CONNECTICUT VOICES FOR CHILDREN

Most of Connecticut's Top Employers Already Are Subject to Mandatory Combined Reporting in Other States

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Corporate tax loopholes reduce the revenues that are available to support the education, public safety, health, environmental, and tranportation services on which Connecticut's families and businesses rely. For several years, Connecticut has actively considered the adoption of mandatory combined reporting, a powerful tool for cracking down on common tax avoidance strategies used by multi-state corporations.[1] The General Assembly's Finance Committee has proposed legislation (Senate Bill 485) to implement mandatory combined reporting in Connecticut.

In previous debates, critics of mandatory combined reporting have raised two principal concerns. First, opponents contend that requiring multi-state corporations to file a combined tax return will impose a significant and unwarranted administrative burden on those firms. Second, opponents warn that Connecticut's top employers will relocate to other states if combined reporting is implemented.[2]

Key Findings

- Connecticut has 37 for-profit companies with more than 1,000 employees. 32 of these companies (86%) already operate in states with mandatory combined reporting. 27 of these companies operate in 5 or more combined reporting states.
- In 2007, 18 Connecticut companies had more than $2.5 billion in worldwide sales. All 18 of these companies currently operate in at least one combined reporting state.

Policymakers should not be swayed by either argument. Following an extensive review of public records, we find that the vast majority of Connecticut's largest employers already file combined returns in one or more states where combined reporting is required.[3]

Specifically, we examined the Securities & Exchange Commission filings and the company websites for (1) every Connecticut business with more than 1,000 employees that is part of a multi-state corporate enterprise[4] and (2) every Connecticut corporation that had more than $2.5 billion in worldwide sales in 2007.[5] (Six companies appear on both lists.) We conclude that 32 of the 37 Connecticut for-profit companies with more than 1,000 employees conduct business in one or more mandatory combined reporting states (Figure 1). Indeed, 27 of these companies operate in five or more mandatory combined reporting states. Of the 18 Connecticut corporations with more than $2.5 billion in worldwide sales, every single one operates in at least one mandatory combined reporting state, and 16 operate in four or more combined reporting states (Figure 2).

Notably, 30 of the 37 largest Connecticut for-profit employers and 17 of the 18 Connecticut companies with more than $2.5 billion in annual sales have facilities in at least one state that enacted mandatory combined reporting prior to 1985.[6] This strongly suggests that the administrative costs and additional tax liability that may be associated with mandatory combined reporting are not so substantial as to persuade these firms to relocate their facilities. Leading

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Connecticut companies continue to willingly conduct operations in one or more of these mandatory combined reporting states.

Mandatory Combined Reporting Has Been Successfully Implemented in a Majority of States with a Corporation Business Tax

In recent years, several states have rebuffed the argument that firms will leave if a state adopts mandatory combined reporting. Since Connecticut enacted and repealed mandatory combined reporting in 2003, seven states have adopted combined reporting laws (Massachusetts, Michigan, New York, Texas, Vermont, West Virginia, and Wisconsin).[7] Most peer states in the Northeast now have mandatory combined reporting, including New York, Massachusetts, New Hampshire, Vermont, and Maine.[8] In total, 23 of the 45 states with corporate income taxes have implemented this vital policy.[9] These states represent more than 53% of the national economy.[10]

Conclusion

Combined reporting is a reliable mechanism for halting several prominent corporate tax avoidance strategies. Under Connecticut's current system of predominantly single entity reporting,[11] multi-state corporations are able to artificially shift their profits to subsidiaries operating in states that do not tax businesses.[12] Mandatory combined reporting remedies this problem by treating parent corporations and certain subsidiaries and affiliates as a single corporation for tax purposes.[13] With combined reporting, "the profits and losses of all entities in a unitary group are combined," and an apportionment formula is then applied to determine what segment of the unitary enterprise's income is attributable to economic activity in Connecticut.

