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## **Massachusetts Tax System and Tax Expenditure Budget**

The Commonwealth of Massachusetts

**Department of Revenue**

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## **Massachusetts Tax System and Tax Expenditure Budget**

Topics:

- Background on taxation in Massachusetts
- Where the money comes from
- Tax Expenditures:
  - Overview
  - Details by tax type
  - Issues and Trends
- Conclusion



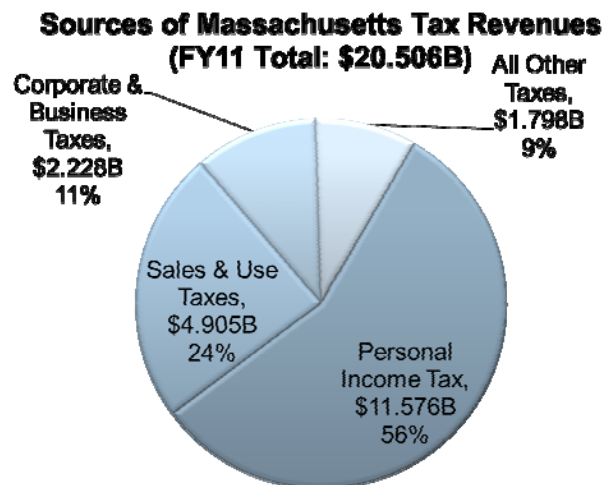
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## Overview of Massachusetts Taxation



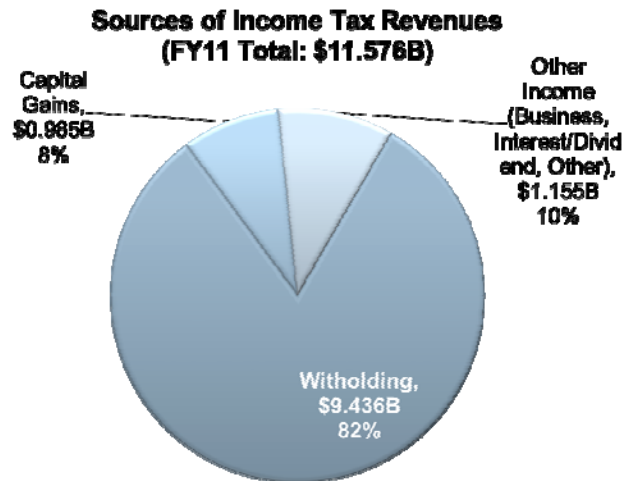
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## Overview: Sources of Massachusetts Tax Revenues



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## Personal Income Tax



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## Corporate and Business Taxes

### Sources of Corporate and Business Tax Revenues (FY11 Total: \$2.228B)



(\*) Due to combined reporting, most payments from these companies recorded under corporate tax

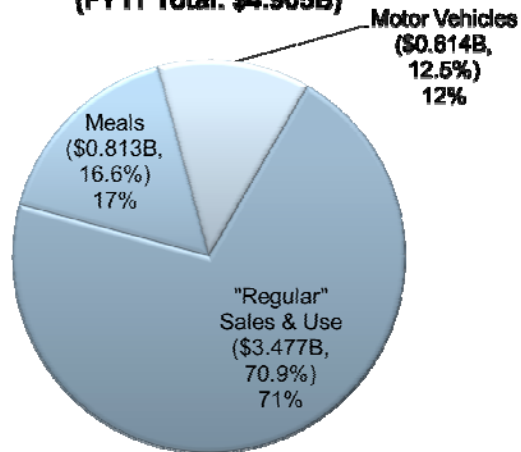
Historical: Distribution of Corporate and Business Tax Collections by Type:  
 Corporate 59-64%  
 Insurance 13-17%  
 Financial Inst. 14-21%  
 Public Utilities 4-7%



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## Sales and Use Tax

**Sources of Sales and Use Tax Revenues**  
(FY11 Total: \$4.905B)



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## All Other Taxes

All Other Taxes (\$Millions)		\$1,798
Other Budgetary DOR collections		\$1,720
Motor Fuels	\$661	
Cigarettes	\$454	
Estate	\$310	
Room Occupancy	\$110	
Deeds	\$99	
Alcoholic Beverages	\$73	
Miscellaneous	\$14	
Other Budgetary Non-DOR collections		\$78
Deeds, Sec. of State	\$31	
Division of Insurance	\$24	
UI Surcharges	\$20	
Beano 3/5ths	\$1	
Raffles/Bazaars	\$1	



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## Personal Income, Corporate, and Sales/Use Taxes

