



Commonwealth of Massachusetts  
Office of the State Auditor  
Suzanne M. Bump

*Making government work better*

Official Audit Report – Issued September 16, 2019

---

## Determination of Whether Net State Tax Revenues Exceeded Allowable State Tax Revenues

For the period July 1, 2018 through June 30, 2019





Commonwealth of Massachusetts  
Office of the State Auditor  
Suzanne M. Bump

*Making government work better*

His Excellency Charles D. Baker Jr., Governor of the Commonwealth  
Honorable Karen E. Spilka, President of the Senate  
Honorable Robert A. DeLeo, Speaker of the House of Representatives  
Honorable Cindy F. Friedman, Vice-Chair of the Senate Ways and Means Committee  
Honorable Aaron Michlewitz, Chair of the House Ways and Means Committee  
Christopher C. Harding, Commissioner of Revenue

In accordance with the provisions of Chapter 62F of the Massachusetts General Laws, we have reviewed the Report of the Net State Tax Revenues and Allowable State Tax Revenues for the fiscal year ended June 30, 2019, as prepared by the Commissioner of Revenue.

Our review was conducted for the purposes of ensuring the completeness and accuracy of the report and determining whether the net state tax revenues for the fiscal year ended June 30, 2019 exceeded allowable state tax revenues for that fiscal year.

As a result of our review and as disclosed in the accompanying report, we have determined that the net state tax revenues of \$30,202,588,989 for the fiscal year ended June 30, 2019 were below the allowable state tax revenues of \$33,977,241,799 (as defined in Chapter 62F of the General Laws) by the amount of \$3,774,652,810.

Sincerely,

A handwritten signature in blue ink, appearing to read "SMB", written over a light blue circular background.

Suzanne M. Bump  
Auditor of the Commonwealth

cc: Honorable William F. Galvin, Secretary of the Commonwealth  
Honorable Deborah B. Goldberg, State Treasurer and Receiver General  
Michael J. Heffernan, Secretary of Administration and Finance  
Andrew W. Maylor, Comptroller of the Commonwealth  
Gary D. Anderson, Commissioner, Division of Insurance  
Diane Symonds, Commissioner, Division of Professional Licensure  
Kevin Scanlon, Deputy Director and General Counsel, State Athletic Commission  
Cathy Judd-Stein, Chair, Massachusetts Gaming Commission  
Michael R. Sweeney, Executive Director, State Lottery Commission  
Rosalin Acosta, Secretary, Executive Office of Labor and Workforce Development  
Richard Jeffers, Director, Department of Unemployment Assistance  
Timothy Rooney, Chief Financial Officer, Department of Revenue

---

## TABLE OF CONTENTS

TABLE OF CONTENTS.....	I
INTRODUCTION .....	1
AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY .....	3
LEGISLATIVE HISTORY .....	6
EXHIBIT I .....	14
Calculation to Determine Whether Net State Tax Revenues Exceeded Allowable State Tax Revenues for the Fiscal Year Ended June 30, 2019 .....	14
EXHIBIT II .....	15
Net State Tax Revenues for the Fiscal Year Ended June 30, 2019 .....	15
EXHIBIT III .....	16
Net State Tax Revenue Sources for the Fiscal Year Ended June 30, 2019 .....	16
EXHIBIT IV .....	17
Calculation of Allowable State Tax Revenues for the Fiscal Year Ended June 30, 2019 .....	17
EXHIBIT V .....	18
Calculation of Allowable State Tax Growth Factor for the Fiscal Year Ended June 30, 2019 .....	18
EXHIBIT VI .....	19
Comparison of Net State Tax Revenues for the Two Fiscal Years Ended June 30, 2019 .....	19
EXHIBIT VII .....	20
History of Net State Tax Versus Allowable State Tax Revenue .....	20
AUTHORITY BY TAX SOURCE .....	21

---

## INTRODUCTION

Chapter 555 of the Acts of 1986 inserted Chapter 62F into the Massachusetts General Laws. This chapter provides for the establishment, for each fiscal year beginning with the fiscal year ended June 30, 1987, of a state tax revenue growth limit, calculated on the basis of the level of growth in total wages and salaries of the citizens of the Commonwealth. In addition, the law requires that the Commissioner of Revenue, annually on or before September first, prepare and submit to the State Auditor a report of the net state tax revenues and the allowable state tax revenues of the Commonwealth for the preceding fiscal year.

Chapter 555 gives oversight responsibilities to the State Auditor for each fiscal year. Specifically, the Auditor is responsible for reviewing the Commissioner's report for completeness and accuracy and, in doing so, may make, or request that the Commissioner make, any necessary adjustments or modifications to ensure its completeness and accuracy. Further, the Auditor, annually on or before the third Tuesday of September, shall independently determine whether net state tax revenues for the fiscal year exceeded allowable state tax revenues. If the State Auditor determines an excess of state tax revenues, she shall report that determination and the amount by which allowable state tax revenues were exceeded to the Governor, the President of the Senate, the Speaker of the House, the respective Chairs of the Committees on Ways and Means of the Senate and House, and the Commissioner. The law further states that the determination of the State Auditor as to the existence and the amount of excess state tax revenues shall be conclusive. Thereafter, the Commissioner shall take all the necessary action to effectuate a tax credit equal to the total amount of such excess.

On July 30, 1987, the Commissioner of Revenue prepared his first annual report, as required by Chapter 62F of the General Laws, on net state tax revenues and allowable state tax revenues and submitted it to the State Auditor for review.

The State Auditor reviewed the report for completeness and accuracy and determined, on August 15, 1987, that state tax revenues for the fiscal year ended June 30, 1987 exceeded allowable state tax revenues by \$29,221,675 (Audit Report No. 88-5004-9).<sup>1</sup> Accordingly, the State Auditor requested that the Commissioner effectuate a tax credit of \$29,221,675. The Commissioner responded by adding a line

---

1. All figures disclosed in this report have been rounded for presentation purposes.

on the 1987 version of the Massachusetts Individual Income Tax Return, upon which each individual taxpayer could insert their individually calculated share of the \$29,221,675 credit.

As of December 19, 1988, the Department of Revenue (DOR) had processed credits to individual taxpayers of approximately \$16,823,000 of the \$29,221,675 in fiscal year 1987 excess state tax revenues. At that time, DOR ceased compiling data on the credit. The time limit for filing for refunds with DOR has since expired, and any funds remaining unclaimed will remain within the General Fund. Section 37 of Chapter 62C of the General Laws, which sets the time limit for filing for refunds, states, in part,

*Any person aggrieved by the assessment of a tax, other than a tax assessed under chapters sixty-five or sixty-five A, may apply in writing to the Commissioner, on a form approved by him, for an abatement thereof at any time within three years from the last day for filing the return for such tax, determined without regard to any extension of time, within two years from the date the tax was assessed or deemed to be assessed, or within one year from the date that the tax was paid, whichever is later.*

For the fiscal years ended June 30, 1988 through 2018, the State Auditor determined that net state tax revenues were less than allowable state tax revenues; therefore, no tax credit was required to be effectuated by the Commissioner of Revenue for those years.

