



Commonwealth of Massachusetts

Department of Revenue

Massachusetts Tax Expenditure Budget

Prepared for the Tax Expenditure Commission

October 31, 2019



Statute Establishing Tax Expenditure Commission

- Chapter 207 of the Acts of 2018 establishes a **Tax Expenditure Commission** to examine, evaluate and report on the administration, effectiveness and fiscal impact of tax expenditures.
- According to this Statute, the commission shall use best practices and standardized criteria to evaluate:
 - i. the purpose, intent and goal of each tax expenditure and whether the expenditure is an effective means of accomplishing those ends;
 - ii. the fiscal impact of each tax expenditure on state and local taxing authorities, including past fiscal impacts and expected future fiscal impacts;
 - iii. the economic impact of each tax expenditure including, but not limited to, revenue loss compared to economic gain and jobs created, retained or lost as a result of the tax expenditure;
 - iv. the return on the investment made by the tax expenditure and the extent to which the tax expenditure is a cost effective use of resources; and
 - v. similar tax expenditures, if any, offered by other states and the impact of the tax expenditure on regional and national economic competitiveness.

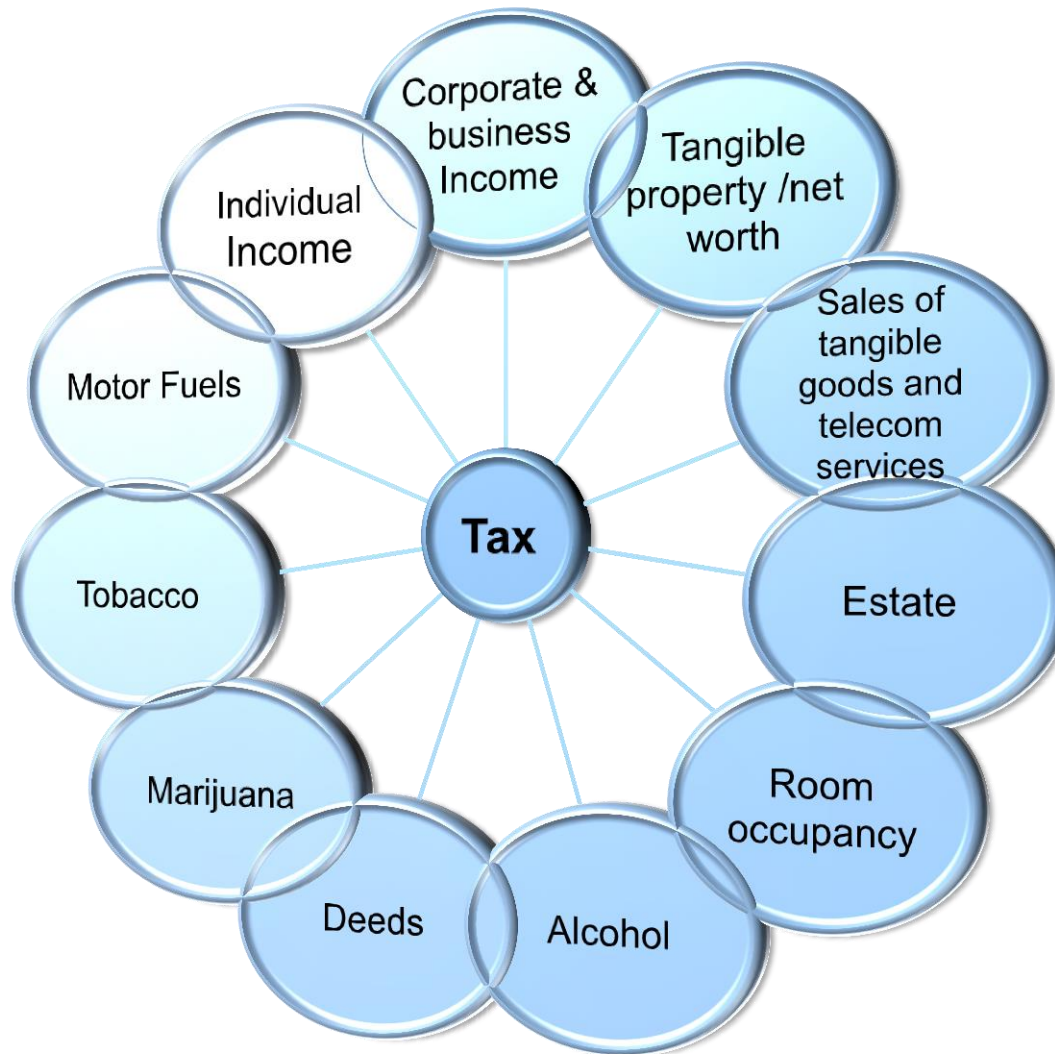


Outline

- Tax Revenues: Where the money comes from
- Tax Expenditures:
 - History of Tax Expenditure Budget
 - Definition of Tax Expenditure
 - FY2020 Tax Expenditure Budget: Summary Information
 - Goals of Tax Expenditures
 - Evaluation of Tax Expenditures
 - Website



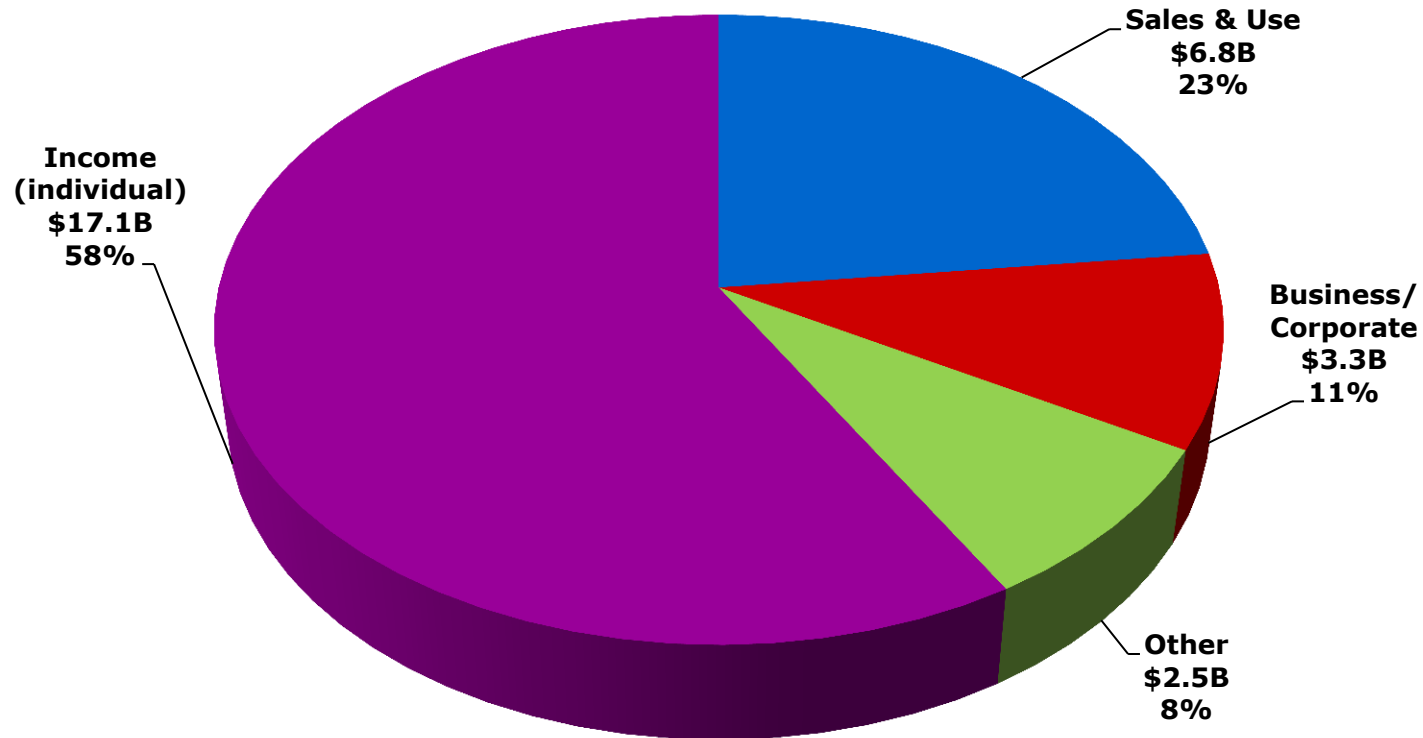
Tax Revenues





Tax Revenues

Fiscal Year 2019 Collections of \$29.7 Billion





Tax Revenues

Income Tax:

