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Backgrounder

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The Sales Tax Debate - Updated

Although the Foundation has not taken a position on the proposed increase in the sales tax, we have prepared this brief analysis in response to several commonly asked questions:

- How much revenue would be raised?
- What will it cost the average taxpayer?
- How does Massachusetts compare with other states?

Additional Revenue

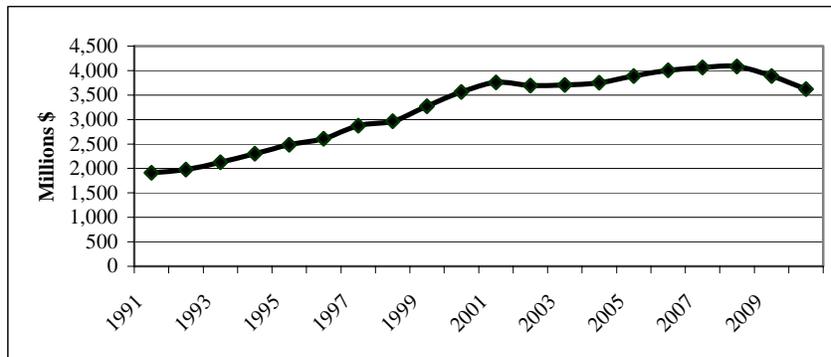
A 1.25 cent or 25 percent increase in the sales tax, as recently passed by the House, would have produced slightly more than \$1 billion in fiscal 2008, but that would decline to about \$900 million in fiscal 2010 based on the Foundation’s latest revenue projections (see Table 1).

Table 1 - Revenues from Increasing in the Sales Tax

	2008 - Actual	2009 - Estimated	2010 - Estimated
Sales Tax Revenue at 5%	4,086	3,891	3,618
Increase of 1 cent	817	778	724
Increase of 1.25 cents	1,022	973	905

Sales tax revenues grew at nearly a 9 percent annual rate in the 1990s but at just over 1 percent since 2000. The slower growth is attributable in part to the increase of Internet sales as well as Massachusetts’ flat population.

Figure 1: Sales Tax Revenues 1991-2010¹



¹ FY 09 projections are based on sales tax collections for the first three quarters; FY 10 is a Foundation forecast.

Cost to the Taxpayer

Increasing the sales tax by 1.25 cents would cost Massachusetts residents roughly \$140 per person or \$370 per household (see Table 2). However, these estimates are high because they do not take into account purchases by non-residents who visit Massachusetts.

Table 2 - Average Cost to Taxpayers²
(based on 2010 estimate of \$905 million)

	Total	Average Cost of 5 Cent Tax	Average Cost of 1.25 Cent Increase	Average Cost of 6.25 Cent Tax
Per Capita	6,449,755	\$560.95	\$140.24	\$701.19
Per Household	2,443,580	\$1,480.61	\$370.15	\$1,850.77

Massachusetts Compared to Other States

Of the 45 states with a broad-based sales tax, Massachusetts ranks last in revenues collected per \$1,000 of income and 41st per capita (see Table 4)³. Raising the sales tax to 6.25 cents would move Massachusetts to 42nd and 38th, respectively. At a 7 cent sales tax, Massachusetts would rank 39th when measured by income and 24th per capita (see Table 3).

Massachusetts has a very narrow base on which sales taxes are collected (e.g. exempting food, clothing up to \$175, and services), which is the principal explanation for its low ranking even with an increase to 6 or 7 cents.

Table 3 - Massachusetts Ranking

Sales Tax	Rate	Per \$1,000 Income		Per Capita	
		Cost	Rank	Cost	Rank
Current	5 cents	\$13.44	45	\$627.00	41
1 cent increase	6 cents	\$16.13	42	\$733.05	38
1.25 cent increase	6.25 cents	\$16.30	42	\$760.00	38
2 cent increase	7 cents	\$18.82	39	\$855.23	24

² Population is from the U.S. Census 2007 estimate; number of households from U.S Census 2000.

³ US Census, State and Local Government Finances by Level of Government and by State: 2006.

Table 4 – State Rankings by Income and Population

Per \$1,000 Personal Income			Per Capita		
State	Sales Tax	Rank	State	Sales Tax	Rank
Hawaii	49.76	1	Washington	1,879	1
Washington	48.03	2	Hawaii	1,847	2
Louisiana	47.31	3	Wyoming	1,577	3
Arkansas	45.08	4	Louisiana	1,458	4
New Mexico	43.43	5	Tennessee	1,376	5
Tennessee	42.04	6	Nevada	1,375	6
Mississippi	38.86	7	Arkansas	1,295	7
Arizona	37.41	8	New Mexico	1,281	8
Wyoming	36.13	9	Arizona	1,257	9
South Dakota	35.95	10	Florida	1,235	10
Nevada	34.42	11	South Dakota	1,178	11
Florida	32.87	12	New York	1,132	12
Utah	32.03	13	California	1,117	13
Georgia	31.55	14	Georgia	1,046	14
Kansas	29.70	15	Mississippi	1,044	15
California	27.92	16	Kansas	1,031	16
Nebraska	27.52	17	Colorado	1,029	17
Texas	27.42	18	Texas	986	18
Oklahoma	27.27	19	Utah	980	19
Alabama	27.14	20	Nebraska	937	20
Indiana	26.46	21	Oklahoma	898	21
Missouri	26.02	22	Minnesota	878	22
New York	25.76	23	Connecticut	866	23
Colorado	25.51	24	Indiana	850	24
South Carolina	25.27	25	Missouri	850	25
North Dakota	24.86	26	Alabama	843	26
Maine	24.55	27	Idaho	834	27
Ohio	24.34	28	Ohio	803	28
Idaho	24.30	29	North Dakota	802	29
Michigan	24.29	30	Rhode Island	794	30
North Carolina	23.77	31	Wisconsin	794	31
Iowa	23.39	32	Michigan	789	32
Wisconsin	22.84	33	Maine	788	33
Minnesota	22.50	34	New Jersey	786	34
West Virginia	22.31	35	North Carolina	781	35
Kentucky	22.23	36	South Carolina	771	36
Rhode Island	21.40	37	Iowa	766	37
Pennsylvania	18.88	38	Illinois	710	38
Illinois	18.48	39	Pennsylvania	692	39
New Jersey	16.93	40	Kentucky	661	40
Connecticut	16.90	41	Massachusetts	627	41
Vermont	15.13	42	West Virginia	620	42
Virginia	13.97	43	Maryland	604	43
Maryland	13.72	44	Virginia	566	44
Massachusetts	13.44	45	Vermont	530	45
Alaska	6.61	46	Alaska	258	46
Delaware	0.00	50	Delaware	0	50
Montana	0.00	50	Montana	0	50
New Hampshire	0.00	50	New Hampshire	0	50
Oregon	0.00	50	Oregon	0	50
U.S. Total	25.71		U.S. Total	952	

Source: US Census: State and Local Government Finances by Level of Government and by State: 2006