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

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| **TAX EXPENDITURE TITLE** | Exemption for Newspapers and Magazines |
| **TAX EXPENDITURE NUMBER** | 3.106 |
| **TAX EXPENDITURE CATEGORY** | Exempt Products/Services  |
| **TAX TYPE** | Sales and use tax |
| **LEGAL REFERENCE** | M.G.L. c. 64H, § 6(m) |
| **YEAR ENACTED** | 1967  |
| **REPEAL/EXPIRATION DATE** | None |
| **ANNUAL REVENUE IMPACT** | Tax loss of $21.4 - $34.3 million per year during FY18-FY22 |
| **NUMBER OF TAXPAYERS**  | Buyers and Sellers of Newspapers and Magazines at the Retail Level |
| **AVERAGE TAXPAYER BENEFIT** | $13 per Massachusetts Household in FY18. |

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| **Description of the Tax Expenditure:**Sales of periodicals such as newspapers and magazines are exempt from the sales and use tax. | **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 statute does not explicitly state the goal of this tax expenditure. We inferred that the goal is to encourage publication and readership of newspapers and magazines to enrich citizens’ knowledge about current political, social, cultural, and sports events, and world affairs.  | **Are there other states with a similar Tax Expenditure?**Yes, including many neighboring states. However, some of the other states apply the exemption to newspapers but not magazines.  |

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

**INTRODUCTION**

Sales of periodicals such as newspapers and magazines are exempt from the sales and use tax.

**POLICY GOALS**

To encourage publication and readership of newspapers and magazines to enrich citizens’ knowledge about current political, social, cultural, and sports events, and world affairs.

**DIRECT COSTS**

The revenue loss resulting from this tax expenditure is estimated to be $21.4 - $34.3 million per year during FY18-FY22. See Table 1.

**Table 1. Tax Revenue Loss Estimates for Sales Tax Exemption**

**for Newspapers and Magazines**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Fiscal Year  | 2018 | 2019 | 2020 | 2021 | 2022 |
|  Estimated Revenue Loss ($Million)  | $34.3  | $30.6  | $26.9  | $24.0  | $21.4  |

**DIRECT BENEFITS**

The Massachusetts consumers and businesses that buy and sell newspapers and magazines at the retail level are the direct beneficiaries of the sales tax exemption. Buyers benefit from the sales tax exemption in the form of paying a lower “after tax price” while sellers benefit in the form of receiving a higher “before tax price.” The exact split of the direct benefits depends on the interaction of demand and supply and is often difficult to quantify. In addition, sellers are spared the administrative expense of collecting, reporting and remitting the sales tax.

Businesses selling newspapers and magazines at the retail level include publishers, dealers, and newsstands. According to the U.S. Census Bureau, in 2017, Massachusetts had 99 newspaper publishers, 123 periodicals publishers, 201 internet publishing and broadcasting and web search portals, and 21 news dealers and newsstands. Out-of-state businesses selling newspapers and magazines to Massachusetts residents and businesses are also direct beneficiaries.

For simplicity, we assume that the entire tax savings due to the sales tax exemption are passed on to buyers. Based on this assumption, Table 2 reports the distribution of estimated tax savings in FY18 among households in different income ranges. The table is based primarily on the 2018 Consumer Expenditure Survey data published by the U.S. Bureau of Labor Statistics and data from other sources such as Moody’s Analytics and the U.S. Census Bureau. The Consumer Expenditure Survey reports average annual expenditures on “reading” and number of households by different income groups. Please note that, although newspapers and magazines are purchased by both consumers (households) and businesses, the distribution of tax savings reported in Table 2 is for consumers (households) only.

According to Table 2, the average tax saving from the exemption is estimated to be $12.58 per Massachusetts household in FY18, varying from $7 for households with annual income of less than $15,000, to $26.96 for households with annual income of at least $200,000. 15.83% of all tax savings went to the households with annual income of $100,000 to $149,999, while 5.28% went to households with annual income of $40,000 to $49,999. The tax savings reduced the households’ effective tax rate (the ratio of tax to income) by 0.02 percentage points on average. This reduction varied from 0.01 percentage point for the households with annual income of at least $200,000 to 0.09 percentage points for households with annual income of less than $15,000. On average, households with annual income of less than $15,000 spent a much higher percentage of their income on newspapers and magazines than other income groups.

