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

1/14/26

Sen. Grohoski, Rep. Sayre, and members of the Taxation Committee, my name is Maura Pillsbury and I am a tax policy analyst at Maine Center for Economic Policy. MECEP is testifying in support of LD 1939.

International profit shifting is a massive loophole in the state and federal tax codes that allows corporations to hide profits by transferring them to subsidiaries overseas in low-tax countries and jurisdictions.ⁱ Practices like this exploit weaknesses in our tax code, allowing big profitable corporations to avoid paying what they owe in taxes. When big corporations dodge their taxes, the people of Maine are left to pick up the tab and our small businesses are left on an uneven playing field. Meanwhile, small business owners and everyday Mainers who don't have overseas subsidiaries to hide their profits in pay the tax full rate. This is fundamentally unfair.

There is no data available in Maine to provide insight into how widespread this practice is. However, evidence from other states indicates international profit shifting has a huge financial impact, costing states over \$18.7 billion per year.ⁱⁱ On a proportional basis, this would suggest tens of millions of dollars in lost revenue in Maine.

LD 1939 seeks to correct this by making worldwide combined reporting mandatory under Maine's tax code. Worldwide combined reporting would prevent profit shifting by requiring a company and all its subsidiaries to be taxed as one entity.

Maine Revenue Services' (MRS) data showed that 60% of corporations filing taxes in Maine pay \$0 in taxes.ⁱⁱⁱ This includes 17 corporations making over \$1 billion per year. However, more data is needed to understand the full picture of tax avoidance in Maine. Having further insights into this data would help inform policymaking and understand the extent of this problem.

In 2023, MRS released a report recommending against *optional* worldwide combined reporting, citing possible revenue loss resulting from businesses filing whichever option benefitted them most.^{iv} This bill proposes mandatory worldwide combined reporting, requiring all businesses to follow the same rules.

Maine can close the loophole that allows offshore profit shifting. Hardworking Mainers and small businesses pay their taxes. Big, multinational corporations should too.