

Combined Reporting

A Widely Used Tool to Counter Corporate Tax Avoidance



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Schools with good teachers, well-maintained streets, access to high-quality health care – these basics help communities to thrive. Yet Virginia’s current system of raising resources to invest in thriving communities allows too many corporations to avoid paying their fair share. During the 2021 General Assembly session, state lawmakers approved further legislative study and consideration of a corporate tax reform known as “mandatory combined reporting.” This policy is a key tool to counter tax avoidance strategies that large, multi-state corporations engage in, and which 28 states and the District of Columbia have already adopted. The policy improves the fairness of the tax code by putting multi-state corporations on a more level playing field with locally-based corporations. In addition, because mandatory combined reporting has been so widely adopted, many large corporations that operate in Virginia are already accustomed to following this policy. Analysis of publicly available information shows that 79 of Virginia’s largest corporations by employment operate in at least one jurisdiction that already uses combined reporting. This analysis suggests that combined reporting is unlikely to be a major factor in corporate location decisions.

The governor and legislature should take up and enact this important reform in next year’s session.

Policy Background

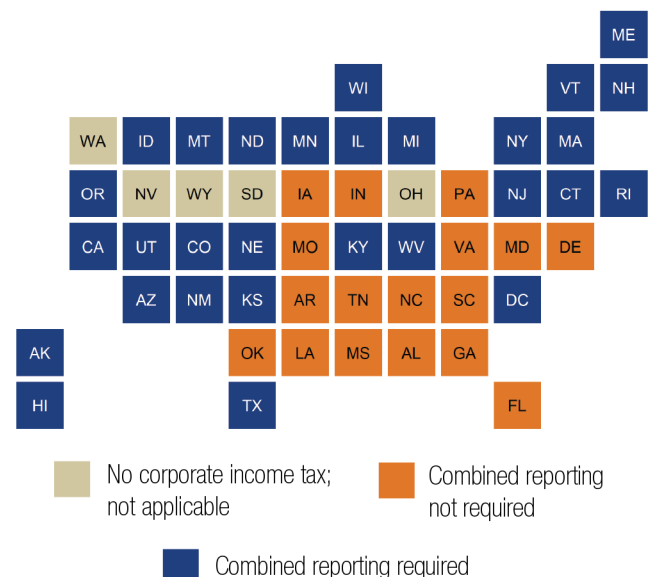
Virginia currently taxes corporate profits at a flat 6% rate. However, for corporations that operate across many states, the amounts reported to and taxable in Virginia are based on multiple adjustments that depend on their operating structures, their particular industry, and other factors. In the current state tax landscape, large, multi-state corporations can use accounting maneuvers and exploit weaknesses in state tax structures to reduce their state income tax liability, which strains state budgets. In states without mandatory combined reporting policies, corporations can relatively easily shift profits to other states that tax corporate income at lower rates – or that do not tax corporate profits at all. As one example, a manufacturing corporation could set up subsidiary companies in low-tax states as suppliers of factory inputs. The parent company can then pay the subsidiary an

artificially high price for those inputs, which are then deducted as a business expense, reducing the parent company’s tax liability.

To counter these kinds of practices, 28 states and D.C. require corporations to file tax returns under a mandatory combined reporting framework. In these states, corporations must add up all of the income from the parent company and most or all of its subsidiaries. If adopted in Virginia, the member corporations doing business in the state would report the appropriate share of their combined profit on their state tax returns, negating many common tax avoidance strategies.

28 States Plus D.C. Hold Corporations Accountable to Paying Fair Share of State Taxes

Combined reporting treats a parent company and its subsidiaries as one entity for state income tax purposes, helping prevent income shifting and providing state resources for critical public services.



Source: The Center on Budget and Policy Priorities, 2018



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New Analysis of Corporate Locations

An analysis of 83 large employers in Virginia that are multi-state corporations and likely subject to Virginia's corporate income tax shows that:

- 79 operate in at least one combined reporting jurisdiction
- 71 operate in multiple combined reporting jurisdictions
- 51 operate in at least 10 combined reporting jurisdictions, including Amazon, Booz Allen Hamilton, CarMax, Home Depot, Lowes, Raytheon, UPS, Target, and Walmart.

(For more information, please see the methodology note on pg. 4.)