For the fiscal year ended June 30, 2019, we have determined that the net state tax revenues of \$30,202,588,989 were below the allowable state tax revenues of \$33,977,241,799 by \$3,774,652,810, resulting in no excess state tax revenues (see Exhibit I).

For fiscal years 1987 through 2019, net state tax revenues increased approximately 273%, from \$8,102,373,437 to \$30,202,588,989. Allowable state tax revenues increased approximately 321%, from \$8,073,151,762 to \$33,977,241,799, during the same time period.

For fiscal year 2019, \$23,968,789,008, or 79.4%, of the net state tax revenue was derived from income and sales and use taxes, which are traditionally the largest sources of revenue received by the Commonwealth (see Exhibit III).

## **AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY**

Pursuant to Chapter 62F of the Massachusetts General Laws (inserted by St. 1986, C, 555, S. 2), the State Auditor is required to (1) review and ensure the completeness and accuracy of the Commissioner of Revenue's Report of the Net State Tax Revenues and Allowable State Tax Revenues for the fiscal year ended June 30, 2019 and (2) independently determine whether net state tax revenues exceeded allowable state tax revenues and report the determination and amount of any excess state tax revenues for the fiscal year ended June 30, 2019, which were the objectives of this audit.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We performed the following procedures to obtain sufficient, appropriate audit evidence to address our audit objectives.

- We assessed the Department of Revenue's (DOR's) compliance with the Official Year-End Closing Instructions issued by the Comptroller of the Commonwealth (CTR) to ensure that state tax revenue on hand as of June 30, 2019 was deposited, recorded, and reported in fiscal year 2019.
- We reconciled tax revenues received by DOR and other state agencies identified as receiving tax revenues to CTR records. To this end, we reviewed DOR's GeniSys accounting and reporting system and determined that GeniSys transactions were accurately reported in the Massachusetts Management Accounting and Reporting System (MMARS) (see Exhibits II and VI).
- We performed testing of various tax data and the related tax collecting, depositing, recording, and reporting systems within the state's accounting system in order to determine the degree of reliance we would place thereon to ultimately render conclusions on the Report of the Net State Tax Revenues and Allowable State Tax Revenues submitted by the Commissioner of Revenue, including the related calculations and methodology.
- We reviewed and analyzed applicable state statutes to determine state tax revenue sources.
- We performed internal control reviews, fraud risk assessments, and other procedures we considered applicable and feasible under the circumstances.

- We obtained the most recent Massachusetts wage and salary data paid to the citizens of the Commonwealth for calendar year 2018 from the United States Department of Commerce's Bureau of Economic Analysis.

We conducted fieldwork at DOR, the primary source of tax revenue for the Commonwealth, and at other agencies identified as sources of state tax revenue (i.e., the Massachusetts Gaming Commission, the Massachusetts State Lottery Commission, the State Athletic Commission, the Division of Insurance, the Office of the Secretary of the Commonwealth, and the Department of Unemployment Assistance) as we considered it practicable and feasible under the circumstances.

## **Data Reliability**

To accomplish our objectives, we reviewed and reconciled state tax revenue information at DOR and other state agencies identified as sources of state tax revenue and state accounting records in MMARS to identify Commonwealth state tax revenues for the purposes of Section 2 of Chapter 62F of the General Laws. The electronic data sources used for this analysis constitute the official accounting records of the Commonwealth, are widely accepted as accurate, and form the basis for the Commonwealth's audited annual financial statements. In addition, in 2018, we conducted a data-reliability assessment of MMARS. As part of this assessment, we tested general information technology controls for system design and effectiveness. As part of the data-reliability assessment, we also tested for accessibility of programs and data as well as system change management policies and procedures for applications, jobs, and infrastructure. During our current review, we performed analytical procedures, such as comparisons and reconciliations to available revenue summary totals in the applicable agency accounts, to confirm that the Commonwealth database information we used was consistent with other available information. For our audit period, we extracted from MMARS a list of all tax revenues for the Commonwealth and compared it to CTR's tax revenue spreadsheets to determine the accuracy of the records. We conducted information security tests through interviews and observations to determine the reliability of the data.

We also conducted a data reliability assessment of the GeniSys system that included a review of policies and procedures for access controls and security awareness training, as well as observations of unsuccessful login attempts, session locks, auditable events, audit monitoring, analysis and reporting, account management, and configuration changes.

Based on the above procedures, we concluded that the data obtained from MMARS and GeniSys were sufficiently reliable for the purposes of our audit.

As a result of our audit, we have determined that the net state tax revenues of \$30,202,588,989 for the fiscal year ended June 30, 2019 were below the allowable state tax revenues of \$33,977,241,799 (as defined in Chapter 62F of the General Laws) by the amount of \$3,774,652,810 (see Exhibit I).



---

## LEGISLATIVE HISTORY

In November 1986, “An Act Phasing Out the Surtax on the State Personal Income Tax and Limiting State Tax Revenue Growth to the Level of Growth in State Wages and Salaries” was approved by the voters of the Commonwealth. On December 4, 1986, it became law as Chapter 555 of the Acts of 1986, which added Chapter 62F to the Massachusetts General Laws.

As shown below, the history of tax legislation related to Chapter 555 is complex.

On November 8, 1975, Chapter 684 of the Acts of 1975 became law and imposed, beginning in calendar year 1975, a 7.5% surtax.

In September 1985, the law that was proposed by initiative petition and that ultimately became Chapter 555 of the Acts of 1986 was drafted by the Citizens for Limited Taxation (CLT) and the Massachusetts High Technology Council, and on December 4, 1985, the signatures necessary for the initiative petition to become a legislative referendum were filed with the Secretary of the Commonwealth.

On December 18, 1985, Chapter 593 of the Acts of 1985 repealed the 7.5% surtax imposed by Chapter 684 of the Acts of 1975 and imposed a 3.75% surtax for calendar year 1986.

On January 3, 1986, the initiative petition was introduced as a legislative referendum (H4004).

On May 6, 1986, the initiative petition was rejected in the House of Representatives. It was not acted upon in the Senate by the May 7, 1986 deadline.

On August 7, 1986, sufficient additional signatures were collected by CLT, and the initiative petition was submitted to the Secretary of the Commonwealth for placement on the November 4, 1986 state election ballot and became known as Question Number 3: “Limiting State Tax Revenue Increases.”