- Current Part-B rate (5.05%):
- Potential lowering of Part-B rate to 5.00% on January 2020
 - Statutory requirement
 - DOR Certification

Corporate Tax:

- Current Rate: 8% for C-corps; 9% for financial institutions;
- S-corps have special rates

Sales/Use Tax:

- Current rate: 6.25%
- Permanent sales tax holiday



History of Tax Expenditure Budget

- ❖ **Federal government has prepared annual Tax Expenditure reports since the early 1970s**

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

- ❖ **The Center on Budget and Policy Priorities (CBPP) reports that** “Forty-four states (counting the District of Columbia as a state) produce some form of tax expenditure report.”

[Center on Budget and Policy Priorities](#)

- ❖ **The State TEB practices widely vary state to state in terms of their coverage and content.**
- ❖ **Massachusetts has been preparing tax expenditure reports since FY1986.**
- ❖ **Since 2008, the Administration has made the TEB reports available on the web as a part of Governor’s House 1 or House 2 budget filings with easy to navigate features and options (i.e., drill-down, short-links to statutory references for each of the TEB item, etc.).**



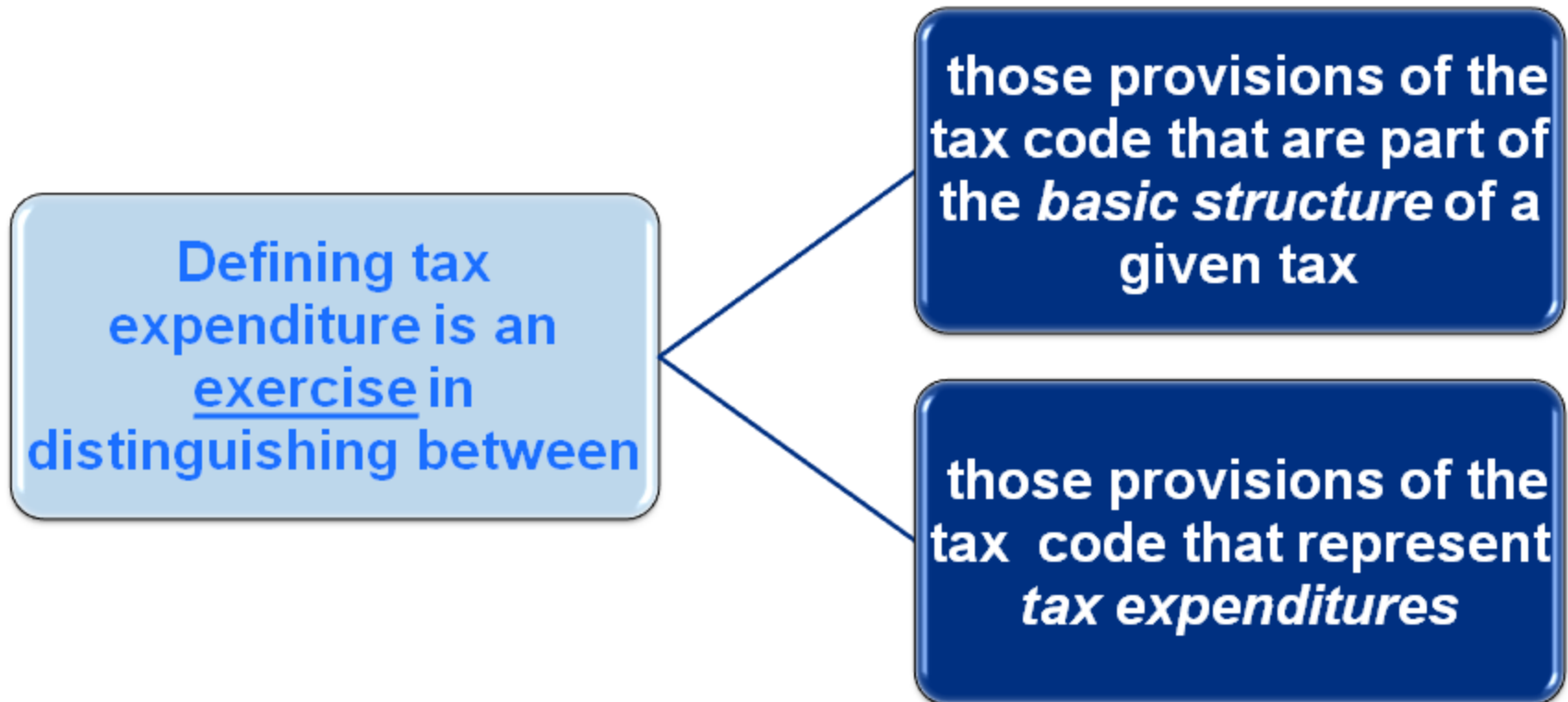
Definition of Tax Expenditures

- **MA definition** is based on state statute, MGL. Chapter 29, Section 1.
- **Updated in 2012** by St 2012, c.165, §112:

“State tax revenue foregone as a direct result of any general or special law which allows exemptions, deferrals, deductions from or credits against taxes imposed on income, businesses and corporations, financial institutions, insurance and sales but excluding revenue foregone as a direct result of any general or special law which allows a personal income tax exemption. Sales that do not involve tangible personal property shall not result in tax expenditures under this definition.”
- **Major changes from the pre-2012 statute:**
 - Extend the coverage to financial institutions and insurance taxes.
 - Personal income tax exemption is explicitly excluded from “Tax Expenditures”
 - Non-Taxation of Services (for sales tax) are no longer considered as tax expenditures.

