



*You Found Us...  
\$173 million collected.*

~~Find Us~~  
Before We Find 

**TAX**  
**Amnesty**



**To the Honorable Mitt Romney, Governor of the Commonwealth, and the Honorable Members of the General Court of Massachusetts:**

I am pleased to present to you the Massachusetts Department of Revenue's Fiscal Year 2003 Annual Report. As the state's economy continued to struggle and DOR began a new fiscal year with reduced staff, the Department rose to the challenge of increasing revenue collections and improving its operating efficiency.

Perhaps our most notable accomplishment was the record collections generated by the tax amnesty program. We collected more than \$173 million over the few short months of the amnesty period. We also saw settlements of captive REITs and Future Inheritance Tax cases reach \$144 million. The agency demonstrated a commitment to closing tax loopholes, collecting delinquent taxes due and accelerating those collections into a fiscal year in which they were most needed. The legislative changes will prevent this drain on revenues in future fiscal years as well.

In addition, DOR netted \$8 million in delinquent tax collections in FY03 though its new Discovery software, and tens of millions of dollars are in the pipeline. The Department's investment in Discovery also will provide long-term benefits in a number of DOR bureaus.

I am pleased with these results and proud of the fact that we implemented these measures without sacrificing the quality and level of service to our customers that has become our hallmark. In fact, we instituted new technology and procedures within DOR that improved service.

In an increasingly technically savvy business world, DOR is doing its part to offer innovative programs that make use of the latest technological advancements. DOR sought and received Legislative approval to increase the number of businesses required to file and pay their taxes electronically. To assist businesses in meeting this mandate, we launched an improved version of our WebFile for Business application. The new application is easier to use and allows businesses to more conveniently access and manage their accounts with DOR via the Internet. The response from businesses using WebFile for Business has been positive.

The use of the Internet had also become vital to providing assistance to child support clients and local officials as well. FY03 also saw a record \$462 million in child support enforcement collections — \$11 million in collections as a result of the License Revocation Program. In addition, the Department distributed \$5.141 billion in local aid, and for the first time, Cherry Sheets were distributed exclusively in electronic format.

As important as technology is to the Department's operations, it cannot take the place of a dedicated workforce. The employees of DOR prove their commitment daily, not only to the agency but also to the individuals we serve. In my view, DOR employees truly are the finest in state government.

I look forward to working with you in advancing DOR's commitment to better serving the taxpayers of the Commonwealth. With your continued support we can only improve on our successes.

  
Alan LeBovidge,, Commissioner of Revenue

# Year in Review

## Introduction

Fiscal Year 2003 was a very successful year for the Department of Revenue. Operations were streamlined, new technologies were implemented and revenues collected increased. Despite a reduction in staff, DOR surpassed its goals, benefiting not only the Department but taxpayers and practitioners as well. The following sections highlight DOR's FY2003 achievements in tax administration, child support enforcement and local services.

## Tax Administration

In FY2003, the Legislature authorized DOR to offer a tax amnesty program to generate much needed revenue at a time when the Commonwealth was facing a serious budget deficit. Eligible taxpayers were allowed to voluntarily pay overdue tax obligations without having to pay penalties or face possible litigation. The Massachusetts Tax Amnesty program was an enormous undertaking requiring the coordinated efforts of many bureaus throughout the agency. The Department defined the parameters; launched a media campaign to educate the public; made significant programming changes to DOR systems; developed forms and informational publications; answered taxpayer inquiries; created a comprehensive amnesty Web page; expedited settlements; and processed and tracked the revenue collected.

Far exceeding projected collections, the amnesty program attracted more than \$173 million in past-due taxes. The sheer magnitude of this project, as well as its overwhelming results, earned DOR a 2003 Manuel Carballo Award for Excellence in Public Service.

The Department used the amnesty program's catchphrase "Find Us Before We Find You" to introduce its new Discovery initiative. Discovery is a sophisticated data warehousing system that has enhanced DOR's ability to pinpoint tax evaders. Discovery identifies individual and business taxpayers who have failed to file tax returns or underreported their tax obligations. Discovery interfaces with DOR's tax system to improve case management and correspondence follow-up. At the close of FY2003, collections attributed to this program netted \$8 million.

Once again, the Department reaffirmed its commitment to using technology to make filing returns and making payments as easy as possible. During the 2002 tax return filing season, DOR introduced 2-D barcoding for computer-generated individual income and corporate excise tax returns. The 2-D barcodes contain all the information entered on the return in an encoded format. When the barcode is scanned, the information is recorded on DOR's system virtually error-free, resulting in faster processing and refund turnaround time. DOR processed the 2-D barcode returns within 48 hours of scanning and experienced a 96 percent error-free acceptance rate. Of the 3.3 million income tax returns processed, 1 million returns were filed electronically (Telefile, commercial software, or e-filed thorough a tax practitioner) and refunds were issued within three days. Another 600,000 returns were filed with 2-D barcodes and refunds were received in two weeks.

The Department also launched an improved version of its popular WebFile for Business application. This latest version merged three distinct applications into one single point of entry where businesses can register with DOR to collect taxes; file and pay trustee taxes; and file and pay wage reporting and withholding obligations. WebFile for Business is a dynamic tool that provides businesses with a means of researching and managing their tax accounts in a way that was never available to them before. The application's capabilities go beyond filing returns and making payments: businesses can assign different tax responsibilities to different employees within the company; view their account histories at any time; give access to a tax professional

# Year in Review

to handle their account on their behalf; and update contact information instantly.

The Department also made significant inroads in identifying and closing tax loopholes in FY2003. DOR played a key role in developing legislation that disallows the dividends received deduction claimed by banks that had created Real Estate Investment Trusts and authorizes DOR to settle inheritance tax on the transfer of future interests in trusts created by decedents who died prior to January 1, 1976. Settlements from the captive REITS and Future Inheritance Tax cases reached \$144 million in collections.

Our audit assessments topped \$580 million in FY03, an increase of 117 percent over the prior three-year average.

DOR also focused internally on streamlining operations. To eliminate duplicate procedures and reduce the overall time necessary to resolve disputes, DOR consolidated its hearing and settlement functions into one appeal, and revised procedures for filing appeals. DOR also retooled its walk-in customer service counters into self-help facilities for taxpayers with the installation of computers and direct telephone lines to the main customer service numbers.

Also, in FY03 the Division of Local Services, which has oversight of property taxation and municipal finance for the Commonwealth's 351 cities and towns, implemented a number of e-government initiatives to improve internal programs and provide local officials with more convenience in working with the state. DLS installed new internal software applications for setting municipal tax rates and administering local aid payments. DLS also helped municipalities achieve sound and efficient fiscal management through technical assistance and training.

## Child Support Enforcement

The Child Support Enforcement Division is charged with protecting the economic well-being of children by enforcing the financial responsibilities of parenthood.

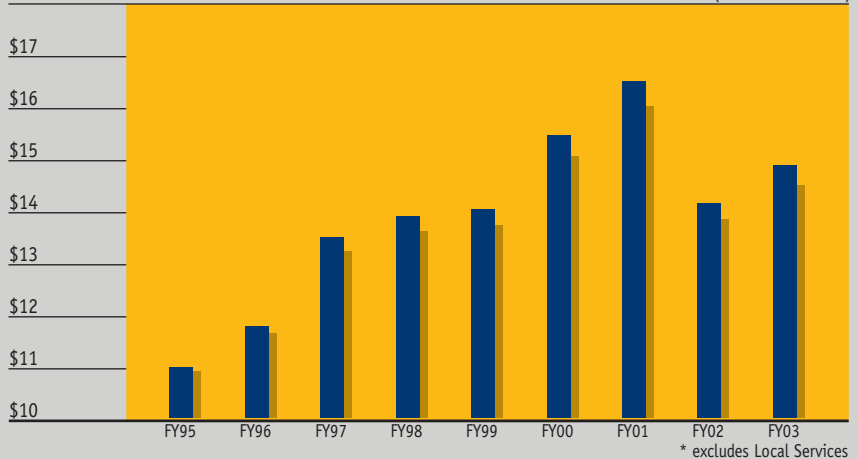
CSE achieved a record \$462 million in collections in FY2003. In partnership with the Registry of Motor Vehicles, CSE was able to suspend the drivers' licenses of parents who failed to pay delinquent child support obligations. The license suspension program generated \$11 million in payments and increased compliance on current support orders.

CSE also improved its website to provide additional information and services to child support clients. The Case Manager enables both custodial and noncustodial parents to view recent case activity and payment history, as well as update personal information and apply for services online. The Department also witnessed a 60 percent increase over the previous year in the number of businesses reporting new hires online via the CSE website.

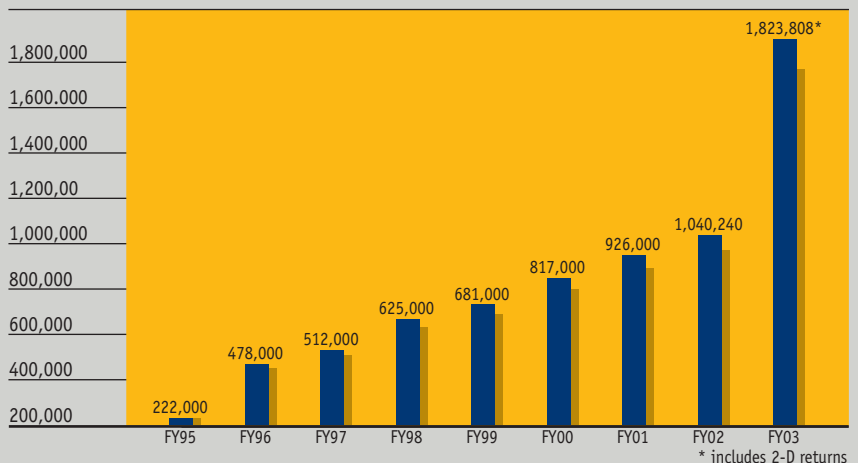
FY2003 was also a banner year for CSE as it passed the federal Data Reliability Audit with no audit findings, making CSE eligible for incentives on all five performance measures. CSE passed all the line items with an efficiency rate showing reliability of 95 percent or higher.

