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| PROPOSED MASSACHUSETTS TAX EXPENDITURES  EVALUATION SUMMARY |
| EVALUATION YEAR: 2020 |

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| **TAX EXPENDITURE TITLE** | Capital Gains Deduction for Collectibles |
| **TAX EXPENDITURE NUMBER** | 1.201 |
| **TAX EXPENDITURE CATEGORY** | Deduction from gross income |
| **TAX TYPE** | Personal income tax |
| **LEGAL REFERENCE** | c. 62, § 2(c)(3) |
| **YEAR ENACTED** | Prior to 1986 |
| **REPEAL/EXPIRATION DATE** | None |
| **ANNUAL REVENUE IMPACT** | Tax loss $2 million for TY2018 |
| **NUMBER OF TAXPAYERS** | 499 filers claimed this deduction for TY2018 |
| **AVERAGE TAXPAYER BENEFIT** | Average of $4,048 tax savings per claimant |

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| **Description of the Tax Expenditure:**  The expenditure provides a 50% deduction for long-term capital gains on the sale or exchange of collectibles. | **Is the purpose defined in the statute?**  The statute does not explicitly state the purpose of this tax expenditure. |
| **What are the policy goals of the expenditure?**  DOR surmises that the expenditure is intended to impose an effective rate on collectibles similar to the rate imposed on long-term gain on personal use property. | **Are there other states with a similar Tax Expenditure?**  Based on research to date DOR has not identified any other state with a similar expenditure. |

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| Incentive Evaluation Results |

**INTRODUCTION**

In general, short-term capital gains are taxed at 12% in Massachusetts, and long-term capital gains are taxed at the Part B rate, which is currently 5%. In contrast, gain on the sale or exchange of collectibles is generally taxed at the 12% rate, but a 50% deduction is available for collectables held for more than one year. The statute adopts the definition of “collectibles” in section 408(m) of the Code, and includes items such as works of art, antiques, coins and stamps. Long-term capital gains realized from the sale of collectibles (i.e., gain on the sale of collectibles held formore thanone year) is eligible for a 50% deduction. Accordingly, the effective rate of tax on long-term gains from the sale or exchange of a collectible held for more than one year is 6%.

**POLICY GOALS OF THE TAX EXPENDITURE**

DOR surmises that the goal of the expenditure is to tax long-term gain collectibles at an effective rate similar to the tax rate imposed on long-term gain on other personal use property, such as residences.

**COSTS**

The actual revenue losses from this deduction for FY18 and FY19 were projected through FY22 and are presented in the table below.

**Tax loss resulting from**

**50% deduction for capital gain on collectibles held for more than one year**

($millions)



**BENEFITS**

The tax savings of this deduction accrue to the highest-level income earners. 88% of the total deduction amount is claimed by filers reporting over $1 million in *annual* income.

**Collectibles Deduction by Income Bracket**

*Source: Massachusetts Department of Revenue Statistics of Income*



**EVALUATION: COMPARING COSTS AND BENEFITS**

The cost of this deduction is the approximately $2 million in annual foregone revenue to Massachusetts. Research on this topic confirms our conclusion that the primary beneficiaries are “ultra-high-net-worth individuals”[[1]](#footnote-1) who hold certain types of collectibles. The assets in this collectibles category include classic European and American cars, fine wines, rare coins, paintings, sculptures, etc.

Given the ultra-high income of filers who benefit from this deduction, it is likely that any tax savings is not consumed but instead put into additional collectibles or financial assets. Accordingly, this expenditure may have a positive effect on the economy. However, collectibles, by their nature, are not productive assets. Therefore, to the extent this deduction encourages purchase of collectibles, it reduces the amount of capital available for productive investment.

**Similar Tax Expenditures Offered by Other States**

Based on research to date DOR has not identified any other state with a similar expenditure.

**IS THE INCENTIVE AS DESIGNED ACCOMPLISHING ITS PURPOSE?**

The purpose of this tax expenditure is not specified in the statute. DOR has surmised that the goal of this expenditure is to tax long-term gains on collectibles at a rate similar to long-term gains on personal use property, such as residences. However, a more precise way to accomplish that goal would be to simply amend the statute to tax these gains as other long-term capital gains are taxed.

To be completed further by TERC

Conclusion/Recommendations: [To be Entered by TERC]

1. See: Jean-Philippe Weisskopf, “When Rationality meets Passion: On the Financial Performance of Collectibles” *Journal of Alternative Investments*, Vol 21, No 2; Fall 2018. Summarized here:

   <https://academicinsightsoninvesting.com/research-on-the-financial-performance-of-collectibles/> [↑](#footnote-ref-1)