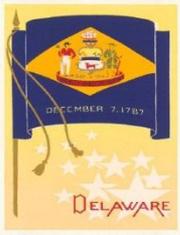


# **Delaware's Business Taxes**

Presented to the Advisory Council on Revenues  
February 16, 2015

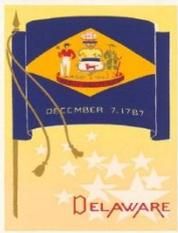
# **Portfolio Data Requests**



# Border County Top Marginal Income Tax Rates

County	State Top Marginal	County Income Tax	Total Top Marginal
Caroline County	5.75%	2.73%	8.48%
Cecil County	5.75%	2.80%	8.55%
Dorchester County	5.75%	2.62%	8.37%
Kent County	5.75%	2.85%	8.60%
Queen Anne's County	5.75%	3.20%	8.95%
Wicomico County	5.75%	3.20%	8.95%
Worcester County	5.75%	1.25%	7.00%

- Maryland border residents face a median top marginal tax rate of 8.55%.



# Delaware Population Data

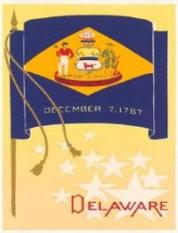
Resident population (April 1 - complete count)

	Kent County	KC Growth	New Castle County	NCC Growth	Sussex County	SC Growth	Delaware	DE Growth
<b>1930</b>	31,841		161,032		45,507		238,380	
<b>1940</b>	34,441	<b>8%</b>	179,562	<b>12%</b>	52,502	<b>15%</b>	266,505	<b>12%</b>
<b>1950</b>	37,870	<b>10%</b>	218,879	<b>22%</b>	61,336	<b>17%</b>	318,085	<b>19%</b>
<b>1960</b>	65,651	<b>73%</b>	307,446	<b>40%</b>	73,195	<b>19%</b>	446,292	<b>40%</b>
<b>1970</b>	81,892	<b>25%</b>	385,856	<b>26%</b>	80,356	<b>10%</b>	548,104	<b>23%</b>
<b>1980</b>	98,219	<b>20%</b>	398,115	<b>3%</b>	98,004	<b>22%</b>	594,338	<b>8%</b>
<b>1990</b>	110,993	<b>13%</b>	441,946	<b>11%</b>	113,229	<b>16%</b>	666,168	<b>12%</b>
<b>2000</b>	126,697	<b>14%</b>	500,265	<b>13%</b>	156,638	<b>38%</b>	783,600	<b>18%</b>
<b>2010</b>	162,310	<b>28%</b>	538,479	<b>8%</b>	197,145	<b>26%</b>	897,934	<b>15%</b>
<b>2013 (est.)</b>	169,416	<b>4%</b>	549,684	<b>2%</b>	206,649	<b>5%</b>	925,749	<b>3%</b>

Resident Population (65 years old and older)

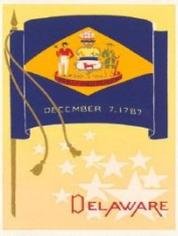
	Kent County	KC Growth	New Castle County	NCC Growth	Sussex County	SC Growth	Delaware	DE Growth
<b>1980</b>	8,551	-	37,722	-	13,362	-	59,635	-
<b>1990</b>	11,428	<b>34%</b>	50,045	<b>33%</b>	18,812	<b>41%</b>	80,285	<b>35%</b>
<b>2000</b>	14,801	<b>30%</b>	57,903	<b>16%</b>	29,022	<b>54%</b>	101,726	<b>27%</b>
<b>2010</b>	21,982	<b>49%</b>	66,222	<b>14%</b>	41,073	<b>42%</b>	129,277	<b>27%</b>
<b>2013 (est.)</b>	25,528	<b>16%</b>	73,542	<b>11%</b>	48,414	<b>18%</b>	147,484	<b>14%</b>

Source: Census Bureau



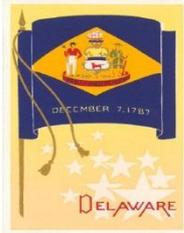
# Literature Review: Tax Competition

- At the individual level, state and local taxes have little influence on migration decisions.
  - State unemployment rates and average personal incomes have much larger influence.
  - Most migrants tends to save more on housing costs than tax bills.
  - Even in studies of tax migration using multi-state cities numbers of migrants are low.
  - For states with net out migration, the average AGI of migrants was lower than the average AGI of those who stayed.



# Literature Review: Tax Competition

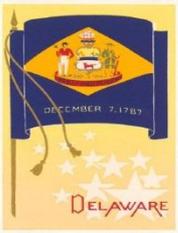
- Different businesses have different needs and facilities .
  - Tax policy enacted with this sort of understanding is akin to attempting to “pick winners”
- Survey’s of entrepreneurs suggest taxes are relatively low on their radar
  - Access to talent, transportation networks, and proximity of customers and suppliers were the top concerns.
  - 5% of respondents mentioned tax rates and 2% mention other business structure factors.



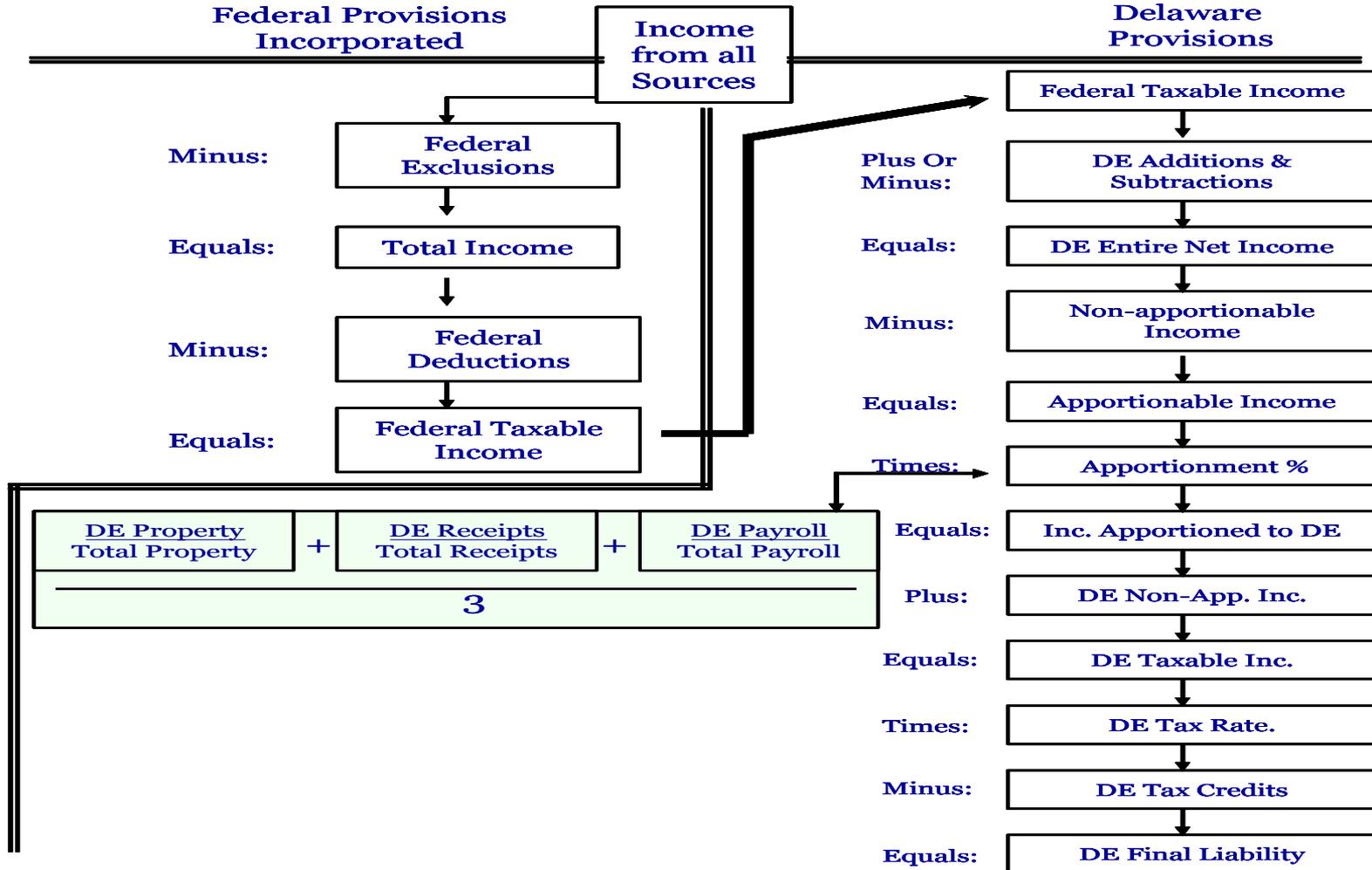
# Inelastic Personal Income Tax Features