On October 25, 1986, Chapter 488 of the Acts of 1986 repealed the 3.75% surtax imposed by Chapter 593 of the Acts of 1985 for calendar year 1986 and imposed controls over the growth of state revenue. On November 4, 1986, the electorate voted in favor of limiting the growth of state tax revenues, repealing the 7.5% surtax of Chapter 684 of the Acts of 1975 and imposing a new 3.75% surtax for calendar year 1986.

---

On December 4, 1986, the Secretary of the Commonwealth certified the initiative petition as Chapter 555 of the Acts of 1986 (An Act Phasing Out the Surtax on the State Personal Income Tax and Limiting State Tax Revenue Growth to the Level of Growth in State Wages and Salaries).

On December 9, 1986, Chapter 577 of the Acts of 1986 became effective immediately as an emergency law and repealed all surtaxes retroactively, beginning January 1, 1986.

On July 16, 1988, Chapter 163 of the Acts of 1988 authorized Barnstable County to enact a county deeds excise not to exceed the excise tax imposed by the Commonwealth.

On June 30, 1989, Chapter 193 of the Acts of 1989 provided for a temporary increase to the excise deeds rate set to expire on June 30, 1992. It stipulated that 85% of the increase in receipts would be retained by the county in which it was accrued and that 15% of the increase in receipts would be deposited in the Commonwealth's County Correction Fund. Section 2 of Chapter 61 of the Acts of 2009 repealed Section 13 of Chapter 64D of the General Laws.

On October 27, 1989, Chapter 448 of the Acts of 1989 became effective immediately as an emergency law and extended the reporting date for the filing of certain financial statements for the Commissioner of Revenue (September first) and the State Auditor (third Tuesday of September).

On March 9, 1993, Section 42 of Chapter 19 of the Acts of 1993 amended and extended Chapter 193 of the Acts of 1989's temporary deeds excise rate increase set to take effect on July 1, 1992.

On July 1, 1993, Section 127 of Chapter 64K of the Acts of 1993 became effective and imposed a stamp tax on the possession of controlled substances.

On July 27, 1995, Chapter 81 of the Acts of 1995 was enacted, amending Chapter 63 of the General Laws, which provides for the taxation of financial institutions doing business in Massachusetts.

On June 30, 1996, Chapter 151 of the Acts of 1996 became effective and abolished Franklin County as of July 1, 1997. Deed excises previously collected by the county were thereafter collected by the Commonwealth.

On July 11, 1997, Chapter 48 of the Acts of 1997 became effective and abolished Middlesex County immediately and Hampden and Worcester Counties as of July 1, 1998. Deed excises previously collected by the counties were thereafter collected by the Commonwealth.

On November 17, 1997, Chapter 152 of the Acts of 1997 became effective and imposed, in addition to the excises levied under Chapter 64G, a convention center financing fee at the rate of 2.75% upon the transfer or occupancy of any rooms in any hotel or motel in the cities of Boston, Cambridge, Springfield, and Worcester, as well as a 5% surcharge on the purchase price of any ticket for a sightseeing tour and a \$10 surcharge on each vehicular rental transaction contract in the City of Boston, \$1 of which is to be paid to the City of Boston, and a \$2 per day surcharge for parking in a facility built in conjunction with an authorized convention project in the cities of Boston, Springfield, and Worcester. Chapter 45 of the Acts of 2001 added the convention center financing fee to the cities of Chicopee and West Springfield. Except for the \$1 vehicular rental surcharge that is paid to the City of Boston, these revenues are includable as state tax revenues as defined in Chapter 555. For fiscal year 2019, net state tax revenue included \$103,369,480 in convention center financing fees for room occupancy; \$17,001,280 in convention center surcharges; and \$43,826,009 in taxes imposed on sales of meals, beverages, and other tangible property or services.

On July 21, 1998, Chapter 175 of the Acts of 1998 was enacted, amending Chapter 151A of the General Laws by inserting Section 14L and imposing a Workforce Training Contribution of 0.075% on wages. The Director of Workforce Development is required to adjust the rate of contribution (consistent with federal law) so that the total amount of the contribution in a year substantially equals \$18 million. The contributions are to be deposited in the Workforce Training Fund, a separate fund on the books of the Commonwealth, codified in Section 2RR of Chapter 29 of the General Laws, and are to be used for workforce training. Contributions deposited in the Workforce Training Fund are subject to appropriation. Chapter 175 also repealed Section 14L as of December 31, 2001 and increased the amount of all personal income tax exemptions. On December 30, 1999, Chapter 172 of the Acts of 1999 was enacted, amending the repeal of Section 14L of Chapter 151A to December 31, 2002. Effective July 1, 2002, Section 159 of Chapter 184 of the Acts of 2002 further amended Chapter 172 of the Acts of 1999 by extending the repeal to December 31, 2005. On June 30, 2005, Section 8 of Chapter 45 of the Acts of 2005 further amended Chapter 172 of the Acts of 1999 by extending the repeal of Section 14L of Chapter 151A to December 31, 2008. Effective June 24, 2006, Section 78 of Chapter 123 of the Acts of 2006 further amended Section 8 of Chapter 45 of the Acts of 2005 by extending the repeal to December 31, 2010. Effective May 22, 2010, Section 33 of Chapter 112 of the Acts of 2010 further amended Section 78 of Chapter 123 of the Acts of 2006 by extending the repeal to December 31, 2012. Effective October 27, 2011, Section 2RR of Chapter 29 was amended by Section 5 of Chapter 142 of the Acts of

2011 to change the designation of the Workforce Training Fund to the Workforce Training Trust Fund. The director of the Department of Career Services may contract with the Commonwealth Corporation to administer the fund. Moreover, as the trustee of the fund, the director of the Department of Career Services, without further appropriation, shall make expenditures from the fund to provide grants to employers, employer groups, labor organizations, and training providers for projects to provide education and training to existing employees and newly hired workers.

On August 31, 1998, Chapter 300 of the Acts of 1998 became effective, transferring Hampshire County's functions, duties, and responsibilities to the Commonwealth effective September 1, 1998 and abolishing Hampshire County as of January 1, 1999; Essex County as of July 1, 1999; and Berkshire County as of July 1, 2000. On November 16, 1999, Chapter 127 of the Acts of 1999 transferred the Berkshire County and Suffolk County registries of deeds to the Commonwealth effective July 1, 1999. Deeds excises previously collected by Berkshire County were thereafter collected by the Commonwealth.

On December 13, 2000, Chapter 267 of the Acts of 2000 (The Massachusetts Community Preservation Act) became effective, establishing Chapter 44B and authorizing a \$20 surcharge on certain fees of the registers of deeds and assistant recorders for instruments left for recording, filing, depositing, registering, or entering, and a \$10 surcharge for recording, filing, depositing, registering, or entering a municipal lien certificate.

