

Revenue Option Summaries

Repealing the state sales tax exemption on alcohol (\$80m), sweetened beverages (\$50m), and candy (\$20m)

Alcohol purchased in a grocery or package store, sweetened beverages and candy have historically received the exemption from the Massachusetts state sales tax that is designated for non-prepared food products. Removing the tax exemption on these three non-nutritional food categories will yield \$25 million in fiscal year 2009 and \$150 million in additional revenue in fiscal year 2010. In fiscal year 2010, the Commonwealth Wellness Fund will receive \$121.5 million of the \$150 million in estimated new revenue collections. Monies appropriated from this fund will support programs and services that augment the health and well being of the citizens of the Commonwealth.

1% Statewide Meals Tax (\$125 million) and Hotel/Motel Tax (\$24 million) to Support Local Aid (total \$149 million) and an additional (\$149 million) for a 1-cent increase in meals/hotels local option taxes

The current fiscal crisis makes it imperative to consider making new revenue sources available to communities and to shield cities and towns from even larger Local Aid cuts and limit harmful impacts on core services for our citizens. Raising the existing statewide meals and room occupancy taxes by one penny on the dollar and dedicating the proceeds to municipal aid will reduce Local Aid cuts for all communities in fiscal year 2010. Further, this proposal creates a recurring revenue source to help provide predictable and adequate Local Aid in the future.

Telecommunications Loophole (50 million)

Under current law, there is significant variation in the tax treatment of utility poles, wires and other equipment owned by different types of companies (e.g. electric, telephone, or cable). In particular, electrical and cable company poles and equipment are subject to municipalities' property taxes, while the pole and equipment owned by telephone companies are exempt. The Appellate Tax Board, in March of 2008, ended the tax exemptions for telephone poles and wires but is still subject to a court challenge, worth (\$25 million). The state is currently considering a bill to repeal the exemptions on equipment that is not covered by the Appellate Tax Board, worth an additional (\$25 million).

Increasing the gas tax (608 million)

The gasoline tax was set at 21 cents a gallon in 1991 and it has not been substantially increased since. The current gas tax in Massachusetts is 23.5 cents per gallon. Massachusetts collected \$674.6 million in motor fuels taxes, including gasoline taxes, in fiscal year 2006. Only three states collected less revenue as a share of personal income from motor fuels taxes than Massachusetts. Governor Patrick has proposed a 19 cent

increase in the gasoline tax. Each one-cent change in the motor fuels tax in Massachusetts would be worth about \$32 million.

Dividends and Interest (720 million)

Before 1999, Massachusetts had a higher tax rate on income from dividends and interest, roughly double the rate on wage and salary income. Most dividend and interest goes to persons at the high end of the income scale. Before 1999, D&I was taxed at 12 percent then it was taxed at the same rate as other income. Each one percentage point change in the tax rate on dividends and interest would be worth about \$105 million. Restoring it to 12 percent would be worth \$720 million; less revenue would be generated if the state exempted low income taxpayers with interest or dividend income.

Repeal the Film Industry Tax Credit (\$20 million)

The Repeal will:

- Reduce the tax credit to 20% from 25%
- Sunset in 2013 instead of 2023
- Cap production subsidies at 7million dollars per production

According to the Department of Revenue (DOR), total Economic activity, including spin-off employment, will likely produce only \$17.9 million in net tax revenue for each \$100 million of tax credits issued. Put another way, the net revenue loss will be \$82 million per \$100 million "invested." Approximately \$29 million out of every \$100 million in tax credits are for salaries of people making more than \$1 million per film - movie stars. DOR's findings, although preliminary, are entirely consistent with those of Louisiana, which found revenue returns of \$16 to \$18 per \$100 "invested."

Tax credit commitments for productions on file for just the first two months of last year were \$90 million.

Sales Tax (800 million)

Massachusetts has always had a relatively generous set of exemptions from the sales tax designed to reduce the tax' regressivity. These exemptions include including food, clothing (items valued up to \$175) and prescription drugs. The current state sales tax rate is 5 percent. A 1 percentage point increase in the sales tax rate would increase tax revenues by approximately \$800 million.

Sales Tax with an Increase in Income Tax Exemptions or Tax Credits

A 1% sales tax increase coupled with either a raise in the "no tax status," currently someone making under \$16,000 with an additional \$1,000 allotted for each child" or an increase in the earned income tax credit would be more progressive but would lower the amount of revenue generated in our state.

Income tax

The constitution of Massachusetts requires that this be a flat tax, meaning that all levels of income pay the same rate. However, there is a personal exemption and various deductions that keep the Massachusetts personal income tax progressive in effect. The rate has varied over time. In the period from 1977 to 2007 it was as high as 6.25 percent and as low as 5 percent. Income tax changes in personal income tax structure between 1991 and 2007 reduced collections by about \$3 billion annually. A one percentage point change in the personal income tax rate (which is 5.3 percent in fiscal year 2009) would increase or decrease collections by about \$2.14 billion. At 5.3%, Massachusetts brought in 12.7 billion dollars in revenue from the income tax in 2007.

Income tax with a higher personal exemption

At 5.3%, Massachusetts brought in 12.7 billion dollars in revenue from the income tax in 2007. A one percentage point change in the personal income tax rate (which is 5.3 percent in fiscal year 2009) would increase or decrease collections by about \$1.97 billion.

Massachusetts also has a personal exemption, for which a certain amount of income is not subject to the 5.3 percent personal income tax rate. In 2009 the personal exemption is \$4,400 for single taxpayers and \$8,800 for married couples filing jointly. The personal exemption cost the state \$830 million in 2008. A 25 percent change in the single filer, head of household and the married filer personal exemptions would increase or decrease revenue about \$231 million.

For example:

- An increase in the income tax from 5.3% to 5.95% coupled with a significant increase in the personal exemption would exempt everyone with an income below \$65 thousand from any increase in income taxes and provide the state with \$800 million in additional revenue.