- Personal Income Tax may be less responsive to economic growth for controllable and uncontrollable reasons.
  - More generous senior tax expenditures (controllable)
  - Smaller share of state AGI derived from capital gains (uncontrollable)
  - Revenue benefits of bracket creep lessened as larger share of households reach the top marginal rate (controllable)

# **CIT- Structure**



# Tax Structure





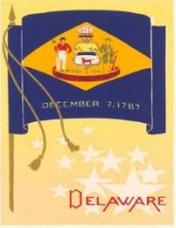
# Quarterly Payment Pattern

- Corporations with DE taxable income exceeding \$200,000 make quarterly tentative payments as follows:
  - 50% of the estimated tax is due April 1<sup>st</sup>
  - 20% of the estimated tax is due June 15<sup>th</sup>
  - 20% of the estimated tax is due September 15<sup>th</sup>
  - 10% of the estimated tax is due December 15<sup>th</sup>
- **Additional complexity:** estimating a calendar year profits tax based on only 3 months of revenues.
- **Additional volatility:** revenue estimates may fluctuate due to “April surprises”



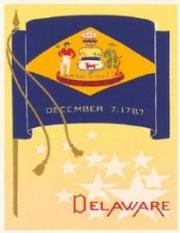
# Nexus

- A connection between a business entity and the state which provides legal sufficiency for tax collection.
  - For example nexus may result if a corporation:
    - generates income from sources within the state
    - owns or leases property within the state
    - employs personnel in the state
    - maintains services through DE banks, accountants or legal professionals
- The application of nexus is largely defined by case law surrounding the Due Process Clause and the Commerce Clause.

The image is the official seal of the state of Delaware. It features a shield with a ship, a plow, and a sheaf of wheat, symbolizing the state's maritime, agricultural, and industrial heritage. Above the shield is a crest with a figure holding a scale. The date "DECEMBER 7, 1789" is inscribed on a banner below the shield, and the word "DELAWARE" is written at the bottom.

# Separate versus Combined Reporting

- **Separate Reporting:** each corporation's income is worked through the apportionment formula separately.
- **Combined Reporting:** members of a “unitary business” report a single tax return for all income irrespective of state of domicile.
  - Any out-of-state activity included must be either:
    - concretely related to in-state activity
    - involve unity of use and management of a business
    - include functional integration and economies of scale



# DE Investment Holding Companies

- “Corporations whose activities within this State are confined to the maintenance and management of their intangible investments...” are exempt from CIT
  - “intangible investments” shall include:
    - Equity and debt obligations
    - Patents and patent applications
    - trademarks, trade names and similar types of intangible assets
- Holding companies license the use of these intangible assets back to the parent company creating deductible expenses in other states.



# Apportionment Formula

- **Apportionment** is the process by which multi-state firms determine what share of their total income is “assigned” to Delaware.
  - **Three Factor:** Income is apportioned based on weighted measurement of the share of national sales, investment and employment within a state’s borders.
  - **Single Factor Sales:** Income is apportioned based on the share of national sales within a state’s borders



# Delaware Apportionment

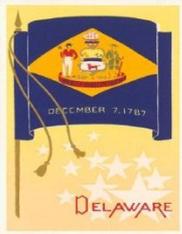
- Delaware's three factor apportionment:

$$\frac{\text{DE Property}}{\text{US Property}} + \frac{\text{DE Payroll}}{\text{US Payroll}} + \frac{\text{DE Sales}}{\text{US Sales}}$$

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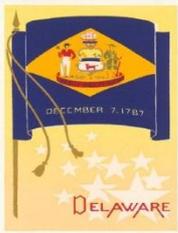
$$3$$

- Currently if DE employment/investment increase:
  - Apportionment increases, and consequentially
  - Delaware tax increases



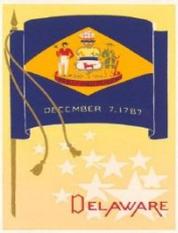
# Allocation

- Process by which non-apportionable business income of multi-state corporations is attributed to Delaware taxable income.
- Income is allocated to Delaware for:
  - Rent or royalties from tangible property located in DE
  - Patent or copyright royalties when the product or process under protection is manufactured or used in DE
  - Net sales proceeds from DE real or depreciable tangible property
  - Interest income where the transaction which created an obligation occurred in DE



# Apportionment Complexity

- Of the 45 states and DC with a corporate income tax, 25 use three factor apportionment and 21 use single sales.
  - Of 25 three factor states only 9 have no increased weight on sales.
    - AK, DE, HI, KS, LA, MO, MT, NM, ND
- Delaware is the only state in the region maintaining the traditional approach:
  - Maryland – double weights its sales factor
  - Pennsylvania – single sales factor
  - New Jersey – single sales factor



# Example: More DE Jobs & Investment

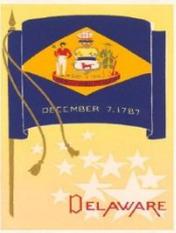
## Before DE Expansion

	<u>Property</u>		<u>Payroll</u>		<u>Sales</u>
Delaware	\$20	+	\$20	+	\$5
U.S.	100		100		100
			3		
=	20%	+	20%	+	5%
			3		
=	45%		=		15%
	3				↓
U.S. Income (millions)					\$50.00
Apportioned to Delaware					\$7.50
Delaware Tax at 8.7%					\$0.65

## Expand in Delaware

	<u>Property</u>		<u>Payroll</u>		<u>Sales</u>
Delaware	\$30	+	\$30	+	\$5
U.S.	110		110		100
			3		
=	27%	+	27%	+	5%
			3		
=	60%		=		20%
	3				↓
U.S. Income (millions)					\$50.00
Apportioned to Delaware					\$10.00
Delaware Tax at 8.7%					\$0.87

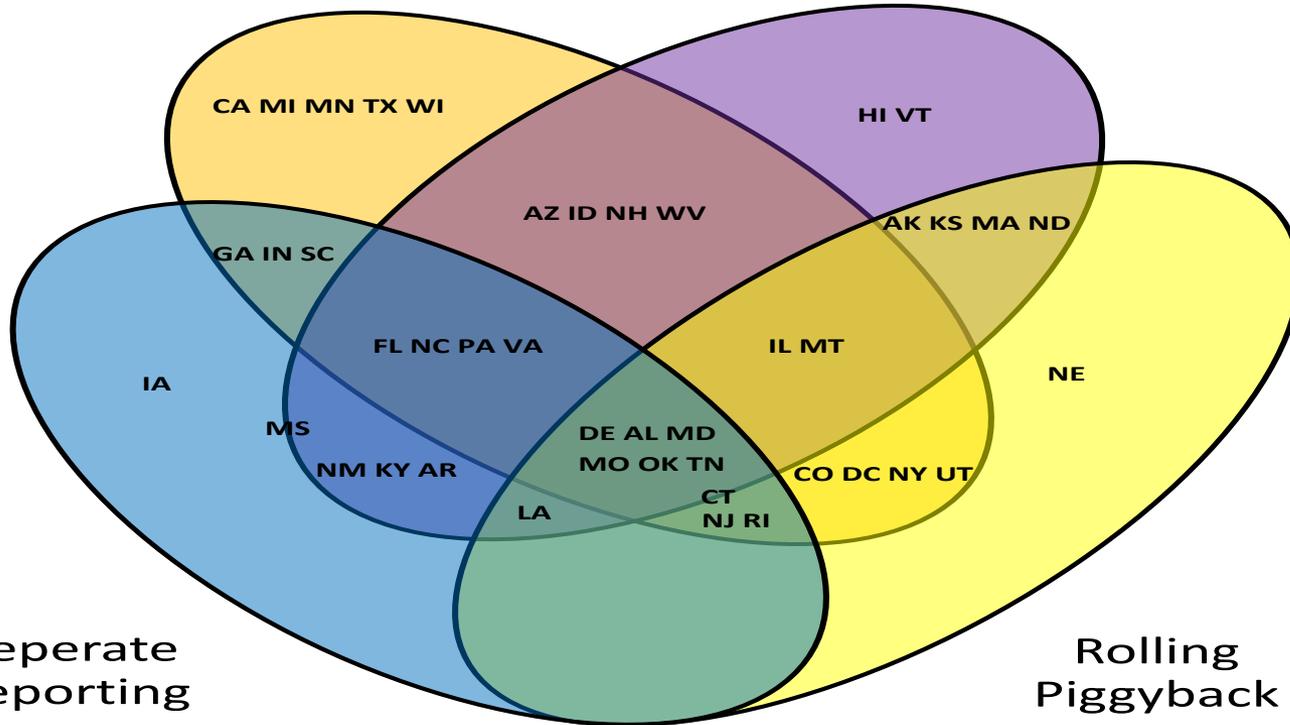
**Result: DE CIT increases by \$220,000 or 33%.**



