will move to the single sales factor apportionment immediately. This provision is a true incentive to grow Wisconsin's economy.

Finally, in terms of neighboring states, SB 197 will also even the playing field among neighboring states have single factor. Wisconsin's multi-state corporations are penalized in the states that already have passed the single-factor sales apportionment method. Most of the surrounding states (Iowa, Michigan, Illinois, Minnesota), and many others have either fully adopted or are phasing in this formula.

SB 197 is about protecting our economic future -- keeping high-paying jobs here, creating more high-paying jobs, and remaining competitive in a global market. With an increasingly technology based economy, it is becoming easier for corporations to locate anywhere. States with a reputation for over-regulation and high taxation will lose out in the long run.

For these reasons, WMC urges the Committee's support of SB 197.

Handout A

BASIC CORPORATE INCOME TAX APPORTIONMENT FORMULA

$$\frac{\text{Property in State}}{\text{Property Everywhere}} + \frac{\text{Payroll in State}}{\text{Payroll Everywhere}} + \frac{\text{Sales in State}}{\text{Sales Everywhere}} \;/\; 3 = \text{Apportionment \%}$$

$\boxed{\textbf{Handout B}}$

CURRENT WISCONSIN CORPORATE INCOME TAX APPORTIONMENT FORMULA

$$\frac{\text{Property in State}}{\text{Property Everywhere}} + \frac{\text{Payroll in State}}{\text{Payroll Everywhere}} + \left[\frac{\text{Sales in State}}{\text{Sales Everywhere}}\right] 2 \;/\; \text{4 Factors} = \text{Apportionment \%}$$

Double-Weighting

State Taxable Income x Apportionment Factor = Taxable Income in Wisconsin

Taxable Wisconsin Income x State Corporate Tax Rate (7.9%) = State Tax

Handout C

DOUBLE-WEIGHTING SALES FACTOR EXAMPLE

An example of how increased sales weighting can be used to attract manufacturing, consider two corporations that both do business and pay taxes in Illinois and Wisconsin. Assume that Illinois Corporation and Wisconsin Corporation each have taxable income of $1,000,000. Illinois Corporation has 100 percent of its property and payroll located in Illinois and makes 50 percent of its sales in Illinois and 50 percent in Wisconsin. Conversely, Wisconsin Corporation has 100 percent of its property and payroll located in Wisconsin and makes 50 percent of its sales in Wisconsin and 50 percent in Illinois, Both Illinois and Wisconsin use three-factor apportionment formulas with double-weighting on sales. Assume both Illinois and Wisconsin levy a 5 percent tax rate on corporations. Illinois Corporation and Wisconsin Corporation each have a $50,000 state tax liability, which is distributed as follows:

	Illinois Taxes	Wisconsin Taxes	Total Taxes
Illinois Corp.	$37,500	$12,500	$50,000
Wisconsin Corp.	$12,500	$37,500	$50,000
Total Taxes	$50,000	$50,000	

Computations: Illinois Corp. apportions [100% = 100% = 2(50%)] / 4 = 75% of its income to Illinois and apportions [0% = 0% = 2(50%)] / 4 = 25% to Wisconsin. Conversely, Wisconsin Corp. apportions [100% + 100% + 2(50%)] / 4 = 75% of its income to Wisconsin and [0% + 0% + 2(50%)] / 4 = 25% to Illinois.

Source: The Economic Impact of Single Factor Sales Apportionment for the State of Illinois: Job Creation and Tax Revenue (pages 6 and 7).

SINGLE SALES FACTOR EXAMPLE

Now assume that Illinois adopts single-factor sales apportionment, while Wisconsin continues to use its three-factor formula with double-weighting of sales. Now the distribution of taxes will be as follows:

	Illinois Taxes	Wisconsin Taxes	Total Taxes
Illinois Corp.	$25,000	$12,500	$37,500
Wisconsin Corp.	$25,000	$37,500	$62,500
Total Taxes	$50,000	$50,000	

Computations: Illinois Corp. apportions 50% of its income to Illinois and apportions [0% = 0% = 2(50%)] / 4 = 25% to Wisconsin. Conversely, Wisconsin Corp. apportions [100% + 100% + 2(50%)] / 4 = 75% of its income to Wisconsin and 50% to Illinois.

As before, both Illinois and Wisconsin continue to each collect $50,000 in taxes. However, $12,500 of the Illinois tax burden was "exported" to the Wisconsin firm. Illinois Corporation taxes were reduced from $50,000 to $37,500. This effectively lowers the cost of manufacturing in Illinois and increases the cost of manufacturing outside of Illinois.

Source: The Economic Impact of Single Factor Sales Apportionment for the State of Illinois: Job Creation and Tax Revenue (pages 6 and 7).

EXAMPLE OF DOUBLE-WEIGHTING SALES FACTOR VS. SINGLE-WEIGHT VS. SINGLE-FACTOR

Assume: 80% payroll + property in state
20% sales in state

Double-Weighting: $\dfrac{.8 + .8 + 8(.2 \times 2)}{4}$ = 50% of income to be apportioned to Wisconsin

Single-Weight $\dfrac{.8 + .8 + .2}{3}$ = 60% of income to be apportioned to Wisconsin

Single Sales Factor would apportion 20% of income to Wisconsin instead of 50% under current law.

