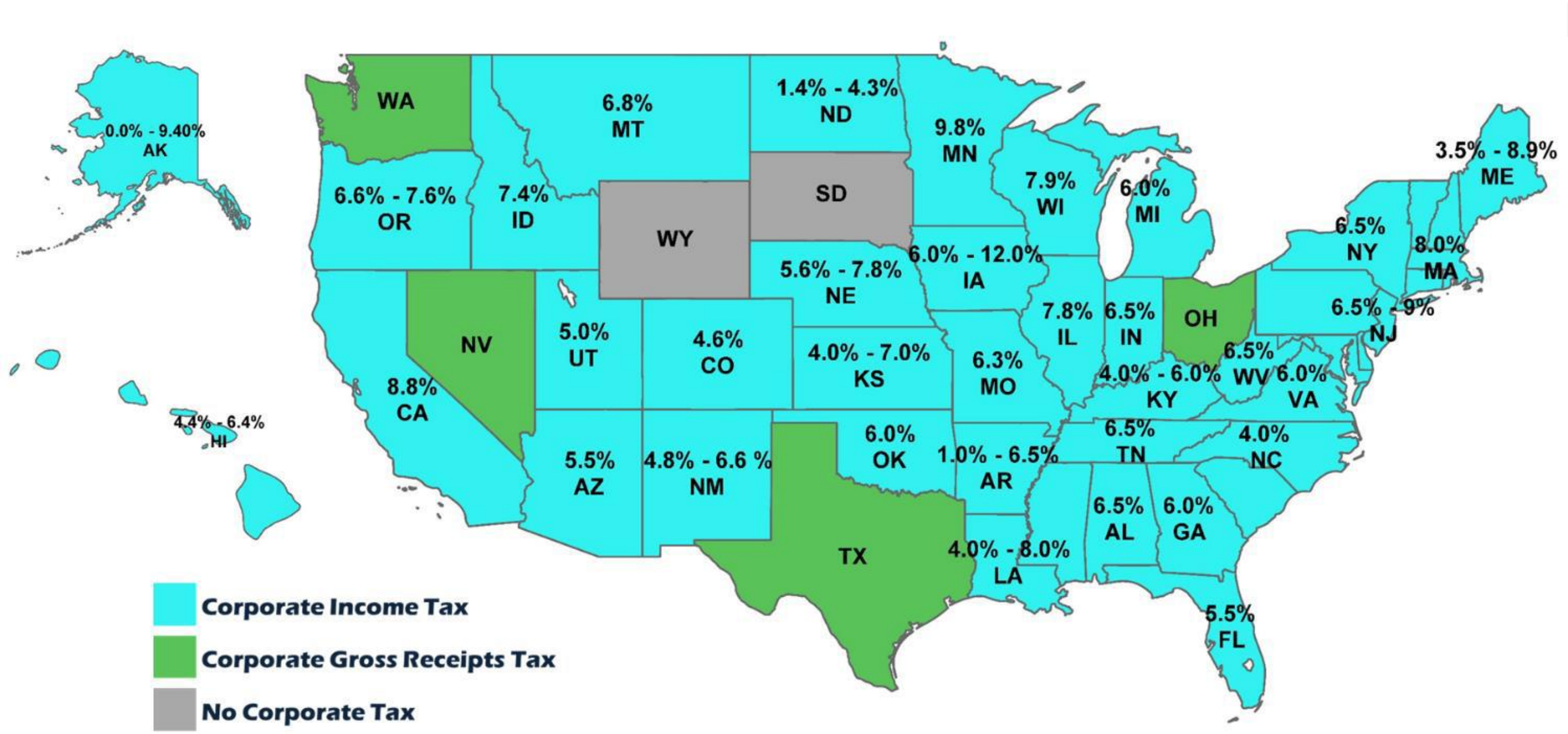
Unitary Combined Reporting

Overview

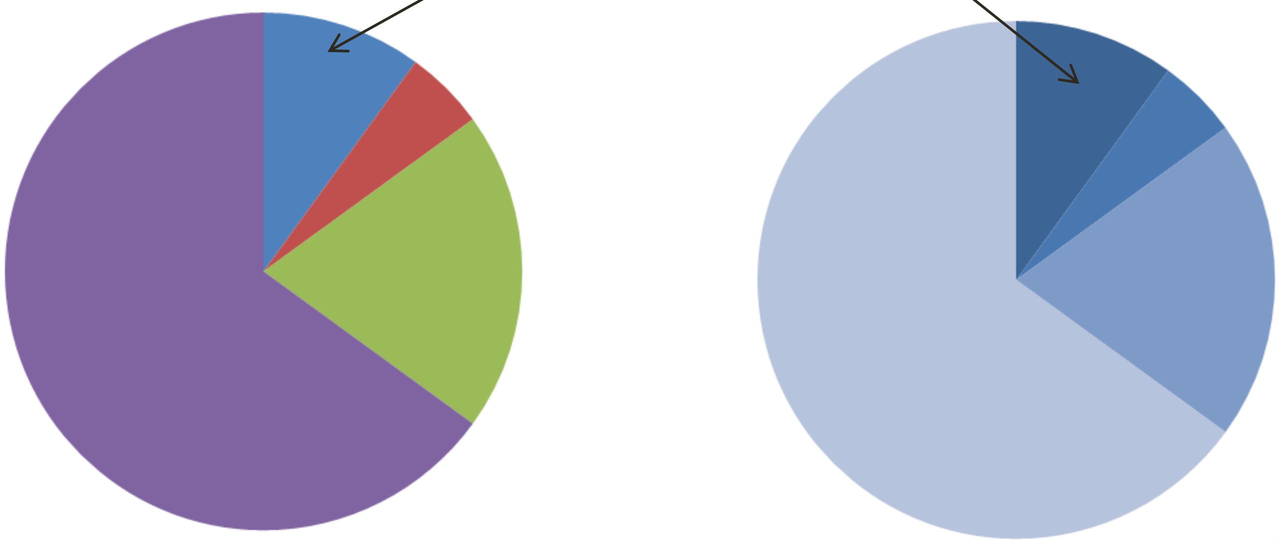
Corporate Income Tax

- Federal government; C-corporations only
- 44 states have a corporate income tax; 4 states have a corporate gross receipts tax; 2 have no tax
- Corporate Income Tax Rates – January 1, 2016



Single Entity vs Combined Reporting

VT subsidiary – 10% of the combined group



Unitary Combined Reporting

- Applies only the C-corporations (excludes S-Corporations, Partnerships, LLCs)
- Applies only to multi-state businesses that are part of a unitary group (single entity, VT only businesses excluded)
- Applies to the portion of the unitary business within the US borders
- Does not include banks or insurance companies
- VT passed Unitary Combined Reporting in 2004 and it was effective for tax year 2006 – was combined with lower corporate income tax rates and double-weighting of the sales factor in the apportionment formula