# Corporate Income Tax Legal Comparisons

Flat Rate

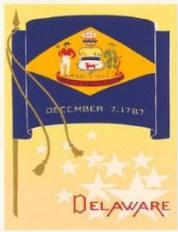
Three Factor Apportionment



ME  
OR

Seperate Reporting

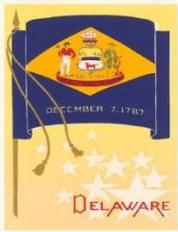
Rolling Piggyback



# State Corporate Income Tax Top Rates

State	Top Rate	Rank	State	Top Rate	Rank
IA	12.00%	1	NM	6.90%	24
PA	9.99%	2	MT	6.75%	25
MN	9.80%	3	AL	6.50%	26
AK	9.40%	4	AR	6.50%	26
DC	9.40%	4	TN	6.50%	26
NJ	9.00%	6	WV	6.50%	26
ME	8.93%	7	HI	6.40%	30
CA	8.84%	8	MO	6.25%	31
DE	8.70%	9	AZ	6.00%	32
NH	8.50%	10	GA	6.00%	32
VT	8.50%	10	KY	6.00%	32
MD	8.25%	12	MI	6.00%	32
LA	8.00%	13	OK	6.00%	32
MA	8.00%	13	VA	6.00%	32
WI	7.90%	15	FL	5.50%	38
NE	7.81%	16	IL	5.25%	39
OR	7.60%	17	MS	5.00%	40
CT	7.50%	18	NC	5.00%	40
ID	7.40%	19	SC	5.00%	40
NY	7.10%	20	UT	5.00%	40
IN	7.00%	21	CO	4.63%	44
KS	7.00%	21	ND	4.53%	45
RI	7.00%	21	TX	0.95%	46

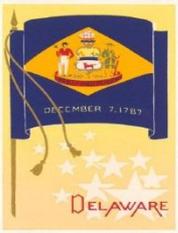
- Median Top Marginal Tax Rate in United States is 7.0%.
- Median Top Marginal Tax Rate for Similar States is 6.5%.
- Median Top Marginal Tax Rate for state comparison categories that include DE is 6.5% for each category.



# CIT Revenue per \$1,000 of Personal Income

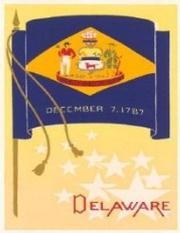
State	PIT per \$1,000	Rank	State	PIT per \$1,000	Rank
AK	\$18.34	1	IN	\$3.19	24
NY	\$10.10	2	OR	\$3.18	25
DC	\$9.85	3	IA	\$3.15	26
NH	\$8.03	4	WV	\$2.96	27
<b>DE</b>	<b>\$6.59</b>	<b>5</b>	CT	\$2.93	28
IL	\$5.92	6	OK	\$2.88	29
ND	\$5.62	7	NE	\$2.81	30
MA	\$5.38	8	MD	\$2.78	31
TN	\$4.90	9	AZ	\$2.73	32
CA	\$4.50	10	KS	\$2.56	33
KY	\$4.42	11	UT	\$2.56	34
ME	\$4.36	12	RI	\$2.56	35
MN	\$4.22	13	FL	\$2.53	36
NJ	\$3.96	14	AL	\$2.39	37
MS	\$3.94	15	MI	\$2.12	38
WI	\$3.87	16	VA	\$2.12	39
AR	\$3.87	17	CO	\$2.07	40
NM	\$3.78	18	MO	\$1.60	41
PA	\$3.73	19	GA	\$1.59	42
VT	\$3.46	20	SD	\$1.58	43
ID	\$3.43	21	LA	\$1.58	44
MT	\$3.42	22	SC	\$1.53	45
NC	\$3.30	23	HI	\$1.29	46

- Median State and Local CIT revenue is \$3.24.
- Similar states: \$2.83
- Separate filing states: \$2.93.
- Three factor states: \$3.42.



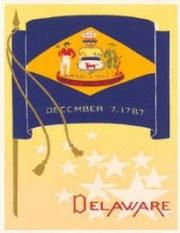
# Legal Incidence Data

- Using the most recent completed year of CIT data (TY 2011):
  - The top 25 taxpayers represent 58% of CIT net liability
  - The top 50 taxpayers represent 72% of CIT net liability
  - The top 100 taxpayers represent 83% of CIT net liability.
- Most taxpayers apportion most income elsewhere
  - 65% apportion less than 25% of income to DE
  - 77% apportion less than 50% of income to DE
  - 13% apportion all of their income to DE



# Who Actually Pays CIT?

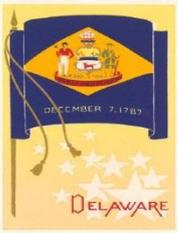
- Taxes paid by corporations must come from individuals eventually.
  - Economic burden from CIT must be borne by either owners of capital, laborers, or consumers.
- Who pays depends upon the availability of substitutes for each of these groups.
- Economists agree that it is very unlikely consumers are the group paying the CIT through higher prices.
  - Product price variations between states have no measureable relationship with how those states tax corporate incomes.



# Who Actually Pays CIT?

- Analysis focuses on international context
  - Few cross state studies suffer from severe flaws.
- Capital immobility → capital owners bare burden.
  - National wage and pricing policies would have similar implications.
  - Less dispersion of state tax rates → capital immobility
- In a world with perfect capital mobility, laborers bare the burden of the CIT through lost wages.
- National organizations assumptions:

Org.	Cap %	Lab %	Org.	Cap %	Lab %	Org.	Cap %	Lab %
CBO	75	25	Treas	82	18	Brook	80	20



# Balancing Business Tax Credits

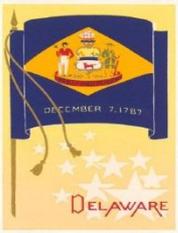
- Business tax credits do not swamp revenue adequacy.
  - Most credits are negligible.
  - For non-negligible credits, the high end tax expenditure estimate was around \$13 million total.
- Existing credits are common elsewhere and incentivize production with spillover effects.
  - Investment Tax Credit focused on industries that build infrastructure or create innovative products.
  - Research and Development Tax Credit incentivizes innovation which can influence overall economic growth.

The image shows the official seal of the state of Delaware. It features a shield with a ship, a plow, and a sheaf of wheat, symbolizing the state's maritime, agricultural, and industrial heritage. The date 'DECEMBER 7, 1787' is inscribed on a banner below the shield, and the word 'DELAWARE' is written at the bottom. The seal is set against a yellow background with a blue border.

