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

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| **TAX EXPENDITURE TITLE** | Exemption for Property Subject to Local Taxation |
| **TAX EXPENDITURE NUMBER** | 2.502 |
| **TAX EXPENDITURE CATEGORY** | Exemption for property subject to local taxation *(corporate and business tax)* |
| **TAX TYPE** | Corporate excise tax |
| **LEGAL REFERENCE** | M.G.L. c. 63, § 30.7; c. 63, § 30.8; c. 63 § 39(a)(1) |
| **YEAR ENACTED** | 1962 |
| **REPEAL/EXPIRATION DATE** | None |
| **ANNUAL REVENUE IMPACT** | Tax loss of $245.5 - $301.6 million annually during FY18-FY22 |
| **NUMBER OF TAXPAYERS** | 57,408 – 59,597 tax filers per year during the tax years 2015 through 2018 |
| **AVERAGE TAXPAYER BENEFIT** | About $4,400 per claimant (2018) |

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| **Description of the Tax Expenditure:**  In computing the state corporate excise on tangible property, property subject to tax at the local level, including real property and most tangible personal property, is exempt. Generally, the state taxes only the machinery of manufacturing corporations. The state's rate on property (non-income measure) is $2.60 per $1,000. | **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 assumes that the intent is to avoid property being taxed at both the local and state level. | **Are there other states with a similar Tax Expenditure?**  According to the [Tax Foundation](https://taxfoundation.org/state-capital-stock-tax-2020/#:~:text=Connecticut%20will%20phase%20out%20its,more%20neutral%20forms%20of%20taxation.)[[1]](#footnote-1), as of 2020 there are sixteen states with some type of capital stock or net worth tax. NY and CT are phasing the entire tax out; and RI repealed it starting in 2014. However, it is not clear whether these states have a similar exemption related to property subject to tax at the local level. |

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| Conclusion/Recommendations: [To be Entered by TERC] |

**INTRODUCTION**

Under M.G.L. c. 63, § 39, all business corporations organized or doing business in Massachusetts are required to pay the corporate excise “for the enjoyment under the protection of the laws of the commonwealth, of the powers, rights, privileges and immunities derived by reason of its existence and operation.” The corporate excise is comprised of a net income measure and a non-income measure based on the value of a corporation’s property or net worth, depending upon the type of corporation. In calculating the non-income measure, a taxpayer may exclude property subject to local taxation from the value of the business corporation. M.G.L. c. 59, § 5, paragraph sixteen, identifies what property of a business corporation is exempt from local taxation. Generally, the state taxes only the machinery of manufacturing corporations, but it exempts business real estate and tangible personal property. For purposes of estimating revenue loss from this tax expenditure, the state's rate on property (non-income measure), $2.60 per $1,000, has been applied. The incentive to exempt property subject to local taxation from the value of the property/net worth measure was enacted in 1962.

Note that corporations are subject to the non-income measure of corporate excise based on different computations depending on whether the corporations are classified as tangible property corporations or intangible property corporations. The determination of whether a corporation is a tangible property corporation or an intangible property corporation is generally made by taking the ratio at book value of: (i) tangible assets located in Massachusetts on the last day of the taxable year and not subject to local taxation to (ii) total assets on the last day of the taxable year (less assets locally taxed and less investments in subsidiary corporations which represent 80% or more of the voting stock of those corporations) multiplied by the income apportionment percentage. If the ratio of (i) to (ii) is 10% or more, the corporation is a "tangible property corporation", if the ratio is less than 10%, the corporation is an "intangible property corporation."

For tangible property corporations, the non-income measure of the excise is imposed at a rate of 0.26% on the book value of tangible property located in Massachusetts on the last day of the taxable year and that is not subject to local taxation. For intangible property corporations, the non-income measure of the excise is imposed at a rate of 0.26% on the book value of a corporation’s total assets on the last day of the taxable year, less the sum of (i) its liabilities on said date, (ii) the book value of its tangible property situated in Massachusetts on said date and subject to local taxation, and (iii) the book value on said date of its investment in subsidiary corporations which represent 80% or more of the voting stock of said corporations, multiplied by the intangible property corporation's income apportionment percentage.