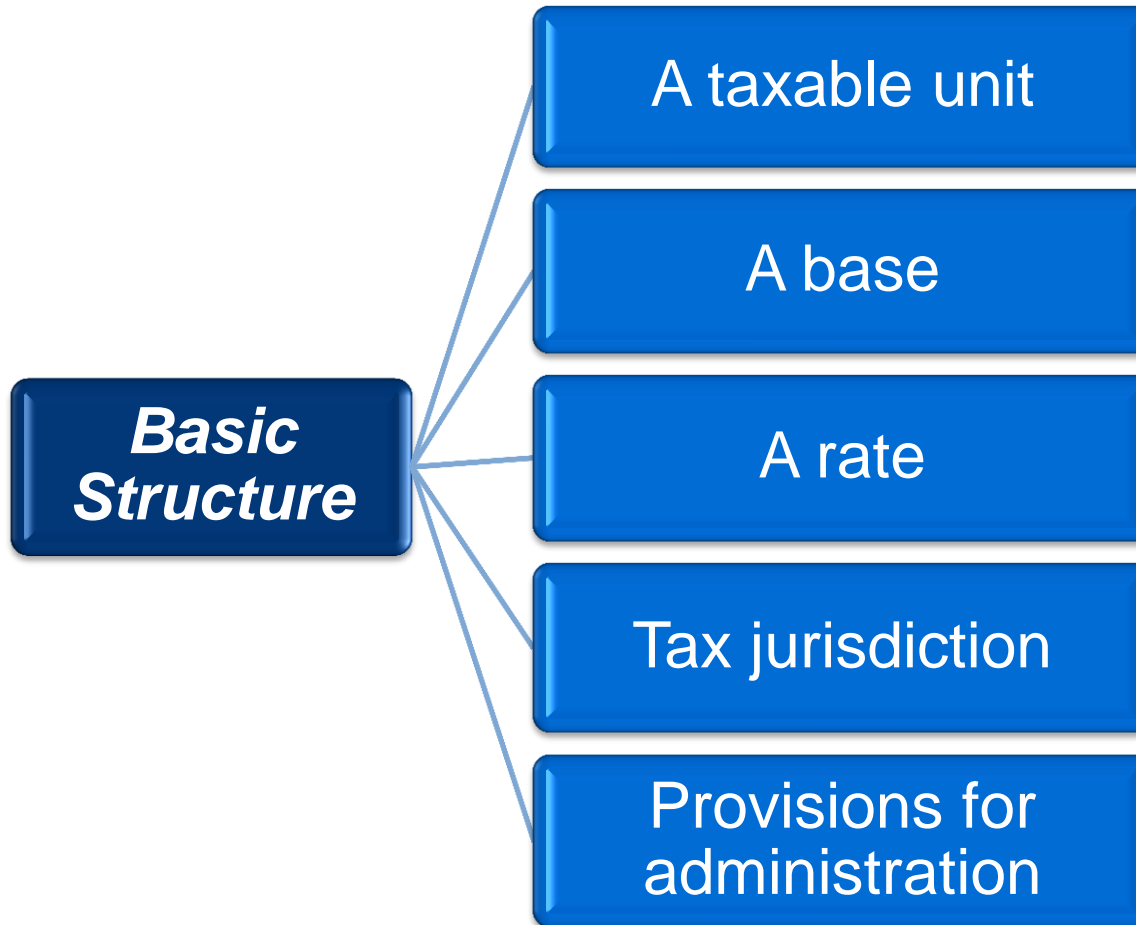


Definition of Tax Expenditures



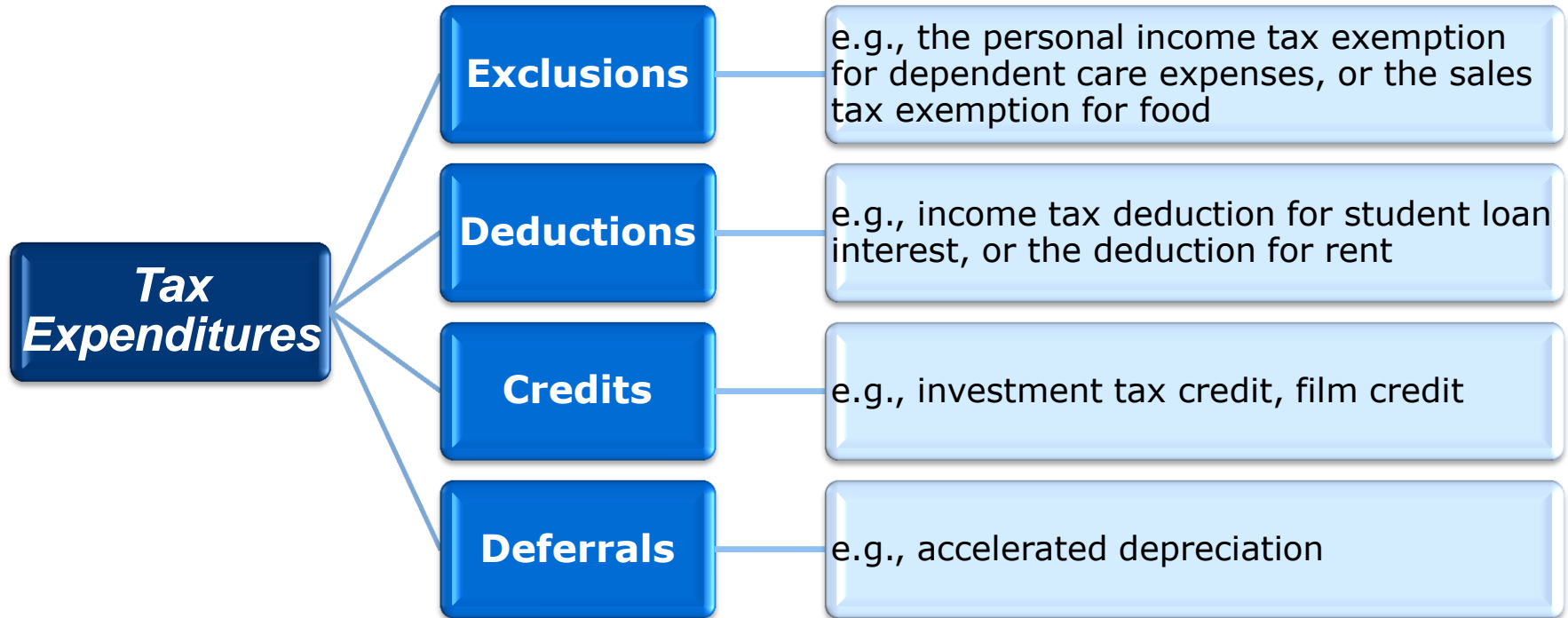


Definition of Tax Expenditures





Definition of Tax Expenditures





Definition of Tax Expenditures

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



FY2020 Tax Expenditure Budget



Governor's Budget FY 2020

Governor Charles D. Baker's Budget Recommendation - House 1 Fiscal Year 2020

Search the governor's FY 2020 budget site

SEARCH

Search for line item:

[printer friendly](#)

[Home](#) > [Tax Expenditure Budget](#) > [Summary](#)

Tax Expenditure Budget

Fiscal Year 2020 Tax Expenditure Budget Summary (in Millions)

TAX TYPE	FY2016	FY2017	FY2018	FY2019	FY2020
Personal Income Tax	6,920.3	7,266.6	8,086.5	8,683.7	9,064.7
Corporate and Other Business Excise	1,980.2	1,982.6	2,037.4	2,092.3	2,167.3
Sales and Use Tax	4,588.2	4,715.1	4,960.0	5,111.9	5,270.0
Total	13,488.7	13,964.3	15,083.9	15,887.9	16,502.0