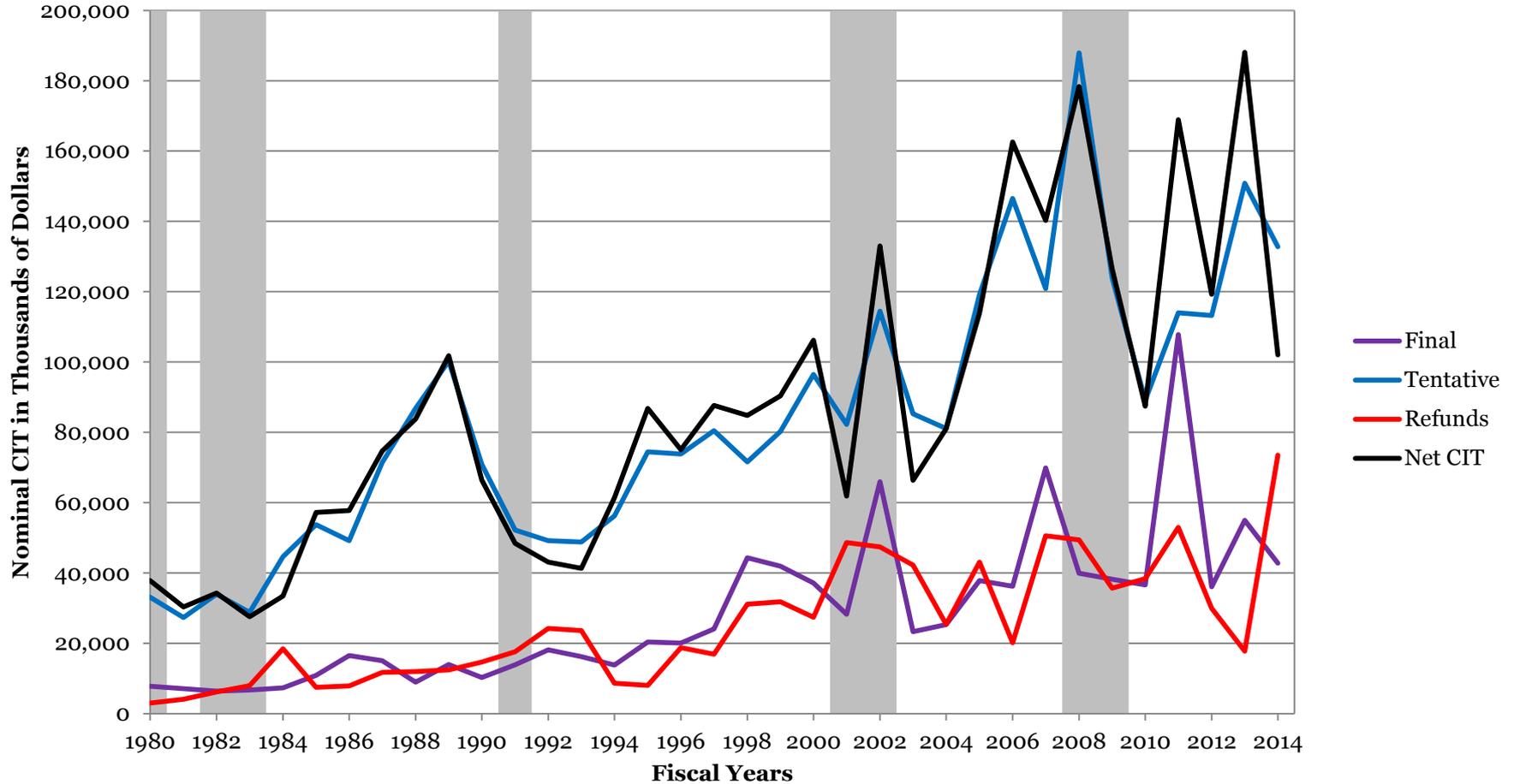
# Investment Distortion and Double Taxation

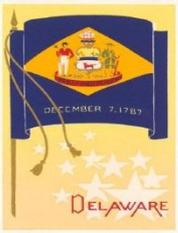
- **Debt Finance:** corporations pay tax deductible interest.
  - The interest payment is taxed at the personal income level.
- **Equity Finance:** corporations pay dividends and produce capitals gains that are not tax deductible.
  - Dividends and capital gains are thus taxed twice, once as corporate profits and once as personal income.
- **Double taxation** distorts business choices regarding organization format and financing options by raising the effective marginal tax rate.

# **CIT – Collection History**

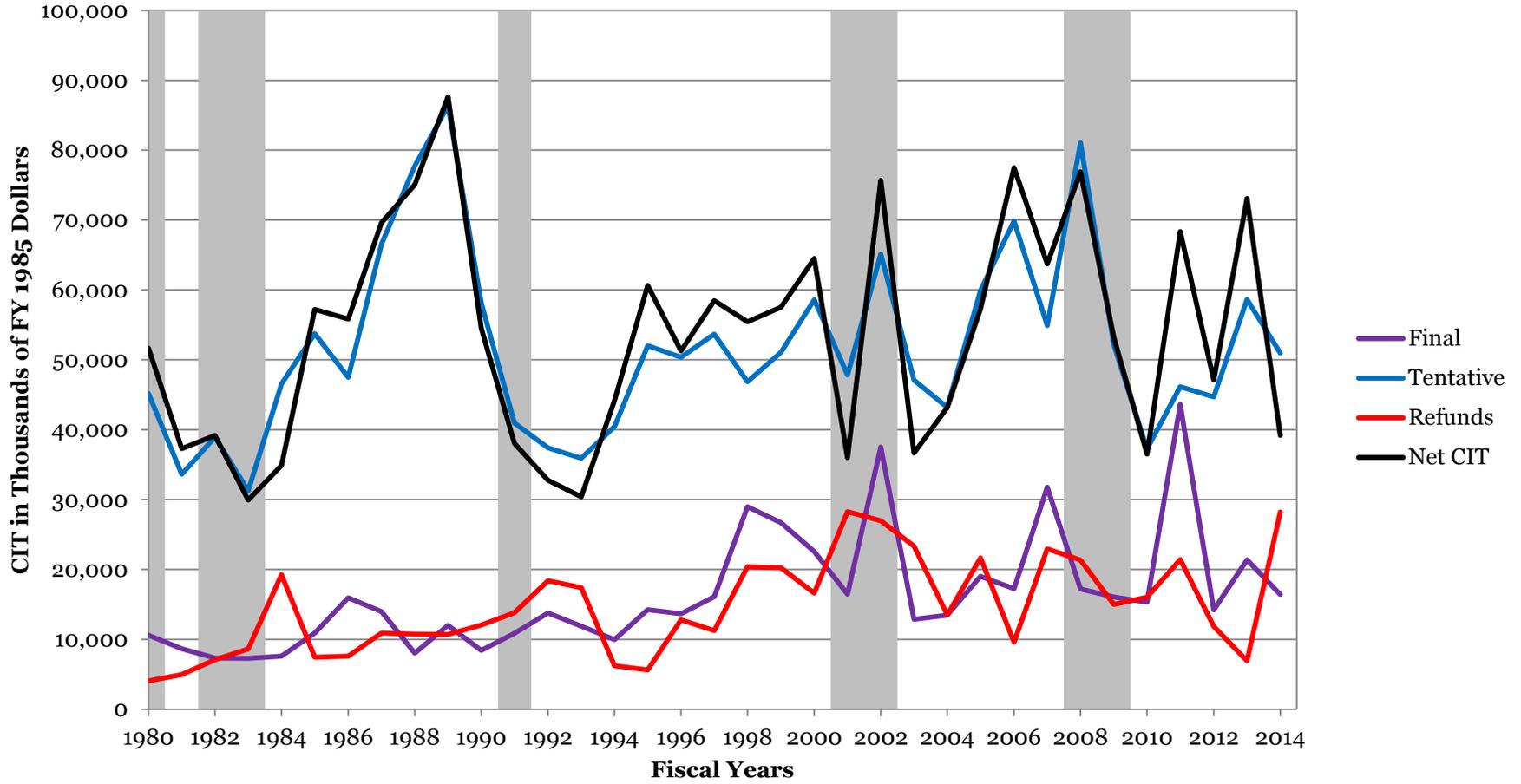


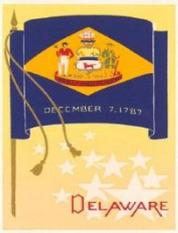
# CIT components and refunds are volatile in both nominal..



