

# CLOSING CORPORATE TAX LOOPHOLES

## *The Case for Combined Reporting*

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### **How Does Combined Reporting Work?**

Combined reporting is a change in the tax code that would require corporations with subsidiaries or affiliates to file a single tax return that lists *all* of the conglomerate's business activity, rather than treating each subsidiary as a separate entity. Companies would no longer be able to shift money between subsidiaries to veil profits and avoid paying taxes in a particular state.

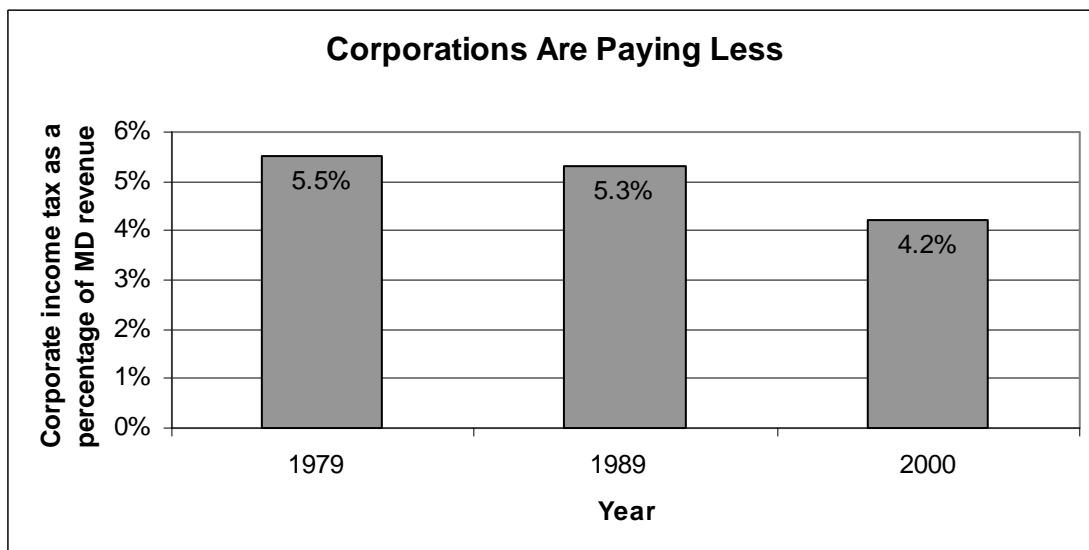
### **How Do Corporations Avoid Paying Their Fair Share?**

Large corporations exploit flaws in Maryland's tax code that allow them to minimize their tax burdens. According to the Comptroller of Maryland, 64 of the 132 largest for-profit corporations in Maryland don't pay any state income taxes.

Some known corporate tax-evasion schemes include:

- Paying 'rent' funds to a shell company to reduce in-state taxable profits, as was done by Wal-Mart.
- Using "transfer pricing," where one subsidiary sells goods to another subsidiary at inflated prices to concentrate profits in subsidiaries in low-tax rate states.
- Establishing trademark holding companies such as the one Toys 'R' Us uses to avoid state taxes by transferring profits to a tax-free Delaware subsidiary that collects licensing fees for use of its Baby Geoffrey icon.

Unfortunately, corporate accountants are constantly devising new tax-avoidance schemes. Instead of engaging in a loophole arms race, combined reporting offers a comprehensive solution to a host of corporate tax avoidance strategies.



For more information, contact Johanna Neumann at Maryland PIRG at (410) 467-9389, [johanna@marylandpirg.org](mailto:johanna@marylandpirg.org) or visit [www.marylandpirg.org](http://www.marylandpirg.org)

### **Combined Reporting Will Benefit Maryland**

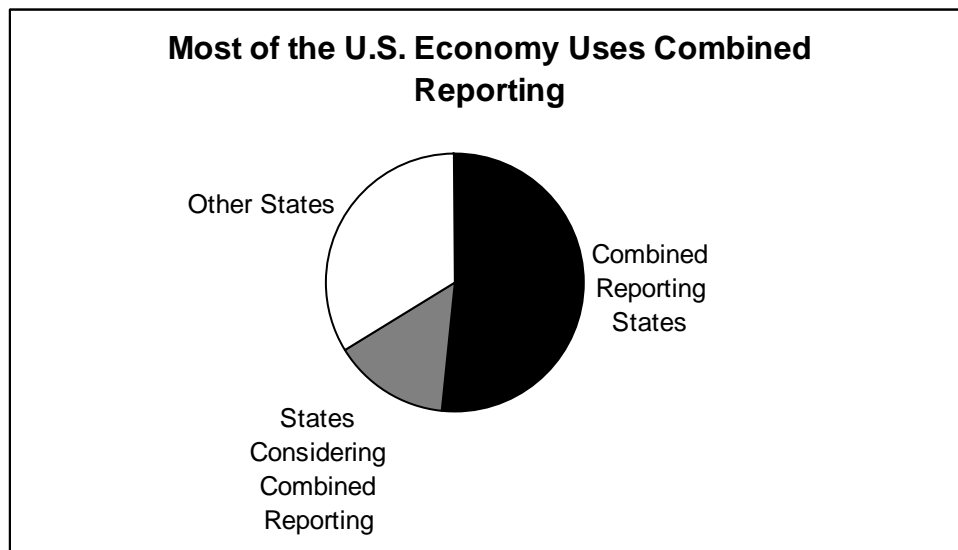
Tax experts estimate that switching to combined reporting in Maryland will produce at least \$100 - \$150 million in state revenue. However, because conglomerates currently aren't required to report overall profits, it is difficult to calculate exactly how much money combined reporting will generate for the state.

Combined reporting will level the playing field for Maryland businesses that compete against multi-state companies.

Maryland citizens overwhelmingly favor corporate tax reform. In a recent poll 87 percent of respondents said they believe companies that earn profits in Maryland should be required to pay state taxes.

### **Combined Reporting Has Become the Norm**

Four years ago only 16 states, representing 29 percent of the U.S. economy used combined reporting. Now 21 states have adopted the practice - representing 51 percent of the economy. Seven additional states are considering the change.



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