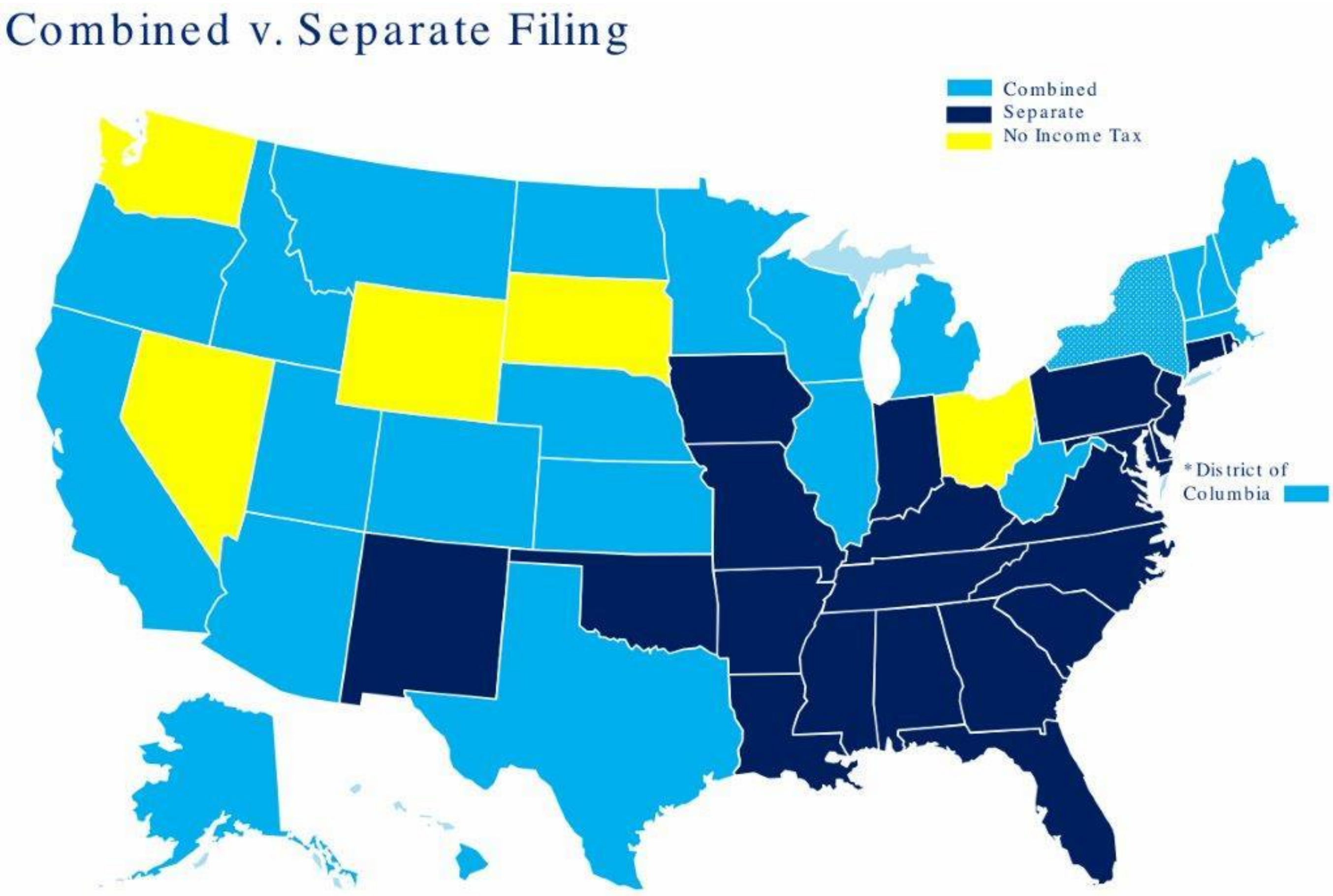
Types of US Businesses

Type of return:	*Number:*	*Percentage:*
Sole proprietorships	22,659,976	67.5%
S corporations	4,094,562	12.2%
Partnerships	3,168,728	9.4%
Farms	1,924,214	5.7%
C corporations	1,729,984	5.2%
