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

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| --- | --- |
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| **TAX EXPENDITURE TITLE** | Harbor Maintenance Tax Credit |
| **TAX EXPENDITURE NUMBER** | 2.607 |
| **TAX EXPENDITURE CATEGORY** | Credit against corporate excise |
| **TAX TYPE** | Corporate excise |
| **LEGAL REFERENCE** | M.G.L. c. 63, § 38P |
| **YEAR ENACTED** | 1996 |
| **REPEAL/EXPIRATION DATE** | None |
| **ANNUAL REVENUE IMPACT** | Tax loss of $1.4 - $1.5 million annually during FY18-FY22 |
| **NUMBER OF TAXPAYERS** | 79 -88 claims per year during tax years 2015-2018. |
| **AVERAGE TAXPAYER BENEFIT** | About $12,400 - $17,200 per claim during tax years 2015-2018 |

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| --- | --- |
| **Description of the Tax Expenditure:**  Domestic and foreign corporations that are shippers, importers, or exporters are allowed to take a credit against the corporate excise for certain harbor maintenance taxes paid to the federal government. | **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?**  The promotion of the use of Massachusetts harbors by providing an offset for the federal excise paid by shippers with respect to their use of harbors in the Commonwealth | **Are there other states with a similar Tax Expenditure?**  DOR is not aware of a similar expenditure in any other state. |

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

**INTRODUCTION**

Domestic and foreign corporations that are shippers, importers, or exporters are allowed to claim a dollar-for-dollar credit against the corporate excise for certain harbor maintenance taxes paid to the federal government. To qualify for the credit the federal tax paid must be attributable to the shipment of break-bulk or containerized cargo by sea and ocean-going vessels through one of three designated Massachusetts ports. The allowable credit is not subject to the 50% limitation of G.L. c. 63, §32C. The credit may not reduce the taxpayer’s corporate excise due below the minimum excise, currently $456. The credit is not refundable or transferable. Unused credit may be carried forward for up to 5 years.

The expenditure was enacted on August 9, 1996, applicable to harbor maintenance tax paid on or after July 1, 1996.

**POLICY GOALS**

The statute does not explicitly state the purpose of this tax expenditure. However, contemporaneous accounts of the enactment of the credit indicate that it was intended to promote the use of Massachusetts harbors by providing an offset for the federal excise paid by shippers with respect to their use of harbors in the Commonwealth.

**DIRECT COSTS**

The revenue loss resulting from the expenditure is estimated to be $1.4 - $1.5 million per year 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 Harbor Maintenance Tax Credit**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Fiscal Year | 2018 | 2019 | 2020 | 2021 | 2022 |
| Estimated Revenue Loss ($Million) | $1.3 | $1.4 | $1.4 | $1.5 | $1.5 |

Table 2 below shows the number and amount of available, claimed, and shared credits in each year during the period 2015 through 2018. “Available credit” refers to the maximum amount of credit which a taxpayer can claim based on tax liability, provided there are no other restrictions. “Claimed credit” is the amount a taxpayer actually claimed. “Shared credit” is the amount of a taxpayer’s credit that was used by other members of the taxpayer’s combined group. “Count” refers to the number of credit claims.

During the tax years 2015 through 2018, the number of credits claimed or shared annually varied from 79 to 88, and the average claimed or shared amount ranged from $12,400 to $17,200 per year. The total amount of credit claimed or shared varied from 68% to 75% of the amount of credit available. This percentage is relatively high compared to other tax incentives. However, it still means that some taxpayers did not have enough tax liability to take full advantage of the credit.

**Table 2. Amount and Count of Harbor Maintenance Credit by Tax Year**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | 2015 | | 2016 | | 2017 | | 2018 | |
| Amount ($000) | Count | Amount ($000) | Count | Amount ($000) | Count | Amount ($000) | Count |
| Available Credit – A | $1,541 | 109 | $1,613 | 107 | $1,728 | 105 | $1,817 | 102 |
| Claimed plus Shared Credit – B | $1,159 | 83 | $1,093 | 88 | $1,179 | 82 | $1,356 | 79 |
| B/A | 75.2% | 76.1% | 67.7% | 82.2% | 68.3% | 78.1% | 74.6% | 77.5% |
| Average Claimed or Shared Amount | $14.0 | NA | $12.4 | NA | $14.4 | NA | $17.2 | NA |

Source: Massachusetts Department of Revenue.

Notes: 1. 2017 and 2018 data are preliminary and subject to change.

2. Shared credits are very few or zeros and not disclosed following the confidentiality policy of DOR.

3. “NA”, not applicable.

**DIRECT BENEFITS**

The credit is a dollar-for-dollar benefit to corporations moving goods through Massachusetts harbor facilities for certain harbor maintenance taxes paid to the federal government. It is limited to containerized and break-bulk cargo (or general cargo**)** and vehicle shipments, and cargo carried on sea and ocean-going vessels through Massachusetts ports. Hence the direct beneficiaries are corporations that are shippers, importers or exporters.

Tables 3-5 show the number of claimants and claim amounts by income level (Table 3), size of taxpayer by number of employees (Table 4), and industry (Table 5) for the 2017 tax year. For that year, 80.5% of claimants were corporations with less than 100 employees, and 83% of claimants were in the industries of manufacturing and wholesale trade.