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- Executive Summary
- Preamble & Section 1
- Appropriations Recommendation
- Line Item Summary
- Local Aid to Cities and Towns
- Outside Sections
- Financial Statements
- Operating Transfers
- Tax Expenditure Budget

- Introduction
- ▶ **Summary**
 - Personal Income Tax
 - Corporate and Other Business Excise
 - Sales Tax
- Appendix A - Tax Law Changes
- Appendix B - Glossary
- Appendix D - Non-TEB Items

https://budget.digital.mass.gov/bb/h1/fy20h1/tax_20/hall.htm



FY2020 Tax Expenditure Budget

Tax Expenditure by Legal Origin

Legal Origin	Count		Amount	
	Count	% of Total	Amount (\$ Mil.)	% of Total
Federal Law (I.R.C.)	68	33%	\$6,309	38%
State Law (M.G.L.)	131	65%	\$10,006	61%
Both	4	2%	\$187	1%
Total	203	100%	\$16,502	100%

Tax Expenditure by Tax Type

Tax Type	Count		Amount	
	Count	% of Total	Amount (\$ Mil.)	% of Total
Personal Income Tax	105	52%	\$9,065	55%
Sales and Use Tax	54	27%	\$5,270	32%
Corporate and Business Excise	44	22%	\$2,167	13%
Total	203	100%	\$16,502	100%



FY2020 Tax Expenditure Budget

Tax Expenditure Count by Tax Type and Tax Expenditure Type

Tax Expenditure Type	Tax Type			Total
	Personal Income Tax	Sales and Use Tax	Corporate and Business Excise	
Exclusions From Income	39			39
Deferrals Of Gross Income	5		1	6
Exempt Products / Services		11		11
Exemptions For Specified Uses Of Product / Services		17		17
Credits Against Tax	20		19	39
Deductions From Adjusted Gross Income	26			26
Exempt Component of A Product Or Consumed In Production		8		8
Exempt Products, Taxed Under Another Excise		2		2
Accelerated Deductions From Gross Income	10		11	21
Exempt Entities		5	3	8
Exclusions From Property Component			2	2
Adjustments To Apportionment Formula			1	1
Deductions From Gross Income	4		5	9
Miscellaneous Exemptions		11		11
Exclusions From Gross Income			2	2
Preferential Rate of Taxation	1			1
Total	105	54	44	203

Tax Expenditure Amount by Tax Type and Tax Expenditure Type (\$ Mil.)