**Table 2. Estimated Distribution of Tax Savings to MA Households**

**by Income Level in FY18**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Annual Income Range | Number of MA Households (Millions) | Tax Savings(Millions) | Average Tax Savings ($) | Tax Savings Distribution | Change in Households’ Effective Tax Rate |
| Less than $15,000 |  0.349  | $2.45  | $7.00  | 7.27% | -0.09% |
| $15,000 to $29,999 |  0.419  | $4.20  | $10.04  | 12.49% | -0.04% |
| $30,000 to $39,999 |  0.265  | $3.37  | $12.72  | 10.02% | -0.04% |
| $40,000 to $49,999 |  0.217  | $1.78  | $8.17  | 5.28% | -0.02% |
| $50,000 to $69,999 |  0.346  | $3.76  | $10.85  | 11.17% | -0.02% |
| $70,000 to $99,999 |  0.388  | $5.21  | $13.42  | 15.49% | -0.02% |
| $100,000 to $149,999 |  0.351  | $5.33  | $15.17  | 15.83% | -0.01% |
| $150,000 to $199,999 |  0.165  | $2.85  | $17.27  | 8.48% | -0.01% |
| $200,000 to more |  0.174  | $4.70  | $26.96  | 13.97% | -0.01% |
| Total |  2.676  | $33.65  | $12.58  | 100.00% | -0.02% |

Note: Numbers in the table are estimated by Massachusetts Department of Revenue.

**EVALUATION: COMPARING COSTS AND BENEFITS**

In the previous sections, we report the direct costs (to the Commonwealth, or to the residents and businesses who ultimately bear the costs when the Commonwealth cuts government spending or increases taxes to finance the sales tax exemption for newspapers and magazines) and direct benefits (to buyers and sellers of newspapers and magazines at the retail level) 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 derived from the tax expenditure, such as where a chain of businesses benefits when the employees working for the directly impacted businesses spend their additional wages and salaries attributable to the tax expenditure to buy goods and services. The total benefits or costs to the whole economy are larger than the initial direct impacts. This phenomenon is called the “Multiplier Effect”.[[1]](#footnote-1)

To measure these indirect and induced costs and benefits, economists often need to utilize complicated models, such as REMI (Regional Economic Models, Inc.) or IMPLAN (Impact Analysis for Planning) models. The Appendix shows one such attempt by DOR.

**Similar Tax Expenditures Offered by Other States**

The sale, storage, use or other consumption of newspapers is exempt from the sales tax imposed by Rhode Island General Laws Chapter 44-18. In this context, newspapers are defined as “unbound publications printed on newsprint, which contains news, editorial comment, opinions, features, advertising, and other matters of public interest.” Newspapers do not include “a magazine, handbill, circular, flyer, sales catalog, or similar item unless the item is printed for and distributed as a part of a newspaper.”

Sales of newspapers are exempt from the sales tax in Connecticut, but periodicals are exempt if sold by subscription.

In Maine, newspapers and magazines are subject to sales tax.

In Vermont, the sale of newspapers is exempt (including newspapers that are given away and not sold).
The states of New York, New Jersey, Pennsylvania, and Maryland also have some form of sales tax exemption for newspapers and/or magazines.

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

[FOR TERC TO COMPLETE]

**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[[2]](#footnote-2)) and direct benefits (to buyers and sellers of newspapers and magazines at the retail level) 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 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 individuals and the businesses 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 the cost 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”.

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[[3]](#footnote-3). 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 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 as 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 $47 million-$78 million and total employment declining by 516 -906 jobs annually. Lost economic activities result in further loss of state revenues[[4]](#footnote-4), ranging from $1.6 million to $3.4 million annually. Note that the revenue impact reported in Table A2 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) | -$1,646 | -$3,421 | -$3,416 | -$3,267 | -$3,009 |

\* This table reports the lost revenues from the foregone economic activities as the state reduced government spending to finance the sales tax exemption for newspapers and magazines.

