

## **Kate Brewster: Combined reporting will Establish fair business taxing;**

If you own a small business and feel like you are competing with big businesses on a playing field that is not level, one reason could be that many of Rhode Island's large, multistate corporations aren't paying their fair share in taxes.

Big companies and their teams of accountants and lawyers can take advantage of loopholes in our tax law and artificially shift profits that are earned in Rhode Island into states that have lower taxes or no taxes at all.

Tax-avoidance schemes give large companies the advantage of boosting their after-tax income, and thus, their ability to undercut prices of smaller, in-state businesses. Paying little or no income tax also allows large corporations to attract new capital at a lower cost.

In 2007, Rhode Island lawmakers wisely closed two commonly used corporate loopholes known as "passive investment companies" and "captive real estate investment trusts." While those were critical steps to take in corporate tax reform, the state has an opportunity to shut down most of these tax avoidance practices once and for all by enacting combined reporting. This would be an important step toward leveling the playing field between small Rhode Island businesses and large, multistate corporations.

Combined reporting requires that a corporation add profits from the parent company and any in-state and out-of-state subsidiaries together. The profits of the combined group are then divided for tax purposes among the states in which the group does business in proportion to the level of business activity conducted in each state.

Twenty-three of the 45 states that levy a corporate income tax now require combined reporting, including our Northeast neighbors Massachusetts, New York, Vermont, New Hampshire and Maine.

Opponents of combined reporting warn that it will harm the state's business climate. However, according to the Center on Budget and Policy Priorities, between 1990 and 2007, seven of the eight states with corporate income taxes that had net gains in manufacturing employment were combined reporting states (Arizona, Idaho, Kansas, Montana, Nebraska, North Dakota, and Utah).

Furthermore, the R.I. Division of Taxation analyzed the impact of combined reporting and found that of the businesses now paying taxes in Rhode Island, nearly three-quarters either would not be impacted or would see an actual tax decrease.

The small-business community in Rhode Island will continue to compete with one hand tied behind its back so long as Rhode Island continues to allow multi-state corporations to employ tax avoidance strategies. Large corporations, just like small businesses, should be contributing their share towards the public services and infrastructure they use every day, including roads and bridges, police, fire and rescue, and a public education system that trains current and future workers. It's time to enact combined reporting. •