Center on Budget and Policy Priorities

1275 First Street NE, Suite 1200
Washington, DC 20002

Tel: 202-408-1080

info@cbpp.org
www.cbpp.org

April 24, 2026 By Don Griswold

It's Time to End Corporate Tax Avoidance in California by Closing the Water's Edge Loophole

Testimony of Don Griswold, Senior Fellow, Center on Budget and Policy Priorities, to the California Assembly Standing Committee on Revenue and Taxation in Favor of AB 1790 (Connolly)

Chair Gipson, Vice Chair Sanchez, and members of the Committee:

Thank you for the opportunity to submit this written testimony. My name is Don Griswold, Senior Fellow at the nonpartisan Center on Budget and Policy Priorities (CBPP). I previously served as executive tax counsel at Berkshire Hathaway and as an enabler of state tax avoidance by some of the world's most powerful corporations. I now work to ensure that corporations pay their fair share in taxes through my role at CBPP, a nonprofit research and policy institute that advances both federal and state policies aimed at building a nation where everyone has the resources they need to thrive.

California has a loophole on the books that renders your corporate income tax *virtually optional* for aggressive global corporations.

Currently, state policy allows corporations to shift taxable profits[1] out of California to artificial shell companies in offshore tax havens. A global footprint, aggressive advisors, and handsomely paid lobbyists enable corporate groups to zero-out their taxable profits[2] whenever they wish. Their tax avoidance costs the state more than $3 billion a year.[3]

The good news is that you have before you in AB 1790 the common-sense policy that would completely close this loophole and ensure that corporations pay their fair share: mandatory Worldwide Combined Reporting (WWCR).

WWCR is the gold standard policy that eliminates state corporate income tax avoidance by powerful global corporations. WWCR reflects economic reality, treating an entire corporate group — including all of its operating subsidiaries and fabricated shell companies around the world — as a single, integrated, unitary business enterprise, just as its corporate leadership and financial regulators treat it. WWCR requires complete reporting of all profits, everywhere, then uses standard[4] apportionment formulas (already employed across the country) to calculate the state's taxable fair share of those profits.

California, Other States Adopted WWCR Once — and Can Do It Again

Almost five decades ago, California and a dozen other states shut down the twin tax dodges of *domestic* profit-shifting (Delaware is a notorious tax haven) and *offshore* profit-shifting (to a long list of tax havens like Bermuda and Singapore).[5] Until then, California (like most states and the federal government) based corporate tax on the legal fiction that commonly owned affiliates compete and contract with each other as vigorously as Coke and Pepsi. But virtually every global corporate group instead operates as a "unitary" enterprise – no matter how many affiliated entities appear in its organization chart or where they are located. And they avoid tax by manipulating transactions among the various legal entities that they create and control.[6]

Understanding this, California switched in the early 1980s to a system that is based explicitly on economic reality (the "unitary business principle") instead of on legal fictions; it used WWCR to tax the state's fairly apportioned share of a corporate group's *complete* profits. That original adoption of WWCR shut down all corporate income tax avoidance – offshore and domestic – because WWCR makes all profit-shifting as irrelevant as moving your wallet from right pocket to left … when you're taxed on everything in your pants.

Aggressive global corporations fought back and ultimately regained their dodging power.

U.S.-based avoiders challenged WWCR but lost in the Supreme Court.[7] UK-based avoiders then went to British Prime Minister Margaret Thatcher, who met with U.S. Treasury Secretary Donald Regan to demand reversal of "unitary taxation."[8] The UK companies wanted to retain offshore profit-shifting but were willing to give up U.S. domestic profit-shifting because they did not participate in it. And U.S. companies could easily increase their offshore profit-shifting to compensate for any loss of domestic profit-shifting capacity.

So, all the avoiders were aligned: "Water's Edge" combined reporting, which shuts down only domestic profit-shifting, was acceptable. But their loophole for offshore profit-shifting had to remain open; WWCR had to go.

