

"Business Tax Reform Proposals in Massachusetts: Policy Options for New England States"

presented at

ECONOMIC PERSPECTIVES ON STATE AND LOCAL TAXES
Lincoln House
Cambridge, MA

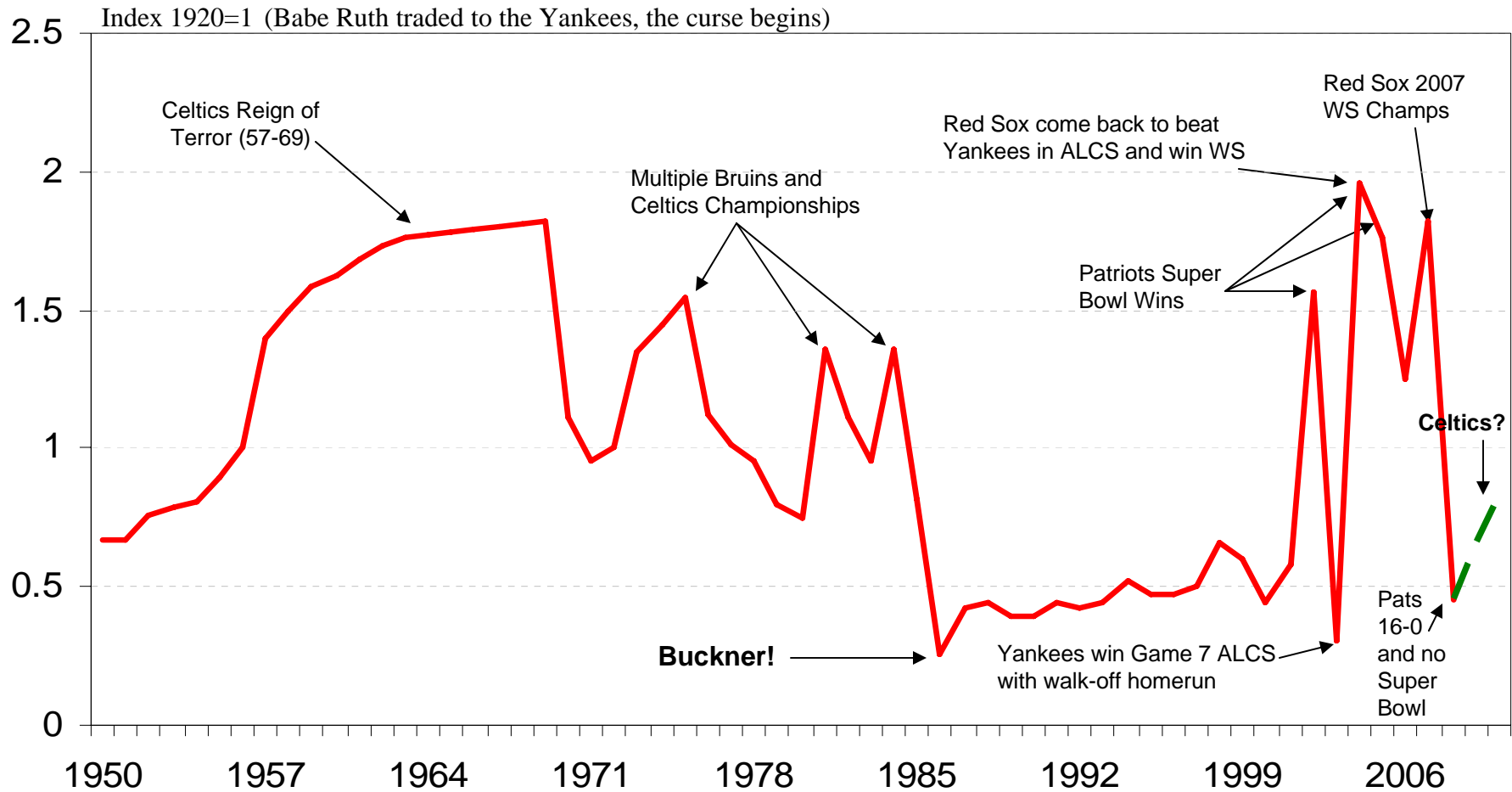
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New England has been through tough times before...

Boston Sports IndexBSI



Notes:
Red Sox given favorable weights.



