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6 KEY TAKEAWAYS

State and Local Tax: Unitary Business Principle

Kilpatrick's Jordan Goodman spoke at the IPT State Income Tax School held at Georgia Tech on July 28, 2026. In one of his three classes, he discussed various aspects - including cases, statutory definitions, limits and more - concerning the Unitary Business Principle.

Key takeaways from Jordan's presentation include:

1. The core point is that the unitary business principle limits how far a state can tax because a state may not tax value earned outside its borders, and the doctrine is grounded in the Due Process and Commerce Clauses.

2. The unitary business principle is the key concept behind apportionability, especially in distinguishing separate-company states, where nonunitary income is excluded, from combined-reporting states, where income of unitary group members is included in the tax base.

3. A unitary business is identified by practical indicators such as centralized management, functional integration, economies of scale, and flow of value. The Supreme Court also distinguished the importance of distinguishing investment income from operational income.

4. The unitary business principle developed over an extensive line of cases, beginning with early railroad, telegraph, sleeping car, and express-company cases and continuing through major Supreme Court decisions like Butler Bros., Mobil Oil, Exxon, ASARCO, FW Woolworth, Container Corp., Allied-Signal, and MeadWestvaco.

5. Even in separate-company states, the unitary/nonunitary distinction matters because taxpayers may use nonunitary claims to exclude certain income from tax.

6. In combined-reporting states, the details vary significantly by jurisdiction, including different statutory definitions of a unitary business, different approaches to nexus and group composition, and different positions on whether combined returns are required, allowed, or not permitted.

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