TABLE OF CONTENTS

PART I

Introduction

Introduction to the Tax Expenditure Budget

The major taxes from which Massachusetts derives the bulk of its revenues incorporate a large number of exemptions, deductions, and other exceptions that have been designed to encourage certain taxpayer activities or to limit the tax burden on certain types of individuals or endeavors. Taken together, these special provisions substantially reduce the revenues generated by each of the Commonwealth's major taxes. Thus, these "tax expenditures" represent a significant set of policy decisions concerning the goals to be furthered by use of the Commonwealth's potential tax resources. In order to focus and facilitate reasoned evaluations of these decisions, this document offers a summary of the tax expenditures affecting the Commonwealth's personal income tax, corporate excise, sales tax, and estate tax, along with estimates of the revenue impacts of each. Together, these four taxes are expected to generate more than $7.5 billion in revenues in fiscal year 1991, revenues that are used to fund the state's budgeted expenditures. The tax expenditures associated with these four taxes are estimated to reflect additional expenditures, in the form of potential revenues foregone, of almost $7.3 billion — nearly as much as the total actually to be collected from these taxes.

The summary below is intended to explain the purpose of publishing a tax expenditure budget and to discuss our approach to identifying and estimating the costs of tax expenditure provisions in the tax code. The sections following this summary first catalogue the state's tax expenditures organized by expenditure categories and then describe each of the state's major taxes and explain each related tax expenditure.

What are Tax Expenditures?

Tax expenditures are provisions in the tax code, such as exclusions, deductions, credits, and deferrals, that are designed to encourage certain kinds of activities or to aid taxpayers in special circumstances. When such provisions are enacted into the tax code, they result in a loss of tax revenue to the treasury. Thus, less revenue will be available to fund other programs, unless tax rates are raised. In this sense, the fiscal effects of a tax expenditure are just like those of a direct government expenditure. Some tax expenditures involve a permanent loss of revenue, and thus are comparable to a payment by the government; others cause a deferral of revenue to the future, and thus are comparable to an interest-free loan to the taxpayer. Since tax expenditures are designed to accomplish certain public goals that otherwise might be met through direct expenditures, it seems reasonable to apply to tax expenditures the same kind of analysis and review that the appropriations budget receives. This document is a first step in that direction.

It is essential to distinguish between those provisions of the tax code that represent tax expenditures and those that are part of the "basic structure" of a given tax. The basic structure is the set of rules that defines the tax; a tax expenditure is an exception to those rules. In general, most taxes have a series of features that define their basic structure. These features are:

1. A *base*, on which the tax is levied, such as net income, or a particular class of transactions;
2. A *taxable unit*, such as a person or a corporation;
3. A *rate*, to be applied to the base;
4. A definition of the *geographic limits* of the state's exercise of its tax jurisdiction; and
5. Provisions for the *administration* of the tax.

A tax expenditure is a deviation from the generally agreed-upon, or basic, structure of a given tax. For example, the base of the sales tax includes all retail sales to final consumers of a product. The exemption for sales of energy conservation equipment is an exception, created to encourage purchases of such equipment. This exemption, then, is a tax expenditure.

It is important to remember that not all of the deductions and exemptions allowed under the tax statutes are tax expenditures. For example, the broad category of income tax deductions allowed for business expenses is not listed as a tax expenditure. Since the income tax is generally considered to be a tax on income net of the costs of producing that income, deductions for business expenses are part of the definition of the tax base. In addition, tax provisions reflecting constitutional prohibitions, such as the nontaxation of sales to the federal government, are considered parts of the basic tax structure and therefore are not listed as tax expenditures.

While these definitions seem straightforward enough, the task of compiling a comprehensive list of tax expenditures presents many conceptual problems. Although there is a general consensus that certain provisions are tax expenditures because they are clear deviations from the generally-accepted tax structure, there is room for disagreement about how to analyze some tax provisions.

For example, deductions for the depreciation of property and equipment used in a trade or business are considered part of the basic tax structure because the use of productive assets is a legitimate cost of doing business. However, federal depreciation rules have changed over the years to allow larger and larger depreciation deductions in the early years of a property's useful life. The federal Tax Reform Act of 1986 has substantially reversed this trend for structures, but depreciation, for tax purposes, is still accelerated, especially for equipment. These accelerated depreciation rules could be viewed as properly reflecting changing notions of obsolescence and thus as part of the basic tax structure; or the faster rates of depreciation could be considered a special adjustment in the tax base designed to provide an incentive for investment, and therefore a tax expenditure. Indeed, recent federal tax expenditure budgets prepared by the Congressional Budget Office and versions prepared by the Treasury Department have disagreed on exactly this issue.

We have adopted the point of view that accelerated depreciation is a tax expenditure. Although accelerated depreciation still allows the same total deduction for a piece of property, the rate of depreciation allowed in the early years is faster than would be permitted under traditional accounting principles. However, no attempt has been made in this tax expenditure budget to define "normal" rates of depreciation for every class of property, since there is considerable disagreement about how to define the true "useful life" for equipment and real estate. Generally, revenue cost estimates in this document for tax expenditures associated with accelerated depreciation rely on assumptions used in congressional federal tax expenditure analysis concerning ordinary depreciation rates.

Similarly, we have chosen to view the rules for personal exemptions and for no tax status in the Commonwealth's personal income tax as provisions which help to define the income tax base, and thus as a part of the basic structure of the tax (much as the progressive rate structure of the federal income tax, which similarly reduces the tax burden on low-income people, is a part of its basic structure). The base of the tax is defined as net income above what is required for subsistence. Therefore, to the extent that personal exemptions preclude taxation of income needed for subsistence, they help define the tax base and should not be classified as tax expenditures. According to this reasoning, exemptions allowed for dependents would also be considered part of the basic tax structure, since subsistence requirements increase with the size of the taxpayer's household. However, we note that this view of the tax structure did not always lead to easy conclusions. First, Massachusetts allows taxpayers exemptions for dependents even if those dependents have their own income and take personal exemptions for themselves. The dependents' exemption in such a case is considered a tax expenditure. Moreover, the fact that the no tax status amount is greater than the personal exemption, suggests that the intent behind the no tax status and personal exemptions goes beyond simple definition of an income base. Although personal exemptions and the no tax status are not listed in this document as tax expenditures, estimates for the revenue loss associated with these provisions are provided in a footnote.

The sales tax presented the most difficult case. We decided that standard tax expenditure analysis was impossible at this time because there is considerable disagreement about how to define a "basic structure" for the tax. The sales tax statute and its legislative history indicate that the established base of the tax is all "retail" sales. At a minimum, the sales tax exemptions for business purchases of component parts and of products to be resold appear to be provisions that help define which sales are considered non-retail sales, and therefore should not be classified as tax expenditures. However, it is difficult if not impossible to decide which other sales tax exemptions might also cover non-retail sales. For example, manufacturing companies are allowed an exemption from the sales tax for purchases of machinery used in the production process. Since this machinery is not a direct component part of any product being manufactured and is not purchased simply to be resold, it could be argued that the machinery purchase is a retail sale and that the machinery exemption is a tax expenditure. On the other hand, some analysts would say that because these purchases are not purchases by the final consumers of an end product, and because they represent legitimate business expenses, these sales tax exemptions should not be considered tax expenditures.

The Massachusetts sales tax statute is filled with exemptions that do not follow a discernible pattern. For example, manufacturers are exempt from sales tax on machinery but not on motor vehicles, and construction firms are not fully exempt from sales tax on their equipment purchases. Because it is difficult to define the basic tax structure, the discussion of the sales tax in this document is not a conventional "tax expenditure analysis." Instead, virtually all of the exemptions from the sales tax for sales to businesses are listed along with estimates of their full revenue costs. We hope that this document will help spark debate on this issue which may clarify the structure of the sales tax in Massachusetts and make true tax expenditure analysis possible.

The most important thing to remember is that making a judgment about whether a provision is a tax expenditure is **not** the same as making a judgment about its desirability. An element of the basic structure of a tax can be inequitable or have undesirable economic effects, just as a tax expenditure can. If so, it can be changed by legislative action, just as a tax expenditure can.

Why Publish a Tax Expenditure Budget?

A tax expenditure budget, then, is not equivalent to a comprehensive examination of the entire tax system. Nor does it imply judgments about the appropriateness of particular tax provisions. Its purposes are somewhat more modest.

Tax expenditures, as we have noted, are comparable to direct government expenditures in that both incur a cost to the treasury (in other words, result in higher tax rates) in order to accomplish public goals. But unlike direct expenditure programs, tax expenditures do not ordinarily require periodic appropriations. They may therefore remain in effect indefinitely, with no scrutiny by policymakers of whether they are accomplishing a worthwhile purpose in a cost-effective way. Indeed, their existence may be unknown to all but a few. Their absence from the appropriations process gives a distorted picture of the pattern of government spending and makes it harder for elected officials to make informed choices about how best to use limited funds.

The purpose of a tax expenditure budget is to help provide a clearer picture of the total range of government programs. A tax expenditure budget does not, by itself, force systematic review of tax expenditures. This can be done, for instance, by making tax expenditures expire at a certain date unless renewed (often called a "sunset" provision), or by incorporating the review of tax expenditures directly into the budget process. A tax expenditure budget, by contrast, is only a tool to help policymakers and the public understand what the government is doing.

The value of systematic analysis of tax expenditures is gaining widening recognition. At present, at least a dozen other states, including Minnesota, Michigan, Maine, California, and Maryland, prepare tax expenditure budgets as a part of their budget preparation and fiscal review process. As in Massachusetts, where the first tax expenditure budget was prepared in 1984, many of these states have begun their analysis of tax expenditures in the last several years. The United States government has been preparing annual tax expenditure budgets since 1968, and Canada and many other countries now do so as well.

A Framework for Analyzing Tax Expenditures

The information provided in this budget, together with other information, can provide a basis for thinking about tax expenditures systematically. One way to do this is to form a series of questions. The sections below provide a general framework for thinking about tax expenditures and illustrate the use of this approach by looking at one example.

- *Is there a problem the government should be addressing?*
  Tax expenditures seek either to encourage certain activities or to aid taxpayers in special circumstances. The first point to establish is whether a need for such action exists. If we are trying to encourage a certain activity, are we sure that it is desirable? Do we know that in the absence of the tax expenditure budget there will be too little of the activity, and how is "too little" defined? Is there reason to think that government intervention will be effective?

- *Which approach would be better: A tax expenditure or a direct expenditure?*
  There are pros and cons to each type of assistance, but these must be considered carefully in specific cases. For example, although tax expenditures are generally thought to have lower administrative costs, a given tax expenditure may have quite high administrative costs, often reflected in processing and auditing costs at the Department of Revenue.

  Direct expenditures are usually thought to be easier to target effectively, but direct expenditure programs often have a way of turning into general entitlements as the expressed need for assistance becomes more and more widespread.

It is important to remember, particularly in the case of the income tax, that tax expenditure programs, unless structured as refundable credits, cannot directly benefit those who do not pay taxes, generally the poor. One should bear in mind, too, that if there is no systematic review process set up for tax expenditures, they may be more likely than direct expenditures to continue after they have outlived their usefulness.

