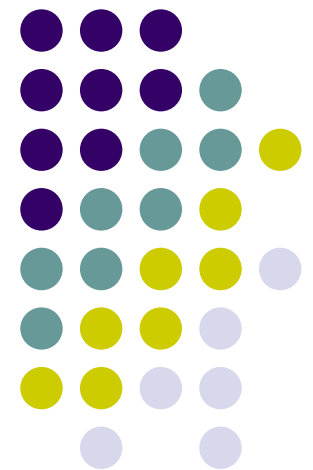
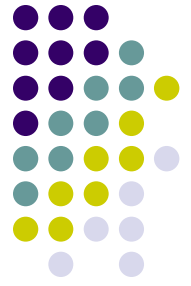


Combined Unitary Reporting: The Basic Concept

Robert Tannenwald
February 21, 2008

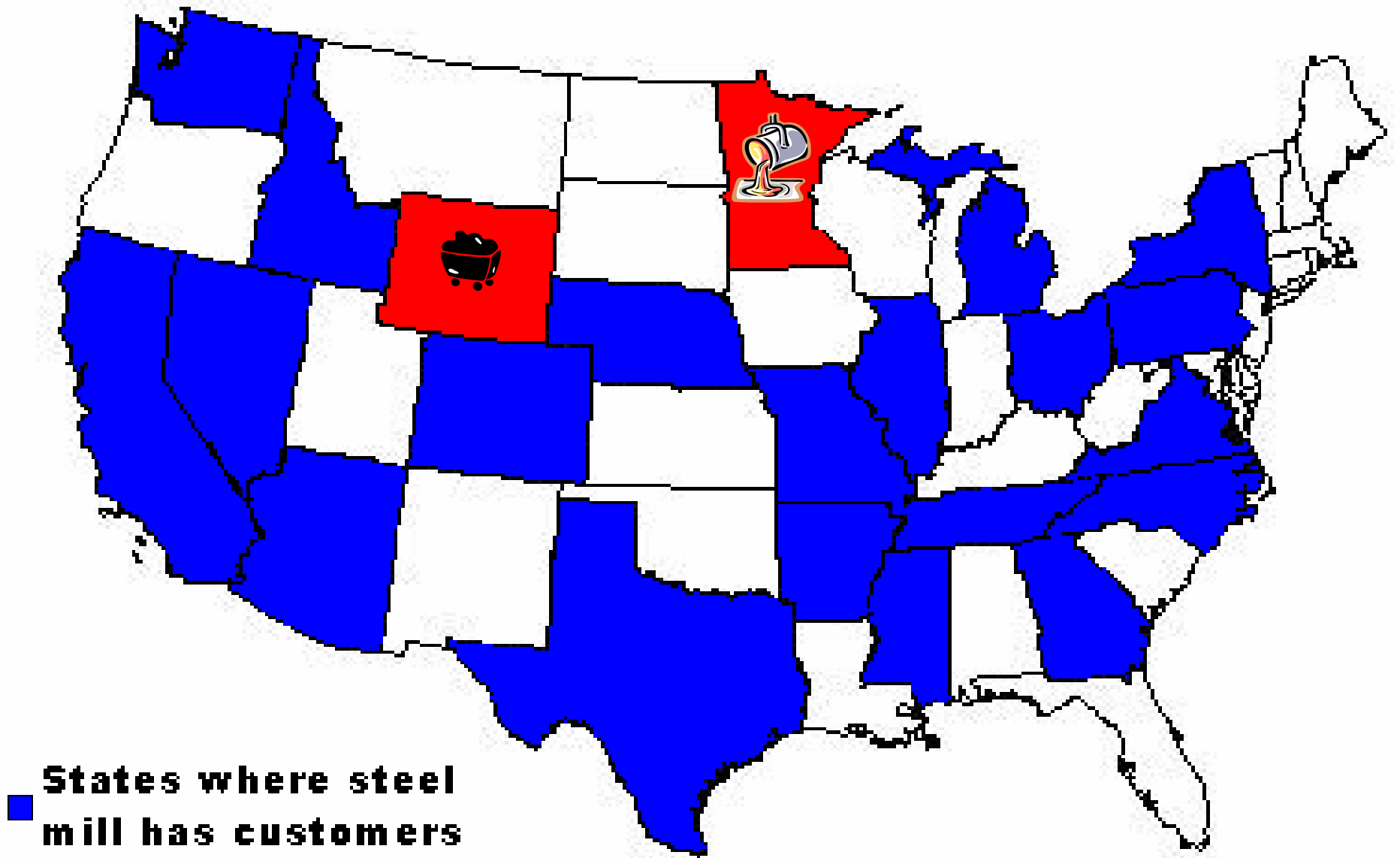


Apportionment by Formula



$$\text{State Taxable Income} = \left[\frac{\text{Total apportionable income}}{\text{Total apportionable income}} \right] \left[\text{State's share of apportionable income} \right]$$

$$\text{State's share of apportionable income} = \frac{\left[\frac{\text{Property in - state}}{\text{Total property}} + \frac{\text{Payroll in - state}}{\text{Total payroll}} + \frac{\text{Sales in - state}}{\text{Total sales}} \right]}{3}$$



