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Testimony of Rep. Ann Matlack introducing

LD 1939, An Act to Close Maine's Tax Loophole for Offshore Profit Shifting

Before the Taxation Committee

Good morning, Senator Grohoski, Representative Sayre and fellow members of the Taxation Committee. My name is Ann Matlack, and I represent House District 43, which includes the communities of Cushing, Thomaston, South Thomaston, St. George and part of Owls Head. I am here today to present **LD 1939, An Act to Close Maine's Tax Loophole for Offshore Profit Shifting.**

The Center on Budget & Policy Priorities reported in 2023 that "states … can dramatically reduce international tax avoidance by implementing a policy called worldwide combined reporting."[1] This method of tax accounting treats a parent corporation and most of its separately incorporated subsidiaries — including those established in foreign countries — as a single integrated economic enterprise, requiring them to combine their profits as the first step in calculating their tax.

"To reduce their federal corporate income taxes, every year large multinational corporations shift hundreds of billions of dollars in profits earned in the United States onto the books of subsidiaries formed in foreign tax havens like Bermuda, the Cayman Islands, and Ireland. Because nearly all state corporate taxes are based on the taxable profits a corporation reports on its federal return, each year states lose billions of dollars of revenue due to this profit shifting, estimates suggest. This is substantial revenue states could be using to provide K-12 teachers with better pay and smaller class sizes, low-income college students with more adequate financial aid, uninsured individuals with health coverage, residents and businesses with better road maintenance, and other critical services."[2]

Maine levies a more traditional corporate income tax, but one that employs a unique mechanism for determining tax liability. Maine uses both "water's edge" and "combined reporting" methods to develop taxable income. "Water's edge" means Maine's corporate income tax looks to business activity within the geographic boundaries of the United States. "Combined reporting" requires a business to add together income and deductions and tax attributes of all its group members into one report, regardless of location. This method is referred to as the Augusta Formula.

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[1] CBPP, Michael Mazerov, States Can Fight Corporate Tax Avoidance by Requiring Worldwide Combined Reporting
[2] Ibid

The Augusta Formula was developed following the 1991 Maine Supreme Court decision in Tambrands, Inc. v. State Tax Assessor, to ensure that a corporation's apportionment factor fairly represents the corporation's business activity in the state. However, corporations can easily implement strategies to shift U.S.-earned profits onto the books of subsidiaries located in low- or no-tax states to shift profits to foreign parent and subsidiary corporations located in low- or no-tax nations.

Adopting Worldwide Combined Reporting will provide Maine with the necessary tools to collect all the corporate taxes to which it is entitled and which corporations may be obfuscating.

I look forward to discussing this topic with you.

CBPP, June 27, 2024, Michael Mazerov
States Can Fight Corporate Tax Avoidance by Requiring Worldwide Combined Reporting
https://www.cbpp.org/research/state-budget-and-tax/states-can-fight-corporate-tax-avoidance-by-requiring-worldwide-0

ITEP, February 20, 2025, Carl Davis, Matthew Gardner, Michael Mazerov
A Revenue Analysis of Worldwide Combined Reporting in the States
https://itep.org/worldwide-combined-reporting-state-corporate-taxes/

MRS, February 15, 2023
Worldwide Combined Reporting of Certain Corporations for Income Tax Purposes
https://www.maine.gov/revenue/sites/maine.gov.revenue/files/inline-files/Report%20Regarding%20Worldwide%20Combined%20Reporting%20of%20Certain%20Corporations%20for%20Income%20Tax%20Purposes%20v1d.pdf