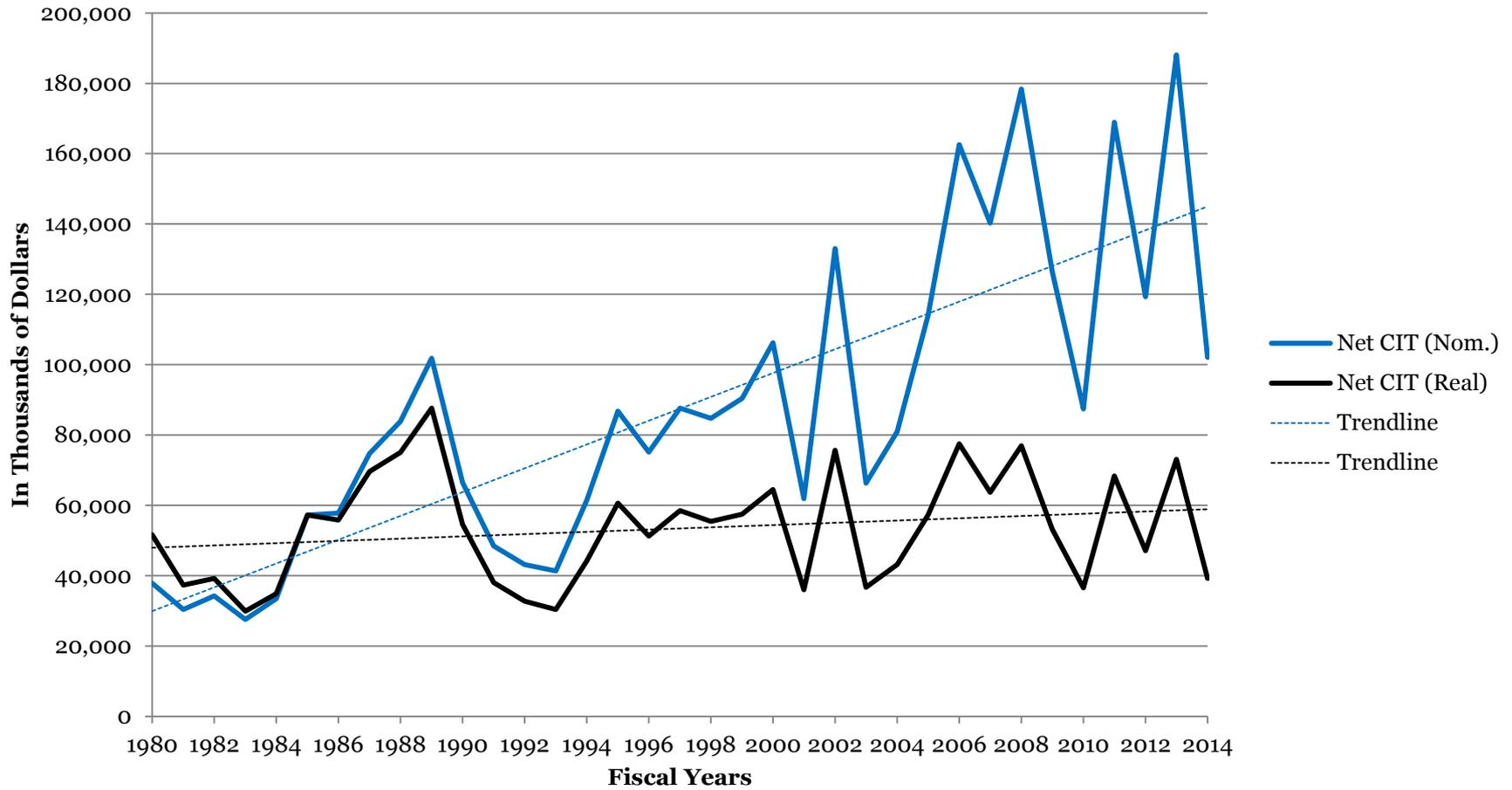


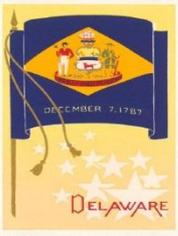
# ...and real terms





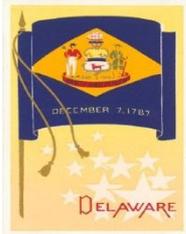
# Trend of CIT net of refunds is essentially flat in real terms





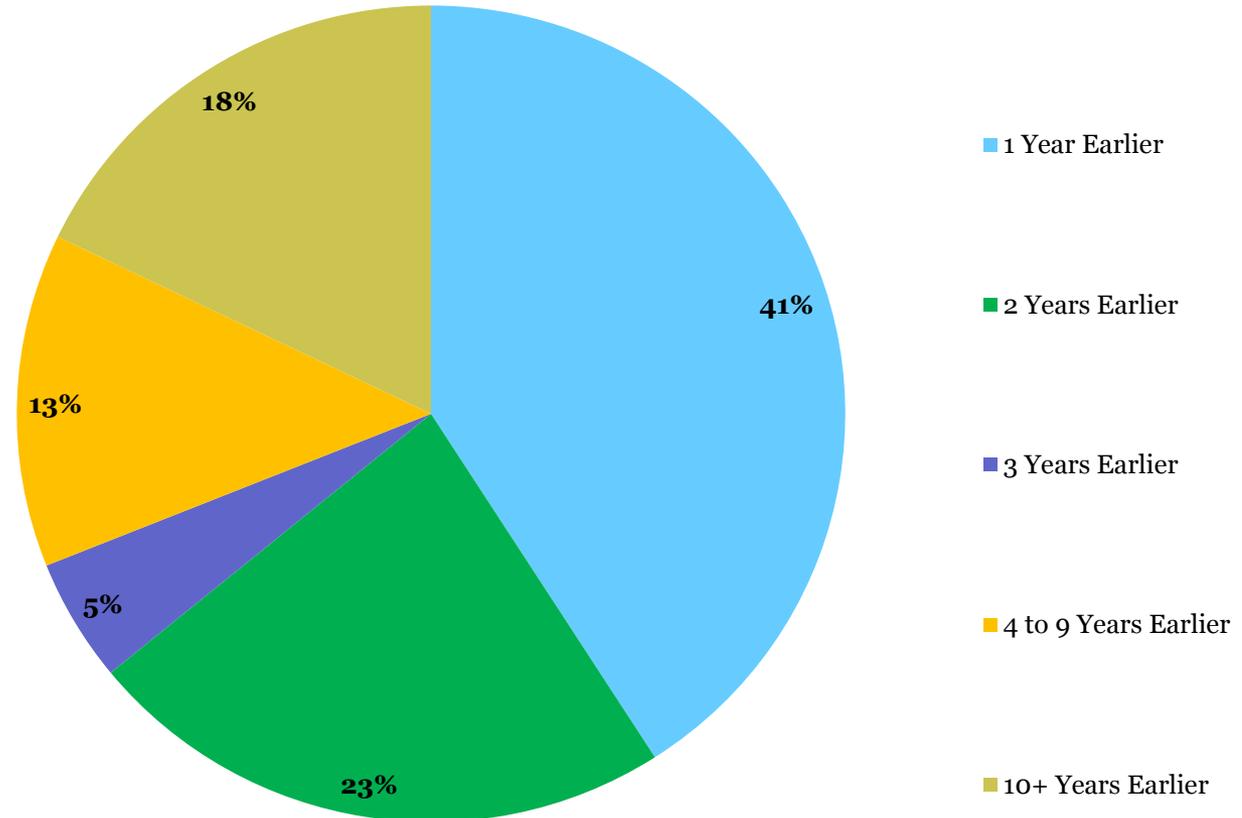
# Some statistics about CIT

	Nominal Values			Real Values (1985 Prices)		
	Average Annual Growth			Average Annual Growth		
	1980-2014	1980-2007	2008-2014	1980-2014	1980-2007	2008-2014
<b>Final</b>	5.1%	8.5%	1.2%	1.3%	4.2%	-0.2%
<b>Tentative</b>	4.2%	4.9%	-5.6%	0.4%	0.7%	-1.7%
<b>Refunds</b>	9.9%	11.1%	6.8%	5.9%	6.6%	1.0%
<b>Net CIT</b>	3.0%	5.0%	-8.9%	-0.8%	0.8%	-2.5%