- *Who are the beneficiaries?*
  Tax expenditure programs should be evaluated in terms of who actually receives their benefits. Such an evaluation requires analysis of each tax expenditure's "incidence", that is, an analysis of the extent to which its benefits are enjoyed by the directly affected taxpayers and of the extent to which such benefits are passed on to others. The burden of a tax is often not carried entirely by the person on whom the tax is levied, but is passed on by him, for instance, to his customers in the form of higher prices or to his suppliers in the form of smaller purchases. Likewise, the benefit of a tax expenditure often is not enjoyed entirely by the affected taxpayer, but is passed on by him to those with whom he engages in economic transactions. So, an evaluation of tax expenditures must ask who the intended beneficiaries of a particular tax expenditure are, and to what extent they actually receive the intended benefits.

  For example, the preferential tax rate for interest earned on savings deposits in Massachusetts banks offers a direct benefit to depositors. It allows them to retain a larger share of the income on their deposits than they could if their funds were invested elsewhere. This fact encourages deposits in Massachusetts institutions, thus giving in-state banks an advantage over out-of-state competitors. In consequence of this competitive advantage, in-state banks could pay slightly lower rates of interest than out-of-state banks and still offer Massachusetts taxpayers a larger after-tax return. To the extent that local banks follow such a strategy, the benefits of the tax expenditure shift from the depositors to the banks. Are both these groups the intended beneficiaries? Does each benefit to the extent intended?

- *Are the benefits of the expenditure great enough to justify its continuation?*
  The Commonwealth cannot, of course, fund every program that might be desirable. For each, we want to ask, what are the benefits of this program, and who receives them? How do the benefits of this program compare to a direct expenditure program with similar purposes, or to the benefits of alternatives, such as funding some other worthy program or reducing the overall tax burden? Are there unintended consequences that are undesirable?

  It is important to remember that many Massachusetts tax expenditures arise because of "coupling" to the federal tax code. Often the administrative costs of such a tax expenditure, both to the Commonwealth and to the taxpayer, are less than the administrative costs of repealing it would be. When we decouple, taxpayers must make separate calculations for state tax purposes, and the state cannot rely on federal help in auditing taxpayers. Moreover, to the extent that other states have the same provision, retaining these tax expenditures helps promote a consistency among state tax codes that, particularly in the area of corporate taxation, is generally desirable. Nonetheless, in many important areas, Massachusetts has chosen to adopt its own approaches to tax policy, and the desirability of conformity to the federal standard should not exempt any tax expenditure from review.

A Sample Tax Expenditure Analysis

The section below demonstrates how the analytical framework developed above could be applied to one tax expenditure provision. We emphasize here that the example we have selected is not intended to indicate any judgment about this particular tax provision, but rather to illustrate the process of tax expenditure analysis which we are advocating.

The Urban Job Incentive Program

In 1970, and 1977, the Massachusetts legislature authorized the Urban Job Incentive Program (UJIP), a special corporate excise tax **credit** and **deduction** to encourage businesses to locate within, and employ persons from, poverty areas in the state. The program is only available to corporations whose eligible facilities were in development by January 1, 1983 and were operating by June 30, 1985. Benefits from the program continue for 10 years for a particular facility.

The **credit** is equal to the difference between the local property tax rate and the average statewide rate, multiplied by the assessed value of the property. In FY82, this provision of UJIP resulted in a $0.3 million tax expenditure. This was less than $18 for every UJIP certified employee. The tax expenditure from the credit is estimated at $1.2 million for FY91.

The **deduction** is equal to an additional 25% of wages (up to $5,000 per employee) paid to employees living in a poverty area. Thus, employers are allowed a total deduction of 125% of the wages of these employees. The revenue cost of this provision was estimated to be $3.5 million in 1982. In FY91, the cost is estimated at $0.6 million.

Is there a problem the government should be addressing?

UJIP is intended to encourage businesses to locate in, and employ persons from, poverty areas in the state. This intention actually implies two objectives: to encourage business formation in areas where there may not be many businesses now; and to employ poor people living in those areas, presumably those who would otherwise be unemployed.

While these two objectives are closely linked, it is possible to achieve one without achieving the other. For example, one might want more businesses to locate in economically deprived areas for fiscal reasons: to help assure that all cities and towns in the Commonwealth have a property tax base adequate to keep them from entering a downward spiral of deterioration. Viewed this way, the question of who is employed by these revenue-generating businesses is secondary.

Alternatively, the primary purpose might be to provide jobs for unemployed poor people. This is suggested by the enactment of the deduction provision specifically aimed at employment of people who live in a poverty area, and by the fact that the program was authorized as a "job incentive" program. In this view, the property tax credit provision is designed to address the problem of high unemployment in economically deprived areas by providing jobs nearby.

However, it is not obvious that developing jobs in economically deprived areas necessarily leads to the increased employment of poor people. A business could locate in a poverty area and not employ any local residents (although then it might not receive the UJIP wage deduction). Conversely, some studies have suggested that the location of jobs is relatively unimportant in determining unemployment rates in lower-income neighborhoods. Location might, in some cases, be a significant factor, if jobs are very far away or difficult to reach; the point here is only that this cannot be taken for granted as being a major cause of unemployment in economically deprived neighborhoods.

Tax expenditure or direct expenditure?
Using a tax expenditure to attack this problem means that the incentives cannot affect nonprofit corporations, corporations currently operating at a loss, and noncorporate firms. In fact, data collected by the Department of Revenue indicate that virtually all firms taking advantage of UJIP have been large, profitable corporations. This does not mean that UJIP is not serving its purpose, since its purpose is to induce corporations to do certain things thought to be beneficial, and not to support struggling companies. Nonetheless, a legitimate question is whether UJIP would serve its purpose more effectively if it also offered incentives to nonprofits, proprietorships, and temporarily distressed companies. Studies show that most new jobs are provided by small businesses, which may be quite likely to show losses, and hence, not to be interested in tax benefits, in their start-up years.

Another issue in evaluating UJIP is the geographical targeting of benefits. UJIP tax benefits have been awarded fairly broadly. For example, a business can get a credit for locating in a city which contains a poverty area, even if the business itself is not located in the actual poverty area. Furthermore, an area may be designated a poverty area as a result of, for instance, a large student population. A direct expenditure program might be better targeted.

It should be noted that the administrative costs of UJIP are not trivial. The Executive Office of Economic Affairs has a special bureau to administer the program.

Who are the beneficiaries?
Certainly, corporations receiving the UJIP tax benefits are the direct beneficiaries of the UJIP program. However, it is more difficult to determine whether and to what extent they pass the benefits on to poverty areas and to poverty area residents. Since location in a poverty area is not always required for a corporation to be eligible and since residence in a poverty area is not always necessary for an employee to be certified, the indirect benefits may well go to people and places not intended to receive them. Moreover, it is extremely difficult to determine the extent to which the UJIP program alters corporate location and employment decisions, and thus provides benefits to communities and employees. If the program simply provides tax advantages to corporations for steps they would have taken in any case, the benefits of the tax expenditure will be enjoyed exclusively by the corporate taxpayer, with no derivative benefits to cities or workers.

Do the benefits of the program justify the costs?
In 1982, UJIP cost about $217 per employee. This would appear to be a very low cost for job creation, especially when compared with the cost of unemployment benefits, or with, for example, the Department of Public Welfare's Supported Work program, which cost more than $3,000 per participant in the same period. However, whether UJIP is a bargain depends on how effective the program is in accomplishing its goals. UJIP does not require that employees be unemployed prior to receiving UJIP certification. Thus, employers can receive a subsidy for workers already on their payrolls. Perhaps UJIP is helping to keep these people on the payrolls, but this is certainly less difficult than inducing employers to make new hires of unemployed workers.

Conclusions about tax expenditure analysis
This example has been presented to illustrate the complexity of the issues which are raised when one begins thinking about tax expenditure programs. It is important to recognize, as this example demonstrates, that the analytical frame-

work usually does not produce clear conclusions about the appropriateness of a tax expenditure program. We do believe, however, that informed debate on these issues can help improve the policymaking process.

What this Budget Does — and Does Not Do

This budget should be considered part of an ongoing effort to list tax expenditures, describe their characteristics, and estimate their revenue costs. Each year, we attempt to improve upon the analysis presented in the prior year's tax expenditure budget. Many estimates are, of necessity, rough, though this year's estimates reflect a number of improvements in our estimation methods. For purposes of comparison, we have provided an appendix containing updated tax expenditure estimates for the past two years as well as for FY91. Although we have concentrated on the revenue cost side, we have also included an appendix which shows to what extent taxpayers in various income groups take advantage of certain specific tax expenditures. We view this budget as an important step forward, and we hope to continue to advance in future years. In addition, we want to re-emphasize that this budget is a source of information, not a judgment on the desirability of particular provisions.

Information collected by the Department of Revenue from Massachusetts tax returns was, of course, an important source of data in this budget. Estimates made from these data tend to be the most reliable. Unfortunately, many tax expenditures cannot be estimated from DOR records. When a particular category of income is excluded from taxation, amounts often do not appear on tax records. (This is especially likely to be the case for those tax expenditures brought about by "coupling" the state tax code to the federal code, since exclusions and some deductions are not reported explicitly but are simply carried over to state tax calculations as part of the reporting of federal income.) In such cases we have had to estimate a Massachusetts figure using national tax data, census information, sales statistics, and other information.

You will note that in several cases, this year's revenue estimate is very different from last year's. Revisions to the estimates occur for three principal reasons: we have new data sources, federal tax expenditure estimates on which we rely have changed or we have refined our estimation methodologies. In a few instances, more than one of these factors operate to explain the difference. Each revenue estimate is accompanied by a description of the source of the data to help readers understand the reliability of the numbers. All estimates are projections forward from a base year (which varies depending on the availability of data) to FY91.

The single most important source of changes to this year's estimates results from a change in the Massachusetts income tax laws. Chapter 287 of the Acts of 1989 provides for a temporary increase in the tax rate of most kinds of income that were formerly taxed at a rate of five percent. A more detailed explanation of the law change is included in Appendix A. In the 1989 income year, which corresponds to FY90, these types of income are taxed at a rate of 5.375% and in the 1990 income year, corresponding to FY91, they are taxed at 5.75%. The types of income taxed at the temporary higher rate include wages and salaries, business and professional income, partnership and S corporation income, and trust income.

This law change has two principal effects: First, many tax expenditures for the personal income tax will be higher than they would otherwise have been because of the higher tax rate. For example, if the revenue foregone for a particular tax provision were $100 million when the tax rate was 5%, the increase in the rate would automatically increase the cost to $115 million in FY91. Not only does the tax law change make many FY91 tax expenditure estimates higher than they otherwise would have been, but it also requires that the corresponding estimates for FY90 be modified in the three-year table in Appendix D.

Second, four new tax expenditures have been created as a result of the enactment of Chapter 287. The fact that not all classes of income that were formerly taxed at 5% are subject to the temporary rate increase constitutes a deviation from the normal structure of the tax. The following classes of income were exempted from the tax rate increase: interest from Massachusetts banks*, income from taxable pensions and annuities, income from the distributions of individual retirement plans and Keogh plans, income from alimony, income from unemployment compensation, and rental income from real estate. Taxing these classes of income at a rate of 5% rather than 5.75% in FY91 represents a revenue loss of approximately $40.0 million for the Commonwealth in FY91.

