

Press Releases

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Tanzi bill would close corporate tax loophole

STATE HOUSE – Rep. Teresa Tanzi is pushing for legislation that would close a loophole that large, multi-state and international corporations use to avoid paying state taxes.

Representative Tanzi (D-Dist. 34, South Kingstown, Narragansett) is sponsoring legislation ([2011-H 5738](#)) that would enact combined reporting. One of the tricks many multi-state or multi-national corporations use to dodge state taxes is to hide their Rhode Island profit in a shell corporation or other out-of-state entity that is not subject to Rhode Island taxes. Under combined reporting, corporations that have businesses in other states or countries must combine all subsidiaries as a unitary entity and then pay taxes to Rhode Island based on the percentage of net business profit or loss generated by its operations in this state.

The bill, which had a hearing before the House Finance Committee last week, would put an end to a trick that large corporations use to evade the taxes that homegrown businesses pay, eliminating an unfair advantage that hurts small business.

“Mom-and-pop businesses have a hard enough time as it is competing with the resources of big corporations, whose large accounting staffs know how to take advantage of this loophole. We shouldn’t be giving big companies a break that the little guys don’t have by letting them form shell corporations to skirt state taxes,” said Representative Tanzi. “This bill is about making sure these multi-state corporations are paying their fair share.”

New York, Maine, Vermont and New Hampshire have combined reporting, and Massachusetts joined them in 2009. A majority of states that collect corporation business taxes now use the combined reporting method to appropriately capture taxes owed in state.

“Combined reporting will not only help Rhode Island reclaim tax revenue from those companies that circumvent the system, but it will also help level the playing field for small business owners who are playing by the rules. Combined reporting isn’t ‘raising’ taxes on big employers. It’s simply preventing big businesses from evading the taxes that our local businesses are paying. It’s fair to all businesses and it would help the state collect the money it’s owed, which we need more than ever right now,” said Representative Tanzi.

The bill is supported by the Washington-based Institute on Taxation and Economic Policy and the Poverty Institute.

“Simply put, there is no legitimate rationale for preserving tax loopholes that encourage companies to devote their resources to accounting shenanigans but add no economic value to a company or to a state’s economy. Combined reporting – the single best reform available for closing such loopholes – would enhance the long-term viability of the Rhode Island corporate income tax and would have a salutary effect on tax fairness and adequacy in the state,” said Carl Davis, Senior Analyst with the Institute on Taxation and Economic Policy in testimony before the House Finance Committee on the bill. “The adoption of combined reporting is a vitally important step towards making the Rhode Island tax system more reflective of the modern economy.”

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