**POLICY GOALS**

The statute does not explicitly state the purpose of this tax expenditure. However, the exemption avoids taxation of property at both the local and state level.

**DIRECT COSTS**

The revenue loss resulting from this tax expenditure is estimated to be $245.5 - $301.6 million annually during FY18-FY22. See Table 1. The estimates are based on several factors, including historical claims, economic forecasts, and related law changes.

**Table 1. Tax Revenue Loss Estimates for Exemption of Tangible Property**

**Subject to Local Taxation**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Fiscal Year | 2018 | 2019 | 2020 | 2021 | 2022 |
| Estimated Revenue Loss ($Million) | $245.5 | $260.5 | $273.5 | $287.2 | $301.6 |

As shown in Table 2, there were 57,408 – 59,597 tax filers per year who reported tangible property subject to local taxation during the tax years 2015 through 2018. The average amount of such property ranged from about $2.1 million in 2015 to about $2.6 million in 2018.

**Table 2. Tangible Property Subject to Local Taxation**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | 2015 | | 2016 | | 2017 | | 2018 | |
| Amount  ($000) | Count | Amount  ($000) | Count | Amount  ($000) | Count | Amount  ($000) | Count |
| Tangible property subject to local taxation | $125,772,342 | 58,739 | $131,980,417 | 59,597 | $141,463,727 | 59,520 | $148,034,837 | 57,408 |
| Average Amount | $2,141 | NA | $2,215 | NA | $2,377 | NA | $2,579 | NA |

Source: Massachusetts Department of Revenue.

Note: 2017 and 2018 data are preliminary and subject to change.

**DIRECT BENEFITS**

The incentive reduces the capital costs of doing business by excluding assets such as land, vehicles, and machinery from the calculation of the non-income measure. The reduction in capital costs due to the incentive helps businesses survive and grow. It also may help them retain and create jobs.

Direct beneficiaries of the tax incentive are corporations that have tangible property subject to local taxation in Massachusetts. In 2018, as shown in Tables 3-5, there were about 57,408 corporations whose tangible property, totaling $148 million, was subject to local taxation. Their total tax liabilities[[2]](#footnote-2) were 80.3% of the amount that would have been due absent the exclusion (or in other words, this exclusion resulted in a total tax savings of 19.7%). The ratio of tax liability with the exclusion to liability without the exclusion varied from 26.7% for corporations with negative taxable income to 91.9% for corporations with $10 million or higher taxable income, from 60.7% for corporations with fewer than 5 employees to 92.0% for corporations with 100-199 employees, and from 36.5% for corporations in the industry of “Utilities” to 98.0% for corporations in the “Finance and Insurance” industry.

Tables 3-5 also show that, among the impacted corporations, about 83.5% had taxable income less than $10,000 each, with a total of 56.9% of the excluded property being held by that group. 45.3% of them had fewer than 5 employees each, representing 53.6% of the total excluded property. 49.5% of the property was held by businesses in the “Real Estate and Rental and Leasing” industry, representing 12.1% of the impacted corporations.

The average tax saving per impacted corporation was $4,428, varying from $1,308 for corporations with taxable income between $0 and $9,999 to $228,987 for corporations with $10 million or higher taxable income, from $684 for corporations with 5-49 employees to $102,239 for corporations with 500 or more employees, and from $337 for corporations in the industry of “Other Services (except Public Administration)” to $66,881 for corporations in the “Utilities” industry.