# Lags associated with Final CIT in recent years

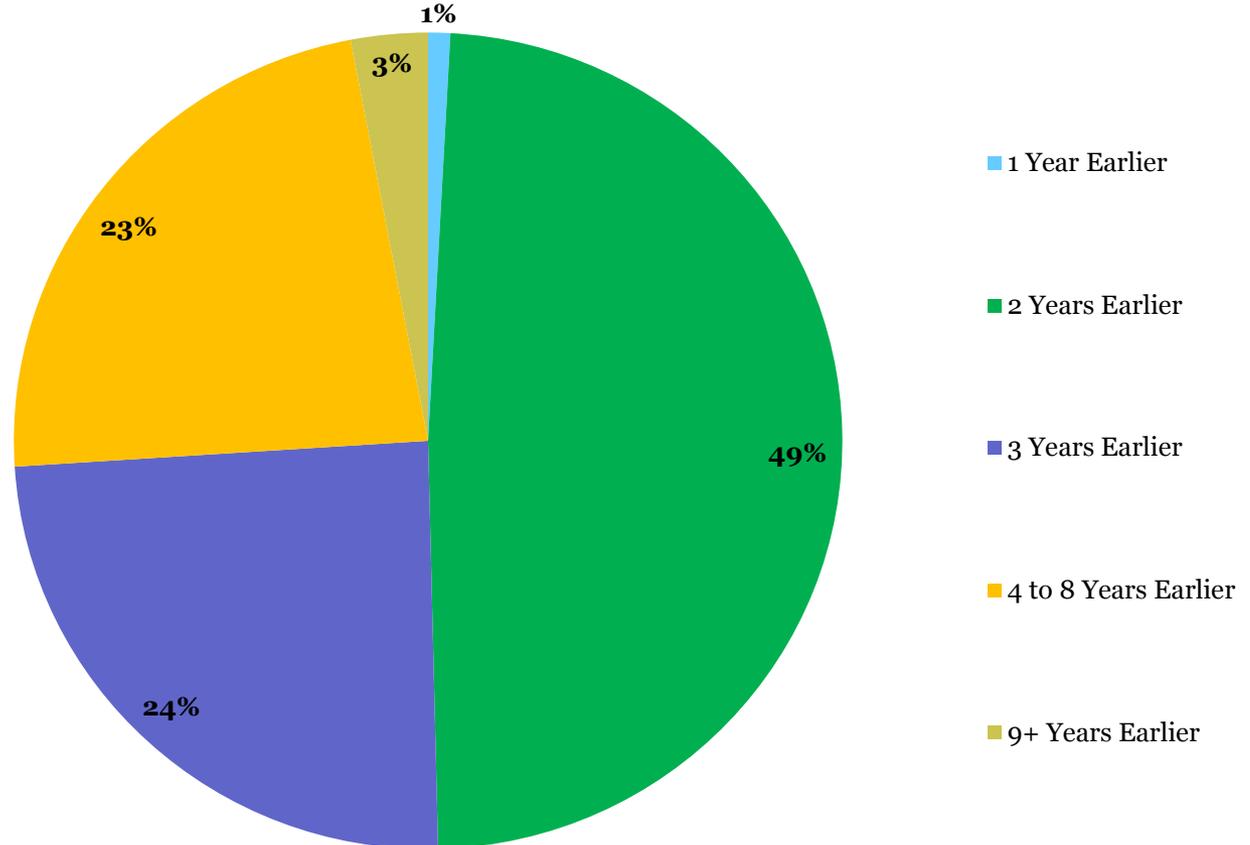
- Majority of Final CIT payments collected in a given year were incurred several years earlier





# Lags associated with CIT Refunds in recent years

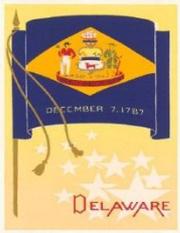
- Refunds paid in a given year actually represent economic activities from previous years





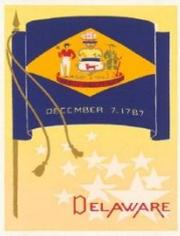
# Policy Levers

- Note: DEFAC FY17 CIT Estimate: \$158.3 million
- Even Quarterly Payments
  - One-time budgetary expense
  - Business friendly
  - Increased predictability
- Limit Allocation
  - Smoothing effect on revenues
  - Budget impact is context specific
  - More uniformity with other states
  - Limit tax planning opportunities



# Policy Levers

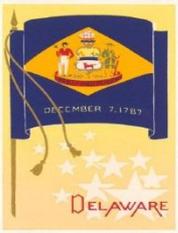
- **Change Apportionment Formulas**
  - Increase the weight on sales factor
    - Double Weighted Sales
    - Single Sales Factor
  - Short run revenue cost from Delaware based firms
  - Incentive to expand and invest in Delaware
- **Move to Combined Reporting**
  - Eliminate Delaware investment holding company
  - Smoother revenue flows
  - Reduced tax for firms with primary operations in Delaware



# Policy Levers

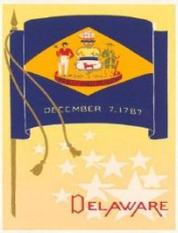
- Reduce Rates
  - More competitive
  - Less revenue
  - Portfolio balanced away from volatility
  - Less double taxation

# **Gross Receipts Tax**

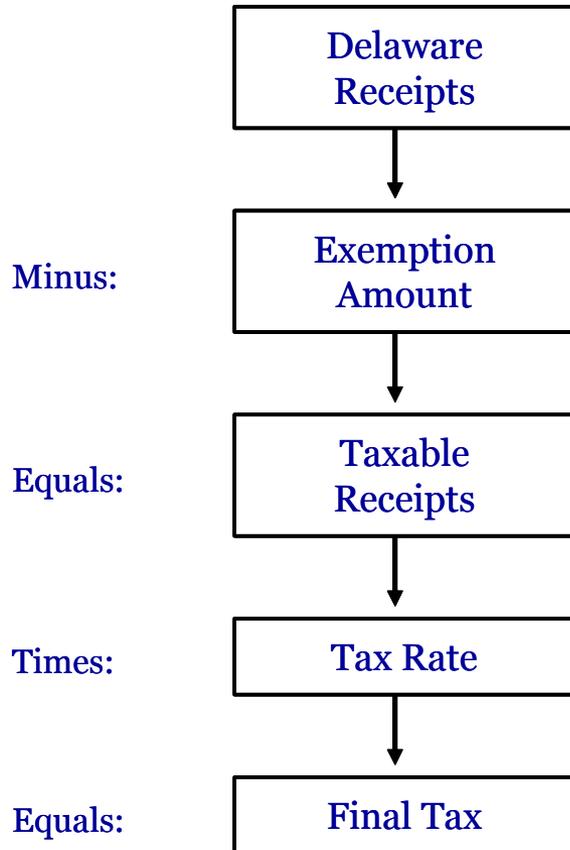


# Not a Temporary Tax

- Documented existence of a merchants' and manufacturers' tax can be traced as far back as 1904.
  - “In 1904...the largest item was business taxes, including merchants' and manufacturers' licenses as well as the various corporation and public service taxes.”
- In 1975 the definition of gross receipts changed to include services:
  - “gross receipts is defined as total consideration received by a licensee for goods sold, services rendered or other income producing transaction within this State”



# Tax Structure

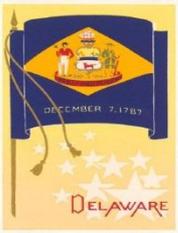


- Stable Tax
- Responsive to Income Growth
- Relatively Recession Proof



# Current Tax Rates & Exclusions

TITLE 30, DELAWARE CODE; SECTION:	TAX TYPE	ANNUAL FEE	TAX RATE	EXCLUSION
2905	Retailers	\$75 + \$15 retail crime unit fee + \$25 for each extra establishment	0.7468%	\$100,000/month
2902 (b)-(c)(2)	Wholesalers	\$75 for each place of business	0.3983%	\$100,000/month
2301(b) & (d)	General Services	\$75 + \$25 for each extra establishment	0.3983%	\$100,000/month
2301(a) & (d)	Occupations	\$75 + \$25 for each extra establishment	0.3983%	\$100,000/month
2902 (b)-(c)(4) and 7 Del. Code, § 9114	Petroleum Wholesalers	\$75 for each place of business	1.5472% ③	\$100,000/month
2702	Manufacturers	\$75 for each place of business	0.1260%	\$1,250,000/ month
2502	Contractors	\$75	0.6472%	\$100,000/month
2905 (a)-(b), (h)	Petroleum Retailers	\$75 + \$15 retail crime unit fee + \$25 for each extra establishment	1.6468% ④⑤	\$100,000/month
4302	Lessees	N/A	1.9914%	None
4302	Motor Vehicle Lessees	N/A	1.9914%	None
2906	Restaurant Retailers	\$75 + \$25 for each extra establishment	0.6472%	\$100,000/month
2908	Grocery Supermarket Retailers	\$75 + \$15 retail crime unit fee + \$25 for each extra establishment	0.3267%	\$100,000/month



# Concepts

- Common ownership, direction, control
- Separate entity basis
- Nexus
- Cascading