Total:	**33,577,464**	**100.0%**

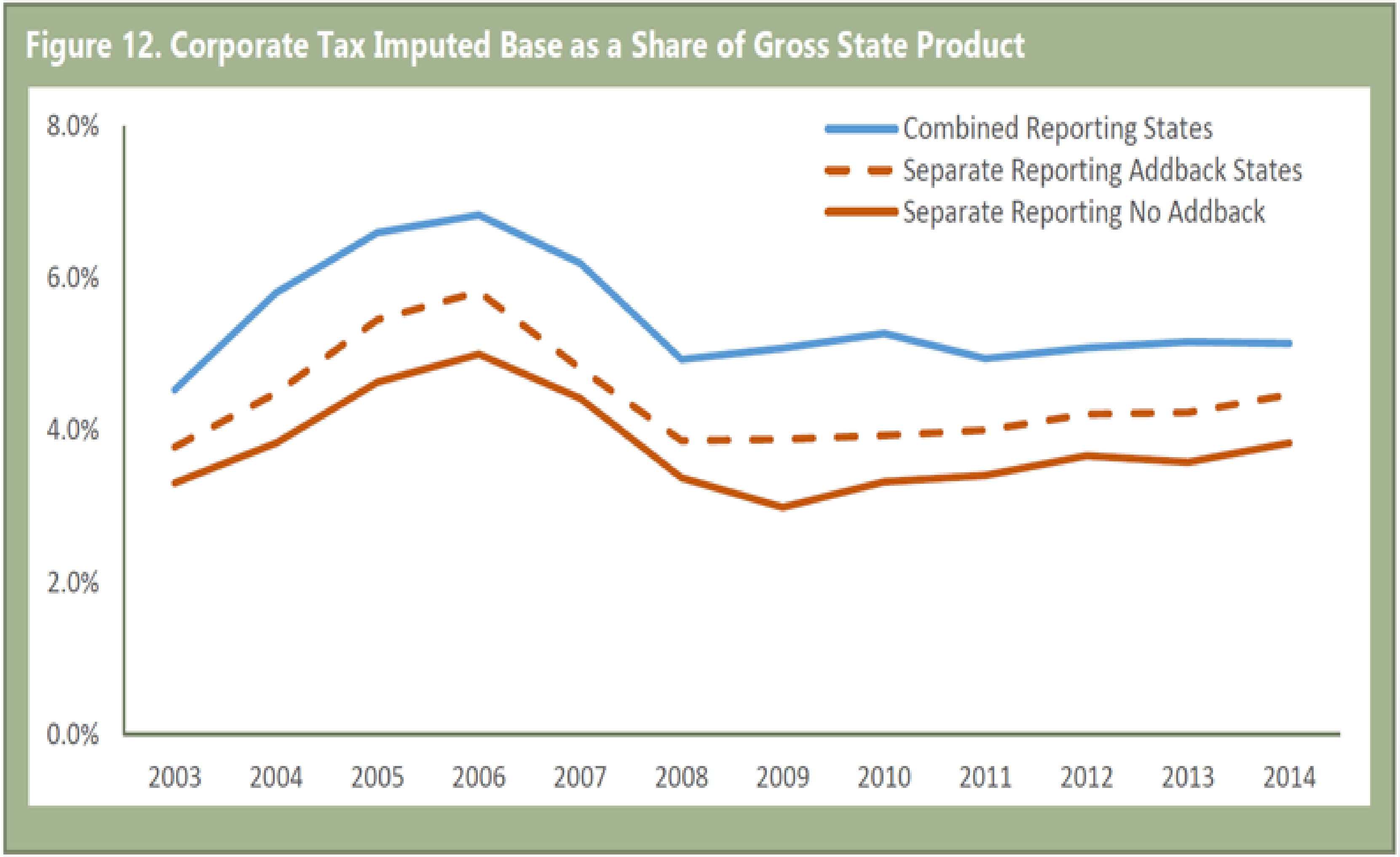
- All figures for 2009. “Sole proprietorships” = non-farm sole proprietorships.
- Source: “Selected Issues Relating to Choice of Business Entity,” U.S. Congress's Joint Committee on Taxation, August 1, 2012.