This analysis suggests that combined reporting is unlikely to be a major factor in where corporations decide to locate. In addition, many of the largest employers in Virginia are not subject to the state corporate income tax, including federal agencies and other government entities, nonprofit health systems, certain public service corporations that pay separate state fees or taxes, insurance companies that are subject to Virginia's Insurance Premiums License Tax, and certain banks that are subject to Virginia's bank franchise tax. Adoption of combined reporting in Virginia would have no direct impact on those employers.

Policy Impacts

State investments

State policymakers face key state budget choices around K-12 education funding, health care, public health, and other priorities in the decade ahead. To adequately invest in these services will require a strong state revenue system where wealthy individuals and large corporations pay their fair share. Combined reporting can be a critical tool for strengthening the state's corporate tax system. According to state estimates, enacting combined reporting in Virginia would likely result in substantial new state revenues, with recent estimates ranging from \$60 million to \$80 million per year.

Advancing racial equity in the tax code

All policy, including tax policy, has different impacts on people by race and can either advance racial justice or further injustice. Policies like combined reporting would likely also reduce racial inequality because of the stark racial disparities in who tends to

own shares of stock (and in what amounts) for Black and Latinx households relative to white households.¹ Research also suggests that state corporate income taxes are largely taxes on wealth because most of the tax is ultimately paid by capital owners or land owners.² Median wealth among white households is eight times greater than median wealth among Black households and five times greater than that of Latinx households according to the most recent data from the Federal Reserve, which pre-dates the impacts of the recession.³

While this policy would not address the barriers to wealth that Black and Latinx households face by itself, it could help, particularly if state leaders choose to use the additional resources with that goal in mind. Historical and present-day barriers related to housing, education, employment, and other areas helped to create and continue to contribute to the racial wealth divide. Adopting racially equitable policies to support additional public investments would help to build greater opportunity more broadly across the state.

Tax fairness for small and local businesses

As Virginia policymakers consider options to assist small and local businesses, improvements to the corporate tax code can create a more balanced tax system with respect to businesses. Enacting combined reporting would end an unfair tax advantage that large corporations have over locally-based corporations and other businesses without out-of-state subsidiaries. In terms of tax fairness, this reform would put businesses on a more level playing field.

Conclusion

During and after the last recession, Virginia policymakers closed some tax loopholes and reduced certain tax breaks, but did not fully restore state funding levels in key areas like K-12 education and higher education by the time this latest recession began. By instituting mandatory combined reporting, the state would gain resources that could be used to strengthen public education and other building blocks of thriving communities, while improving the fairness of Virginia's tax code. State legislators and the governor must work together on a better approach to fuel an equitable recovery that makes the public investments that are needed. Strengthening the state's corporate tax code needs to be part of the solution.

Endnotes

1. Choudhury, S., "Racial and Ethnic Differences in Wealth Holdings and Portfolio Choices," Division of Economic Research; Office of Research, Evaluation, and Statistics; Office of Policy; Social Security Administration, 2002
2. Suárez Serrato, J.C., & Zidar, O., "Who Benefits from State Corporate Tax Cuts? A Local Labor Markets Approach with Heterogeneous Firms. American Economic Review." This paper estimates that 65%-70% of state corporate taxes fall on business owners or land owners <http://gabriel-zucman.eu/files/teaching/SuarezSerratoZidar16.pdf>, 2016
3. Bhutta, N., Chang, A.C., Dettling, L.J., & Hsu, J.W., "Disparities in Wealth by Race and Ethnicity in the 2019 Survey of Consumer Finances," FEDS Notes, Washington: Board of Governors of the Federal Reserve System, Sep 28, 2020

Large Virginia Corporate Employers Adhere to Combined Reporting Across the U.S.

