



June 10, 2008

Members of the Combined Reporting Conference Committee:

A coalition of the largest employers and business organizations in Massachusetts are calling on tax bill conferees and legislative leaders to ensure that "FAS 109 relief" is included in the final version of the combined reporting tax bill under consideration in the state legislature. The provision is included in the House version of the bill and is needed to fix an unintended consequence resulting from the Commonwealth's decision to move to a unitary combined filing method for corporate income taxes.

Under the new combined reporting rules, publicly traded companies will be required to account for the impact of this tax change for financial reporting purposes. In order to prevent Massachusetts businesses from reflecting a large one-time charge against their current net income, which would negatively affect their quarterly results and would likely be perceived negatively by Wall Street and the capital markets, this provision must be included as part of the final tax bill. Other states have significantly changed their corporate income tax structure (MI and OH), enacted similar provisions to mitigate the financial reporting impact of their income tax reform.

The reporting requirement stems from a Financial Accounting Standards Board rule, referred to as "FAS 109," which requires publicly traded companies to establish deferred taxes for the differences between the financial book basis of assets they own versus the income tax basis of those same assets. The cumulative effect of those differences will likely require most companies to record an additional deferred tax liability expense as a result of the move to combined reporting. The House version contains a deduction that companies can use to offset this additional deferred tax liability. The deduction would not be available to companies until 2010, and would be spread out over 5 years, so there is no immediate revenue impact to the state.

Excluding this offset in the final bill will adversely impact some companies that make major contributions to our state's economy through their capital investments. At a time when the economy is already struggling, it's ironic that the companies that are investing capital and

creating jobs in the Commonwealth will likely be the ones hardest hit by this financial reporting requirement. We must ensure that the combined reporting bill does not further exacerbate the financial strain on companies that will already be hit with increased corporate income taxes.

The inclusion of the language from the House version to address the FAS 109 concerns is critical for the following reasons:

Consistency with other States – Other states (most recently OH and MI) making significant corporate income tax changes, have enacted similar provisions to mitigate the financial reporting impact of major income tax changes. While the changes made in OH were more limited, the changes made in MI were very comprehensive and applied to all taxpayers. To help the state manage the cost of the FAS 109 provision, MI deferred the start date of the deduction and then spread the deduction out over a longer period.

Avoid Substantial Financial Impact to Capital Intensive Companies Investing and Creating Jobs in Massachusetts – The additional income tax expense required to be reflected in the company’s financial statements under FAS 109 as a result of the state’s proposed income tax changes could represent a significant hit for many companies, particularly for capital intensive industries. The adverse impact could affect the ability or decisions of such companies to invest and create more jobs. While the House provision will provide a partial offset to the taxes ultimately paid in the future, the importance of the provision is solely related to eliminating the immediate financial statement reporting impact that the move to combined reporting will create for many companies.

Avoid Impact to Stock Value of Public Companies with Significant Massachusetts Presence
Any significant expense required to be recorded as a result of the state’s tax changes will directly impact a company’s reported “earnings per share.” This is a significant financial metric and could adversely impact the value of the stock of many public companies, particularly those that make substantial capital investments. This could have broader implications for individual investors who hold the stock of such companies, specifically those that hold these investments in their retirement and pension accounts. Any decline in value of the stocks held in the state’s pension trust can cause additional financial strain for the state. At a time when the overall economy is struggling, additional adverse impacts to the financial markets will only further stall economic recovery in Massachusetts.

Given the detrimental impact that this financial reporting requirement can have on many of the companies operating in the state, we respectfully request that the tax bill conferees work to ensure that the “FAS 109” provision is included in the final tax bill.

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| Council on State Taxation | Dominion Energy |
| General Mills | Greater Boston Chamber of Commerce |
| Massachusetts Business Roundtable | Massachusetts Taxpayers Foundation |
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