May 4, 2016

Dear Members of the New Jersey Legislature,

We, the undersigned, support closing corporate tax loopholes by making combined reporting mandatory for *all* multistate corporations operating in New Jersey, as outlined in legislation introduced by Senators Lesniak, Sarlo and Greenstein and Assembly members Holley, Eustace and McKnight.[1] This common sense policy would level the playing field for New Jersey's small, local business and could raise an additional $290 million a year to invest in schools, roads and other building blocks of a strong economy.[2]

Combined reporting treats the parent company and subsidiaries of multistate corporations as one entity for state corporate income tax purposes. Their nationwide profits are added together and the state then taxes the appropriate share of the combined income. With recent enactment in Rhode Island and Connecticut, 25 out of the 45 states that have some form of corporate income taxation, plus the District of Columbia, now mandate combined reporting. In fact, this important reform has become so commonplace in other states that nearly all of New Jersey's largest employers already use it when filing state taxes elsewhere.

Back in 2002, when New Jersey was facing a large budget gap despite strongly growing corporate profits, state policymakers closed *some* corporate tax loopholes when it passed the New Jersey Business Tax Reform Act.[3] It is now time to update the corporate tax code to ensure that *all* New Jersey businesses are paying their fair share.

As it stands, local businesses are more likely to have to pay taxes on all their profits, because, unlike multistate firms, they have nowhere to shift them. Even unincorporated businesses not subject to corporate income tax may be at a disadvantage without combined reporting because their profits are subject to the state's personal income tax. Without combined reporting, large multistate corporations end up paying income tax at a lower effective tax rate than small businesses.

Combined reporting not only helps foster a more level playing field for all businesses, it increases the resources that states need to be able to invest in vital services like education, transportation infrastructure and public safety – services that all businesses rely upon and consider when making long-term plans. Failing to mandate combined reporting could harm the state's economy by allowing its corporate tax base to erode, undermining the public services needed by the private sector.

Some major multistate corporations oppose combined reporting, claiming it leads to costly tax compliance burdens. These corporations also threaten that combined reporting could lead to job losses if major employers leave the state or reject it for future investments. This rings hollow because most of New Jersey's largest employers already operate in combined reporting states and, in some cases, have been doing so for decades.

New Jersey's 98 largest non-casino for-profit employers were examined by New Jersey Policy Perspective to see in what other states they have physical facilities.[4] These include the state's largest financial institutions, pharmaceutical companies and retailers. Nearly all of the largest New Jersey employers – 92 out of 98 – maintain facilities in at least one combined reporting state or are a member of a corporate group that has a facility in at least one combined reporting state (94 percent). The vast majority of these corporations maintain facilities in *multiple* combined reporting states. More than 75 percent have facilities in five or more combined reporting states and about half have facilities in 10 or more such states.

Despite the continued opposition of some business lobbyists, comprehensive combined reporting would not lead New Jersey's largest employers to leave the state or discount New Jersey as a location for future investment. There is no better evidence to discount this assumption than the continued willingness of large multistate corporations to locate or expand in states with combined reporting.

As an accounting process, there is little difference between combined reporting and the consolidated reporting that the vast majority of large corporations use when they report their profits to the Internal Revenue Service and stockholders. Multi-entity corporate groups are the only ones affected by combined reporting, and the very small increase in complexity is well justified by the need for New Jersey to stop corporate tax sheltering. Concerns over the possibility of comprehensive combined reporting creating an undue burden on corporations are therefore unfounded.

For all of the above reasons, we believe that expanding combined reporting makes sound economic sense: it would be good for *all* businesses and good for the health and sustainability of the overall state economy.

Signed,

American Federation of State, County and Municipal Employees – Council 1
American Federation of Teachers – New Jersey
The Anti-Poverty Network of New Jersey
BlueWave New Jersey
Clean Water Action
Communications Workers of America – New Jersey
Communications Workers of America – Local 1032
Communications Workers of America – Local 1037
Communications Workers of America – Local 1081
Council of New Jersey State College Locals
Drug Policy Alliance
Environment New Jersey

Greater New Jersey Pride at Work
Health Professionals and Allied Employees
Housing and Community Development Network of New Jersey
Ironbound Community Corporation
Latino Action Network
Lutheran Episcopal Advocacy Ministry of New Jersey
The Main Street Alliance of New Jersey
Monarch Housing Associates
National Association of Social Workers – New Jersey
New Jersey Citizen Action
New Jersey Communities United
New Jersey Education Association
New Jersey Policy Perspective
New Jersey Public Interest Research Group
New Jersey Sierra Club
New Jersey State AFL-CIO
New Jersey Tenants Organization
New Jersey Work Environment Council
New Jersey Working Families
SEIU – New Jersey State Council
SEIU – 32 BJ
SEIU – Local 617
SEIU – Workers United
SEIU – Local 518
Unitarian Universalist Legislative Ministry of New Jersey

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1 Senate Bill 982 and it companion bill, Assembly Bill 3632.

2 Office of Legislative Services, Legislative Fiscal Estimate, Senate Bill 982, March 1, 2016. http://www.njleg.state.nj.us/2016/Bills/S1000/982_E1.HTM

3 Public Law 2002, C. 40.

4 New Jersey Policy Perspective, *Nearly All of New Jersey's Largest Employers Already Subject to 'Combined Reporting' in Other States*, January 28, 2016, http://www.njpp.org/reports/nearly-all-of-new-jerseys-largest-employers-already-subject-to-combined-reporting-in-other-states