

HOUSE BILL NO. 578

INTRODUCED BY M. MILLER

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A BILL FOR AN ACT ENTITLED: "AN ACT ELIMINATING THE LISTING OF COUNTRIES THAT ARE CONSIDERED A TAX HAVEN FOR CORPORATION LICENSE TAX PURPOSES AND THE WATER'S-EDGE ELECTION; AMENDING SECTIONS 15-31-322, 15-31-323, 15-31-324, 15-31-325, AND 15-31-326, MCA; AND PROVIDING A DELAYED EFFECTIVE DATE AND AN APPLICABILITY DATE."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

Section 1. Section 15-31-322, MCA, is amended to read:

"15-31-322. Water's-edge election ~~--- inclusion of tax havens.~~ (†) Notwithstanding any other provisions of law, a taxpayer subject to the taxes imposed under this chapter may apportion its income under this section. A return under a water's-edge election must include the income and apportionment factors of the following affiliated corporations only:

(a)(1) a corporation incorporated in the United States in a unitary relationship with the taxpayer and eligible to be included in a federal consolidated return as described in 26 U.S.C. 1501 through 1505 that has more than 20% of its payroll and property assignable to locations inside the United States. For purposes of determining eligibility for inclusion in a federal consolidated return under this subsection (1)(a), the 80% stock ownership requirements of 26 U.S.C. 1504 must be reduced to ownership of over 50% of the voting stock directly or indirectly owned or controlled by an includable corporation.

(b)(2) domestic international sales corporations, as described in 26 U.S.C. 991 through 994, and foreign sales corporations, as described in 26 U.S.C. 921 through 927;

(c)(3) export trade corporations, as described in 26 U.S.C. 970 and 971;

(d)(4) foreign corporations deriving gain or loss from disposition of a United States real property interest to the extent recognized under 26 U.S.C. 897; or

(e)(5) a corporation incorporated outside the United States if over 50% of its voting stock is owned directly or indirectly by the taxpayer and if more than 20% of the average of its payroll and property is assignable to a location inside the United States; ~~or~~

~~_____ (f) a corporation that is in a unitary relationship with the taxpayer and that is incorporated in a tax haven,~~



1 including Andorra, Anguilla, Antigua and Barbuda, Aruba, the Bahamas, Bahrain, Barbados, Belize, Bermuda,
 2 British Virgin Islands, Cayman Islands, Cook Islands, Cyprus, Dominica, Gibraltar, Grenada,
 3 Guernsey-Sark-Alderney, Isle of Man, Jersey, Liberia, Liechtenstein, Luxembourg, Malta, Marshall Islands,
 4 Mauritius, Monaco, Montserrat, Nauru, Netherlands Antilles, Niue, Panama, Samoa, San Marino, Seychelles, St.
 5 Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Turks and Caicos Islands, U.S. Virgin Islands, and
 6 Vanuatu.

7 ~~_____ (2) The department shall report biennially to the revenue and transportation interim committee with an~~
 8 ~~update of countries that may be considered a tax haven under subsection (1)(f)."~~

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10 **Section 2.** Section 15-31-323, MCA, is amended to read:

11 **"15-31-323. Apportionment factors --inclusion of tax havens.** ~~(4)~~ For purposes of 15-31-322~~(4)~~(a)
 12 through ~~(1)(e)~~, the location of payroll and property is determined under the individual state's laws and regulations
 13 that set forth the apportionment formulas used to assign net income subject to taxes on or measured by net
 14 income. If a state does not impose a tax on or measured by net income, apportionment is determined under this
 15 chapter.