**Table 3. Tangible Property Taxed Locally, Tax Liability, Impacted Corporations by Taxable Income Level**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Taxable Income Range | Tax Liability Under the Current Law ($000) - A | Tax Liability without the Exemption ($000) - B | *A/B (%)* | Tangible Property Taxed Locally ($000) | *Percentage of Total Tangible Property Taxed Locally* | Number of Impacted Corporations | *Percentage of Total Number of Impacted Corporations* | Tax Saving Per Impacted Corporation ($) |
| Less than $0 | $34,364 | $128,830 | *26.7%* | $52,694,033 | *35.6%* | 6,400 | *11.1%* | $14,760 |
| 0 to $9,999 | $43,034 | $97,377 | *44.2%* | $31,565,349 | *21.3%* | 41,545 | *72.4%* | $1,308 |
| $10,000 to $99,999 | $15,156 | $26,298 | *57.6%* | $5,243,170 | *3.5%* | 3,704 | *6.5%* | $3,008 |
| $100,000 to $999,999 | $77,987 | $91,816 | *84.9%* | $8,518,222 | *5.8%* | 3,561 | *6.2%* | $3,883 |
| $1,000,000 to $9,999,99 | $239,544 | $263,326 | *91.0%* | $23,755,709 | *16.0%* | 1,670 | *2.9%* | $14,241 |
| $10,000,000 or higher | $619,746 | $674,474 | *91.9%* | $25,116,128 | *17.0%* | 239 | *0.4%* | $228,987 |
| Unmatched\* | N.A. | $1,941 | *N.A.* | $1,142,226 | *0.8%* | 289 | *0.5%* | N.A. |
| Total or average | $1,029,831 | $1,284,062 | *80.3%* | $148,034,837 | *100.0%* | 57,408 | *100.0%* | $4,428 |

Source: Department of Revenue (2018 corporate excise returns)

Notes: 1. \*Unmatched means that we could not find some taxpayers in one or more of data sets to match.

2. The data are preliminary and subject to change.

**Table 4. Tangible Property Taxed Locally, Tax Liability, Impacted Corporations by Number of Employees**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Employees Range\* | Tax Liability Under the Current Law ($000) - A | Tax Liability without the Exemption ($000) - B | *A/B (%)* | Tangible Property Taxed Locally ($000) | *Percentage of Total Tangible Property Taxed Locally* | Number of Impacted Corporations | *Percentage of Total Number of Impacted Corporations* | Tax Saving Per Impacted Corporation ($) |
| Less than 5 | $193,141 | $318,211 | *60.7%* | $79,403,345 | *53.6%* | 26,005 | *45.3%* | $4,809 |
| 5 to 49 | $139,639 | $156,773 | *89.1%* | $9,523,745 | *6.4%* | 25,039 | *43.6%* | $684 |
| 50 to 99 | $57,551 | $63,871 | *90.1%* | $4,355,133 | *2.9%* | 2,957 | *5.2%* | $2,137 |
| 100 to 199 | $72,991 | $79,375 | *92.0%* | $3,394,873 | *2.3%* | 1,440 | *2.5%* | $4,433 |
| 200 to 499 | $95,315 | $110,496 | *86.3%* | $11,539,403 | *7.8%* | 874 | *1.5%* | $17,370 |
| 500 or more | $471,195 | $553,395 | *85.1%* | $38,676,112 | *26.1%* | 804 | *1.4%* | $102,239 |
| Unmatched\*\* | N.A. | $1,941 | *N.A.* | $1,142,226 | *0.8%* | 289 | *0.5%* | N.A. |
| Total or average | $1,029,831 | $1,284,062 | *80.3%* | $148,034,837 | *100.0%* | 57,408 | *100.0%* | $4,428 |

Source: Department of Revenue (2018 corporate excise returns)

Notes: 1. \*Information is based on number of employees as reported by taxpayers.

2. \*\*Unmatched means that we could not find some taxpayers in one or more of data sets to match.

