Reject SB-485 Mandatory Unitary Reporting

Deflating the Myths of ‘Tax Loopholes’

**MYTH:** Corporate tax loopholes enable large, multi-state corporations to avoid responsibility for paying their share of state taxes.

**FACT:** The charge that corporations evade responsibility for paying taxes is untrue and the allegation of corporate tax loopholes is grossly overstated. Connecticut companies cannot simply shift income out of the state to avoid taxes. Royalty income and interest income (often the examples given for so-called “loopholes”) are already taxable in Connecticut. What’s more, Connecticut Department of Revenue Services (DRS) has the power to investigate any kind of transaction it suspects violates state tax policy.

**MYTH:** Loopholes drain state revenues needed for essential public services for families, communities and businesses.

**FACT:** Connecticut’s families and communities have the vital support of corporations that are paying billions of dollars every year in state and local taxes and consistently and generously invest in their communities. Affiliates of Connecticut companies with no presence in our state DON’T “drain” public services here; the state incurs minimal, if any, additional costs.

**MYTH:** Flaws in Connecticut’s tax code put local, Connecticut-based companies at a competitive disadvantage to multi-state companies who can take advantage of these loopholes.

**FACT:** The biggest competitive disadvantages facing all Connecticut businesses are the high costs of doing business in the state and the constant charges from advocates for more state spending that corporations don’t pay their fair share. Both factors damage our business climate and make it harder for our economy to grow. If affiliated companies become subject to tax under a unitary system, they will look to limit their presence in the state-which will have an economic impact on small, local businesses.

**MYTH:** Combined reporting tax reform would effectively close loopholes.

**FACT:** Connecticut’s tax structure is NOT rife with loopholes, as charged. What’s unfair is to unjustly tax the profits of affiliated companies that are operating in other states but do not have a presence in Connecticut nor engage in transactions with a Connecticut affiliate. That’s not closing a loophole but simply making a grab for more tax revenue regardless of the economic consequences. States that have adopted unitary combined reporting have found that it is far from a cure-all and leads to extensive litigation and volatile revenues.

**MYTH:** Most states with corporate income taxes already have combined reporting requirements.

**FACT:** Not even half of the states with a corporate income tax have some version of unitary combined reporting. What’s more, no two unitary statutes are exactly alike either in format or unique specific application. Even if statutory language and definitions are similar, interpretations vary from state to state. The result is high administrative costs for businesses and states.

**MYTH:** Combined reporting is already familiar to most of Connecticut's top employers.

**FACT:** The reality is, businesses would be faced with a completely new tax structure, with the definition of who belongs in the unitary grouping needed to be determined for each of “Connecticut’s top employers.” At the same time, “unitary” taxation is not a familiar experience to the DRS auditors who will be charged with auditing the tax returns filed in accordance with this new law. This is why mandatory combined reporting has led to confusion, contention and litigation in other states.

**MYTH:** Economic growth rates are comparable and even superior in states with combined reporting requirements.

**FACT:** This is untrue and irrelevant. California was a lead state in adopting mandatory combined reporting and is in catastrophic fiscal and economic condition. New York followed suit with combined reporting in the search for more revenue but the state is mired in a desperate budget crisis. America’s fastest-growing states are those with low tax burdens and low costs. On pure basic economic principles, whenever taxes are increased economic activity is reduced by the simple fact that funds are removed from the public sector and put in the hands of the taxing authority.

**MYTH:** Connecticut should adopt combined reporting to restore needed state revenues and create a level playing field.

**FACT:** Connecticut should NOT adopt combined reporting because it is not needed, won’t necessarily increase revenues, but WILL harm our economic-base industries and cause more problems than it mythically would “solve.”

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