**Total Revenue**

(revenue in billions)



**E-Filing Overall Has Increased 8-fold Since 1995**



## **An Act Making Appropriations for the Fiscal Year 2003 for the Maintenance of the Departments, Boards, Commissions, Institutions and Certain Activities of the Commonwealth, for Interest, Sinking Fund and Serial Bond Requirements and for Certain Permanent Improvements (St. 2002, c. 184)**

— This act provides for implementation of a limited tax amnesty program, provides Massachusetts tax relief for certain victims of terrorist acts and other disasters, and makes several other changes relating to state tax law and tax administration.

### Two-Month Limited Amnesty Program

For the purpose of encouraging voluntary disclosure and payment of delinquent tax obligations to the Commonwealth, the act authorizes the Commissioner to establish a two-month limited amnesty program within fiscal year 2003 for certain types of taxpayers for certain tax periods. In addition, the act provides certain tax relief for victims of terrorist acts.

In general, eligible taxpayers are (1) taxpayers who failed to file a Massachusetts tax return, including, but not limited to tax returns for personal income tax, withholding, corporate excise, sales and use tax, sales tax on meals, estate tax and inheritance tax, (2) taxpayers who have under-reported taxable income and/or receipts, (3) taxpayers who have overstated deductions, (4) taxpayers who have filed an incorrect or insufficient Massachusetts tax return, or (5) taxpayers who are delinquent in paying a past state tax obligation.

Certain taxpayers are not eligible for this amnesty program. The Commissioner will not grant amnesty to any taxpayer for any tax periods for which the taxpayer is or has been the subject of a tax-related criminal investigation or prosecution. Also, penalties cannot be waived for taxes paid under the International Fuel Tax Agreement returns (IFTA) and the Local Room Occupancy Excise.

In order to qualify for amnesty, taxpayers must make full payment of all taxes and interest due for all tax types and tax periods. For taxpayers who qualify for amnesty, the Department will waive late filing and late payment penalty charges, and will not refer cases to the Attorney General's Office for criminal prosecution for the tax and tax period(s) covered by the grant of amnesty. St. 2002, c. 184, § 182.

See TIR 02-14 for the dates for the amnesty program and an explanation of the procedures for amnesty participants.

### Personal Income Tax

#### **Tax Relief for Victims of Terrorist Acts and Other Disasters.**

The act incorporates into Massachusetts law relevant provisions of the federal Victims of Terrorism Tax Relief Act of 2001, Public Law 107-134, including the following:

#### **Exemption of Wages and Salaries from Tax.**

The spouses or estates of September 11th victims, as well as anthrax victims, and victims of the Oklahoma City bombing, are eligible for refunds for taxes paid on the victim's wages and salaries for the year of death and the year prior to death (in most cases, 2000 and 2001). The minimum tax benefit is \$3,000. St. 2002, c. 184, § 60, amending M.G.L. c. 62, § 25.

#### **Exemption of Certain Income from Tax.**

Normally, when a portion of a loan is forgiven, it is considered income to the debtor and therefore taxable. Loans to specified victims of September 11th or specified victims of anthrax attacks that are subsequently forgiven are exempt from tax. Payments made as settlements, disability income for survivors injured in a terrorist attack or military action, and non-standard death benefits paid by employers are also exempt. St. 2002, c. 184, § 59, amending M.G.L. c. 62, § 2(a)(2) to add new subparagraphs (L), (M), and (P).

#### **Exemption of Disaster Assistance from Tax.**

A personal income tax exemption is provided for qualified disaster assistance including payments made to disaster survivors for living, personal and rebuilding expenses, as well as settlements. This exemption is not limited to payments made to survivors of terrorist attacks or military action, but includes payments made to survivors of federal, state and locally declared disasters. St. 2002, c. 184, § 59, amending M.G.L. c. 62, § 2(a)(2) to add new subparagraphs (N) and (O).

### Tax Administration

#### **Suspension of Certain Tax Deadlines.**

The Commissioner may suspend, for up to one year, the time periods and deadlines for various tax actions for taxpayers that are affected by a Presidentially declared disaster, terroristic or military action. St. 2002, c. 184, § 65, amending M.G.L. c. 62C to add new § 87.

A Technical Information Release is forthcoming with additional information on Massachusetts state tax relief for victims of terrorist attacks.

## **An Act Enhancing State Revenues (St. 2002, c. 186)**

The act includes a variety of tax law changes to the personal income tax, the sales and use tax, the cigarette excise, and the estate tax.

### Personal Income Tax

#### **Decreases to Personal Exemptions**

Effective for tax year 2002, personal income tax exemptions decrease from \$4,400 to \$3,300 for single filers, from \$6,800 to \$5,100 for heads of households, and from \$8,800 to \$6,600 for joint filers. Depending on economic conditions, the personal income tax exemptions may increase for future tax years. St. 2002, c. 186, §§ 10–12, amending M.G.L. c. 62, § 3.

#### **Tax Rates**

**Part A Income:** Part A income consists of interest (except interest from Massachusetts banks), dividends, gains from collectibles, and gains from the sale or exchange of capital assets held for one year or less. The tax rate imposed on Part A taxable income consisting of short-term capital gains and gains on collectibles is 12 percent. The tax rate imposed on Part A taxable income consisting of interest and dividends is taxed at the same rate as provided for Part B taxable income (5.3 percent for 2002). See M.G.L. c. 62, § 4(a).

**Part B Income:** Part B income consists of any income, including wage income, that is neither Part A nor Part C income. For tax years beginning on or after January 1, 2002, the Part B tax rate remains at 5.3 percent. The scheduled tax rate reduction to 5.0 percent in 2003 has been repealed. Depending on economic conditions, the tax rate for Part B taxable income may decrease for future tax years. St. 2002, c. 186, § 13, amending M.G.L. c. 62, § 4(b).

**Part C Income:** Tax rates for transactions completed on or after May 1, 2002: In place of the existing six categories of gain based on six defined holding periods and taxed at six different rates (ranging from 5 percent down to 0 percent), the act defines Part C gross income as gains from the sale or exchange of capital assets (except collectibles) held for more than one year. Effective for tax years beginning on or after January 1, 2002, the act changes the multiple tax rates for Part C income to the single rate provided for Part B taxable income (5.3 percent for



2002), but only for transactions completed on or after May 1, 2002. St. 2002, c. 186, § 6 amending M.G.L. c. 62, §§ 2(b)(3), and St. 2002, c. 186, § 14, amending M.G.L. c. 62, § 4(c). The act provides that, to the maximum extent possible, all transactions that are completed prior to May 1, 2002, shall be aggregated and taxed under the procedures and rates in place prior to the changes in law set forth in the act. St. 2002, c. 186, § 32.

#### **Limitation on Capital Loss Offset Against Part A Interest and Dividends**

For tax years 1996–2001, there was no dollar limit on the deduction of capital losses against Part A income consisting of interest and dividends. In a change to prior law, the act provides that the aggregate amount of the deduction for Part A and Part C capital losses against Part A income consisting of interest and dividends cannot exceed \$2,000. St. 2002, c. 186, § 7, amending M.G.L. c. 62, § 2(c).

#### **Capital Gain on Sale of a Principal Residence**

Under current law, Massachusetts adopts the federal exclusions for gain on the sale of a principal residence at IRC § 121 as amended and in effect for the taxable year. The act provides that the amount of gain from the sale of a principal residence excluded from Massachusetts gross income shall not be less than the exclusion allowed under § 121 of the Code in effect on January 1, 2002, i.e., up to \$250,000 of capital gain (\$500,000 for joint filers meeting certain conditions) from the sale of a home owned and used by the taxpayer as a principal residence for at least two of the five years before the sale. As a result of the act, if the amount of the federal exclusion at § 121 is increased, Massachusetts will adopt the increased exclusion. St. 2002, c. 186, § 5, amending M.G.L. c. 62, § 2(a)(3).

#### **Conformity with Federal Law for Retirement Plans**

Effective for tax years beginning on or after January 1, 2002, the act conforms the Massachusetts personal income tax to current federal law governing the taxation of contributions to and distributions from qualified plans, § 401(k) plans, § 403(b) plans, § 457 plans, SEPs (simplified employee pensions), and SIMPLE IRAs (savings incentive match plans for employees). Prior to the act, for these retirement plans, Massachusetts generally followed the Internal Revenue Code as amended and in effect on January 1, 1998. As a result of the act, Massachusetts now

conforms to current federal law in the treatment of elective deferrals, catch-up contributions, and qualified rollovers of plan proceeds. All amounts of retirement plan contributions and distributions that are allowed to be excluded from federal gross income under the current Code will be excluded from Massachusetts gross income.