In a 1984 letter not declassified until 2020,[9] President Ronald Reagan wrote the Prime Minister:

> *Dear Margaret:*
>
> *Thank you for your timely letter on unitary taxation. … I am pleased to say that …the Worldwide Unitary Tax Working Group reached agreement in principle to recommend that the states adopt a 'water's edge' limitation to the application of unitary taxation. … I will urge that the states implement this recommendation as quickly as possible. …*
>
> *Sincerely, Ron*

A year later, Sec. Regan reported to his British counterpart that President Reagan was still working "to encourage elimination of world-wide combined reporting at the State level" and that he had asked the chairman of Safeway "to mobilize US business in California against the unitary tax."[10]

The UK avoiders lost their second court challenge when the Supreme Court reaffirmed that WWCR is constitutionally sound, whether applied to U.S.- or foreign-based companies.[11]

But the states' second judicial win came a decade too late. By then, California and the other states had capitulated to Presidential pressure and agreed to drop WWCR and fall back to Water's Edge — plugging just one of the two large holes in their revenue bucket. Water's Edge combined reporting did not and still does not address the major problems with the prior system. The tax-avoiding global corporations achieved complete victory . . . until now.

Bill Can Close Loophole, Generate Needed Revenue

The bill before you today, AB 1790, will finally plug the second hole in California's revenue bucket by adopting mandatory WWCR. This bill nails shut the Water's Edge loophole currently allowing billion-dollar corporations to avoid paying their fair share by shifting profits offshore.

Enactment of AB 1790 will restore fiscal prudence, efficiency, and fairness to California's corporate income tax. There is *no credible reason not to enact it* now, despite arguments offered by lobbyists for the corporate tax avoidance industry. Their objections are unfounded:

- WWCR reaches only the state's fair "slice" of the corporate group's global profits "pie," without double-taxing. And it's easy to calculate the size of that slice: if 2 percent of the group's global sales are to California customers, then 2 percent of its profits are taxable by the state.
- WWCR taxes only domestic profits for the same reason: that 2 percent slice is California profits, not foreign profits. In light of this "formulary apportionment,"[12] the U.S. Supreme Court has ruled that WWCR, operationally, does not tax "extraterritorial values."[13]
- Only the sophisticated global corporate tax avoiders will face complex compliance. They already devote enormous resources to designing and implementing their labyrinthine avoidance schemes; compliance is well within their capacity. WWCR will add very little to the compliance tasks of California's small business community, who have neither shell companies in exotic offshore tax havens nor an intentionally opaque and complex web of intercompany transactions to untangle.
- Corporations that will face new tax liability under WWCR are, by definition, those earning supernormal profits — the excess returns that flow from monopoly-like market power. Economic research is clear that those profits accrue to shareholders and highly compensated executives, not to customers. Consumers don't benefit when a dominant corporation books a windfall; they won't bear the cost when that corporation finally pays its fair share of taxes.[14]

Tax laws should not remain frozen in time — particularly after their porous vulnerability to corporate tax abuse has been discovered.

Toleration of corporate tax avoiders — and fear of their threatened trade wars in defense of loopholes — has waned dramatically since the 1980s when Margaret Thatcher and Ronald Reagan, champions of deregulation, were subject to their influence. Today, the Organisation for Economic Co-operation and Development (OECD) is more than a decade into a serious effort to combat the corporate tax avoidance phenomenon with projects including Base Erosion and Profit Shifting minimum standards, a global minimum tax framework, and tax transparency.[15] The United Nations Model Tax Convention is pursuing similar goals for a more inclusive set of countries.[16]

Mandatory Worldwide Combined Reporting is the gold standard for a reason. This policy is a straightforward, shovel-ready, U.S. Supreme Court–approved tax policy solution that will make corporations run by the world's wealthiest people pay their fair share of California tax. It will level the playing field for California small businesses. And it will generate substantial new revenue to fund essential societal investments that strengthen communities and catalyze broadly shared prosperity.

I respectfully urge the Committee to advance AB 1790.

