SENATE TAX
Exhibit No. 4
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Bill No. SB 167

Montana Department of Revenue

Mike Kadas
Director

Steve Bullock
Governor

To: Revenue and Transportation Interim Committee (RTIC)

From: Mike Kadas, Director

Date: September 5, 2014

Subject: Other States' Corporate Income Tax Methodologies

At the July 16, 2014 RTIC meeting, the department offered to provide a summary of other states' corporate income tax methodologies and specifically which states have some type of tax haven provision. The following provides the committee with the information requested.

Generally, there are three main categories that the corporate income tax systems fall into: separate company reporting, consolidated reporting, and combined unitary reporting. State reporting options roughly fall into one of the following three categories:

Separate company reporting = 3 states
Consolidated reporting = roughly 20 states
Combined unitary reporting = roughly 20 states

Montana falls under the combined unitary reporting. Although there are roughly 20 states that have this option, only 8 states (Alaska, California, Idaho, Montana, North Dakota, Massachusetts, Utah and West Virginia) and the District of Columbia employ a worldwide combination with a water's edge election. Montana has a tax haven list and Alaska, West Virginia and District of Columbia have adopted tax haven language based on the MTC model tax haven act which provides for the inclusion of foreign subsidiaries which incorporate in certain countries mainly to avoid the state's tax.

Therefore of the 8 states and the District that uses a worldwide combined unitary reporting system, 4 of the 9 have a list or language that addresses the inclusion of subsidiaries operating in countries that are considered tax havens

In addition, other states that historically have not taxed income from subsidiaries incorporated outside the United States are also attempting to address the issue of income shifting to tax haven countries. Oregon has adopted a tax haven list similar to

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Montana's list and Maine's legislature recently passed tax haven legislation, but the bill was vetoed by their governor.

The current countries in Montana's statutory tax haven list are as follows:

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

If you have any concerns or questions, please feel free to contact Gene Walborn at (406) 444-0908.