#### **Employer's Deduction for Plan Contributions**

In the case of employers taxed under chapter 62 of the General Laws, unless a specific statutory exception applies (see, e.g., M.G.L. c. 62, § 2(d)(1)(D)), the act adopts the current federal law at IRC § 404 allowing the deduction of employer contributions to qualified plans and other retirement plans. St. 2002, c. 186, §§ 1, 5, amending M.G.L. c. 62, §§ 1(c) and 2(a).

#### **Qualified Prepaid Tuition Programs**

As of January 1, 2002, Massachusetts is aligned with current federal treatment of “qualified tuition programs” as defined by Internal Revenue Code § 529. Before the act, the personal income tax adopted the provisions of IRC § 529 as amended and in effect on January 1, 1998. St. 2002, c. 186, § 1, amending M.G.L. c. 62, § 1(c).

#### **Deduction for Charitable Contributions Suspended**

This act disallows a deduction for charitable contributions for taxable years beginning on or after January 1, 2002. A deduction for charitable contributions may become available in future tax years if the rate of tax on Part B income decreases to 5 percent. St. 2002, c. 186, § 9, amending M.G.L. c. 62, § 3B(a)(13).

The Department will issue a Technical Information Release to explain the changes made by the act to the personal income tax.

### **Sales and Use Tax**

The act conforms the Massachusetts sales tax on telecommunications services to the Federal Mobile Telecommunications Sourcing Act. This recently enacted federal law simplifies the taxation of wireless calls by requiring states that tax such calls (such as Massachusetts) to impose tax based only on the retail customer's “place of primary use,” regardless of where a call originates or terminates. The “place of primary use” as defined by federal law is generally the residential street address or the primary business address of the customer. Thus, if a retail customer's “place of primary use” is in Massachusetts, all calls billed to that customer will be subject to Massachusetts sales tax. Both the new federal

law and the new Massachusetts sales tax provisions apply to customer bills for wireless telecommunications services issued after August 1, 2002. St. 2002, c. 186, §§ 24–27, amending M.G.L. c. 64H, § 1.

#### **Cigarette Excise Increased**

The excise on cigarettes has been increased from \$0.76 to \$1.51 per 20-count package. Under the act, cigarette packs with fewer than 20 cigarettes may not be stamped or sold. The rate on smokeless tobacco is increased from 75 percent to 90 percent of the wholesale price paid by the licensee, and the rate on cigars and smokeless tobacco is increased from 15 percent to 30 percent of the wholesale price paid by the licensee. St. 2002, c. 186, §§ 17–20, amending M.G.L. c. 64C, §§ 6, 7, 7A, 7B, and adding new § 33A. In addition, the act creates new civil penalty provisions of not more than \$5,000 per violation for the possession, sale, offer to sell, intent to sell, delivery, or transportation of cigarettes not properly stamped. St. 2002, c. 186, §§ 22, 23, amending M.G.L. c. 64C, §§ 34, 35. The effective date of these provisions is July 25, 2002. For more information, see TIR 02-15, Excise Increase on Cigarettes, Cigars and Smoking Tobacco and Smokeless Tobacco under G.L. c. 64C.

#### **Estate Tax**

The act amends the Massachusetts estate tax (or “sponge tax”) and makes the Massachusetts estate tax equal to the amount of the credit for state death taxes computed using IRC § 2011 as in effect on December 31, 2000. The change from the current Internal Revenue Code to the December 31, 2000 Code reference date avoids the scheduled reductions in the amount of the allowable credit for state death taxes (and, as a result, the amount of estate tax due Massachusetts) in 2003 and 2004 and the elimination of the credit in 2005. The changes to IRC § 2011 were enacted by federal legislation in 2001. The estate tax provisions that “decouple” the Massachusetts estate tax from the federal reductions and eventual phase-out are applicable to the estates of decedents dying on or after January 1, 2003. The Massachusetts sponge tax computation for deaths occurring in 2002 will be computed under current federal law. St. 2002, c. 186, § 28 amending M.G.L. c. 65C, § 2A.

#### **An Act Making Appropriations for the Fiscal Year 2002 to Provide for Supplementing Certain Existing Appropriations and for Certain Other Activities and Projects (St. 2002, c. 300) —**

This act provides that the Massachusetts per-

sonal income tax forms must allow taxpayers to volunteer to pay tax at a higher rate, and grants authority to the Commissioner to require the manner, format and medium for tax filings and tax payments.

## Personal Income Tax

The act provides that the Massachusetts personal income tax forms must provide an election for taxpayers to voluntarily pay tax at a rate of 5.85 percent on taxable income, which would otherwise be taxed at a rate of 5.3 percent. For taxable years beginning on or after January 1, 2002, the following items are taxed at a rate of 5.3 percent: Part A taxable income consisting of dividends and interest, Part C taxable income consisting of capital gains from the sale or exchange of capital assets held for more than one year (except gains from collectibles and gains from transactions completed before May 1, 2002), and Part B taxable income consisting of wages, salaries, interest from Massachusetts banks, pensions, business income, rental income, alimony, and winnings, and all other income that is not included in Part A or Part C. St. 2002, c. 300, § 44, amending St. 2002, c. 184, § 183, uncodified.

## Tax Administration

For the purpose of granting the Commissioner authority to require electronic filing for certain tax types, the act provides that any return, document or tax payment to be filed with the Department must be filed with or transmitted to the Department in the manner, format and medium as the Commissioner shall from time to time prescribe. St. 2002, c. 300, § 8 amending M.G.L. c. 62C, § 5.

### **An Act Making Certain Amendments to the General Appropriation Act for Fiscal Year 2003 and Certain Other Laws (St. 2002, c. 364) —**

This act includes tax law changes to the personal income tax, the estate tax, and tax administration.

## Personal Income Tax

Part A income consists of interest (except interest from Massachusetts banks), dividends, gains from collectibles, and gains from the sale or exchange of capital assets held for one year or less. For taxable year 2002, Part A taxable income consisting of short-term capital gains and gains on collectibles is taxed at the rate of 12 percent, and Part A taxable income consisting of

interest and dividends is taxed at the rate of 5.3 percent.

Under prior law, there was no dollar limit on the deduction of capital losses against interest and dividends included in Part A gross income. For taxable years beginning on or after January 1, 2002, not more than an aggregate amount of \$2,000 in Part A capital losses (capital assets held for one year or less) and Part C capital losses (capital assets held for more than one year) can be applied against interest and dividends included in Part A gross income. St. 2002, c. 364, §§ 4 and 5, amending M.G.L. c. 62, § 2(c)(2).

## Tax Administration

For returns filed on or after January 1, 2002, and before January 1, 2005, taxpayers are eligible to receive interest on overpayments of tax when the Department pays a refund more than 120 days after a return's due date, or, if a return is filed after the due date, more than 120 days after the actual date of the return's filing. No interest is allowed on an overpayment if the tax refund is made within these 120-day periods. For returns that are filed after the due date, the 120-day period begins to run with the date of filing regardless of whether there is an extension; if a refund is made after the 120-day period, interest is allowed back to the date of filing. For returns filed on or after January 1, 2005, the 120-day period becomes a 45-day period. St. 2002, c. 364, § 14; St. 2002, c. 96, §§ 3, 10; amending M.G.L. c. 62C, § 40.

## Estate Tax

Recently, the Massachusetts estate tax (or "sponge tax") at M.G.L. c. 65C, § 2A, was amended to "decouple" the Massachusetts estate tax from the federal estate tax. Under the new law, effective for the estates of decedents dying on or after January 1, 2003, the Massachusetts estate tax is equal to the amount of the credit for state death taxes computed using IRC § 2011 as in effect on December 31, 2000. This act further amends the Massachusetts estate tax to provide that the reference point Massachusetts uses to tie itself to the Internal Revenue Code for sponge tax purposes is December 31, 2000. Thus, future changes to the federal estate tax will not affect the Massachusetts estate tax law. St. 2002, c. 364, § 10, amending M.G.L. c. 65C, § 2A by striking subsections (e) and (f) and inserting new subsection (e).

As a result of these changes, for deaths on or after January 1, 2003, the threshold amounts for filing Massachusetts and federal estate tax returns will be different. Massachusetts estate tax returns will be required when the gross estate plus adjusted taxable gifts, computed using the Internal Revenue Code in effect on December 31, 2000, exceeds the following amounts:

- 2003 — \$700,000
- 2004 — 850,000
- 2005 — \$950,000
- 2006 and thereafter — \$1,000,000

The Massachusetts sponge tax computation for deaths occurring in 2002 will be computed under current federal law that has a filing threshold of \$1,000,000. See TIR 02-18.

### **An Act Relative to Certain Trust Funds and Other Matters (St. 2002, c. 429) —**

This act provided a two-month extension of the initial tax amnesty program that was previously authorized and ended on December 2, 2002. The extended tax amnesty program was in effect from January 1, 2003 through February 28, 2003, and has now closed. The extended tax amnesty program generally followed the procedures of the initial amnesty program. Under both the initial and extended amnesty programs, eligible taxpayers were required to make full payment of all taxes and interest due for all tax types and tax periods. However, while the initial tax amnesty program required lump sum payments, the extended tax amnesty program allowed eligible taxpayers with total liabilities of \$25,000 or less to enter into a payment plan, provided that payments were completed by June 16, 2003. Also, the extended amnesty program granted the Commissioner the discretion to observe a limited look-back period for unpaid use tax liabilities. See TIR 02-25. For taxpayers who qualified for amnesty, the Department waived late filing and late payment penalty charges. St. 2002, c. 429, § 11.

