

COMBINED CORPORATE INCOME TAX REPORTING

Executive Branch Activity:

Corporate Combined Reporting was recommended in the FY 2009 Budget by Governor Culver. The revenue change would be an increase of \$75 million dollars for the General Fund in FY 2009.

Position:

The Iowa Taxpayers Association opposes the adoption of a combined corporate income tax reporting structure in Iowa.

Combined or unitary corporate income tax reporting requires a corporation with any reporting requirement in Iowa to combine all its subsidiaries that are deemed unitary and file an Iowa return based upon an apportioned allocation of tax liability to Iowa. States have varied in their application and interpretation of the unitary principle. There are many factors which are considered for determining whether a unitary relationship exists. This makes the unitary investigation unduly complex and difficult to apply. One common situation is when a strong central management structure exists somewhere in the United States, then all the subsidiaries may be considered unitary and may be combined for reporting purposes. Iowa currently is a separate entity reporting state.

Moving from separate entity reporting to combined unitary reporting is a major tax structure change and the consequences of such a change must be considered carefully. It adds complexity to an already complex system and may lead to costly litigation. It also lacks consistent interpretation and may pose compliance issues. Additionally, this type of reporting should not be considered a means to increase general fund revenues as it is entirely possible that the State could see a revenue decrease. It is difficult to determine whether Iowa will benefit or lose if combined reporting is adopted as taxes for some companies will be lowered and raised for others.

Other States:

Iowa currently has separate entity reporting which is the most common method of reporting corporate income. Prior to 2007, 19 states required unitary combined reporting. Over twenty years ago, Florida adopted combined reporting and then repealed it less than a year later due to its impact on economic development. Connecticut adopted combined reporting in 2003, but repealed it the same day due to economic development concerns. Some states apply combined reporting to a new modified "gross receipts" tax (Ohio, Texas, Michigan). Michigan also applies it to a new business income tax.

Moving from separate entity reporting to combined unitary reporting is a major change and the consequences of such a change must be considered carefully. Significant issues exist in estimating the revenue impact from combined reporting.