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Combined Reporting Doesn't Add Up for New Corporations

A recent Voices for Children commentary stated that out-of-state corporations operating in New Mexico do not pay corporate income taxes here because “they shift their New Mexico profits to out-of-state subsidiaries.” It recommended imposing a tax provision called “mandatory combined reporting” as a solution to ensure that these profits are fairly taxed. This discussion is misleading.

In fact, the principal impact of mandatory combined reporting would be to base the New Mexico corporate income tax in part on the income of corporations and subsidiaries that do not do business in New Mexico. The New Mexico tax base would include this income merely because those out-of-state corporations are part of a corporate family of parents and subsidiaries which have at least one member doing business in New Mexico. This taxation would occur regardless of whether these companies “shifted” or ever had “shifted” New Mexico profits elsewhere.

Taxing this income may appear to be a bonanza for the state, but it is important to consider its effect of New Mexico's economic development efforts. It would interfere with efforts to recruit the businesses with the most attractive employment and taxpaying potential.

Combined filing would mean that a corporate family with profitable subsidiaries in several other states could form a New Mexico subsidiary or begin to do business in New Mexico only if it is willing to have its New Mexico income tax based in part on the profits earned by the subsidiaries not doing business in New Mexico. A newly-established New Mexico subsidiary might break even or even lose money and still owe a substantial amount of New Mexico corporate income tax.

Serious policy questions are raised by this issue. Understanding is not enhanced by suggesting it mostly concerns corporations inappropriately “shifting” income actually earned in New Mexico to other states. If such inappropriate “shifting” of income is occurring, there are more targeted ways to address it.

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Editor's note: Ex-legislator Minzner chaired the House Taxation and Revenue Committee before appointment as secretary of the Taxation and Revenue Department in 1991.

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