

# Who Does Not Pay Taxes?

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## Firestorm erupts over SC Johnson tax non-payments

### After false start, company finally acknowledges use of extreme tax-avoidance techniques

It took awhile, but SC Johnson (SCJ) eventually fessed up to its tax-avoidance schemes.

It started when the last issue of this publication disclosed that SCJ paid no state income tax in 2000-2008. This prompted an SCJ insider to release a secret tax-avoidance report prepared for the firm in 2006 by accounting giant PricewaterhouseCoopers (PwC). The report went anonymously to the Institute for Wisconsin's Future and to David Cay Johnston, a Pulitzer Prize-winning tax columnist for Reuters global news service.

The PwC report noted that SCJ offset its Wisconsin profits by deducting the interest paid on a multi-hundred-million-dollar loan it took from its own Puerto Rican subsidiary. It also used royalty payments from one branch of the firm to another to avoid Wisconsin profits. Johnston wrote:

***“The PwC document offers powerful evidence that tax avoidance, not economic substance, enabled the main family business to escape Wisconsin state taxes...Why must ordinary Wisconsin businesses and individuals bear the burden of state government while the richest family in the state runs tax-free enterprises?”***

Source: <http://blogs.reuters.com/david-cay-johnston/2011/08/26/wiping-out-wisconsin-taxes/>

SCJ replied by claiming a state Research & Development (R&D) tax credit enabled it to avoid taxes. It was all about high tech jobs for Wisconsin, the company implied. A spokesman told the Caledonia and Mount Pleasant editions of *Patch.com*:

***“SC Johnson (SCJ) has not owed Wisconsin state income taxes for the last several years due to a 1984 Wisconsin R&D tax credit, which encourages companies to move R&D jobs to the state.”***

Source: <http://caledonia.patch.com/articles/scj-state-income-tax-called-into-question>

Days later, SCJ trashed columnist Johnston and again played the R&D gambit. A press release said the column was:

***“Sensationalist...questionable sources... twisting facts...completely misleading ... drag us through the mud...lacks the facts... journalistic irresponsibility ...unscrupulous... If the Wisconsin legislature decides there is benefit in changing the R&D tax credit versus attracting and retaining jobs in the state, SC Johnson would of course pay whatever taxes would be assessed.”***

Source: [http://www.wisconsinfuture.org/tax\\_pages/SCJohnson/SCJohnson%20statement%208.30.11.pdf](http://www.wisconsinfuture.org/tax_pages/SCJohnson/SCJohnson%20statement%208.30.11.pdf)

Finally, pressed by the *Milwaukee Journal Sentinel*, SCJ acknowledged 16 tax-free years and admitted R&D was irrelevant. The paper reported:

***“[IWF] first used publicly available state records to reveal the zero liability from 2000 to 2008. Then the company confirmed it, and told us the streak continued in 2009 and 2010 -- and that it started in 1995...The internal documents show the company didn't use those research and development tax credits in 2006, and the company later confirmed that for us. In fact, SCJ did not claim them at all in the 2000 to 2008 time period...the company has now acknowledged.”***

Source: <http://www.politifact.com/wisconsin/article/2011/sep/11/inside-sc-johnson-vs-david-cay-johnston-dispute-co/>

A headline in *Patch* summed up SCJ's about-face:

***“SC Johnson Admits Tax Document Mostly Correct After Saying Otherwise”***

Source: <http://mountpleasant.patch.com/articles/sc-johnson-admits-tax-document-mostly-correct-after-first-issuing-denials>

But SCJ may still get the last laugh. Because of a change snuck in at the very end of budget debates, the state tax rate on manufacturers' profits will plunge from 7.9% to 0.4% by 2017. SCJ won't need fancy maneuvers to avoid taxes.

## NEXT ISSUE: Four big manufacturers who aren't paying taxes



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