There are some additional caveats that the reader should keep in mind when reading this budget.

First, revenue loss estimates have been made without taking into account how repeal of a provision might change taxpayer behavior. For example, if the sales tax exemption for a particular item were repealed, the item would become more expensive to consumers, so one would expect sales of that item to decline. The revenue gain from repealing the provision would be, therefore, somewhat less than if the level of sales for the affected items remained the same. On the other hand, some of the income not spent on that item might be spent on other taxable items. Clearly, the full calculation of these effects is very difficult. Hence, we urge caution in using the revenue loss estimates as direct representations of how much revenue would actually result from repealing given provisions.

Second, the interaction among different taxes and tax expenditures may be quite complex. Repealing some tax expenditures may increase or decrease the value of others. For example, increasing the no tax status amount would mean that fewer people would pay taxes, and thus fewer people would claim other exemptions. This would reduce the revenues lost through other exemptions. Similar interactions may occur in direct spending programs. For example, if the benefits under one welfare program are considered as income in determining whether the recipient qualifies for another welfare program, repeal of the one welfare program may not reduce state spending by the amount the repealed program has actually cost because of increased qualifications under the other.

Third, the revenue cost estimates do not always reflect compliance factors which may significantly reduce revenues available from a tax expenditure repeal. In particular, where Massachusetts tax provisions are "coupled" with federal tax rules, audits of Massachusetts taxpayers generally compare state and federal returns. If Massachusetts tax provisions were "decoupled", taxpayers would have to make separate calculations for Massachusetts tax purposes, and these provisions would require special audit procedures. Compliance difficulties would certainly result.

And **Fourth,** particular caution is appropriate with respect to the tax expenditure budget's totals for expenditures in particular functional categories or for

---

* Interest from Massachusetts banks already receives preferential tax treatment, so the exemption from Chapter 287 does not add a new item to the Tax Expenditure Budget for this provision of the tax law, it modifies an existing one.

particular taxes. Not only do these totals reflect the imprecision of the specific estimates, but they also omit those items for which no estimates were available. In consequence, particular totals may be substantially understated. At the same time, included in the totals, particularly with regard to the sales tax, are a number of substantial items that many analysts would regard, not as tax expenditures, but rather as features of the underlying tax itself. Perhaps the most obvious (and certainly the largest) example of this difficulty is the nontaxation of sales of services. If the sales tax is conceived as a tax only on sales of goods, this item would not constitute a tax expenditure at all. The general approach in preparing the tax expenditure budget has been to count questionable items as tax expenditures, so that information concerning them would be available for analysis. The result is that certain of the totals are higher than they would be under a more restrained analytic approach.

Summary of Findings for this Year's Tax Expenditure Budget

The tax expenditure budget offers valuable insight into the significance of tax expenditures in the Commonwealth's overall budgetary policy. The tax expenditure budget itemizes 162 distinct tax expenditures with a total cost of $7.3 billion. The costs associated with the various tax expenditures vary widely. More than a dozen items carry price tags in excess of $100 million, while many others involve revenue losses of less than $100,000 each. Of the 162 items listed, the five most costly items from each of the three major taxes account for more than two-thirds of the total revenue loss. (See Figure 1)

Figure 1

Largest Tax Expenditure Line Items

	FY91 Estimate ($ Millions)	Percent of All Tax Expenditures
A. Sales Tax		
1. Exemption for Sales of Services	$1,252.5	17.2%
2. Exemption for Sales of Real Property	789.5	10.8%
3. Exemption for Rentals of Real Property	506.2	6.9%
4. Exemption for Sales of Food	359.9	4.9%
5. Exemption for Sales of Electricity	176.0	2.4%
Subtotal	**$3,084.1**	**42.3%**
B. Personal Income Tax		
1. Deferral of Tax on Employer Contributions to and Earnings of Private Pension Plans	$427.7	5.9%
2. Exemption of Social Security Benefits	314.6	4.3%
3. Exemption of Employer Contributions for Medical Insurance Premiums and Medical Care	306.0	4.2%
4. Capital Gains Deduction	280.0	3.8%
5. Exemption of Employee Taxes to Social Security and Railroad Retirement	230.5	3.2%
Subtotal	**$1,558.8**	**21.4%**

C. Corporate Excise		
1. Exemption for Property Subject to Local Taxation	$145.4	2.0%
2. Accelerated Cost Recovery System (ACRS) for Equipment	101.5	1.4%
3. Investment Tax Credit	27.4	0.4%
4. Expensing of Research and Development Expenditures in One Year	23.9	0.3%
5. Double Weighting of Sales	22.0	0.3%
Subtotal	**$320.2**	**4.4%**
TOTAL	**$4,963.1**	**68.0%**

Figure 2 summarizes the distribution of tax expenditures among functional budget categories for FY90 and FY91 as well as budgeted expenditures for FY90. As it indicates, the vast bulk of tax expenditures in both years are attributable either to income security or to commerce. In the income security category, the most significant tax expenditures pertain to favorable income tax treatment of contributions to and receipts from pension funds and social security, and the exemption of food, clothing, and utilities from the sales tax. In the commerce category, major items include sales tax exemptions for manufacturing equipment, services, and real estate transactions; favorable corporate excise treatment of business investments; and preferential income tax treatment of capital gains and interest on Massachusetts bank accounts.

Figure 2

Distribution of Tax Expenditures and Budgeted Expenditures by Categories

	Tax Expenditures: FY91		Tax Expenditures: FY90		Budgeted Expenditures: FY90	
	FY91 Estimate ($ Millions)	Percent of All Tax Expenditures	FY90 Estimate ($ Millions)	Percent of All tax Expenditures	FY90 Estimate ($ Millions)	Percent of All Budgeted Expenditures
Commerce	$3,710.4	50.8%	$3,464.7	51.0%	$ 65.0	0.5%
Income Security	2,480.1	34.0%	2,309.9	34.0%	2,896.2	23.9%
Human Services	619.1	8.5%	553.8	8.2%	2,661.0	21.9%
Infrastructure & Environment	231.3	3.2%	220.4	3.2%	644.4	5.3%
Local Aid	145.4	2.0%	138.3	2.0%	2,781.8	22.9%
Debt Service	57.6	0.8%	53.5	0.8%	775.6	6.4%
Public Safety & Justice	27.6	0.4%	24.5	0.4%	502.1	4.1%
Education and Training	25.9	0.4%	24.7	0.4%	821.0	6.8%
General Government	—	—	—	—	979.3	8.1%
TOTAL	**$7,297.4**	**100.0%**	**$6,789.8**	**100.0%**	**$12,126.4**	**100.0%**

When the distribution of tax expenditures is compared with the distribution of budgeted expenditures for FY90 several notable points emerge. In general, tax expenditures are far less evenly distributed over the range of the state's responsibilities than are budgetary expenditures. More than 85% of tax expenditure dollars are attributable to two categories, income security and commerce, with only minimal amounts allocated to the seven other categories.

For both budgeted expenditures and tax expenditures, income security represents one of the largest expenditure areas. But in other categories, the distributions of tax expenditures and budgetary expenditures diverge sharply. The divergence is most pronounced in the case of expenditures for commerce, which account for more than half of all tax expenditures but which constitute one of the lowest ranked categories for budgetary outlays.

When the two types of expenditures are looked at together as reflecting the actual distribution of the Commonwealth's budgetary resources among various policy objectives, the picture that emerges is significantly different from the picture painted by budgeted expenditures alone. For example, the share attributable to commerce rises from 1% to 19%, while the share attributable to aid to local governments declines from 23% to 15%. These variations underscore the importance of looking at the two types of expenditures together in evaluating the programmatic thrust of state government.

Reading the Budget

In this document, the various tax expenditures and accompanying revenue cost estimates are listed in two different ways. First, they are listed like line items in a budget, by the appropriation category to which they would be assigned if they were direct expenditures. The nine functional categories used are drawn from the categorization employed elsewhere in the Governor's budget package in characterizing appropriated expenditures. This listing includes abbreviations for the source of the data used in making the cost estimates. These abbreviations are explained in a key at the beginning of this list. The numbers in the right hand column are cross-references to the same tax expenditures as they appear in the second set of lists.

In the next sections, tax expenditures and cost estimates are listed according to the taxes to which they pertain — personal income, corporate excise, sales and use, and estate. Here each of the four major taxes is first described in an introductory section, which explains how the tax is calculated, what total revenues are, what we take the basic structure of the tax to be, and in what ways that basic structure is modified to produce various types of tax expenditures. The tax expenditures for each tax follow the description of the tax. The listing for each tax expenditure includes a brief description, the cost estimate, a statutory citation, and an indication of the tax expenditure's type. You will notice that the taxes on financial institutions, utilities and insurance companies are not treated separately, and the various special excises on motor fuels, cigarettes, and alcoholic beverages are not covered in this budget.

Following the tax expenditure listings are four appendices. One lists recent law changes which affect this year's tax expenditure budget, a second discusses special features of the Commonwealth's sales tax structure, a third shows to what extent taxpayers in various income classes benefit from specific tax expenditures, and a fourth gives three-year tax expenditure estimates which are consistent with our most recent estimation methodology.

GLOSSARY

Amortization: Annual deduction allowed for the gradual exhaustion or obsolescence of intangible assets having a limited useful life which are used in the production of income, such as patents and copyrights; analogous to depreciation of tangible assets.

Capital expenditure: An expenditure made in acquiring, adding to or bettering a fixed asset. For accounting purposes, capital expenditures are not charged against current revenue. They are added to capital account or "capitalized" and then may be depreciated, amortized, or recovered when a business is sold. To be distinguished from an expense.

Credit: Amount by which a taxpayer is allowed to reduce a tax liability, as computed by applying the tax rates to the tax base; to be distinguished from a deduction from the tax base.

Deduction: Amount which a taxpayer is allowed to subtract from the gross tax base.

Depreciation: Annual deduction allowed for the gradual exhaustion or obsolescence of tangible property used in the production of income.

Exclusion: The legal elimination from the tax base of items recognized as falling within its definition. The federal term for what is sometimes called an exemption for Massachusetts. (See below.)

Exemption: The legal elimination from the tax base of items or transactions recognized as falling within its definition, or of taxable units which would normally be subject to tax.

Expense: A revenue expenditure or cost which, for accounting purposes, is charged against current revenue. To be distinguished from a capital expenditure.

Gross income: The total of all items included in the concept of income that a taxpayer receives during the taxable period.

Net income: Amount remaining after subtracting exempt income and deductions from gross income.

Personal exemption: A specific amount or percentage of net income on which the tax rate is zero. To be distinguished from an exemption as defined above, which applies to a class of income or taxpayers. Sometimes called an "allowance".

Taxable income: Amount to which the tax rates are applied in computing tax liability, after subtracting personal exemptions from net income.