Va. large employer	Total	AK	AZ	CA	CO	CT	DC	HI	ID	IL	KS	KY	ME	MA	MI	MN	MT	NE	NH	NJ	NM	NY	ND	OR	RI	TX	UT	VT	WV	WI
Accenture	23		✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓		✓	✓	✓	✓		✓	✓	✓	✓			✓
Administrstaff (now Insperity)	15		✓	✓	✓	✓				✓	✓			✓		✓				✓		✓		✓	✓	✓	✓			✓
ADP	20		✓	✓	✓	✓		✓		✓	✓	✓		✓	✓	✓		✓	✓	✓		✓		✓	✓	✓	✓			✓
AdvanSix (Honeywell spinoff)	1																				✓									
AECOM	23	✓	✓	✓	✓	✓	✓	✓		✓		✓		✓		✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		✓	✓
Air Serv Corp (ABM Industries)	27	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		✓	✓
Altria Group	3			✓													✓							✓						
Amazon	26		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓
American Woodmark	6		✓	✓	✓							✓														✓				✓
BAE Systems	20		✓	✓	✓	✓	✓	✓		✓		✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓		✓	✓	✓			
Beacon Roofing Supply Inc.	28	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Boeing	7		✓	✓	✓					✓														✓		✓	✓			
Booz Allen Hamilton	19	✓	✓	✓	✓		✓	✓		✓	✓	✓		✓	✓			✓		✓	✓	✓	✓		✓	✓	✓			✓
BWX Technologies Inc.	1						✓																							
Caci	21	✓	✓	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓			✓	✓	✓	✓	✓	✓			✓	✓	✓		
Canon Virginia Inc.	25		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓		✓	✓	✓	✓		✓
CarMax	22		✓	✓	✓	✓			✓	✓	✓	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓		✓	✓	✓	✓		✓
Corporate Executive Board (owned by Gartner)	5			✓		✓				✓														✓		✓				
Dollar Tree Inc.	27		✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
DuPont	15			✓			✓			✓	✓	✓	✓	✓	✓	✓				✓		✓				✓	✓		✓	✓
DXC Technology	23		✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓		✓		✓		✓		✓	✓	✓	✓	✓	✓	✓
Dynalistic (EMCOR)	22		✓	✓	✓	✓	✓		✓	✓	✓	✓		✓	✓				✓	✓	✓	✓	✓	✓	✓	✓	✓		✓	✓
ePlus	12		✓	✓	✓	✓				✓				✓		✓			✓	✓		✓		✓		✓				
Estes Express Lines	28	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Fishel Company	5		✓	✓								✓														✓				✓
Food Lion (owned by Ahold Delhaize)	13					✓	✓			✓		✓	✓	✓					✓	✓		✓		✓				✓	✓	✓
Gannett Co. Inc.	25		✓	✓	✓	✓				✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
General Dynamics Corp	25	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		✓	✓	✓	✓		✓	✓	✓	✓	✓	✓
Genworth Financial	1					✓																								
Graham Holdings Co.	21	✓	✓	✓	✓	✓	✓	✓		✓				✓	✓	✓	✓	✓		✓		✓		✓	✓	✓	✓		✓	✓
GTT Communications Inc.	7			✓	✓					✓				✓		✓							✓			✓				
Hamilton Beach Brands	0																													
HCA Virginia Health System	9	✓		✓	✓				✓		✓	✓							✓							✓	✓			
Hilton Worldwide Holdings Inc.	1																									✓				
Hooker Furniture Corp.	1			✓																										
Huntington Ingalls Industries, Inc.	22	✓	✓	✓	✓	✓	✓	✓	✓	✓			✓	✓		✓		✓	✓	✓	✓	✓	✓		✓	✓	✓		✓	✓
IBM	13		✓	✓	✓	✓	✓			✓				✓	✓	✓				✓		✓				✓				✓
ICF International Inc.	16		✓	✓	✓		✓			✓	✓			✓	✓	✓							✓		✓	✓	✓		✓	✓
K12 Inc.	7		✓	✓	✓						✓		✓		✓												✓			
Kings Dominion (part of Cedar Fair)	4			✓											✓	✓										✓				
Kroger	18	✓	✓	✓	✓		✓		✓	✓	✓	✓			✓		✓	✓			✓			✓		✓	✓		✓	✓
Leidos Holdings Inc.	25	✓	✓	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓		✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Live Nation	17		✓	✓	✓	✓	✓			✓		✓		✓	✓	✓			✓	✓	✓	✓	✓			✓	✓			✓
Lowe's Home Centers, Inc.	29	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Lumber Liquidators (now LL Flooring)	26		✓	✓	✓	✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

Large Virginia Corporate Employers Adhere to Combined Reporting Across the U.S.

