

NEW STATE COMMISSION BEGINS DIGGING INTO STATE'S TAX CODE

By Matt Murphy
STATE HOUSE NEWS SERVICE

STATE HOUSE, BOSTON, OCT. 12, 2011....A bipartisan panel of elected officials and economic experts began a top-to-bottom review Wednesday of the state's tax expenditures, promising the first thorough vetting in decades of billions of dollars spent annually on tax breaks, corporate deductions and sales tax exemptions.

Administration and Finance Secretary Jay Gonzalez, who chaired the first meeting of the Tax Expenditure Commission, said he was "excited" to get started. Gonzalez said the state actively foregoes more in tax revenue each year than it collects, but noted that tax breaks and deductions don't get the same scrutiny as the state budget.

"I see our charge as making sure we have a rationale behind our tax expenditure budget to meet the needs of this new world, but in these difficult economic times also stretching every tax dollar as far as possible," Gonzalez said.

Over the next six months, the commission will be focused on completing a review of the state's \$24.2 billion tax expenditure budget, which includes a maze of deductions and tax exemptions for businesses and individuals instituted over decades with limited review.

In addition to a full breakdown and an historic account of each tax expenditure, commission members decided to request from the Department of Revenue a description of the revenue impact of each expenditure, an explanation of intended beneficiaries, and a comparison of each expenditure and the overall budget to other states and the federal government.

Rep. Denise Andrews (D-Orange) attended the hearing, though she does sit on the commission, and suggested the panel also benchmark Massachusetts against other countries.

The state's tax expenditure budget totaled in fiscal 2012 included \$5.7 billion in personal income taxes, \$1.3 billion in corporate excise taxes, and \$17.2 billion in sales taxes, which included long-standing exemptions on items such as food and clothing. By comparison, the state collects roughly

\$21 billion in tax revenue each year that gets applied to the state's \$30.5 billion budget.

"That's a significant amount of money, and this is a form of spending," Gonzalez said.

Gonzalez said his goal for the commission is to meet publicly every three weeks, and officials said members of the public are welcome to attend and comment, though no formal public hearings were discussed. The commission, created by the Legislature in the fiscal 2012 budget, is required to produce recommendations by the end of April 2012.

The state's tax expenditure budget fell under increased scrutiny earlier this year after Evergreen Solar, which had been the beneficiary of \$21 million in grants and tax breaks from the Patrick administration to grow jobs, announced plans to shutter its manufacturing plant at Devens and later declared bankruptcy.

Fidelity Investments, which like other mutual fund companies has benefited since 1996 from a change in the tax code that allowed mutual fund companies to join manufacturers in calculating income tax based on single-sales, also came under fire when it decided to move 1,100 jobs out of state.

During an oversight hearing in March, legislative leaders questioned the strength of the state's clawback provisions to recoup some of the investment in Evergreen Solar. Sen. Mark Montigny, the chairman of the Senate's Post Audit and Oversight Committee, also lamented the fact that state law protects companies like Fidelity from having to disclose tax information that could help officials gauge whether tax policies work to create jobs.

The bipartisan, 11-member commission chaired by Gonzalez includes Treasurer Steven Grossman, Auditor Suzanne Bump, Ways and Means Chairmen Sen. Stephen Brewer and Rep. Brian Dempsey, Sen. Gail Candaras, Sen. Michael Knapik, Rep. Jay Kaufman, Rep. Steven Levy, and two members of the Governor's Council of Economic Advisors – Northeastern University economist Alan Clayton-Matthews and Harvard professor James Stock.

Both Grossman and Bump sent representatives from their offices to the first meeting, and Candaras and Knapik also missed the meeting, though staff members were present.

“You get to \$24 billion piece by piece, and had you started out looking at the whole pool you might have done it differently. The treasurer is looking at this as zero-based budgeting,” said Al Gordon, policy director for Treasurer Grossman.

Gordon said the treasurer has a particular interest in reviewing the policies and current use of sunset clauses, clawback provisions and disclosure requirements with regard to tax expenditures.

Dempsey said it was important for the commission “to get a handle on what is working and where are we getting bang for our buck.”

Brewer also cautioned about being clear with the public what the commission was trying to accomplish.

“It’s very important on messaging that we’re not sitting here trying to find ways to increase the tax burden on citizens, but to peel back the layers of history,” Brewer said.

-END-
10/12/2011

Serving the working press since 1910

<http://www.statehousenews.com>