### Recent & Current Developments

#### Income Tax:

- Status of the current rate (5.3%):
- Potential lowering of rate to 5.25% on January 2012
  - Statutory requirement
  - DOR Certification

#### Corporate Tax Reform:

- Combined Reporting
- Phased-In Rate Reduction from 9.5% to 8% for 2012

#### Sales/Use Tax:

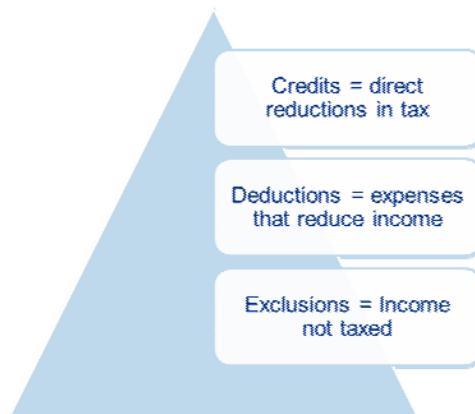
- Rate change (5.0% to 6.25%)
- Sales Tax on Alcohol—Instituted and then repealed



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## Tax Expenditures: Definition

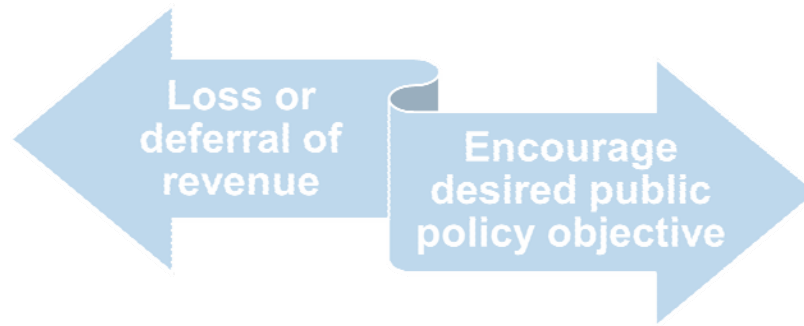
*Tax expenditures are typically defined as provisions in the tax code, including a wide variety of exclusions, deductions, credits, and deferrals, that are designed to encourage certain kinds of activities or investments or to aid certain taxpayers or industries in special circumstances.*



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## Tax Expenditures: Impact

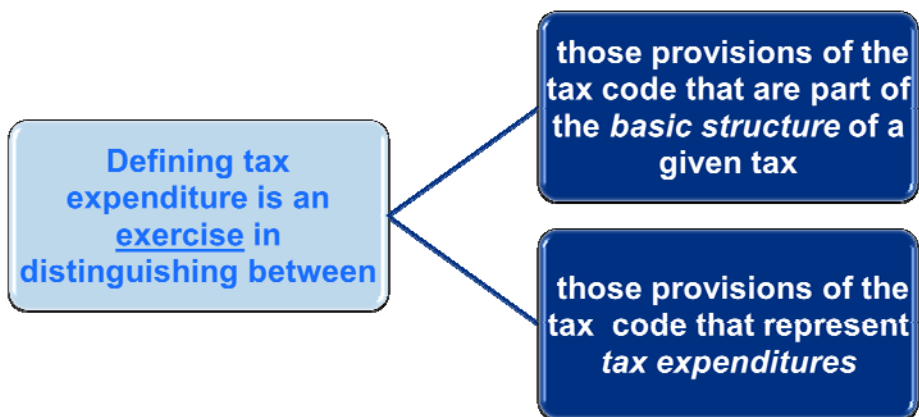
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## Tax Expenditures: Definition

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## Tax Expenditures: Definition

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### Basic Structure

- A taxable unit
- A base
- A rate
- Tax jurisdiction
- Provisions for administration



A tax expenditure is an exception to the rules defined by the basic structure



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## Tax Expenditures: Examples

### Exclusions

- e.g., the personal income tax exemption for certain foster care payments, or the sales tax exemption for groceries

### Deductions

- e.g., special income tax deduction for abandoned building renovation costs, or the deduction for rent

### Credits

- e.g., investment tax credit, film credit\

### Deferrals

- e.g., accelerated depreciation



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.....and also many Massachusetts tax expenditures in the personal income tax and corporate tax derive from federal income tax rules and thus piggy back on many but not all, federal tax expenditures (e.g., accelerated depreciation of equipment)



## Tax Expenditures Reports

**-Federal government prepares annual Tax Expenditure reports since the early 1970s**

The congressional Joint Committee on Taxation (JCT) and the Office of Management and Budget (OMB) publishes estimates of federal tax expenditure

**--The Center on Budget and Policy Priorities (CBPP) reports that**

"Forty-two states (counting the District of Columbia as a state) produce tax expenditure reports."