### **An Act Relative to the Tax Treatment of Prepaid Calling Arrangements (St. 2002, c. 469)**

— Under prior law, prepaid calling arrangements were generally taxable when the retail customer used a prepaid card to make a telephone call. Tax was collected and remitted by the telecommunications provider based on the origination point of the call. The act provides that prepaid calling cards and re-charges will be taxed at the point of sale, an administratively simpler approach now being followed by many other states. This change is effective April 1, 2003. A TIR explaining this



statutory change is forthcoming. St. 2002, c. 469, §§ 1, 2, amending M.G.L. c. 64H, § 1. Additional legislation provides that sales of prepaid calling arrangements shall be reported as sales of tangible property on Form ST-9 unless the vendor is otherwise required to report sales of taxable telecommunications services on Form STS. This eliminates the requirement for vendors to file any additional returns to separately report sales of prepaid calling arrangements. St. 2003, c. 9, § 8.

#### **An Act Making Appropriations for Fiscal Year 2003 to Provide for Supplementing Certain Existing Appropriations and for Certain Other Activities and Projects (St. 2003, c. 4) —**

This act allows Massachusetts to join the Streamlined Sales Tax Project, permits the formation of single-member limited liability companies, increases the Commissioner's settlement authority for inheritance tax cases (deaths before 1976), provides loophole-closing and other tax law changes to the personal income tax and the corporate excise, and makes several other changes relating to state tax law and tax administration.

### **Tax Administration/Corporate Excise**

#### **Tax Treatment of Certain Transactions**

This legislation confirmed the existence of the Commissioner's pre-existing authority concerning the tax treatment of various transactions. The act provides that, in certain cases, the Commissioner can disallow a tax consequence by asserting the "sham transaction" doctrine or any other related tax doctrine, in which case the taxpayer has the burden of proving by clear and convincing evidence (1) that the transaction had a valid business purpose other than tax avoidance, (2) that it had economic substance apart from the asserted tax benefits, and (3) that the asserted non-tax business purpose was commensurate with the tax benefit claimed. St. 2003, c. 4, §§ 10, 87, amending M.G.L. c. 62C by adding new section 3A.

#### **Addback of Certain Costs and Expenses Paid to Related Parties Intangibles Costs and Expenses.**

The act provides that, in computing net income under chapter 63, a taxpayer must generally addback certain payments remitted directly or indirectly to related parties for intangibles expenses and costs, including interest payments that relate to the intangibles transaction, as further defined by the act. An exception may apply if

the taxpayer establishes by clear and convincing evidence as determined by the Commissioner that the addback is unreasonable, or if the taxpayer and the Commissioner agree to an alternative method of apportionment. The act provides a specific exception for payments made to a related member when that related member transfers the payment to a person or entity other than a related member. The term "related member" is defined in the act. St. 2003, c. 4, § 17, amending M.G.L. c. 63 to add new § 31I.

#### **Interest Costs and Expenses.**

The act provides that, in computing net income under chapter 63, a taxpayer must generally addback certain payments remitted directly or indirectly to related parties for interest expenses and costs. This provision applies to certain payments made to an unrelated party when the payment is made in connection with debt that was incurred to acquire the taxpayer and also to interest payments that are made in connection with "dividend notes." An exception may apply if the taxpayer establishes by clear and convincing evidence as determined by the Commissioner that the addback is unreasonable, or if the taxpayer and the Commissioner agree to an alternative method of apportionment. The act also provides a specific exception for interest payments to a related member when the rate of tax applied to the interest received by the related member is no less than the statutory rate of tax applied to the taxpayer under chapter 63 minus 3 percentage points. St. 2003, c. 4, § 17, amending M.G.L. c. 63 to add new § 31J.

#### **Intercompany Adjustments**

Additional legislation confirmed the original intent of the Legislature that the Commissioner's authority to make intercompany adjustments as between parent and subsidiary or affiliated corporations under section 33 and 39A of chapter 63 permits such adjustments whether payments for commodities or services are from the parent to the subsidiary or from subsidiary to the parent. St. 2003, c. 4, §§ 19–22 and 25–28, amending M.G.L. c. 63, §§ 33 and 39A.

#### **Settlement Authority, Inheritance Tax**

The Massachusetts inheritance tax at M.G.L. c. 65 is applicable to the transfer of future interests in trusts created by decedents who died prior to January 1, 1976. Under existing settlement authority, whenever it is impossible to compute the present value of a future interest, the Commissioner may effect a settlement of the tax that would be due at some future date under chapter

65. See AP 572. The act provides new settlement authority under St. 2003, c. 4, § 72 for estates that seek to settle the tax on future interests. Estates that settle during March and April of 2003 can reduce the value of the trust assets by 20 percent before applying the applicable tax rate. The reduction in value is 15 percent for settlements submitted in May and June of 2003, 5 percent for settlements submitted from July 1, 2003 through September 30, 2003 and 2 percent for settlements from October 1, 2003 to December 15, 2003. The estate must pay the full amount of the agreed settlement not later than December 15, 2003. St. 2003, c. 4, § 72. For more information, see TIR 03-4, or contact the Inheritance Tax Unit at (617) 887-6808.

### **Sales and Use Tax**

#### **Streamlined Sales Tax Project**

The act permits Massachusetts to participate in the Streamlined Sales Tax Project. Representatives from the Department, the Legislature, and the Retailers Association of Massachusetts may now participate in ongoing multi-state discussions working toward adoption of uniform sales and use tax provisions among participant states. The Project's goal is to establish a cooperative, simplified and modernized system for the administration of sales and use taxes under the laws of each member state and application of new technologies to lessen the burden of tax collection. The Project aims to reduce the burden of tax compliance for sellers doing business in multiple jurisdictions, while protecting the privacy of consumers and maintaining the confidentiality of tax information.

As a result of the act, the Commonwealth will join 39 other states and the District of Columbia that have been participating in the Streamlined Sales Tax Project since 2000. Forty-five states and the District of Columbia impose a sales and use tax. The act makes no changes in existing Massachusetts sales and use tax law. The statutory changes necessary to implement the proposed uniform provisions will be considered by the Legislature in the future. St. 2003, c. 4, § 82.

### **Personal Income Tax**

#### **Taxation of Nonresidents**

Massachusetts gross income of a nonresident is determined solely with respect to items of gross income from sources within the Commonwealth. M.G.L. c. 62, § 5A(a). In relevant part, the prior law at 5A(a)(1) defined gross income from sources within the Commonwealth as the income

“derived from or effectively connected with ... any trade or business, including any employment carried on by the taxpayer in the Commonwealth.”

Effective for tax years beginning on or after January 1, 2003, this act effectively reverses a judicial interpretation of § 5A(a). Newly enacted § 5A(a) defines gross income from sources within the Commonwealth as any income “derived from or effectively connected with ... any trade or business, including any employment carried on by the taxpayer in the commonwealth, whether or not the nonresident is actively engaged in a trade or business or employment in the commonwealth in the year in which the income is received.” Thus, unless otherwise exempt, Massachusetts source income of a nonresident, regardless of the year in which it is actually received, will be taxable in the state. St. 2003, c. 4, § 7 amending M.G.L. c. 62, § 5A.

For purposes of M.G.L. c. 62, § 5A, the act further provides that “gross income derived from or effectively connected with any trade or business, including any employment, carried on by the taxpayer in the commonwealth” shall include, but not be limited to, “gain from the sale of a business or of an interest in a business, distributive share income, separation, sick or vacation pay, deferred compensation and nonqualified pension income not prevented from state taxation by the laws of the United States and income from a covenant not to compete.”

Under federal law at P.L. 94-105, a state is precluded from taxing nonresidents on certain retirement income received after December 31, 1995, including income from certain qualified and nonqualified plans and military pensions. See TIR 97-2. The recent legislation has no impact on the taxation of pension income that is exempt under P.L. 94-105.

### Corporate Trusts

A “corporate trust,” as that term is used in the General Laws is defined as “any partnership, association or trust, the beneficial interest of which is represented by transferable shares.” All corporate trusts meeting this definition are taxable under M.G.L. c. 62, § 8, regardless of their treatment for federal tax purposes. However, chapter 62 provides that certain corporate trusts are exempt from taxation. Under prior law, a corporate trust was exempt from tax if its Massachusetts apportionment percentage was less than 10 percent. The act repeals this exemption.

Effective for tax years beginning on or after January 1, 2003, without exception, a corporate trust will be taxable on all income apportioned to Massachusetts. St. 2003, c. 4, § 8, amending M.G.L. c. 62, § 8(b).

### Limited Liability Companies (LLCs)

Effective for tax years beginning on or after January 1, 2003, the act permits the formation of single-member Massachusetts limited liability companies (LLCs). Under the new law, a Massachusetts single-member LLC will be classified for Massachusetts income tax purposes in the same way that it is classified for federal income tax purposes. Under prior law, Massachusetts LLCs were required to have at least two members; the tax classification of those Massachusetts LLCs with at least two members followed their federal tax classification. St. 2003, c. 4, § 9, amending M.G.L. c. 62, § 17.