**Table A2. Economic Impacts due to Decreased Government Spending**

**by Selected Economic Measure\***

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Calendar Year | 2018 | 2019 | 2020 | 2021 | 2022 |
| Impact on total employment | -906 | -819 | -726 | -620 | -516 |
| Impact on private non-farm employment | -500 | -452 | -403 | -337 | -270 |
| Impact on GDP ($000), real dollars (2012) | -$78,331 | -$71,350 | -$63,913 | -$55,339 | -$46,712 |
| Impact on personal income ($000) | -$65,309 | -$66,156 | -$64,727 | -$60,579 | -$55,072 |

\*This table reports the lost economic activities as the state reduced government spending to finance the sales tax exemption for newspapers and magazines.

*Indirect and Induced Benefits*

The tax savings to buyers and sellers of newspapers and magazines at the retail level encourage directly affected consumers to buy more of other products and services and 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 (including wholesalers, news syndicates, and printers of newspapers and magazines), 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 sales tax exemption for newspapers and magazines 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 sales tax exemption for newspapers and magazines is reported in Table A3, and the economic benefit from the sales tax exemption for newspapers and magazines 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 sales tax exemption for newspapers and magazines results in more economic activities, with real state GDP increasing by $19 million - $31 million and total employment increasing by 191-323 jobs annually. More economic activities result in more state revenues, ranging from $0.8 million to $1.8 million annually, which partially offsets the cost of this tax incentive.

**Table A3. Additional Revenue Impact of Sales Tax Exemption**

**for Newspapers and Magazines**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Fiscal Year | 2018 | 2019 | 2020 | 2021 | 2022 |
| Additional revenue impact ($000) | $782 | $1,703 | $1,797 | $1,724 | $1,543 |

**Table A4. Economic Impacts of Sales Tax Exemption**

**for Newspapers and Magazines by Selected Economic Measure**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Calendar Year | 2018 | 2019 | 2020 | 2021 | 2022 |
| Impact on total employment | 310 | 323 | 297 | 247 | 191 |
| Impact on private non-farm employment | 296 | 303 | 274 | 224 | 170 |
| Impact on GDP ($000), real dollars (2012) | $29,067 | $30,611 | $28,506 | $24,276 | $19,334 |
| Impact on personal income ($000) | $25,784 | $29,375 | $29,667 | $27,397 | $23,662 |

**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 sales tax exemption for newspapers and magazines combined with a cut in state government spending results in less economic activity, with real state GDP decreasing by $27 million-$49 million. The net impact on total employment is negative, decreasing by 326 – 596 jobs annually. The net additional impact on state revenues is also negative, decreasing by $0.9 million to $1.7 million annually.

Note that because the tax expenditure has a specific purpose (in this case, we infer that the goal is to encourage publication and readership of newspapers and magazines to enrich citizens’ knowledge about current political, social, cultural, and sports events, and world affairs), the net negative impacts on economic activity do not necessarily imply that the tax expenditure is not desirable.

**Table A5. Net Additional Revenue Impact of Sales Tax Exemption**

**for Newspapers and Magazines\***

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Fiscal Year | 2018 | 2019 | 2020 | 2021 | 2022 |
| Net additional revenue impact ($000) | -$863 | -$1,718 | -$1,619 | -$1,543 | -$1,466 |

\* assuming state government spending is cut by the same amount as the revenue loss due to the sales tax exemption for newspapers and magazines to balance budget.

**Table A6. Net Economic Impacts of Sales Tax Exemption**

**for Newspapers and Magazines by Selected Economic Measure\***

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Calendar Year | 2018 | 2019 | 2020 | 2021 | 2022 |
| Impact on total employment | -596 | -495 | -429 | -373 | -326 |
| Impact on private non-farm employment | -204 | -149 | -129 | -113 | -100 |
| Impact on GDP ($000), real dollars (2012) | -$49,267 | -$40,742 | -$35,409 | -$31,065 | -$27,379 |
| Impact on personal income ($000) | -$39,528 | -$36,784 | -$35,063 | -$33,184 | -$31,412 |

\* assuming state government spending is cut by the same amount as the revenue loss due to the sales tax exemption for newspapers and magazines to balance budget.

1. For an illustration of “Multiplier Effect”, see Slide 4 of: <https://www.ilw.com/seminars/JohnNeillCitation.pdf> [↑](#footnote-ref-1)
2. 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-2)
3. <https://www.remi.com/model/tax-pi/> [↑](#footnote-ref-3)
4. Including both tax and non-tax revenues but excluding the revenue loss reported in Table 1. [↑](#footnote-ref-4)