

California steps up for tax fairness

Q&A on California's
proposed legislation on
Worldwide Combined
Reporting (WWCR)

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Q1. How do multinational companies use profit shifting to avoid US state taxes?

In US states, a corporation's income tax base essentially begins with its federal tax base. That means that the offshore profit shifting that drains the federal tax base drains the state tax base as well. Profit shifting schemes take different forms, many incredibly complex and intentionally opaque. Often, they are engineered by creating paper transactions among artificially manipulated legal entities, typically in the types of jurisdictions that top our [Corporate Tax Haven Index](#) – while the real economic activity that produced those profits never moves at all.

Q2. Do traditional anti-abuse rules eliminate state tax avoidance?

No. Traditional anti-abuse rules still rest on the legal fiction that the prices for internal transactions in a multinational group, including of subsidiaries transacting with their controlling parent, can be set as if they were independent equals operating at ‘arm’s length’ from each other in a free market. This absurdity allows multinationals great leeway in practice to manipulate these transfer prices in order to make sure the profit from economic activity in one place, is declared in a much lower-tax jurisdiction elsewhere.

Q3. How does WWCR end multinational state tax avoidance?

Worldwide Combined Reporting (WWCR) ends multinationals' state tax avoidance by taxing them based on economic reality instead of on embarrassing fictions. When a commonly controlled group of affiliates are functionally integrated and mutually interdependent, as virtually all multinationals are, then WWCR treats them all as a single taxpayer. It requires complete reporting of the entire group's profits, everywhere. Then, to determine what portion of those profits the state may fairly tax, it uses a standard “apportionment formula” (for example, the group's in-state share of its worldwide sales and employment).

Under WWCR, the entire group's worldwide profits are in the tax base, so shifting profits around the group achieves nothing. And corporate state-tax avoidance disappears.

Q4. Does WWCR have any impact on corporate location decisions?

Under WWCR, corporate relocation threats are hollow. The cost and disruption of relocating significant operations out of state can be enormous. Such decisions are based not on marginal increases in tax costs but on access to infrastructure, resources, trained workers, and customers. And, in the majority of states that apportion taxable profits by sales alone, relocation would not avoid a single dollar of tax.

Furthermore, no executive could credibly justify, to shareholders, the decision to abandon a profitable market over the end of an unfair tax advantage. If anything, WWCR improves the business climate: it levels the playing field for local small and medium-sized businesses that do not have shell companies in offshore tax havens. And this is crucial: by ending the unfair tax advantage that multinationals have over the smaller, local businesses that typically provide the bulk of employment and economic dynamism, WWCR is a fundamentally pro-business measure.

Q5. Why will corporate owners, not customers, be impacted by WWCR?

WWCR's economic incidence falls on those who actually pocket the profits — shareholders and senior executives — not consumers. The multinationals that will pay more under WWCR are not businesses competing on thin margins; they are the giants whose profits flow from market dominance, valuable intangibles, pricing power... and tax avoidance. Economic research consistently finds that this windfall — what economists call “supernormal profits” or “excess rents” — accrues to corporate owners, not customers. In fact, some research shows that where multinationals have engineered lower effective tax rates, even [shareholders do not gain](#) — they appear to receive no higher return, but they do end up taking on greater risk because the shares of aggressive tax-avoiders become more volatile. Customers never share the upside when these corporations book outsized profits. They will not bear the downside when WWCR captures part of those profits as state tax.

Q6. What ensures that WWCR taxes only those profits attributable to each state?

Two long-established principles ensure that each state taxes only its fair share. The “unitary business principle” treats an integrated and interdependent multinational corporate group as the single enterprise that it is in the eyes of management and financial regulators. “Formulary apportionment” then calculates the state's fair share by an objective formula — for example, its share of the group's worldwide sales, employment, etc. Picture the group's worldwide profits as a pie: if 2 per cent of the group's worldwide sales are to in-state customers, and 2 per cent of the group's employees work there, the state's slice is 2 per cent of the pie. That slice reflects in-state economic activity, not foreign profits. There is no double taxation.


