

Worldwide Combined Reporting

GBA Talking Points

Combined Reporting Basics

- Under combined reporting, a company files one tax return based on the combined income of an identified unitary group.
- The two typical approaches to combined reporting are worldwide combined reporting and water's edge combined reporting.

Issues with Mandatory Unitary Worldwide Combined Reporting

- Worldwide combined reporting threatens to impose significant double taxation on non-U.S. companies, is inconsistent with state, federal and international tax norms, and violates principles of U.S. tax treaties.
- Imposing mandatory worldwide reporting will hurt efforts to attract and retain international companies and damage the state's competitiveness.
- Mandatory worldwide reporting will create disputes with treaty partners. In the past, some foreign governments have even enacted retaliatory action in response to states seeking to adopt a tax structure without a true water's edge system.
- Combined reporting may result in increases or decreases in a state's revenue given it may hurt or benefit different companies in different ways.

Why is a "water's edge" approach so important?

- States have responded to these concerns by enacting water's edge combined reporting restricting the combined return only to companies domiciled within the 50 states and U.S. territories. This solution is known as a true water's edge boundary.
- In fact, every state with combined reporting respects the water's edge boundary.
- Using the water's edge boundary, state administration of combined reporting is simpler and more efficient and company compliance is easier.
- Without a true water's edge boundary, a myriad of challenges is created for the U.S. taxpayer and state tax administrators, including managing cross-border currency conversions, different accounting standards and reporting requirements, and language barriers.

Other States

- Of the small minority of states that even have worldwide combined reporting, it is only an option in each of them and they each provide for a true water's edge option.
- States such as Virginia have studied combined reporting and determined not to pass and impose combined reporting.

What is Happening at the Federal Level?

- The federal government has not had a bill to implement a worldwide combined reporting policy.
- In 2021, approximately 140 countries, including the U.S., agreed to a minimum 15% corporate global minimum tax. The details, mechanics and implementation are still to be worked out.