Government of the District of Columbia
Office of the Chief Financial Officer

Glen Lee
Chief Financial Officer

MEMORANDUM

TO: **The Honorable Phil Mendelson**
Chairman, Council of the District of Columbia

FROM: **Glen Lee**
Chief Financial Officer

DATE: **June 24, 2026**

SUBJECT: **Fiscal Impact Statement – Combined Reporting Amendment Act of 2026**

REFERENCE: **Draft Bill as provided to the Office of Revenue Analysis on June 23, 2026**

Conclusion

Funds are sufficient in the proposed revised fiscal year 2026 budget and proposed fiscal year 2027 through fiscal year 2030 budget and financial plan to implement the bill. The bill would codify additional provisions that are needed to implement the Combined Reporting Amendment Act of 2024.[1] The projected revenue from the bill has already been incorporated into the District's revenue estimates.

Background

The District requires combined reporting[2] for taxpayers engaged in a "unitary businesses"[3] with activity inside and outside of the District of Columbia. Combined reporting requires various entities

[1] Subtitle VII-A of the Fiscal Year 2025 Budget Support Act of 2024, Law 25-217, effective September 18, 2024.
[2] D.C. Official Code § 47–1805.02a.
[3] Per D.C. Official Code § 47-1801.04(55), "unitary business" means a single economic enterprise that is made up either of separate parts of a single business entity or of a commonly controlled group of business entities that are sufficiently interdependent, integrated, and interrelated through their activities so as to provide synergy and mutual benefit that produces a sharing or exchange of value among them and a significant flow of value to the separate parts.

in a "combined group"[4] to report their combined income for tax purposes, along with allocation and apportionment factors. Requirements for a combined group include that entities are engaged as a unitary business. Apportionment factors, as set forth in law and regulations, provide how the combined report allocates income derived from sources within and outside the District.

"Joyce" and "Finnigan" are two approaches to apportioning combined group income among jurisdictions for tax purposes.[5] The District adopted the "Joyce" method when it implemented combined reporting. The "Joyce" method requires the District to establish taxing jurisdiction separately over every member of a corporate group selling in the District. The "Finnigan" method of combined reporting treats the entire unitary business as a single taxpayer. The Combined Reporting Amendment Act of 2024 required[6] combined filers to switch to using the "Finnigan" method starting in tax year 2026[7]. A unitary business will be treated as one taxpayer for purposes of sourcing unitary receipts, and the apportionment factor attributes in the numerator will be derived from all the members of the combined group, regardless of whether a member has nexus[8] with the District of Columbia. The bill provides the amendments to, and repeals of, provisions of law necessary to implement the Finnigan method of apportionment as follows:

The bill updates the definition of a "combined group" and adds a definition for a "combined return." The bill updates the definition of "unitary business" to allow for a group of two or more persons related by common ownership to be a unitary business, removing a current law reference to a requirement to be "a single economic enterprise that is made up either of separate parts of a single business entity or of a commonly controlled group of business entities." The bill makes other conforming amendments to definitions.

The bill repeals the current combined reporting requirements and determination of business income of a combined group and creates new ones to begin in tax year 2026.[9] Under the bill, the combined group calculates its District net taxable income by determining the separate income or loss before net operating loss deduction of each member of the group and then by combining members' income or loss while eliminating items of income, expense, and gain and loss from transactions between members of the combined group.[10] The bill then outlines what the combined group shall eliminate from its District net taxable income to calculate the combined group ordinary apportionable net income or loss. The combined group must apply an apportionment factor to its apportionable net income or loss as outlined in the bill, including the application of the apportionment factors in D.C.

[4] Per D.C. Official Code § 47-1801.04(7), "combined group" means the group of all persons whose income and apportionment factors are required to be taken into account pursuant to § 47-1805.02a(a) and (b) and the pertinent regulations in determining the taxpayer's share of the net business income or loss apportionable to the District.
[5] "Joyce" and "Finnigan" refer to two court cases in California that ruled on apportionment methods for combined reporting.
[6] D.C. Official Code § 47–1805.02b.
[7] Specifically, for tax years beginning after December 31, 2025.
[8] The bill defines "nexus" to mean "the physical, economic, electronic, or virtual presence or connection between a taxpayer and the District of Columbia, whether the presence or connection is direct or indirect."
[9] Specifically, tax years beginning after December 31, 2025.
[10] Including applying the consolidated filing rules under Internal Revenue Code and IRS regulations as if the combined group was a consolidated filing group.

Official Code § 47–1810.02[11] and allocation of nonapportionable income. The bill outlines how the combined group's net capital gain or loss is determined and lays out allowable amounts of net operating losses that may be carried over by the combined group.

The bill makes conforming edits to the requirements for a "water's edge" election[12]. Previously a taxpayer had to make an election to file under the worldwide reporting category. Under the bill, the default reporting position is worldwide, but taxpayers may elect to file "water's edge" reporting.

Financial Plan Impact

Funds are sufficient in the proposed revised fiscal year 2026 budget and proposed fiscal year 2027 through fiscal year 2030 budget and financial plan to implement the bill. The bill would codify additional provisions that are needed to implement the Combined Reporting Amendment Act of 2024.[13] The projected revenue from the bill has already been incorporated into the District's revenue estimates as follows:

Combined Reporting Amendment Act of 2026 Revenue Included in the District's Revenue Estimates ($ thousands)						
	FY 2026	**FY 2027**	**FY 2028**	**FY 2029**	**FY 2030**	**Total**
Increase in corporate tax collections	$0	$0	$23,100	$15,800	$15,800	$54,700

[11] Beginning with tax year 2015, all business income is apportioned by the sales factor. The sales factor is a fraction, the numerator of which is the total sales of the taxpayer in the District during the tax period, and the denominator of which is the total sales of the taxpayer everywhere during the tax period.
[12] By repealing D.C. Official Code § 47-1810.07 and creating a new section, D.C. Official Code § 47-1810.07A (Water's-edge election; initiation and withdrawal).
[13] Subtitle VII-A of the Fiscal Year 2025 Budget Support Act of 2024, Law 25-217, effective September 18, 2024.