Treating the enterprise as a single entity eliminates the impact of any transfers between the affiliated companies.[14] Combined treatment of the parent corporation and its affiliates therefore counteracts the erosion of a state's corporate tax base that occurs under aggressive corporate tax planning.[15] Combined reporting also levels the playing field for local, Connecticut-based businesses, which are now at a competitive disadvantage to the multi-state companies who exploit Connecticut's single entity reporting system to reduce the taxes they owe Connecticut.

This original study debunks the myth that adopting mandatory combined reporting will impose untenable administrative burdens on Connecticut companies or prompt large employers to leave Connecticut. Most of Connecticut's largest employers already file combined reports in one or more states with mandatory combined reporting. Connecticut should forge ahead and adopt this critical policy.

Figure 1. Connecticut Companies With More Than 1,000 Employees

Connecticut Employer [Parent Corp.]	Long-Time Combined Reporting (CR) States																New CR States							# of CR States	HQ
	AK	AZ	CA	CO	HI	ID	IL	KS	ME	MN	MT	NE	NH	ND	OR	UT	MA	MI	NY	TX	VT	WV	WI		
Aetna Inc.		■	■	■			■		■				■	■		■	■	■	■	■				12	CT
Aetna Pharmacy [Aetna Inc.]		■	■	■			■		■				■	■		■	■	■	■	■				12	CT
Alstom Power Inc.				■			■								■		■	■	■	■				7	Fra.
Anthem Blue Cross Blue Shield [Wellpoint, Inc.]			■	■	■		■	■	■				■					■	■	■			■	11	IN
Boehringer Ingelheim Corp.																								0	Ger.
Boehringer Ingelheim Pharm. Inc. [Boehringer Ingelheim Corp.]																								0	Ger.
Bozzuto's Inc.																								0	CT
Dominion Millstone Power Sta. [Dominion Resources, Inc.]							■		■								■	■	■	■		■	■	8	VA
Dooney & Bourke			■		■		■		■										■	■				6	CT
ESPN, Inc. [Walt Disney Co.]		■	■	■			■	■		■					■	■	■	■	■	■			■	13	CA
GE Consumer & Industrial [General Electric Co. Inc.]	■	■	■	■	■		■	■	■	■		■	■		■	■	■	■	■	■	■		■	19	CT
General Electric Co. Inc.	■	■	■	■	■		■	■	■	■		■	■		■	■	■	■	■	■	■		■	19	CT
Hamilton Sunstrand Corp. [United Technologies Corp.]		■	■	■			■					■					■		■	■			■	9	CT
Hartford Financial Svc. Grp., Inc.		■	■			■	■			■							■	■	■	■				9	CT
Hartford Life, Inc. [Hartford Financial Svc. Grp., Inc.]		■	■			■	■			■							■	■	■	■				9	CT
The Hartford [Hartford Financial Svc. Grp., Inc.]		■	■			■	■			■							■	■	■	■				9	CT
Health Net of the Northeast [Health Net, Inc.]		■	■											■	■				■	■				6	CA
Healthtrax Inc.																	■		■					2	CT
Lake Compounce [Palace Entertainment Holdings, Inc.]			■		■								■						■	■				5	CA
Lego Systems Inc. [LEGO Holding]			■					■																2	Den.
Mass Mutual Life Insurance Co.		■	■	■	■	■	■	■		■		■	■		■	■	■	■	■	■			■	17	MA
Microwarehouse Inc. [CDW Corp.]		■	■				■			■			■				■	■		■		■		9	IL
Connecticut Light & Power Co. [Northeast Utilities]													■				■							2	MA
People's United Financial Inc.													■				■		■		■			4	CT