State Corporate Income Tax Treatment of Northland Steel Under Separate Accounting—No Tax Planning



Steel Mill Subsidiary (MN)	
Purchases of Coal	300
Other Costs	1200
Total Costs	1500
Nationwide Sales	2000
Pre-Tax Profit	500
MN Sales	200
MN Percent of Nationwide Sales	10%
Apportioned Profits = 10% of 500	50
MN State Tax = 9.8% of 50	4.9
Coal Mine Subsidiary (WY)	
Costs	225
Sales	300
Pre-Tax Profit	75
WY Tax Rate = 0%	
WY Tax	0
TOTAL STATE CORPORATE INCOME TAX	4.9

State Corporate Income Tax Treatment of Northland Steel Under Separate Accounting—Tax Planning

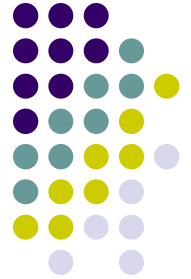


Steel Mill Subsidiary (MN)	
Coal Costs (reported for tax purposes)	500
Other Costs	1200
Total Costs	1700
Nationwide Sales	2000
Pre-Tax Profit	300
MN Share of Total Sales of Steel Mill	10%
MN Taxable Profit = 10% of 300	30
MN State Tax Rate = 9.8%	
MN State Tax = 9.8% of 30	2.94
Coal Mine Subsidiary (WY)	
Costs	225
Sales	500
Pre-Tax Profit	275
WY Tax Rate: 0%	
WY Tax	0
TOTAL STATE CORPORATE INCOME TAX	2.94

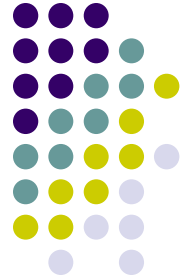


**Tax Planning Reduces
Tax Burden of Company by
\$1,960 or 40%**

State Corporate Income Tax Under Combined Unitary Accounting

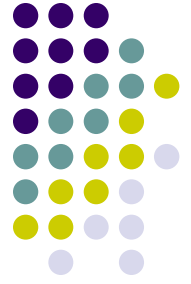


Pre-tax profit—steel mill (tax planning)	300
Pre-tax profit—coal mine (tax planning)	275
Pre-tax profit—total (tax planning)	575
Sales	
Steel mill—in MN	200
Coal mine WY	500
Steel mill outside of MN and WY	1800
Total	2500
Share of company sales in MN = $200/2500$	0.08
Profits apportioned to MN = $0.08*575$	46
State Corporate Income Tax = $0.098*46$	4.508

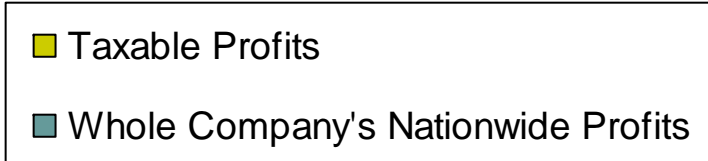
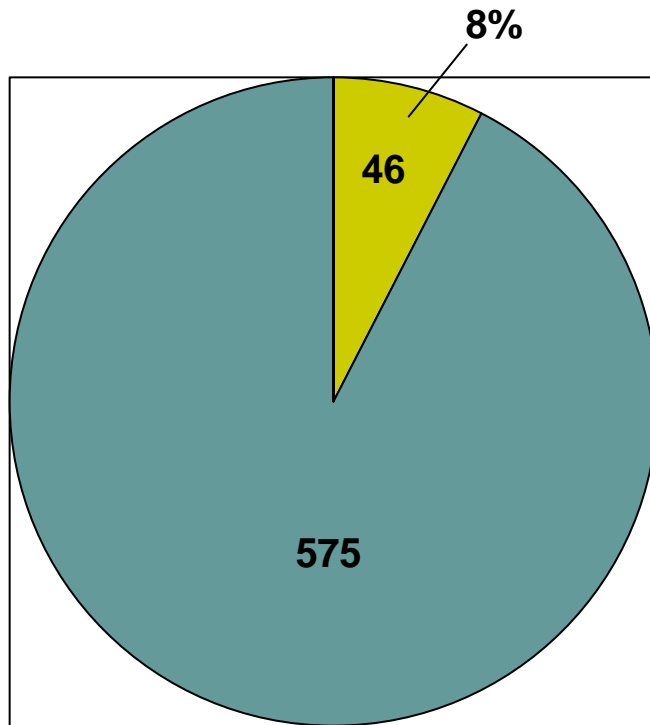


**Combined reporting results in
lower tax bill than under accurate
separate accounting
(not true in all instances)**

Computing Minnesota Taxable Profits Under Combined Reporting vs. Separate Accounting: A Smaller Slice of a Larger Pie



Combined Reporting



Separate Accounting

