ENSE PETIT PLACIDAM SVB LIBERTATE QVIETEM

While taxes are an essential source of revenue for all state governments, the manner in which they are imposed varies widely from state to state. In its simplest form, a tax is an across-the-board levy on a base, such as income, to which a specific rate applies and for which no modifications exist. Taxes are rarely levied in this manner, however. Instead, most state tax codes incorporate a number of exemptions, deductions, credits, and deferrals designed to encourage certain taxpayer activities or to limit the tax burden on certain types of individuals or endeavors. Known as "tax expenditures", these provisions can have a significant impact on state tax revenues.

This document offers a summary of the tax expenditures affecting the taxes from which Massachusetts derives the bulk of its revenues: the personal income tax, the corporate excise and other business excises, and the sales and use tax. It also provides revenue estimate for each tax expenditure, as mandated by Massachusetts state law. Organized into five separate sections, this study analyzes all aspects of Massachusetts tax expenditures. Part I contains a detailed explanation of how we identify and estimate the costs of tax expenditure provisions in the tax code. In the next sections (Parts II - IV), we have provided detailed information about each of the three major tax types, including an explanation of how each tax is calculated and the ways in which that tax's basic structure is modified to produce the various types of tax expenditures. The tax expenditures for each tax are listed after the description of the tax.

Following the expenditure listings, Part V provides four appendices. The first lists recent law changes which affect this year's tax expenditure budget; the second is a glossary that defines terms used throughout the text; the third gives five-year tax expenditure estimates that are consistent with our most recent estimation methodology; and the fourth appendix is used for items that no longer qualify as tax expenditures due to legislative changes but are estimated for the purpose of comparisons to prior reports. In reviewing this document it is important to remember that although a tax expenditure represents a deviation from the generally agreed-upon, or basic, structure of a given tax, determining whether a provision is a tax expenditure is not the same as making a judgment about its desirability. An element of the basic structure of a tax can be inequitable or have undesirable economic effects, just as a tax expenditure can. If so, it can be changed by legislative action just as a tax expenditure can.

The estimates of the costs of tax expenditures included in this volume are revised annually. As improved methodologies and data become available over the course of the year, some estimates may be reexamined and occasionally revised.

What Are Tax Expenditures?

Tax expenditures are provisions in the tax code, such as exclusions, deductions, credits, and deferrals, which are designed to encourage certain kinds of activities or to aid taxpayers in special circumstances. When such provisions are enacted into the tax code, they reduce the amount of tax revenues that may be collected. Massachusetts General Laws (MGL), Ch 29, Sec 1 as modified by the Ch. 165 of the Acts of 2012 (section 112) defines *tax expenditures* as

> "*state tax revenue foregone as a direct result of any general or special law which allows exemptions, deferrals, deductions from or credits against taxes imposed on income, businesses and corporations, financial institutions, insurance and sales but excluding revenue foregone as a direct result of any general or special law which allows a personal income tax exemption. Sales that do not involve tangible personal property shall not result in tax expenditures under this definition.*"

In this sense, the fiscal effects of a tax expenditure are just like those of a direct government expenditure. Some tax expenditures involve a permanent loss of revenue, and thus are comparable to a payment by the government; others cause a deferral of revenue to the future, and thus are comparable to an interest-free loan to the taxpayer. Since tax expenditures are designed to accomplish certain public goals that otherwise might be met through direct expenditures, it seems reasonable to apply to tax expenditures the same kind of analysis and review that the appropriations budget receives.

It is essential to distinguish between those provisions of the tax code that represent tax expenditures and those that are part of the "basic structure" of a given tax. The basic structure is the set of rules that defines the tax; a tax expenditure is an exception to those rules. In general, most taxes have a series of features that define their basic structure. These features are:

1. A base, on which the tax is levied, such as net income, or a particular class of transactions;
2. A taxable unit, such as a person or a corporation;
3. A rate, to be applied to the base;
4. A definition of the geographic limits of the state's exercise of its tax jurisdiction; and
5. Provisions for the administration of the tax.

Defining the Basic Tax Structure

A tax expenditure is a deviation from the generally agreed-upon, or basic, structure of a given tax. For example, the base of the sales tax includes all retail sales to final consumers. The exemption for sales of energy conservation equipment is an exception, created to encourage purchases of such equipment. The sales tax that is not collected because of the existence of this exemption is a tax expenditure.

While this general definition seems straightforward enough, the task of compiling a comprehensive list of tax expenditures presents many conceptual problems. For example, some of the deductions and exemptions allowed under the tax statutes are not tax expenditures. The broad category of income tax deductions allowed for business expenses is not listed as a tax expenditure. Since the income tax is generally considered to be a tax on income net of the costs of producing that income, deductions for business expenses are taken against gross income and therefore occur prior to calculation of the tax base. In addition, tax provisions reflecting constitutional prohibitions, such as the prohibition on taxation of sales to the federal government, are considered parts of the basic tax structure and therefore are not properly considered tax expenditures. These distinctions are fairly simple, but more complex analytical questions quickly arise.

For example, deductions for the depreciation of property and equipment used in a trade or business are considered part of the basic tax structure because the use of productive assets is a legitimate cost of doing business. However, federal depreciation rules allow larger depreciation deductions in the early years of a property's useful life. These accelerated depreciation rules could be viewed as properly reflecting changing notions of obsolescence and thus as part of the basic tax structure; or the faster rates of depreciation could be considered a special adjustment in the tax base designed to provide an incentive for investment, and therefore a tax expenditure. Past federal tax expenditure budgets prepared by the Congressional Budget Office and versions prepared by the Treasury Department have disagreed on exactly this issue.

We have adopted the point of view that accelerated depreciation is a tax expenditure. Although accelerated depreciation still allows the same total deduction for a piece of property; the rate of depreciation allowed in the early years is faster than would be permitted under traditional accounting principles. Generally, revenue cost estimates in this document for tax expenditures associated with accelerated depreciation rely on assumptions used in congressional federal tax expenditure analysis concerning ordinary depreciation rates.

We have chosen to view the rules for personal exemptions and for no tax status in the Commonwealth's personal income tax as provisions which help to define the income tax base, and thus as a part of the basic structure of the tax (much as the progressive rate structure of the federal income tax, which similarly reduces the tax burden on low-income people, is a part of its basic structure). The base of the tax is defined as net income above what is required for subsistence. Since personal exemptions help define the amount of income needed for subsistence, and therefore the base, they should not be classified as tax expenditures. According to this reasoning, exemptions allowed for dependents would also be considered part of the basic tax structure, since subsistence requirements increase with the size of the taxpayer's household. However, we note that this view of the tax structure does not always lead to easy conclusions. First, taxpayers are allowed exemptions for dependents even if those dependents have their own income and take personal exemptions for themselves. We have treated the use of the dependents' exemption as a tax expenditure. Second, the fact that the no tax status amount is greater than the personal exemption suggests that the intent behind the no tax status and personal exemptions goes beyond simple definition of an income base. Although personal exemptions and the no tax status are not listed in this document as tax expenditures, estimates for the revenue losses associated with these provisions are provided in an endnote.

Many Massachusetts tax expenditures in the personal income tax and corporate tax derive from federal income tax rules and thus piggy back on many but not all, federal tax expenditures. We have chosen to include such tax expenditures in this tax expenditure budget, as Massachusetts generally has the ability legally to “decouple” from piggybacking on federal tax expenditures, and has done so in certain cases (e.g., bonus depreciation) from time to time. However, one can question whether federal tax expenditures should generally be included in the Massachusetts tax expenditure budget, because for the most part they simply reflect the fact that Massachusetts has generally chosen to incorporate much of the federal tax laws into the determination of Massachusetts taxable income for personal and corporate income tax purposes.

The sales tax presents the most difficult case. The sales tax statute and its legislative history indicate that the established base of the tax is all "retail" sales. At a minimum, the sales tax exemptions for business purchases of component parts and of products to be resold appear to be provisions that help define which sales are considered non-retail sales, and therefore should not be classified as tax expenditures. However, it is difficult if not impossible to decide which other sales tax exemptions might also cover non-retail sales. For example, manufacturing companies are allowed an exemption from the sales tax for purchases of machinery used in the production process. Since this machinery is not a direct component part of any product being manufactured and is not purchased simply to be resold, it could be argued that the machinery purchase is a retail sale and that the machinery exemption is a tax expenditure. Others would argue that because these purchases are not purchases by the final consumers of an end product, and because they represent legitimate business expenses, these sales tax exemptions should not be considered tax expenditures.

The largest proportion of Massachusetts tax expenditure dollars used to be sales and use tax expenditures. This was largely because of the exclusion (or non-taxation) of certain property and services (other than telecom) from sales and use taxation. The Center on Budget and Policy Priorities' tax expenditure survey report indicates that items such as non-taxation of services, which are so-called “implicit tax expenditures”, should be included in the tax expenditure budget. They also report that about 16 states have such items in their annual tax expenditure reports (http://www.cbpp.org/files/4-9-09sfp.pdf). This provides a means of quantifying the cost of not taxing most services, and allows for comparison with other states that do apply their sales and use tax to various types of specified services. However, in July 2012 legislation was enacted stating explicitly that “sales that do not involve tangible personal property shall not result in tax expenditures”. See St 2012, c.165, §112. Pursuant to this legislation, from fiscal year 2014 on, we remove some items, including non-taxation of services, from our tax expenditure estimates, which we regularly reported in prior years. But to facilitate comparison to tax expenditure estimates in prior years, we list these items in Appendix D.

As stated in the introduction, the most important thing to remember is that making a judgment about whether a provision is a tax expenditure is not the same as making a judgment about its desirability. With this in mind, we have attempted to provide more rather than fewer tax expenditure estimates, so that necessary information is available for those charged with making policy judgments.

Description of the Data

This budget should be considered part of an ongoing effort to list tax expenditures, describe their characteristics, and estimate their revenue costs. Each year, we attempt to improve upon the analysis presented in the prior year's tax expenditure budget. For purposes of comparison, we have provided an appendix containing updated tax expenditure estimates for the past four years as well as for Fiscal Year 2017.

Information collected by the Department of Revenue (DOR) from Massachusetts tax returns was an important source of data in this budget. Estimates made from these data tend to be the most reliable. Unfortunately, many tax expenditures cannot be estimated from DOR records. When a particular category of income is excluded from taxation, amounts often do not appear on tax records. This is especially likely to be the case for those tax expenditures brought about by "coupling" the state tax code to the federal code, since exclusions and some deductions are not reported explicitly, but are simply carried over to state tax calculations as part of the reporting of federal income. In such cases we have had to estimate a Massachusetts figure using national tax data, census information, sales statistics, and other information.

You will note that in several cases, this year's tax expenditure estimates are very different from last year's. Revisions to the estimates occur for four reasons: we have new data sources; federal tax expenditure estimates on which we rely have changed; we have refined our estimation methodologies; or changes in Massachusetts tax law have modified existing estimates. In a few instances, more than one of these factors operates to explain the difference. All estimates are projections forward from a base year (which varies depending on the availability of data) to Fiscal Year 2017.

Data Limitations

There are some additional caveats that the reader should keep in mind when reading this budget. First, most revenue loss estimates have been made without taking into account how repeal of a provision might change taxpayer behavior. For example, if the sales tax exemption for a particular item were repealed, the item would become more expensive to consumers, so one would expect sales of that item to decline. The revenue gain from repealing the provision would be, therefore, somewhat less than if the level of sales for the affected items remained the same. On the other hand, some of the income not spent on that item might be spent on other taxable items. To the extent that consumers and businesses pay more taxes and have less income available for other purposes, the repeal of a tax expenditure might have much broader economic and revenue effects. Clearly, the full estimation of these effects demands extensive data which are not easily available.

Second, interactions among different taxes and tax expenditures may be quite complex. Repealing some tax expenditures may increase or decrease the value of others. For example, increasing the no tax status amount would mean that fewer people would pay taxes, and thus fewer people would claim other exemptions. This would reduce the revenues lost through other exemptions. Therefore the combined cost of several tax expenditure items may be different from the total of the cost of the separate tax expenditure items.

Third, the revenue cost estimates do not generally reflect compliance factors that may significantly reduce revenues available from a tax expenditure repeal. In particular, where Massachusetts tax provisions are "coupled" with federal tax rules, audits of Massachusetts taxpayers generally compare state and federal returns. If Massachusetts tax provisions were "decoupled", taxpayers would have to make separate calculations for Massachusetts tax purposes, and these provisions would require special audit procedures. Compliance difficulties would certainly result.

And fourth, particular caution is appropriate with respect to the tax expenditure budget's totals for expenditures for particular taxes. Not only do these totals reflect the imprecision of the specific estimates, but they also omit those items for which no estimates were available. In consequence, particular totals may be substantially understated. At the same time, included in the totals, particularly with regard to the sales tax, are a number of substantial items that many analysts would not regard as tax expenditures, but rather as features of the underlying tax itself. The general approach in preparing the tax expenditure budget has been to count questionable items as tax expenditures, so that information concerning them would be available for analysis. The result is that the totals are higher than they would be under a more restrained analytic approach.

Reading the Budget

In this document, tax expenditures and cost estimates are listed according to the taxes to which they pertain: personal income, corporate excise, and sales and use. Note that the corporate section of the Tax Expenditure Budget includes other business excises along with the corporate excise. These additional business excise taxes are the financial institution excise, the public utility excise, which was repealed effective January 1, 2014, the excises on insurance companies, and the excise on security corporations. Each of the three major taxes includes an introductory section with a description of the tax, followed by a listing of the tax expenditures for that tax. Each tax expenditure item includes a brief description, the cost estimate, a statutory citation, and an indication of the tax expenditure's type. The various special excises on motor fuels, cigarettes, and alcoholic beverages are not covered in this budget.

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Although income from professions, trades or employment was taxed throughout the nineteenth century under the local property tax, it was not until 1916, under the authority of Article 44 of the Amendments to the Massachusetts Constitution, that the Massachusetts personal income tax was enacted as a separate tax. Because Article 44 requires that all income of the same class be taxed at the same rate, Massachusetts applies a flat tax rate regardless of total income; the federal tax structure (and that used in most states) uses graduated rates.

Generally, the Massachusetts personal income tax ties into the federal Internal Revenue Code as it was on January 1, 2005. To the extent that the Massachusetts tax takes federal law as its starting point, it adopts many federal tax expenditures (see Appendix A for more details).

The personal income tax is the state's largest revenue source, accounting for 58.3% of Department of Revenue tax collections in Fiscal Year 2015.