### Corporate Excise

#### Limited Liability Companies (LLCs)

Effective for tax years beginning on or after January 1, 2003, the act permits the formation of single-member Massachusetts limited liability companies (LLCs). Under the new law, a Massachusetts single-member LLC will be classified for Massachusetts corporate excise purposes in the same way that it is classified for federal income tax purposes. Under prior law, Massachusetts LLCs were required to have at least two members; the tax classification of those Massachusetts LLCs with at least two members followed their federal tax classification. St. 2003, c. 4, § 13 amending M.G.L. c. 63, § 30.

Under the act, a Massachusetts LLC that is not classified as a partnership and has elected to be taxed as a corporation for federal income tax purposes is eligible to be classified as a manufacturing corporation or a research and development corporation if it otherwise meets the requirements of M.G.L. c. 63, § 38C. Similarly, a non-Massachusetts LLC that is not classified as a partnership and has elected to be taxed as a corporation for federal income tax purposes is eligible to be classified as a foreign manufacturing corporation or a foreign research and development corporation if it otherwise meets the requirements of M.G.L. c. 63, § 42B. St. 2003, c. 4, §§ 24, 29, amending M.G.L. c. 63, §§ 38C, 42B.

### Qualified Subchapter S Subsidiaries

The act requires certain qualified subchapter S subsidiaries (“QSUBs”), as defined under I.R.C. §

1361, to pay the net income measure of the corporate excise under M.G.L. c. 63, § 32D. A tax rate of 3 percent will be imposed on the net income of each QSUB if the total receipts of the QSUB, the QSUB’s parent, and all the parent’s other QSUBs for the taxable year are at least \$6 million but less than \$9 million. A tax rate of 4.5 percent will be imposed on the net income of each QSUB if the total receipts of the QSUB, the QSUB’s parent, and all the parent’s other QSUBs for the taxable year are \$9 million or more. St. 2003, c. 4, § 18, amending M.G.L. c. 63, § 32D. The new tax is in addition to the tax on the QSUB’s income currently levied on its parent (or shareholder or partners, etc., as the case may be).

The new law also requires every QSUB that receives income that would have been taxed to it for federal income tax purposes had it been treated federally as a separate corporation (i.e., income taxed at the corporate level under I.R.C. §§ 1374, 1375) to include, as a separate computation from the one above, such income in the net income measure of its corporate excise subject to tax at the rate specified in M.G.L. c. 63, § 32 or § 39, i.e. 9.5 percent. St. 2003, c. 4, § 18, amending M.G.L. c. 63, § 32D.

This new legislation became effective March 5, 2003. The Department will issue a Technical Information Release to explain how the new law will be implemented.

Pending issuance of guidance on how the new law will be implemented, a March 17, 2003 estimated tax payment for a QSUB was not required. There will be no underpayment of estimated tax penalty for a QSUB’s failure to make the March 17, 2003 estimated tax payment.

### Real Estate Investment Trusts

The Legislature has stated its intention with respect to the treatment of Real Estate Investment Trust (REIT) distributions in calculating the dividends received deduction. REITs are investment vehicles subject to I.R.C. §§ 856–860. The Legislature’s intent is to clarify existing Massachusetts statutes with respect to distributions received by businesses subject to tax under chapter 63 of the General Laws. For those subject to the excise under chapter 63, and in conformity with I.R.C. § 243(d), REIT distributions are not to be treated as dividends; and further, they have never been exempt from taxation or partially exempt. REIT distributions are subject to taxation at the recipient level. St. 2003, c. 4, §§ 11, 12,

amending M.G.L. c. 63, § 1; St. 2003, c. 4, § 14, amending M.G.L. c. 63, § 30; and St. 2003, c. 4, § 71.

A domestic or foreign corporation is entitled to tax treatment as a security corporation provided it is engaged exclusively in buying, selling, dealing in, or holding securities on its own behalf and not as a broker, and the corporation is classified as a security corporation by the Commissioner. Effective July 1, 2003, a corporation classified as a security corporation is not permitted to hold stock in a REIT that is a related member to the security corporation. St. 2003, c. 4, § 23, amending M.G.L. c. 63, § 38B.

**An Act Making Appropriations for the Fiscal Year 2004 for the Maintenance of the Departments, Boards, Commissions, Institutions and Certain Activities of the Commonwealth, for Interest, Sinking Fund and Serial Bond Requirements and for Certain Permanent Improvements (St. 2003, c. 26)** — This act extends the 3 percent investment tax credit for corporations, reduces the amount of interest that the Department pays on refunds of overpayments of tax, permits the Department to operate more efficiently by making corrections to returns during processing based on third party information or Department of Revenue records, eliminates duplicative hearings, and makes several other changes relating to state tax law and tax administration.

## Tax Administration

### **Corrections of Returns Based on Third Party Information**

In the vast majority of cases where the Department corrects a return based on information from third party sources (generally, unreported income such as unemployment compensation or Massachusetts state lottery winnings), the taxpayer does not dispute the change. In this situation, the Department now will only be required to send one notice to the taxpayer. If the taxpayer disagrees with the proposed correction, the taxpayer must so notify the Department, on a form prescribed by the Commissioner, in writing within thirty (30) days of the date of the notice. This change will be effective for returns filed on or after July 1, 2003. St. 2003, c. 26, § 193, amending M.G.L. c. 62C, § 26(c).

### **Substantiation of Abatement Applications; Limitation on Number of Administrative Hearings**

The Department receives many abatement applications without the supporting documentation necessary to rule upon the merits of the taxpayer's claim. The Department may now deny an incomplete abatement application if the taxpayer fails to supply information requested by the Department within thirty (30) days. Following a denial of an unsubstantiated abatement application, the taxpayer may file a new, properly substantiated abatement application with the Customer Service Bureau of the Department within the time limitations of M.G.L. c. 62C, § 37, or, in the alternative, appeal to the Appellate Tax Board or the Probate Court on the merits within the time limitations of M.G.L. c. 62C, § 39. Any subsequent application for abatement must meet the time limitations for filing an abatement without regard to the prior filing.

Also, the new law eliminates duplicative hearings involving identical issues of fact and law. A taxpayer will be entitled to either a pre-assessment hearing under M.G.L. c. 62C, § 26(b) or an abatement hearing under M.G.L. c. 62C, § 37, but not both, unless the taxpayer establishes that there is new factual information or new legal precedent that was not available to the taxpayer at the time of the pre-assessment hearing or the taxpayer raises a new issue not considered at the pre-assessment hearing.

This change will be effective for abatement applications filed on or after July 1, 2003.

St. 2003, c. 26, § 194, 195 amending M.G.L. c. 62C, § 37.

### **Interest Rate on Overpayments and Abate-ments; No Interest Paid when Taxpayer's Return Does Not Agree With Information from Third Party Sources Overpayments.**

Effective July 1, 2003, the interest rate paid by the Department on overpayments of tax will be reduced to the federal short-term rate determined under IRC § 6621(b) plus two percentage points, computed as simple interest. The rate for underpayments pursuant to M.G.L. c. 62C, § 32, remains at the federal short-term rate plus four percentage points, compounded daily.

### **Abate-ments.**

Where a taxpayer's abatement application is granted, interest will be calculated from the date of receipt of a fully substantiated abatement application. This change is applicable to interest accrued on an abatement on and after July 1, 2003.

Corrections. For purposes of calculating interest on a refund of an overpayment of tax, a return that requires correction by the department based on information from third party sources or Department of Revenue records will not be considered filed, and thus no interest will be paid on any refund following the correction. This change is applicable to interest accrued on an overpayment of tax on and after July 1, 2003.

St. 2003, c. 26, §§ 196–198, amending M.G.L. c. 62C, § 40.

See Technical Information Release 03-18 for additional information on the above changes to chapter 62C.

## Corporate Excise

### **Investment Tax Credit Extension**

This provision extends the 3 percent investment tax credit for five years, but for taxable years beginning on or after January 1, 2009, the credit will revert to 1 percent. Also, a corporation is not eligible for the investment tax credit for more than nineteen taxable years (under prior law, fourteen years). St. 2003, c. 26, §§ 205, 206 amending M.G.L. c. 63, § 31A(k), (l).

### **Limited Liability Companies; S Corporations**

Recently, Massachusetts law was amended to permit the formation of single-member Massachusetts limited liability companies (LLCs). See St. 2003, c. 4. In addition, any LLC, foreign LLC, or other entity that makes a federal election to be disregarded as an entity separate from its sole member and has, as its sole member, an S corporation for federal income tax purposes, will be separately taxed under chapter 63 as an S corporation or foreign S corporation. The effective date of this provision is July 1, 2003. St. 2003, c. 26, § 204, amending M.G.L. c. 63, § 30(1), (2).

