Countering Corporate Tax Avoidance through Combined Reporting

New research brief shows many of Virginia’s large corporate employers already adhere to these requirements in other states

RICHMOND, VA – Virginia communities and families are still facing immense hardship due to the health and economic crisis. To support a robust, equitable recovery for the years ahead, Virginia needs to have a state tax system that is aligned with today's economy. In particular, the state can level the playing field by limiting corporate tax avoidance and simplifying compliance by following widespread tax policy practices like combined reporting.

Twenty-eight states and the District of Columbia already use this policy. Because mandatory combined reporting has been so widely adopted, many large corporations that operate in Virginia are already accustomed to following this policy when filing taxes in those other states. Publicly available information shows that 79 of 83 large corporate employers in Virginia operate in at least one jurisdiction that already uses combined reporting, with 71 operating in multiple combined reporting jurisdictions, according to new analysis by The Commonwealth Institute for Fiscal Analysis, an economic and policy research organization. This analysis suggests that combined reporting is unlikely to be a major factor in corporate location decisions.

In states without mandatory combined reporting policies, multi-state corporations can relatively easily shift profits to other states that tax corporate income at lower rates – or that do not tax corporate profits at all. Combined reporting negates many of these practices and improves overall tax fairness by putting multi-state corporations on a more level playing field with locally-based corporations that do not engage in these strategies.

“State lawmakers must build on the important strides made in recent years to modernize our state tax code,” said Chris Wodicka, senior policy analyst and co-author of the brief. “An up-to-date corporate tax system, including key reforms like combined reporting, is essential for Virginia to combat tax avoidance.”

In addition, combined reporting would likely also reduce racial inequality in the tax code because of the stark racial disparities in who tends to own shares of stock -- and in what amounts -- for Black and Latinx households relative to white households. Research suggests that state corporate income taxes are ultimately paid by capital owners or land owners. While combined reporting by itself would not fully
address the historical and present-day barriers to wealth that Black and Latinx households face, it could help to more equitably create opportunity if the additional budget resources are deployed with that goal in mind.

“As the state examines racial inequity throughout the state code, it’s important to remember that tax policy is part of the equation,” Wodicka said.

In the recently adjourned 2021 General Assembly special session, state legislators approved further study and consideration of combined reporting and also added new budget language to allow the state to evaluate potential impacts.

The full brief, “Combined Reporting: A Widely Used Tool to Counter Corporate Tax Avoidance” is available at www.thecommonwealthinstitute.org

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