3. The data are preliminary and subject to change.

**Table 5. Tangible Property Taxed Locally, Tax Liability, Impacted Corporations by Industry**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Industry | Tax Liability Under the Current Law ($000) -A | Tax Liability without the Exemption ($000) -B | *A/B (%)* | Tangible Property Taxed Locally ($000) | *Percentage of Total Tangible Property Taxed Locally* | Number of Impacted Corporations | Percentage of Total Number of Impacted Corporations | Tax Saving Per Impacted Corporation ($) |
| 11 Agriculture, Forestry, Fishing and Hunting | $2,986 | $3,708 | *80.5%* | $467,796 | *0.3%* | 662 | *1.2%* | $1,090 |
| 21 Mining, Quarrying, and Oil and Gas Extract | $677 | $903 | *75.0%* | $88,614 | *0.1%* | 59 | *0.1%* | $3,828 |
| 22 Utilities | $4,233 | $11,590 | *36.5%* | $2,920,307 | *2.0%* | 110 | *0.2%* | $66,881 |
| 23 Construction | $56,176 | $60,914 | *92.2%* | $2,003,613 | *1.4%* | 10,333 | *18.0%* | $459 |
| 31-33 Manufacturing | $109,870 | $130,141 | *84.4%* | $8,755,022 | *5.9%* | 3,789 | *6.6%* | $5,350 |
| 42 Wholesale Trade | $100,192 | $103,134 | *97.1%* | $1,952,749 | *1.3%* | 2,518 | *4.4%* | $1,168 |
| 44-45 Retail Trade | $161,572 | $176,512 | *91.5%* | $6,342,821 | *4.3%* | 6,416 | *11.2%* | $2,329 |
| 48-49 Transportation and Warehousing | $32,694 | $36,535 | *89.5%* | $3,055,223 | *2.1%* | 2,283 | *4.0%* | $1,683 |
| 51 Information | $45,952 | $48,526 | *94.7%* | $2,047,231 | *1.4%* | 633 | *1.1%* | $4,067 |
| 52 Finance and Insurance | $79,246 | $80,854 | *98.0%* | $5,567,042 | *3.8%* | 1,227 | *2.1%* | $1,310 |
| 53 Real Estate and Rental and Leasing | $62,018 | $167,631 | *37.0%* | $73,291,774 | *49.5%* | 6,945 | *12.1%* | $15,207 |
| 54 Professional, Scientific, and Technical Services | $57,173 | $65,909 | *86.7%* | $4,681,280 | *3.2%* | 5,953 | *10.4%* | $1,467 |
| 55 Management of Companies and Enterprises | $44,048 | $46,850 | *94.0%* | $3,056,405 | *2.1%* | 200 | *0.3%* | $14,009 |
| 56 Administrative and Support and Waste Management | $14,494 | $16,003 | *90.6%* | $875,639 | *0.6%* | 2,442 | *4.3%* | $618 |
| 61 Educational Services | $1,071 | $1,202 | *89.1%* | $55,857 | *0.0%* | 326 | *0.6%* | $403 |
| 62 Health Care and Social Assistance | $13,410 | $14,918 | *89.9%* | $863,750 | *0.6%* | 3,065 | *5.3%* | $492 |
| 71 Arts, Entertainment, and Recreation | $5,579 | $6,679 | *83.5%* | $479,821 | *0.3%* | 924 | *1.6%* | $1,191 |
| 72 Accommodation and Food Services | $17,881 | $27,008 | *66.2%* | $4,510,690 | *3.0%* | 4,574 | *8.0%* | $1,995 |
| 81 Other Services (except Public Administration) | $8,617 | $10,013 | *86.1%* | $560,395 | *0.4%* | 4,135 | *7.2%* | $337 |
| Others or unmatched\* | $211,942 | $275,034 | *77.1%* | $26,458,810 | *17.9%* | 814 | *1.4%* | $77,509 |
| Total or average | $1,029,831 | $1,284,062 | *80.3%* | $148,034,837 | *100.0%* | 57,408 | *100.0%* | $4,428 |

Source: Department of Revenue (2018 corporate excise returns)

Notes: 1. \*Unmatched means that we could not find some taxpayers in one or more of data sets to match.