On April 12, 2006, Chapter 58 of the Acts of 2006 (An Act Providing Access to Affordable, Quality, Accountable Health Care) became effective, establishing Chapter 111M, which required each resident of the Commonwealth who filed a Massachusetts personal income tax return, beginning with taxable year 2007, to designate on their return whether they had health insurance coverage. A resident who had access to affordable health insurance coverage but did not obtain and maintain the coverage, and to whom an exemption did not pertain, was subject to penalties prescribed under Section 2 of Chapter 111M. All penalties assessed and collected under Section 2 were designated for deposit in the Commonwealth Care Trust Fund, established by Section 2000 of Chapter 29 of the General Laws.

On January 3, 2007, Chapter 422 of the Acts of 2006 (An Act Relative to the Worcester DCU Arena and Convention Center) became effective and designated receipts from excises levied under Chapters 64G and 64H (from establishments located in the DCU center finance district) for deposit in a separate fund titled the City of Worcester DCU Capital Improvement Fund solely to pay or provide for the principal of,

and premium and interest on, all bonds or notes issued by the City to finance DCU center improvement costs authorized under the act. In addition, the act provides that if, in any fiscal year, total revenues deposited in the DCU Capital Improvement Fund are insufficient to pay or provide for the principal of, and the premium and interest payable on, all bonds and notes, the City may impose an administrative parking surcharge in an amount not to exceed \$3 per day upon any vehicle that parks during the two-hour period before the starting time of any event at the DCU center, or a facility betterment fee of not more than \$3 on each ticket to each event held at the DCU center, or any combination thereof as determined by the city council. During fiscal year 2019, excise tax receipts collected and deposited in the DCU Capital Improvement Fund totaled \$1,503,766 from room occupancy taxes and \$842,540 in taxes imposed on sales of meals, beverages, and other tangible property or services.

On July 3, 2008, Chapter 173 of the Acts of 2008 (An Act Relative to Tax Fairness and Business Competitiveness) was enacted and put into effect various corporate excise rate cuts to be implemented over a period of years for business corporations (Section 39 of Chapter 63), financial institutions (Section 2 of Chapter 63), S corporations (Section 32D of Chapter 63), and financial institutions that operate as S corporations (Section 2B of Chapter 63). The applicable rate reductions were effective for taxable years beginning on or after January 1, 2009. The act, under Sections 48 and 101, also amended Section 32B of Chapter 63 by allowing for combined reporting for multi-state corporate filers for the purpose of taxing corporations that operate both within and outside the state. This change also became effective for tax years beginning on or after January 1, 2009.

On August 8, 2008, Chapter 302 of the Acts of 2008 amended Section 6 of Chapter 64C by adding that a portion of cigarette tax revenues paid under Section 6 of that chapter would be credited to the Commonwealth Care Trust Fund, established in Section 2000 of Chapter 29. According to Section 6 of Chapter 64C, the amount credited to the fund beginning in fiscal year 2011 and every fiscal year thereafter would be equal to the monthly cigarette tax revenues received in each fiscal year multiplied by the percentage of cigarette tax revenues in 2010 that were credited to the fund.

On July 31, 2009, Chapter 523 of the Acts of 2008 (An Act Relative to the Operation of Low-Speed Motor Vehicles) became effective and directed the Massachusetts Registry of Motor Vehicles (RMV) to begin registering two classes of motor vehicles not previously required to be registered in Massachusetts. As of July 31, 2009, the RMV requires low-speed vehicles and limited-use vehicles to be registered as motor vehicles. In addition, since these vehicles are considered motor vehicles, casual and isolated sales of

these vehicles are not exempt from the use tax (Section 7 of Chapter 64I), which therefore must be paid on the transfer of these vehicles unless the purchaser is the spouse, mother, father, brother, sister, or child of the seller, or another exemption applies. As a result of this change, tax is now required and paid directly to the RMV for these sales.

On August 1, 2009, Sections 53, 55 through 57, and 59 of Chapter 27 of the Acts of 2009 amended Chapter 64H (sales tax) and Chapter 64I (use tax) by changing the rate of tax for sales and use of tangible personal property and telecommunication services from 5% to 6.25%. The legislation also repealed the existing exemption for alcoholic beverages, including beer, wine, and liquor, sold at retail by amending Section 6(g) of Chapter 64H. However, as a result of a referendum question on the November 2, 2010 ballot, the above law that extended the Massachusetts sales and use tax to alcoholic beverages sold at package stores and liquor stores was repealed, and the sales tax exemption in Section 6(g) of Chapter 64H was reinstated and became effective for sales on or after January 1, 2011.

On August 1, 2009, Section 61 of Chapter 27 of the Acts of 2009 was enacted and amended the General Laws by inserting Chapter 64M (Taxation of Direct Broadcast Satellite Service) and imposing a 5% excise tax on the gross revenues of providers of direct broadcast satellite service to a subscriber or customer in Massachusetts. The tax applies to actual receipts on or after August 1, 2009 and was passed along to subscribers or customers as a separately stated item on their bills. During fiscal year 2019, the Commonwealth collected \$8,605,108 from direct broadcast satellite service providers.

On August 6, 2009, Chapter 61 of the Acts of 2009 (An Act Transferring County Sheriffs to the Commonwealth) was enacted. Under Section 2 of the aforementioned act, which became effective on January 1, 2010 and amended Sections 11 through 13 of Chapter 64D of the General Laws, with the exception of Barnstable and Suffolk Counties (which shall transmit all taxes collected under Chapter 64D to the Commonwealth's General Fund), on the first day of each month, 10.625% of the taxes collected in the counties of the other transferred sheriffs (i.e., Bristol, Dukes, Nantucket, Norfolk, and Plymouth) shall be transmitted to a fund known as the Deeds Excise Fund that shall be maintained separate and apart from other funds and accounts of each county to satisfy the unfunded county pension liabilities and other benefit liabilities of retired employees of the sheriffs' offices. Beginning in fiscal year 2011, if

the minimum obligation<sup>2</sup> is insufficient to satisfy the unfunded pension and other benefit liabilities, the county shall retain and transfer to its Deeds Excise Fund an additional amount of the deeds excise collected necessary to meet its annual retirement assessment and to satisfy the unfunded county pension and other benefit liabilities until the minimum obligation is sufficient or until the county has paid the unfunded pension liability in full. Once the liabilities are satisfied, the county shall go back to retaining 10.625%. Further, with regard to the county of Nantucket, an additional 30.552% of the taxes collected shall be transferred to its Deeds Excise Fund on the first of each month through June 1, 2029. If, however, in a fiscal year, the dollar amount that equals 30.552% exceeds \$250,000, the excess amount shall be transmitted to the Commonwealth's General Fund. The remaining percentage of taxes collected under Chapter 64D, including all counties whose governments were abolished by Chapter 34B or another law, but not including the additional excise authorized in Section 2 of Chapter 163 of the Acts of 1988, shall be transmitted to the Commonwealth's General Fund. During fiscal year 2019, \$10,211,842 was collected and retained by the counties required to maintain a Deeds Excise Fund.

