



## **Closing Corporate Loopholes: *Tax Fairness for Families and Small Businesses***

### **The Problem:**

The burden of paying for statewide programs and services falls disproportionately upon low- and middle-income families – as well as small businesses that operate only in Arkansas. Meanwhile, many large corporations that take full advantage of Arkansas highways, schools, economic development incentives, and other services are not paying their fair share. Because of various tax write-offs and corporate loopholes, 58 percent of companies filing tax returns in Arkansas in 2002 paid *no* state income tax.

For example, a number of corporations operating in multiple states avoid state taxes by shifting revenues they earn in Arkansas to a holding company in a state that does not tax corporate income. In effect, the companies “pay” an amount equivalent to what they have earned in Arkansas to the holding company, covering questionable expenses such as fees for patents and trademarks. They can then “deduct” the “payment” to eliminate or minimize their taxable income. This loophole costs Arkansas between \$38 to \$95 million annually in lost tax revenues.

### **The Solution:**

Arkansas can close the holding company loophole by adopting “combined reporting” legislation. This approach treats a parent company and most of its subsidiaries as one entity for tax purposes and allows the state to tax a share of that combined income. Currently, 21 states have adopted combined reporting.

- ❑ Combined reporting would force large, multi-state corporations to pay Arkansas taxes on profits earned in Arkansas.
- ❑ Combined reporting would create a fair, level playing field for Arkansas businesses that pay their fair share of taxes.
- ❑ The revenue generated from a combined reporting law would allow the state to provide tax relief for low-income families struggling in today’s economy.
- ❑ Combined reporting would also generate more state revenue for investment in pre-school education, health care, roads, and other services we all rely upon.

For more information, visit [www.aradvocates.org](http://www.aradvocates.org), or contact Rich Huddleston at 501-371-9678 or [rhuddleston@aradvocates.org](mailto:rhuddleston@aradvocates.org).