

PROPOSED MASSACHUSETTS TAX EXPENDITURES EVALUATION SUMMARY

EVALUATION YEAR: 2021

TAX EXPENDITURE TITLE	Exemption for Rental Charges for Refuse Bins and Containers
TAX EXPENDITURE NUMBER	3.610
TAX EXPENDITURE CATEGORY	Miscellaneous Sales and Use Tax Exemptions
TAX TYPE	Sales and Use Tax
LEGAL REFERENCE	M.G.L. c. 64H, § 6(ii)
YEAR ENACTED	1982 (See St. 1982, c. 429, § 4)
REPEAL/EXPIRATION DATE	None
ANNUAL REVENUE IMPACT	Average Annual Tax loss of \$0.9 million during FY19-FY23
NUMBER OF TAXPAYERS	Not Available
AVERAGE TAXPAYER BENEFIT	Not Available

Description of the Tax Expenditure: Rental charges for refuse containers or bins in connection with service contracts by waste-service firms are exempt from sales and use tax when the containers are placed on the customer's premises by the waste service firm.	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 policy goal of this expenditure is to ensure that no portion of the charge to the customer for waste service transactions is subject to sales tax.	Are there other states with a similar Tax Expenditure? There are no neighboring states that specifically exempt refuse containers or bins provided by waste-service firms.

INTRODUCTION

The tax expenditure exempts from sales and use tax amounts waste service firms charge their customers for refuse containers and bins placed on customer premises in connection with waste service contracts.

The Massachusetts sales tax (and complementary use tax) is a transaction tax that applies to retail sales of tangible personal property (including prewritten computer software regardless of mode of transfer) and enumerated services (currently including only telecommunication services). A retail sale is any sale other than a sale for resale. A sale for resale occurs when a business purchases an item and sells it to a third party in substantially the same form in which it was purchased. All retail sales are taxable unless an exemption applies. These exemptions are tax expenditures because they prevent the imposition of tax on transactions that would otherwise be taxable.

While the sales tax is imposed on retail sales, it is not necessarily a tax on final consumption by households, as is the case with the value added taxes (VATs) imposed in most other countries. A retail sale to a business may also be subject to sales tax. For example paper, desks, computers, and similar items purchased for office use would generally be taxable. The exclusion of sales for resale and the application of certain exemptions prevent the imposition of the tax on many business inputs, but other business inputs remain taxable. Aside from specific statutory exclusions and exemptions, there is no general prohibition in the sales and use tax statutes on the application of the tax to retail sales at multiple stages of the production and sales process.

Absent the exemption afforded by this tax expenditure, waste service providers would be required to collect sales or use tax when they provide refuse containers and bins to their customers. Although waste services per se are not subject to sales and use tax, the provision of the containers in the absence of the exemption could be considered a retail sale of tangible personal property subject to tax. The result would be that the sales and use tax would be imposed on part of the charge under the waste services contract.

POLICY GOALS

The policy goal of this expenditure is not evident. DOR assumes that the goal of this tax expenditure is to ensure that the Massachusetts sales and use tax is not imposed on waste service transactions where a refuse container or bin is rented to a customer, thereby easing the tax burden on the customers of waste service firms.

DIRECT COSTS

The revenue loss resulting from this tax expenditure is estimated to be \$0.8 - \$0.9 million per year during FY19-FY23. See Table 1.

**Table 1. Tax Revenue Loss Estimates for Sales Tax Exemption
for Rental Charges for Refuse Bins and Containers**

Fiscal Year	2019	2020	2021	2022	2023
Estimated Revenue Loss (\$Million)	\$0.8	\$0.8	\$0.8	\$0.9	\$0.9

DIRECT BENEFITS

The direct beneficiaries of the sales tax exemption are the lessors that rent refuse bins or containers to lessees, and the lessees who rent those bins or containers. Lessees benefit from the sales tax exemption in the form of paying a lower “after tax” rent while lessors benefit in the form of receiving a higher “before tax” rent. The degree to which the lessee or lessor receives more of the direct benefits depends on the interaction between supply and demand, which is difficult to quantify.

