January 25, 2024

Chair Emilie Kornheiser
House Ways & Means Committee
Vermont State House
115 State Street
Montpelier, VT 05633

Re: Worldwide Combined Reporting Will Hurt Vermont's Economic Competitiveness

Dear Chair Kornheiser:

On behalf of the Global Business Alliance (GBA), I am writing to express opposition to efforts that would impose mandatory worldwide combined reporting. This approach would make Vermont an international outlier, create revenue volatility for the state and hurt relationships with key trading partners.

GBA proudly represents nearly 200 American companies with a global heritage. Over 14,000 people in Vermont are employed by international companies. Growth in employment at international businesses rose by thirty-five percent over the past five years in Vermont, while the state's overall private-sector employment decreased by six percent. Nationally, international companies pay American workers nearly $87,000 annually in wages and benefits. The bottom line is global investment helps strengthen Vermont's economic resiliency.

Proponents of this misguided tax scheme have peddled this proposal in several states. In fact, New Hampshire and Maine both recently studied mandatory worldwide combined reporting, only to firmly reject such a policy. To date, every state with combined reporting has opted for a true water's edge methodology, including Vermont. If the state were to pursue a mandatory worldwide combined reporting approach, it would make the state a complete outlier in terms of corporate income taxation and could create double taxation for many large employers.

If imposed, mandatory worldwide combining would not only cause erratic revenue but could even reduce corporate tax revenue, endangering the state's funding priorities.

Such a misguided policy would also likely lead to retaliatory measures by some of Vermont's leading trading partners. In the past, some foreign governments have enacted retaliatory measures in response to states seeking to adopt such a tax structure without a true water's edge protection.

This tax approach presented in recent Ways and Means Committee hearings would adversely affect companies wishing to create jobs along with possibly decreasing total revenue to the state from existing multinationals. I welcome the opportunity to share more information at future hearings where this policy is being considered. Please see additional information enclosed.

If you have questions, please contact me at mbeeson@globalbusiness.org or at (202) 770-5141.

Sincerely,

M. Beeson

Meredith Beeson
Senior Director, State Affairs
Global Business Alliance

Enclosure

Cc: Members of the House Ways and Means Committee;
Sorsha Anderson, Senior Staff Associate, Ways and Means Committee

Worldwide Reporting Would Hurt Vermont

Combined reporting exists in several states, but none mandates an overreaching worldwide approach.

- Under combined reporting, a group of companies files one tax return based on the combined income of an identified "unitary group."
- The typical approach to combined reporting is water's edge, with a minority of states permitting a worldwide option.
- A true water's edge system generally includes only U.S. companies in the combined group, which Vermont should maintain.
- Earlier this year, New Hampshire voted down mandatory worldwide combined reporting after a comprehensive study was completed.

Mandatory worldwide combined reporting creates revenue volatility and will cause litigation.

- Any form of combined reporting may result in increases or decreases in a state's revenue, given that it may increase or reduce a taxpayer's liability, but this is especially true with worldwide combined reporting.
- Without a true water's edge boundary, a myriad of challenges is created for taxpayers and state tax administrators, including managing cross-border currency conversions, different accounting standards and reporting requirements, and language barriers.
- This will result in significant audit activity and prolonged litigation exposure.

Every state that has considered a mandatory worldwide combined reporting scheme has rejected it.

- Mandatory worldwide combined reporting threatens to impose significant double taxation on non-U.S. companies, is inconsistent with state, federal and international tax norms, and violates principles of U.S. tax treaties.
- Imposing mandatory worldwide reporting will hurt efforts to attract and retain international companies and damage the state's competitiveness.
- Mandatory worldwide reporting will create disputes with treaty partners. In the past, some foreign governments have even enacted retaliatory action in response to states seeking to adopt a tax structure without a true water's edge system.

The federal government does not impose worldwide combined reporting.

- The federal government has not had a bill to implement a worldwide combined reporting policy.
- In 2021, approximately 140 countries, including the U.S., agreed to a minimum 15% corporate global minimum tax, which several countries have begun to implement. The details, mechanics and implementation are still to be worked out.

No other state has imposed mandatory worldwide combined reporting.

- Of the small minority of states that even permit worldwide combined reporting, it is only an OPTION, and each provides for a true water's edge designation.
- Minnesota decided not to adopt mandatory worldwide combined reporting last year.
- New Hampshire and Maine have both carefully studied mandatory worldwide combined reporting and firmly rejected such a policy.