PART II

Tax Expenditure Budget By Expenditure Category

FY91 Estimates ($ Millions)

Budget Function	Personal Income Tax	Corporate Excise	Sales Tax	Estate Tax	Data Source	Item Number
INCOME SECURITY						
Exemption for Food	$ —	$ —	$ 359.9	$ —	OS	100
Exemption for Certain Food and Beverages Sold in Restaurants	—	—	N.A.	—	—	101
Exemption for Clothing	—	—	158.2	—	OS	102
Exemption for Items Used in Making Clothing	—	—	1.5	—	OS	103
Exemption for Electricity	—	—	176.0	—	OS	104
Exemption for Fuel Used for Heating Purposes	—	—	80.6	—	OS	105
Exemption for Piped and Bottled Gas	—	—	60.0	—	OS	106
Exemption for Water	—	—	16.9	—	OS	107
Exemption for Steam	—	—	N.A.	—	—	108
Exemption for Certain Precious Metals	—	—	N.A.	—	—	109
Exemption of Public Assistance Benefits	5.1	—	—	—	OS	1
Exemption of Workers' Compensation Benefits	1.9	—	—	—	OS	2
Exemption of Payments Made to Coal Miners	<.1	—	—	—	NTS	3
Exemption of Annuity or Pension Payments to Firemen and Policemen	N.A.	—	—	—	—	4
Deduction for Employee Taxes to Social Security and Railroad Retirement	230.5	—	—	—	TR	5
Deduction for Employee Contributions to Public Pension Plans	Included in preceding estimate	—	—	—	—	6
Exemption of Social Security Benefits	314.6	—	—	—	OS	7
Exemption of Railroad Retirement Benefits	4.1	—	—	—	OS	8
Exemption of Payments under Certain Contributory Pension and Annuity Plans	N.A.	—	—	—	—	9
Net Exemption of Employer Contributions and Earnings of Private Pension Plans	427.7	—	—	—	NTS	10
Exemption of Earnings on IRA and Keogh Plans	44.3	—	—	—	OS	11
Exemption of Interest on Life Insurance Policy and Annuity Cash Value	86.4	—	—	—	NTS	12
Exemption of Premiums on Group-Term Life Insurance	15.8	—	—	—	NTS	13
Exemption of Premiums on Accident and Accidental Death Insurance	0.8	—	—	—	NTS	14
Exemption of Annuities under Qualified Retirement Plans	—	—	—	N.A.	—	156

DATA SOURCE KEY

N.A.	Not Available
<.1	Below $100,000
TR	Estimate based on federal and state Tax Returns for Massachusetts
NTS	Estimate derived from National Tax Statistics based on federal tax returns
OS	Estimate based on Other private or public data Sources at either the national or regional level

FY91 Estimates
($ Millions)

Budget Function	Personal Income Tax	Corporate Excise	Sales Tax	Estate Tax	Data Source	Item Number
Exemption of Life Insurance Proceeds on which the Decedent Paid the Premiums	—	—	—	N.A.	—	157
Nontaxation of Capital Gains at Death and at the Time of Gift	112.1	—	—	—	NTS	15
Nontaxation of Lifetime Transfers	—	—	—	12.5	NTS	158
Nontaxation of Certain Generation-Skipping Transfers	—	—	—	N.A.	—	159
Additional Exemption for the Blind	0.5	—	—	—	TR	16
Additional Exemption for the Elderly	6.9	—	—	—	TR	17
Dependents Exemption where the Child Earns Income	N.A.	—	—	—	—	18
Exemption of Dependent Care Expenses	5.6	—	—	—	NTS	19
Deduction for Dependent Under 12	10.7	—	—	—	TR	20
Deduction for Business-Related Childcare Expenses	16.1	—	—	—	TR	21
Deferral of Capital Gains on Home Sales	89.5	—	—	—	NTS	22
Exemption of Capital Gains on Home Sales for Persons 55 and Over	46.8	—	—	—	NTS	23
Rent Deduction	73.1	—	—	—	TR	24
Accelerated Depreciation on Rental Housing	2.5	1.6	—	—	NTS	25;71
Accelerated Depreciation for Rehabilitation of Low-Income Housing	<.1	<.1	—	—	NTS	26;72
Taxation at 5% of Alimony Income	0.9	—	—	—	TR	67
Taxation at 5% of Rental Income from Real Estate	4.1	—	—	—	TR	68
Taxation at 5% of Pension and Annuity Income and IRA/Keogh Distributions	11.2	—	—	—	TR	69
Taxation at 5% of Unemployment Compensation	1.3	—	—	—	TR	70
Deduction for Bequest to Surviving Spouse	—	—	—	100.4	TR	162
Subtotal [1] $2,480.1 (all taxes)	$1,512.5	$ 1.6	$ 853.1	$ 112.9		
HUMAN SERVICES						
Charitable Deduction	$ —	$ 8.4	$ —	$ —	NTS	73
Deduction of Charitable Bequests	—	—	—	19.9	TR	160
Nontaxation of Charitable Purpose Income of Trustees, Executors or Administrators	N.A.	—	—	—	—	27
Tax-Exempt Organizations	—	N.A.	—	—	—	74
Exemption for Sales to Tax-Exempt Organizations	—	—	142.8	—	OS	110
Exemption for Publications of Tax-Exempt Organizations	—	—	1.5	—	OS	111
Exemption for Books used for Religious Worship	—	—	N.A.	—	—	112

Subtotals and totals have been provided to give an idea of the revenue costs of tax expenditures by expenditure category, by tax and in total. However, these sums should be used with extreme caution because the underlying estimates do not take into account such factors as the interaction of tax expenditures and taxpayer behavior. Also, it should be noted that many estimates are not available and that not availables and negligibles have been entered as zeros.

FY91 Estimates
($ Millions)

Budget Function	Personal Income Tax	Corporate Excise	Sales Tax	Estate Tax	Data Source	Item Number
Exemption of Rental Value of Parsonages	N.A.	—	—	—	—	28
Exemption of Employer Contributions for Medical Insurance Premiums and Medical Care	306.0	—	—	—	NTS	29
Deduction for Self-Employed Health Insurance Expenses	Included in preceding estimate	—	—	—	—	30
Credit for Providing Health Care Benefits	2.0	0.6	—	—	OS	31;99
Deduction for Medical Expenses	19.9	—	—	—	NTS	32
Exemption for Medical and Dental Supplies and Devices	—	—	48.1	—	OS	113
Exemption for Alcoholic Beverages	—	—	49.3	—	OS	114
Deduction for Adoption Fees	0.3	—	—	—	TR	33
Exemption of Certain Foster Care Payments	N.A.	—	—	—	—	34
Credit for Removal of Lead Paint	14.0	—	—	—	OS	35
Exemption for Funeral Items	—	—	5.2	—	OS	115
Expensing for Removal of Barriers to the Handicapped	—	N.A.	—	—	—	75
Exemption for a Motor Vehicle for a Paraplegic	—	—	N.A.	—	—	116
Exemption for Certain Meals	—	—	0.7	—	—	117
Exemption for Certain Summer Camps from Room Occupancy and Meals Excise	—	—	0.4	—	OS	119
Subtotal $ 619.1 (all taxes)	$ 342.2	$ 9.0	$ 248.0	$ 19.9		

EDUCATION AND TRAINING

Budget Function	Personal Income Tax	Corporate Excise	Sales Tax	Estate Tax	Data Source	Item Number
Exemption of Scholarships and Fellowships	$ 6.3	$ —	$ —	$ —	NTS	36
Personal Exemption for Students Age 19 or Over	2.2	—	—	—	NTS	37
Exemption of Certain Prizes and Awards	N.A.	—	—	—	—	38
Exemption for Textbooks	—	—	5.2	—	OS	120
Exemption for Gifts of Scientific Equipment	—	—	10.4	—	—	121
Tax Credit for Building in a Poverty Area (UJIP)	—	1.2	—	—	TR	76
Additional Deduction for Certain Businesses in a Poverty Area (UJIP)	—	0.6	—	—	TR	77
Subtotal $ 25.9 (all taxes)	$ 8.5	$ 1.8	$ 15.6	$ 0		

COMMERCE

Budget Function	Personal Income Tax	Corporate Excise	Sales Tax	Estate Tax	Data Source	Item Number
Double Weighting of Sales	$ —	$ 22.0	$ —	$ —	TR	78
Investment Tax Credit	—	27.4	—	—	TR	79
Five-Year Amortization of Business Start-Up Costs	0.9	<.1	—	—	NTS	39;80
Accelerated Cost Recovery System (ACRS) for Equipment	24.1	101.5	—	—	NTS	40;81
Deduction for Excess First-Year Depreciation	0.6	1.7	—	—	NTS	41;82
Depreciation on Buildings (other than Rental Housing)	0.9	4.1	—	—	NTS	42;83
Exemption of Credit Union Income	—	4.2	—	—	NTS	84
Small Business Corporations	—	9.4	—	—	TR	85

FY91 Estimates
($ Millions)

Budget Function	Personal Income Tax	Corporate Excise	Sales Tax	Estate Tax	Data Source	Item Number
Exemption for Certain Bed and Breakfast Establishments from the Room Occupancy and Meals Excise	—	—	<.1	—	OS	118
Exemption for Materials, Tools, Fuels, and Machinery Used in Manufacturing	—	—	135.3	—	OS	122
Exemption for Materials, Tools, Fuels, and Machinery Used in Furnishing Power to an Industrial Manufacturing Plant	—	—	1.4	—	OS	123
Exemption for Materials, Tools, Fuels, and Machinery Used in Research and Development	—	—	N.A.	—	—	124
Exemption for Materials, Tools, Fuels, and Machinery Used in Furnishing Power to Consumers	—	—	68.6	—	OS	125
Exemption for Materials, Tools, Fuels, and Machinery Used in Newspaper Printing	—	—	12.0	—	OS	126
Exemption for Materials, Tools, Fuels, and Machinery Used in Commercial Radio and TV Broadcasting	—	—	1.3	—	OS	127
Exemption for Fuels, Supplies and Repairs for Vessels Engaged in Interstate or Foreign Commerce	—	—	0.6	—	OS	128
Exemption for Certain Sales by Typographers, Compositors, and Color Separators	—	—	N.A.	—	—	129
Exemption for Certain Items Used in the Manufacturing of Cast Metal Products	—	—	N.A.	—	—	130
Exemption for Cement Mixers	—	—	N.A.	—	—	131
Expensing of Research and Development Expenditures in One Year	0.6	23.9	—	—	NTS	43;86
Expensing of Exploration and Development Costs	1.9	<.1	—	—	NTS	44;87
Excess Natural Resource Depletion Allowance	1.4	<.1	—	—	NTS	45;88
Expensing of Certain Capital Outlays of Farmers	0.4	—	—	—	NTS	46
Special Valuation of Farm Land	—	—	—	N.A.	—	161
Deduction for Certain Dividends of Cooperatives	—	<.1	—	—	NTS	89
Exemption for Feed	—	—	1.9	—	OS	132
Exemption for Fertilizers, Insecticides and Fungicides	—	—	0.9	—	—	133
Exemption for Materials, Tools, Fuels, and Machinery used in Agricultural Production	—	—	2.1	—	OS	134
Exemption for Materials, Tools, Fuels, and Machinery Used in Commercial Fishing	—	—	3.2	—	OS	135
Exemption for Commercial Fishing Vessels	—	—	N.A.	—	—	136
Five-Year Amortization of Certain Operating Rights	<.1	<.1	—	—	NTS	47;90
Deferral of Tax on Certain Shipping Companies	—	<.1	—	—	NTS	91
Exemption for Vessels or Barges of 50 Tons or Over	—	—	N.A.	—	—	137