Personal Income Tax: Basic Structure

Tax Base: The personal income tax base is gross income minus the costs of producing the gross income (trade or business expenses). Massachusetts gross income is defined as federal gross income with certain modifications. Effective January 1, 1996 it was divided into three classes: interest, dividends, and short-term capital gains ("Part A" income); long-term capital gains ("Part C" income); and all other income ("Part B" income). Massachusetts taxpayers are entitled to a basic personal exemption, which varies according to taxpayer status. The exempted amounts are considered to be outside the generally accepted tax base. They reflect the notion that income needed for bare subsistence should be free from tax. Thus, for the purposes of this document, these exemptions are not listed as tax expenditures. In addition, taxpayers whose income is below a specified level are entitled to "no tax status." For the same reason, this status is not listed as a tax expenditure. On the other hand, because policy makers are often interested in the effects of adjusting the dollar amounts for the personal exemptions and the no tax status, estimates are provided for them in endnote 3 to item 1.405 in the list of personal income tax expenditures.

Taxable Unit: Individuals are taxed separately, with the exception of married couples, who may file a joint return. The income of children is not aggregated with that of their parents. The income of trusts, estates and unincorporated associations, is also subject to the personal income tax.

Rate Structure: The rate structure has been evolving to a system where most income is taxed at the Part B rate. Also, the Part B rate has been rolling back during years in which certain trigger levels of collections are met. In tax year 2015, the rate was 5.15%; in tax year 2016, the rate was reduced to 5.10%. Based on tax revenue growth projections, the estimates in this document assume that the Part B rate will decline further to 5.05% for tax year 2017. Currently, only short-term capital gains and long-term capital gains on collectibles are taxed at a different rate. The vast majority of income is linked to the Part B rate.

Prior to tax year 1999, the tax rate on interest and dividend income (one component of Part A income) was 12% compared with the Part B "earned" taxable income rate of 5.95%. Effective January 1, 2000, the rate on both Part B and the linked Part A income (Interest and Dividends) dropped to 5.85%, then to 5.60% on January 1, 2001, and to 5.30% on January 1, 2002. The rate was scheduled to decline to 5.00% on January 1, 2003; however, Chapter 186 of the Acts of 2002 ("An Act Enhancing State Revenues") delayed the final phase of the rate reduction. The estimates contained in this document assume that the tax rates on interest and dividend income and Part B income, which declined to 5.25% for tax year 2012 and 2013, to 5.20% for tax year 2014, to 5.15% for tax year 2015, and to 5.10% for tax year 2016, will further decline to 5.05% for tax years 2017 and beyond. All other things being equal, a reduction in tax rates -- which are part of the basic tax structure -- has the effect of reducing the value of tax expenditures, because when tax rates decline, so does the value of any exceptions to that basic structure.

Between January 1, 1996 and January 1, 2003, Part C income, long-term capital gains, was subject to the following tax rates based on how long the assets were held:

<u>Holding Period</u>	<u>Tax Rate</u>
more than one, but less than two years	5%
more than two, but less than three years	4%
more than three, but less than four years	3%
more than four, but less than five years	2%
more than five, but less than six years	1%
more than six years	0%

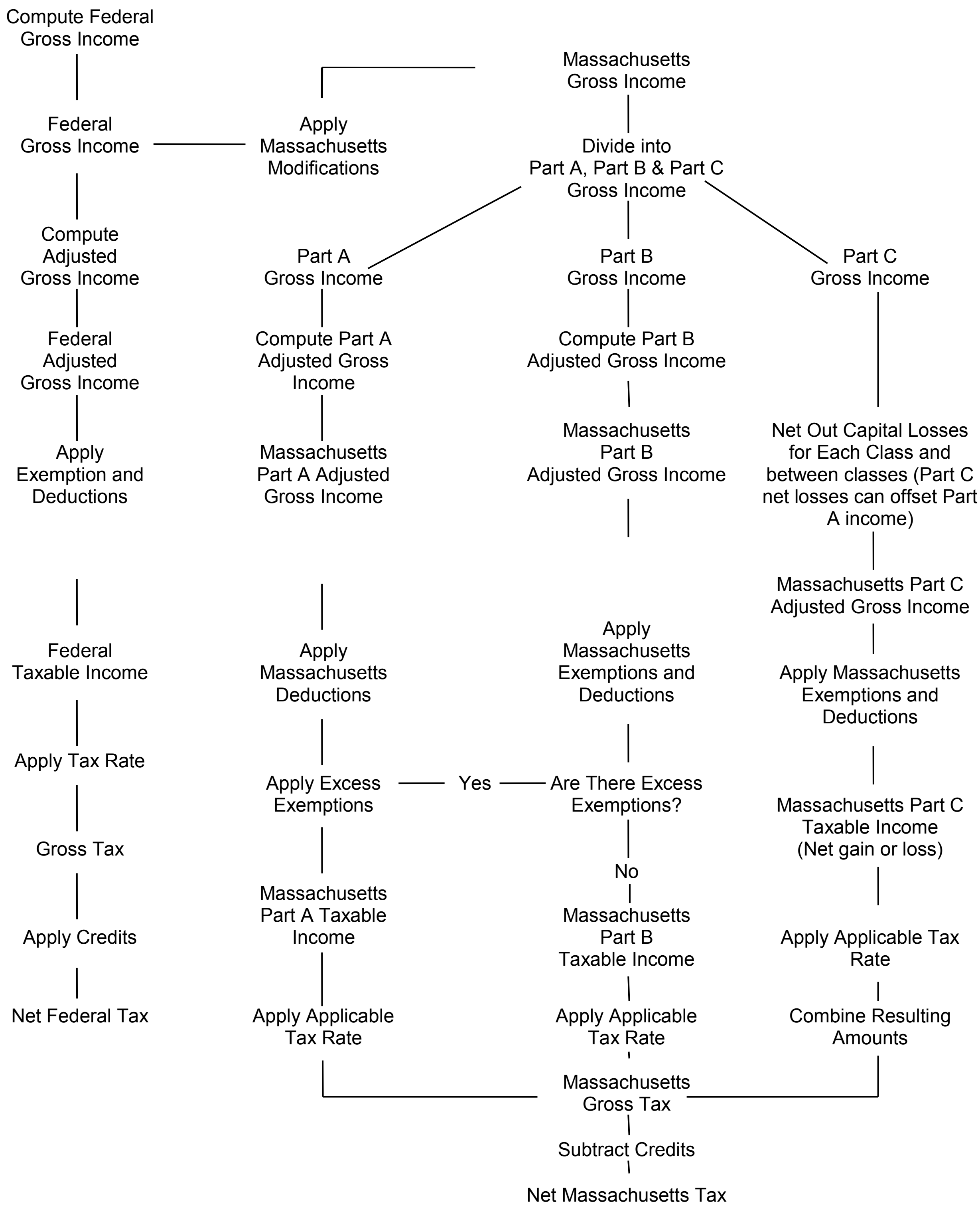
Assets acquired prior to January 1, 1996 were deemed to have been acquired on the later of January 1, 1995 or the actual date of acquisition. Note that capital assets held less than one year are considered Part A income, and are taxed at 12%.

Chapter 186 of the Acts of 2002 eliminated the "sliding scale" treatment of capital gains on assets held for more than one year. This was originally effective May 1, 2002; subsequent legislation changed the effective date of the tax change to apply to assets sold on or after January 1, 2003. Gains on such transactions are now taxed at the Part B rate; as noted above, the Part B rate is assumed to be 5.05% for tax years 2017 and beyond as forecasted by this tax expenditure budget.

Taxable Period: The taxable period is one year (or less), usually the calendar year. Income may be reported according to the cash or accrual method. Where property is sold on a deferred payment basis, gains may be reported in the years the payments are received. There is no Massachusetts provision for income averaging. Net capital losses may be carried forward to future years. Ordinary losses may not be carried forward.

Interstate and International Aspects: Residents are taxed upon their entire income, whether derived from Massachusetts sources or elsewhere, without allocation or apportionment. Nonresidents are taxed only on income from sources within Massachusetts. A resident may take a limited credit against the Massachusetts income tax for income taxes due to other states, the District of Columbia, any territory or possession of the United States, or Canada or its provinces on any item of Massachusetts gross income.

Computation of the Personal Income Tax



Types of Tax Expenditures under the Personal Income Tax

The basic structure of the personal income tax can be modified in a number of different ways to produce tax expenditures. Brief explanations of the various types of tax expenditures follow:

Exclusions from Gross Income: Gross income is the starting point in the calculation of income tax liability and, in the absence of tax expenditures, would include all income received from all sources. Typically, the taxpayer does not report items of income that are excluded from gross income on his or her tax return. Thus, they escape taxation permanently.

Deferrals of Gross Income: Where an item of income is not included in gross income in the year when it is actually received, but is instead included in a later year, the result is a tax expenditure in the form of an interest-free loan from the state to the taxpayer in the amount of the tax payment that is postponed.

Deductions from Gross Income: Certain amounts are subtracted from gross income to arrive at adjusted gross income (AGI). Many of these deducted amounts reflect the costs of producing income (business expenses), and are not properly part of the income tax base. Such deductions are not tax expenditures. Other deductions that do not reflect business expenses constitute tax expenditures, which permit corresponding amounts of income to escape taxation permanently.

Accelerated Deductions from Gross Income: In a number of cases, taxpayers are allowed to deduct business expenses from gross income at a time earlier than such expenses would ordinarily be recognized under Generally Accepted Accounting Principles. The total amount of the permissible deduction is not increased, but it can be utilized more quickly to reduce taxable income. The result is to defer taxes, thus in effect occasioning an interest-free loan from the state to the taxpayer.

Deductions from Adjusted Gross Income (AGI): Taxable income results from the subtraction of certain deductions and exemptions from AGI. Certain of these subtracted items represent amounts of income necessary for subsistence; their exclusion is part of the basic structure of the income tax. Other subtracted items represent tax expenditures, which permit corresponding amounts of income to escape taxation permanently.

Credits against Tax: After a taxpayer's basic tax liability has been calculated by applying the tax rates to taxable income, the taxpayer may subtract certain credit amounts from this initial liability in determining the actual amount of taxes that must be paid. It is important to note that, whereas a one-dollar exclusion or deduction results in a tax savings of only a few cents (one dollar times the applicable tax rate), a one-dollar credit results in a one-dollar tax savings.

Note on Personal Exemptions, Dependent Exemptions, No Tax Status, and Limited Income Credit: *These exempted amounts are considered to be outside the generally accepted tax base, and thus, for the purposes of this document, these exemptions are not listed as tax expenditures. However, because policy makers are often interested in the impact of adjusting their dollar amounts, estimates are provided for them in a footnote following the “Credits against Tax” section.*

List of Personal Income Tax Expenditures

1.000 EXCLUSIONS FROM GROSS INCOME

1.001 Exemption of Premiums on Accident and Accidental Death Insurance[1]

Employer contributions for premiums on accident and accidental death insurance are not included in the income of the employee and are deductible by the employer.

Origin: IRC § 106

Estimate: $27.3

1.002 Exemption of Premiums on Group-Term Life Insurance[1]

Employer payments of employee group-term life insurance premiums for coverage up to $50,000 per employee are not included in income by the employee and are deductible by the employer.

Origin: IRC § 79

Estimate: $20.6

1.003 Exemption of Interest on Life Insurance Policy and Annuity Cash Value

Interest, which is credited annually on the cash value of a life insurance policy or annuity contract, is not included in the income of the policyholder or annuitant. Only when a life insurance policy is surrendered before death or when annuity payments commence does the interest become subject to tax. (Interest on dividends left on deposit is taxable.)

Origin: IRC § 101

Estimate: $219.0

1.004 Exemption of Employer Contributions for Medical Insurance Premiums and Medical Care[1]

Employer contributions for medical insurance premiums and reimbursements for medical care are not included in the income of the employee and are deductible by the employer.

Origin: IRC §§ 105 and 106

Estimate: $938.0

1.005 Exemption of Annuity or Pension Payments to Fire and Police Personnel

Income from noncontributory annuities or pensions to certain retired fire and police personnel or their survivors are tax-exempt.

Origin: M.G.L. c. 32

Estimate: N.A.

1.006 Exemption of Distributions from Certain Contributory Pension and Annuity Plans[2]

Certain pensions and annuity distributions are tax-exempt under Massachusetts law. They are payments from contributory plans of the U.S. government, Massachusetts and its subdivisions, and other states that do not tax such income from Massachusetts. Any benefits in excess of contributions not taxed by Massachusetts constitute this tax expenditure.

Origin: M.G.L. c. 62, §§ 2(a)(2)(E)

Estimate: $361.0

1.007 Exemption of Railroad Retirement Benefits

Railroad retirement benefits are not taxed. (Massachusetts has not adopted Internal Revenue Code section 86, which taxes some of these benefits if a taxpayer's income is above a certain level.)

Comment: No adjustment is made for any prior payments taxpayers may have made to fund this system since employee payments to this system are taxes rather than contributions.

No adjustment is made for any prior payments taxpayers may have made to fund this system since employee payments to this system are taxes rather than contributions.

Origin: M.G.L. c. 62, § 2(a)(2)(H)

Estimate: $4.7

1.008 Exemption of Public Assistance Benefits

Public assistance or welfare benefits are not taxed. These include Temporary Assistance for Needy Families (TANF), Supplemental Security Income (SSI) benefits, and the like.

Origin: Rev. Rul. 71-425, 1971-2 C.B. 76

Estimate: $193.6

1.009 Exemption of Social Security Benefits

Social Security benefits paid to people age 65 or older and their dependents, to persons under 65 who are survivors of deceased workers, and to disabled workers and their dependents are not taxed. Massachusetts has not adopted Internal Revenue Code section 86, which taxes a portion of these payments where a taxpayer's income is above a certain level.
Comment: The comment under item 1.007 applies to this item as well.

The comment under item 1.007 applies to this item as well.

Origin: M.G.L. c. 62, § 2 (a)(2)(H)

Estimate: $944.9

1.010 Exemption of Workers' Compensation Benefits

Workers' compensation benefits are not taxed. These are benefits paid to disabled employees or their survivors for employment-related injuries or diseases.

Origin: IRC § 104 (a)(1)

Estimate: $7.1

1.011 Exemption for Dependent Care Expenses[1]

Day care paid for or provided by an employer to an employee, the value of which does not exceed the employee's or employee's spouse's "earned" income, and does not exceed the amount of $5,000, is not included in the income of the employee and is deductible by the employer.

Origin: IRC § 129

Estimate: $14.8

1.012 Exemption of Certain Foster Care Payments

Qualified foster care payments are not includible in the income of a foster parent.

Origin: IRC § 131

Estimate: $3.1

1.013 Exemption of Payments Made to Coal Miners

Coal miners or their survivors may exclude from income payments for disability or death from black lung disease.

Origin: IRC § 104(a)(1)

Estimate: Negligible

1.014 Exemption of Rental Value of Parsonages[1]

A minister may exclude from gross income a rental allowance or the rental value of a parsonage furnished to him or her.

Origin: IRC § 107

Estimate: $2.8

1.015 Exemption of Scholarships and Fellowships

Degree candidates can exclude scholarships and fellowship income if the amounts are not compensation for services or for the payment of room, board or travel expenses.