16 ~~_____ (2) For the purposes of 15-31-322(1)(f), income shifted to a tax haven, to the extent taxable, is~~
 17 ~~considered income subject to apportionment."~~

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19 **Section 3.** Section 15-31-324, MCA, is amended to read:

20 **"15-31-324. Water's-edge election period -- consent -- change of election.** (1) A water's-edge
 21 election may be made by a taxpayer and is effective only if every affiliated corporation subject to the taxes
 22 imposed under this chapter consents to the election. Consent by the common parent of an affiliated group
 23 constitutes consent of all members of the group. An affiliated corporation that becomes subject to taxes under
 24 this chapter after the water's-edge election is considered to have consented to the election. The election must
 25 disclose the identity of the taxpayer and the identity of any affiliated corporation, ~~including an affiliated corporation~~
 26 ~~incorporated in a tax haven as set forth in 15-31-322(1)(f)~~, in which the taxpayer owns directly or indirectly more
 27 than 50% of the voting stock of the affiliated corporation.

28 (2) Except as provided in ~~subsections (3) and (4)~~ subsection (3), each water's-edge election must be
 29 for 3-year renewable periods.

30 (3) A water's-edge election may be changed by a taxpayer before the end of each 3-year period only

1 with the permission of the department. In granting a change of election, the department shall impose reasonable
 2 conditions that are necessary to prevent the avoidance of tax or clearly reflect income for the election period prior
 3 to the change.

4 ~~—— (4) A taxpayer subject to the provisions of 15-31-322(1)(f) who has a water's-edge election that is in~~
 5 ~~effect for tax periods beginning both before and after October 1, 2003, may rescind the election for any tax period~~
 6 ~~beginning after October 1, 2003."~~

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8 **Section 4.** Section 15-31-325, MCA, is amended to read:

9 **"15-31-325. Treatment of dividends.** For purposes of 15-31-321 through 15-31-326, dividends must
 10 be treated as follows:

11 (1) Dividends received from corporations incorporated outside the United States, to the extent taxable,
 12 are considered income subject to apportionment.

13 (2) The after-tax net income of United States corporations excluded from eligibility as affiliated
 14 corporations under 15-31-322(4) and possession corporations described in sections 931 through 934 and 936
 15 of the Internal Revenue Code are considered dividends received from corporations incorporated outside the
 16 United States.

17 (3) Amounts included in income under sections 951 through 962 and 964 of the Internal Revenue Code
 18 are considered dividends from corporations incorporated outside the United States.

19 (4) Eighty percent of all dividends apportionable under this section must be excluded from income
 20 subject to apportionment.

21 (5) "Deemed" distributions, as set forth in section 78 of the Internal Revenue Code, and corresponding
 22 amounts with respect to dividends considered received under subsection (2) of this section must be excluded
 23 from the income of the water's-edge combined group.

24 (6) The dividends apportionable under this section are in lieu of any expenses attributable to dividend
 25 income.

26 (7) A dividend from a corporation required to be combined in the water's-edge combined group must be
 27 eliminated from the calculation of apportionable income."

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29 **Section 5.** Section 15-31-326, MCA, is amended to read:

30 **"15-31-326. Domestic disclosure spreadsheet -- inclusion of tax havens.** (1) The department may

1 require a taxpayer making a water's-edge election to submit within 6 months after the taxpayer files its federal
2 income tax return a domestic disclosure spreadsheet to provide full disclosure of the income reported to each
3 state for the year, the tax liability for each state, the method used for allocating or apportioning income to the
4 states, and the identity of the water's-edge corporate group and those of its United States affiliated corporations.
5 ~~———(2) The department may require a taxpayer subject to the provisions of 15-31-322(1)(f) to disclose the~~
6 ~~same information for tax havens as is required for states in subsection (1)."~~

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8 NEW SECTION. Section 6. Saving clause. [This act] does not affect rights and duties that matured,
9 penalties that were incurred, or proceedings that were begun before [the effective date of this act].

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11 NEW SECTION. Section 7. Effective date. [This act] is effective January 1, 2014.

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13 NEW SECTION. Section 8. Applicability. [This act] applies to tax years beginning after December 31,
14 2013.

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