Figure 1 (Continued). Connecticut Companies With More Than 1,000 Employees

	Long-Time Combined Reporting (CR) States																**New CR States**								
Connecticut Employer [Parent Corp.]	AK	AZ	CA	CO	HI	ID	IL	KS	ME	MN	MT	NE	NH	ND	OR	UT	MA	MI	NY	TX	VT	WV	WI	# of CR States	HQ
Pepperidge Farm Inc. [Campbell Soup Co.]			■				■									■		■		■			■	6	NJ
Pfizer Inc.			■				■					■			■		■	■	■					7	NY
Philips Medical Systems Inc.		■	■	■			■	■		■							■	■	■	■				10	Neth.
Pitney Bowes Document Mssgng & Pitney Bowes Management Svc. [Pitney Bowes Inc.]		■	■	■			■	■		■			■		■	■	■	■	■	■			■	14	CT
Pitney Bowes Inc.		■	■	■			■	■		■			■		■	■	■	■	■	■			■	14	CT
Pratt & Whitney [United Technologies Corp.]		■	■	■			■					■					■		■	■			■	9	CT
Sikorsky Aircraft Corp. [United Technologies Corp.]		■	■	■			■					■					■		■	■			■	9	CT
Stanadyne Corp.																								0	CT
The Travelers Companies, Inc.	■	■	■	■	■	■	■	■		■	■	■	■	■	■	■	■	■	■	■			■	20	NY
Trefz Corp.	No Public Data Available.																								
Tyco Healthcare – U.S. Surgical (now Covidien PLC)			■														■	■	■		■		■	6	Ire.
United Technologies Corp.		■	■	■			■					■					■		■	■			■	9	CT
William Raveis Real Estate, Inc.																	■		■					2	CT

Figure 2. Connecticut Companies With More Than $2.5BN in Sales

Connecticut Employer [Parent Corp.]	Long-Time Combined Reporting (CR) States																New CR States							# of CR States	HQ
	AK	AZ	CA	CO	HI	ID	IL	KS	ME	MN	MT	NE	NH	ND	OR	UT	MA	MI	NY	TX	VT	WV	WI		
General Electric Co. Inc.	■	■	■	■	■		■	■	■	■		■	■	■		■	■	■	■	■	■		■	19	CT
United Technologies Corp.		■	■	■			■					■					■		■	■			■	9	CT
Hartford Financial Svc. Grp., Inc.		■	■			■	■			■							■	■	■	■				9	CT
Aetna Inc.		■	■	■			■		■				■	■		■	■	■	■	■				12	CT
Xerox Corp.			■	■		■	■	■	■	■			■				■	■	■					11	CT
Praxair Inc.		■					■										■	■	■	■				6	CT
Terex Corp.										■								■		■	■			4	CT
Northeast Utilities													■				■							2	MA
Pitney Bowes Inc.		■	■	■			■	■		■			■		■	■	■	■	■	■			■	14	CT
W.R. Berkley Corp.		■	■				■			■									■					5	CT
EMCOR Group Inc.		■	■	■			■	■							■				■	■			■	9	CT
The Stanley Works		■					■			■					■			■		■				6	CT
Chemtura Corp.			■				■											■				■		4	CT
United Rentals Inc.	■	■	■	■		■	■	■	■	■	■	■	■	■	■	■	■	■	■	■		■	■	21	CT
Odyssey Re			■				■	■						■					■					5	CT
United Natural Foods			■	■						■			■				■		■					6	RI
Silgan Corp.			■				■			■									■	■		■	■	7	CT
Phoenix Companies Inc.																			■					1	CT

Methodological Appendix

This study is modeled on two recent studies of New Mexico and North Carolina conducted by Michael Mazerov, a Senior Fellow at the Center on Budget & Policy Priorities in Washington, D.C.[16] Although we are grateful to Mr. Mazerov for explaining the methodology employed in his studies, we retain sole responsibility for the accuracy of our findings.

The research necessary to complete this study occurred in February and March 2010. We derived the list of Connecticut's top corporations by worldwide sales from the list compiled by Connecticut Magazine in January 2008.[17] We extracted the list of Connecticut businesses with more than 1,000 employees from the Connecticut Department of Labor database of employers.[18] We excluded from the list non-profit, government, and tribal employers as they are not subject to the corporation business tax. We also excluded for-profit business enterprises where neither the parent nor any of the subsidiaries were registered as C-Corporations. This decision excluded a number of Connecticut's largest employers, including PriceWaterhouseCoopers and Servicom LLC. We also specifically excluded two larger companies that are structured as pass-through entities and for which no public information was available regarding the legal status of any potential affiliates (e.g., Fremont Riverview LLC and Lincoln Waste Solutions LLCs). Finally, we excluded Ceci Brothers, Inc. Although the Connecticut Department of Labor lists Ceci Brothers as employing 1,000-4,999 employees, the Hoover's company listing on the firm lists only five full-time employees,[19] and we were unable to glean any additional information about the size or location of the company's operations from published public records.[20] Despite these exclusions, it remains possible that some of the firms included in this issue brief are not subject to Connecticut's corporation business tax.

