



New Mexico Fiscal Policy Project

POLICY BRIEF – UNITARY COMBINED REPORTING

ENSURING THAT MULTI-STATE CORPORATIONS PAY THEIR FAIR SHARE OF CORPORATE INCOME TAX

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INTENT

Unitary combined reporting would require multi-state corporations that do business in New Mexico to pay corporate income tax (CIT) on the profits they make here.

PROBLEM

New Mexico's tax code allows profitable, multi-state corporations to avoid paying some \$70 to \$90 million in corporate income taxes every year. These are the same corporations – big-box stores and national chains – that do business and pay income taxes on their profits in neighboring states.

Our tax laws allow multi-state corporations to report their New Mexico earnings in another state, such as Delaware, that doesn't collect CIT. So even though they are profitable here, their New Mexico tax returns don't show that profit.

This not only puts New Mexico corporations at a disadvantage – it undercuts the state's ability to provide important programs like public safety, education and health care for kids. It also means that the rest of us – including New Mexico small businesses – pay for the infrastructure that allows these multi-state corporations to do business here.

Some states, however, do not have this problem because they have a law that requires unitary combined reporting.

Unitary combined reporting means multi-state corporations doing business in Oregon, for example, must "combine" the income they earned in every state where they do business. A formula is then used to determine how much CIT the corporations owe to each state.

Closing this tax loophole would not hurt our efforts to attract new, out-of-state businesses because every state west of the Rockies – except New Mexico – requires unitary combined reporting.*

BACKGROUND

In 2006, the state Taxation and Revenue Department took Wal-Mart to court, and an \$11.6 million tax assessment against the giant retailer was upheld.

The state has also taken Kmart and Sonic to court over unpaid CITs. But taking corporations to court is an expensive and inefficient way to collect taxes.

CONCLUSION

In 2003, the Blue Ribbon Tax Commission stated in its final report to the state Legislature that, "combined reporting is the fairest approach to corporate taxation at the state level." New Mexico should follow this advice.

*Except those states that do not collect CIT.