Origin: IRC § 117

Estimate: $22.0

1.016 Exemption of Certain Prizes and Awards

Prizes and awards are generally required to be included in income. The exemption of certain prizes and awards is generally limited to taxpayers who donate the proceeds to a charitable organization. Certain employee achievement awards are also excluded from gross income.

Origin: IRC § 74

Estimate: N.A.

1.017 Exemption of Cost-Sharing Payments

Portions of government cost-sharing payments to assist in water and soil conservation projects are not includible in the recipient's income.

Origin: IRC § 126

Estimate: Negligible

1.018 Exemption of Meals and Lodging Provided at Work[1]

The value of meals and lodging furnished to the employee by the employer on the business premises for the employer's convenience is not included in the income of the employee. The employer's expenses are deductible.

Origin: IRC § 119

Estimate: $13.6

1.019 Treatment of Business-Related Entertainment Expenses[1]

With certain limitations, a business may take a deduction of up to 50% of the cost of business-related entertainment expenses. Generally, the value of the entertainment is not taxed as income to the persons who benefit from the expenditures. The effect is to provide the hosts and their guests with a nontaxable fringe benefit.

Origin: IRC § 162

Estimate: $15.0

1.020 Exemption of Income from the Sale, Lease, or Transfer of Certain Patents

Income from the sale, lease or other transfer of approved patents for energy conservation, and income from property subject to such patents, is excluded from gross income for a period of five years.

Origin: M.G.L. c. 62, § 2(a)(2)(G)

Estimate: N.A.

1.021 Exemption of Capital Gains on Home Sales

Taxpayers may exclude up to $250,000 of capital gain (or $500,000 if filing jointly) on the sale of a principle residence. This exclusion from gross income may be taken any number of times, provided the home was the filer's primary residence for an aggregate of at least 2 of the previous 5 years.

Comment: Massachusetts does not adopt the cancellation of Indebtedness on Principal Residence; for federal tax purposes, the exclusion from gross income for qualified principal residence indebtedness that was discharged has been extended until December 31, 2014. Massachusetts does not adopt the extension of the exclusion because IRC § 108(a)(1)(E) was enacted after January 1, 2005.

Massachusetts does not adopt the cancellation of Indebtedness on Principal Residence; for federal tax purposes, the exclusion from gross income for qualified principal residence indebtedness that was discharged has been extended until December 31, 2014. Massachusetts does not adopt the extension of the exclusion because IRC § 108(a)(1)(E) was enacted after January 1, 2005.

Origin: IRC § 121

Estimate: $367.9

1.022 Nontaxation of Capital Gains at Death

Ordinarily, capital gains are taxed at the time appreciated property is transferred. However, no tax is imposed on a capital gain when appreciated property is transferred at death. The appreciation that accrued during the lifetime of the transferor is never taxed as income.
Comment: See also item 1.106

See also item 1.106

Origin: IRC §§ 1001 and 1014

Estimate: $775.2

1.023 Exemption of Interest from Massachusetts Obligations

Interest earned on Massachusetts bonds is exempt. The exclusion applies to bonds of Massachusetts agencies, and local subdivisions (cities and towns) as well.

Origin: M.G.L. c. 62, § 2 (a)(1)(A)

Estimate: $54.0

1.024 Exemption of Benefits and Allowances to Armed Forces Personnel[1]

Under the January 1, 1998 Code, Massachusetts allowed the federal exclusion for certain military fringe benefits including combat zone compensation, veterans' and medical benefits, disability benefits, moving allowances and a death gratuity benefit of $3,000. As a result of recent legislation under which the Commonwealth incorporated into Massachusetts personal income tax law the Code as amended and in effect on January 1, 2005 (hereinafter referred to as the "Code Update"). This exclusion was extended to include dependent care assistance under a dependent care assistance program, travel benefits received under the Operation Hero Miles program and an increased death benefit gratuity of $12,000.

Origin: IRC §§ 112-113

Estimate: $29.7

1.025 Exemption of Veterans' Pensions, Disability Compensation and G.I. Benefits

These veterans' benefits are not taxed.

Origin: 38 U.S.C. § 5301

Estimate: $38.0

1.026 Exemption of Military Disability Pensions

Disability pensions paid to service personnel are fully excluded from gross income. The portion of a regular pension that is paid on the basis of disability may also be excluded.

Origin: IRC § 104(a)(4)

Estimate: $0.7

1.027 Exemption of Compensation to Massachusetts-Based Nonresident Military Personnel

Compensation paid by the U.S. to nonresident uniformed military personnel on duty at bases within Massachusetts for services rendered while on active duty is defined as compensation from sources outside Massachusetts. It is therefore not taxed.

Comment: This tax treatment follows U.S. statutory law.

This tax treatment follows U.S. statutory law.

Origin: 50 U.S.C. App. 574; M.G.L. c. 62, § 5A(c)

Estimate: $9.0

1.028 Exemption for Taxpayers Killed in Military Action or by Terrorist Activity

Massachusetts residents who die in combat while in active military service, or who die as a result of terrorist or military action outside of the U.S. while serving as military or civilian employees of the U.S. are exempt from income taxation.

Origin: M.G.L. c. 62, § 25

Estimate: N.A.

1.029 Exemption for Retirement Pay of the Uniformed Services

Effective January 1, 1997, income received from the United States government as retirement pay and survivorship benefits for a retired member of the Uniformed Services of the United States is exempt from the personal income tax. The Uniformed Services of the United States are: the Army, Navy, Air Force, Marine Corps, Coast Guard, and the Commissioned Corps of the Public Health Service and National Oceanic and Atmospheric Administration.

Origin: M.G.L. c. 62, § 2

Estimate: $25.7

1.030 Parking, T-Pass and Vanpool Fringe Benefits

A federal and Massachusetts exclusion is allowed for employer-provided parking, transit passes and vanpool benefits (i.e. "qualified transportation benefits"), subject to monthly maximums. Massachusetts adopts the federal exclusion as it appeared in the Code on January 1, 2005. Although the Tax Relief Act of 2010 temporarily increased this amount at the federal level, Massachusetts did not conform. For taxable years beginning in 2016, the Massachusetts monthly exclusion amounts are $255 for employer-provided parking and $130 for combined transit pass and commuter highway vehicle transportation benefits. Under Massachusetts law, these numbers reflect an inflation adjustment but do not include the increase in the federal monthly exclusion amount for the combined transit pass and commuter highway vehicle transportation benefits that was signed into law on December 18, 2015. Massachusetts adopts these 2016 tax year monthly exclusion amounts because they are based on the January 1, 2005 Code. For further discussion, see TIR 15-16.

Origin: IRC § 132(f)

Estimate: $40.4

1.031 Health Savings Accounts

For federal income tax purposes, the earnings in a Health Savings Account (HSA) accrue on a tax-free basis, and qualified distributions from a HSA are excluded from gross income. Prior to the most recent Code update, Massachusetts taxed earnings in a HSA and also taxed distributions to the extent such amounts were not previously taxed by Massachusetts. As a result of the Code update, Massachusetts adopts the federal exclusion for earnings in, and qualified distributions from, a HSA.

Origin: IRC § 223

Estimate: Included in 1.422

1.032 Employer-Provided Adoption Assistance

Massachusetts adopts the federal exclusion for employer-provided adoption expenses paid (or treated as paid under IRC sec. 137) on or after January 1, 2005. The federal government extended this exclusion temporarily for 2011. However, as Massachusetts follows the 2005 Code, and so the exclusion sunset after 2010. If Massachusetts were to update to the current code, this expenditure would be restored.

Origin: IRC § 137

Estimate: $0.0

1.033 Employer-Provided Educational Assistance

Massachusetts adopts the federal exclusion for qualified educational expenses reimbursed to an employee under an employer-provided education assistance program in effect as of the 2005 Code Update. Massachusetts adopts the federal exclusion for qualified educational expenses for undergraduate and graduate education expenses up to the federal annual maximum of $5,250 per calendar year.

Origin: IRC § 127 and 132

Estimate: $11.3

1.035 Department of Defense Homeowners Assistance Plan

Massachusetts adopts the federal exclusion for the employee fringe benefit of payments received under the Homeowners Assistance Plan. Such payments are intended to compensate military personnel and certain civilian employees for a reduction in the fair market value of their homes resulting from military or Coast Guard base closure or realignment.

Origin: IRC § 132(m)

Estimate: N.A.

1.036 Survivor Annuities of Fallen Public Safety Officers

For both Massachusetts and federal tax purposes, an exclusion from income is allowed for amounts paid under a governmental plan as an annuity to the survivor of a public safety officer killed in the line of duty. However, a federal Act subsequent to January 1, 1998, created differences between the Massachusetts and federal exclusion amounts. Massachusetts had allowed an exclusion for amounts received in tax years beginning after December 31, 1996, with respect to individuals dying after that date. As a result of the most recent Code update, Massachusetts adopts the federal exclusion as amended and in effect on January 1, 2005, that extends the exclusion for such annuities from, and including, individuals dying after December 31, 1996 to individuals dying on or before December 31, 1996.

Origin: IRC § 101(h)

Estimate: N.A.

1.037 Survivor Annuities of Fallen Astronauts

Massachusetts adopts the federal exclusion for death benefits paid by the U.S. government to the survivors of astronauts who die in the line of duty. The Massachusetts exclusion is effective for payments made on or after January 1, 2005.

Origin: IRC § 101(i)

Estimate: N.A.

1.039 Discharge of Indebtedness for Health Care Professionals

Massachusetts adopts the federal exclusion for National Health Service Corps Loan Program repayments made to health care professionals. Loan repayments received under similar state programs eligible for funds under the Public Health Service Act are also excluded from income.

Origin: IRC § 108(f)(4)

Estimate: Negligible

1.040 Archer Medical Savings Accounts

For federal income tax purposes, the earnings in an Archer Medical Savings Account (MSA) accrue on a tax-free basis, and qualified distributions from an Archer MSA are excluded from gross income. Prior to the 2005 Code update, Massachusetts taxed earnings in an Archer MSA for individuals who became active participants on or after January 1, 2001 and also taxed distributions for such individuals to the extent such amounts were not previously taxed by Massachusetts. As a result of the Code update, Massachusetts adopts the federal exclusion for earnings in, and qualified distributions from, an Archer MSA for all federally qualified individuals.

Origin: IRC § 220

Estimate: Included in 1.420

1.041 Earnings of Pre-paid and Tuition Savings ("529" plans)

For both Massachusetts and federal tax purposes, an exclusion from income is allowed for the earnings of pre-paid tuition programs and tuition savings accounts. Massachusetts has available the U.Fund College Investing Plan, a direct-sold 529 college savings plan managed by Fidelity Investments using Fidelity mutual funds. The plans are opened for a student beneficiary, and contributions are accepted until all account balances in Massachusetts' 529 plans for the same beneficiary reach $375,000. Qualified distributions from Massachusetts are exempt from state taxation. Note that Massachusetts also has the "U.Plan Prepaid Tuition Program", offered by the Massachusetts Education Financing Authority (MEFA). The U.Plan is not a qualifying 529 plan but is nevertheless tax-free for federal and Massachusetts income tax purposes because participants are purchasing Massachusetts general obligation bonds (see Item 1.023). The bonds are redeemable to pay specified percentages of tuition and mandatory fees at 80 participating private and public Massachusetts colleges and universities.

Origin: IRC § 539 (f)

Estimate: $7.2

1.100 DEFERRALS OF GROSS INCOME

1.101 Net Exemption of Employer Contributions and Earnings of Private Pension Plans[2]

Employer contributions to private, qualified employee pension plans are deductible by the employer up to certain amounts and are not included in the income of the employees. Income earned by the invested funds is not currently taxable to the employees. Benefits in excess of any employee contributions previously taxed by Massachusetts are taxable when paid out. The value of the tax deferral on contributions and on the investment income is a tax expenditure.

Origin: IRC §§ 401-415 in effect January 1, 1985 and M.G.L. c. 62 §§ 2(a)(2)(F)

Estimate: $1216

1.102 Treatment of Incentive Stock Options

Massachusetts has adopted the federal rules for employee stock options. Generally, employers may offer employees options to purchase company stock at a later date at a price equal to the fair market value of the stock when the option was granted. At the time employees exercise the option, they do not include in income the difference between the fair market value and the price they pay. If they later sell the stock, they are taxed on the amount by which the price they receive for the stock exceeds the price they paid. Thus, income is deferred and is taxed as a capital gain instead of as compensation.

Origin: IRC §§ 421-425

Estimate: N.A.

1.103 Exemption of Earnings on Stock Bonus Plans or Profit Sharing Trusts

Investment income earned by stock bonus plans or profit sharing trusts is not taxed currently for employees.

Origin: M.G.L. c. 62, § 5(b)

Estimate: N.A.

1.104 Exemption of Earnings on IRA and Keogh Plans[2]

This includes exclusions from income for some retirement contributions; these exclusions and the earnings from them are taxed upon distribution. The deferral of tax on the investment income is a tax expenditure.

Origin: M.G.L. c. 62, §§ 2(a)(2)(F)

Estimate: $249.4

1.106 Non-taxation of Capital Gains at the Time of Gift

Ordinarily, capital gains are taxed at the time appreciated property is transferred. However, no tax is imposed on a capital gain when appreciated property is transferred by gift. The taxation of appreciation is deferred until the recipient transfers the property.

Comment: See also item 1.022 above.

See also item 1.022 above.

Origin: IRC §§ 1001, 1015

Estimate: $100.9

1.200 DEDUCTIONS FROM GROSS INCOME

1.201 Capital Gains Deduction

Long-term capital gains realized from the sale of collectibles (as defined by sec. 408 (m) of the IRC) are eligible for a 50% deduction from the 12% capital gains tax.

Origin: M.G.L. c. 62, § 2(c)(3)

Estimate: N.A.

1.202 Deduction of Capital Losses Against Interest and Dividend Income

Taxpayers may deduct up to $2,000 of net capital loss against interest and dividend income. This limit was reestablished in 2002.

Origin: M.G.L. c. 62, § 2(c)(2)

Estimate: N.A.

1.203 Excess Natural Resource Depletion Allowance

Individuals or investors in extractive industries (mining or drilling natural resources) may deduct a percentage of gross mining income as a depletion allowance. The allowance may exceed the actual cost of the resource property. For a more detailed description of this tax expenditure, see corporate excise item 2.204.

Origin: IRC §§ 613 and 613A as in effect January 1, 1985

Estimate: $0.3

1.204 Abandoned Building Renovation Deduction

Businesses renovating eligible buildings in Economic Opportunity Areas may deduct 10% of the cost of renovation from gross income. This deduction may be in addition to any other deduction for which the cost of renovation may qualify. To be eligible for this deduction, renovation costs must relate to buildings designated as abandoned by the Economic Assistance Coordinating Council.