**Combined Unitary Reporting:
Major Recommendation of the Massachusetts
Corporation Tax Study Commission
The Basic Concept**



Apportionment by Formula

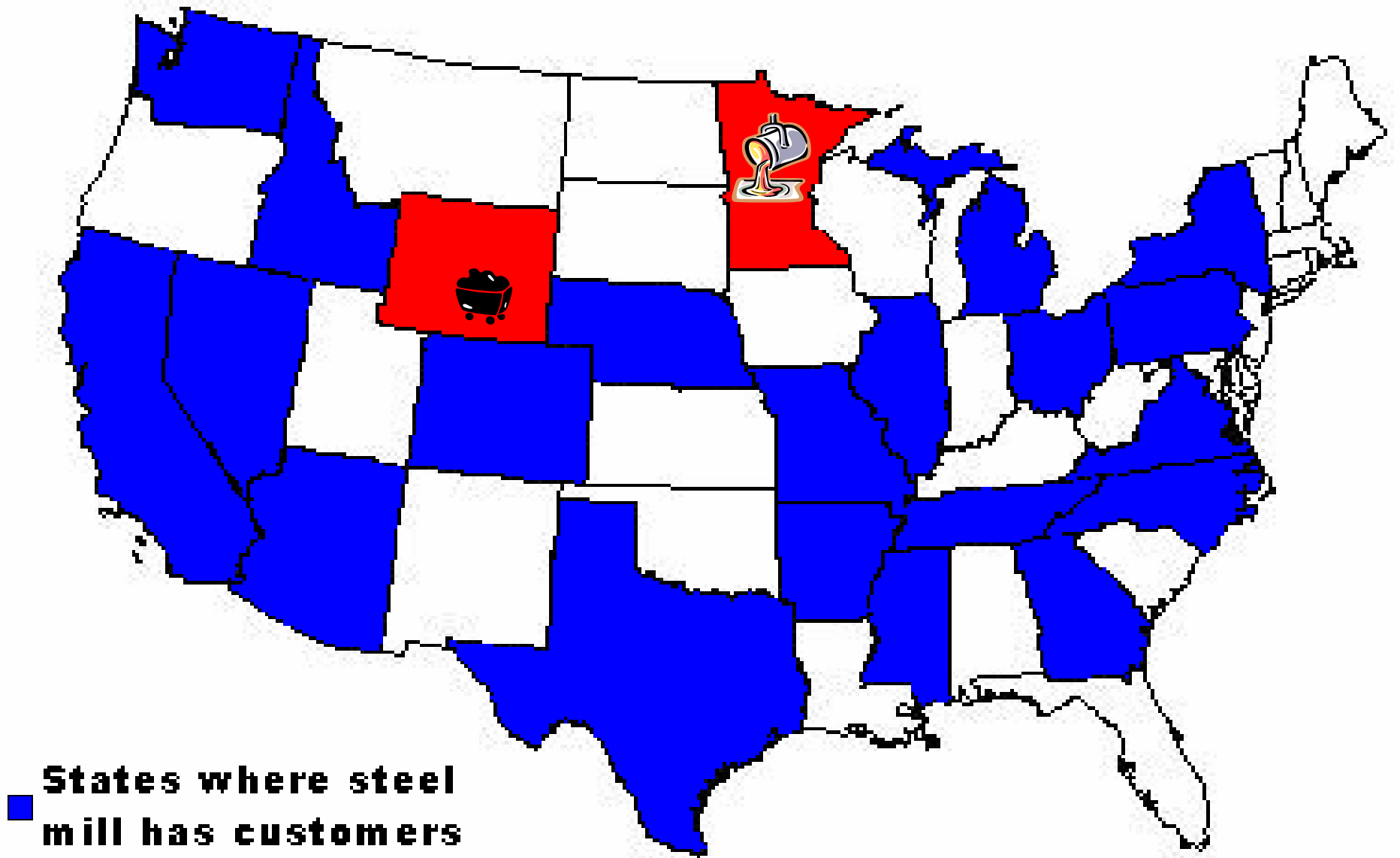
$$\text{State Taxable Income} = \left[\frac{\text{Total apportionable income}}{\text{Total apportionable income}} \right] \left[\text{State's share of apportionable income} \right]$$

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

Single Factor Apportionment Based on Sales

Sales in State

Total Sales



State Corporate Income Tax Treatment of Northland Steel—Single Multi-State Corporation

Total Costs	1725
Nationwide Sales	2300
Pre-Tax Profit	575
MN Sales	200
MN Percent of Nationwide Sales	8.7%
Apportioned Profits = 8.7% of 575	50.0
MN State Tax = 9.8% of 50	49
No tax paid to Wyoming—has no corporate income tax	