Combined Reporting States

25 states and DC require combined reporting,
19 are single entity



Corporate Tax Base as a % of GSP



Definition: Unitary Business

Unitary business means one or more related business organizations doing business both within and without the State where there is a unity of ownership, operation and use. It can also exist where there is interdependence in their functions.

(1) Unity of ownership, which generally requires direct or indirect control of over 50% voting stock.

(2) Unity of operations in management, accounting, or sales.

(3) Unity of use as evidenced by the presence of a central executive authority which performs important line functions for each member of the group.

(4) A contribution and dependency test to determine whether the in-state affiliate is an integral part of profit generation of an out-of-state entity.

(5) Factors of profitability, functional integration, centralized management, and economies of scale.

Example of Tax Reporting

Taxpayer	Parent	Subsidiary 1	Subsidiary 2	Separate	Consolidated	Combined
VT Nexus	Yes	Yes	No			
Total US Income	$10,000	$1,500	$2,000		$11,500	$13,500
VT factors	5,000	2,000	0		7,000	7,000
US Factors	50,000	6,000	5,000		56,000	61,000
Apportionment	10.0%	33.3%	0.0%		12.5%	11.5%
VT Income	$1,000	$500	$0	$1,500	$1,438	$1,549

Border Definitions
Worldwide; Water's Edge and Tax Havens

Unitary Combined (25+1)

- **Alaska**
- Arizona
- California
- Colorado
- **Connecticut**
- Hawaii
- Idaho
- Illinois
- Indiana
- Kansas
- Maine
- Massachusetts
- Michigan
- Minnesota
- **Montana**
- Nebraska
- New Hampshire
- New York
- North Dakota
- **Oregon**
- **Rhode Island**
- Utah
- Vermont
- **West Virginia**
- Wisconsin
- **Washington DC**

No Tax (2)

- South Dakota
- Wyoming

Gross Receipts (4)

- Nevada
- Ohio
- Texas
- Washington

Note: bold = Tax Haven Legislation/Worldwide

Separate (19)

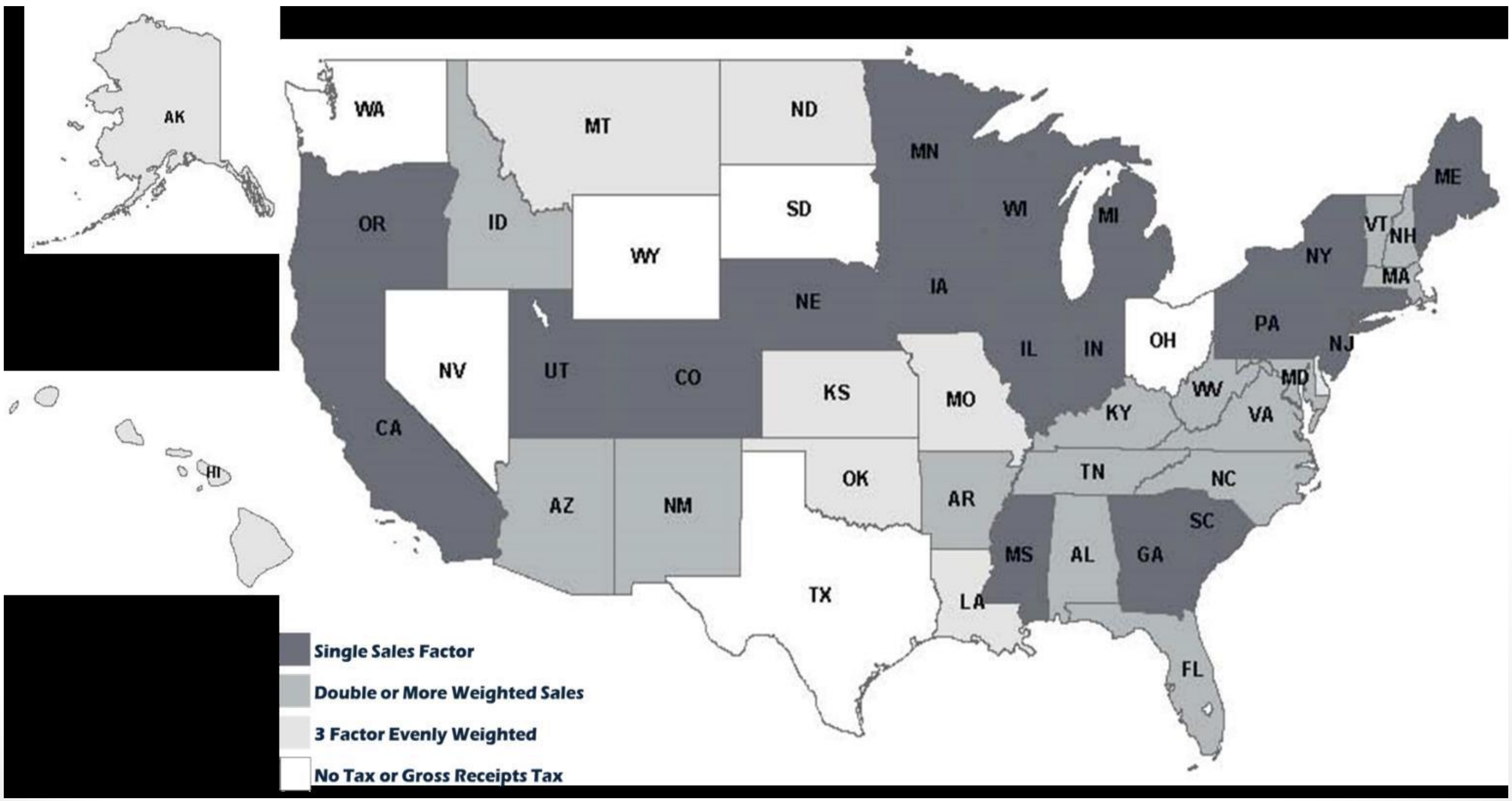
- Alabama
- Arkansas
- Delaware
- Florida
- Georgia
- Iowa
- Kentucky
- Louisiana
- Maryland
- Mississippi
- Missouri
- New Jersey
- New Mexico
- North Carolina
- Oklahoma
- Pennsylvania
- South Carolina
- Tennessee
- Virginia

