



HARRISBURG REGIONAL
CHAMBER & CREDCSM

POSITION STATEMENT
Mandatory Unitary Combined Reporting

Background:

Pennsylvania's business community has continually pushed for business tax reforms in order to make the state more competitive and business friendly. The Governor's proposed 2010-2011 Budget has proposed comprehensive reform measures that include reducing the Corporate Net Income (CNI) tax rate from 9.99% to 8.99%; eliminating the annual cap on net operating losses; implementing a single sales factor formula for the CNI tax apportionment; and a troubling measure that would implement a mandatory unitary combined reporting system.

Currently, each business and its subsidiaries doing business in Pennsylvania file taxes separately. The proposed mandatory unitary combined reporting process would recognize unitary businesses as a single entity and require them to combine their income and expenses for CNI purposes. This combined group would be subject to combined apportionment factors. It is the expectation that this process will broaden the tax base and also capture more revenue from organizations using Delaware holding companies.

Reasons to Oppose:

- The proposed mandatory unitary combined reporting system will impact taxpayers differently throughout the state. Compliance burdens would negatively impact small to medium-sized businesses that may be subject to the combined reporting requirements.
- The process itself will not make Pennsylvania more competitive. It may act as a disadvantage to businesses currently in the state and deter businesses from outside of the state from locating here.
- Tax planning through the use of Delaware holding companies was previously used as an attraction for businesses to relieve some tax burdens. Under this proposal, it will penalize businesses for its use. In actuality a vast majority of businesses that will be impacted by mandatory unitary combined reporting are not businesses that utilize Delaware holding companies.
- The current proposal contains numerous presumptions, many of which are ambiguous and some of which are not well-founded. There is no guarantee that combined reporting would bring additional revenue into Pennsylvania since some businesses may see a lower tax burden and others may see a higher tax burden. Further study is needed to understand the true effects that combined reporting may have in the Commonwealth before it should be implemented.
- Legislation to adopt combined reporting is ambiguous and will require extensive effort by the Department of Revenue to adopt necessary regulations and policies to flesh out the proposed statutory provisions and extensive retraining of the applicable Department of Revenue personnel responsible for administering and enforcing such new provisions. The ambiguities created by such legislation will create uncertainty in the business community, which will have a negative impact. Confusion over implementation is likely to lead to tremendous litigation and further skew the impact of combined reporting on the business community.

Summary:

The Harrisburg Regional Chamber & CREDC opposes the implementation of mandatory unitary combined reporting.

Chamber Position: OPPOSE

Date: March 4, 2010

Chair: Scott Shearer

Committee: Tax

Date: April 1, 2010

Chairs: Sheilah Borne, Deb Suder

Committee: Government Relations

Harrisburg Regional Chamber Board of Directors: April 14, 2010