FY91 Estimates
($ Millions)

Budget Function	Personal Income Tax	Corporate Excise	Sales Tax	Estate Tax	Data Source	Item Number
Exemption for Services	—	—	1,252.5	—	OS	138
Exemption for Telephone and Telegraph	—	—	129.4	—	OS	139
Exemption for Newspapers and Magazines	—	—	28.5	—	OS	140
Exemption for Films	—	—	N.A.	—	—	141
Exemption for Vending Machine Sales	—	—	<.1	—	OS	142
Exemption for Containers	—	—	75.9	—	OS	143
Exemption for Rental Charges for Refuse Containers	—	—	N.A.	—	—	144
Exemption for Rentals of Real Property	—	—	506.2	—	TR	145
Exemption for Transfers of Real Property	—	—	789.5	—	TR	146
Exemption of Interest on Savings in Massachusetts Banks	9.8	—	—	—	TR	48
Taxation at 5% of Interest on Savings in Massachusetts Banks	140.6	—	—	—	TR	49
Capital Gains Deduction	280.0	—	—	—	TR	50
Deduction of Capital Losses against Interest and Dividend Income	N.A.	—	—	—	—	51
Trade-in Allowances for Motor Vehicles, Trailers, Airplanes and Boats	—	—	36.1	—	OS	147
Exemption for Casual or Isolated Sales	—	—	N.A.	—	—	148
Treatment of Incentive Stock Options	<.1	—	—	—	OS	52
Exemption of Earnings on Stock Bonus Plans or Profit Sharing Trusts	N.A.	—	—	—	—	53
Treatment of Business-Related Entertainment Expenses	2.9	—	—	—	NTS	54
Exemption of Meals and Lodging Provided at Work	6.7	—	—	—	NTS	55
Subtotal $3,710.4 (all taxes)	$ 470.8	$ 194.2	$3,045.4	$ 0		
INFRASTRUCTURE AND ENVIRONMENT						
Exemption for Motor Fuels	$ —	$ —	$ 149.0	$ —	OS	149
Exemption for Fuel Used in Operating Aircraft and Railroads	—	—	8.8	—	OS	150
Exemption for Sales of Certain New or Used Buses	—	—	N.A.	—	—	151
Exemption for Sales of Building Materials and Supplies to be Used in Connection with Certain Construction Contracts	—	—	73.3	—	OS	152
Five-Year Amortization of Pollution Control Facilities	N.A.	N.A.	—	—	—	56;92
Vanpool Credit	—	N.A.	—	—	—	93
Exemption of Income from the Sale, Lease or Transfer of Certain Patents	<.1	<.1	—	—	OS	57;94
Renewable Energy Source Credit	0.2	—	—	—	TR	58
Expensing of Certain Expenditures for Alternative Energy Sources	—	<.1	—	—	TR	95

FY91 Estimates
($ Millions)

Budget Function	Personal Income Tax	Corporate Excise	Sales Tax	Estate Tax	Data Source	Item Number
Nontaxation of Certain Energy Property	—	<.1	—	—	TR	96
Exemption for Certain Energy Conservation Equipment	—	—	<.1	—	TR	153
Seven-Year Amortization for Reforestation	<.1	<.1	—	—	NTS	59;97
Exemption of Cost-Sharing Payments	<.1	—	—	—	NTS	60
Subtotal $ 231.3 (all taxes)	$ 0.2	$ <.1	$ 231.1	$ 0		
PUBLIC SAFETY						
Exemption of Benefits and Allowances to Armed Forces Personnel	$ 4.8	$ —	$ —	$ —	NTS	61
Exemption of Compensation to Massachusetts-Based Nonresident Military Personnel	11.0	—	—	—	OS	62
Exemption of Veterans' Pensions, Disability Compensation and G.I. Benefits	11.4	—	—	—	NTS	63
Exemption of Military Disability Pensions	0.4	—	—	—	NTS	64
Exemption for Taxpayers Killed in Military Action or by Terrorist Activity	<.1	—	—	—	OS	65
Subtotal $ 27.6 (all taxes)	$ 27.6	$ 0	$ 0	$ 0		
LOCAL AID						
Exemption for Property Subject to Local Taxation	$ —	$145.4	$ —	$ —	OS	98
Subtotal $ 145.4	$ 0	$ 145.4	$ 0	$ 0		
GENERAL GOVERNMENT						
Exemption for Sales to the Commonwealth	$ —	$ —	N.A.	$ —	—	155
Exemption for the American Flag	—	—	N.A.	—	—	154
Subtotal $ 0 (all taxes)	$ 0	$ 0	$ 0	$ 0		
DEBT SERVICE						
Exemption of Interest from Massachusetts Obligations	$ 57.6	$ —	$ —	$ —	OS	66
Subtotal $ 57.6 (all taxes)	$ 57.6	$ 0	$ 0	$ 0		
TOTAL $7,297.4	$2,419.4	$ 352.0	$4,393.2	$132.8		

PART VII

Appendices

APPENDIX A

Recent Law Changes Affecting Tax Expenditures

Within the last year the following tax expenditures have been enacted or revised:

Personal Income Tax

- Taxation at 5% of Alimony Income (this year's budget, item 67). Alimony was exempted from the temporary increase in the personal income tax rate.
- Taxation at 5% of Rental Income from Real Estate (this year's budget, item 68). Rental income from real estate was exempted from the temporary increase in the personal income tax rate.
- Taxation at 5% of Pension and Annuity Income and IRA/Keogh Distributions (this year's budget, item 69). Pensions and annuity income and IRA/Keogh distributions were exempted from the temporary increase in the personal income tax rate.
- Taxation at 5% of Unemployment Compensation (this year's budget, item 70). Unemployment compensation was exempted from the temporary increase in the personal income tax rate.

Corporate Excise

- Small Business Corporations (this year's budget, item 85). The requirement that corporations have less than $6 million in total receipts in order to qualify as small business corporations was repealed.

Sales and Use Tax

- Exemption for Transfers of Real Property (this year's budget, item 146). The deeds excise was doubled from .228% to .456% of the taxable price of the property.

Sales and Use Tax

Part 1: The Treatment of Basic Necessities

A sales tax without exemptions is regressive since it is levied on consumption. Persons who must spend most of their disposable income on consumption bear a disproportionally high tax burden. Exemptions for basic necessities can help to alleviate the sales tax burden on low income persons. Although it is difficult to classify necessities, items commonly accepted as such include food, clothing, drugs and medicines, household fuel, utility service, basic appliances, and household supplies.

Massachusetts exempts most necessities. Within these exemptions there are specifically included items which generally are not considered to be necessities. There are also some exemptions which are so broad as to include items generally not considered to be necessities. For example, *all* food for human consumption (except food sold in restaurants) is exempt. As of 1988, twenty-eight out of the forty-five states that administer a sales tax exempt food, but only a few of these tax candy or soft drinks or both. Other basic necessities exempt in the Massachusetts statute include clothing up to a value of $175 per item, prescription drugs and medicines, household fuel, certain energy conservation equipment, utility services, and some basic household supplies.

Following is a list of selected exempt and taxable items which illustrates the preceding discussion.

Exempt Items	Taxable Items
Baby Oil	Aspirin
Candy	Baby Lotion
Coffee	Baby Powder
Ice	Facial Tissue
Ice Cream	Medicinal Lozenges
Soft Drinks	Refrigerators
Tea	Soap
	Cooking Equipment
	Toilet Tissue
	Laundry Machines

Part 2: The Treatment of Services

Massachusetts does not tax services. Services are exempt by the limitation of "retail sale" to the sale of tangible personal property.

The first figure below provides an overview of the degree of sales taxation of services in other states. Among the 45 states administering a sales tax, only 19 are as restrictive in their taxation of services as the Commonwealth. While only 3 states, Hawaii, New Mexico, and South Dakota tax virtually all services, another 17 tax at least a "substantial" proportion of services.

The second figure provides a list of selected services and their accompanying tax expenditure estimates.

Figure 1

Sales Tax Treatment of Services Other Than Utilities, Admissions, and Transient Accommodations, January 1989*

No Taxation of Additional Services	Limited Taxation of Services			General Taxation of Services
	Narrow	Substantial	Broad	
Alabama	Arizona	Arkansas	Iowa	Hawaii
California	Connecticut	Florida	Washington	New Mexico
Colorado	Minnesota	Kansas	West Virginia	South Dakota
Georgia	North Carolina	Louisiana		
Idaho	South Carolina	Mississippi		
Illinois		New Jersey		
Indiana		New York		
Kentucky		Ohio		
Maine		Pennsylvania		
Maryland		Tennessee		
Massachusetts		Texas		
Michigan		Utah		
Missouri		Wisconsin		
Nebraska		Wyoming		
Nevada				
North Dakota				
Oklahoma				
Rhode Island				
Vermont				
Virginia				

Definitions:

Narrow:	Narrow taxation of services (may include taxation of advertising; selected business services; and laundry and dry cleaning)
Substantial:	Substantial taxation of services (may include taxation of repair services; bookkeeping and collection services; laundry and dry cleaning; cable T.V.; parking; and landscaping)
Broad:	Broad taxation of services (may include taxation of repairs; investment counseling; bank service charges; barber and beauty shops; carpentry; laundry and cleaning; photography; rentals; interior decorating; printing; packing; parking; and bookkeeping and collection services)
General:	General taxation of most services (includes most professional and personal services)

* Because it is so common for states to tax these particular services, they are typically excluded in interstate comparisons.

Compiled by: National Conference of State Legislatures, Denver, Colorado

Note: Since the National Conference of State Legislatures compiled the information cited in this figure, the State of Connecticut enacted a series of tax law changes, effective July 1, 1989, which extended its tax treatment of services from narrow to substantial coverage.