On October 1, 2009, Section 60 of Chapter 27 of the Acts of 2009 added a new chapter to the General Laws: Chapter 64L (Local Option Meals Excise). Under this chapter, a city or town that accepted the provisions of this chapter imposed a local sales tax on the sale of restaurant meals originating within the city or town by a vendor at the rate of 0.75% of the vendor's gross receipts from the sale of restaurant meals. This new local option sales tax is in addition to the 6.25% state sales tax on meals and took effect on the first day of the calendar quarter following 30 days after acceptance by the city or town or on the first day of a later calendar quarter as designated by the city or town. During fiscal year 2019, the Commonwealth collected and returned \$142,216,586 to 221 cities and towns that had accepted and imposed this local sales tax.

On October 1, 2009, Sections 51 and 52 of Chapter 27 of the Acts of 2009 became effective and amended Section 3A of Chapter 64G of the General Laws by increasing the maximum rate of the local option room occupancy excise from 4% to up to 6% (from 4.5% to up to 6.5% in the City of Boston) provided that each city or town voted to accept the increased rate. This new rate could be imposed on the first day of the calendar quarter following 30 days after acceptance of the increased rate, or on the first day of a later calendar quarter as designated by the city or town. During fiscal year 2019, the

---

2. In accordance with Section 11 of Chapter 64D of the General Laws, the minimum obligation is determined by agreement of the Secretary of Administration and Finance, the actuary of the Public Employee Retirement Administration Commission, the retirement associations and their actuaries, and the county treasurers.

Commonwealth collected and returned a total of \$228,914,020 in local option room occupancy excise taxes, which includes 182 cities and towns that also accepted the increased rate.

On November 22, 2011, Chapter 194 of the Acts of 2011 became effective and established expanded gaming in the Commonwealth. Section 16 of the act added a new chapter to the General Laws: Chapter 23K, which established the Massachusetts Gaming Commission and granted the commission the power and authority to implement, administer, and enforce the chapter. Section 55 of the act established daily taxes and an assessment payable by category 1<sup>3</sup> and category 2<sup>4</sup> licensees as follows:

- (a) A category 1 licensee shall pay a daily tax of 25 per cent on gross gaming revenues.*
- (b) A category 2 licensee shall pay a daily tax of 40 per cent on gross gaming revenue.*
- (c) In addition to the tax imposed under subsection (b), a category 2 licensee shall pay a daily assessment of 9 per cent of its gross gaming revenue to the Race Horse Development Fund established in section 60.*
- (d) Taxes imposed under this section shall be remitted to the commission by a gaming licensee the day following each day of wagering.*

During fiscal year 2019, the Massachusetts Gaming Commission collected \$130,701,550 in daily taxes and assessments.

Chapter 334 of the Acts of 2016, the Regulation and Taxation of Marijuana Act, became effective on December 15, 2016. Section 4 of Chapter 334 created Section 2 of Chapter 64N of the General Laws, which allowed the state to impose a 3.75% excise tax on the sales of marijuana and marijuana products. In addition, Section 3 of Chapter 64N gave an option to cities and towns to impose a local sales tax no greater than 2% on the sales of these products. On July 28, 2017, Chapter 55 of the Acts of 2017 was enacted; it updated Sections 2 and 3 of Chapter 64N of the General Laws by increasing the state excise tax to 10.75% and the local option sales tax to no more than 3%. In addition to the excise and local option taxes, the Commonwealth's sales tax of 6.25% applies to marijuana sales.

Effective January 1, 2019, Section 3 of Chapter 153 of the Acts of 2018 imposed a police training surcharge of \$2 "upon each vehicular rental transaction contract in the commonwealth."

---

3. A category 1 license is issued by the commission and permits the licensee to operate a gaming establishment with table games and slot machines.

4. A category 2 license is issued by the commission and permits the licensee to operate a gaming establishment with no table games and no more than 1,250 slot machines.



---

## EXHIBIT I

### Calculation to Determine Whether Net State Tax Revenues Exceeded Allowable State Tax Revenues for the Fiscal Year Ended June 30, 2019

Allowable State Tax Revenues for the Fiscal Year Ended June 30, 2019 (see Exhibit IV)	\$ 33,977,241,799
Less:	
Net State Tax Revenues for the Fiscal Year Ended June 30, 2019 (see Exhibit II)	30,202,588,989
Net State Tax Revenues (under) Allowable State Tax Revenues for the Fiscal Year Ended June 30, 2019	<u>\$ (3,774,652,810)</u>

---

## EXHIBIT II

### Net State Tax Revenues for the Fiscal Year Ended June 30, 2019

Type of State Tax Collected (by Agency)	Gross State Tax Revenues	Refunds and Abatements	Net State Tax Revenues
<b>Department of Revenue (DOR):</b>			
Alcoholic Beverages	\$ 86,435,991	\$ 240,931	\$ 86,195,060
Financial Institutions	22,957,961	3,490,805	19,467,156
Cigarettes*	554,865,316	1,604,144	553,261,172
Corporations	3,219,750,855	292,591,141	2,927,159,714
Deeds	218,567,679	36,064	218,531,615
Estate and Inheritance	623,539,437	22,233,481	601,305,956
Income*	18,810,921,634	1,685,088,270	17,125,833,364
Insurance	419,458,645	18,861,988	400,596,657
Motor Fuels and I.F.T.A.†	779,708,562	4,245,895	775,462,667
Public Utilities	40,000	0	40,000
Room Occupancy‡	284,850,147	1,142,334	283,707,813
Sales and Use‡	6,879,742,345	36,786,701	6,842,955,644
Club Alcoholic Beverages	945,275	19,552	925,723
Motor Vehicle Excise	101,094	23,821	77,273
Convention Center Surcharges	17,001,373	91	17,001,282
Community Preservation Trust	23,173,800	0	23,173,800
Controlled Substances	13,948,855	0	13,948,855
Satellite	8,605,108	0	8,605,108
Statewide Car Rental	1,096,138	10	1,096,128
<b>Subtotal (Department of Revenue)</b>	<b>\$ 31,965,710,215</b>	<b>\$ 2,066,365,228</b>	<b>\$ 29,899,344,987</b>
<b>Massachusetts Gaming Commission:</b>			
Pari-Mutuel Taxes	788,306	0	788,306
Gaming Revenue Tax	130,701,550	0	130,701,550
<b>Lottery Commission:</b>			
Beano	697,460	0	697,460
Raffles and Bazaars	1,123,098	0	1,123,098
<b>State Athletic Commission:</b>			
Boxing Contests	125,966	0	125,966
Boxer's Fund	12,643	0	12,643
<b>Division of Insurance:</b>			
Excess and Surplus Lines Insurance	44,848,231	0	44,848,231
<b>Secretary of State:</b>			
Deeds Excise Stamp Tax Fees	99,815,285	0	99,815,285
<b>Department of Unemployment Assistance:</b>			
Workforce Training Contribution	25,131,463	0	25,131,463
<b>Subtotal (Other Agencies)</b>	<b>\$ 303,244,002</b>	<b>\$ 0</b>	<b>\$ 303,244,002</b>
<b>Total (Department of Revenue and Other Agencies)</b>	<b>\$ 32,268,954,217</b>	<b>\$ 2,066,365,228</b>	<b>\$ 30,202,588,989</b>