The US Supreme Court has confirmed that WWCR, operating this way, does not tax “extraterritorial values.” And that makes sense, because if every state and every country took this same approach, the tax base would be precisely defined and apportioned among the different jurisdictions. No profits would be taxed in two different places; and no profits would be left entirely untaxed.

Q7. Is the legality of WWCR firmly settled?

Yes — and twice over. The US Supreme Court has upheld WWCR in *Container Corp. v. Franchise Tax Board* (1983), as applied to a US-based multinational, and again a decade later in *Barclays Bank PLC v. Franchise Tax Board* (1994), as applied to foreign-parent multinationals. Both decisions rest on principles of state taxing power and federalism that have remained stable across changes in the Court's composition.

Q8. Is WWCR consistent with current global aims to stop tax avoidance?

Fully consistent. Article 5 of the draft United Nations Framework Convention on International Tax Cooperation being negotiated today shares the goals of WWCR, indicating that each countries' taxing rights should be tied to the economic activity that they host. Also, for more than a decade, foreign governments have worked with the OECD on the



Base Erosion and Profit Shifting (BEPS) initiative and its successor framework, Pillar One and Pillar Two. Both efforts expressly recognize the serious harm aggressive corporate profit shifting causes to public revenues worldwide.

The multilateral convention to implement Pillar One has been vetoed for now by the Trump administration, but the US was a party to the agreement and the process by which Pillar One developed the technical basis to apply unitary taxation for the first time within OECD rules. Pillar Two was intended to apply a minimum rate of tax on the profits of multinationals, in whichever country they were declared. The Trump administration has also undermined this by insisting on exemptions from key elements for US multinationals – freeing them of any constraint on profit shifting. Nonetheless, the expressed intentions to ensure multinationals pay fair tax rates, and are taxed in the places where they carry out their economic activities, are well established. No foreign government can credibly retaliate against a US state for adopting a policy aligned with the international consensus that government itself helped build.

Q9. Do powerful global corporations have the resources to comply with WWCR?


Yes — abundantly. Under the WWCR Model Statute, only corporate groups with \$1 billion or more in annual revenues are required to use WWCR. These huge multinational corporations already maintain comprehensive worldwide financial data for consolidated reporting under securities laws, federal corporate minimum-tax obligations, and a growing set of international transparency standards. They already devote enormous resources to designing the complex schemes by which they shift profits in the first place; the additional work to comply with WWCR is modest by comparison.

Q10. Will revenue department enforcement of WWCR ultimately be easier?

Yes — after a reasonable start-up period. WWCR replaces the never-ending chase to identify and untangle complex profit shifting schemes with a combined report and an objective apportionment formula. There is one corporate group, one set of worldwide books, and no transfer-pricing dispute to relitigate year after year. State revenue departments can build the necessary expertise within a normal lead-in period — typically a year — by training auditors, hiring international-tax specialists, and updating systems. The expertise is widespread: Alaska has mandated WWCR for oil-and-gas corporations for decades, and a number of other states already audit elective WWCR filings with success.

Q11. How is WWCR's modern revival grounded in history?

Solidly. By the early 1980s, twelve US states had adopted mandatory WWCR and successfully defended it in the US Supreme Court. This closed the profit shifting loophole for large multinational tax avoiders, who reacted by pressuring the UK's Thatcher administration to press the Reagan administration to demand that the states retreat. WWCR was



abandoned not because it failed, but because Washington forced the states' hand.

No such pressure campaign could work today, when the problem of profit shifting by aggressive global corporations is widely understood and condemned – including by the UK public. States revisiting WWCR are returning to a tested, court-affirmed framework on far stronger ground than four decades ago.

Q12. Why is California the heart of WWCR's revival?

California is the birthplace of Worldwide Combined Reporting. The unitary business principle on which WWCR rests was forged largely in the state's tax cases before the US Supreme Court. In the early 1980s, California became the first state to mandate WWCR. Four decades later, in 2026, the state again leads: a bill based on the widely respected WWCR Model Statute passed favourably out of the Assembly Revenue and Taxation Committee — the first WWCR bill to clear any California legislative committee in more than 40 years, and a development closely watched in other state capitols. With the global momentum to ensure taxing countries' rights are aligned with their share of multinationals' economic activity, California is set to lead nationally on an issue where the US administration has simply vacated its role.