#### Combined Unitary Reporting: the Basics

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### Apportionment by Formula

$$State\ Taxable\ Income = \begin{bmatrix} Total \\ apportionable\ income \end{bmatrix} \begin{bmatrix} State's\ share\ of \\ apportionable\ income \end{bmatrix}$$

 $State's share of apportionable income = \underbrace{\left[\frac{\text{Property in - state}}{\text{Total property}} + \frac{\text{Payroll in - state}}{\text{Total payroll}} + \frac{\text{Sales in - state}}{\text{Total sales}}\right]}_{3}$ 

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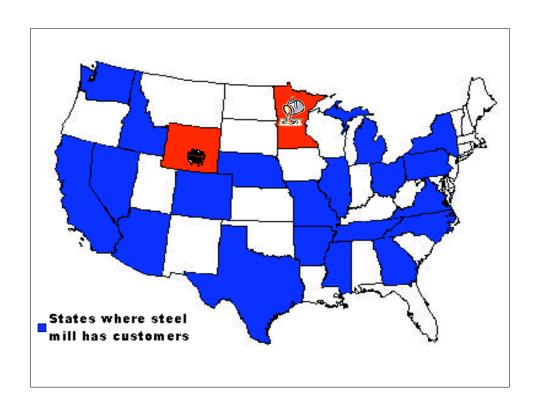
## Single Factor Apportionment Based on Sales

Sales in State

#### **Total Sales**







## State Corporate Income Tax Treatment of Northland Steel—Single Multi-State Corporation

Total Costs	1725	
Nationwide Sales	2300	
Pre-Tax Profit	575	
MN Sales	200	
MN Percent of Nationwide Sales	8.7%	
Apportioned Profits = 8.7% of 575	50.0	
MN State Tax = 9.8% of 50	4.9	
No tay poid to Wyoming has no corneyate income tay		
No tax paid to Wyoming—has no corporate income tax		





#### State Corporate Income Tax Treatment of Northland Steel—Conglomerate Consisting of Two Separately Incorporated Affiliates:

No Tax Planning Tax Planning

Steel Mill Subsidiary (MN)		
Coal Costs (reported for tax purposes)	300	
Other Costs	1200	
Total Costs	1500	
Nationwide Sales	2000	
Pre-Tax Profit	500	
MN Share of Total Sales of Steel Mill	10%	
MN Taxable Profit = 500	50	
MN State Tax Rate = 9.8%		
MN State Tax = 9.8% of 50	4.9	
Coal Mine Subsidiary (WY)		
Costs	225	
Sales	300	
Pre-Tax Profit	75	
WY Tax Rate: 0%		
WY Tax	0	
TOTAL STATE CORPORATE INCOME	4.9	

Steel Mill Subsidiary (MN)		
Coal Costs (reported for tax purposes)	500	
Other Costs	1200	
Total Costs	1700	
Nationwide Sales	2000	
Pre-Tax Profit	300	
MN Share of Total Sales of Steel Mill	10%	
MN Taxable Profit =10% of 300	30	
MN State Tax Rate = 9.8%		
MN State Tax = 9.8% of 300	2.94	
Coal Mine Subsidiary (WY)		
Costs	225	
Sales	500	
Pre-Tax Profit	275	
WY Tax Rate: 0%		
WY Tax	0	
TOTAL STATE CORPORATE INCOME	2.94	
TAX	Dallas Canta	

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## Tax Planning Reduces Tax Burden of Company by \$1,960 or 40%





## State Corporate Income Tax Under Combined Unitary Accounting

State Corporate Income Tax = 9.8% of 46	4.508
Profits apportioned to MN = 0.08 of 575	46
Share of company sales in MN = 200/2500	0.08
1001	2300
Total	2500
Steel mill outside of MN and WY	1800
Coal mine WY	500
Steel mill—in MN	200
Sales	
Pre-tax profit—total (tax planning)	575
Pre-tax profit—coal mine (tax planning)	275
Pre-tax profit—steel mill (tax planning)	300

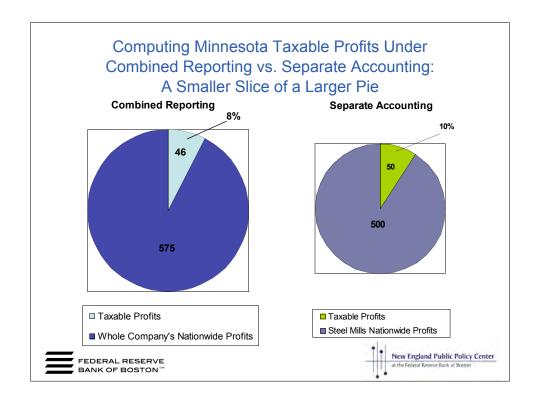




# Combined reporting results in lower tax bill than under accurate separate accounting (not true in all instances)







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