MASSACHUSETTS BUDGET AND POLICY CENTER

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HOUSE CLOSES CORPORATE TAX LOOPHOLES; OTHERS REMAIN

Earlier today, the Massachusetts House of Representatives adopted legislation that would close several loopholes in the state's corporate income tax and would impair businesses' ability to shift profits out of Massachusetts in order to avoid their fair share of the state tax burden. The legislation approved by the House is similar to a proposal offered last week by Governor Romney and comes just several weeks after the release of the MBPC report, *Gone With the Wind: Massachusetts Vanishing Corporate Income Tax*, which examines the roles that corporate tax avoidance and tax policy changes adopted during the 1990s have played in eroding the state's corporate income tax.

"Members of the House and the Governor should be commended for taking the first step to bolster the state's corporate income tax," said Noah Berger, the Executive Director of the MBPC. He continued, "The contribution that the corporate income tax makes to state revenue has dropped precipitously over the past several decades and today's action by the House will start to halt that slide. By continuing to close corporate tax loopholes, the legislature can require businesses to pay their fair share in state taxes and reduce cuts to essential services."

Among the options still available to policymakers is the adoption of combined corporate tax reporting. While the legislation adopted by the House today would put an end to one of the more egregious methods by which corporations shift profits out of Massachusetts to avoid taxation – namely, the use of passive investment corporations – combined reporting would prevent corporations from using a range of profit shifting techniques that have been devised in recent years. Combined reporting would require corporations, when filing their tax returns, to list all of the profits realized by all of their related subsidiaries and then determine their tax liability, through apportionment, on all such profits. Currently used in 16 states, including California, New Hampshire, and Maine, combined reporting is the most comprehensive way to stop corporate tax avoidance.

Enacting this and other changes would help to restore corporate tax revenue to its historical level; in FY 2002, the corporate income tax produced $587 million for the state, its lowest level, in real terms, in more than 30 years. As a result, the corporate income tax now represents just 4 percent of all tax revenue collected by the state. In 1968, it comprised 16 percent of such revenue.

Copies of *Gone With the Wind: Massachusetts Vanishing Corporate Income Tax* can be obtained via the MBPC's web site, www.massbudget.org.

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