TAX EXECUTIVES INSTITUTE, INC.

State and Local Tax Policy Statement
Regarding the Public Disclosure of Confidential Taxpayer Information

> Maintaining the confidentiality of taxpayer information is critical to the functioning of a tax system based upon voluntary compliance. Tax Executives Institute, Inc. maintains all state and local tax jurisdictions should adopt and respect privacy and confidentiality principles similar to the federal confidentiality rules governing the disclosure of taxpayer information. The disclosure and publication of confidential taxpayer information violates taxpayer privacy without providing any material benefit to state and local tax jurisdictions. Jurisdictions should instead use aggregate taxpayer information to evaluate whether existing tax laws provide good corporate tax policy.

Federal IRC Section 6103 contains the provisions addressing the confidentiality and disclosure of federal tax returns. Federal law prohibits government officials who gain access to such returns from disclosing confidential taxpayer information except under the limited circumstances outlined in the statute. TEI maintains state and local tax jurisdictions should adopt and respect privacy and confidentiality principles similar to the federal rules.

State and local tax jurisdictions should not disclose confidential taxpayer information for the following reasons:

- **Complexity of Corporate Tax Information:** Corporate tax returns are complex and can be misinterpreted by the public and policymakers who lack knowledge of the tax laws and a full picture of the historical tax information of a given taxpayer. The disclosure of corporate tax return information could also potentially mislead the public and policymakers into thinking that businesses are trying to avoid tax responsibilities. Such conclusions would undeservedly undermine public goodwill of corporations subjected to disclosure and could lead to inappropriate legislative actions based on false conclusions.

- **Lack of Benefits to Policymakers:** Releasing corporate taxpayer return information provides no benefit to policymakers but instead increases confusion about corporate tax practices because of tax law complexities. It is more appropriate to use aggregate taxpayer information to evaluate the effectiveness of the current corporate tax policies or to assist legislators in policy discussions if the legislative branch is concerned certain types of taxpayers are not paying their fair share of taxes.

- **Sensitive Business Information:** Corporate tax returns may include sensitive information, such as a company's legal structure, the source and character of the company's revenue and expenses by legal entity and jurisdiction, advertising and marketing expenses by jurisdiction, the location of corporate assets by jurisdiction, and other confidential information. Additionally, various state and local tax jurisdictions require taxpayers to attach legal agreements in conjunction with various corporate transactions. The disclosure of such information puts taxpayers at a competitive disadvantage as compared to taxpayers whose information was not disclosed.

- **Anti-Business Climate:** Disclosure of confidential tax returns is arbitrary and punitive as it could reveal valuable proprietary information, including trade secrets that could be used by competitors to gain an economic advantage. States that enact laws requiring disclosure of confidential taxpayer information create an anti-business climate in the jurisdiction.

- **Information Sharing Agreements:** Federal IRC Section 6103 allows the Internal Revenue Service to share information with state and local tax jurisdictions that have enacted laws and ordinances to protect confidential federal taxpayer information. Most States require taxpayers to include federal tax information on their state tax return. States allowing or requiring the disclosure of state tax returns or specific taxpayer information are prohibited from participating in information sharing agreements with the IRS.

TEI maintains the disclosure and publication of confidential taxpayer information violates taxpayer privacy without providing any material benefit to state and local tax jurisdictions. Aggregate information should be used to evaluate existing tax laws and ensure good corporate tax policy is implemented.

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