Issue brief

What is Combined Reporting?

Combined reporting is one of two corporate income tax systems used by states to determine the corporate income tax base for multistate corporations with multiple businesses and entities.

Combined reporting treats affiliated taxpayers (parents and subsidiaries) engaged in a unitary business as a single entity for the purpose of determining taxable income. Under combined reporting companies would pay the Corporate Net Income tax to Pennsylvania based on a percentage of all of their operations, whether located in the commonwealth or not.

The other method, separate filing, treats each corporation as a separate taxpayer. Pennsylvania is currently a separate filing state, meaning companies now pay the CNI tax based solely on their operations in Pennsylvania, and pay the appropriate state taxes to each other state where they have operations.

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MYTH: Combined reporting will close the so-called "tax loopholes" that allow companies to avoid paying taxes (i.e. Delaware holding/passive investment companies).

REALITY: Combined reporting is a tax system, not a "loophole-closer." The state Department of Revenue already has sufficient authority to address any activities designed solely to avoid tax, including requiring a specific company to utilize combined reporting. The PA Chamber has even volunteered to sit down with the administration to identify abuses within the system. Further, combined reporting would impact companies that do not have passive investment companies.

MYTH: Combined reporting will increase the revenues that Pennsylvania collects from businesses.

REALITY: There is no statistical evidence that states enforcing combined reporting collect more tax revenues than states that employ separate filing. [1]

MYTH: A majority of PA businesses subject to the CNI tax aren't paying their fair share.

REALITY: There are legitimate reasons why a company may not pay the CNI: the company may have lost money or broke even, or offset its tax liability with the use of tax credits, etc. The administration has even testified that under combined reporting, more than half of businesses will *still* legitimately not pay any taxes for these reasons.[2]

MYTH: Combined reporting will shift the tax burden from "in-state" to "out-of-state" companies.

REALITY: Combined reporting merely shifts the tax burden *among* multistate employers, creating winners and losers within the system. In fact, "out-of-state" employers may benefit—in a recent Colorado case, an "out-of-state" employer saved more than $8 million in one year by combining its subsidiaries.[3]

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[1] William F. Fox, Director, "An Evaluation of Combined Reporting in the Tennessee Corporate Franchise and Excise Taxes," The University of Tennessee Center for Business and Economic Research, January 2009.
[2] Letter From PA Department of Revenue Secretary Thomas Wolf to Representative Steven Nickol, May 16, 2007
[3] *Cendant Corp. & Subsidiaries v. Colo. Dept. of Revenue,* Dist. Ct., City & County of Denver, Colol, No. 07 CV 676, 1/7/08.

The Bottom Line

- Combined reporting adversely affects industries that are crucial to Pennsylvania's economy: manufacturing, business services and trade. There are plenty of examples of firms that would pay 50 percent or even 100 percent more in business taxes under combined reporting.[4]
- Unclear details and undefined terms (such as "unitary business") are prone to litigation, ultimately leading to revenue uncertainties for the tax-collecting state.
- A tax change of this magnitude means more compliance and administrative costs, ultimately growing the state bureaucracy.
- CNI collection increased by more than 78%—more than five time the rate of the sales tax growth and nearly twice the rate of personal income tax collections growth.
- PA Business already pay more than $23 billion in taxes.[5]
- We need no further disincentive for global companies to locate and operate in PA.

Advocacy

The legislative staff of the PA Chamber regularly provides comments for various media outlets on the implications of combined reporting and has testified before legislative committees on the impact combined reporting would have on the business community. Additionally, the PA Chamber provides publications to educate its membership about the consequences of combined reporting.

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4 *An Evaluation of Combined Reporting in the Tennessee Corporate Franchise and Excise Taxes,* William F. Fox, January 2009
5 Council on State Taxation Report: *Total State and Local Business taxes: 50 State Estimated for Fiscal Year 2008,* published in 2009.