# The Taxes FY 2003

TYPE OF TAX	MEASURE	RATE <sup>1</sup>	RETURN DUE
<b>Personal income and fiduciary income</b>	Net capital gains <sup>2</sup>	5.3–12%	On or before April 15 for calendar year filings.
	Dividends, interest, wages, other income	5.3% <sup>3</sup>	The 15th day of the 4th month for fiscal year filings.
<b>Nonresident</b>	Massachusetts source income		
<b>Estimated tax</b>	Liability in excess of \$200		Due quarterly on or before the 15th day of April; June, September and January.
<b>Withholding</b>	Wages	5.3%	Varies depending on amount of tax withheld in calendar year. If annual withholding: up to \$100 — annual filing; \$101–1,200 — quarterly filings; \$1,201–25,000 — monthly filings; over \$25,000 — quarterly filings, weekly payments.
<b>Estate</b>	Federal taxable estate	0.8%–16% <sup>3</sup>	Within 9 months after date of decedent's death.
<b>Nonresident</b>	Massachusetts real and tangible property		Within 9 months after date of decedent's death.
<b>Alcoholic beverages</b>	Malt (31-gal. bbl.)	\$3.30	Monthly, on or before the 20th day of the month.
	Cider 3%–6% (wine gal.)	\$1.03	
	Still wine 3%–6% (wine gal.)	\$1.55	
	Sparkling wine (wine gal.)	\$1.70	
	Alcoholic beverages 15% or less (wine gal.)	\$1.10	
	Alcoholic beverages more than 15%–50% (wine gal.)	\$4.05	
	Alcoholic beverages more than 50% or alcohol (proof gal.)	\$4.05	
<b>Cigarettes</b>	20-count package	\$1.51	Monthly, on the 20th day of the month. Unclassified acquirers must file upon importation or acquisition.
	Smokeless tobacco (percentage of price paid by licensee)	90%	Quarterly, on or before the 20th day following the close of the tax period.
	Cigars and smoking tobacco (percentage of price paid by licensee)	30%	
<b>Marijuana and controlled substances tax</b>	Weight of marijuana	\$3.50 per gram	Payment due immediately upon acquisition or possession in Massachusetts by dealer. Payment evidenced by stamps purchased from the Commissioner.
	Weight of controlled substance	\$200 per gram	
	Dosage unit of controlled substance	\$2,000 per 50 dosage units	
<b>Deeds</b>	Sales price (less mortgage assumed) of real estate	\$2.28 <sup>4</sup> per \$500	Monthly, on or before the 10th day of the month (filed by Registers of Deeds).
<b>Motor fuels</b>	Gasoline and diesel fuel per gallon	\$1.21	Monthly, on or before the 20th day of the month.
	Propane, liquified gas, etc. (no minimum)	19.1%	
	Aviation (10¢ minimum)	7.5%	
	Jet fuel at local option (5¢ minimum)	5%	
<b>Room occupancy</b>	Transient room occupancy	5.7%	Monthly, on or before the 20th day following the close of the tax period.
	At local option, up to	4.0%	
	Convention Center Financing Fee	2.75%	
	(Boston, Cambridge, Springfield, Worcester, Chicopee and West Springfield)		

<sup>1</sup> Tax rates as of August 1, 2002.

<sup>2</sup> As of August 1, 2002, gains from the sale or exchange of capital assets (except collectibles) held for more than one year are taxed at 5.3%, but only for transactions completed on or after May 1, 2002. Short-term capital gains, as well as long-term capital gains arising from the sale of collectibles and gains on pre-1996 installment sales are taxed at 12%.

<sup>3</sup> Resident rate is equal to federal credit for state death taxes. Nonresident rate is equal to Massachusetts proportionate share of federal credit for state death taxes.

<sup>4</sup> In Barnstable County, the rate is \$5.70 per \$1,000.



TYPE OF TAX	MEASURE	RATE	RETURN DUE
<b>Club alcoholic beverages</b>	Gross receipts	0.57%	On or before April 15.
<b>Sales and use tax</b>	Sale, rental or use of tangible personal property, including cigarettes, telecommunication services and certain fuel.	5%	On or before the 20th day following the close of the tax period. If annual liability: up to \$100 — annual filing; \$101–1,200 — quarterly filings; over \$1,200 — monthly filings
<b>Sales tax on meals, prepared food and all beverages</b>	All “restaurant” food and on-premises consumption of any beverages in any amount.	5%	Monthly, on or before the 20th day following the close of the tax period.
<b>Business and manufacturing corporations</b>	Net income Tangible property or net worth Minimum	9.5% <sup>5</sup> \$2.60 per \$1,000 \$456	On or before the 15th day of third month after close of taxable year.
<b>Estimated tax</b>	Liability in excess of \$1,000		Due quarterly as follows: 15th day of 3rd (40%), 6th (25%), 9th (25%) and 12th (10%) months of taxable year. <sup>6</sup>
<b>Security corporation</b>			
Non-bank holding co.	Gross income	1.32%	Same as business corporations.
Bank holding company	Gross income	0.33%	
	Minimum	\$456	
<b>Financial institutions</b>	Net income Minimum	10.50% <sup>7</sup> \$456 <sup>7</sup>	Same as business corporations.
<b>Public utilities</b>	Net income	6.5%	Same as business corporations.
<b>Ship excise tax</b>	Value (equity interest) of the corporation’s interest in a ship or vessel engaged in interstate or foreign trade.	0.379%	Same as business corporations.
<b>Insurance company</b>			
Domestic life	Premiums	2.0%	On or before March 15.
	Massachusetts net investment income	4.8%–14.0%	
Foreign life	Premiums	2.0%	
Domestic casualty	Premiums	2.28%	On or before May 15.
	Gross investment income	0.2%–1.0%	
Foreign casualty	Premiums	2.28%	
Ocean marine	Underwriting profit	5.7%	On or before March 15.
Preferred provider arrangements	Premiums	2.28%	
<b>Motor vehicle garaged outside Massachusetts</b>	90% to 10% of manufacturer’s list price	\$25 per \$1,000	On or before 30 days from issuance of tax bill.
<b>Boston sightseeing tour</b>	Ticket purchase price of any water- or land-based sightseeing tourist venue or entertainment cruise or trolley tour originating or located in Massachusetts and conducted partly or entirely in Boston.	5%	Quarterly, on or before the 20th day following the close of the tax period.
<b>Boston vehicular rental transaction surcharge</b>	Each vehicular rental transaction contract executed in Boston.	\$10	Quarterly, on or before the 20th day following the close of the tax period.
<b>Parking facilities surcharge in Boston, Springfield and/or Worcester</b>	Parking facilities built in conjunction with or as part of a project authorized by the Convention Center Financing Act in Boston, Springfield or Worcester.	\$2 per vehicle per day	Quarterly, on or before the 20th day following the close of the tax period.

<sup>5</sup>S corporations: 4.5% if total receipts \$9 million or more; 3% if total receipts are \$6 million or more but less than \$9 million.

<sup>6</sup>30%, 25%, 25% and 20% for corporations with fewer than 10 employees in their first full tax year.



# Revenue Collections FY 2000

In thousands	FY99	FY00	FY01	FY02	FY03	FY02-03 % change
<b>STATE TAXES COLLECTED BY DOR</b>						
<b>Tax on personal income</b>						
<b>TOTAL</b>	<b>\$ 8,036,585</b>	<b>\$ 9,041,936</b>	<b>\$ 9,902,677</b>	<b>\$ 7,912,934</b>	<b>\$ 8,026,148</b>	<b>1.4</b>
<b>Taxes on business</b>						
Corporations	\$ 1,008,662	\$ 1,130,544	\$ 945,253	\$ 586,743	\$ 799,450	36.3
Insurance companies	317,206	306,018	322,551	347,645	344,626	(0.9)
Public utilities	132,471	82,983	86,726	88,486	40,621	(54.1)
Commercial banks <sup>1</sup>	118,818	92,451	180,057	134,431	347,833	158.7
Savings institutions <sup>1</sup>	(10,278)	375	(453)	2,597	(3,293)	—
<b>TOTAL</b>	<b>\$ 1,566,879</b>	<b>\$ 1,612,371</b>	<b>\$ 1,534,134</b>	<b>\$ 1,159,902</b>	<b>\$ 1,529,237</b>	<b>31.8</b>
<b>Taxes on commodities sold</b>						
Motor fuels	\$ 636,551	\$ 652,597	\$ 659,873	\$ 666,751	\$ 676,426	1.5
Cigarettes	284,439	279,945	270,512	274,997	451,044	64.0
Alcoholic beverages	60,988	63,146	64,168	65,356	66,298	1.4
Sales and use <sup>2</sup>	3,108,430	3,108,430	3,273,817	3,194,989	3,196,044	—
Sales on meals	389,975	436,184	482,021	500,885	512,025	2.2
<b>TOTAL</b>	<b>\$ 4,251,806</b>	<b>\$ 4,560,954</b>	<b>\$ 4,750,391</b>	<b>\$ 4,702,978</b>	<b>\$ 4,901,837</b>	<b>4.2</b>
<b>Other taxes</b>						
Estate & inheritance	\$ 173,867	\$ 166,511	\$ 203,381	\$ 200,547	\$ 181,295	(9.6)
Room occupancy excise	119,467	137,005	149,617	123,306	119,991	(2.7)
Deeds excise <sup>3</sup>	73,013	81,426	91,425	97,782	105,091	7.5
Club alcoholic beverage excise	532	621	625	571	657	15.1
Motor vehicle excise	168	151	105	86	72	(16.3)
Controlled substances	0	0	0	0	0	—
Convention Center surcharge	12,436	12,594	13,235	10,502	9,934	(5.4)
Community preservation trust	—	—	15,989	42,451	53,503	26.0
<b>TOTAL</b>	<b>\$ 379,483</b>	<b>\$ 398,308</b>	<b>\$ 474,377</b>	<b>\$ 475,245</b>	<b>\$ 470,543</b>	<b>(1.0)</b>
<b>Total state taxes collected by DOR</b>	<b>\$14,234,753</b>	<b>\$15,613,569</b>	<b>\$16,661,579</b>	<b>\$14,251,059</b>	<b>\$14,927,765</b>	<b>4.7</b>

<sup>1</sup>All bank tax transactions (both savings and commercial) appear in the Commercial Bank Excise category.