The rental of refuse bins or containers falls under the Waste Collection (NAICS 5621) industry. Table 2 reports the number of such waste collection firms in Massachusetts and their annual payrolls, sales, and employment in 2017. As shown in Table 2, Massachusetts had 254 waste collection firms with 310 establishments. These firms employed 5,868 people generating \$361.9 million in annual payroll and \$1.6 billion in annual sales.

**Table 2. 2017 Payroll, Sales, and Employment of the Waste Collection Industry in
Massachusetts**

2017 NAICS Code	Meaning of NAICS Code	Number of Firms	Number of Establishments	Sales, Value of Shipments, or Revenue (\$Millions)	Annual Payroll (\$Millions)	Number of Employees
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5621	Waste collection	254	310	\$1,576.9	\$361.9	5,868
562111	Solid waste collection	230	282	\$1,390.6	\$322.5	5,062
562112	Hazardous waste collection	10	13	\$164.3	\$35.0	694
562119	Other waste collection	15	15	\$22.0	\$4.3	112

Source: The U.S. Census Bureau, 2017 Economic Census, which is the most recent version of the Economic Census. The next Economic Census will be conducted in 2022.

It should be noted that not every establishment in this industry engages solely in the rental of refuse bins or containers. The research company IBISWorld produced a 2019 report, which was updated in May 2021, on the dumpster rental industry in the United States and found that there were 318 companies nationwide that engaged in this activity, which together had an estimated annual revenue of \$489.7 million.¹ As there is no direct data available at the state level, a Massachusetts estimate for each variable was determined by DOR using the relative size of the waste collection industry in the U.S. and in Massachusetts as reported in the 2017 Economic Census data. See Table 3 below.

**Table 3. National and Massachusetts Dumpster Rental Industry
Number of Businesses, Employment & Sales**

Variable	National	MA
2016-2021 Annual Growth Rate	3.0%	3.0%
Number of Businesses	318	10
Industry Employment	5,808	155
Industry Sales (\$Millions)	\$489.7	\$14.5

Source: IBISWorld; Massachusetts Department of Revenue estimated.

The results suggest that there are an estimated ten companies in Massachusetts that engage in refuse container rentals. DOR then estimated that there were 155 employees in this industry in Massachusetts by multiplying the national figure of 5,808 employees by 2.7%, which is the industry's employment share in Massachusetts. An informal internet search for dumpster/refuse rentals reveals multiple companies that engage in this business activity in Massachusetts, which may include firms with headquarters outside of Massachusetts.

EVALUATION: COMPARING COSTS AND BENEFITS

¹ IBISWorld Dumpster Rental Industry in the US - Market Research Report, Updated: May 18, 2021: <https://www.ibisworld.com/united-states/market-research-reports/dumpster-rental-industry/>

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 the rental of refuse bins or containers) and direct benefits (to lessors and lessees of refuse bins or containers) of this tax expenditure. In this instance, the direct costs to the Commonwealth, namely the sales tax that would have been collected from these transactions, are equal to the direct benefits afforded by the tax expenditure to lessors and lessees of refuse bins or containers, which is the sales or use tax they would have had to pay to the Commonwealth.

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) occurs when a directly or indirectly impacted business passes on the direct costs or benefits to households, such as those of its employees in the form of lower or higher income, such as wages and salaries, who then in turn reduce or increase purchases of goods and services from other businesses. The total costs or benefits to the whole economy are larger than the initial direct impacts. This phenomenon is called the “Multiplier Effect”.²

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. DOR did not attempt to use such models given their complexity and the data limitations present in this instance.

By encouraging proper refuse disposal, including the re-use of refuse containers, this expenditure helps create a cleaner and safer environment, which would generate positive externalities.³ Such positive externalities are often difficult to quantify.

Similar Tax Expenditures Offered by Other States

While neighboring states adopt different approaches as to when services sold in conjunction with tangible personal property are subject to their respective sales and use taxes, no neighboring state specifically exempts refuse bins and containers from tax.

² For an illustration of “Multiplier Effect”, see Slide 4 of: <https://www.ilw.com/seminars/JohnNeillCitation.pdf>

³ A positive externality occurs when the production and/or consumption of a good or service exerts a positive effect on a third party independent of the transaction. A cleaner and safer environment will benefit each member of society.