Combined Reporting

Unitary Combined Reporting

Pennsylvania is a separate-company filing state for the Corporate Net Income Tax (CNI), meaning that each corporation doing business in Pennsylvania files their own returns and reports only its income or loss to the Department of Revenue to determine Pennsylvania tax liability.

Unitary Combined Reporting is a method used in some states to determine business income by requiring companies that are part of a group of affiliated companies to report the group's total income as a unitary group and then apply certain apportionment factors to determine taxable income in those states. Proponents of Unitary Combined Reporting argue that it eliminates the possibility of intercompany transactions being used to shift income outside or inside taxing states as a means of tax avoidance (this is often referred to as the "Delaware Loophole").

Intercompany transactions arise when two entities within the same legal parent engage in businesses activities with each other. Intercompany transactions can be downstream (parent to subsidiary), upstream (subsidiary to parent) or lateral (between subsidiaries). Intercompany transactions occur for many business-related reasons, including interest, royalties, management fees, and for services provided such as legal, accounting and payroll.

While Unitary Combined Reporting is one way to address tax avoidance, it also has several negative attributes, including: increased cost and complexity to filing tax returns, increased tax appeals and litigation, and creating an overall disincentive to do business in Pennsylvania.

Reforms and Compromises

The PA Chamber has worked with lawmakers on both sides of the aisle to ensure that intercompany transactions are not used nefariously for tax avoidance purposes.

In 2013, a bipartisan compromise was reached by the General Assembly, the Department of Revenue, the PA Chamber, and other stakeholders to directly address the issue of tax avoidance. This agreement, commonly referred to as the "add-back" provision of the tax code, requires a company to add-back any transaction to their reported income that was done for the principal purpose of tax avoidance. Transactions done for a legitimate business purpose and at arm's length rates and terms do not need to be added back. For example, if a Pennsylvania based subsidiary utilizes payroll services of an out-of-state based parent company and pays for that service based on the normal market price for payroll processing, those payments would not need to be added back to the subsidiary's income for purposes of Pennsylvania taxation. This provision resulted in an annual increase of $60-$80 million in tax collections.

In 2022, Gov. Tom Wolf proposed eliminating the 2013 compromise, and instead sought language to give the Secretary of Revenue limitless subjective authority to add-back virtually any intercompany transaction while shifting the burden to the taxpayer to prove that the secretary's add-back was "unreasonable."

Again, the PA Chamber agreed to a compromise. As part of the bi-partisan comprehensive tax reforms adopted in Act 53 of 2022, Pennsylvania adopted enhanced rules regarding market sourcing and economic nexus. Market sourcing rules changed the sourcing for sales of certain intangible property (e.g., franchisee income, gain from the sale of intellectual property, income from lending and other financial transactions) to where the benefit is received instead of where the activity is performed. Economic nexus rules now require corporations with no physical presence in Pennsylvania, but sales of $500,000 or more sourced to Pennsylvania, to file a CNI return. These measures provide certainty and increased revenues by about $200 million to the Commonwealth.

Our Position

The PA Chamber opposes Unitary Combined Reporting: it would significantly increase the cost and complexity of filing tax returns; add complexity for groups that include entities subject to special apportionment or different taxes; (such as the insurance premiums tax or bank shares tax), and lead to an increase in tax appeals and litigation. It would also create a specific disincentive for multi-state firms to do business in Pennsylvania and increase the uncertainty of tax collection forecasts.

For similar reasons, the PA Chamber also opposes efforts to replace the 2013 and 2022 compromises with a more onerous policy. For example, the non-partisan Tax Foundation summarized the previous administration's proposal as "an aggressive quasi-combined reporting structure," and added that "it would have added complexity and uncertainty to the Commonwealth's tax structure while limiting the benefit of the rate reduction."

Policy makers should build on recent bi-partisan reforms and continue to reform the Commonwealth's tax structure with pro-growth initiatives that will make the Commonwealth more competitive.

PA Chamber®
of Business and Industry

417 Walnut Street | Harrisburg, PA 17101 | 800.225.7224 | pachamber.org