Respectfully submitted,

Don Griswold

Senior Fellow

Center on Budget and Policy Priorities

---

[1] Michael Mazerov, "States Can Fight Corporate Tax Avoidance by Requiring Worldwide Combined Reporting," Center on Budget and Policy Priorities, June 27, 2024, https://www.cbpp.org/sites/default/files/6-27-24sfp.pdf.

[2] Matthew Gardner, "Four Big Tech Companies Avoid $51 Billion in Taxes in Wake of One Big Beautiful Bill Act," Institute on Taxation and Economic Policy (ITEP), February 6, 2026, https://itep.org/trump-meta-tesla-alphabet-amazon-obbba-taxes/.

[3] Carl Davis, Matthew Gardner, and Michael Mazerov, "A Revenue Analysis of Worldwide Combined Reporting in the States," ITEP, February 20, 2025, https://itep.org/worldwide-combined-reporting-state-corporate-taxes/.

[4] "Tax Glossary: Key State and Local Terms," ITEP, https://itep.org/tax-guide-glossary/ (accessed April 23, 2026).

[5] Tom Schamberg, "Inequality Project—The America We Need," Tax Notes State, August 3, 2020, https://www.taxnotes.com/tax-notes-state/tax-history/inequality-project-america-we-need/2020/08/03/2cr2w?highlight=%22inequality%20project%22. For the authoritative list of offshore tax haven jurisdictions, see, "Corporate Tax Haven Index: The World's Biggest Enablers of Corporate Tax Abuse," Tax Justice Network, updated December 2025, https://cthi.taxjustice.net/.See also, Thomas Georges and Zorka Millin, "Big US Corporations Reaped Billions through Tax Havens in 2025; New Transparency Requirements Reveal," FACT Coalition, March 9, 2026, .

[6] Don Griswold, "Innovation Principles for Multistate CIT Planning—Part 1," Tax Notes State, May 16, 2022, https://www.taxnotes.com/tax-notes-state/corporate-taxation/innovation-principles-multistate-cit-planning-part1/2022/05/16/7dg2w?highlight=%22Innovation%20Principles%20for%20Multistate%20CIT%20Planning%20%E2%80%94%20Part%201%22.

[7] *Container Corp. of America v. Franchise Tax Bd.,* 463 U.S. 159 (1983).

[8] Schamberg.

[9] Reagan letter to Thatcher (unitary taxation) [declassified 2000], Archive (Reagan Library), Archive—margaretthatcher.org, May 14, 1984, https://www.margaretthatcher.org/document/109343.

[10] Confidential Breakfast Meeting between the Chancellor of the Exchequer and the Secretary of the US Treasury, Archive—margaretthatcher.org, September 24, 1984, .

[11] *Barclays Bank PLC v. Franchise Tax Bd.*, 512 U.S. 298 (1994).

[12] Meg Wiehe, "Corporate Income Tax Apportionment and the "Single Sales Factor," ITEP, August 1, 2012, https://itep.org/corporate-income-tax-apportionment-and-the-single-sales-factor/.

[13] *Container Corp.*

[14] William G. Gale & Samuel I. Thorpe, "The Incidence and Distributional Effects of the Corporate Income Tax: The Role of Rent Sharing," Brookings Tax Policy Center, July 2024, https://www.brookings.edu/wp-content/uploads/2024/07/20240717_TPC_GaleThorpe_CorpRentSharing_FINAL.pdf.

[15] "OECD Secretary-General Tax Report to G20 Finance Ministers and Central Bank Governors," OECD, April 2026, https://www.oecd.org/en/publications/oecd-secretary-general-tax-report-to-g20-finance-ministers-and-central-bank-governors-g20-united-states-april-2026_02d05307-en.html.

[16] Bob Michel, "The 2025 update of the UN Model Tax Convention: Charting the way towards fair and equitable tax treaties," Tax Justice Network, July 2025, https://taxjustice.net/wp-content/uploads/2025/07/TJN-Report-UN-Model-2025-update.pdf.