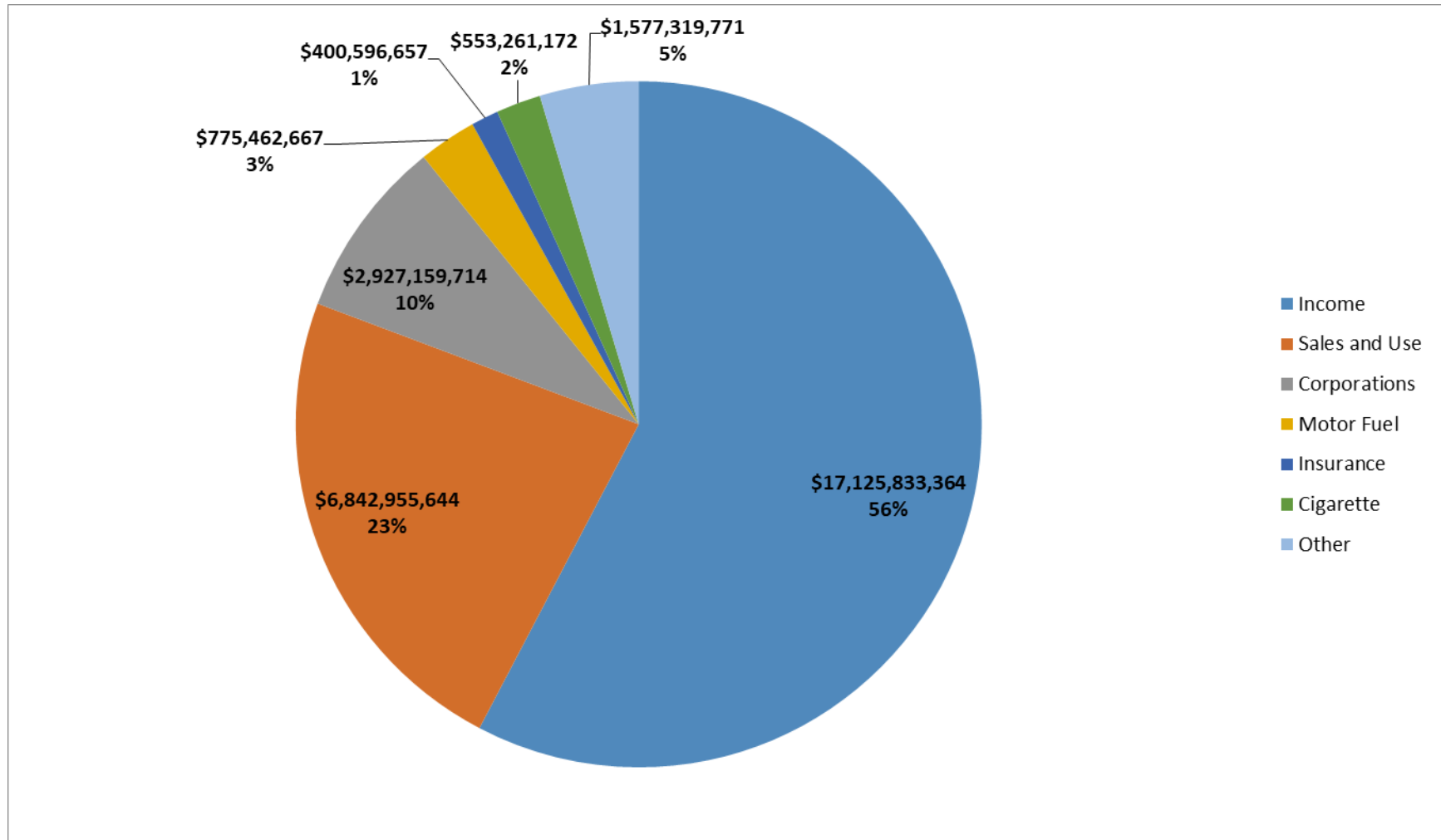
\* Includes income tax penalties assessed under Section 2 of Chapter 111M of the General Laws (totaling \$16,574,378) and cigarette excise revenue assessed in accordance with Sections 12 and 70 of Chapter 302 of the Acts of 2008 (totaling \$113,439,387) credited to the Commonwealth Care Trust Fund (CCTF). Fiscal year 2018 tax revenues credited to the CCTF totaled \$130,013,765.

† International Fuel Tax Agreement.

‡ Includes sales, meals, and room occupancy excise taxes, and service fees for the City of Worcester DCU Capital Improvement Fund.

### EXHIBIT III

#### Net State Tax Revenue Sources for the Fiscal Year Ended June 30, 2019



Note: Percentages are rounded to the nearest whole number.

---

## EXHIBIT IV

### Calculation of Allowable State Tax Revenues for the Fiscal Year Ended June 30, 2019

<b>Allowable State Tax Revenues for the Fiscal Year Ended June 30, 2018*</b>		<b>\$ 32,531,393,763</b>
<b>Allowable State Tax Growth Factor for the Fiscal Year Ended June 30, 2019</b>	<b>X</b>	<b>1.0444447</b>
<b>Allowable State Tax Revenues for the Fiscal Year Ended June 30, 2019</b>		<b><u>\$ 33,977,241,799</u></b>

\* As defined in Section 2 of Chapter 62F of the Massachusetts General Laws, "allowable state tax revenues" for a fiscal year means the following: beginning after June 30, 1986, an amount equal to the greater of the allowable state tax revenues for the immediately preceding fiscal year multiplied by the allowable state tax growth for the current year, or in any case no less than the allowable state tax revenues for the preceding fiscal year. Allowable state tax revenues as disclosed in our prior report (No. 2019-5555-3S) totaled \$32,531,393,763.

## EXHIBIT V

### Calculation of Allowable State Tax Growth Factor for the Fiscal Year Ended June 30, 2019

Calendar Year	Massachusetts Wages and Salaries* (in Thousands)	Wages and Salaries Yearly Growth Rate†
2015	\$233,424,075	
2016	\$246,671,099	1.0567509
2017	\$251,844,339	1.0209722
2018	\$265,849,684	1.0556111
<b>Sum of 2016–2018 Calendar Year Growth Increase</b>		3.1333342
<b>Allowable State Tax Growth Factor for Fiscal Year 2019 (3.1333342/3)</b>		1.0444447

\* Source: US Department of Commerce, Bureau of Economic Analysis, Regional Income Division, Washington, D.C. (pursuant to Section 2 of Chapter 62F).