2. The data are preliminary and subject to change.

**EVALUATION: COMPARING COSTS AND BENEFITS**

In the previous sections, we reported the direct costs (to the Commonwealth, or to the residents and businesses that ultimately bear the costs when the Commonwealth cuts government spending or increases tax to finance the exemption for tangible property subject to local taxation) and the direct benefits (to taxpayers who claim the benefits) of this tax expenditure. Since the direct costs to the Commonwealth are the direct benefits to taxpayers, they are equal.

When looking at the broader economy, there are also indirect and induced impacts on other residents and businesses in Massachusetts. See the appendix for more discussion.

To determine the net impact of the tax expenditure, i.e., the total benefits (including direct, indirect and induced benefits) offset by the total costs (including direct, indirect and induced costs), we employed the model of “Tax-PI” developed by Regional Economic Models Incorporated (“REMI”).[[3]](#footnote-3) See the appendix for details.

The estimated net impact of the tax expenditure for fiscal years 2018 through 2022 are shown in Tables 6 and 7. As shown, the exemption for tangible property subject to local taxation combined with a cut in state government spending results in less economic activities, with real state GDP decreasing by $187 million - $318 million. The net impact on total employment is negative, decreasing by 2,911 – 3,976 jobs annually. The net additional impact on state revenues[[4]](#footnote-4) is also negative, decreasing by $6.4 million - $12.7 million annually.

Because the tax expenditure has its own specific purpose, the net negative impacts do not necessarily imply that the tax expenditure is not desirable. The statute does not explicitly state the purpose of this tax expenditure; however, the exemption avoids taxation of property at both the local and state level.

**Table 6. Net Additional Revenue Impact of Exemption for Tangible Property Subject to Local Taxation\***

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Fiscal Year | 2018 | 2019 | 2020 | 2021 | 2022 |
| Net additional revenue impact ($000) | -$6,388 | -$12,748 | -$12,227 | -$11,965 | -$11,785 |

\* assuming state government spending is cut by the same amount as the revenue loss due to the exemption for tangible property subject to local taxation to balance budget.

**Table 7. Net Economic Impacts of Exemption for Tangible Property Subject to Local Taxation by Selected Economic Measure\***

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Calendar Year | 2018 | 2019 | 2020 | 2021 | 2022 |
| Impact on total employment | -3,976 | -3,482 | -3,246 | -3,018 | -2,911 |
| Impact on private non-farm employment | -1,065 | -479 | -192 | 41 | 165 |
| Impact on GDP ($000), real dollars (2012) | -$318,000 | -$264,000 | -$233,000 | -$205,000 | -$187,000 |
| Impact on personal income ($000) | -$294,000 | -$288,000 | -$291,000 | -$289,000 | -$295,000 |

\* assuming state government spending is cut by the same amount as the revenue loss due to the exemption for tangible property subject to local taxation to balance budget.

**Similar Tax Expenditures Offered by Other States**

According to an article by the Tax Foundation (Cammenga, 2020), as of 2020 there were sixteen states with some type of capital stock or net worth tax. NY and CT are phasing the entire tax out; and RI repealed it starting in 2014. However, it is not clear whether any of the states with such a tax have a similar exemption for property subject to tax at the local level.

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

[FOR TERC TO COMPLETE]

# References

Felix, R. A. (2009, Second Quarter). *Do State Corporate Income Taxes Reduce Wages?,* Economic Review, FEDERAL RESERVE BANK OF KANSAS CITY.

Cammenga, J. (2020, April 29). *Does Your State Levy a Capital Stock Tax?* Retrieved from Tax Foundation: https://taxfoundation.org/state-capital-stock-tax-2020/

Keith R. Ihlanfeldt, David L. Sjoquist. (2001, August). Conducting an Analysis of Georgia’s Economic Development Tax Incentive Program. *ECONOMIC DEVELOPMENT QUARTERLY, 15*(3), 217-228.