Among the for-profit businesses remaining, if an individual subsidiary employed more than 1,000 workers in Connecticut, we treated that subsidiary as a separate company, even if sister subsidiaries also conducted business in Connecticut. For instance, the operations of Hamilton Sunstrand Corp., Pratt & Whitney, Sikorsky Aircraft Corp., and the corporate management of United Technologies Corp. are counted separately in the results. Since each affiliated company employed a substantial number of Connecticut workers, we concluded that it was appropriate to list them separately. If related entities are collapsed into singly entries, we obtain comparable results: 24 of Connecticut's top 28 employers operate in one or more combined reporting states.

We relied principally upon two sources of information for identifying the additional states in which these Connecticut companies have facilities: (1) the annual "10-K" reports filed by publicly traded corporations with the Securities & Exchange Commission and (2) the companies' own websites. Every Form 10-K has a section titled "Properties" in which the corporation describes its major facilities. Although this section sometimes contains a generic description, in many cases companies identify the specific locations of their major facilities.

We supplemented information extracted from Form 10-K with a review of firm websites. Many company websites feature a page listing the location of their facilities. If no such page existed, we reviewed sections of the websites regarding vacant job positions with the firm. We included those states with job listings for non-sales positions. We disregarded sales positions, since, according to Mazerov, "the presence of a corporation's sales personnel in a state does not automatically establish corporate income tax liability for the company as a result of federal Public Law 86-272."[21]

We only listed a Connecticut company as operating in a combined reporting state if we were able to gather written documentation from the company that it had a facility in that state. Since companies may have facilities in locations that we did not detect through our research, this study represents the minimum number of locations in which a multi-state enterprise is subject to combined reporting.[22]

We will update and correct this report if any of our conclusions were reached in error.

