

VFFull Analysis of Combined Reporting

- I. Current State of Louisiana's Corporate Income Tax Structure
- II. Overview of Combined Reporting and Discussion of Combined Reporting Methods
 - a. Combined vs Consolidated Return: Unitary Principle
 - b. Allocation vs Apportionment in a Combined Return
 - c. Finnegan versus Joyce (Nexus and Factors)
 - d. Alternative Treatments of Tax Credits and Losses in Combined Reporting
 - e. Water's Edge Elections
 - f. Combined Reporting in Other states-Maps & Brief Summary-[\(also include Joyce v Finnegan Information\)](#)
- III. Pros & Cons of Implementing Combined Reporting
 - a. Combined Reporting Implementation-Pros for Louisiana
 - i. Strengthening the Louisiana Corporate Income Tax System
 - (a) Combined Reporting will help the taxing agency and companies: (1) reduce the number/volume of transfer pricing analyses required to be done during audits; and (2) reduce the need or instances in which the add-back statute needs to be applied.
 - (b) Louisiana can still use its current formulary apportionment methods.
 - (c) Louisiana can use alternative apportionment methods, including its current separate reporting method (if combined reporting produces a result that does not fairly represent income).
 - ii. Tax avoidance techniques, current or future, are less likely to produce a substantial budget impact (negative or positive)
 - iii. The state's tax burden will be a more level playing field for intrastate and multistate corporate groups.
 - b. Combined Reporting Implementation-Cons for Louisiana
 - i. If combined reporting is implemented, Louisiana would be an outlier among the Southeastern Association of Tax Administrators (SEATA) states (Though Texas is not a SEATA state, its proximity to Louisiana is recognized along with the fact that its margin tax contains a combined reporting component).
 - ii. Louisiana's current add back statute and adjustment authority may obviate the need for combined reporting.
- IV. Transition could be difficult for agency and taxpayers
 - a. Training for the taxing agency and taxpayers on the requirements of combined reporting
 - b. Uncertain revenue impact for the state Louisiana
 - c. Uncertainty regarding the impact of combined reporting on taxpayers on an individual basis

V. Decisions Louisiana Must Make

- a. Louisiana needs a better definition of unitary group/business and non-business income
- b. Use of NOLs' past and present by unitary group members and also for tax credits within unitary group
- c. Accounting periods for unitary group members may need modification
- d. Effective date of combined reporting implementation
- e. Whether pro-forma returns should be required before making the decision to implement combined reporting
 - i. Would pro-forma returns provide reliable information worth the additional costs
 - ii. How long and to what extent should the data from the pro-forma returns be studied and/or analyzed? ~~Louisiana should implement a two (2) year pro-forma return requirement and at least a one (1) year study period of those returns?~~

VI. Estimated revenue effects from pro-forma returns in Maryland and Rhode Island & Other Combined Reporting Studies

- a. Maryland's Lessons Learned from pro-forma returns
- b. Rhode Island's Lessons Learned from pro-forma returns
- c. Other Combined Reporting Studies
- ~~d. Map/Table of States that have Combined/Consolidated Return Requirements (also include Joyce v Finnegan Information)~~

VII. Closing & Recommendations

- a. The goal of combined reporting should not be a short term revenue goal; but, to avoid a long term erosion of the tax base and long term revenues.
- b. Require fewer one-shot actions on the part of the taxing authority to police the system.
- c. Final Recommendations (with or without a pro-forma returns)