Figure 2

FY91 Tax Expenditure Estimates For Specific Types of Services

Type of Service	FY91 Tax Expenditure ($ Millions)
PERSONAL SERVICES	
Laundry, Cleaning and Garment Services	$19.0
Photographic Studios, Portrait	2.6
Beauty and Barber Shops	17.3
Shoe Repair Shops and Shoe Shine Parlors	0.2
Funeral Services and Crematories	8.6
Tax Return Preparation Services	1.5
Miscellaneous Personal Services	3.6
TOTAL	**$52.9**
BUSINESS SERVICES	
Advertising	$25.3
Credit Reporting and Collection	8.0
Mailing, Reproduction, Commercial Art and Photography, and Stenographic Services	
Direct Mail Advertising Services	6.3
Secretarial and Court Reporting Services	1.8
Commercial Photography	1.8
Commercial Art and Graphic Design	8.0
Subtotal	17.8
Building Service and Maintenance	
Disinfecting and Pest Control Services	2.0
Building Cleaning and Maintenance Services, n.e.c.	19.9
Subtotal	21.9
Personnel Supply Services	55.2
Computer and Data Processing	
Computer Programming Services	39.7
Computer Integrated Systems Design	18.3

Computer Processing and Data Preparation and Processing Services	26.0
Information Retrieval Services	3.0
Computer Facilities Management Services	0.9
Computer Maintenance and Repair	63.4
Computer Related Services, n.e.c	13.8
Subtotal	164.9
Detective, Guard and Armored Car Services	13.1
Security Systems Services	3.6
New Syndicates	1.0
Photofinishing Laboratories	6.2
Business Services, n.e.c.	32.6
TOTAL	**$349.6**

AUTOMOTIVE SERVICES

Automobile Parking	$5.4
Automotive Repair	48.9
Car Washes	4.1
Automotive Services Except Parking, Repair and Car Washes	2.9
TOTAL	**$61.3**

MISCELLANEOUS REPAIR SERVICES

Electrical Repair	
Radio and Television Repair Shops	$1.2
Refrigeration and Air Conditioning Service and Repair Shops	2.4
Electrical and Electronic Repair Shops, n.e.c.	3.4
Subtotal	7.1
Watch, Clock, and Jewelry Repair	0.3
Reupholstery and Furniture Repair	1.4
Miscellaneous Repair Shops and Related Services	20.0
TOTAL	**$28.8**

AMUSEMENT AND ENTERTAINMENT SERVICES

Motion Picture Production, Distribution, and Services	$12.1
Motion Picture Theaters	4.7
Theatrical Producers (except motion picture), and Miscellaneous Theatrical Services	1.8
Bands, Orchestras, Actors and Other Group Entertainments	0.5
Commercial Sports	
Professional Sports	4.0
Racing, including Track Operations	4.0
Subtotal	8.0
Bowling Centers, and Billiard and Pool Establishments	2.0
Dance Studios, Schools, and Halls	0.6
Physical Fitness Facilities	5.2
Public Golf Courses	1.9
Coin-op Amusement Device Operators	1.4
Amusement Parks	0.4
Membership Sports and Recreation Clubs	6.5
Amusement and Recreation Services, n.e.c.	
Concession Operators of Amusement Devices and Rides	0.4
Carnivals, Circuses, and Fairs	0.0
Roller Skating Rinks	0.3
Ice Skating Rinks	0.3
Other Amusements and Recreation Services, n.e.c.	5.7
Subtotal	6.7
Museums, Art Galleries, and Botanical and Zoological Gardens	
Museums and Art Galleries	0.1
Arboreta and Botanical or Zoological Gardens	0.1
Subtotal	0.2
TOTAL	**$51.9**

HEALTH SERVICES (EXCEPT HOSPITALS)

Offices and Clinics of Health Practitioners	
Offices and Clinics of Doctors of Medicine	$126.6
Offices and Clinics of Dentists	44.7
Offices and Clinics of Osteopathy and Other Health Practitioners	15.7
Subtotal	186.9
Nursing and Personal Care Facilities	64.5
Medical and Dental Laboratories	12.6
Home Health Care Services	7.5
Miscellaneous Health and Allied Services, n.e.c.	9.0
TOTAL	**$280.5**

LEGAL SERVICES	**$135.3**

ENGINEERING, ACCOUNTING, RESEARCH, MANAGEMENT, AND RELATED SERVICES

Engineering, Architectural and Surveying Services	$134.9
Accounting, Auditing and Bookkeeping	45.6
Research, Development, and Testing Services	26.8
Management, Consulting and Public Relations	76.3
TOTAL	**$283.6**

OTHER SERVICES	**$8.5**
GRAND TOTAL	**$1,252.5**

Notes: Detail may not add to totals due to rounding.
N.E.C. Not elsewhere classified.

APPENDIX C

Distributional Effects For Selected Tax Expenditures

The Tax Expenditure Budget lists the preferential tax treatments in four major taxes and indicates their effect on government revenues. However, the budget does not tell us how effective these provisions are in carrying out government policy. For example, this year's budget shows the exemption for food under the sales tax costs the Commonwealth $359.9 million. What it doesn't show is how this $359.9 million is spent. Assuming the exemption for food is intended to benefit people who must spend a large percentage of their disposable income on food, to evaluate this provision we need to know whether its purpose is met — we need to know who actually gets the benefit of the exemption and to what extent.

The figures below are a first step toward providing this kind of information. The tax expenditures chosen are ones of general interest for which we have data. Their selection does not indicate any opinion as to their desirability.

The first seven figures are for tax expenditures under the personal income tax. The statistics are from actual 1987 tax data simulated to reflect 1990 law using this year's tax expenditure estimate for each item. In other words, the tax expenditure amounts reflect 1987 income levels, but 1990 law. Income is expressed in terms of "Massachusetts adjusted gross income" (AGI) which is generally gross income minus the cost of producing the income. Each table shows the total tax expenditure amount distributed across the seven income brackets, the average benefit per return, and the benefit as a percentage of income (AGI).

The second fourteen figures represent tax expenditures under the sales tax. The distribution of these tax expenditures across income brackets is based on the U.S. Bureau of Labor Statistics **Consumer Expenditure Survey,** 1986. The figures do not include sales to businesses, so in some cases the tax expenditure amounts are substantially lower than those presented elsewhere in the Tax Expenditure Budget. In these figures income is expressed in terms of "household monetary income" (HMI) which means total household income (excluding in-kind benefits, except food stamps) before taxes. The seven income brackets are the brackets used in the **Consumer Expenditure Survey**. Each figure shows the total tax expenditure amount distributed across the seven income brackets, the average benefit per household for each bracket and the benefit as a percentage of income (HMI).

The last two figures represent tax expenditures under the estate tax. The statistics are based on actual 1987 estate tax data.

Deduction for Retirement Contributions (Items 5 and 6)

Adjusted Gross Income Level ($1,000)	Total Benefit ($ Millions)	Average Benefit Per Return	Benefit as % of AGI
Under 10	0.3	0.4	0.01%
10 to 20	29.6	46.0	0.31%
20 to 30	49.0	102.5	0.42%
30 to 50	80.8	143.3	0.37%
50 to 100	59.8	184.9	0.28%
100 to 200	8.5	170.2	0.13%
over 200	2.6	152.3	0.03%
Total	230.5	81.5	0.28%

Taxation at 5% of Interest on Savings in Massachusetts Banks (Item 49)

Adjusted Gross Income Level ($1,000)	Total Benefit ($ Millions)	Average Benefit Per Return	Benefit as % of AGI
Under 10	0.4	0.5	0.01%
10 to 20	19.1	29.7	0.20%
20 to 30	28.4	59.3	0.24%
30 to 50	38.1	67.5	0.17%
50 to 100	32.1	99.3	0.15%
100 to 200	12.1	243.4	0.18%
over 200	10.5	618.9	0.14%
Total	140.6	49.7	0.17%

Rent Deduction (Item 24)

Adjusted Gross Income Level ($1,000)	Total Benefit ($ Millions)	Average Benefit Per Return	Benefit as % of AGI
Under 10	0.5	0.6	0.01%
10 to 20	21.9	34.1	0.23%
20 to 30	24.4	51.1	0.21%
30 to 50	20.5	36.3	0.09%
50 to 100	5.4	16.8	0.03%
100 to 200	0.4	7.1	0.01%
over 200	0.1	5.0	0.00%
Total	73.1	25.8	0.09%

Additional Exemption for the Elderly (Item 17)

Adjusted Gross Income Level ($1,000)	Total Benefit ($ Millions)	Average Benefit Per Return	Benefit as % of AGI
Under 10	0.0	0.0	0.00%
10 to 20	1.5	2.3	0.02%
20 to 30	2.3	4.7	0.02%
30 to 50	1.7	3.0	0.01%
50 to 100	1.0	3.0	0.00%
100 to 200	0.3	5.9	0.00%
over 200	0.2	9.3	0.00%
Total	6.9	2.4	0.01%

Adjusted Gross Income Level ($1,000)	Deduction for Dependent under 12 (Item 20) Total Benefit ($ Millions)	Average Benefit Per Return	Benefit as % or AGI
Under 10	0.0	0.1	0.00%
10 to 20	1.1	1.8	0.01%
20 to 30	2.3	4.8	0.02%
30 to 50	4.5	8.0	0.02%
50 to 100	2.3	7.1	0.01%
100 to 200	0.3	6.7	0.01%
over 200	0.1	6.3	0.00%
Total	10.7	3.8	0.01%

Adjusted Gross Income Level ($1,000)	Deduction for Business-Related Childcare Expenses (Item 21) Total Benefit ($ Millions)	Average Benefit Per Return	Benefit as % of AGI
Under 10	0.0	0.0	0.00%
10 to 20	2.4	3.8	0.03%
20 to 30	2.6	5.4	0.02%
30 to 50	5.2	9.2	0.02%
50 to 100	4.9	15.2	0.02%
100 to 200	0.8	15.9	0.01%
over 200	0.2	10.7	0.00%
Total	16.1	5.7	0.02%

Adjusted Gross Income Level ($1,000)	Capital Gains Deduction (Item 50) Total Benefit ($ Millions)	Average Benefit Per Return	Benefit as % of AGI
Under 10	2.3	247.2	3.06%
10 to 20	8.1	201.4	1.34%
20 to 30	10.2	254.9	1.02%
30 to 50	26.9	384.3	0.97%
50 to 100	55.1	711.6	1.03%
100 to 200	48.2	2,011.8	1.51%
over 200	129.1	12,493.9	2.57%
Total	280.0	1,031.3	1.55%

Goods

Exemption for Food (Item 100)

Household Monetary Income ($1,000)	Total Benefit ($ Millions)	Average Benefit per Household	Benefit as % of HMI
Under 5	13.6	102	4.08%
5 to 10	27.8	105	1.40%
10 to 15	23.0	115	0.92%
15 to 20	27.9	135	0.77%
20 to 30	56.7	151	0.60%
30 to 40	57.4	178	0.51%
Over 40	153.6	211	0.30%
Total	359.9	162	0.45%

Exemption for Alcoholic Beverages (Item 114)

Household Monetary Income ($1,000)	Total Benefit ($ Millions)	Average Benefit per Household	Benefit as % of HMI
Under 5	1.9	14	0.57%
5 to 10	2.4	9	0.12%
10 to 15	2.6	13	0.10%
15 to 20	3.5	17	0.10%
20 to 30	7.7	21	0.08%
30 to 40	7.3	23	0.07%
Over 40	23.8	33	0.05%
Total	49.3	22	0.06%

Exemption for Clothing (Item 102)

Household Monetary Income ($1,000)	Total Benefit ($ Millions)	Average Benefit per Household	Benefit as % of HMI
Under 5	4.3	33	1.31%
5 to 10	8.2	31	0.41%
10 to 15	6.9	34	0.28%
15 to 20	9.6	47	0.27%
20 to 30	22.0	59	0.23%
30 to 40	22.5	70	0.20%
Over 40	84.6	116	0.16%
Total	158.2	71	0.20%

Exemption for Medical and Dental Supplies and Devices (Item 113)

Household Monetary Income ($1,000)	Total Benefit ($ Millions)	Average Benefit per Household	Benefit as % of HMI
Under 5	1.3	10	0.38%
5 to 10	3.1	12	0.16%
10 to 15	2.7	13	0.11%
15 to 20	4.6	22	0.13%
20 to 30	7.9	21	0.08%
30 to 40	6.9	21	0.06%
Over 40	21.6	30	0.04%
Total	48.1	22	0.06%

