Governor Bevin and Members of the Kentucky General Assembly:

The last-minute addition of a Mandatory Unitary Combined Return (MUCR) filing requirement to the tax reform package enacted during the 2018 session is a cause for major concern among taxpayers and will likely have consequences you may not have intended or expected. Because taxpayers impacted by this new provision that is set to take effect for tax years beginning on or after January 1, 2019 were not afforded an opportunity to engage in discussions or bring our concerns to your attention, you are likely unaware that this provision may hinder job creation and investment in Kentucky.

Mandatory Unitary Combined Reporting (MUCR) Implications

MUCR Negatively Impacts Kentucky Economic Growth: One consequence of MUCR is its potential negative impact on Kentucky's economy by hindering investment and job creation. From 1982 through 2006, job growth was 6 percent higher in states without MUCR than in states with it, according to a study conducted by Ernst & Young. The enactment of MUCR in HB 487 makes Kentucky an outlier in the southeast region of the country and puts the Commonwealth at a competitive disadvantage when competing to attract new business from both international and domestic-based companies. Five of the seven states that border Kentucky—Tennessee, Indiana, Ohio, Missouri and Virginia—do not have a MUCR requirement in their law. Most other southern states – including Georgia, North Carolina, Florida, South Carolina, and Alabama – do not have a MUCR requirement in their law. Beyond that, the new mandate also violates the principles of bilateral tax treaties and will hurt Kentucky's international competitiveness.

<u>MUCR Increases Complexity for Taxpayers and Tax Administrators:</u> MUCR mandates an entirely new and burdensome corporate income tax reporting structure for corporations doing business in Kentucky. Experience in other states illustrates the inherent complexity and subjectivity in defining a “unitary” group, leading to increased volatility in the revenue stream. MUCR increases complexity and creates new distortions in assigning income to different states in which a company operates. The new mandate is complex and causes unnecessary and significant compliance costs for both corporate taxpayers and tax administrators. In fact, the determination of what constitutes a “unitary” group has been the basis of prolonged litigation in several states.

<u>MUCR Is Not a Guaranteed Revenue Raiser:</u> The new filing requirement does not always generate additional tax revenue. Both Indiana and Maryland conducted studies to explore the potential impact of MUCR. The study conducted by Indiana’s Legislative Services Agency found that the potential positive revenue impact of combined reporting would likely decline to zero in the long term. Maryland’s study was based on five years of data on combined reporting and, depending on the type of apportionment formula used, found that MUCR may have resulted in less revenue than its current corporate income tax structure in two or three of those years. Neither Indiana nor Maryland adopted MUCR after studying its potential impact.

<u>Request</u>

We support the continuation of the option for corporations doing business in Kentucky to elect to file a unitary return or an affiliated group return, but strongly oppose the new mandate for combined reporting. Based on the information provided above, we respectfully request the General Assembly act to prevent MUCR from taking effect next year by repealing this new statutory mandate.

Thank you for your consideration of this matter. We would be pleased to have the opportunity to meet with you and to provide further information regarding MUCR and why we believe it is a bad policy for Kentucky.

Johnson & Johnson Randstad Casey Jones Distillery