Origin: M.G.L. c. 62, § 3(B)(a)(10)

Estimate: $0.1

1.300 ACCELERATED DEDUCTIONS FROM GROSS INCOME

1.301 Modified Accelerated Depreciation on Rental Housing

Landlords and investors in rental housing may use accelerated methods of depreciation for new and used rental housing. Rental housing placed in service after 1988 is depreciated on a straight-line basis over a 27.5-year period. Rental housing placed in service before 1988 was depreciable over shorter periods (generally 19 or 20 years), and, instead of straight-line depreciation, the 175% declining balance method was permitted. Straight-line depreciation over the property's expected useful life is the generally accepted method for recovering the cost of building structures. The excess of allowable depreciation over such generally accepted depreciation is a tax expenditure, resulting in a deferral of tax or an interest-free loan.

Origin: IRC § 168(b)

Estimate: $20.9

1.303 Modified Accelerated Depreciation on Buildings (other than Rental Housing)

Individuals or investors in a trade or business may use accelerated methods of depreciation for buildings. Construction may be depreciated under methods that produce faster depreciation than economic depreciation. The precise rates have been changed repeatedly in recent years as the result of revisions in the federal tax code. Structures (other than rental housing) placed in service after 1987 are depreciated on a straight-line basis over a 31.5-year life. The excess of accelerated depreciation over economic depreciation is a tax expenditure, resulting in a deferral of tax or an interest-free loan.

Origin: IRC §§ 167(j) and 168(b)

Estimate: $7.2

1.304 Modified Accelerated Cost Recovery System (MACRS) for Equipment

For depreciable tangible personal property placed in service after 1980, capital costs may be recovered using the Accelerated Cost Recovery System (ACRS), which applies accelerated methods of depreciation over set recovery periods. For property placed in service after 1987, Massachusetts has adopted the Modified Accelerated Cost Recovery System (MACRS), which generally uses double declining balance depreciation over specified periods that are substantially shorter than actual useful lives (200% declining balance for 3-, 5-, 7- and 10-year recovery property and 150% declining balance for 15- and 20-year property). The excess of accelerated depreciation over economic depreciation is a tax expenditure, resulting in a deferral of tax or an interest-free loan.

Origin: IRC § 168

Estimate: $65.0

1.305 Deduction for Excess First-Year Depreciation

Taxpayers may elect to expense certain business assets purchased during the taxable year. American Taxpayer Relief Act of 2012 (enacted January 1, 2013) increased the benefits, making changes to IRC sec. 179. For tax year 2012, Massachusetts adopts the increased federal amounts provided by IRC sec. 179. Hence, the total deduction cannot exceed $500,000; for taxpayers whose investment in eligible assets exceeds $2,000,000 in the year, the $500,000 ceiling is reduced by $1 for each dollar of investment above $2,000,000. Any remaining cost may be depreciated according to MACRS as described in item 2.305. The immediate deduction constitutes a tax expenditure, resulting in a deferral of tax or an interest-free loan.

Origin: IRC § 179

Estimate: $12.8

1.306 Election to Deduct and Amortize Business Start-up Costs

Individuals or investors in a trade or business may elect to treat business start-up expenditures as deferred expenses and amortize them over a period of not less than 180 months, starting with the month in which the business begins. For a more detailed description of this tax expenditure, see corporate excise item 2.304.

Origin: IRC § 195

Estimate: $0.5

1.308 Expensing Exploration and Development Costs

Individuals or investors in extractive industries (mining or drilling natural resources) may take an immediate deduction for certain exploration and development costs. For a more detailed description of this tax expenditure, see corporate excise item 2.309; the provisions for individual taxpayers are somewhat more liberal than those that apply to corporations.

Origin: IRC §§ 263(c), 616 and 617 in effect January 1, 1985

Estimate: Negligible

1.309 Expensing Research and Experimental Expenditures in One Year

Individuals or investors in a trade or business may take an immediate deduction for research and Experimental expenditures. For a more detailed description of this tax expenditure, see corporate excise item 2.308.

Origin: IRC § 174

Estimate: $1.4

1.310 Five-Year Amortization of Pollution Control Facilities

Individuals or investors in a trade or business may elect to amortize the cost of a certified pollution control facility over a five-year period. For a more detailed description of this tax expenditure, see corporate excise item 2.311.

Origin: IRC § 169

Estimate: N.A.

1.311 Seven-Year Amortization for Reforestation

Individuals or investors in the forestry business may amortize the costs of reforestation over a seven-year period. For a more detailed description of this tax expenditure, see corporate excise item 2.313.

Origin: IRC § 194

Estimate: N.A.

1.312 Expensing Certain Capital Outlays of Farmers

Farmers may use certain favorable accounting rules. For instance, they may use the cash basis method of accounting and may deduct up to 50% of non-paid farming expenses as current expenses even though these expenditures are for inventories on hand at the end of the year. They also may deduct certain capital outlays, such as expenses for fertilizers and soil and water conservation if they are consistent with a federal- or state-approved plan. Generally, these special rules are not available to farming corporations and syndicates.

Origin: IRC §§ 175, 180 and 182 and Reg. §§ 1.61-4, 1.162-12 and 1.471-6

Estimate: $0.4

1.400 DEDUCTIONS FROM ADJUSTED GROSS INCOME

1.401 Deduction for Employee Social Security and Railroad Retirement Payments

Taxes paid by employees to fund the Social Security and Railroad Retirement systems are deductible against "earned" income up to a maximum of $2,000 per individual.

Comment: The estimate also covers item 1.402 below.

The estimate also covers item 1.402 below.

Origin: M.G.L. c. 62, § 3B(a)(3)

Estimate: $323.7

1.402 Deduction for Employee Contributions to Public Pension Plans[2]

Employee contributions to federal and state contributory pension plans are deductible against "earned" income up to a maximum of $2,000 per individual.

Origin: M.G.L. c. 62, § 3B(a)(4)

Estimate: Included in 1.401

1.403 Additional Exemption for the Elderly

A taxpayer age 65 or over is entitled to an additional exemption against "earned" income of $700 ($1,400 for a married couple filing jointly if both spouses are age 65 or over).

Origin: M.G.L. c. 62, §§ 3B(b)(1)(C) and (2)(C)

Estimate: $31.0

1.404 Additional Exemption for the Blind

A blind taxpayer is allowed an additional exemption against "earned" income of $2,200 ($4,400 for a married couple filing jointly if both spouses are blind).

Origin: M.G.L. c. 62, §§ 3B(b)(1)(B) and (2)(B)

Estimate: $1.1

1.405 Dependents Exemption Where the Child Earns Income[3]

Taxpayers are allowed an additional exemption of $1,000 for a dependent child even when the child earns income against which a personal exemption can be taken.

Comment: The estimate cannot be separated from the figure for the dependents exemption in endnote 3.

The estimate cannot be separated from the figure for the dependents exemption in endnote 3.

Origin: IRC § 151(c) in effect January 1, 1988 and M.G.L. c. 62 § 3B(b)(3)

Estimate: N.A.

1.406 Deduction for Dependents Under 12

Individual taxpayers and married taxpayers filing jointly with one or more dependents under age 12, who do not claim the deduction for child care described in item 1.409 below, may claim this deduction. Filers with one dependent under 12 may deduct $3,600, while filers with two or more dependents under 12 may deduct $7,200.

Origin: M.G.L. c. 62, § 3B(a)(8)

Estimate: $127.5

1.407 Personal Exemption for Students Age 19 or Over

A taxpayer may claim a dependent exemption of $1,000 for a child who is a full-time student even if he or she is 19 or over.

Origin: IRC § 151(c) in effect January 1, 1988 and M.G.L. c. 62 § 3B(b)(3)

Estimate: $8.5

1.408 Deduction for Adoption Fees

Adoption fees paid to a registered adoption agency are deductible against Part B income.

Origin: M.G.L. c. 62, § 3B(b)(5)

Estimate: $0.4

1.409 Deduction for Business-Related Child Care Expenses

Taxpayers qualifying for the credit for employment-related childcare expenses in the Internal Revenue Code are allowed a deduction against "earned" income for the amount of the expenses that qualify for the credit. Beginning in tax year 2001, the cap on this deduction was increased, and the coverage expanded to include elderly and disabled dependents. The cap increased from $2,400 to $3,600 for filers with one dependent, and from $2,400 to $4,800 for filers with two or more dependents. Beginning in tax year 2002, the cap was further increased to $4,800 for qualifying filers with one dependent and to $9,600 for filers with two or more dependents.

Comment: For federal tax purposes, the requirement that employment-related child care expenses relate only to children under age 15 was further restricted to children under age 13. In addition, a federal change now requires a taxpayer to include employer-provided dependent care expenses when calculating the limitation amount of qualifying expenses.

For federal tax purposes, the requirement that employment-related child care expenses relate only to children under age 15 was further restricted to children under age 13. In addition, a federal change now requires a taxpayer to include employer-provided dependent care expenses when calculating the limitation amount of qualifying expenses.

Origin: IRC § 21, and M.G.L. c. 62, § 3B(a)(7)

Estimate: $19.0

1.410 Exemption of Medical Expenses

Medical and dental expenses in excess of 7.5% of federal adjusted gross income are deductible against "earned" income for taxpayers who itemize deductions on their federal returns.

Origin: IRC § 213 and M.G.L. c. 62, § 3B(b)(4)

Estimate: $131.0

1.411 Rent Deduction

Renters are able to deduct against Part B income one-half of the rent paid for a principal residence located in Massachusetts up to a maximum deduction of $3,000 per year. This maximum was last raised in tax year 2001.

Origin: M.G.L. c. 62, § 3B(a)(9)

Estimate: $132.6

1.412 Nontaxation of Charitable Purpose Income of Trustees, Executors or Administrators

The adjusted gross income of trustees, executors or administrators, which is currently payable to or irrevocably set aside for public charitable purposes is tax-exempt.

Origin: M.G.L. c. 62, §§ 3A(a)(2) and B(a)(2)

Estimate: N.A.

1.413 Exemption of Interest on Savings in Massachusetts Banks

Up to $100 ($200 on a joint return) of interest from savings deposits or savings accounts in Massachusetts banks is excluded from "earned" income.

Origin: M.G.L. c. 62, § 3B(a)(6)

Estimate: $3.6

1.414 Tuition Deduction (Over 25% of Income)

A deduction is allowed for tuition payments paid, on behalf of a filer or their dependent, to a two-or four-year college leading to a degree or certificate. The deduction is equal to the amount by which the net tuition payments exceed 25% of the filer's Massachusetts AGI. See TIR 97-13 for more information.

Origin: M.G.L. c. 62, § 3B(a)(11),(12)

Estimate: $51.1

1.415 Charitable Contributions Tax Deduction

For tax year 2001, a deduction was allowed for charitable contributions in determining Part B taxable income. The deduction amount was equal to the taxpayer's charitable contributions for the year, as defined under the Federal Internal Revenue Code and without regard to whether the taxpayer elected to itemize deductions on his or her federal income tax return. Chapter 186 of the Acts of 2002 suspended this deduction, so no tax expenditure is recorded for the current fiscal year.

Origin: M.G.L. c. 62, §3B (a)(13)

Estimate: Not Active

1.418 Deduction for Costs Involved in Unlawful Discrimination Suits

Massachusetts adopts the federal deduction for attorney fees and court costs paid to recover a judgment or settlement for a claim of unlawful discrimination, up to the amount included in gross income for the tax year from such claim.

Origin: IRC §§ 62(a)(19) and 62(e)

Estimate: N.A.

1.419 Business Expenses of National Guard and Reserve Members

Massachusetts adopts the deduction for unreimbursed overnight travel, meals and lodging expenses of National Guard and Reserve Members who must travel more than 100 miles from home to perform services as a National Guard or reserve member.

Origin: IRC §§ 62(a)(2)(E) and 162(p)

Estimate: Negligible

1.420 Archer Medical Savings Accounts

Under the January 1, 1998 Code, Massachusetts allowed a deduction for an Archer Medical Savings Account (MSA) contribution only for individuals who were active MSA participants before January 1, 2001. As a result of recently enacted legislation that aligned the Massachusetts tax code with the Internal Revenue Code as of January 1, 2005, Massachusetts adopts the federal deduction for Archer MSA contributions made on or after January 1, 2005 for all federally qualified individuals.

Origin: IRC § 220

Estimate: Negligible

1.421 Deduction for Clean-Fuel Vehicles and Certain Refueling Property

A federal and Massachusetts deduction is allowed for a portion of the cost of qualifying motor vehicles that use clean-burning fuel. Under the January 1, 1998 Code, this deduction was due to expire for vehicles placed in service after December 31, 2004. As a result of recently enacted legislation that aligned the Massachusetts tax code with the Internal Revenue Code as of January 1, 2005, Massachusetts adopted the new federal provision allowing the deduction for vehicles placed in service on or before December 31, 2006.

Origin: IRC §§ 62(a)(14) and 179A

Estimate: Negligible

1.422 Health Savings Accounts

Massachusetts adopted the federal deduction allowed to individuals for contributions to a Health Savings Account, subject to federal limitations, which are adjusted annually for inflation. For calendar year 2016, the maximum deduction limit is $3,350 for an individual plan and $6,750 for a family plan. Filers age 55 or older may increase the maximum deduction by $1,000.

Origin: IRC §§ 62(a)(19) and 223

Estimate: $8.9

1.423 Commuter Deduction

(Note: item 1.423 was formerly the temporary Tuition and Fees Deduction)

For tax years beginning on or after January 1, 2006, individuals may deduct certain commuting costs paid in excess of $150 for:

- Tolls paid through the Massachusetts FastLane account; and
- The cost of weekly or monthly passes for MBTA transit, bus, commuter rail, or commuter boat.

The total amount deducted may not exceed $750 per individual. Amounts paid must be reduced by any amounts reimbursed or otherwise deductible.

Origin: M.G.L. Chapter 62, § 3 (B) (a) (15)

Estimate: $9.0

1.424 Self-Employed Health Insurance Deduction

Massachusetts adopts the federal deduction allowed to self-employed individuals for premiums on health insurance. Insurance may be for the individual, spouse, or family member. The insurance must be established under the self-employed individual's business.

Origin: IRC § 162(l)

Estimate: $50.0

1.425 Student Loan Interest Deduction (allowed Federally or by Massachusetts)

Massachusetts allows as an option the federal "interest on education loans" deduction. The federal deduction phases out based on modified AGI. As a result of the 2005 Code update, Massachusetts adopted the federal provision that temporarily repealed the 60 month limitation raised taxpayer income limitations through the end of 2010. Note that while these may be extended at the federal level, these increases sunset in Massachusetts at the end of 2010.

Alternatively, Massachusetts allows a deduction of undergraduate student loan interest. Filers may only choose one of these deductions.

Origin: M.G.L. c. 62, § 2(d)(1) and I.R.C. §§ 62(a)(17), 221.

Estimate: $42.7

1.426 Expenses of Human Organ Transplant

Massachusetts allows the expenses incurred in the donation of a human organ to be deducted from taxable income.