*MODELS: TAX-PI*. (n.d.). Retrieved from Regional Economic Models, Inc.: https://www.remi.com/model/tax-pi/

**Appendix: Further Discussion on Costs and Benefits**

The text of the report discusses the direct costs (to the Commonwealth, or more specifically, to the Massachusetts residents or businesses who benefit from state expenditures[[5]](#footnote-5)) and direct benefits (to taxpayers who claim the benefits) of this tax expenditure. It also summarizes indirect and induced costs and benefits associated with this tax expenditure. This appendix will discuss the indirect and induced, as well as other costs and benefits in more detail.

**Other costs and benefits: Indirect and Induced**

*Indirect and Induced Costs*

Regardless of its size, the existence of a specific tax incentive means less revenue for other spending given the Commonwealth’s balanced budget requirement, assuming no increase in state revenues. Reduced spending on other expenditure items means forgone benefits from those items. This is an **“opportunity cost**” to the Commonwealth. The opportunity cost to the state includes not only the impact on the businesses and their employees that directly benefit from those expenditure items (this is called “direct impact”), but also the indirect impact on the chain of businesses that provide intermediate products and services to the directly impacted businesses (this is called “indirect impact”). In addition, there is a cost related to the chain of businesses that benefit when the employees working for the directly impacted businesses spend their wages and salaries to buy goods and services (this is called “induced impact”). The total forgone benefits to the whole economy are larger than the initial forgone benefits. This phenomenon is called the “multiplier effect”.[[6]](#footnote-6)

To estimate the total forgone benefits of the reduced spending, we employed Tax-PI, an economic analysis tool for evaluating the total fiscal and economic effects of tax policy changes. Tax-PI is built on over 30 years of experience in modeling the economic effects of tax policy changes, according to MODELS: TAX-PI in the reference. The popularity of the model has grown substantially since it was introduced. Note that while the tax incentive has a specific purpose, the reduced spending that results from the expenditure is assumed to be proportionally distributed across the Commonwealth’s current expenditures.

*Quantifying total costs (direct, indirect and induced)*

The period of study is limited to the five years from 2018 through 2022, for which we prepared input data to run the model. Tables A1 and A2 report the model results. The figures for 2018 and 2019 are estimates of forgone benefits (opportunity costs) that the Massachusetts economy experienced due to having the expenditure, and those for 2020, 2021 and 2022 are projections of forgone benefits that the Massachusetts economy will experience going forward. The effects are displayed as negative numbers since reduced spending has a negative impact on the state economy.

Tables A1 and A2 show that the reduction in state government spending results in lost economic activities, with real state GDP declining by $581 million - $665 million and total employment declining by 6,719 – 7,526 jobs annually. Lost economic activities result in further loss of state revenues, ranging from $12.4 million to $36.9 million annually. Note that the revenue impact reported in Table A1 does not include the estimated direct impact of the tax expenditure from Table 1, but only the additional indirect/induced impact.

**Table A1. Additional Revenue Impact due to Decreased Government Spending\***

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Fiscal Year | 2018 | 2019 | 2020 | 2021 | 2022 |
| Additional revenue impact ($000) | -$12,379 | -$27,480 | -$31,632 | -$34,914 | -$36,874 |

\* This table reports the lost revenues from the foregone economic activities as the state reduced government spending to finance the exemption for tangible property subject to local taxation.

**Table A2. Economic Impacts due to Decreased Government Spending by Selected Economic Measure\***

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Calendar Year | 2018 | 2019 | 2020 | 2021 | 2022 |
| Impact on total employment | -6,719 | -7,100 | -7,526 | -7,455 | -7,302 |
| Impact on private non-farm employment | -3,705 | -3,914 | -4,164 | -4,063 | -3,891 |
| Impact on GDP ($000), real dollars (2012) | -$581,000 | -$619,000 | -$662,000 | -$665,000 | -$660,000 |
| Impact on personal income ($000) | -$484,000 | -$567,000 | -$650,000 | -$694,000 | -$727,000 |

\*This table reports the lost economic activities as the state reduced government spending to finance the exemption for tangible property subject to local taxation.

