Welcome & Introductory Remarks

- Eileen McAnneny, President
- Massachusetts Taxpayers Foundation

Join the conversation on Twitter
#MTFtaxtalk
Introduction

- John S. Brown, Partner
- Morgan, Lewis & Bockius LLP
Commissioner
Mark Nunnelly
Commonwealth of Massachusetts
Department of Revenue
Happenings at DOR

- **Reorganization**
  - Lost 20% of our team to early retirement

- **Tax**
  - "End to End" Review
  - MassTaxConnect
  - Tax Modernization and Simplification
  - Legislative, External Affairs & Policy ("LEAP")

- **Child Support**
  - COMETS HD
  - Functional/Competency based organization

- **Local Services**
  - Community Compact Cabinet
  - Municipal Modernization and Simplification
  - Gateway Modernization
Voluntary Compliance v. Enforcement

DOR Total Revenue
(FY15 Total: $24.931B)

- 4.5% Enforcement (audit, collections, appeals, litigation)
- 95.5% Voluntary Compliance
End to End View of Tax Administration

• Making clear choices about best places to deploy resources

• Focus on *speed* and consistency of resolution
More Expectations, Fewer Resources

- Public increasingly has higher demands and expectations of government
  - By-product of information ubiquity, social media
- But public sector resources are generally flat or declining
  - At DOR, both fewer financial and human resources
- Higher demands and fewer resources necessitates all of us rethinking “business as usual”
Fewer Dollars toward Tax Administration

- DOR has collected more revenue with fewer financial resources
- DOR has increased its revenue collections per budgeted dollar for every year over the past ten years save 2009.

US State Average: $131 (McKinsey & Co.)
DOR Resolution Framework

**Importance of Compliance**

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<tr>
<th>Low</th>
<th>High</th>
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- **$ Value**

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<tr>
<th>High</th>
<th>Low</th>
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**E.g. Lots of noncompliant smaller businesses**
- PR, highlight bad actors
- Systemize resources toward enforcement

**E.g. Tax avoidance, big multistate companies**
- Devote significant DOR resources

**E.g. Companies who generally comply, small dollar**
- Systemize DOR resources
- Highlight to encourage vol. compliance

**E.g. High dollar cases, but generally compliant**
- Focused resources to maintain compliance
Legacy System Outdated, Ineffective

- **Existing electronic filing system outdated**
  - Decades-old platform, used since the 1980s
  - Mainframe based system
  - Suboptimal tool for fulfilling organization’s mission and strategic objectives

- **Business needs for DOR to overhaul electronic filing system:**
  - Open, flexible, scalable architecture
  - User friendly
  - Supports existing tax administration functions
  - Can more easily change business and technical requirements
  - Intuitive system available to taxpayers 24/7
GenTax: A Modern Tax Admin. System

- For end users, modernized interface and enhanced functionalities
  - View/catch errors prior to online submission
  - Send and receive secure e-messages with DOR
  - Reduce calculation errors with enhanced automation
  - Autofil options for recurring information
  - Easy assignment of third party access (e.g., CPAs)
  - Amend filed returns electronically
Business Case for IT Overhaul

Investment in tax IT modernization aims to:
- Improve taxpayer service levels
- Increase revenue realized by the Commonwealth
- Enhance operational efficiency
- Use and manage data more effectively
- Reduce the risk inherent in decades old platform

Financial and strategic benefits
- Revenue benefits of $43-$111M in annual value beginning in FY20
  - Improved Enforcement (Audit and Collections) + Voluntary Compliance
- Payback period: 6-7 years
- Strategic benefits of taxpayer service, customer relations

Source: McKinsey & Company
Business Taxpayer Community Survey

- Response rate – sample of 24,000
  - 1,356 respondents – 5.6% response rate
- Cross-section representation of business taxpayer community professionally, geographically, and in terms of size

Size of Company (gross revenue)

- Smaller
  - <$100k: 23%
  - $100k-$500k: 12%
  - $500k-$1m: 23%
  - $1m-$10m: 24%
  - $10m-$100m: 7%
  - >$100m: 12%

- Larger

Geographic Location

- Boston area: 16%
- Metro West: 11%
- North Shore: 11%
- South Shore: 14%
- Cape Cod: 9%
- Central MA: 11%
- Western MA: 10%
- Out of state: 18%
If you have interacted with other state tax agencies, how would you rank your overall interaction with MA DOR?