Origin: M.G.L. c. 62, § 3 (a) (16)

Estimate: $0.1

1.500 PREFERENTIAL RATE OF TAXATION

1.501 Small Business Stock, Capital Gains Tax Rate

Gains derived from the sale of investments which meet certain requirements are taxed at a rate of 3% instead of regular Part B rate. In order to qualify for the 3% rate, investments must have been made within five years of the corporation's date of incorporation and must be in stock that generally satisfies the definition of "qualified small business stock" under I.R.C. § 1202 (c), other than the requirement that the stock be stock of a C corporation. In addition, the stock must be held for three years or more and the investments must be in a corporation which (a) is domiciled in Massachusetts, (b) is incorporated on or after January 1, 2011, (c) has less than $50 million in assets at the time of investment, and (d) complies with certain of the "active business" requirements of I.R.C. § 1202 of the Internal Revenue.

Origin: An Act Relative to Economic Development Reorganization (St. 2010, c. 240), Section 111

Estimate: $4.0

1.600 CREDITS AGAINST TAX

1.601 Renewable Energy Source Credit

Owners and tenants of residential property located within Massachusetts who are not dependents and who occupy the property as a principal residence are allowed a credit up to $1,000, or an amount equal to 15% of the cost of a renewable energy source. Unused credits may be carried forward for three years. Credit is neither transferable nor refundable.

Origin: M.G.L. c. 62, § 6(d)

Estimate: $1.8

1.602 Credit for Removal of Lead Paint

A tax credit is provided in the amount of the cost of removing or covering lead paint on each residential unit up to $1,500. A seven-year carryover of any unused credit is permitted. Credit is neither transferable nor refundable.

Origin: M.G.L. c. 62, § 6(e)

Estimate: $2.5

1.603 EDIP/Economic Development Incentive Program Credit

Under the provisions of the Economic Development Incentive Program (EDIP) established pursuant to M.G.L. Ch. 23A, the Economic Assistance Coordination Council (EACC) may authorize taxpayers participating in certified projects to claim tax credits. Businesses investing in qualified property in an Economic Opportunity Area are entitled to a tax credit against the cost of the property. The EDIP credit provisions have been expanded to include "certified job creation projects". To qualify for the credit, the property must be used exclusively in a certified project in an Economic Opportunity Area. To be certified, the Economic Assistance Coordinating Council must approve a project, subject to a cap; see item # 2.605 for more details. Credit is not transferable, but is refundable for specified project types.

Origin: M.G.L. c. 62, § 6(g)

Estimate: $3.9

1.605 Earned Income Credit

Effective January 1, 1997, taxpayers were allowed a refundable credit against Massachusetts tax equal to 10% of the amount of the earned income credit claimed on their federal individual income tax returns. Effective January 1, 2001, the allowed percentage was increased to 15%. The credit was raised as of January 1, 2016 to 23% of the federally allowed amount.
Note that, since the state credit amount is based on the federal, any changes, temporary or permanent, to the calculation of the federal credit will be automatically reflected in credit claims made against state tax. Note that while credit is refundable, it is not transferable.

Origin: M.G.L. c. 62, § 6(h)

Estimate: $217.7

1.606 Septic System Repair Credit

Taxpayers required to repair or replace a failed cesspool or septic system pursuant to the provisions of Title V, as promulgated by the Department of Environmental Protection in 1995, are allowed a credit equal to 40% of the design and construction costs incurred (less any subsidy or grant from the Commonwealth), up to a maximum of $1,500 per tax year and $6,000 in total. Unused credits may be carried forward for up to three years. Credit is neither transferable nor refundable.

Origin: M.G.L. c. 62, § 6(i)

Estimate: $9.2

1.607 Low Income Housing Credit

The Low-Income Housing Credit is administered by the Massachusetts Department of Housing and Community Development (DHCD) for the purpose of promoting the construction or development of low income housing. The LIHC is not subject to the 50% limitation rule for corporate taxpayers. If the taxpayer disposes of the property generating the LIHC, a portion of the credit may be subject to recapture.

Under prior law, the Massachusetts low-income housing tax credits were available only to taxpayers who had been allocated federal low-income housing tax credits. Effective August 1, 2010, the Act allows the Department of Housing and Community Development to grant state low-income housing credits (within the annual cap) to otherwise eligible projects that do not receive a federal low-income housing credit. Note that the annual cap will temporarily increase from $50 million per year to $100 million per year through tax year 2019.

The credits may be carried forward for up to 5 years; they may be transferred or sold to another taxpayer, but are not refundable. See also Corporate item 2.609.

Origin: M.G.L. c. 62, § 6I a

Estimate: $1.0

1.608 Brownfields Credit

Taxpayers are allowed to take a credit for amounts expended to rehabilitate contaminated property owned or leased for business purposes and located within an economically distressed area. The eligibility period for the Brownfields Credit has been lengthened. Recent legislation extended the Brownfields credit to nonprofit organizations, extended the deadline for incurring eligible costs, and permitted the credit to be transferred, sold, or assigned. As a result of the recent legislation, the environmental response action commencement cut-off date has been extended to August 5, 2018, and the time for incurring eligible costs that qualify for the credit to January 1, 2019. See TIR 13-15 for more information.

The amount of the credit varies according to the extent of the environmental remedy. If the taxpayer's permanent solution or remedy operation status includes an activity and use limitation, then the amount of the credit is 25% of the net response and removal costs incurred by the taxpayer. However, if there is no activity and use limitation, then the amount of the credit is 50% of the net response and removal costs. Note that although recent legislation made these credits transferable to another taxpayer, they are not refundable. The credit may be carried forward for up to 5 years.

Origin: M.G.L. c. 62, §6 (j)

Estimate: $4.2

1.609 Refundable State Tax Credit Against Property Taxes for Seniors ("Circuit Breaker")

Seniors are eligible for a tax credit to the extent that their property taxes - or 25% of rent - exceed 10% of their income. Income limits and a cap on the maximum assessed value of the filer's primary residence apply. The maximum credit is also adjusted annually for inflation. The maximum base credit was $385 for tax year (TY) 2001, $790 for TY02, $810 for TY03, $820 for TY04, $840 for TY05, $870 for TY06, $900 for TY07, $930 for TY08, $960 for TY09, $970 for TY10, $980 for TY11, $1,000 for TY12 $1,030 for TY13, $1,050 for TY14, and $1,070 for TY15.

Income limits and the maximum credit are adjusted for inflation over a 1999 base year; the assessed home valuation base year is 2004. See "Appendix A" for current year values. The credits may not be sold or transferred to another taxpayer, but are refundable.

Origin: M.G.L. c. 62, § 6 (k)

Estimate: $80.6

1.610 Historic Buildings Rehabilitation Credit

To claim this credit, a historic rehabilitation project must be complete and have been certified by the Massachusetts Historical Commission, which determines the amount of qualifying expenditures. Filers may claim up to 20% of their qualified rehabilitation expenditures.

The expenditure for this item (combined with the Historic Rehabilitation Credit for corporate income tax filers, item 2.610) was originally capped at $15 million per year, with a start date for the credit of January 1, 2005 and an end date of December 31, 2009. Chapter 123 of the Acts of 2006 extended the availability of the credit for an additional 2 years, to December 31, 2011. Again, Chapter 131 of the Acts of 2010 extended the availability of the credit for an additional 6 years to December 31, 2017, with an annual cap of $50 million. Chapter 165 of the Acts of 2014, further extends this credit, including the $50 million annual limit, for an additional five years to December 31, 2022.

Origin: M.G.L. c. 62, § 6J

Estimate: $6.4

1.611 Film (or Motion Picture) Credit

See also Corporate item 2.614. Individual income tax filers engaged in the making of a motion picture are allowed two credits:

a) Payroll credit: This is a credit for the employment of persons within the Commonwealth in connection with the filming or production of 1 or more motion pictures in the Commonwealth within any consecutive 12 month period. The credit is equal to 25 percent of the total aggregate payroll paid by a motion picture production company that constitutes Massachusetts source income, when total production costs incurred in the Commonwealth equal or exceed $50,000 during the taxable year. The term "total aggregate payroll" may not include the salary of any employee whose salary is equal to or greater than $1,000,000. Salaries over $1,000,000 are eligible for the 25% non-payroll production credit (below).

b) Non-payroll production expense credit: Individual income tax filers are also allowed a credit equal to 25 percent of all motion picture related Massachusetts production expenses, not including the payroll expenses used to claim the aforementioned payroll credit. To be eligible for this credit, either Massachusetts motion picture production expenses must exceed 50 percent of the total production expenses for a motion picture or at least 50 percent of the total principal photography days of the film take place in the Commonwealth.

These tax credits are refundable at 90% of the approved credit amounts, or the amount of the tax credit that exceeds the tax due for a taxable year may be carried forward by the taxpayer to any of the 5 subsequent taxable years. Additionally, all or any portion of tax credits issued may be transferred, sold or assigned to other taxpayers with tax liabilities under chapter 62 (the individual income tax) or chapter 63 (the corporate or other business excise taxes). For applications submitted prior to January 1, 2007, film tax credits were capped at $7,000,000 for any one motion picture production has; for applications submitted on or after January 1, 2007, there is no cap. Also, the sunset date for the film incentives statute has been extended from January 1, 2013 to January 1, 2023. See TIR 07-15 for more information.

Origin: M.G.L. c. 62, § 6 (I);

Estimate: $2.1

1.613 Medical Device User Fee Credit

Medical device companies that develop or manufacture medical devices in Massachusetts can claim a credit equal to 100% of the user fees paid by them when submitting certain medical device applications and supplements to the United States Food and Drug Administration. The credit is also transferable. For the personal income tax, the credit applies to any qualifying entity organized as a sole proprietorship, partnership, limited liability company, corporate trust or other business where the income is taxed directly. Note that although these credits are transferable to another taxpayer, they are not refundable.

Origin: M.G.L. c. 62, § 6 1/2, Ch. 145 of the Acts of 2006.

Estimate: Negligible

1.614 Dairy Farmers Credit

A taxpayer who holds a certificate of registration as a dairy farmer pursuant to section 16A of chapter 94 may be allowed a refundable income tax credit based on the amount of milk produced and sold. The total cumulative value of the credits authorized pursuant to this section combined with section 38Z of chapter 63 shall not exceed $4,000,000 annually. See corporate item 2.618 for more details. These credits may not be sold or transferred to another taxpayer, but are refundable at 100% of face value.

Origin: M.G.L. c. 62, § 6 (o)

Estimate: $3.4

1.615 Conservation Land Credit

Filers who donate land for conservation in perpetuity for the use of all citizens of the Commonwealth can receive a credit of up to $50,000. Approval of the donation is required from the Secretary of the Office of Energy & Environment Affairs.

The credits may not be sold or transferred to another taxpayer, but are refundable. The total credits that may be approved are capped at $2.0 million annually.

Origin: M.G.L. c. 62, § 6 (p), Ch. 509 Acts of 2008 § 1-4.

Estimate: $2.0

1.616 Employer Wellness Program Tax Credit

The 2012 Health Care Act establishes an Employer Wellness Program Tax Credit that is effective for tax years beginning on or after January 1, 2013 and is set to expire on December 31, 2017. The Employer Wellness Program Tax Credit was created to provide incentives for business to recognize the benefits of wellness programs with the goal of providing smaller businesses with an expanded opportunity to implement these programs. The credit is available to both chapter 62 and chapter 63 taxpayers (personal income taxpayers and corporate & business excise taxpayers).
The Department of Public Health will administer the credit program by: 1) determining standards for an Employer Wellness Program that will qualify for the credit; 2) approving a dollar amount of credit for a qualifying taxpayer and issue a certificate to be filed with the appropriate tax return; 3) by developing regulations and procedures with the Department of Revenue to implement the credit program. A business will apply to the Department of Public Health describing the proposed wellness program to be implemented by the business and providing an estimated budget and applicable taxpayer identification number. The credit is set at 25 percent of the costs associated with implementing a "certified wellness program." The maximum amount of Employer Wellness Program Credits available to a taxpayer is $10,000 in any tax year. The total amount of Employer Wellness Program Credits authorized by the Department of Public Health is subject to a $15,000,000 annual cap starting calendar year 2013. The Employer Wellness Program Tax Credit is non-

refundable and non-transferrable. However, the portion of the Employer Wellness Program Tax Credit that exceeds the tax for the taxable year may be carried forward and applied against such taxpayer's tax liability in any of the succeeding 5 taxable years.

Origin: St. 2012, c. 224, §§ 41, 41A, 56, 56A, 238, 239, 297, and 298. M.G.L. c. 62, § 6N; M.G.L. c. 63, § 38FF.

Estimate: $7.5

1.617 Community Investment Tax Credit

The 2012 Jobs Act provides a Community Investment Tax Credit that is effective January 1, 2014 and is set to expire on December 31, 2019. It was created to enable local residents and stakeholders to work with and through community development corporations to partner with nonprofit, public and private entities to improve economic opportunities for low and moderate income households and other residents in urban, rural and suburban communities across the commonwealth. The credit is available to both chapter 62 and chapter 63 taxpayers (personal income taxpayers and corporate & business excise taxpayers).

The Department of Housing and Community Development will administer the credit program by: 1) issuing a certification to a taxpayer after the taxpayer makes a qualified investment; 2) authorizing a dollar amount of credit for a qualified investment; 3) developing regulations and procedures with the Department of Revenue to implement the Community Investment Credit.

The certification will be acceptable as proof that the expenditures related to such investment constitute qualified investments for purposes of the community investment credit. The Community Investment Credit is set at 50 percent of the total qualified investments made by a taxpayer in a "community partner," i.e., a "community development corporation" or a "community support organization," selected by the Department of Housing and Community Development through a competitive process. A qualified investment must be in the form of a cash contribution of at least $1,000. A taxpayer may invest in more than one community partner, but may not claim more than $1,000,000 of credits in any single taxable year. A taxpayer must claim the credit in the taxable year in which a qualified investment is made. The total amount of Community Investment Credits is subject to a $3,000,000 cap in 2014, and an annual cap of $6,000,000 in 2015 to 2019, inclusive. This credit is refundable, but it is not transferrable and it may be carried over up to five years.

Origin: St. 2012, c. 238, §§ 29, 30, 35, 36; M.G.L. c. 62, § 6M; M.G.L. c. 63, § 38EE

Estimate: $3.0

1.618 Farming and Fisheries Income Tax Credit

Personal income taxpayers who are primarily engaged in agriculture, farming or commercial fishing qualify for an investment credit, similar to that available to manufacturing, R&D corporations and corporations primarily engaged in agriculture or commercial fishing. The amount of the credit is 3% of the cost or other basis for federal income tax purposes of qualifying property acquired, constructed or erected during the tax year. Qualifying property is defined as tangible personal property and other tangible property including buildings and structural components thereof which are located in MA, used solely in farming, agriculture or fishing, and are depreciable with a useful life of at least 4 years. The same credit is allowed to lessees, calculated as follows: 3% of a lessor's adjusted basis in qualifying property for federal income tax purposes at the beginning of the lease term, multiplied by a fraction, the numerator of which is the number of days of the tax year during which the lessee leases the qualifying property and the denominator of which is the number of days in the useful life of the property. Where the lessee is eligible for the credit, the lessor is generally not eligible, with the exception of "equine-based businesses where care and boarding of horses is a function of the agricultural activity". There is also a recapture provision, i.e., if the property on which a credit is taken is disposed of or ceases to be in qualified use prior to the end of its useful life, the difference between the credit taken and allowed for actual use must be added back as additional taxes due in the year of disposition, unless the property has been in qualified use for more than 12 years. This credit is effective for tax years beginning on or after January 1, 2015.