The tax benefit per claimant averaged $14,384, varying from $4,335 for corporations with negative taxable income to $82,380 for the corporations with $10 million or more in taxable income. See Table 3 below. Looking at the tax benefit per claimant by number of employees, corporations with 5-49 employees had the lowest tax benefit per claimant, with $4,375 per claimant. Corporations of 200 or more employees had the highest, averaging $40,390 per claimant. See Table 4. By industry, corporations in manufacturing had the lowest average claim with $9,412, while corporations in the “Unmatched or others” industry had the highest with $38,633. See Table 5.

**Table 3. 2017 Harbor Maintenance Tax Credit Claims by Taxable Income Level**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Taxable Income Range | Tax Liability after Credit ($000) | Claimed or Shared Credit ($000) | Number of Claimants | Percent of Total Number of Claimants | Tax Saving Per Claimant ($) |
| Less than $0 | $12 | $26 | 6 | 7.3% | $4,335 |
| 0 to $9,999 | $89 | $261 | 24 | 29.3% | $10,871 |
| $10,000 to $99,999 | $17 | $39 | 9 | 11.0% | $4,370 |
| $100,000 to $999,999 | $263 | $171 | 19 | 23.2% | $9,025 |
| $1,000,000 to $9,999,999 | $2,697 | $270 | 19 | 23.2% | $14,202 |
| $10,000,000 or more | $4,531 | $412 | 5 | 6.1% | $82,380 |
| Total or average | $7,609 | $1,179 | 82 | 100.0% | $14,384 |

Source: Department of Revenue (2017 corporate excise returns)

Note: The data are preliminary and subject to change.

**Table 4. 2017 Harbor Maintenance Tax Credit Claims**

**by Taxpayer Size (Number of Employees)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Reported Employees Range\* | Tax Liability after Credit ($000) | Claimed or Shared Credit ($000) | Number of Claimants | Percent of Total Number of Claimants | Tax Saving Per Claimant ($) |
| Less than 5 | $4,126 | $422 | 12 | 14.6% | $35,136 |
| 5 to 49 | $616 | $192 | 44 | 53.7% | $4,375 |
| 50 to 99 | $718 | $72 | 10 | 12.2% | $7,228 |
| 100 to 199 | $459 | $89 | 6 | 7.3% | $14,859 |
| 200 or more | $1,689 | $404 | 10 | 12.2% | $40,390 |
| Total or average | $7,609 | $1,179 | 82 | 100.0% | $14,384 |

Source: Department of Revenue (2017 corporate excise returns)

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

2. The data are preliminary and subject to change.

**Table 5. 2017 Harbor Maintenance Tax Credit Claims by Industry**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Industry | Tax Liability after Credit ($000) | Claimed or Shared Credit ($000) | Number of Claimants | Percent of Total Number of Claimants | Tax Saving Per Claimant ($) |
| 31-33 Manufacturing | $487 | $179 | 19 | 23.2% | $9,412 |
| 42 Wholesale Trade | $2,893 | $528 | 49 | 59.8% | $10,769 |
| 44-45 Retail Trade | $982 | $202 | 7 | 8.5% | $28,927 |
| Unmatched\* or others | $3,247 | $270 | 7 | 8.5% | $38,633 |
| Total | $7,609 | $1,179 | 82 | 100.0% | $14,384 |

Source: Department of Revenue (2017 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 more specifically, to the Massachusetts residents or businesses who benefit from state expenditures[[1]](#footnote-1)) and 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.

Besides the direct costs and benefits, there are indirect and induced costs and benefits associated with this tax expenditure. The indirect impact (cost or benefit) is felt by the chain of businesses that provide intermediate products and services to the directly impacted businesses. The induced impact (cost or benefit) results from any overall change in the economy, for example where a chain of businesses benefits when the employees working for the directly impacted businesses spend their wages and salaries to buy goods and services. The total benefits or costs to the whole economy are larger than the initial impacts. This phenomenon is called the “Multiplier Effect”.[[2]](#footnote-2)

To measure these indirect and induced costs and benefits, economists often need to utilize complicated models, such as REMI or IMPLAN. Given that the amount of direct costs and benefits are small for this tax expenditure, less than $2 million per year, DOR did not attempt to quantify such costs and benefits.

**SIMILAR TAX EXPENDITURES OFFERED by OTHER STATES**

No other state provides a dollar-for-dollar offset of the federal harbor maintenance excise. However, several other states, including Georgia and Louisiana, provide credits for increasing imports and/or exports through their harbors.

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

[FOR TERC TO COMPLETE]

**Note:**

Information provided in this report is based on directly, and in some cases, indirectly available information and data. Any new information or data will be reflected in the updated versions of this report in the future.

1. Spending on a specific tax incentive means less spending on other expenditure needs 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 these items. This is an opportunity cost to the Commonwealth, which, more specifically, is borne by the Massachusetts residents or businesses who benefit from these expenditure items. [↑](#footnote-ref-1)
2. For an illustration of “Multiplier Effect”, see Slide 4 of: <https://www.ilw.com/seminars/JohnNeillCitation.pdf> [↑](#footnote-ref-2)