Massachusetts Taxpayers Foundation

News Release

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MTF Report – *State Tax Expenditures: Less Than Meets The Eye*

The Foundation is releasing today the attached report, *State Tax Expenditures: Less Than Meets The Eye*, which examines the state's annual estimate of "tax expenditures," or the amount of revenue the state foregoes because of exceptions to tax laws. While commonly thought of as incentives, tax breaks, or loopholes that benefit corporations, the Foundation's analysis shows that billions of the state's so-called tax expenditures are merely the result of longstanding tax policies and practices, mostly benefitting individuals.

The state's original fiscal 2013 estimate for tax expenditures was $26.6 billion—greater than the state's projected tax revenue collections. Legislation signed in July 2012 changes tax expenditure reporting and, based on the Foundation's analysis, will slash the fiscal 2013 estimate by nearly half to $13.4 billion.

In the revised budget, personal income expenditures account for $6.8 billion or approximately half of the total. Sales and use expenditures of $5.2 billion are 39 percent of the total, while corporate expenditures account for the smallest share at $1.3 billion, or 10 percent.

The Foundation's analysis concludes that even the $13.4 billion is overstated by more than $5 billion.

- The revised estimate includes approximately $4.6 billion of questionable tax expenditures. Most of this total—$4 billion—is simply the result of the state's conforming with the federal tax code, expenditures that are rarely included in other states' totals. Another $600 million stems from corporate income tax expenditures that are not exceptions but rather established parts of the state's tax structure.

- More than $1.1 billion of expenditures are for items that are taxed through another means. This includes the sales tax exemptions for gasoline, hotel rooms, and alcohol, as well as the corporate income tax exemption for real estate taxed by municipalities rather than the state. These items do not escape tax, they are simply taxed separately.

- Many tax expenditures are widely accepted features of the state's tax structure, most of which have been in place for decades. For example, the sales tax exemptions for food, clothing, and medicine account for $1.4 billion.

- The tax expenditure budget includes only exceptions that result in foregone revenues, not those that result in an increase in revenues, also known as "negative tax expenditures." For example, federal law has permitted individuals to deduct charitable contributions since 1917, but except for one year Massachusetts has not allowed residents to use this deduction for state income tax purposes.

As discussed by DOR in the introduction to the tax expenditure budget, each tax expenditure estimate is “static” rather than dynamic. In other words, the estimates do not take into account any outside effects, such as changes in spending or employment decisions by businesses, that may result from eliminating any of the credits, deductions, deferrals, or exemptions.

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