Origin: Section 50 of St. 2014, c. 287, establishing M.G.L. c. 62, § 6 (s).

Estimate: $0.9

KEY	ORIGIN	
	IRC	Federal Internal Revenue Code (26 U.S.C.)
	U.S.C	United States Code
	M.G.L.	Massachusetts General Laws
	Rev. Rul.; C.B.	Revenue Ruling; Cumulative Bulletin of the U.S. Treasury
	ESTIMATES	All estimates are in $ millions.

[1] 1 This item and others citing this endnote cover employee fringe benefits. We accept as standard the following treatment of these benefits: the expense incurred by the employer in providing the benefit is properly deductible as a business expense and the benefit is taxed as compensation to the employee as if the employee had received taxable compensation and then used it to purchase the benefit. Of course, there are problems with this analysis. In some cases, the "benefit" is more a condition of employment than a true benefit. For example, a teacher required to have lunch in the school cafeteria may prefer to eat elsewhere even if the school lunch is free. On the other hand, in many cases the provision of tax-free employee benefits is clearly a substitution for taxable compensation.

[2] 2 This item and others citing this endnote cover contributory pension plans. The standard tax treatment of these plans is as follows:

Component	Standard Treatment
Contributions:	Made out of income that is currently taxed to employees.
Investment Income:	Taxed to the employee as "earned" income.
Distributions from Pension Funds:	Tax-free to the extent they are made out of dollars previously taxed to the employees as contributions or investment income.

The non-standard treatment of contributions, investment income, or distributions as described in items 1.006, 1.101, 1.104, and 1.402, results in either nontaxation or deferrals of tax.

[3] 3 FY17 estimates for the basic personal exemptions and the no-tax status discussed in the introduction to the personal income tax are (in millions of dollars):

Personal exemption for single taxpayers: $322
Personal exemption for married couples: $564
Personal exemption for married taxpayers filing separately: $15
Dependents exemption: $88

Personal exemption for heads of households: $104
Limited income credits: $12
No tax status: $15

Beginning in Fiscal Year 2013, the corporate section of the Tax Expenditure Budget includes other business excises along with the corporate excise. These additional business excise taxes are the financial institution excise, the public utility excise (which was repealed effective January 1, 2014), the excises on insurance companies, and the excise on security corporations. The financial institution excise and the public utility excise are structured similarly to the corporate excise. They begin with federal net income with certain Massachusetts modifications, proceed to additional Massachusetts deductions, apply the appropriate apportionment percentage, apply the appropriate tax rate to compute the excise due before credits and apply credits to reach the final excise due. The revenue estimates for the items in the list will now reflect their use by financial institutions and public utilities. Note that most of the expenditure items are unavailable to insurance companies as these companies are not taxed on net income. However, insurance companies can apply certain credits to reduce their excises. Credits available to insurance companies are so indicated within the item descriptions and the revenue estimates for these credits will reflect their use.

In Fiscal Year 2015, revenues from the corporate excise and the other business excises mentioned above represented 10.3% of total Department of Revenue tax collections. Together these taxes ranked third in Fiscal Year 2015 in terms of total taxes collected, after the individual income tax and the sales and use tax.

Corporate Excise: Short History and Basic Structure

The corporate excise was enacted in 1919, replacing a corporate franchise tax, which was levied on the value of capital stock. Initially, the corporate excise was imposed on corporate excess and on net income.

In 1962, the corporate excess measure was repealed. The corporate excise tax is now levied on tangible property or net worth (depending on the mix of property held by the corporation) and on net income.

Tax Base:

Most business corporations are subject to tax under the corporate excise which has three components: an income measure, a non-income measure, and a minimum excise.

The income measure of the tax is based on net income for federal tax purposes with certain additions, such as interest earned on state obligations, and certain deductions, most of which are allowable under the provisions of the Internal Revenue Code. Many of the deductions are considered to be part of the basic structure. For example, in providing for depreciation deductions, the basic structure would allow the cost of property to be written-off evenly over its useful life (so-called “straight-line depreciation”). However, rules that allow accelerated depreciation deductions are listed as tax expenditures.

Under the non-income measure, corporations with qualifying tangible assets in Massachusetts that equal or exceed 10% of their qualifying total assets in Massachusetts (apportioned according to their income apportionment percentages) are taxed on the values of their tangible properties. Other corporations are taxed on a net worth basis.

The minimum excise is $456.

Taxable Unit: A corporation is a taxpayer separate and distinct from its shareholders.

Rate Structure: Rate Structure: Since January 2010, the rates have been scheduled to decline (see Appendix A for further details). However, the minimum excise remains unchanged at $456. The current (TY2016) excise rate on C-corporations is 8.00% of net income apportioned to Massachusetts, and

$2.60 per $1,000 of the value of Massachusetts tangible property (as determined to be taxable under § 30(7)) or net worth allocable to Massachusetts (as determined to be taxable under § 30(8) - (9)). The tax rate on S-corporations is 2.90% for companies with total receipts greater than $9 million, and 1.93% for companies with total receipts between $6 million and $9 million. The tax rate on tangible property or net worth is the same as for C-corporations. No further change in tax rate is officially scheduled. However, it is anticipated and assumed that Part B personal income tax rate will further decrease to 5.05%, and tax rates for S-corporations, which are linked to Part B personal income tax rate, will increase accordingly (from 2.90% to 2.95% for companies with total receipts greater than $9 million, and from 1.93% to 1.97% for companies with total receipts between $6 million and $9 million.) effective January 1, 2017.

Estimation of corporate tax expenditure items takes into account these tax rate changes.

Taxable Period and Net Operating Loss Carry-forward: The taxable periods for corporations are diverse and can be chosen by each tax filer. Estimated payments are made every three months during the taxable period. Net operating loss (NOL) carry-forwards are allowed for future deductions. Before January 2010, qualifying losses could be carried forward up to five years. However, there was a statutory expansion of the general NOL carry-forward period from 5 to 20 years for business corporations. Refer to Appendix A in the FY2016 tax expenditure budget report for details.

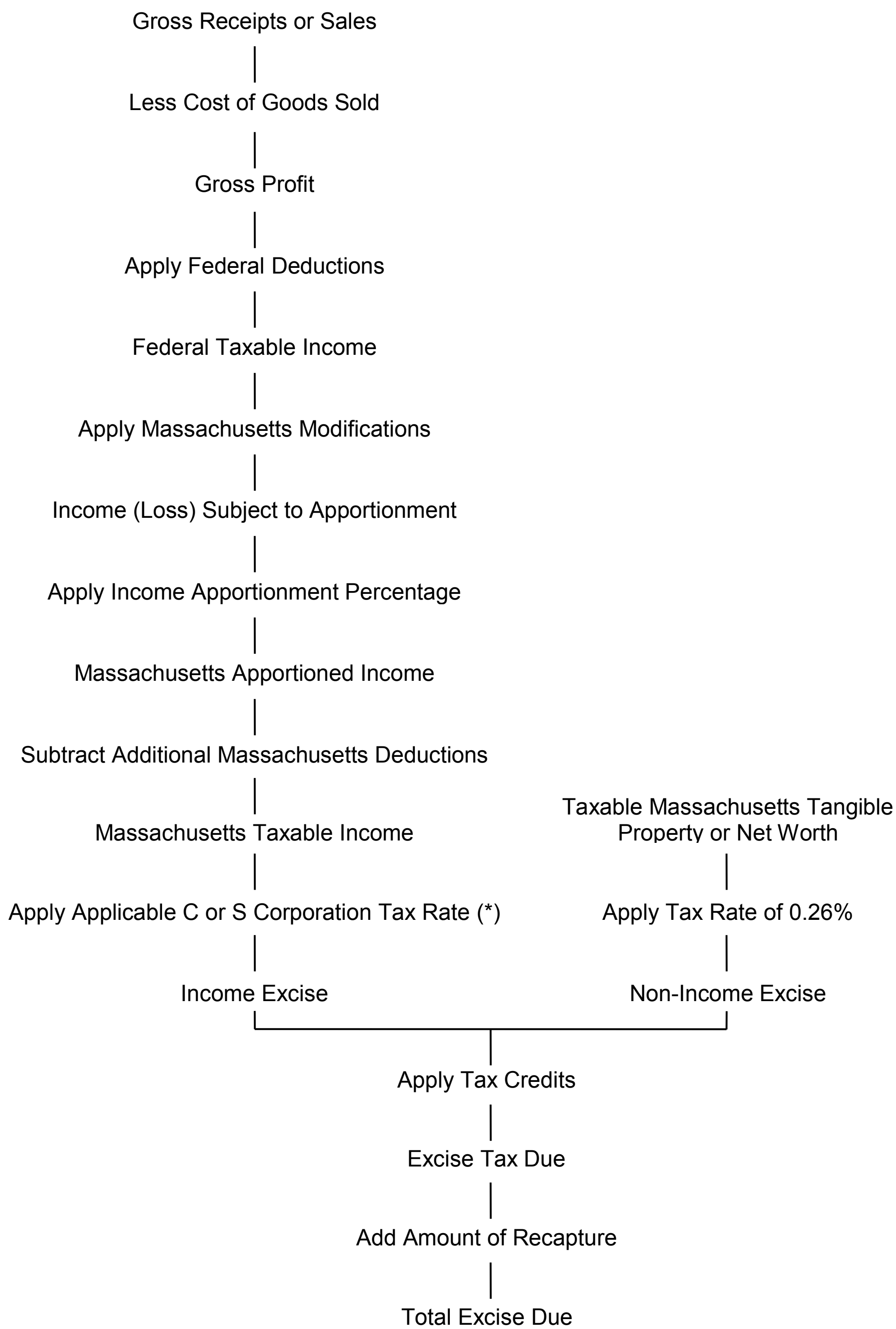
Interstate and International Aspects: All domestic and foreign corporations with nexus in Massachusetts are subject to the corporate excise. Corporations are required to apportion their net incomes if they have incomes from business activity that is taxable in another jurisdiction using a formula based on the proportions of corporate real and tangible property, payroll, and sales that are located in Massachusetts. Under certain circumstances, taxpayers may petition for, or the Commissioner may impose, alternative methods of accounting to reflect more fairly a taxpayer's income from business operations in Massachusetts.

Combined Reporting: Since January 1, 2009, Massachusetts has required certain businesses engaged in a unitary business to calculate their income on a combined basis. A corporation is subject to this requirement if it is subject to a tax on its income under Massachusetts General Laws (M.G.L). c. 63, §2, §2B, §32D, §39 or §52A and it is engaged in a unitary business with one or more other corporations under common control, whether or not the other corporations are taxable in Massachusetts. Those certain businesses can be general corporations, financial institutions, or public utilities. Note that combined reporting does not apply to the non-income measure of corporate excise.

The Other Business Excises

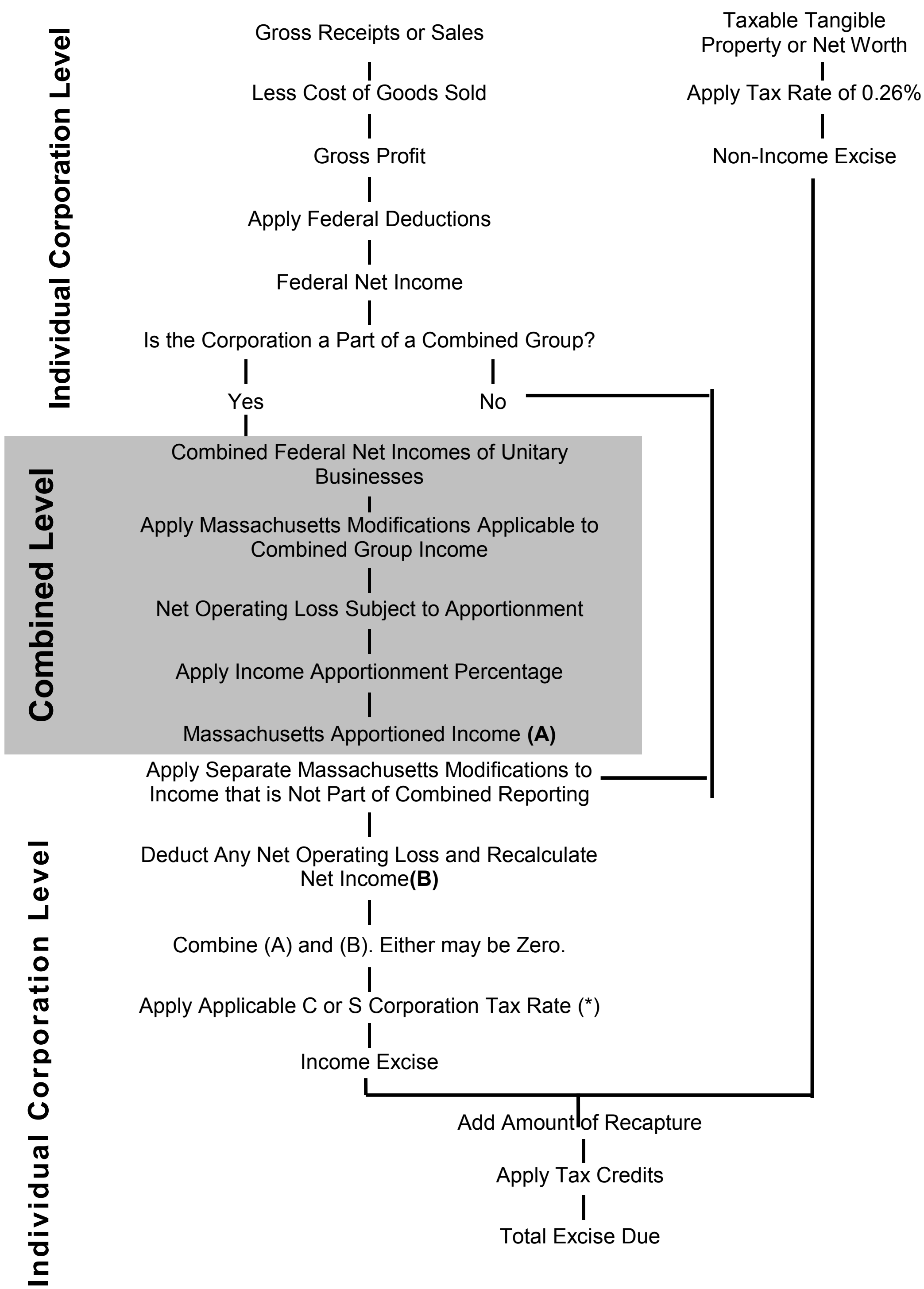
The other business excises possess some different features from the corporate excise. First, many of the financial institutions and public utilities still do not qualify for combined reporting, and no insurance companies are subject to combined reporting. Second, these businesses are not allowed to take net operating loss deductions. Third, financial institutions and public utility companies weigh the three apportionment factors (sales, payroll, property) equally. Fourth, the main tax base of insurance companies is the insurance premiums those companies have charged. Fifth, some credits such as the investment tax credit are not applicable to these businesses. There are some additional differences. For further details, refer to the applicable tax return forms. The basic structures of the excises for these businesses are described in the diagrams that follow. Please note that, prior to January 1, 2014, public utility corporations were subject to an excise tax of 6.5% on net income. Legislation enacted in 2013 repealed the separate excise tax for utility corporations, which are now subject to the corporate excise imposed on business corporations.