Other Related Issues

- Apportionment Formula
- Throwback Rules
- Joyce/Finnegan method

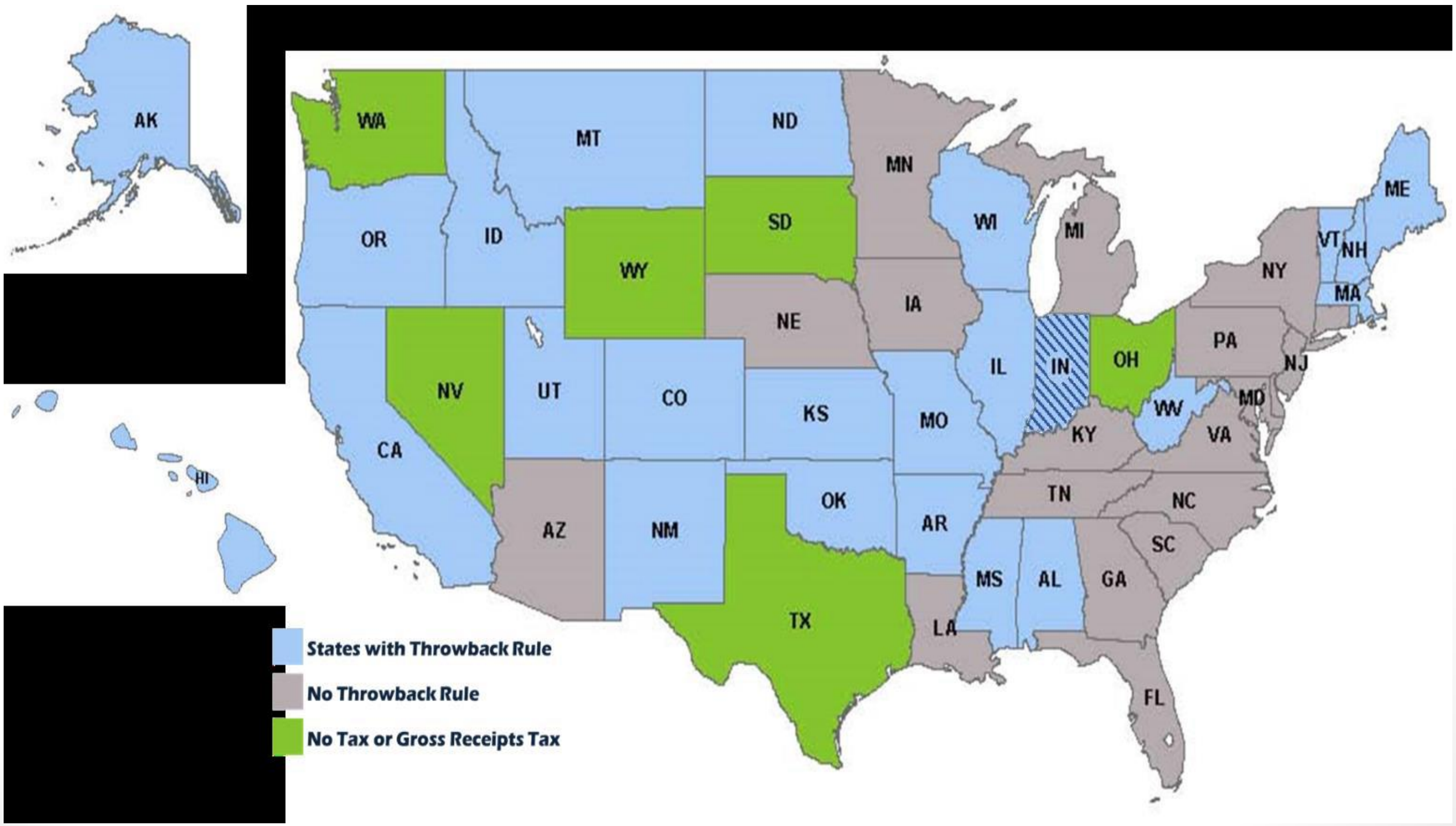
Apportionment Formulas

Historically, almost all states used an equally weighted, three-factor formula that uses property, payroll and sales. In the last two decades, most states have moved towards a double-weighted sales or single sales factor. By 2016 only 9 states used the evenly weighted three-factor formula.