Tax Expenditure Type	Tax Type			Total
	Personal Income Tax	Sales and Use Tax	Corporate and Business Excise	
Exclusions From Income	\$5,066			\$5,066
Deferrals Of Gross Income	\$2,333		\$1	\$2,334
Exempt Products / Services		\$1,886		\$1,886
Exemptions For Specified Uses Of Product / Services		\$1,111		\$1,111
Credits Against Tax	\$429		\$659	\$1,088
Deductions From Adjusted Gross Income	\$991			\$991
Exempt Component of A Product Or Consumed In Production		\$906		\$906
Exempt Products, Taxed Under Another Excise		\$684		\$684
Accelerated Deductions From Gross Income	\$235		\$334	\$569
Exempt Entities		\$533	\$8	\$541
Exclusions From Property Component			\$444	\$444
Adjustments To Apportionment Formula			\$398	\$398
Deductions From Gross Income	\$0		\$201	\$201
Miscellaneous Exemptions		\$150		\$150
Exclusions From Gross Income			\$123	\$123
Preferential Rate of Taxation	\$10			\$10
Total	\$9,065	\$5,270	\$2,167	\$16,502



FY2020 Tax Expenditure Budget

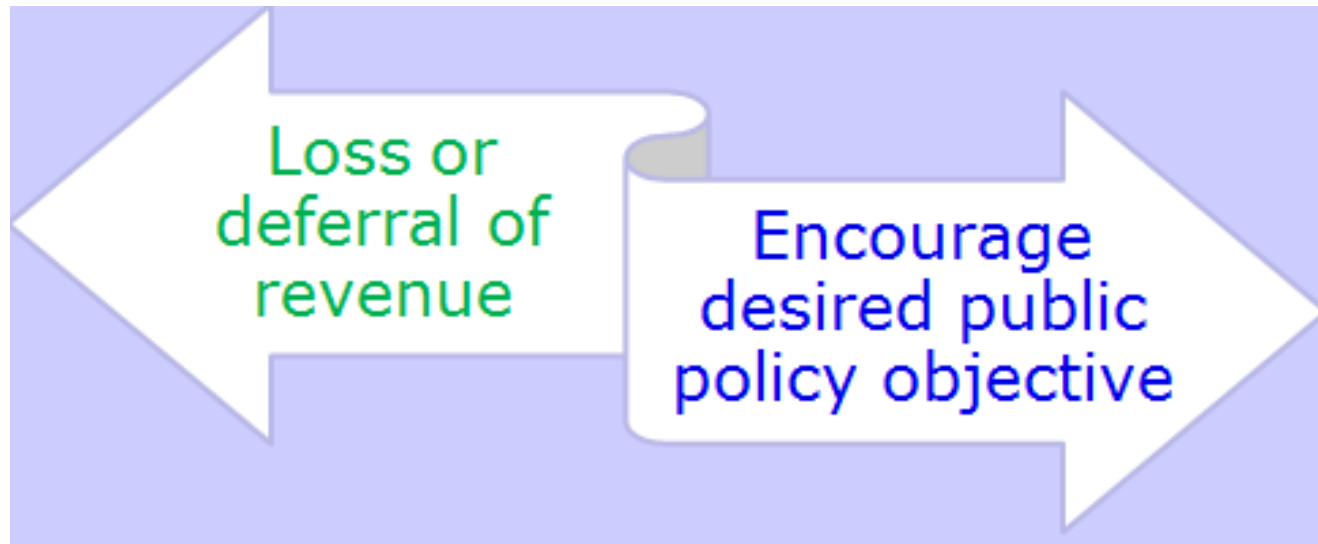
Tax Expenditure Count and Amount by Budget Function

Budget Function	Count	% of Total	Amount (\$ Mil.)	% of Total
Agriculture	5	2%	\$27	0%
Commerce	64	32%	\$4,837	29%
Community Development	3	1%	\$56	0%
Education and Training	10	5%	\$223	1%
Employment and Social Services	19	9%	\$654	4%
Energy	7	3%	\$9	0%
General Government	4	2%	\$174	1%
Health	13	6%	\$1,951	12%
Housing	12	6%	\$826	5%
Income security	34	17%	\$6,489	39%
Income security; Commerce	4	2%	\$605	4%
Natural Resources and Environment	11	5%	\$46	0%
Research and Development	4	2%	\$411	2%
Transportation	6	3%	\$103	1%
Veterans' Benefits	7	3%	\$91	1%
Total	203	100%	\$16,502	100%



Tax Expenditures - Trade-off

- **Trade-off:**
 - **Benefits** - encourage desired public policy objective, such as “encourage research and development”, “promote home ownership”, “encourage and reward investment”.
 - **Costs** - loss or deferral of revenue.