Computation of Massachusetts Corporate Excise under Non-Combined Reporting



* See Appendix A for Further Details.

Computation of Massachusetts Corporate Excise under Combined Reporting



(*) See Appendix A for further details. Except for non-income excise, this diagram applies to all combined filers.

Computation of the Financial Institution Excise (Non-Combined Reporting)

Financial Institution Excise

Federal Net Income

Apply Massachusetts Modifications

Total Net Income Before Massachusetts Deductions

Subtract Additional Massachusetts Deductions

Adjusted Net Income

Apply Apportionment Percentage

Massachusetts Taxable Income

Apply Applicable Financial Institution Tax Rate *

Apply Credits

Total Excise Due

* See Appendix A for Details.

Computation of Massachusetts Public Utilities Organization Excises
(Non-Combined Reporting)

Public Utility Company Excise

Federal Net Income

Apply Massachusetts Modifications

Total Net Income Before Massachusetts Deductions

Subtract Additional Massachusetts Deductions

Adjusted Net Income

Apply Income Apportionment Percentage

Massachusetts Taxable Income

Apply Tax Rate at 6.5%

Total Excise Due Before Applying Credits

Apply Credits

Total Excise Due

Computation of the Security Corporation Excise

Security Corporation Excise

Federal Gross Income

Add State and Municipal Bond Interest

Adjustments to Income

Apply Applicable Excise Rate (0.33% for Class 1 or 1.32% for Class 2)

Apply Credits

Total Excise Due

Summary of 2015 Tax Forms for Insurance Companies

Tax Form	Type of Company	Foreign or Domestic	Base of Tax	Tax Rate	Retaliatory Tax Provision
63-20P	Life Insurance	Domestic	Taxable life, accident and health insurance premiums, net value of policies	2% on life and acc./health ins. premiums	N/A
	Life Insurance	Foreign	Taxable life insurance premiums attributable to Massachusetts, accident and health insurance premiums	2% on all premiums	Yes
63-23P	Insurance Companies, except Life Insurance or Ocean Marine	Domestic	Taxable (non-life) insurance premiums and gross investment income	2.28% on premiums; then: 1%, 0.8%, 0.6%, 0.4%, 0.2% or 0.0% on investment income	N/A
	Insurance Companies, except Life Insurance or Ocean Marine	Foreign	Taxable premiums for insurance of property or interests attributable to Massachusetts	2.28%	Yes
	Preferred Providers (Accident and Health Insurers, Nonprofit Hospitals, HMO's, and other nonprofit medical, optometric or dental companies)	Domestic and Foreign	Gross premiums for coverage of persons who reside in Massachusetts	2.28%	N/A

Types of Tax Expenditures

As with the personal income tax, the basic structure of the corporate excise tax is subject to several different types of modifications that can produce tax expenditures.

Exclusions from Gross Income: Gross income is the starting point in the calculation of the income component of the corporate excise. In the absence of tax expenditures, it would include all income received from all sources. Items of income that are excluded from gross income escape taxation permanently.

Deferrals of Gross Income: Where an item of income is not included in gross income in the year when it is actually received, but is instead included in a later year, the result is a tax expenditure in the form of an interest-free loan from the state to the taxpayer in the amount of the tax payment that is postponed.

Deductions from Gross Income: Certain amounts are subtracted from gross income to arrive at taxable income. Many of these deducted amounts reflect the costs of producing income (business expenses) and are not included in the corporate income measure of excise; such deductions are not tax expenditures. Other deductions, which do not reflect business expenses, but permit income to escape taxation permanently, do constitute tax expenditures.

Accelerated Deductions from Gross Income: In a number of cases, corporations are allowed to deduct business expenses from gross income at a time earlier than such expenses would ordinarily be recognized under accepted accounting principles. The total amount of the permissible deduction is not increased but it can be utilized more quickly to reduce taxable income. The result is to defer taxes, thus in effect occasioning an interest-free loan from the state to the taxpayer.

Adjustments to Apportionment Formula: In the case of a business that earns income both inside and outside the Commonwealth, an apportionment formula is used to determine what portion of the total business income to allocate to Massachusetts for the calculation of corporate excise. When the standard formula is adjusted to reduce the apportionment ratios for certain businesses, tax expenditures result. The practical effect is to exclude certain portions of those business incomes from taxation.

Exclusions from Property Component: In addition to the excise based on income, corporations pay the excise tax based on the value of their property in the state. To the extent that certain classes of property are not included in the excise's property measure, tax expenditures result.

Credits against Tax: After a corporation has computed its basic tax liability, it may subtract certain credit amounts in determining the actual amount of taxes due. It is important to note that, whereas one-dollar exclusion or deduction results in tax savings of only a few cents (one dollar times the applicable tax rate), one-dollar credit generally results in one-dollar tax saving.

Entity Exempt from Taxation: In some cases, a business or other entity may be completely exempt from taxation. To the extent businesses or investment incomes go untaxed, tax expenditures result.

List of Corporate and Other Business Excise Expenditures

2.000 EXCLUSIONS FROM GROSS INCOME

2.001 Small Business Corporations

In general, corporations organized under, or subject to, Chapters 156, 156A, 156B, 156C, 156D or 180 of Massachusetts General Laws (M.G.L.) or that have privileges, powers, rights or immunities not possessed by individuals or partnerships are subject to corporate excise. Certain corporations with no more than 100 shareholders may elect to be taxed, for both federal and state tax purposes, as "S corporations."

There are two categories of income that are taxable to an S corporation at the entity level: 1) Income that is taxable to the S corporation at the entity level for federal purposes. Generally, S corporations are not subject to an entity-level tax for federal purposes, but some categories of income are taxable. Those amounts are taxable to S corporations in Massachusetts at the regular corporate / financial institution rates; 2) Other income to the corporation is subject to the reduced corporate rates that apply only to S corporations.

More details about the tax on the second category of income are following. The earnings of S corporations with total receipts of less than $6 million are not generally subject to taxation at the corporate level. As of 2016, S corporations with total receipts of $6 million or more are subject to a corporate excise: 1.93%(*) for non-financial institutions and 2.60%(*) for financial institutions if receipts are $6 million or more but less than $9 million, and 2.90%(*) for non-financial institutions and 3.90%(*) for financial institutions if receipts are $9 million or more. In addition, S corporation net earnings (and losses) are attributed directly to shareholders (whether or not they are distributed as dividends) and are taxed at the individual shareholder level, generally at the applicable personal income tax rate.

The difference between the manner in which income is taxed to an ordinary business corporation (including its shareholders) and an S corporation and its shareholders constitutes a tax expenditure. Massachusetts first adopted this treatment of corporations in 1986.

(*) See Appendix A for further details on corporate excise rate change.

Origin: IRC, §§ 1361-1363; M.G.L. c. 62, § 17A; M.G.L. c. 63, §§ 23, 32D

Estimate: $91.7

2.002 Exemption of Income from the Sale, Lease or Transfer of Certain Patents

Income from the sale, lease or transfer of U.S. patents approved by the Massachusetts Department of Energy Resources for energy conservation, and royalties and income from the sale, lease or other transfer of property subject to such patents are excluded from gross income for a period of 5 years.

Origin: M.G.L. c. 63, § 30.3

Estimate: $0.0

2.100 DEFERRALS OF GROSS INCOME

2.101 Deferral of Tax on Certain Shipping Companies

Certain companies with merchant marine capital construction funds receive up to a 25-year deferral of tax on that portion of their net income, which is set aside for construction, modernization, and major repair of ships.

Origin: IRC, § 7518

Estimate: $0.9

2.200 DEDUCTIONS FROM GROSS INCOME

2.201 Charitable Contributions and Gifts Deduction

In computing net income, corporations may deduct charitable donations up to 10% of taxable incomes computed without the deductions. There is a carryover of excess contributions available for 5 succeeding taxable years.

Origin: IRC, § 170 (b)(2)(A), (d)(2)(A)

Estimate: $23.0

2.203 Net Operating Loss (NOL) Carry-Forward

There has been a statutory expansion of the general NOL carry-forward period from 5 to 20 years for business corporations, for taxable years beginning on or after January 1, 2010. There has also been a change to the calculation of an NOL carry-forward for tax years beginning on or after January 1, 2010; all carry-forward losses of eligible business corporations are to be carried forward on a post-apportioned basis, after applying the apportionment percentages of the corporations for the taxable year in which the losses are sustained. For further discussion, see TIR 10-15.

Origin: IRC, § 172; M.G.L. c. 63, § 30.5

Estimate: $170.3

2.204 Excess Natural Resource Depletion Allowance

Taxpayers in extractive industries (mining or drilling for natural resources) may deduct a percentage of gross mining income as a depletion allowance ("percentage depletion") even if the cost basis of the property has been reduced to zero. The deduction may not exceed 50% (in some cases, 65%) of net income from the property. In the case of oil and gas, percentage depletion is available only to domestic oil and gas sold by "independent producers" (nonintegrated companies). The excess of the deduction, which is available using the percentage of gross income method of depletion over a depletion deduction based on cost, is a tax expenditure.

Origin: IRC, §§ 613, 613A; M.G.L. c. 63, § 30.3

Estimate: $1.8

2.205 Deduction for Certain Dividends of Cooperatives

Farmers' cooperatives and certain corporations acting as cooperatives may deduct patronage dividends and other amounts from gross incomes. Cooperatives meeting certain requirements may deduct dividends on capital stocks and certain payments to patrons such as investment incomes. Under generally accepted rules for taxing corporations, the corporations cannot deduct dividends paid to shareholders.

Origin: IRC, §§ 1381-1383

Estimate: N.A.

2.206 Economic Opportunity Areas; Tax Deduction for Renovation of Abandoned Buildings

Businesses renovating eligible buildings in Economic Opportunity Areas may deduct 10% of the costs of renovation from gross incomes. This deduction may be in addition to any other deduction for which the cost of renovation may qualify. To be eligible for this deduction, renovation costs must be related to buildings designated as abandoned by the Economic Assistance Coordinating Council.

Origin: M.G.L. c. 63, §38O

Estimate: Negligible

2.300 ACCELERATED DEDUCTIONS FROM GROSS INCOME

2.301 Modified Accelerated Cost Recovery System on Rental Housing

Landlords and investors in rental housing may use accelerated methods of depreciation for new and used rental housing. Straight-line depreciation over the property's expected useful life is the generally accepted method for recovering cost, which is close to economic depreciation. However, through the past decades, systems which adopt accelerated depreciation methods have been introduced. The current system is MACRS (Modified Accelerated Cost Recovery System) which was enacted in 1986. This system further accelerated the rate of recovery of depreciation than under ACRS (Accelerated Cost Recovery System) which was enacted in 1981. Differences between MACRS and ACRS are 1) deductions from the 150% declining balance method to 200-percent declining balance; 2) certain assets were reclassified and the number of asset classes (80) was increased; and 3) the recovery period for residential rental property was extended to 27.5 years and for nonresidential real property to 31.5 years. For details, refer to the document, Background and Present Law Relating to Cost Recovery and Domestic Production Activities, which was published by the Joint Committee on Taxation in their homepage on March 6th, 2012.

The excess of allowable depreciation over economic depreciation constitutes a tax expenditure, resulting in a deferral of tax or an interest-free loan.

Origin: IRC, § 168

Estimate: $4.4

2.303 Expenditures to Remove Architectural and Transportation Barriers to the Handicapped and Elderly

Taxpayers may elect to deduct up to $15,000 of the costs of removing architectural or transportation barriers to the handicapped in the year these costs are incurred. The immediate deduction of these expenditures, which would otherwise have to be capitalized and depreciated over a longer period, constitutes a tax expenditure, resulting in a deferral of tax or an interest-free loan.

Origin: IRC, § 190

Estimate: $0.4

2.304 Election to Deduct and Amortize Business Start-up Costs

Taxpayers who pay or incur business start-up costs and who subsequently enter the trade or business can elect to expense up to $5,000 of the costs. The $5,000 deduction amount is reduced dollar for dollar when the start-up expenses exceed $50,000. The balance of start-up expenses (if any) is amortized over a period of 180 months, starting with the month in which the business begins. The election must be made no later than the date (including extensions) for filing the return for the tax year in which the business begins or is acquired. A taxpayer is deemed to have made an election to deduct and amortize start-up expenses for the tax year in which the active trade or business to which the expenses relate begins. A taxpayer who does not make the election must capitalize the expenses.

Origin: IRC, § 195

Estimate: $0.4

2.305 Modified Accelerated Cost Recovery System for Equipment

For depreciable tangible personal property placed in service after 1980, capital costs may be recovered using the Accelerated Cost Recovery System (ACRS), which applies accelerated methods of depreciation over set recovery periods. For property placed in service after 1987, Massachusetts has adopted the Modified Accelerated Cost Recovery System (MACRS), which generally uses double declining balance depreciation over specified periods that are substantially shorter than actual useful lives (200% declining balance for 3-, 5-, 7- and 10-year recovery property and 150% declining balance for 15- and 20-year property). The excess of accelerated depreciation over economic depreciation constitutes a tax expenditure, resulting in a deferral of tax or an interest-free loan.

For the past decade, the federal government has allowed "bonus depreciation" which further accelerates depreciation for assets placed in service in certain years. However, Massachusetts is decoupled from it.

Origin: IRC, § 168

Estimate: $263.0

2.306 Deduction for Excess First-Year Depreciation

Taxpayers may elect to expense certain business assets purchased during the taxable year. American Taxpayer Relief Act of 2012 (enacted January 1, 2013) increased the benefits, making changes to IRC sec. 179. For tax year 2012, Massachusetts adopted the increased federal amounts provided by IRC sec. 179. The total deduction cannot exceed $500,000; for taxpayers whose investment in eligible assets exceeds $2,000,000 in the year, the $500,000 ceiling is reduced by $1 for each dollar of investment above $2,000,000. Any remaining cost may be depreciated according to MACRS as described in item 2.305. Federal legislation enacted in December of 2015 extended this benefit for calendar years 2015 through 2019. The annual deduction of $500,000 which is available for 2015 will be indexed to inflation in the future. The immediate deduction constitutes a tax expenditure, resulting in a deferral of tax or an interest-free loan.