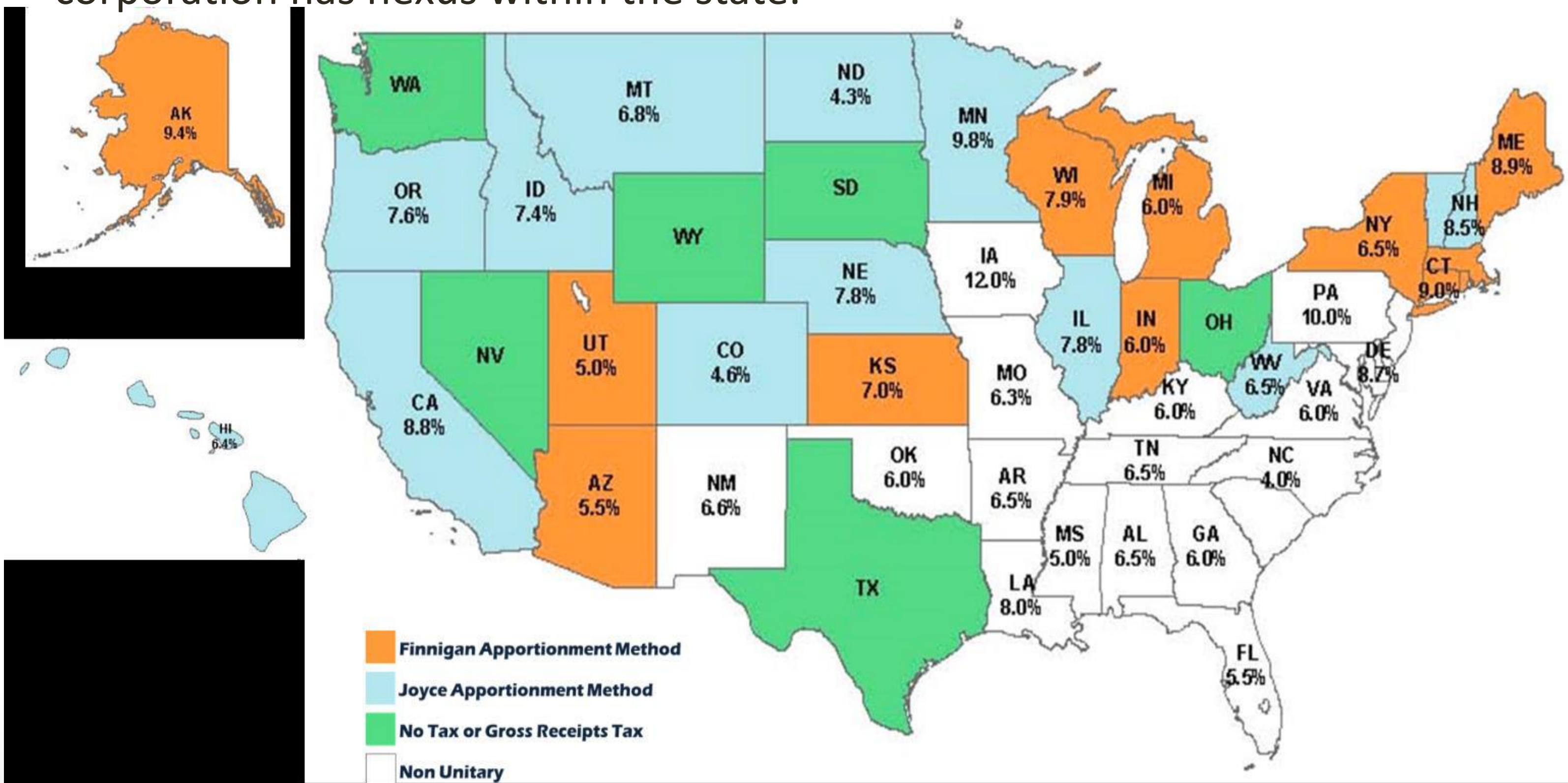
Throwback Rule

Corporations receiving business receipts from states where they do not have nexus or are otherwise not subject to taxation, create what is called 'nowhere income'.