<http://www.cbpp.org/files/4-9-09sfp.pdf>

**-The State TEB practices widely vary state to state in terms of their coverage and content.**

**- Massachusetts has been preparing tax expenditure reports since FY1986.**

**-Since 2008, The Patrick-Murray Administration has made the TEB reports available on the web as a part of Governor's House 1 budget filings with an easy to navigate features and options (i.e., drill-down, short-links to statutory references for each of the TEB item, etc.).**





## Tax Expenditures Reports

Governor Deval Patrick's Budget Recommendation - House 1 Fiscal Year 2012

### Governor's Budget FY2012

[Budget Home](#) [Budget Summary](#) [FY2011 Budget](#) [Governor's Site Home](#) [A & F Home](#)



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### Tax Expenditure Budget

#### Fiscal Year 2012 Tax Expenditure Budget Summary (in Millions)

TAX TYPE	FY2010	FY2011	FY2012
<a href="#">Personal Income Tax</a>	4,913.3	5,326.0	5,718.0
<a href="#">Corporate Excise Tax</a>	1,142.6	1,227.6	1,258.5
<a href="#">Sales Tax</a>	16,067.8	16,618.4	17,230.2
Total	22,123.7	23,172.0	24,206.7

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[http://www.mass.gov/bb/h1/fy12h1/tax\\_12/hall.htm](http://www.mass.gov/bb/h1/fy12h1/tax_12/hall.htm)



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## Tax Expenditures Reports

**MGL (Ch 29, Sec 1) defines tax expenditures as**

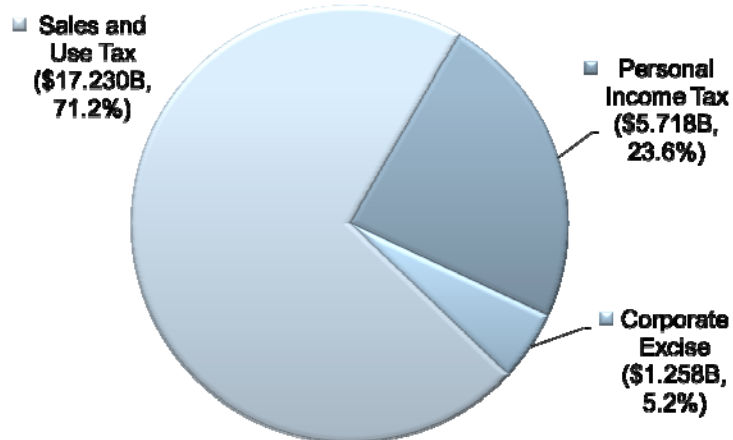
***“State tax revenue foregone as a direct result of the provisions of any general or special law which allows exemptions, exclusions, deductions from, or credits against, the taxes imposed on income, corporations, and sales.”***



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## Massachusetts Tax Expenditure Budget

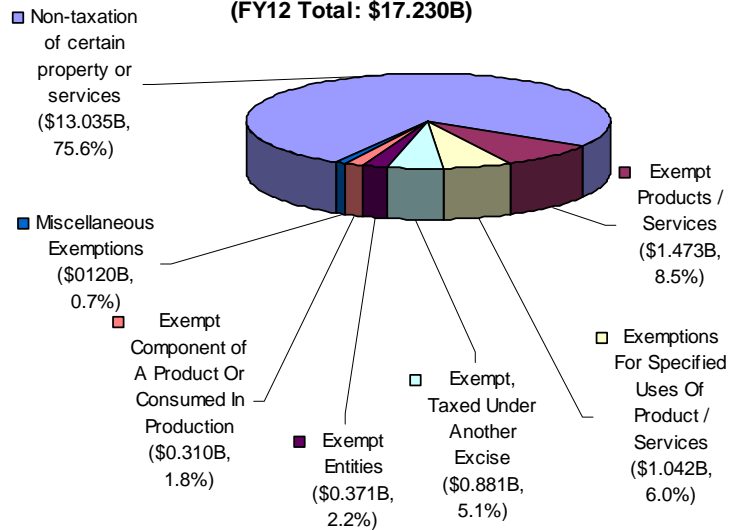
### MA Tax Expenditures by Tax Type (FY12 Total: \$24.207B)



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## Massachusetts Tax Expenditure Budget