† Wage and yearly growth ratio is calculated by dividing each calendar year's wages and salaries by those of the previous calendar year.

Note: Chapter 62F requires that, in calculating the allowable state tax growth factor for any fiscal year, the same total for Massachusetts's wages and salaries for a calendar year utilized in prior calculations involving that calendar year shall be utilized in subsequent calculations involving that calendar year, notwithstanding periodic adjustments by the Bureau of Economic Analysis.  
The fiscal year 2019 allowable state tax growth factor decreased 0.0017428 from the prior year's factor of 1.0461875.

## EXHIBIT VI

### Comparison of Net State Tax Revenues for the Two Fiscal Years Ended June 30, 2019

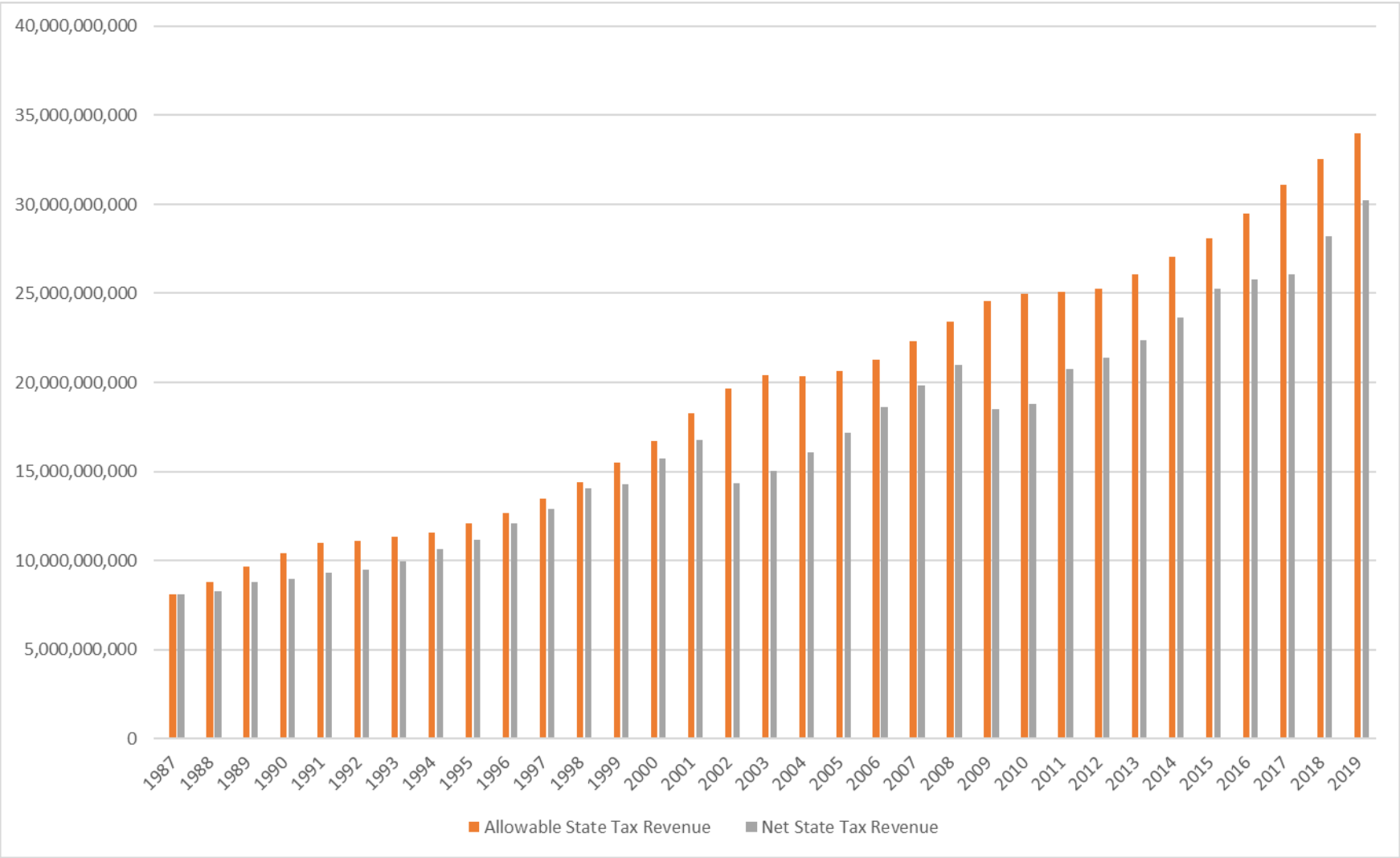
Type of State Tax Collected (by Agency)	Net State Tax Revenues for the Fiscal Year Ended June 30, 2019	Net State Tax Revenues for the Fiscal Year Ended June 30, 2018	Increase/ (Decrease)	Percentage Increase/ (Decrease)
<b>Department of Revenue:</b>				
Alcoholic Beverages	\$ 86,195,060	\$ 84,977,507	\$ 1,217,553	1.43%
Financial Institutions	19,467,156	17,442,655	2,024,501	11.61%
Cigarettes*	553,261,172	594,172,849	(40,911,677)	(6.89)%
Corporations	2,927,159,714	2,392,154,111	535,005,603	22.37%
Deeds	218,531,615	193,540,509	24,991,106	12.91%
Estate and Inheritance	601,305,956	472,955,859	128,350,097	27.14%
Income*	17,125,833,364	16,255,654,922	870,178,442	5.35%
Insurance	400,596,657	363,569,152	37,027,505	10.18%
Motor Fuels and I.F.T.A.†	775,462,667	769,144,085	6,318,582	0.82%
Public Utilities	40,000	(650,000)	690,000	106.15%
Room Occupancy‡	283,707,813	263,448,681	20,259,132	7.69%
Sales and Use‡	6,842,955,644	6,491,262,465	351,693,179	5.42%
Club Alcoholic Beverages	925,723	864,506	61,217	7.08%
Motor Vehicle Excise	77,273	116,187	(38,914)	(33.49)%
Convention Center Surcharges	17,001,282	17,177,597	(176,315)	(1.03)%
Community Preservation Trust	23,173,800	23,793,880	(620,080)	(2.61)%
Controlled Substances	13,948,855	7	13,948,848	1,992,693%
Satellite	8,605,108	9,721,141	(1,116,033)	(11.48)%
Statewide Car Rental	1,096,128	0	1,096,128	NA
<b>Subtotal (Department of Revenue)</b>	<b>\$29,899,344,987</b>	<b>\$27,949,346,113</b>	<b>\$1,949,998,874</b>	<b>6.98%</b>
<b>Massachusetts Gaming Commission:</b>				
Pari-Mutuel Taxes	788,306	886,950	(98,644)	(11.12)%
Gaming Revenue Taxes	130,701,550	68,010,487	62,691,063	92.18%
<b>Lottery Commission:</b>				
Beano	697,460	730,836	(33,376)	(4.57)%
Raffles and Bazaars	1,123,098	1,030,972	92,126	8.94%
<b>State Athletic Commission:</b>				
Boxing Contests	125,966	208,390	(82,424)	(39.55)%
Boxer's Fund	12,643	33,239	(20,596)	(6,196)%
<b>Division of Insurance:</b>				
Excess and Surplus Lines Insurance	44,848,231	42,681,550	2,166,681	5.08%
<b>Secretary of State:</b>				
Deeds Excise Stamp Tax Fees	99,815,285	90,956,209	8,859,076	9.74%
<b>Department of Unemployment Assistance:</b>				
Workforce Training Contribution	25,131,463	24,675,801	455,662	1.85%
<b>Subtotal (Other Agencies)</b>	<b>\$ 303,244,002</b>	<b>\$ 229,214,434</b>	<b>\$ 74,029,568</b>	<b>32.30%</b>
<b>Total (Department of Revenue and Other Agencies)</b>	<b>\$30,202,588,989</b>	<b>\$28,178,560,547</b>	<b>\$2,024,028,442</b>	<b>7.18%</b>