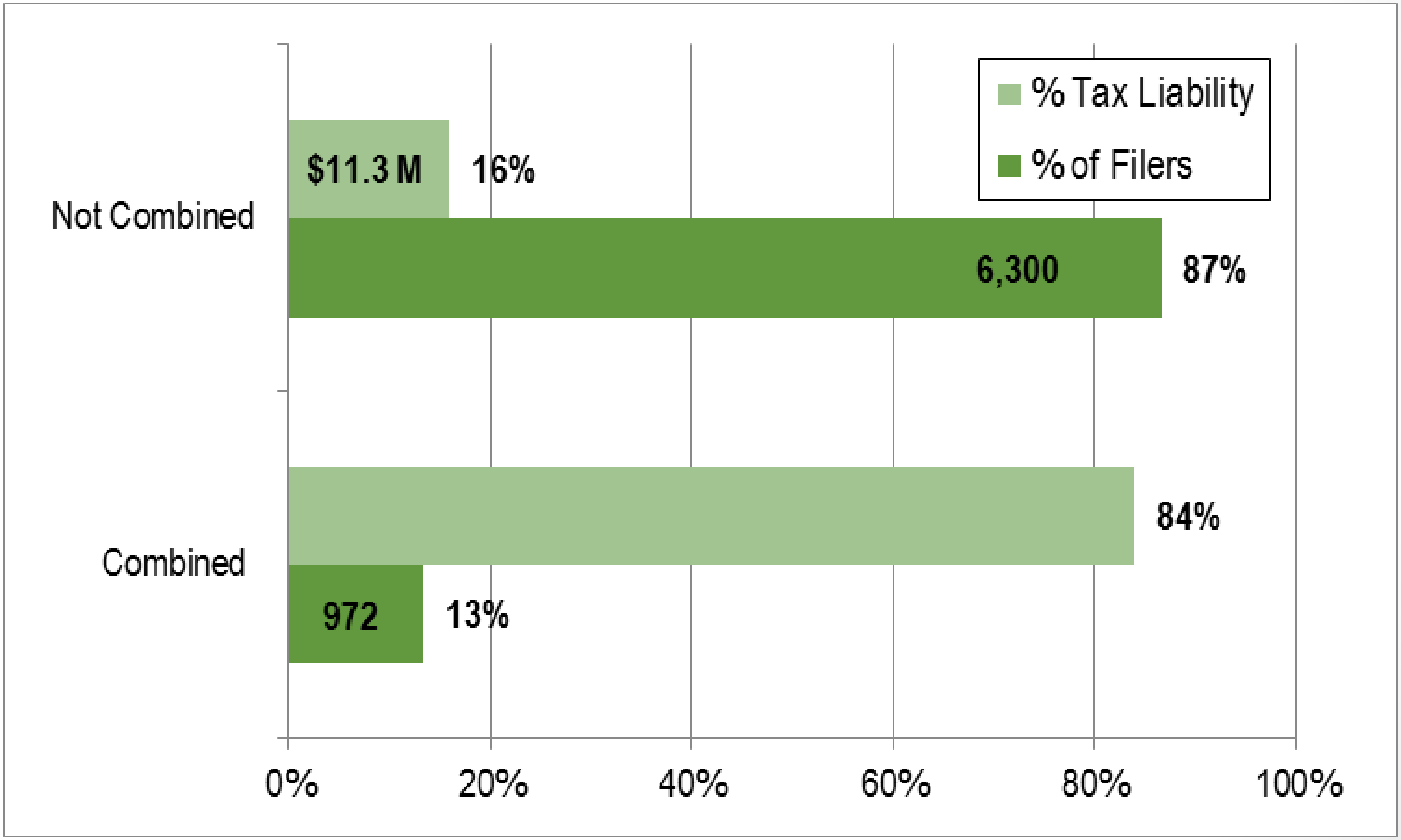


Joyce or Finnigan Method

The Finnigan method does not require a corporation to throw back sales that are made to a particular state if one of its unitary affiliates has nexus within the destination state. The Joyce method requires that corporations within the same unitary group calculate their apportionment depending on whether each corporation has nexus within the state.