*Indirect and Induced Benefits*

The cost savings due to the exemption encourages the directly affected businesses to invest, expand, hire additional workers, etc. Such decisions would increase demand for goods and services provided by other individuals and businesses in the economy, or put another way, generate a “Multiplier Effect” (see discussion in the previous section) from the initial or direct benefits as reported in the text. As a result, the total benefits of the exemption would be larger than the initial or direct benefits.

*Quantifying total benefits (direct, indirect and induced)*

To quantify the total benefits, including indirect/induced benefits, we again employed Tax-PI. A summary of the revenue impact of the exemption is reported in Table A3, and the economic benefit from the exemption is reflected in Table A4 below. The figures for 2018 and 2019 are estimates of benefits that the Massachusetts economy experienced and those for 2020, 2021 and 2022 are projections of the benefits that the Massachusetts economy will experience going forward.

Tables A3 and A4 show that, the exemption for tangible property subject to local taxation results in more economic activities, with real state GDP increasing by $263 million - $473 million and total employment increasing by 2,743 – 4,437 jobs annually. More economic activities result in more state revenues, ranging from $6.0 million to $25.1 million annually, which partially offsets the cost of this tax incentive.

**Table A3. Additional Revenue Impact of Exemption for Tangible Property Subject to Local Taxation**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Fiscal Year | 2018 | 2019 | 2020 | 2021 | 2022 |
| Additional revenue impact ($000) | $5,991 | $14,732 | $19,405 | $22,949 | $25,089 |

**Table A4. Economic Impacts of Exemption for Tangible Property Subject to Local Taxation by Selected Economic Measure**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Calendar Year | 2018 | 2019 | 2020 | 2021 | 2022 |
| Impact on total employment | 2,743 | 3,618 | 4,280 | 4,437 | 4,391 |
| Impact on private non-farm employment | 2,640 | 3,435 | 3,972 | 4,104 | 4,056 |
| Impact on GDP ($000), real dollars (2012) | $263,000 | $355,000 | $429,000 | $460,000 | $473,000 |
| Impact on personal income ($000) | $190,000 | $279,000 | $359,000 | $405,000 | $432,000 |

**Comparison of costs and benefits**

Ignoring the opportunity cost of the tax incentive, total benefits are greater than costs. Considering the opportunity cost means asking what benefits would be reaped if the Commonwealth used the dollars spent on the tax incentive for other purposes. Those dollars could be spent in many other ways, and examining them is beyond the scope of the current evaluation report. Nonetheless, we reported net impacts of the tax incentive in Tables A5 and A6 below under the balanced budget requirement, which are the combined effects in Tables A1-A4.

Tables A5 and A6 show that the exemption for tangible property subject to local taxation combined with a cut in state government spending results in less economic activity, with real state GDP decreasing by $187 million - $318 million. The net impact on total employment is negative with total employment decreasing by 2,911 – 3,976 jobs annually. The impact on state revenues is also negative, decreasing by $6.4 million - $12.7 million annually.

Because the tax expenditure has its own specific purpose, the net negative impacts do not necessarily imply that the tax expenditure is not desirable. The statute does not explicitly state the purpose of this tax expenditure; however, the exemption avoids taxation of property at both the local and state level.

**Table A5. Net Additional Revenue Impact of Exemption for Tangible Property Subject to Local Taxation\***

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Fiscal Year | 2018 | 2019 | 2020 | 2021 | 2022 |
| Net additional revenue impact ($000) | -$6,388 | -$12,748 | -$12,227 | -$11,965 | -$11,785 |

\* assuming state government spending is cut by the same amount as the revenue loss due to the exemption for tangible property subject to local taxation to balance budget.