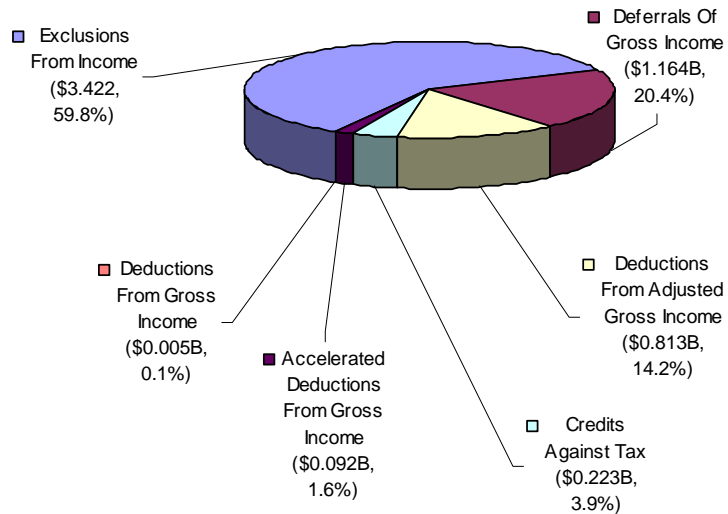
### MA Tax Expenditures - Sales and Use Tax (FY12 Total: \$17.230B)



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## Massachusetts Tax Expenditure Budget

**MA Tax Expenditures - Personal Income Tax**  
(FY12 Total: \$5.718B)

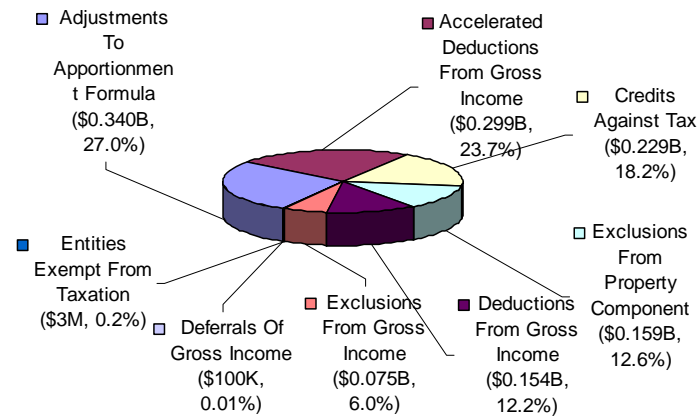


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## Massachusetts Tax Expenditure Budget

**MA Tax Expenditures - Corporate Tax**  
(FY12 Total: \$1.259B)



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## **Transferable/Refundable Credits**

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- **Over the recent years, many states (including Massachusetts) have enacted or extended provisions for certain credits and other incentives so that they are refundable or transferable.**
- **What are they?**  
**Refundable/Transferable credits are conceptually different from other tax credits because they do not require the taxpayer to have tax liability to obtain benefit from the credit.**



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## **Transferable/Refundable Credits – Reporting Requirements**

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- **In 2010 Massachusetts enacted a tax transparency statute (Chapter 131 of the Acts of 2010), which requires DOR to gather and report relevant information from administering agencies on the transferable and refundable credits.**
- **First annual report will be for calendar year 2011**
- **Administering agencies will submit the information needed for this report to DOR by May 15, 2012**
- **Information will include:**
  - (i) **the identity of each taxpayer receiving an authorized tax credit and from which tax credit program the credit was received;**
  - (ii) **the amount of the authorized tax credit awarded and issued for each taxpayer and each project, if applicable; and**
  - (iii) **the date that the authorized tax credit was awarded and issued for each taxpayer and each project.**



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## **Transferable/Refundable Credits – Reporting Requirements**

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**Tax Credit Programs That Are Subject to Reporting Requirements are:**

- 1 Film tax credit**
- 2 Historic rehabilitation tax credit**
- 3 Low-income housing tax credit**
- 4 Brownfields tax credit**
- 5 Medical device tax credit**
- 6 Dairy farm tax credit**
- 7 Life sciences - investment tax credit**
- 8 Life Sciences - user fees credit**
- 9 Life Sciences - research credit**
- 10 Economic development incentive program (EDIP)**
- 11 Housing development credit (after July 1, 2010)**
- 12 Conservation land tax credit (after July 1, 2010)**
- 13 Life Sciences - Jobs credit (after July 1, 2010)**



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## **Tax Expenditures: Issues and Trends**

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**-Allocation of awards by a Governmental Agency with oversight**

**-Caps**

**-Clawbacks**

**-Disclosure**

**-Sunsets**



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