53% have had interaction with other state tax agencies
75% of respondents have a positive overall impression of DOR

DOR enforces state tax law in a fair, impartial, and consistent manner
Major Takeaways

- Speed of Resolution
- Clarity of Appeals Process
- Consistency of Business Processes
- More and clearer user-accessed FAQ’s
  - Automated resolution for simple issues
  - Human intervention for complex issues
- Best Practice Customer Service
MA Tax Simplification & Modernization

What We’ve Done:

- Reviewed structure of key competitor states
  - Tax structure – differences/similarities
- Reviewed regulations and laws that create the most administrative complexity and ‘noise’
- Part of the larger Baker Administration regulatory review

Objectives:

- Improve competitiveness
- Simplify tax rules
- Improve equity/fairness
- Keep pace with changes in business practice
Learnings to Date:

- Revenue sourcing is similar to key competitors
- Personal income tax rate low and flat
- Sales tax is competitive
- Property taxes and unemployment taxes are high
- Short-term capital gains tax high
- Non-income measure complex and unusual
- Estate tax exemption level and ‘cliff’ structure unusual
- Multi-factor apportionment rules complex, variable across industries
  - Different from many states and not in line with trend of single sales factor
Key Concerns

- Getting organization and our filers ready for *MassTaxConnect*
- Post ERIP organization health and experience utilization
- Focus on cyber security....which doesn't mean all windows and doors locked!
Thank You!
Litigation Panel

Donald Bruce-Adams, Partner
Morgan, Lewis & Bockius LLP

Thomas Condon, Chief, Litigation Bureau
Department of Revenue

Michael Porter, Principal
Deloitte Tax LLP
Coffee Break
Sponsored by

Massachusetts Taxpayers Foundation
2018 Income Tax Ballot Initiative
Chairman Jay Kaufman
Joint Committee on Revenue
Massachusetts General Court

Eileen McAnneny, President
Massachusetts Taxpayers Foundation
Chairman Jay Kaufman,
Joint Committee on Revenue

2018 Income Tax ballot
Initiative
Massachusetts State & Local Taxes in 2015

Shares of family income for non-elderly taxpayers

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<tr>
<th>Income Range</th>
<th>Share</th>
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<tbody>
<tr>
<td>Lowest 20% (Less than $22,000)</td>
<td>10.4%</td>
</tr>
<tr>
<td>Second 20% ($22,000 – $44,000)</td>
<td>9.8%</td>
</tr>
<tr>
<td>Middle 20% ($44,000 – $70,000)</td>
<td>9.3%</td>
</tr>
<tr>
<td>Fourth 20% ($70,000 – $118,000)</td>
<td>8.7%</td>
</tr>
<tr>
<td>Next 15% ($118,000 – $252,000)</td>
<td>7.4%</td>
</tr>
<tr>
<td>Next 4% ($252,000 – $860,000)</td>
<td>7.1%</td>
</tr>
<tr>
<td>Top 1% (+$860,000)</td>
<td>4.9%</td>
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Massachusetts Taxes, 2012

State and Local Taxes as a Percent of State Personal Income, FY 2012

Massachusetts Tax rates in 2012:
- US: 10.3%
- MA: 10.1%
MA Taxes among Largest Declines: 1977-2012

Percent Change in State and Local Taxes as a Percentage of State Personal Income

* The change in North Dakota's taxes as a share of personal income (at 61.4%) and Alaska's (at 29.6%) exceed the scale of this graph.
Select cuts across the state budget (FY2001 - FY2015)

Percentage cuts since 2001, adjusted for inflation (CPI)

- Early Education: -23%
- Environment & Recreation: -32%
- Higher Ed.: -20%
- Local Aid: -44%
- Public Health: -25%
An Initiative Petition for An Amendment to the Constitution of the Commonwealth to Provide Resources for Education and Transportation through an additional tax on Incomes in excess of One Million Dollars

Amendment Article XLIV of the Massachusetts Constitution is hereby amended by adding the following paragraph at the end thereof:

To provide the resources for quality public education and affordable public colleges and universities, and for the repair and maintenance of roads, bridges and public transportation, all revenues received in accordance with this paragraph shall be expended, subject to appropriation, only for these purposes. In addition to the taxes on income otherwise authorized under this Article, there shall be an additional tax of 4 percent on that portion of annual taxable income in excess of $1,000,000 (one million dollars) reported on any return related to those taxes. To ensure that this additional tax continues to apply only to the commonwealth’s highest income residents, this $1,000,000 (one million dollar) income level shall be adjusted annually to reflect any increases in the cost of living by the same method used for federal income tax brackets. This paragraph shall apply to all tax years beginning on or after January 1, 2019.
Corporate Tax and Administrative Update

Kevin Brown, General Counsel
Department of Revenue

Jon Muroff, Partner
PricewaterhouseCoopers LLP

Scott Salmon, Partner
KPMG LLP

Paul O’Connor, Vice President
EMD Millipore
Multi-State Tax Commission Panel

Michael Fatale, Deputy General Counsel
Department of Revenue

Joe Huddleston, Executive Director
National Indirect Tax Group, EY
Adjournment