

Harley-Davidson: It's not about state revenue policy

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With the recession lingering, Harley-Davidson—one of Wisconsin's premier manufacturers—announced it was seeking \$54 million in concessions from the unions representing 1,400 production employees in Menomonee Falls and Tomahawk. Without concessions, the company warned, it would consider moving its headquarters and manufacturing operations out of Wisconsin, its home since the company was founded in Milwaukee in 1903.¹

Harley officials made two somewhat unusual requests in the aftermath of their announcement. One was to try to keep Harley from becoming a political football during this election year. Milwaukee Mayor Tom Barrett, after meeting with top executives, said: "They have made it clear to us that they do not want this issue politicized."²

The other was to keep taxes out of the issue. Given repeated opportunities to link the Harley situation with state tax policies, Harley denied a link. Mayor Barrett said that executives "did not ask about tax incentives to stay in Wisconsin, nor did they offer criticisms of the state's combined reporting tax rules." Harley spokesman Bob Klein said: "We really haven't taken a public stance on combined reporting," a recent change in corporate income tax law.³

But Harley-Davidson's own words have been ignored by conservatives who have exploited the emotionally sensitive situation into a forum for attacking state revenue policies.

Ironically, Harley-Davidson's Wisconsin taxes have dropped dramatically over the past five years. Its state income tax bill plummeted from nearly \$23 million in 2005 to just under \$1 million in 2008. [The drop in pre-tax profits was proportionately much, much less, from \$1.5 billion to \$1.0 billion.]

Harley's effective tax rate—Wisconsin income tax as a percentage of worldwide profits—plummeted. In 2005, the company paid 1.5% of pre-tax profits in Wisconsin income tax. By 2008, that had dropped to less than 0.1% of profits.

In February 2009, Wisconsin had reformed the corporate income tax by enacting what is known as "combined reporting." This closed loopholes that many large corporations were using to avoid paying Wisconsin income tax.

Many of the nation's largest firms had been able to avoid paying corporate income tax in Wisconsin or to drastically reduce the amount of income tax they paid. Mega-businesses

¹ We are grateful to Michael Mazerov, of the Center on Budget and Policy Priorities, for invaluable help.

² Larry Sandler and Bill Glauber, "[Barrett says Harley-Davidson wants politics kept out of decision on move](#)," *Milwaukee Journal Sentinel*, posted April 30, 2010.

³ Andrew Weiland, "The Hog Tax: Should combined reporting be repealed?" *BizTimes.com*, May 14, 2010.

including Microsoft, PepsiCo, McDonald's, General Electric, Merck and Apple paid zero in Wisconsin income tax, despite the fact that some portion of their worldwide profits came directly from sales in Wisconsin.⁴

Combined reporting is designed to ensure tax fairness. Because some large corporations were able to use legal techniques to eliminate their Wisconsin tax liability, other firms—all other taxpayers, in fact—were required to pay more to make up the difference. It was a slanted playing field favoring the largest companies willing to be the most aggressive in their tax-avoidance tactics.

In April 2009, Harley-Davidson noted in its quarterly earnings report that as a result of the then-newly passed combined reporting law, it would take a \$22.5 million bookkeeping charge. That announcement attracted little attention at the time.

However, now some tax critics are talking about this *one-time* charge as if it were a yearly tax or a cash payment that Harley had to make to the state. Neither is true.

This is what Harley wrote in its quarterly earnings report: “The Company also incurred a one-time \$22.5 million tax charge related to a change in Wisconsin tax law ... which resulted in the Company establishing a valuation allowance of \$22.5 million related to net operating loss carry-forwards.”

What Harley is saying is that this was a one-time only bookkeeping change related to its estimate of future state income taxes. It was not a cash payment to the state, but rather a changed estimate of what taxes are likely to be owed over a period of years into the future.

Harley Davidson state income taxes are lower now than in 2005.

Combined reporting is not the only recent change to Wisconsin's corporate income tax. In 2006, the state began phasing in a new approach to the tax. At issue was how much of a company's worldwide profits should be attributed to Wisconsin—and hence should be taxable in Wisconsin.

The old system relied on three factors: Wisconsin's share of total company sales; Wisconsin's share of total company employment; and Wisconsin's share of total company property value. [The formula double-counted the sales factor.]

The new system—known as single sales factor—ignores employment and property value and relies exclusively on sales.

The change was designed to help manufacturers like Harley, which have extensive operations in the state (employees and property) but only a small bit of their global sales. The new system—

⁴ See, for example, *Wisconsin's Revenue Gap: An analysis of corporate tax avoidance*, by the Institute for Wisconsin's Future. Available at: <http://wisconsinsfuture.org>.