Statement of Fred Shaffer
In Support of Senate Bill 197

Senate Committee on Economic Development,
Job Creation and Housing
June 13, 2003

Good afternoon. My name is Fred Shaffer and I am the Senior Director for Government Affairs for Kimberly-Clark Corporation. Kimberly-Clark is a leading global manufacturer of tissue, personal care and health care products. The company's global brands include Huggies, Pull-Ups, Kleenex, Kotex, Depend, and Scott. The company has manufacturing operations in 42 countries and sells its products in more than 150 countries.

The K-C World Headquarters is in Dallas, TX, but the company was founded in Neenah in 1872, over 130 years ago. K-C has manufacturing operations in about 18 states, but it has over 6,000 employees in Wisconsin-more than in any other state. The K-C payroll is highest here and the value of K-C assets is greater in Wisconsin than in any other state. Finally, K-C pays more in taxes to Wisconsin than to any other state.

We support SB 197 and encourage your support for changing the corporate income tax apportionment formula in Wisconsin. As you are aware, under Wisconsin law, multi-state businesses like Kimberly-Clark are required to apportion their income among the states in which they do business. This apportionment formula can get quite technical for those of us who are not tax professionals. However, let me make a few points clear:

- First, this formula is simply a way to divide the income of a multistate corporation among the states in which its business is conducted. This is necessary because it often is difficult to separately determine the amount of income earned and expenses associated with a particular state.
- Of the 45 states with a corporate income tax, most originally used some version of a three-factor apportionment formula based on property, payroll, or sales. *However, there is no requirement that each state use the same formula.*
- States have changed their formulas over time, not because it results in fairer corporate tax collections, but *to encourage economic development and job creation.* In fact, Wisconsin made such a change in the 1970's when it decided to give more "weight" to the sales factor and less to the property and payroll factors.
- With any change such as that contemplated by SB 197, there are winners and losers. These changes typically favor those companies that have made significant investment in the state and result in somewhat higher taxes for those that have not.
- However, *instituting a single-sales factor will have no effect on the taxes paid by those businesses whose property, operations and income are entirely in Wisconsin.* These businesses constitute 80% of all corporate taxpayers. Multi-state companies represent only 20% of corporate taxpayers, but they pay almost 70% of the corporate income taxes.
- Any savings realized by Wisconsin-based companies from SB 197 will not be a "windfall", but *will in part offset the higher taxes they now face from similar laws being enacted in those states where the companies have little or no property or payroll.*

Studies conducted here and in other states indicate that increasing the weight of the sales factor has significant positive effects on in-state employment. We believe that switching to a single sales factor will have a long-run impact of increasing the number of manufacturing jobs in Wisconsin.

In contrast, the current three-factor formula, which includes payroll, in effect penalizes Wisconsin employers with high-paying jobs, since this higher payroll correlates with higher corporate income taxes. The same is true for any business considering expanding in Wisconsin, since the higher property figure will also result in more income being allocated to this state.

We appreciate everything that has been done by the Wisconsin legislature and a series of governors over the last 25 years to make our business tax picture more competitive. This includes everything from the property tax exemption for manufacturing machinery and equipment to the credit for electricity used in the manufacturing process. The move by Wisconsin in the 1970's to double-weight the sales factor was an important first step in creating a climate that encourages the creation of new jobs and expanding businesses. However, other states are taking action as well and in today's markets, you sometimes have to move as fast as you can, just to avoid falling behind. Our current economic climate makes this a challenging time for everyone, but we hope that this legislature will continue working for a pro-business tax climate in Wisconsin by passing SB 197 and going to a single sales factor for corporate income tax apportionment.

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June 13, 2003

MEMORANDUM TO: Senate Committee on Economic Development, Job Creation and Housing

FROM: Edward J. Wilusz
Director, Government Relations

SUBJECT: **Single Sales Factor Income Apportionment Formula (SB 197)**

SB 197 would shift Wisconsin to a single sales factor income apportionment formula for income and franchise taxes. This change would be phased-in over several years, becoming fully effective in 2008.

The Wisconsin Paper Council strongly supports SB 197.

Most states, including Wisconsin, use an apportionment formula including business property, payroll, and sales when determining the taxable income of multi-state corporations. To avoid increasing taxes on companies that expand in the state, Wisconsin double-weighted the sales factor beginning in 1974. This favors in-state development by placing greater tax emphasis on out-of-state (sales) activity.

The trend in recent years has been for states – particularly states bordering Wisconsin – to shift to a single-factor apportionment system based only on sales. These states give as much advantage as possible to in-state companies and shift as much tax burden as possible to out-of-state companies. As a result, Wisconsin is at a corporate income tax disadvantage compared to single-factor states.

Wisconsin should adopt a single-factor apportionment system for the following reasons:

- The more heavily the sales factor is weighted in a business's home state, the greater the incentive for the business to expand in the home state. A single-factor system provides the maximum incentive for businesses to expand in Wisconsin.

- Corporations that are headquartered or that have the majority of their facilities in a single-factor state will have a lower effective tax rate than businesses located in three-factor states, giving these corporations a competitive advantage.

- Conversely, Wisconsin corporations are at a tax and competitive disadvantage compared to corporations in states that already have single-factor systems, like Illinois, Michigan, and Iowa.

- Independent studies have shown that there is a direct correlation between enactment of a single-factor system and increased business growth and employment.

Although Wisconsin remains the #1 papermaking state in the nation, the paper industry in the United States has been in a prolonged recession due to fierce global competition. Adoption of a single-factor apportionment system would help improve the competitiveness of Wisconsin's paper industry and help insure that Wisconsin remains #1 in the future.

We strongly urge you to support SB 197.