Va. large employer	Total	AK	AZ	CA	CO	CT	DC	HI	ID	IL	KS	KY	ME	MA	MI	MN	MT	NE	NH	NJ	NM	NY	ND	OR	RI	TX	UT	VT	WV	WI
ManTech International Corp.	22	✓	✓	✓	✓	✓		✓	✓	✓	✓			✓	✓		✓	✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	
MAXIMUS Inc.	10		✓	✓							✓			✓		✓				✓		✓				✓	✓			✓
MicroStrategy Inc.	1									✓																				
NewMarket Corp.	3									✓					✓											✓				
Norfolk Southern Corp.	12					✓	✓			✓		✓		✓	✓				✓	✓		✓				✓		✓	✓	
Northrop Grumman	21		✓	✓	✓	✓	✓	✓		✓	✓	✓		✓		✓		✓	✓	✓	✓	✓	✓		✓	✓	✓		✓	
NVR Inc.	2																			✓		✓								
Oracle	14			✓	✓	✓	✓			✓				✓		✓	✓		✓	✓		✓		✓		✓	✓			
Owens & Minor Inc.	16		✓	✓	✓	✓				✓		✓	✓	✓	✓	✓				✓	✓	✓		✓		✓	✓			
Parks Hotel and Resorts (Chesapeake Lodging Trust)	11		✓	✓	✓		✓	✓		✓				✓						✓		✓				✓	✓			
Performance Food Group Co.	16		✓	✓	✓	✓				✓		✓	✓	✓	✓	✓		✓		✓		✓		✓		✓		✓		✓
Perspecta Inc.	12			✓	✓			✓	✓	✓						✓		✓		✓	✓			✓		✓				✓
PRA Group, Inc. (Portfolio Recovery Associates)	3			✓							✓															✓				
Quest Diagnostics	6			✓						✓	✓			✓						✓						✓				
Qurate Retail (QVC Suffolk, Inc)	7		✓	✓	✓					✓				✓					✓							✓				
Raytheon	24		✓	✓	✓	✓	✓	✓		✓		✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Ruppert Landscape (part of Ruppert Companies)	1																									✓				
Science Applications International Corporation	20	✓	✓	✓	✓		✓	✓	✓	✓		✓		✓	✓	✓		✓		✓	✓	✓		✓	✓	✓	✓		✓	
Securitas USA	17		✓	✓	✓					✓	✓	✓		✓	✓	✓		✓	✓		✓	✓		✓		✓	✓			✓
Smithfield Packing Co. (Owned by Chinese Conglomerate WH Group)	14		✓	✓	✓				✓	✓	✓	✓		✓		✓		✓		✓						✓	✓			✓
STIHL Inc.	3				✓	✓																								✓
Strategic Education Inc.	8		✓	✓			✓									✓				✓						✓	✓			✓
SW Rodgers Company	0																													
Swissport USA	13	✓	✓	✓	✓		✓		✓					✓	✓	✓				✓	✓	✓				✓				
Target Corp.	29	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
TE Connectivity, Ltd.	6			✓			✓							✓		✓								✓		✓				
Tegna Inc.	12		✓	✓	✓		✓					✓	✓		✓	✓							✓		✓		✓			
The Brink's Company	20		✓	✓	✓	✓			✓	✓	✓	✓	✓	✓	✓	✓				✓	✓	✓		✓	✓	✓	✓		✓	
The Home Depot	29	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Tredegar Corp.	3														✓								✓				✓			
Trex Co. Inc.	1															✓														
UPS	28	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
United Airlines Inc	28	✓	✓	✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Universal Corp.	0																													
US Foods	20	✓	✓	✓	✓	✓				✓	✓				✓	✓		✓	✓	✓	✓	✓	✓	✓		✓	✓		✓	✓
Verisign Inc.	0																													
VSE Corp.	8			✓			✓	✓			✓	✓			✓								✓			✓				
Walmart	29	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

Methodology Note TCI staff compiled a list of large employers in Virginia using information on major employers found on the websites of the Virginia Employment Commission, Virginia Business, and local and regional economic development entities. TCI also attempted to determine the extent to which employers were subject to the Virginia corporate income tax by reviewing applicable federal laws, the Code of Virginia, and nonprofit tax filings published by ProPublica.

For the employers that are structured as corporations that are likely subject to Virginia corporate income tax, TCI staff reviewed, to the extent available, those corporations' 10-K filings with the U.S. Securities and Exchange Commission, annual reports, and corporate websites and job listings, and other public information to determine other states where those corporations operate.