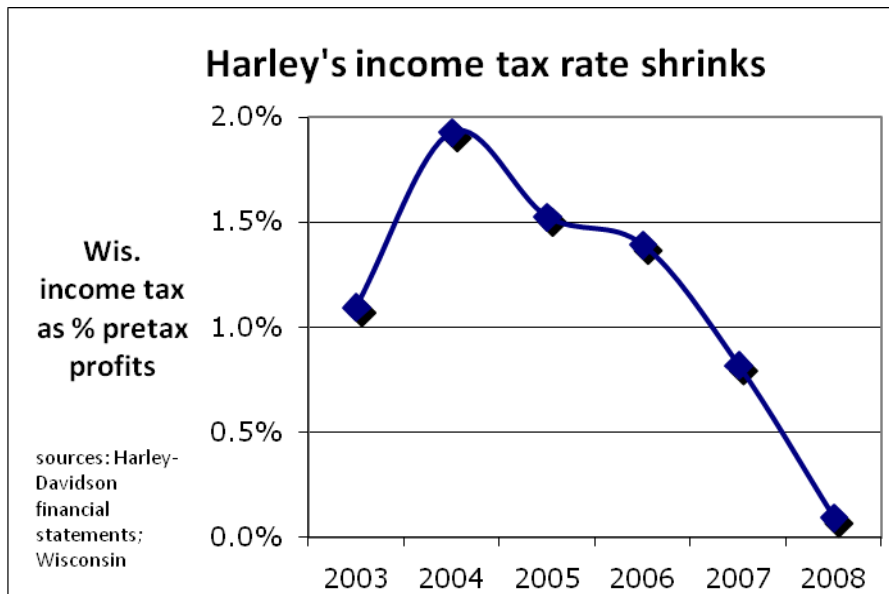
phased in during 2006, 2007 and 2008—reduced taxes on such firms while raising them on firms that have sales in Wisconsin but no employees or property.

If the change had not been made and Harley had continued to pay taxes at its 2005 rate, then in 2008 its income tax bill would have been \$16 million instead of \$1 million. That’s how much Harley saved in one year alone by the conversion to the single-sales approach to Wisconsin taxes. Even with combined reporting, Harley-Davidson’s tax bills in Wisconsin are markedly lower now than a few years ago. See charts for details.

Harley-Davidson's state income tax plunges
Wisconsin income tax for Harley-Davidson Inc. and subsidiaries

	Wisconsin income tax	Pretax profits	Income tax as percent of profits
2003	\$12,781,771	\$1,166,035,000	1.10%
2004	\$26,596,526	\$1,379,486,000	1.93%
2005	\$22,697,039	\$1,487,759,000	1.53%
2006	\$22,613,756	\$1,624,240,000	1.39%
2007	\$11,865,662	\$1,447,819,000	0.82%
2008	\$967,570	\$1,033,977,000	0.09%

sources: Harley-Davidson financial statements; Wisconsin Department of Revenue



Further, Harley has not always used tax benefits to which it was entitled. In 2006, Wisconsin offered the firm a \$4.5 million tax incentive package to support an expansion of its Wisconsin

operations. But the company did not proceed on its expansion plan, and the credits went unused.⁵

Harley-Davidson corporate decisions do not hinge on combined reporting rules.

Harley does not avoid doing business in combined reporting states. It would be hard to do that, because 23 states—a majority of states with a corporate income tax—have combined reporting.

Illinois has combined reporting, but Harley's profitable financing operation is headquartered in Chicago. This financing business loans money for Harley dealers to maintain inventory and for Harley customers to buy their motorcycles. Since 2000, finance operations have generated between 5% and 13% of Harley's total pre-tax profits. But the firm keeps the finance headquarters in Illinois, a combined reporting state.

Last year Harley announced that it was consolidating its three sites for road testing into a single site in Arizona. Arizona is a combined reporting state, but this did not stop Harley from using the state as its exclusive location for motorcycle testing.

States with combined reporting maintain the same (or higher) employment levels compared to states without this law.

Employment data from the U.S. Bureau of Labor Statistics show there is no significant difference in the employment performance in states with combined reporting and states without combined reporting. This is true both for manufacturing jobs and jobs in the service sector and regardless of the time period analyzed.

- Over the past decade, from January 2000 through February 2010 (the latest month for data), goods-producing industries in states with combined reporting saw a median employment decline of 27%. Among states without combined reporting, the median change was worse, a decline of 29%.
- Since January 2005, the median loss in goods-producing jobs in combined reporting states was 18%. The median in states without combined reporting was worse at 22%.
- Since the recession began in December 2007, the median loss in combined reporting states was 21%; in states without combined reporting, 23%.
- And in the past year—February 2009 to February 2010, the year in which combined reporting has been in place in Wisconsin—the median loss for combined reporting states was 9% compared with a 10% loss for states without combined reporting.

⁵ Rich Rovito, "State tax credits offerered in 2006 never used," *The Business Journal serving Greater Milwaukee*, May 7, 2010.

In other words, for goods-producing jobs, in every time period, states with combined reporting generally fared better than states without combined reporting. The same is true for service-producing jobs:

- Over the ten-year period, combined reporting states gained a median of 7% in service jobs while states without combined reporting gained 6%.
- Over the past five years, combined reporting states gained a median of 3% in service jobs while the other states gained 1%.
- Since the recession began, combined reporting states lost 5%, the same as states without.
- In the year since Wisconsin adopted combined reporting, both groups of states reported a median decline of 1%.

Combined reporting does not hinder a state's ability to attract or retain jobs, either goods-producing or service-producing jobs.

Those who continue to use Harley-Davidson to attack Wisconsin revenue policies, and those who argue that combined reporting damages a state's job totals, are all making spurious claims unsupported by the facts.