**Table A6. Net Economic Impacts of Exemption for Tangible Property Subject to Local Taxation by Selected Economic Measure\***

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Calendar Year | 2018 | 2019 | 2020 | 2021 | 2022 |
| Impact on total employment | -3,976 | -3,482 | -3,246 | -3,018 | -2,911 |
| Impact on private non-farm employment | -1,065 | -479 | -192 | 41 | 165 |
| Impact on GDP ($000), real dollars (2012) | -$318,000 | -$264,000 | -$233,000 | -$205,000 | -$187,000 |
| Impact on personal income ($000) | -$294,000 | -$288,000 | -$291,000 | -$289,000 | -$295,000 |

\* assuming state government spending is cut by the same amount as the revenue loss due to the exemption for tangible property subject to local taxation to balance budget.

**Other unquantified costs and benefits:**

Besides the additional costs and benefits quantified in the previous sections, there are other costs and benefits that are hard to quantify due to lack of data or other challenges. In this section we will enumerate some of these costs and benefits.

Ihlanfeldt and Sjoquist (2001), a published study for the state of Georgia, summarizes some of other costs and benefits as follows:

*Loss of competitiveness.* Providing tax incentive such as credits to selected firms may diminish the competitiveness for existing similar firms.

*Compliance costs.* They think that the costs to the firm may be substantial.

*Improved business climate.* Tax incentive improves the perception of the business climate in the state and is used by site location specialists in screening alternative sites.

*Synergistic or clustering effects.* Tax incentive may attract a firm in an industry new to the state, which then serves as a magnet for attracting additional firms in the industry.

Another hard to quantify cost is the administrative cost. The administrative cost attributable to this incentive should be relatively small because the Department of Revenue administers the exemption with existing staff as part of its overall mission.

**Other issues related to costs and benefits**

The burden of a tax does not necessarily fall on those responsible for remitting the tax. It is known through economic theories that corporate taxes change the allocation of capital between corporations and noncorporate businesses and among states because capital would flee from states of higher corporate taxes if all other considerable factors are not significantly different.

Felix (2009) finds that labor bears a significant burden from the state corporate tax in the form of lower wages. Her study further suggests that a one-percentage-point increase in the marginal state corporate tax rate reduces wages by 0.14% to 0.36%, that labor’s burden from the state corporate tax has trended upward over time due to increased global competition and increased competition among states to attract businesses, and that state corporate taxes reduce the wages of highly educated workers more than that of less-educated workers.

The exemption for tangible property subject to local taxation is significant to the direct beneficiaries. Hence, the findings imply that the incentive may have benefited workers who were employed by the corporations in the form of higher wages. The incentive may have further benefited the shareholders and clients due to the growth of businesses.

1. <https://taxfoundation.org/state-capital-stock-tax-2020/#:~:text=Connecticut%20will%20phase%20out%20its,more%20neutral%20forms%20of%20taxation> [↑](#footnote-ref-1)
2. The term “tax liability” includes both the income and non-income measure of the corporate excise, when applicable. [↑](#footnote-ref-2)
3. Regional Economic Models Inc. is a recognized leader in economic analysis at the state level. See their website for background information and further details <https://www.remi.com/> [↑](#footnote-ref-3)
4. Including both tax and non-tax revenues but excluding the revenue loss reported in Table 1. [↑](#footnote-ref-4)
5. Spending on a specific tax incentive means less spending on other expenditure items for the Commonwealth under balanced budget requirement if there is no increase in state revenues. Reduced spending on other expenditure items means forgone benefits from those items. This is an opportunity cost to the Commonwealth, which, more specifically, is borne by the Massachusetts residents or businesses who benefit from those expenditure items. [↑](#footnote-ref-5)
6. For an illustration of “multiplier effect”, see Slide 4 of: <https://www.ilw.com/seminars/JohnNeillCitation.pdf> [↑](#footnote-ref-6)