# Distribution by License Category

## FY 2014 GRT COLLECTIONS (ALL FUNDS, Unaudited) BY LICENSE CATEGORY

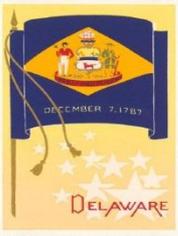
<u>DESCRIPTION</u>	<u>AMOUNT</u>	<u>PCT OF NON-ENFORCEMENT COLLECTIONS</u>
RETAILER	43,453,617	17.9%
WHOLESALER	42,596,794	17.6%
PROFESSIONAL / PERSONAL SERVICES	39,728,154	16.4%
WHOLESALER-PETROLEUM PRODUCTS	25,565,489	10.6%
MANUFACTURER	20,611,004	8.5%
NURSING FACILITY QUALITY ASSESSMENT FEE	16,272,855	6.7%
CONTRACTOR	14,312,549	5.9%
RETAILER-PETROLEUM PRODUCTS	12,902,259	5.3%
LESSEE OF TANGIBLE PROPERTY	6,391,842	2.6%
RETAILER-RESTAURANT	5,741,015	2.4%
RETAILER-GROCERY SUPERMARKET	4,338,955	1.8%
BOTTLE RECYCLING FEE	3,659,727	1.5%
MOTOR VEHICLE LESSEE	2,280,913	0.9%
LESSOR OF TANGIBLE PERSONAL PROPERTY	1,156,857	0.5%
SCRAP TIRE FEE	1,037,691	0.4%
FOOD PROCESSOR	973,725	0.4%
MOTOR VEHICLE LESSOR	403,213	0.2%
ALL OTHER	890,327	0.4%
<b>TOTAL -- NON-ENFORCEMENT</b>	<b>242,316,987</b>	<b>100.0%</b>

COLLECTIONS ON ASSESSMENTS

18,610,423

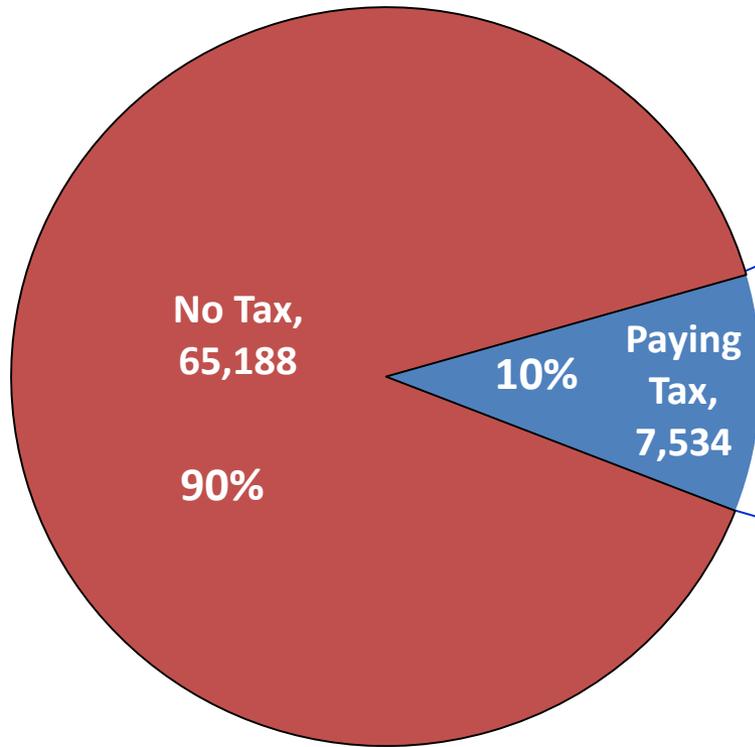
TOTAL ALL COLLECTIONS

260,927,410

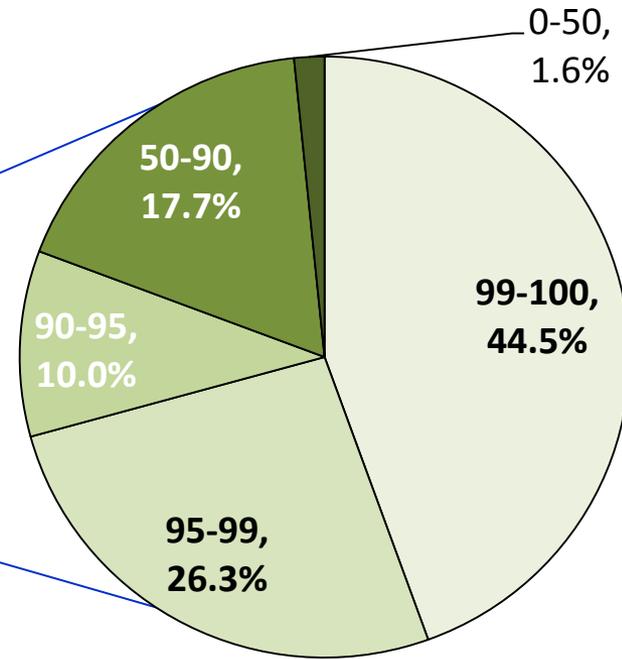


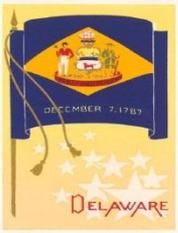
# Most businesses pay no tax

## Licensed Businesses



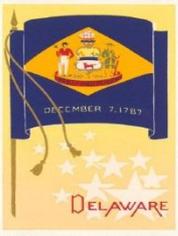
## Payment Distribution





# History of Monthly Exclusion

Effective Fiscal Year	Exclusion-Retailers	Exclusion-Wholesalers	Exclusion-Services	Exclusion-Manufacturers	Exclusion-Contractors	Exclusion-Retail Restaurant
1975	\$ 10,000.00	\$ -	\$ -	\$ -	\$ -	\$ 5,000.00
1986	\$ 10,000.00	\$ 10,000.00	\$ -	\$ 500,000.00	\$ -	\$ 5,000.00
1987	\$ 25,000.00	\$ 10,000.00	\$ 6,000.00	\$ 500,000.00	\$ 6,000.00	\$ 25,000.00
1989	\$ 35,000.00	\$ 20,000.00	\$ 15,000.00	\$ 600,000.00	\$ 12,000.00	\$ 35,000.00
1999	\$ 50,000.00	\$ 50,000.00	\$ 50,000.00	\$ 1,000,000.00	\$ 50,000.00	\$ 50,000.00
2006	\$ 80,000.00	\$ 80,000.00	\$ 80,000.00	\$ 1,000,000.00	\$ 80,000.00	\$ 80,000.00
2012	\$ 100,000.00	\$ 100,000.00	\$ 100,000.00	\$ 1,250,000.00	\$ 100,000.00	\$ 100,000.00



# History of Rates

## Gross Receipts Tax Rates

### Major Categories

1977 v. 2015

License Category	1977	2015	Change
Retailer	0.7500%	0.7468%	-0.43%
Restaurants	0.6500%	0.6472%	-0.43%
Contractor	0.6500%	0.6472%	-0.43%
Wholesaler	0.4000%	0.3983%	-0.42%
Services	0.4000%	0.3983%	-0.42%
Manufacturer	0.4000%	0.1260%	-68.50%
Supermarkets	0.7500%	0.3267%	-56.44%
Petroleum Wholesaler (1)	0.4000%	1.5472%	286.80%
Petroleum Retailer (2)	0.7500%	1.6468%	119.57%

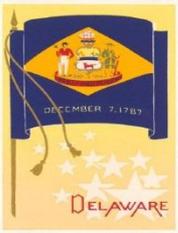
**(1)** Petroleum wholesaler tax includes:

Regular Wholesale Rate	0.3983%
Additional GF Rate	0.2489%
Hazardous Substance Rate	<u>0.9000%</u>
Total	1.5472%

**(2)** Petroleum retailer tax applies only if

the tax was not paid at the wholesale level.