<sup>2</sup>Include sales and use tax on motor vehicles.

<sup>3</sup>Due to different accounting methods, amounts reported for the deeds excise differ from those amounts reported by the comptroller.

Because of rounding, detail may not add to Totals.

The figures contained herewith are DOR figures pending the Comptroller's Fiscal Year 2003 Statutory Basis Annual Financial Report.

	FY99	FY00	FY01	FY02	FY03	FY02-03 % change
<b>LOCAL TAXES COLLECTED BY DOR ON BEHALF OF COMMUNITIES</b>						
Urban redevelopment	\$ 40,849	\$ 42,765	\$ 44,580	\$ 46,824	\$ 47,083	0.6
Local option airplane jet fuel	14,896	15,650	17,861	12,914	12,846	(0.5)
Local option room occupancy	68,471	78,119	85,559	70,953	69,617	(1.9)
Local rental vehicle (Convention Center 10%) <sup>1</sup>	1,281	1,286	1,290	1,028	962	(6.4)
<b>Total local taxes collected by DOR on behalf of communities</b>	<b>\$ 125,497</b>	<b>\$ 137,820</b>	<b>\$ 149,290</b>	<b>\$ 131,719</b>	<b>\$ 130,508</b>	<b>(0.9)</b>
<b>OTHER REVENUE</b>						
Utility and insurance assessments	0	\$ 0	\$ 0	\$ 0	\$ 0	0
Department fees, licenses, etc.	7,287	7,911	4,819	6,475	7,166	10.7
County Correction Fund — deeds	10,603	11,713	5,587	6,121	6,605	7.9
County recording fees					17,954	100.0
Abandoned deposits — bottle	25,683	29,684	31,422	37,109	36,205	(2.4)
<b>Total other revenue</b>	<b>\$ 43,573</b>	<b>\$ 49,308</b>	<b>\$ 41,828</b>	<b>\$ 49,705</b>	<b>\$ 67,930</b>	<b>36.7</b>
<b>STATE TAXES COLLECTED BY OTHER AGENCIES</b>						
Horse and dog racing	\$ 8,269	\$ 7,829	\$ 7,542	\$ 6,856	\$ 6,547	(4.5)
Beano and boxing	3,340	3,180	3,043	3,066	2,793	(8.9)
Raffles/bazaars	989	925	881	846	889	5.1
Special insurance brokers	7,968	8,182	10,348	13,030	21,805	67.3
UI surcharge <sup>2</sup>	11,200	20,435	23,674	22,198	21,394	(3.6)
Deeds, Secretary of State <sup>1</sup>	25,306	34,496	38,029	39,721	42,704	7.5
<b>Total state taxes collected by other agencies</b>	<b>\$ 57,072</b>	<b>\$ 75,047</b>	<b>\$ 83,517</b>	<b>\$ 85,717</b>	<b>\$ 96,132</b>	<b>12.2</b>
<b>TAXES ON PROPERTY COLLECTED BY LOCAL GOVERNMENT</b>						
Real estate	\$ 6,416,515	\$ 6,755,186	\$ 7,174,441	\$ 7,651,814	\$ 8,126,933	6.2
Personal property	336,571	348,372	345,612	352,104	367,088	4.3
Motor vehicles	472,968	534,082	583,165	597,915	575,044	(5.7)
<b>Total taxes on property collected by local government</b>	<b>\$ 7,226,054</b>	<b>\$ 7,637,640</b>	<b>\$ 8,103,218</b>	<b>\$ 8,601,833</b>	<b>\$ 9,069,065</b>	<b>5.3</b>
<b>TOTAL ALL TAXES</b>	<b>\$21,686,949</b>	<b>\$23,513,384</b>	<b>\$24,949,432</b>	<b>\$23,120,033</b>	<b>\$24,291,400</b>	<b>5.1</b>

<sup>1</sup> Restated FY99 to include these taxes.

<sup>2</sup> Restated FY99 to include these taxes.

Because of rounding, detail may not add to Totals.

The figures contained herewith are DOR figures pending the Comptroller's Fiscal Year 2003 Statutory Basis Annual Financial Report.

# Offers in Final Settlement FY2003

Under M.G.L. c. 62C, sec. 37A, the Commissioner of Revenue has the authority, under specific conditions, to accept less than full payment as a final settlement for a state tax liability. The statutory condition for such settlement is "serious doubt" as to collectibility of the tax due or the taxpayer's liability for it. The Commissioner must also determine that the taxpayer or responsible person has acted without intent to defraud. The settlement must be recommended to the Commissioner by at least two deputy commissioners.

The written agreement, signed by all parties and including the reasons for settlement, is a public record. In cases where the liability is reduced by more than half, or by \$20,000 or more, the Attorney General of the Commonwealth must review the settlement and has the authority to object to it.

The law requires that a listing of all settlements entered into during the fiscal year be included in the Commissioner's annual report. In Fiscal Year 2003, 55 settlements were made. All 55 were reviewed by the Attorney General.

The cases approved were as follows:

NAME	TOTAL TAX, INTEREST & PENALTIES	AMOUNT PAID IN SETTLEMENT	AMOUNT ABATED
Browne, Dennis (R/P)	\$111,419.37	\$10,000	\$101,419.37
Chisholm, Donald P.	31,573.04	6001.00	25,572.04
Cordeiro, Nelson J.	10,767.57	1,275.00	9,492.57
Carr, Robert	10,003.46	4,000.00	6,003.46
Dorfman, Stuart & Ellen	8766.06	2,000.00	6766.06
Byrne, Paul G.	25,454.69	12,000.00	13,454.69
Garceau, Lynn E. (3rd offer)	28,375.27	3,500.00	24,875.27
Porter, Ronald & Tomaya (2nd offer)	105,207.21	13,000.00	92,297.21
Dasneves, Leonard	37,234.79	1,000.00	36,234.79
Crivellone, Thomas (R/P)	16,611.87	6,000.00	10,611.87
Brownell, Arthur & Mary	17,138.05	2,000.00	15,138.05
Roberts, Howard A.	26,890.76	4,000.00	22,890.76
Tzouganatos, Nicholas	30,948.96	9,000.00	21,948.96
Poindexter, Laurence	26,168.55	12,000	14,168.55
Yeo, Sharon A. (DBA)	1,465.67	200.00	1,265.67
Bland, Louis & Elaine	4,302.10	1,500.00	2,802.10
Integrity First, Inc.	13,054.54	3,360.00	9,694.54
De Hamer, Helena	13,125.84	3,000.00	10,125.84
Locatelli, Thomas C.	7,474.91	5,000.00	2,474.91
Correia, Joan M.	19,161.11	4,800.00	14,361.11
Josephson, Kevin, M (R/P)	437,210.66	42,500.00	394,710.66
Marshalek, Stephan W. (R/P)	51,557.22	12,500.00	39,057.22
LeClair, Brian	8,522.17	2,544.00	5,978.17
Asselin, John K (DBA)	20,733.28	5,000.00	15,733.28
Carcamo, Juan M.	5,588.88	2,400.00	3,188.88
Int. Bus. Systems Inc.	38,673.86	30,000.00	8,673.86
Doyle, John R.	19,553.24	7,000.00	12,553.24
Mohawk Trail Hosp. Inc.	164,810.17	37,728.00	127,082.17
Rorro, Scott M.	11,721.13	1,200.00	10,521.13
Hall, Bruce J. & Barbara (DBA)	47,876.30	7,500.00	40,376.30
Yoshioka, Keitaro	13,714.16	6,169.00	7,545.16
Garceau, George E. & Anne M.	24,539.82	2,500.00	22,039.82
Stockburger, David (DBA)	7,645.30	2,500.00	5,145.30
Starzyk, Robert (DBA)	18,012.88	4,000.00	14,012.88
Mont, Barry	15,992.61	3,965.00	12,027.61
Myers, Kevin & Joan	11,235.33	6,000.00	5,235.33
Holmes III, James W.	28,623.17	7,700.00	20,923.17
Mezev, Dantcho (2nd offer)	11,570.02	1,000.00	10,570.02
McClellan, Karen Powell (R/P) 3rd offer	46,488.88	27,800.00	18,688.88
Andrews, Robert	1,012.92	300.00	712.92
Stokes, Laura K. (DBA)	10,518.04	2,400.00	8,118.04
Bridge, Martha A.	12,558.78	5,000.00	7,558.78
Hollis, Laurel (DBA)	3,498.68	1,000.00	2,498.68

# Offers in Final Settlement continued

NAME	TOTAL TAX, INTEREST & PENALTIES	AMOUNT PAID IN SETTLEMENT	AMOUNT ABATED
Lach, Bunrith	317,182.08	4,000.00	313,182.08
Gaylord, Daniel W.	13,824.57	1,500.00	12,324.57
Reynolds, James	9,893.76	2,000.00	7,893.76
LaFranchise, Barbara (4th offer)	8,634.29	1,500.00	7,134.29
Iwanicki, Michael	4,311.63	450.00	3,861.63
Tulman, Beverly (2nd offer)	41,275.94	7,000.00	34,275.94
Zielonka, Nathan S. (2nd offer)	25,324.87	4,900.00	20,424.87
Ciolino, Ricardo & Rosalie (2nd offer)	9,774.15	2,000.00	7,774.15
Proulx, Michael (2nd offer)	10,052.32	4,800.00	5,252.32
Consol. Printing (2nd offer)	140,765.31	11,000.00	129,765.31
Boumil, William S, (R/P) (3rd offer)	31,871.82	17,000.00	14,871.82
Rothstein, Stephen P.	1,580.47	1,303.00	277.47
<b>TOTAL</b>	<b>\$2,171,293</b>	<b>\$ 379,795</b>	<b>\$1,791,498</b>

*Because of rounding, detail may not add to Totals.*

*The figures contained herewith are DOR figures pending the comptroller's Comprehensive Annual Financial Report.*

## Collection Agencies FY2003

Chapter 209 of the Acts of 1988 permits the Commissioner of Revenue to use private collection agencies to collect unpaid state taxes. The Commissioner is required to notify all taxpayers whose accounts are to be assigned to a collection agency at least 30 days beforehand.

