



OFFICE OF THE STATE AUDITOR

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**TESTIMONY OF AUDITOR SUZANNE M. BUMP
BEFORE THE JOINT COMMITTEE ON REVENUE RELATIVE TO
ECONOMIC DEVELOPMENT TAX EXPENDITURES**

APRIL 7, 2011

Good morning, Chairmen Kaufman and Candaras, members of the Joint Committee. Thank you for the opportunity to testify today. I am here to support the goals of several bills that are before you today, but also to provide you with some information that I think will be helpful to you and others as you evaluate business-related tax expenditures and whether they comprise a tax code which is fair and accomplishes its intended goals.

As part of a multi-phase review of tax expenditures, I have provided you today with a document which details the accountability and transparency provisions of our business-related tax expenditures. A review of the document makes clear that our tax code lacks basic accountability and transparency.

Every year, government spending programs are subject to review and appropriation, and then they are subject to audit by the State Auditor's Office. Once a tax break gets passed, however, it goes into a black box and seldom, if ever, does

anyone look back and determine whether it is working as intended or whether there is continued public benefit.

Taxpayers shouldn't stand for this. There must be as much accountability and transparency in tax expenditures as in budget expenditures.

Among the findings in the review:

- Only eight business tax expenditures of the 91 reviewed include a sunset clause, which causes the tax provision to end after a specific period, and provides the Legislature the opportunity to evaluate its effectiveness and determine whether it should continue.
- The 83 business expenditures reviewed without any sunset clause have a value of \$2.1 billion. Since industries, the Commonwealth's economic development goals, and public finances change over time, a periodic review of the effectiveness of each tax expenditure would ensure that a past legislative intent reflects a current one.
- Only ten of the 91 reviewed tax expenditures have "clawback" provisions which allow the state to recoup tax benefits for unmet obligations.
- The 81 expenditures reviewed without a "clawback" provision have a value of \$2.1 billion.
- Only 19 of the 91 reviewed tax expenditures require the recipient to report to some state entity on various aspects of the expenditure.
- Only 19 of the 91 reviewed tax expenditures have public disclosure requirements.
- Only 17 of the 91 business tax expenditures reviewed have any special, identifiable oversight procedures.

As states around the country face budget shortfalls, tax credits are receiving increased scrutiny. The total Tax Expenditure Budget in Massachusetts has grown at nearly double the rate of the state budget over the past five years. Between FY08 and FY12 the tax expenditure budget has increased by \$ 5.1 Billion. By way of comparison the estimated budget shortfall for FY12 is just over \$2 Billion, or less than half of the increase in tax expenditures.

The next phase of the work of the State Auditor's Office is to conduct audits of those programs that have accountability measures to determine the effectiveness of the tax expenditures programs in verifying eligibility for the favorable tax treatment and in accomplishing the intended results.

Several bills before you today would enhance the transparency and accountability of tax expenditures, including SB 153, filed by Senator Eldridge and HB 2565 filed by Representative Sciortino both of which would improve reporting (through unified data collection), transparency and accountability by including "clawback" provisions and other remedies. HB 2540, filed by Chairman Kaufman, requiring uniform data collection would be useful in evaluating the effectiveness of these expenditures.

Various states including Washington, South Carolina, California and New Jersey have recently empowered special committees to review and consolidate tax policy. This may be a useful approach for Massachusetts as well.

I applaud the work that has already been done by the Chairmen and members of this committee and I look forward to working with you to bring greater transparency and accountability to our system of economic development tax expenditures.