

Outline for combined reporting report

1. Separate entity vs combined reporting
 - a. Brief description of the issue
 - b. Rationale for combined reporting
 - i. With synergies, cannot assign true income to a single entity
 - ii. Prevent profit shifting
 - c. Mechanics of combined reporting
 - i. Unitary group
 - ii. Elimination of intercompany transactions within group
 - iii. Nexus issues: Joyce vs Finnegan
 - iv. How are losses and tax credits treated?

2. Pros and cons of combined reporting
 - a. Pros
 - i. Model statutes exist and there is considerable experience in using this methods in the states.
 - ii. Eliminates ability to shift profits artificially to reduce taxation within a state
 - iii. No need to enact specific add back statutes and always playing catch-up
 - iv. Flexible to deal with new taxpayer tax avoidance strategies
 - v. Used in half the states so training is available for audit staff.

 - b. Cons
 - i. Need to define unitary group—sometimes this is controversial
 - ii. Can cause distortions if businesses in unitary group are diverse in terms of productivity or other economic criteria.
 - iii. Not used in South except for Texas margin tax
 - iv. Some start-up costs to retrain auditors

3. Revenue issues
 - a. Mixed econometric evidence on whether combined reporting increases or decreases revenues in short run
 - b. Unlikely to be “scored” as a significant revenue increase.
 - c. Over longer run, it does preserve the corporate tax system from systematic erosion through profit-shifting.
 - d. May stabilize revenue as combined reporting builds in additional multistate diversification

4. Pro-forma Study?

- a. A number of states have conducted pro-forma studies.
- b. Results were mixed and depended somewhat upon time period
- c. Considerable extra work for taxpayers and Department of Revenue
- d. Not clear how serious the returns were taken by taxpayers
- e. Recommend against a pro-forma return

5. Final Conclusions (depending on vote of Tax Institute)

- a. Option 1: Recommend combined reporting
- b. Option 2: Recommend against combined reporting
- c. Option 3: No recommendation