Endnotes

[1] In 2003, Connecticut actually adopted mandatory combined reporting, Pub. Act. No. 03-1, §§ 90-91, but the success was short-lived. Combined reporting was repealed shortly thereafter by the budget implementation bill. Pub. Act. No. 03-6, §§ 78-81, 244.
[2] *See, e.g.*, Testimony of Joseph Brennan, Senior Vice President of Public Policy, Connecticut Business & Industry Association, Hearing before the Committee on Finance, Revenue, and Bonding, March 28, 2005 ("And I just remember when this was passed in 2003, I've been working at CBIA 17 years and I never got a reaction like I got from that, and again, it's not anything that people say publicly, but just talking behind closed doors. I have no doubt in my mind, and I've known a lot of you a long time. I do not use hyperbole here. You know, I have no doubt in my mind that it wouldn't cause some serious relocations of employment in the State of Connecticut had that been adopted.")
[3] This study is modeled after two studies conducted by Michael Mazerov of the Center on Budget & Policy Priorities. *See* MICHAEL MAZEROV, CTR. ON BUDGET & POL'Y PRIORITIES, VAST MAJORITY OF LARGE NEW MEXICO CORPORATIONS ARE ALREADY SUBJECT TO "COMBINED REPORTING" IN OTHER STATES (2010), http://www.cbpp.org/files/1-26-10sfp.pdf [hereinafter NEW MEXICO STUDY]; MICHAEL MAZEROV, CTR. ON BUDGET & POL'Y PRIORITIES, MOST LARGE NORTH CAROLINA MANUFACTURERS ARE ALREADY SUBJECT TO "COMBINED REPORTING" IN OTHER STATES (2009), http://www.cbpp.org/files/1-15-09sfp.pdf.
[4] We extracted the list of Connecticut businesses with more than 1,000 employees from the Connecticut Department of Labor website in February 2010. Conn. Dep't of Labor, Labor Market Information from the Office of Research, Search for Employers, http://www1.ctdol.state.ct.us/lmi/empsearch.asp.
[5] The list of Connecticut's top corporations by worldwide sales was compiled by Connecticut Magazine in January 2008. *The Top 100*, CONN. MAGAZINE, http://www.zwire.com/site/news.cfm?newsid=17747943&BRD=2329&PAG=461&dept_id=600736&rfi=6.
[6] Those sixteen states are Alaska, Arizona, California, Colorado, Hawaii, Idaho, Illinois, Kansas, Maine, Minnesota, Montana, Nebraska, New Hampshire, North Dakota, Oregon, and Utah.
[7] NEW MEXICO STUDY, *supra* note 3. Before the most recent set of states adopted mandatory combined reporting, the Connecticut Business & Industry Association argued that adopting combined reporting would place Connecticut at a disadvantage relative to its competitors. *See* Testimony of Joseph Brennan, *supra* note 2 ("[A] minority of states have some form of unitary, not a majority. Most of those are west of the Mississippi. Most of our competitor states in this region do not have unitary reporting methods."). Given the rapid adoption of combined reporting in recent years, including in New York, Massachusetts, and Vermont, this argument has lost any salience it might have had.
[8] MICHAEL MAZEROV, CTR. ON BUDGET & POL'Y PRIORITIES, A MAJORITY OF STATES HAVE NOW ADOPTED A KEY CORPORATE TAX REFORM – "COMBINED REPORTING" (2009), http://www.cbpp.org/files/4-5-07sfp.pdf.
[9] *Id.*
[10] Author's calculations from Bureau of Economic Analysis, Gross Domestic Product by State, http://www.bea.gov/regional/gsp/ (accessed Mar. 20, 2010). GDP data are for calendar year 2008.
[11] Connecticut law currently *allows* corporations that file a federal consolidated return to file a combined return in Connecticut; the combined Connecticut tax liability is determined after each corporation in the combined return individually apportions its income to Connecticut (i.e., the return is in the nature of a state consolidated return). Connecticut imposes a preference tax on corporations that choose to file a combined state return that is equal to the difference between the tax that would have been due if the entities had filed separately and the total tax due under the combined return, up to a maximum of $500,000. In income year 2006, 1,014 corporations elected to file combined returns (the preference tax in that year was $250,000). Had these corporations filed single entity returns, the corporation tax due would have been $557.0 million. By electing to file combined returns, the total tax due before credits was reduced to $348.6 million (including $27.1 million in the preference tax). Notably, more than a third of the voluntary combined returns (366 of 1,014) reported only $250 in tax due, i.e., Connecticut's minimum corporate tax. Connecticut law also allows certain corporations to file unitary returns, as of right or with the permission of the Department of Revenue Services. In such cases, the combined net income of the unitary group is apportioned to Connecticut as if it were one corporation. *See* State of Connecticut, Department of Revenue Services, Annual Report Fiscal Year 2007-2008, at 18-20.
[12] MICHAEL MAZEROV, CTR. ON BUDGET & POL'Y PRIORITIES, STATE CORPORATE TAX SHELTERS AND THE NEED FOR "COMBINED REPORTING" (2007), http://www.cbpp.org/10-26-07sfp.pdf
[13] *Id.* Connecticut currently allows combined reporting at the election of corporate taxpayers that file a federal consolidated return (see note 11).
[14] William F. Fox, LeAnn Luca, & Matthew N. Murray, *Emerging State Business Tax Policy: More of the Same, or Fundamental Change?*, STATE TAX NOTES, May 2007, at 393-94.
[15] *Id.*
[16] *See supra* note 3.
[17] *See supra* note 5.
[18] *See supra* note 4.
[19] Ceci Brothers, Inc., Company Profile from Hoover's, http://www.hoovers.com/company/Ceci_Brothers_Inc/rscschskx-1.html (last visited Mar. 21, 2010).
[20] In addition to reviewing SEC filings and the company's website, we consulted ten major business databases available through the Lexis-Nexis and Westlaw electronic research services.
[21] NEW MEXICO STUDY, *supra* note 3, at 8.
[22] *Id.*