- Public policy purpose and desired outcome of tax expenditures are often not explicitly stated in the Statute - common in many other states.



Evaluation of Tax Expenditures

- Goals/public policy objectives;
- Intended beneficiaries;
- Economic benefits;
- Job creation, job retention;
- Revenue impact;
- Incidence analysis;
- Similar tax expenditures in other states.

DOR research on evaluation of tax expenditures:

- Compile data
- Review best practices
- Research literature, reports
- Facilitate discussions
- Deliverables
- etc.



Website

- Materials will be posted on DOR website: <https://www.mass.gov/info-details/tax-expenditure-review-commission>
- 2011-2012 Tax Expenditure Commission Materials can be found here: <https://www.mass.gov/lists/2011-2012-tax-expenditure-commission-materials>
- PDF versions of current and past Tax Expenditure Budgets published by DOR: <https://www.mass.gov/lists/tax-expenditure-budget>
- FY20 Tax Expenditure Budget – filed as a part of Governor’s House 1 budget with easy to navigate features and options: https://budget.digital.mass.gov/bb/h1/fy20h1/dnld_20/hdefault.htm



Thank you



Appendix

Tax Expenditure Count and Amount by Budget Function *

Budget Function	Count	% of Total	Amount (\$ Mil.)	% of Total
Agriculture	4	2%	\$27	0%
Commerce	53	30%	\$4,837	29%
Community Development	2	1%	\$56	0%
Education and Training	10	6%	\$223	1%
Employment and Social Services	17	10%	\$654	4%
Energy	7	4%	\$9	0%
General Government	4	2%	\$174	1%
Health	11	6%	\$1,951	12%
Housing	8	5%	\$826	5%
Income security	34	19%	\$6,489	39%
Income security; Commerce	4	2%	\$605	4%
Natural Resources and Environment	6	3%	\$46	0%
Research and Development	3	2%	\$411	2%
Transportation	6	3%	\$103	1%
Veterans' Benefits	6	3%	\$91	1%
Total	175	100%	\$16,502	100%

* Combine tax expenditures of different tax types but for the same program.



Appendix

Tax Expenditure Count by Budget Function and Legal Origin*

Budget Function	Legal Origin			Total
	State Law	Federal Law	Both	
Agriculture	3	1		4
Commerce	38	15		53
Community Development	2			2
Education and Training	5	4	1	10
Employment and Social Services	11	5	1	17
Energy	6	1		7
General Government	4			4
Health	4	7		11
Housing	5	3		8
Income security	21	11	2	34
Income security; Commerce	4			4
Natural Resources and Environment	2	4		6
Research and Development	2	1		3
Transportation	5	1		6
Veterans' Benefits	2	4		6
Total	114	57	4	175

* Combine tax expenditures of different tax types but for the same program.



Appendix

Tax Expenditure Amount by Budget Function and Legal Origin*

Budget Function	Legal Origin			
	State Law	Federal Law	Both	Total
Agriculture	\$27	\$0		\$27
Commerce	\$2,952	\$1,885		\$4,837
Community Development	\$56			\$56
Education and Training	\$160	\$53	\$10	\$223
Employment and Social Services	\$581	\$50	\$22	\$654
Energy	\$9	\$0		\$9
General Government	\$174			\$174
Health	\$607	\$1,344		\$1,951
Housing	\$262	\$564		\$826
Income security	\$4,072	\$2,262	\$155	\$6,489
Income security; Commerce	\$605			\$605
Natural Resources and Environment	\$43	\$3		\$46
Research and Development	\$384	\$27		\$411
Transportation	\$62	\$41		\$103
Veterans' Benefits	\$12	\$79		\$91
Total	\$10,006	\$6,309	\$187	\$16,502

* Combine tax expenditures of different tax types but for the same program.