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Oklahoma Policy Institute

2018 POLICY PRIORITY: STOP CORPORATE TAX SHELTERS WITH COMBINED REPORTING

Background

Vanishing corporate income tax revenue is one of the reasons behind Oklahoma's chronic budget shortfalls. The state collected just \$168 million in corporate income tax in FY 2017, down from \$450 million in 2013. Next year's estimate is for the corporate income tax to fall even further, even as most major revenue sources are rebounding.



One cause for declining corporate income tax collections is large corporations shifting their Oklahoma profits to out-of-state tax shelters. For example, companies like Wal-Mart have transferred ownership of all their stores to an out-of-state subsidiary so they can effectively pay rent to themselves and deduct the rent from their taxable income. These tax-avoidance techniques weaken funding for critical public services. They also create an unfair advantage for big multi-state companies over local Oklahoma businesses that can't take advantage of such schemes.

Unfortunately, the new tax bill passed by Congress may make the situation worse. The bill permanently eliminates taxation of dividends received by U.S. parent corporations from their foreign subsidiaries. This may encourage companies to engage even more aggressively in artificial income-shifting, which will further erode the state corporate tax base.

The Solution

Under a simple and effective reform known as combined corporate reporting, companies are required to add together all of the profits of the parent and subsidiaries and pay taxes on all of those profits that were earned in Oklahoma. Combined reporting has already been adopted in more than half of the states with a corporate income tax, including three of Oklahoma's border states – Kansas, Texas, and Colorado.

What You Can Do

Contact your state Representative and Senator and urge them to support combined corporate reporting to stop profits made in Oklahoma from being shifted to out-of-state tax shelters.

You can look up your Senator and Representative at <http://okpolicy.org/find-your-legislator/>, call the House switchboard at 405-521-2711, and call the Senate switchboard at 405-524-0126.

To join the grassroots coalition of Oklahomans working to connect Oklahoma values with better budget and tax priorities, visit www.togetherok.org. To receive SMS advocacy alerts on important budget and tax issues, text OKBUDGET to 51555.