VT Corporate Income Tax TY14

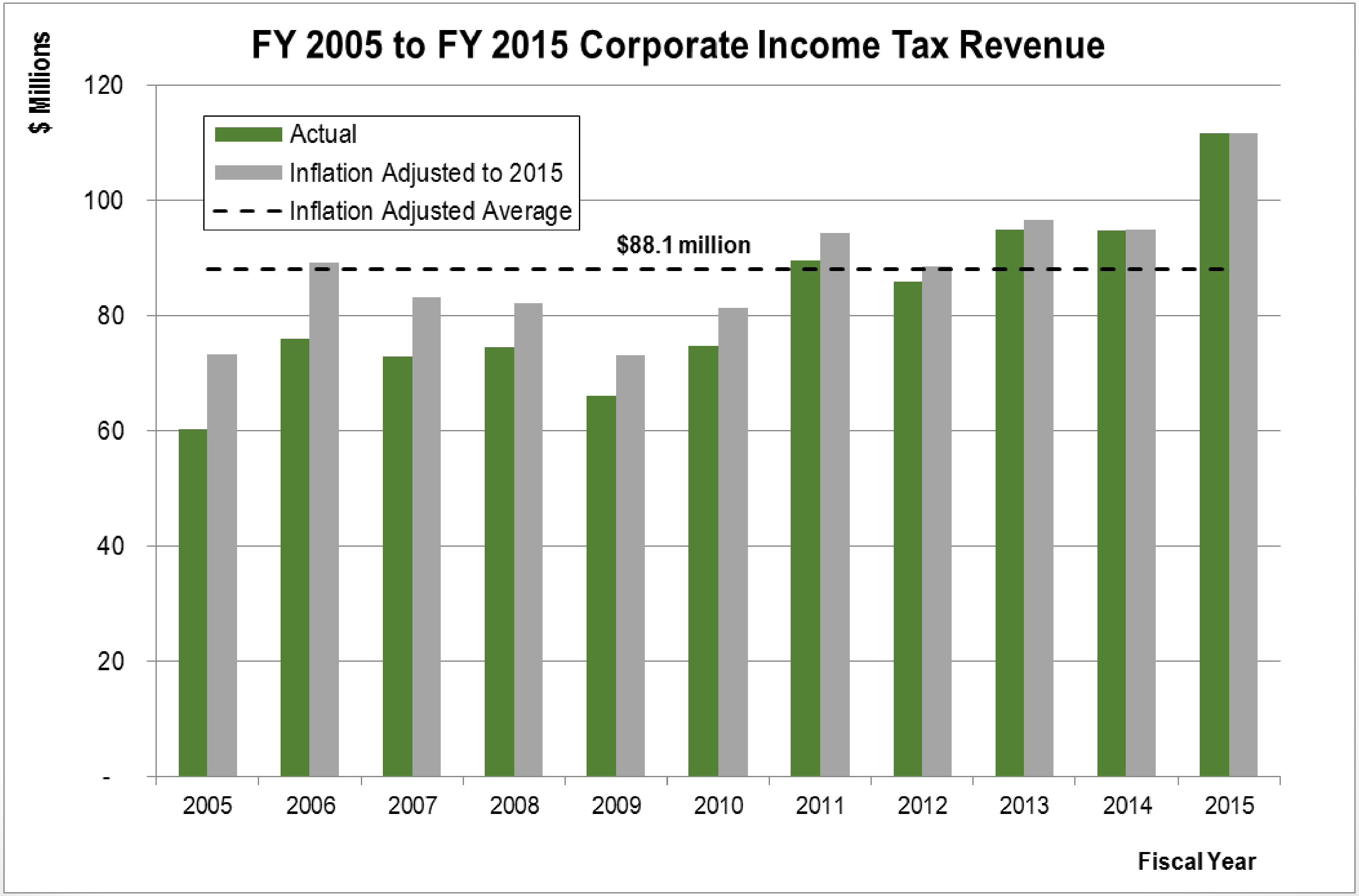


TY 2014 Vermont Data

	TY14 Combined Corporate Returns				Number of Companies by VT Apportionment		
VT Net Apportionable Income	**Filers**	**VT Net Taxable Income**	**VT Net Apportionable Income**	**Total Tax Due**	**100%**	**100% > x > 0%**	**0%**
Losses	418	(205,070,162)	(33,069,558,964)	230,753	15	293	110
0	***Suppressed***						
1 - 5,000	***Suppressed***						
5,001 - 10,000	-	-	-	-	-	-	-
10,001 - 100,000	10	212,676	457,052	19,131	***Suppressed***		
> 100,000	544	657,149,278	316,655,828,521	58,822,802	***Suppressed***	409	133
Grand Total	**972**	**452,291,792**	**283,586,726,609**	**59,072,686**	**15**	**702**	**243**

	TY14 Non-Combined Corporate Returns				Number of Companies by VT Apportionment		
VT Net Apportionable Income	**Filers**	**VT Net Taxable Income**	**VT Net Apportionable Income**	**Total Tax Due**	**100%**	**100% > x > 0%**	**0%**
Losses	2,818	(324,950,723)	(18,014,009,832)	762,867	1,430	884	504
0	614	(113,846)	-	95,465	403	29	182
1 - 5,000	534	653,769	809,311	147,200	442	63	29
5,001 - 10,000	157	694,364	1,117,785	56,306	96	40	21
10,001 - 25,000	248	2,604,855	4,162,173	184,618	140	70	38
25,001 - 100,000	505	12,379,580	27,555,791	961,119	217	183	105
100,001 - 300,000	292	11,999,956	52,423,638	974,347	58	152	82
> 300,000	1,132	95,235,731	56,363,467,575	8,078,911	31	738	363
Grand Total	**6,300**	**(201,496,314)**	**38,435,526,441**	**11,260,833**	**2,817**	**2,159**	**1,324**

Corporate Income Tax Revenue



RI Analysis

- **Corporations with tax change, no tax change, due to combined reporting**

Tax Change:	% increase	% decrease	% no change
Tax year 2011			
Three-factor apportionment (Joyce)	29%	10%	61%
Three-factor apportionment (Finnigan)	31%	9%	60%
Single sales factor apportionment (Joyce)	35%	5%	60%
Single sales factor apportionment (Finnigan)	37%	5%	58%
Tax year 2012			
Three-factor apportionment (Joyce)	21%	8%	71%
Three-factor apportionment (Finnigan)	22%	8%	70%
Single sales factor apportionment (Joyce)	27%	4%	69%
Single sales factor apportionment (Finnigan)	28%	4%	68%

- Source: Rhode Island Division of Taxation

Combined Reporting Studies

- https://iga.in.gov/legislative/2017/publications/fiscal_report/#document-99407873

- http://www.tax.ri.gov/Tax%20Website/TAX/reports/Rhode%20Island%20Division%20of%20Taxation%20--%20Study%20on%20Combined%20Reporting%20--%2003-17-14%20FINAL.pdf