\* Includes income tax penalties assessed under Section 2 of Chapter 111M of the General Laws and cigarette excise revenues credited to the Commonwealth Care Trust Fund in accordance with Sections 12 and 70 of Chapter 302 of the Acts of 2008.

† International Fuel Tax Agreement.

‡ Includes sales, meals, and room occupancy excise taxes, as well as service fees for the City of Worcester DCU Capital Improvement Fund.

**EXHIBIT VII**  
**History of Net State Tax Versus Allowable State Tax Revenue**



---

## **AUTHORITY BY TAX SOURCE**

- Alcoholic Beverages, excise tax imposed by Section 21 of Chapter 138 of the Massachusetts General Laws.
- Financial Institutions, excise tax and income taxes established by Sections 1, 2, 2A, and 7 of Chapter 63 of the General Laws.
- Cigarettes, excise tax pursuant to Chapter 64C of the General Laws.
- Corporations, excise and income taxes imposed under Chapters 63 and 63B of the General Laws.
- Deeds, excise tax established by Chapter 64D of the General Laws.
- Estate and Inheritance, legacies, successions, and transfer tax imposed by Chapters 65, 65A, 65B, and 65C of the General Laws.
- Income, income taxes on individuals, fiduciaries, and corporate trusts established under Chapters 62 and 62B of the General Laws.
- Insurance, excise tax established by Sections 20 through 29E of Chapter 63 of the General Laws.
- Motor Fuels, excise tax established by Chapters 64A, 64E, and 64F of the General Laws.
- Public Utilities, corporate franchise tax imposed by Chapter 63 of the General Laws.
- Room Occupancy, excise tax established by Chapter 64G of the General Laws.
- Sales and Use, personal property, transfer, storage, and use tax imposed by Chapters 64H and 64I of the General Laws.
- Club Alcoholic Beverages, excise tax established by Chapter 63A of the General Laws.
- Motor Vehicle, excise tax imposed by Chapter 60A of the General Laws.
- Controlled Substances, stamp tax on the possession of controlled substances imposed by Chapter 64K of the General Laws.
- Racing, tax on gross receipts imposed by Section 5 of Chapter 128A of the General Laws. Pursuant to Section 110 of Chapter 194 of the Acts of 2011 (the "Gaming Act"), effective May 20, 2012, the Massachusetts Gaming Commission assumed all the duties and responsibilities formerly carried out by the State Racing Commission.
- Beano, tax on gross receipts established by Section 39 of Chapter 10 of the General Laws.
- Raffles and Bazaars, tax on gross receipts imposed by Section 7A of Chapter 271 of the General Laws.



- 
- Boxing, tax on gross receipts established by Sections 40 and 40A of Chapter 147 of the General Laws.
  - Convention Center Financing Surcharges established by Sections 9 and 22 of Chapter 152 of the Acts of 1997, amended by Section 13 of Chapter 68 of the Acts of 1999 and amended by Chapter 45 of the Acts of 2001. The administration of this surcharge is vested in the Commissioner of Revenue by Section 86 of Chapter 62C of the General Laws.
  - Unemployment Insurance Workforce Training Contribution imposed by Chapter 175 of the Acts of 1998. Proceeds are to be deposited in the Workforce Training Fund established by Section 2RR of Chapter 29 of the General Laws. Section 5 of Chapter 142 of the Acts of 2011 amended Section 2RR of Chapter 29 by changing the designation of the Workforce Training Fund to the Workforce Training Trust Fund.
  - Excess and Surplus Lines Insurance Premium Tax established by Section 168 of Chapter 175 of the General Laws.
  - Deeds Excise Stamps Tax, Secretary of the Commonwealth, established by Chapter 300 of the Acts of 1998, Section 1 of Chapter 48 of the Acts of 1997, and Section 567(a) of Chapter 151 of the Acts of 1996.
  - Deeds surcharge on fees established by Chapter 267 of the Acts of 2000. Proceeds are to be deposited in the Massachusetts Community Preservation Trust Fund as established by Section 9 of Chapter 44B of the General Laws.
  - DCU Center Financing Surcharges established by Section 3 of Chapter 422 of the Acts of 2006.
  - Commonwealth Care Trust Fund established by Section 2000 of Chapter 29 of the General Laws; revenue deposited from penalties assessed and collected under Section 2 of Chapter 111M of the General Laws and Sections 12 and 70 of Chapter 302 of the Acts of 2008.
  - Local Option Sales Tax on Meals established by Chapter 64L of the General Laws.
  - Direct Broadcast Satellite Service Excise Tax established by Chapter 64M of the General Laws, which imposed a 5% excise tax on gross revenues of providers of direct broadcast satellite service to a subscriber or customer in Massachusetts.
  - Expanded Gaming Daily Taxes and Assessment: Chapter 194 of the Acts of 2011 expanded gaming in the Commonwealth; Section 16 of the act added Chapter 23K to the General Laws, establishing the Massachusetts Gaming Commission as well as daily taxes and an assessment payable by Category 1 and Category 2 licensees.
  - Marijuana Taxes, consisting of the marijuana state excise tax and marijuana local sales tax option, Massachusetts sales tax imposed on the sale of marijuana not medically prescribed pursuant to Chapter 64N of the General Laws.
  - Police Training Surcharge on Vehicular Rental Contracts established by Section 3 of Chapter 153 of the Acts of 2018.