Utilities and Fuel

Exemption for Gasoline (Included in Item 149)[1]

Household Monetary Income ($1,000)	Total Benefit ($ Millions)	Average Benefit per Household	Benefit as % of HMI
Under 5	3.9	29	1.17%
5 to 10	7.3	28	0.37%
10 to 15	8.5	42	0.34%
15 to 20	11.2	54	0.31%
20 to 30	25.5	68	0.27%
30 to 40	24.6	76	0.22%
Over 40	68.0	94	0.13%
Total	128.1	67	0.18%

Exemption for Electricity (Included in Item 104)[1]

Household Monetary Income ($1,000)	Total Benefit ($ Millions)	Average Benefit per Household	Benefit as % of HMI
Under 5	2.1	16	0.63%
5 to 10	5.0	19	0.25%
10 to 15	4.6	23	0.18%
15 to 20	4.9	24	0.14%
20 to 30	10.4	28	0.11%
30 to 40	10.8	34	0.10%
Over 40	31.5	43	0.06%
Total	69.3	31	0.09%

Exemption for Fuel for Heating (Included in Item 105)[1]

Household Monetary Income ($1,000)	Total Benefit ($ Millions)	Average Benefit per Household	Benefit as % of HMI
Under 5	1.6	12	0.49%
5 to 10	5.4	20	0.27%
10 to 15	4.3	21	0.17%
15 to 20	3.9	19	0.11%
20 to 30	10.0	27	0.11%
30 to 40	9.6	30	0.09%
Over 40	25.2	35	0.05%
Total	60.0	27	0.07%

Exemption for Natural Gas (Included in Item 106)[1]

Household Monetary Income ($1,000)	Total Benefit ($ Millions)	Average Benefit per Household	Benefit as % of HMI
Under 5	1.4	10	0.41%
5 to 10	3.5	13	0.18%
10 to 15	2.7	13	0.11%
15 to 20	3.2	15	0.09%
20 to 30	5.9	16	0.06%
30 to 40	6.0	19	0.05%
Over 40	16.3	22	0.03%
Total	38.9	17	0.05%

Exemption for Water (Included in Item 107)[1]

Household Monetary Income ($1,000)	Total Benefit ($ Millions)	Average Benefit per Household	Benefit as % of HMI
Under 5	0.2	1	0.06%
5 to 10	0.6	2	0.03%
10 to 15	0.6	3	0.02%
15 to 20	0.6	3	0.02%
20 to 30	1.2	3	0.01%
30 to 40	1.2	4	0.01%
Over 40	4.1	6	0.01%
Total	8.5	4	0.01%

Exemption for Telephone and Telegraph (Included in Item 139)[1]

Household Monetary Income ($1,000)	Total Benefit ($ Millions)	Average Benefit per Household	Benefit as % of HMI
Under 5	2.8	21	0.85%
5 to 10	5.2	20	0.26%
10 to 15	3.9	20	0.16%
15 to 20	5.7	28	0.16%
20 to 30	10.4	28	0.11%
30 to 40	9.5	29	0.08%
Over 40	27.2	37	0.05%
Total	64.7	29	0.08%

[1] Residential consumption only.

Services

Exemption for Automotive Repair Services (Included in Item 138)

Household Monetary Income ($1,000)	Total Benefit ($ Millions)	Average Benefit per Household	Benefit as % of HMI
Under 5	1.0	7	0.29%
5 to 10	2.4	9	0.12%
10 to 15	2.9	14	0.12%
15 to 20	3.4	16	0.09%
20 to 30	7.7	21	0.08%
30 to 40	6.3	20	0.06%
Over 40	25.2	35	0.05%
Total	48.9	22	0.06%

Exemption for Health Services (Included in Item 138)

Household Monetary Income ($1,000)	Total Benefit ($ Millions)	Average Benefit per Household	Benefit as % of HMI
Under 5	6.2	47	1.88%
5 to 10	15.3	58	0.77%
10 to 15	12.8	64	0.51%
15 to 20	22.7	110	0.63%
20 to 30	44.0	117	0.47%
30 to 40	41.9	130	0.37%
Over 40	137.6	189	0.27%
Total	280.5	126	0.35%

Exemption for Admission Fees - All (Included in Item 138)

Household Monetary Income ($1,000)	Total Benefit ($ Millions)	Average Benefit per Household	Benefit as % of HMI
Under 5	0.9	7	0.28%
5 to 10	1.3	5	0.06%
10 to 15	1.2	6	0.05%
15 to 20	1.9	9	0.05%
20 to 30	4.5	12	0.05%
30 to 40	4.8	15	0.04%
Over 40	23.7	33	0.05%
Total	39.9	17	0.05%

Exemption for Admission Fees to Movies, Sporting Events, Concerts and Theater (included in Item 138)

Household Monetary Income ($1,000)	Total Benefit ($ Millions)	Average Benefit per Household	Benefit as % of HMI
Under 5	0.4	3	0.11%
5 to 10	0.5	2	0.03%
10 to 15	0.5	2	0.02%
15 to 20	0.7	4	0.02%
20 to 30	1.8	5	0.02%
30 to 40	1.9	6	0.02%
Over 40	9.3	13	0.02%
Total	15.0	7	0.02%

Estate Tax Items

Adjusted Gross Estate Level ($1,000)	Deduction for Bequests to Surviving Spouse (Item 162) Total Benefit ($ Millions)	Average Benefit Per Return*
200 to 400	9.2	9,207
400 to 600	10.2	21,152
600 to 800	7.5	32,046
800 to 1000	5.4	42,773
1000 to 2000	18.7	74,095
2000 to 4000	14.9	156,987
over 4000	34.5	594,378
Total	100.4	44,576

* Average benefit per return claiming this tax expenditure.

Adjusted Gross Estate Level ($1,000)	Deduction of Charitable Bequests (Item 160) Total Benefit ($ Millions)	Average Benefit Per Return*
200 to 400	1.1	4,672
400 to 600	1.7	9,919
600 to 800	1.1	13,066
800 to 1000	1.0	18,453
1000 to 2000	3.0	28,293
2000 to 4000	1.9	39,917
over 4000	10.1	225,515
Total	19.9	26,654

* Average benefit per return claiming this tax expenditure.

Tax Expenditures FY89-FY91

The following figure shows tax expenditure estimates for the four major taxes from FY89 to FY91. In general, the revenue estimate for a tax expenditure tends to follow the anticipated growth of tax collections. However, year-to-year changes in estimates may vary for four other principal reasons: we have new data sources, we have refined our methodology, federal tax expenditure estimates on which we rely have changed, and we have revised estimates to account for changes in tax laws.

Where possible, we have recalculated past estimates based on revised data, improved methodologies, and changes in statute.

Tax Expenditure	Item Number	Fiscal Year Estimates ($ Millions) FY89 [1]	FY90 [1]	FY91
PERSONAL INCOME TAX [2]				
Exemption of Public Assistance Benefits	1	3.9	4.5	5.1
Exemption of Workers' Compensation Benefits	2	1.5	1.7	1.9
Exemption of Payments Made to Coal Miners	3	negl.	negl.	negl.
Exemption of Annuity or Pension Payments to Firemen and Policemen	4	N.A.	N.A.	N.A.
Deduction for Employee Taxes to Social Security and Railroad Retirement	5	183.5	206.0	230.5
Deduction for Employee Contributions to Public Pension Plans	6	N.A.	N.A.	N.A.
Exemption of Social Security Benefits	7	283.0	301.8	314.6
Exemption of Railroad Retirement Benefits	8	3.7	4.0	4.1
Exemption of Payments under Certain Contributory Pension and Annuity Plans	9	N.A.	N.A.	N.A.
Net Exemption of Employer Contributions and Earnings of Private Pension Plans	10	330.6	378.0	427.7
Exemption of Earnings on IRA and Keogh Plans	11	44.0	44.1	44.3
Exemption of Interest on Life Insurance Policy and Annuity Cash Value	12	70.2	78.3	86.4
Exemption of Premiums on Group-Term Life Insurance	13	12.3	14.0	15.8
Exemption of Premiums on Accident and Accidental Death Insurance	14	0.7	0.8	0.8
Nontaxation of Capital Gains at Death and at the Time of Gift	15	104.6	108.3	112.1
Additional Exemption for the Blind	16	0.4	0.4	0.5
Additional Exemption for the Elderly	17	5.9	6.4	6.9
Dependents Exemption where the Child Earns Income	18	N.A.	N.A.	N.A.
Exemption of Dependent Care Expenses	19	1.9	3.1	5.6
Deduction for Dependent Under 12	20	9.4	10.1	10.7
Deduction for Business-Related Childcare Expenses	21	13.0	14.6	16.1
Deferral of Capital Gains on Home Sales	22	80.5	84.6	89.5
Exemption of Capital Gains on Home Sale for Persons 55 and Over	23	42.9	44.2	46.8
Rent Deduction	24	60.4	67.0	73.1
Accelerated Depreciation on Rental Housing	25	4.0	2.0	2.5
Accelerated Depreciation on Rehabilitation of Low-Income Housing	26	negl.	negl.	negl.
Nontaxation of Charitable Purpose Income of Trustees, Executors or Administrators	27	N.A.	N.A.	N.A.
Exemption of Rental Value of Parsonages	28	N.A.	N.A.	N.A.
Exemption of Employer Contributions for Medical Insurance Premiums and Medical Care	29	200.1	254.1	306.0
Deduction for Self-Employed Health Insurance Expenses	30	N.A.	N.A.	N.A.
Credit for Providing Health Care Benefits	31	---	0.0	2.0
Deduction for Medical Expenses	32	14.6	17.1	19.9
Deduction for Adoption Fees	33	0.3	0.3	0.3
Exemption of Certain Foster Care Payments	34	N.A.	N.A.	N.A.
Credit for Removal of Lead Paint	35	negl.	14.0	14.0
Exemption of Scholarships and Fellowships	36	4.4	5.9	6.3
Personal Exemption for Students Age 19 or Over	37	1.9	2.0	2.2