Regular Retail Rate	0.7468%
Hazardous Substance Rate	<u>0.9000%</u>
Total	1.6468%



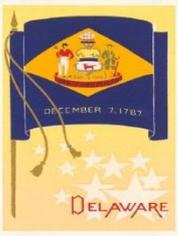
# Policy Levers

- Note: DEFAC FY17 GRT Estimate: \$249.7 million
- Increase rates generally
- Increase specific rates
- Change monthly exclusion amounts
- Collapse number of categories

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# **Appendix on Corporate Income Tax Comparisons**

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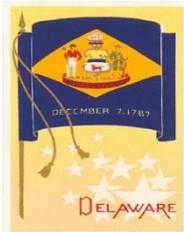
# Comparisons: Separate, Progressive States

State	Apportionment Formula-2015	Comments	2015 Corporate Tax Rate	Comments	IRC Conformity Date	Comments	Combined Reporting
DE	3-factor formula	Formula consists of local-to-total payroll, property, and sales factors; different apportionment rules for asset management companies	8.7%	N/A	Current IRC	N/A	No
AR	3-factor formula	Sales factor is double weighted	Graduated rate of 1% to 6.5%	N/A	Various dates	Adopts only specified IRC sections, adoption dates vary	No
IA	Single sales factor formula	Iowa uses a single sales factor formula	Graduated rate of 6% to 12%	N/A	IRC in effect on 01/01/2014	N/A	No
KY	3-factor formula	Sales factor is double-weighted. Single-factor apportionment formula may be elected under some circumstances.	Graduated rate of 4% to 6%	A limited liability entity tax is due in addition to the corporate income tax but may be credited against the income tax.	IRC in effect on 12/31/2013	Applicable to tax years beginning on or after 01/01/2014 (previous conformity date was 12/31/2006)	No
LA	3-factor formula	Special rules apply to certain businesses or industries.	Graduated rate of 4% to 8%	N/A	IRC currently in effect	N/A	No
MS	No specific formula	Taxpayers have option of using one or more of payroll, property, or sales factors unless required to use industry specific formula. Retailing, renting, servicing, merchandising or wholesaling industries use sales factor if not required to use a specific formula.	Graduated rate of 3% to 5%	N/A	Mississippi applies current IRC to the extent that MS law incorporates IRC provisions by reference.	Mississippi does not have a conformity law.	No
NM	3-factor formula	N/A	Graduated rate of 4.8% to 6.9%	N/A	Current IRC	N/A	No



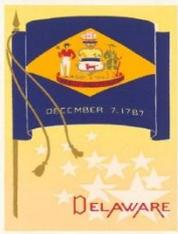
# Comparisons: Single, Flat, Combined States

State	Apportionment Formula-2015	Comments	2015 Corporate Tax Rate	Comments	IRC Conformity Date	Comments	Combined Reporting
DE	3-factor formula	Formula consists of local-to-total payroll, property, and sales factors; different apportionment rules for asset management companies	8.7%	N/A	Current IRC	N/A	No
CA	Single sales factor formula	All businesses other than those deriving more than 50% of their gross receipts from agriculture, extractive business, savings and loans, or banks and financial activities must apportion income to California by multiplying business income by the sales factor (i.e., single sales factor apportionment formula)	8.84%	Special rates for S corporations and financial institutions	IRC as amended through 01/01/2009 applies for tax years starting on or after 01/01/2010	N/A	Yes
MI	Single sales factor formula	Michigan corporate income tax uses 1-factor formula based solely on sales.	6%	Financial institutions pay tax of 0.29%	IRC as amended through 1/1/12 (Michigan corporate income tax)	IRC as amended through 1/1/12 for corporate income tax. For Michigan Business Tax, IRC as amended through 01/01/08. For both taxes, taxpayer can elect to use IRC in effect for the tax year.	Yes
MN	Single sales factor formula	Minnesota corporate franchise tax uses 1-factor formula based solely on sales.	9.8%	Plus surtax ranging up to \$9,650 (as adjusted for inflation) based on sum of entity's Minnesota-based apportionment factors and 5.8% alternative minimum tax.	IRC as of 03/26/2014 for tax years beginning after 12/31/2012	N/A	Yes
TX	Single sales factor formula	Texas uses single-factor gross receipts apportionment formula	0.95% of taxable margin	0.95% is a temporary permissive alternate rate for report year 2015; temporary permissive alternate rate for taxable entities primarily engaged in retail or wholesale trade is 0.475% of taxable margin for report year 2015; taxable entities with revenues of \$1,080,000 or less owe no tax; taxable entities with tax due of less than \$1,000 owe no tax	IRC as in effect for federal tax year beginning on 1/1/2007	N/A	Yes
WI	Single sales factor formula	N/A	7.9%	N/A	IRC as amended to 12/31/2010	N/A	Yes



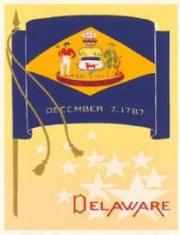
# Comparisons: Three Factor, Progressive, Combined States

State	Apportionment Formula-2015	Comments	2015 Corporate Tax Rate	Comments	IRC Conformity Date	Comments	Combined Reporting
DE	3-factor formula	Formula consists of local-to-total payroll, property, and sales factors; different apportionment rules for asset management companies	8.7%	N/A	Current IRC	N/A	No
AK	3-factor formula	N/A	No tax on first \$25,000 of income and then graduated rate from 2% to 9.4% on amounts over \$222,000.	N/A	Current IRC	N/A	Yes
HI	3-factor formula	The three equally-weighted factors are property, payroll, and sales.	Graduated rate of 4.4% to 6.4%	N/A	IRC as amended through 12/31/2013	N/A	Yes
KS	3-factor formula	The three equally-weighted factors are property, payroll, and sales. 2-factor formula consisting of property and sales factors is available at the election of the taxpayer if the payroll factor exceeds the average of the property and sales factors by 200%.	4% plus 3% surtax over \$50,000	N/A	IRC as amended to date	N/A	Yes
MA	3-factor formula	Sales factor is double weighted	8% of net income plus \$2.60 per \$1,000 of property or net worth	Subject to minimum excise of \$456	IRC in effect for the taxable year	Except IRC §168(k) and IRC §199	Yes
ND	3-factor formula (equally weighted)	N/A	Graduated rate of 1.48% to 4.53% applies	Water's edge filers must pay additional 3.5% tax	Current IRC	N/A	Yes
VT	3-factor formula	Sales factor is double weighted	Graduated rate of 6% to 8.5%	A digital business entity tax is imposed on digital business entities equal to the greater of 0.02% of current value of tangible and intangible assets or \$250 (maximum tax \$500,000).	IRC as in effect for taxable year 2013	Update: 06/02/2014 Previously for taxable year 2012	Yes



# Comparisons: Similar States

State	Apportionment Formula-2015	Comments	2015 Corporate Tax Rate	Comments	IRC Conformity Date	Comments	Combined Reporting
DE	3-factor formula	Formula consists of local-to-total payroll, property, and sales factors; different apportionment rules for asset management companies	8.7%	N/A	Current IRC	N/A	No
AL	3-factor formula	The sales factor of the apportionment formula is double weighted	6.5%	N/A	Current IRC	Where IRC adopted	No
CT	Single sales factor or 3-factor formula depending on the source of net income	Corporations that derive their net income (or losses) from the manufacture, sale or use of tangible personal or real property use a 3-factor formula with a double-weighted receipts factor. Corporations that derive their net income from a business other than the manufacture, sale or use of tangible personal or real property, manufacturers as classified in North American Industrial Classification System Sectors 31, 32, or 33 (most manufacturers) and broadcasters use the single sales factor formula.	7.5%	There is also a corporate excess tax. For income years beginning on or after January 1, 2012 and before January 1, 2016, an additional 20% corporation surcharge is imposed. Companies whose tax liability does not exceed the \$250 minimum tax are not subject to the surcharge.	IRC in effect on last day of income year	N/A	No
MD	3-factor formula	Sales factor is double weighted. Exceptions to the 3-factor formula apply to specific industries including: airlines, movie and television, financial institutions, leasing or rental operators, manufacturers, regulated investment companies, processing businesses, print and broadcast media, railroads, shipping companies, and trucking companies.	8.25%	N/A	Current IRC	IRC amendments after 12/31/01 take effect the year following enactment. IRC §§ 199, 179 as to increased maximums, bonus depreciation, and 5-year NOL carryback are treated as if not in effect	No
MO	3-factor formula	N/A	6.25%	N/A	IRC in effect for taxable year	N/A	No
OK	3-factor formula	Sales factor is double-weighted for certain corporations	6%	N/A	Current IRC	N/A	No
TN	3-factor formula	Double-weighted receipts factor	6.5%	N/A	Current IRC	N/A	No



# Future Meetings

- The following dates are being held by Buena Vista from 1-5 pm:
  - Thursday, March 5
  - Friday, March 20