State Corporate Income Tax Treatment of Northland Steel—Conglomerate Consisting of Two Separately Incorporated Affiliates No Tax Planning

Steel Mill Subsidiary (MN)	
Coal Costs (reported for tax purposes)	300
Other Costs	1200
Total Costs	1500
Nationwide Sales	2000
Pre-Tax Profit	500
MN Share of Total Sales of Steel Mill	10%
MN Taxable Profit = 500	50
MN State Tax Rate = 9.8%	
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—Conglomerate Consisting of Two Separately Incorporated Affiliates 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 300	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%

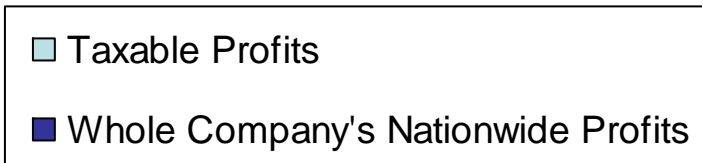
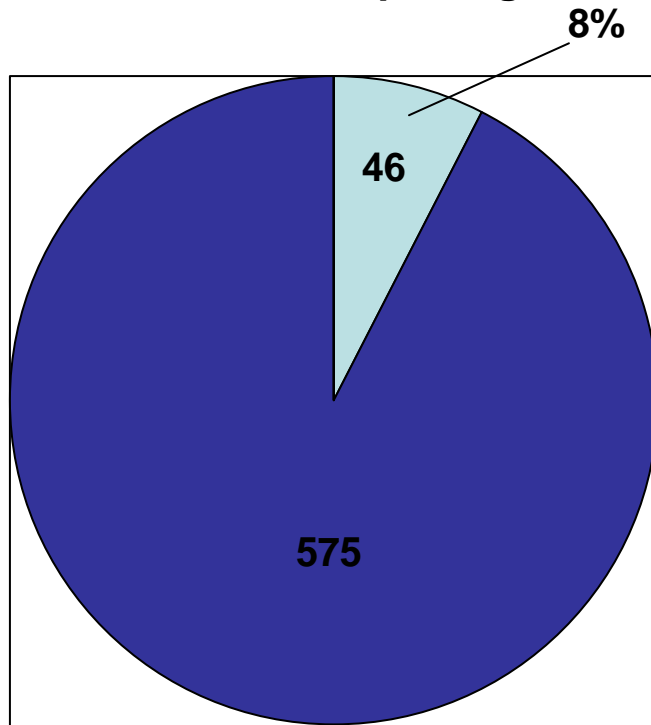
State Corporate Income Tax Under Combined Unitary Accounting

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 of 575	46
State Corporate Income Tax = 9.8% of 46	4.508

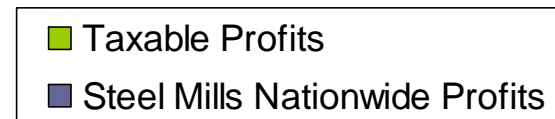
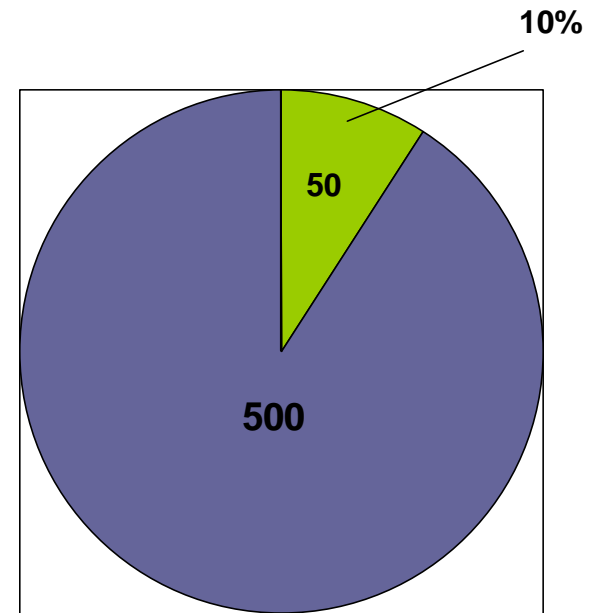
**Combined reporting results in lower
tax bill than under accurate
separate accounting
(not true in all instances)**

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

Combined Reporting



Separate Accounting



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