		Fiscal Year Estimates ($ Millions)		
Tax Expenditure	**Item Number**	**FY89 [1]**	**FY90 [1]**	**FY91**
Exemption of Certain Prizes and Awards	38	N.A.	N.A.	N.A.
Five-Year Amortization of Business Start-Up Costs	39	0.8	0.9	0.9
Accelerated Cost Recovery System (ACRS) for Equipment [3]	40	17.8	20.8	24.1
Deduction for Excess First-Year Depreciation	41	1.6	1.1	0.6
Depreciation on Buildings (Other than Rental Housing)	42	7.0	0.9	0.9
Expensing of Research and Development Expenditures in One Year	43	0.5	0.5	0.6
Expensing of Exploration and Development Costs	44	1.6	1.8	1.9
Excess Natural Resource Depletion Allowance	45	1.2	0.9	1.4
Expensing of Certain Capital Outlays of Farmers	46	0.1	0.3	0.4
Five-Year Amortization of Certain Operating Rights	47	negl.	negl.	negl.
Exemption of Interest on Savings in Massachusetts Banks	48	9.4	9.7	9.8
Taxation at 5% of Interest on Savings in Massachusetts Banks	49	112.9	128.2	140.6
Capital Gains Deduction [4]	50	250.0	265.0	280.0
Deduction of Capital Losses against Interest and Dividend Income	51	N.A.	N.A.	N.A.
Treatment of Incentive Stock Options	52	negl.	negl.	negl.
Exemption of Earnings on Stock Bonus Plans	53	N.A.	N.A.	N.A.
Treatment of Business-Related Entertainment Expenses	54	2.4	2.7	2.9
Exemption of Meals and Lodging Provided at Work	55	5.8	6.2	6.7
Five-Year Amortization of Pollution Control Facilities	56	N.A.	N.A.	N.A.
Exemption of Income from the Sale, Lease or Transfer of Certain Patents	57	negl.	negl.	negl.
Renewable Energy Source Credit	58	0.3	0.2	0.2
Seven-Year Amortization for Reforestation	59	negl.	negl.	negl.
Exemption of Cost-Sharing Payments	60	negl.	negl.	negl.
Exemption of Benefits and Allowances to Armed Forces Personnel	61	3.5	4.2	4.8
Exemption of Compensation to Massachusetts-Based Nonresident Military Personnel	62	8.9	9.9	11.0
Exemption of Veterans' Pensions, Disability Compensation and G.I. Benefits	63	9.4	10.0	11.4
Exemption of Military Disability Pensions	64	0.4	0.4	0.4
Exemption for Taxpayers Killed in Military Action or by Terrorist Activity	65	negl.	negl.	negl.
Exemption of Interest from Massachusetts Obligations	66	49.7	53.5	57.6
Taxation at 5% of Alimony Income	67	0.0	0.4	0.9
Taxation at 5% of Rental Income from Real Estate	68	0.0	1.9	4.1
Taxation at 5% of Pension and Annuity Income and IRA/Keogh Distributions	69	0.0	5.3	11.2
Taxation at 5% of Unemployment Compensation	70	0.0	0.6	1.3
Subtotal		1,961.0	2,192.7	2,419.4
CORPORATE EXCISE TAX				
Accelerated Depreciation on Rental Housing	71	1.6	1.6	1.6
Accelerated Depreciation for Rehabilitation of Low-Income Housing	72	negl.	negl.	negl.
Charitable Deduction	73	7.0	8.4	8.4

Tax Expenditure	Item Number	FY89 [1]	FY90 [1]	FY91
		Fiscal Year Estimates ($ Millions)		
Tax-Exempt Organizations	74	N.A.	N.A.	N.A.
Expensing of Removal of Barriers to the Handicapped	75	N.A.	N.A.	N.A.
Tax Credit for Building in a Poverty Area (UJIP)	76	1.2	1.2	1.2
Additional Deduction for Certain Businesses in a Poverty Area (UJIP)	77	0.6	0.6	0.6
Double Weighting of Sales	78	20.0	21.0	22.0
Investment Tax Credit	79	25.4	27.1	27.4
Five-Year Amortization of Start-Up Cost	80	negl.	negl.	negl.
Accelerated Cost Recovery System (ACRS) for Equipment [3]	81	85.0	90.0	101.5
Deduction for Excess First-Year Depreciation	82	5.8	5.0	1.7
Depreciation on Buildings (Other than Rental Housing)	83	N.A.	4.1	4.1
Exemption of Credit Union Income	84	2.8	4.2	4.2
Small Business Corporations	85	13.3	11.6	9.4
Expensing of Research and Development Expenditures in One Year	86	17.5	19.1	23.9
Expensing of Exploration and Development Costs	87	negl.	negl.	negl.
Excess Natural Resource Depletion Allowance	88	negl.	negl.	negl.
Deduction for Certain Dividends of Cooperatives	89	negl.	negl.	negl.
Five-Year Amortizaton of Certain Operating Rights	90	negl.	negl.	negl.
Deferral of Tax on Certain Shipping Companies	91	negl.	negl.	negl.
Five-Year Amortization of Pollution Control Facilities	92	N.A.	N.A.	N.A.
Vanpool Credit	93	N.A.	N.A.	N.A.
Exemption of Income from the Sale, Lease or Transfer of Certain Patents	94	negl.	negl.	negl.
Expensing of Certain Expenditures for Alternative Energy Sources	95	negl.	negl.	negl.
Nontaxation of Certain Energy Products	96	negl.	negl.	negl.
Seven-Year Amortization for Reforestation	97	negl.	negl.	negl.
Exemption for Property Subject to Local Taxation	98	131.5	138.3	145.4
Credit for Providing Health Care Benefits	99	---	0.0	0.6
Subtotal		311.7	332.2	352.0
SALES AND USE TAX				
Exemption for Food	100	332.7	346.3	359.9
Exemption for Certain Food and Beverages Sold in Restaurants	101	N.A.	N.A.	N.A.
Exemption for Clothing	102	143.4	150.7	158.2
Exemption for Items Used in Making Clothing	103	1.4	1.5	1.5
Exemption for Electricity	104	159.3	167.2	176.0
Exemption for Fuel Used for Heating Purposes	105	83.8	80.5	80.6
Exemption for Piped and Bottled Gas	106	55.4	55.7	60.0
Exemption for Water	107	16.7	16.8	16.9
Exemption for Steam	108	N.A.	N.A.	N.A.

		Fiscal Year Estimates ($ Millions)		
Tax Expenditure	Item Number	FY89 [1]	FY90 [1]	FY91
Exemption for Certain Precious Metals	109	N.A.	N.A.	N.A.
Exemption for Sales to Tax-Exempt Organizations	110	132.0	138.6	142.8
Exemption for Publications of Tax-Exempt Organizations	111	1.4	1.5	1.5
Exemption for Books Used for Religious Worship	112	N.A.	N.A.	N.A.
Exemption for Medical and Dental Supplies and Devices	113	40.3	44.0	48.1
Exemption for Alcoholic Beverages	114	52.0	50.7	49.3
Exemption for Funeral Items	115	4.8	5.0	5.2
Exemption for a Motor Vehicle for a Paraplegic	116	N.A.	N.A.	N.A.
Exemption for Certain Meals	117	0.7	0.7	0.7
Exemption for Certain Bed and Breakfast Establishments from Room Occupancy and Meals Excise	118	negl.	negl.	negl.
Exemption for Certain Summer Camps from Room Occupancy and Meals Excise	119	0.3	0.4	0.4
Exemption for Textbooks	120	4.7	4.9	5.2
Exemption for Gifts of Scientific Equipment	121	9.6	10.1	10.4
Exemption for Materials, Tools, Fuels, and Machinery Used in Manufacturing	122	126.9	128.2	135.3
Exemption for Materials, Tools, Fuels, and Machinery Used in Furnishing Power to an Industrial Manufacturing Plant	123	1.2	1.3	1.4
Exemption for Materials, Tools, Fuels, and Machinery Used in Research and Development	124	N.A.	N.A.	N.A.
Exemption for Materials, Tools, Fuels, and Machinery Used in Furnishing Power to Consumers	125	61.8	65.2	68.6
Exemption for Materials, Tools, Fuels, and Machinery Used in Newspaper Printing	126	11.3	11.7	12.0
Exemption for Materials, Tools, Fuels, and Machinery Used in Commercial Radio and TV Broadcasting	127	1.1	1.2	1.3
Exemption for Fuels, Supplies and Repairs for Vessels Engaged in Interstate or Foreign Commerce	128	0.6	0.6	0.6
Exemption for Certain Sales by Typographers, Compositors, and Color Separators	129	N.A.	N.A.	N.A.
Exemption for Certain Items Used in the Manufacturing of Cast Metal Products	130	N.A.	N.A.	N.A.
Exemption for Cement Mixers	131	N.A.	N.A.	N.A.
Exemption for Feed	132	1.8	1.8	1.9
Exemption for Fertilizers, Insecticides and Fungicides	133	0.9	0.9	0.9
Exemption for Materials, Tools, Fuels, and Machinery Used in Agricultural Production	134	1.9	2.0	2.1
Exemption for Materials, Tools, Fuels, and Machinery Used in Commercial Fishing	135	2.7	2.9	3.2
Exemption for Commericial Fishing Vessels	136	N.A.	N.A.	N.A.
Exemption for Vessels or Barges of 50 Tons or Over	137	N.A.	N.A.	N.A.
Exemption for Services	138	1,006.3	1,120.9	1,252.5
Exemption for Telephone and Telegraph [5]	139	118.6	125.3	129.4
Exemption for Newspapers and Magazines	140	25.1	26.7	28.5

Fiscal Year Estimates ($ Millions)

Tax Expenditure	Item Number	FY89 [1]	FY90 [1]	FY91
Exemption for Films	141	N.A.	N.A.	N.A.
Exemption for Vending Machine Sales	142	negl.	negl.	negl.
Exemption for Containers	143	73.3	75.3	75.9
Exemption for Rental Charges for Refuse Containers	144	N.A.	N.A.	N.A.
Exemption for Rentals of Real Property	145	457.2	476.5	506.2
Exemption for Transfers of Real Property	146	1,011.0	767.5	789.5
Trade-in Allowances for Motor Vehicles, Trailers, Airplanes and Boats	147	34.9	35.6	36.1
Exemption for Casual or Isolated Sales	148	N.A.	N.A.	N.A.
Exemption for Motor Fuels	149	142.3	142.2	149.0
Exemption for Fuels Used in Operating Aircraft and Railroads	150	7.6	8.2	8.8
Exemption for Sales of Certain New or Used Buses	151	N.A.	N.A.	N.A.
Exemption for Sales of Building Materials and Supplies to be Used in Connection with Certain Construction Contracts	152	66.5	69.8	73.3
Exemption for Certain Energy Conservation Equipment	153	negl.	negl.	negl.
Exemption for the American Flag	154	N.A.	N.A.	N.A.
Exemption for Sales to the Commonwealth	155	N.A.	N.A.	N.A.
Subtotal		4,191.5	4,138.4	4,393.2
ESTATE AND GENERATION SKIPPING TAX				
Exemption of Annuities under Qualified Retirement Plans	156	N.A.	N.A.	N.A.
Exemption of Life Insurance Proceeds on which the Decedent Paid the Premiums	157	N.A.	N.A.	N.A.
Nontaxation of Lifetime Transfers	158	12.5	12.5	12.5
Nontaxation of Certain Generation-Skipping Transfers	159	N.A.	N.A.	N.A.
Deduction of Charitable Bequests	160	18.5	19.0	19.9
Special Valuation of Farm Land	161	N.A.	N.A.	N.A.
Deduction for Bequest to Surviving Spouse	162	92.5	95.0	100.4
Subtotal		123.5	126.5	132.8
TOTAL		6,587.7	6,789.8	7,297.4

FOOTNOTES

1. Estimates have been revised because of new data or improved methodology.
2. Estimates for FY90 have changed as a result of a temporary increase in the tax rate on most kinds of income. The rate increase will be effective through FY91.
3. Estimates for ACRS have been revised because of significant changes in the federal tax expenditure estimates on which we rely.
4. Estimates for the long-term capital gain deduction have been revised because of the acquisition of more recent data.
5. This estimate combines intrastate telephone and telegraph services and interstate telephone and telegraph services.