The law requires that the Commissioner list all agencies with whom collection agreements exist, the amount of taxes collected and the amount of compensation paid in the Department's annual report. They are as follows:

CONTRACTOR	TOTAL COLLECTED	FEES PAID	NET TO DOR
GCS	\$ 2,723,884	\$ 365,592	\$ 2,358,292
OSI	1,755,322	228,480	1,526,843
Walker Associates	2,177,619	275,782	1,901,837
<b>TOTAL</b>	<b>\$ 6,656,826</b>	<b>\$ 869,854</b>	<b>\$ 5,786,972</b>

*Because of rounding, detail may not add to Totals.*

*The figures contained herewith are DOR figures pending the comptroller's Comprehensive Annual Financial Report.*

# Cherry Sheet Estimates FY2003

All municipalities and regional school districts	FY99	FY00	FY01	FY02	FY03
<b>EDUCATION AID</b>					
Chapter 70	\$2,566,134,016	\$2,803,332,955	\$2,990,396,788	\$3,212,740,094	\$3,258,969,179
School transportation	57,600,000	57,600,000	57,600,000	57,600,000	51,790,192
School construction	234,572,324	273,977,528	324,164,525	364,906,071	383,178,168
Regional school transportation	33,987,758	40,605,178	47,314,459	46,944,097	47,600,000
Retired teachers' pensions	35,000,000	39,000,000	39,000,000	45,295,040	0
Tuition of state wards	17,082,980	14,129,445	13,731,220	0	14,188,423
Racial equality	24,398,223	24,398,221	14,357,914	14,388,691	5,177,803
School lunch	5,126,830	5,121,451	4,839,502	4,906,714	18,000,003
Other education	0	0	18,000,000	18,000,000	3,817,199,026
<b>TOTAL</b>	<b>\$2,973,902,131</b>	<b>\$3,258,164,778</b>	<b>\$3,509,404,408</b>	<b>\$3,764,780,707</b>	
<b>GENERAL GOVERNMENT</b>					
Lottery	\$ 597,453,642	\$ 670,000,000	\$ 730,000,000	\$ 778,091,951	\$ 778,091,951
Additional assistance	476,315,282	476,315,282	476,315,282	476,315,282	445,315,298
Highway fund	43,472,110	43,472,110	43,472,110	10,868,028	0
Local share of racing taxes	1,485,252	1,549,010	1,580,000	1,434,540	1,701,250
Regional public libraries	9,669,622	9,529,812	9,556,685	10,111,494	9,185,360
Police career incentive	20,460,923	23,737,040	28,208,284	37,825,722	42,111,076
Urban renewal projects	2,675,904	2,582,469	2,574,000	2,564,805	700,000
Veterans' benefits	8,413,276	7,706,310	9,138,590	9,787,738	10,260,803
Exemptions — vets, blind, and surviving spouses	7,885,380	8,085,108	8,047,965	7,975,160	8,393,404
Exemptions — elderly	12,956,990	12,380,250	11,729,366	10,890,345	9,890,345
State owned land	12,000,000	15,000,000	18,000,000	15,000,000	10,000,000
Public libraries	6,899,804	9,899,804	9,949,804	9,212,758	7,830,844
Other general government	0	0	0	0	0
<b>TOTAL</b>	<b>\$1,199,688,185</b>	<b>\$1,280,257,195</b>	<b>\$1,348,572,086</b>	<b>\$1,370,138,005</b>	<b>\$1,323,480,311</b>
<b>TOTAL ESTIMATED RECEIPTS</b>	<b>\$4,173,590,316</b>	<b>\$4,538,421,973</b>	<b>\$4,857,976,494</b>	<b>\$5,134,077,823</b>	<b>\$5,140,679,337</b>



## DOR's Amnesty Program Wins Carballo Award

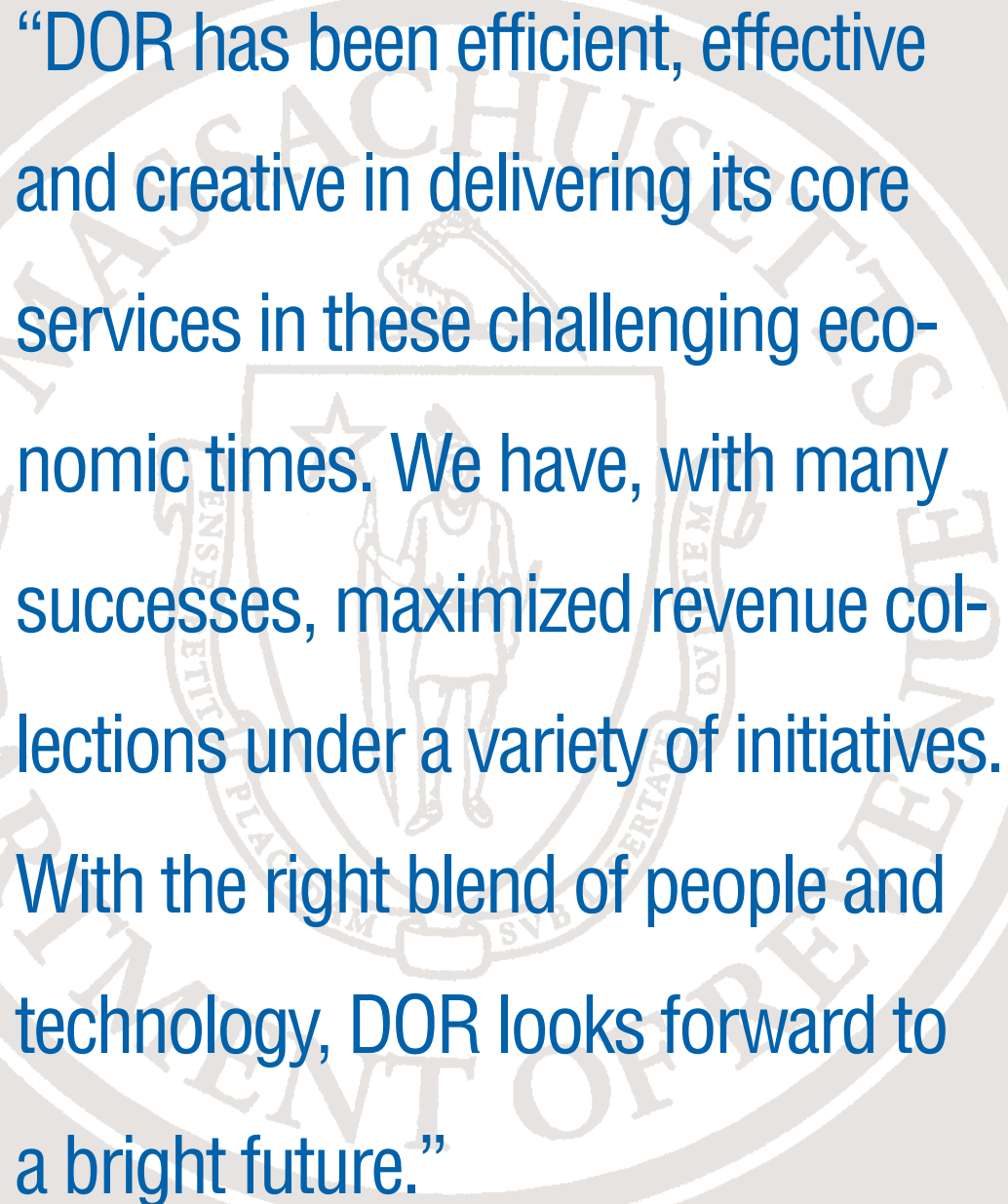
The Carballo Award, presented annually to ten individuals or groups, is the highest award bestowed upon those in state service.



Representatives from DOR's Amnesty team accept the Carballo Award from Governor Mitt Romney. From left: Winnie Chung, Tanya Harrison, Joe McDermott, Governor Romney, Richard Gallagher, Lisa Particelli, Michael Lividoti.



Massachusetts Department of Revenue  
100 Cambridge Street  
Boston, MA 02204  
[www.mass.gov/dor](http://www.mass.gov/dor)

The background of the slide features a large, light gray watermark of the Seal of the Massachusetts Department of Revenue. The seal is circular, with the words "MASSACHUSETTS" at the top and "DEPARTMENT OF REVENUE" at the bottom. In the center is the coat of arms of the Commonwealth of Massachusetts, which depicts a Native American figure holding a bow and arrow, with a five-pointed star above his right shoulder.

“DOR has been efficient, effective and creative in delivering its core services in these challenging economic times. We have, with many successes, maximized revenue collections under a variety of initiatives. With the right blend of people and technology, DOR looks forward to a bright future.”

Alan LeBovidge, Commissioner of Revenue