Origin: IRC, § 179

Estimate: $9.2

2.307 Modified Accelerated Depreciation on Buildings (other than Rental Housing)

Construction may be depreciated under methods which produce faster depreciation than economic depreciation. The precise rules have been changed repeatedly in recent years by revisions of the federal tax code. For structures (other than housing) placed in service after 1986, federal law requires straight-line depreciation over a 31.5 year life. The excess of accelerated depreciation over economic depreciation is a tax expenditure. For a more detailed description of accelerated depreciation, see the description for item 2.301.

Origin: IRC, § 168

Estimate: $1.7

2.308 Expensing Research and Development Expenditures in One Year

Taxpayers may elect to treat research or experimental expenditures incurred in connection with a trade or business as immediately deductible expenses. Under generally accepted accounting principles, at least some of these costs would otherwise be treated as capital expenditures and depreciated or amortized over a period of years. Their immediate deduction constitutes a tax expenditure, resulting in a deferral of tax or an interest-free loan.

Origin: IRC, § 174

Estimate: $132.1

2.309 Expensing Exploration and Development Costs

Certain capital costs incurred in bringing a known mineral deposit into production are deductible in the year incurred. A portion of domestic mining exploration costs can also be expensed, although they will be recaptured if the mine reaches the production stage. Certain intangible drilling and development costs of domestic oil, gas, and geothermal wells are deductible when made, but to a certain extent may be recaptured upon disposition of oil, gas, or geothermal property to which they are properly chargeable. The immediate expensing of these costs, which would otherwise be capitalized and recovered through depreciation or through depletion as the natural resource is removed from the ground, results in a deferral of tax or an interest-free loan.

Origin: IRC, §§ 193, 263(c), 616, 617; M.G.L. c. 63, § 30.4.

Estimate: $1.2

2.311 Five-Year Amortization of Pollution Control Facilities

Taxpayers may elect to amortize the cost of a certified pollution control facility over a five-year period, allowing for accelerated recovery of these costs. Accelerated recovery is only available for pollution control facilities subsequently added to plants that were in operation before 1976. The excess of accelerated recovery over depreciation deductions otherwise allowable results in a deferral of tax or an interest-free loan.

Origin: IRC, § 169

Estimate: $1.5

2.312 Expensing of Alternative Energy Units

In determining net income, a corporation may elect to take an immediate deduction for expenditures made for certain solar or wind powered systems or units located in Massachusetts and used exclusively in the business, in lieu of all other deductions and credits including the deduction for depreciation. Without this provision, such expenditures would have to be capitalized and depreciated. The immediate deduction results in a deferral of tax or an interest-free loan.

Origin: M.G.L. c. 63, § 38H

Estimate: Not Active

2.313 Seven-Year Amortization for Reforestation

Taxpayers may elect to amortize reforestation costs for qualified timber property over a seven-year period. In the absence of this special provision, these costs would be capitalized and depreciated over a longer period or recovered when the timber is sold. The accelerated cost recovery results in a deferral of tax or an interest-free loan.

Origin: IRC, § 194

Estimate: $0.3

2.400 ADJUSTMENTS TO APPORTIONMENT FORMULA

2.401 Unequal Weighting of Sales, Payroll, and Property in the Apportionment Formula

Corporations with a presence in Massachusetts and other states allocate incomes to the Commonwealth using a three-factor apportionment formula. A corporation's sales, payroll, and property in Massachusetts are compared to those outside Massachusetts.

Exporters benefit from an apportionment formula that weights sales more heavily than the other factors. Effective January 1, 1996, eligible defense corporations are allowed to use a formula that weights sales 100%. For other qualified manufacturers, a 100% sales weight was phased-in over 5 years, and was fully effective January 1, 2000. Corporations other than mutual fund corporations (see below) will continue to use a formula that weights sales 50%. Financial institutions and public utility companies weigh all factors equally and do not result in a tax expenditure.

Effective January 1, 1997 mutual fund corporations are allowed to attribute mutual fund sales to Massachusetts based on the domicile of shareholders in the mutual funds. Effective July 1, 1997, mutual fund corporations are allowed to apportion their income to Massachusetts based solely on the percentage of sales to Massachusetts residents.

Comment: It is assumed that a standard apportionment formula gives equal weight to sales, property and payroll. The estimate measures the impact of departing from this standard formula.

It is assumed that a standard apportionment formula gives equal weight to sales, property and payroll. The estimate measures the impact of departing from this standard formula.

Origin: M.G.L. c. 63, § 38 (c), (k), (l), (m)

Estimate: $374.7

2.500 EXCLUSIONS FROM PROPERTY COMPONENT

2.501 Nontaxation of Certain Energy Property

Tangible property qualifying for the deduction for expenditures for alternative energy described in item 2.312 is not subject to taxation under the tangible property measure of the corporate excise.

Origin: M.G.L. c. 63, § 38H(f)

Estimate: Not Active

2.502 Exemption for Property Subject to Local Taxation

In computing the state corporate excise on tangible property, property subject to tax at the local level is exempt. Generally, the state taxes only the machinery of manufacturing corporations and exempts business real estate and tangible personal property.

For purposes of estimating revenue loss from this tax expenditure, the state's rate on property (non-income measure), $2.60 per $1,000, has been applied.

Origin: M.G.L. c. 63, § 30(7)

Estimate: $298.0

2.600 CREDITS AGAINST TAX

2.602 Investment Tax Credit

Manufacturing corporations and corporations engaged primarily in research and development, agriculture or commercial fishing are allowed to take a credit of 3% of the cost or other basis for federal income tax purposes of qualifying tangible property acquired, constructed, reconstructed, or erected during the taxable year, after deduction of any federally authorized tax credit taken with respect to such property. Such property must have a useful life of four years or more. The property must be used and located in Massachusetts on the last day of the taxable year. A corporation cannot take the credit on property which it leases to another. A corporation can take the credit on property which it leases from another (for property leased and placed in service on or after July 1, 1994). Generally, eligible corporate lessees making qualifying leasehold improvements may claim the credit. A corporation may carry over to the next succeeding 3 years any unused portion of its Investment Tax Credit (ITC). The credit is neither transferable nor refundable.

Origin: M.G.L. c. 63, § 31A (i), (j)

Estimate: $66.4

2.603 Vanpool Credit

Domestic and foreign corporations are allowed to take a credit of 30% of the cost incurred during the taxable year for the purchase or lease of company shuttle vans used in the Commonwealth as part of an employer-sponsored ridesharing program. The shuttle vans must be used for transporting employees. This credit is neither transferable nor refundable, and cannot be carried forward.

Origin: M.G.L. c. 63, § 31E

Estimate: Negligible

2.604 Research Credit

A credit is allowed for corporations which made basic research payments and/or incurred qualified research expenses conducted in Massachusetts during the taxable year. A corporation taking the research credit is limited in the amount that can be taken against the excise in any year. The credit cannot reduce the tax to less than $456. The amount of credit is equal to: 100% of the first $25,000 of excise; and 75% of any amount of excise remaining after the first $25,000. The deduction allowed to a corporation for any research expenses generating a Massachusetts Research Credit must be reduced by the amount of the credit generated. This amount is added back to income. Any corporation which is a member of a combined group may share excess research credits with other members of the combined group. Corporations which are members of a controlled group or which are under common control with any trade or business (whether or not incorporated) are treated as a single taxpayer for purposes of determining the allowable Research Credit. The credit may be carried forward for up to 15 years with certain restrictions, but is neither transferable nor refundable.

As a result of recent legislation, effective for tax years beginning on or after January 1, 2015, a business corporation may elect to calculate its research credit using one of two methods:

The first method revises the existing research credit by changing two definitions that affect the calculation of the credit, i.e., the definitions of "base amount" and "fixed base rate". The "base amount" is now defined as "the product of (i) the average annual gross receipts of the taxpayer for the 4 taxable years preceding the credit year"; and (ii) a 'fixed base ratio'." The "fixed-base ratio" is no longer tied to a corporation's aggregate Massachusetts qualified research expenditures for a fixed 5 year period during the 1980s. It is now defined as "the percentage which the average aggregate qualified research expenses for the taxpayer for the third and fourth taxable years preceding the credit year is of the annual average gross receipts for those years, provided, however, that the fixed base ratio shall not exceed 16 per cent". The amount of the credit is equal to the sum of 10% of the excess, if any, of the qualified research expenses for the taxable year over the base amount plus 15% of the basic research expenses determined under I.R.C. § 41(e)(1)(A).

The second method, which a taxpayer may elect to use in lieu of the method described above, provides for an alternative simplified research credit, which generally conforms to the methodology of the federal alternative simplified credit provided by I.R.C. § 41(c)(5), as amended and in effect for January 1, 2014.

See TIR 14-13 and TIR 14-16 for more information.

Origin: M.G.L. c. 63, § 38M

Estimate: $208.8

2.605 EDIP/Economic Development Incentive Program Credit

Under the provisions of the Economic Development Incentive Program (EDIP) established pursuant to M.G.L. Ch. 23A, the Economic Assistance Coordination Council (EACC) may authorize taxpayers participating in certified projects to claim tax credits for a percentage of the cost of the property under M.G.L. Ch. 62 § 6(g) and M.G.L. Ch. 63 § 38N. The credit is a key component of the Economic Development Incentive Program (EDIP) established pursuant to G.L. c. 23A. To be eligible, a project must be certified by the Economic Assistance Coordinating Council (EACC). The total dollar amount of the EDIPC that may be used in a calendar year is $30 million. Included in the $30 million annual cap are amounts (up to $10 million) awarded pursuant to the certified housing development program authorized by G.L. c. 40V. The total dollar amount that the EDIPC may use is scheduled to decrease to $25 million.

For projects certified prior to January 1, 2010: The project must be in an economic opportunity area and the credit is 5% of the cost of qualifying property. To qualify for the 5% credit, the property must be used exclusively in a certified project in an Economic Opportunity Area. The credit may be carried forward for up to 10 years with certain restrictions. The credit is neither transferable nor refundable.

For projects certified after January 1, 2010: Sections 21 to 24 and 47 of chapter 166 of the Acts of 2009 made significant changes to EDIP. Under the amended provisions of the EDIP, the EACC may authorize taxpayers participating in certified projects to claim tax credits up to 40% of the cost of qualifying property. The EDIPC for manufacturing retention projects, if authorized by the EACC, may be refundable at the option of the taxpayer. If the credit balance is refunded to the taxpayer, the carryover provisions shall not apply. This credit is not transferable.

For certified job creation projects after January 1, 2015: Effective for tax years beginning on or after January 1, 2015, the EDIP credit provisions have been expanded to include certified job creation projects. Individuals and entities pursuing certified job creation projects may be awarded a credit of up to $1,000 per job created (up to $5,000 in a Gateway Community as defined in section 3A of chapter 23A or within a city or town whose average seasonally adjusted unemployment rate, as reported by the executive office of labor and workforce development, is higher than the average seasonally adjusted unemployment rate of the commonwealth). The total award per project may not exceed $1,000,000. The credit for a certified job creation project is allowed for the year subsequent to that in which the jobs are created.

Origin: M.G.L. c. 63, § 38N

Estimate: $19.2

2.606 Credit for Employing Former Full-Employment Program Participants

Employers who continue to employ former participants of the §110(1) full employment program in non-subsidized positions are eligible to receive a tax credit equal to $100 per month for each month of non-subsidized employment, up to a maximum of $1,200 per employee, per year. For further discussion, see 830 CMR 118.1.

Origin: St. 1995, c. 5, § 110(m)

Estimate: Not Active

2.607 Harbor Maintenance Tax Credit

Domestic and foreign corporations are allowed to take a credit against the corporate excise for certain harbor maintenance taxes paid to the U.S. Customs Service pursuant to IRC sec. 4461. A corporation is eligible for the credit if the tax paid is attributable to the shipment of break-bulk or containerized cargo by sea and ocean-going vessels through a Massachusetts harbor facility. The credit is not subject to the 50% limitation; however, it may not reduce the tax liability to less than the minimum excise of $456. The credit may be carried forward for up to 5 years, but is neither refundable nor transferable.

Origin: M.G.L. c. 63, § 38P

Estimate: $1.2

2.608 Brownfields Credit

Taxpayers are allowed to take a credit for amounts expended to rehabilitate contaminated property owned or leased for business purposes and located within an economically distressed area.

Recent legislation extends the Brownfields credit to nonprofit organizations, extends the time frame for eligibility for the credit, and permits the credit to be transferred, sold, or assigned. Under prior law, net response and removal costs incurred by a taxpayer between August 1, 1998 and August 5, 2005, were eligible for the credit provided that the environmental response action before August 5, 2005. As a result of the recent legislation, the environmental response action commencement cut-off date is changed from August 5, 2005 to August 5, 2018, and the time for incurring eligible costs that qualify for the credit is extended to January 1, 2019. See TIR 13-15 for more information.

The credit may be carried forward for up to 5 years. The amount of the credit varies according to the extent of the environmental remedy. If the taxpayer's permanent solution or remedy operation status includes an activity and use limitation, then the amount of the credit is 25% of the net response and removal costs incurred by the taxpayer. However, if there is no activity and use limitation, then the amount of the credit is 50% of the net response and removal costs.

Origin: M.G.L. c. 63, § 38Q

Estimate: $36.6

2.609 Low Income Housing Credit

The Low-Income Housing Credit is administered through the Massachusetts Department of Housing and Community Development (DHCD). The Low Income Housing Credit is available to taxpayers for the construction or development of low income housing. The amount of credit that a taxpayer may claim for a qualified Massachusetts project is allocated by the DHCD and is based on a total pool of money awarded to the Commonwealth. The LIHC is not subject to the 50% limitation rule for corporate taxpayers. If the taxpayer disposes of the property generating the LIHC, a portion of the credit may be subject to recapture.

Under prior law, the Massachusetts low-income housing tax credits were available only to taxpayers who had been allocated federal low-income housing tax credits. Effective August 1, 2010, the Act allows the Department of Housing and Community Development to grant state low-income housing credits (within the annual cap) to otherwise eligible projects that do not receive a federal low-income housing credit. Note that the annual cap increases from $50 million per year to $100 million per year for tax years 2013 through 2019, but will return to $50 million per year starting January 1, 2020.

The credit may be carried forward for up to 5 years and may be transferred or sold to another taxpayer, but it is not refundable.

Origin: M.G.L. c. 63, § 31H

Estimate: $89.0

2.610 Historic Buildings Rehabilitation Credit

To claim this credit, a historic rehabilitation project must be complete and have been certified by the Massachusetts Historical Commission, which determines the amount of qualifying expenditures. Filers may claim up to 20% of their qualified rehabilitation expenditures.

Unused portions of the credit may be carried forward for up to 5 years and transferred or sold to another taxpayer, but are not refundable. The Historic Rehabilitation Credit (HRC) is not subject to the 50% limitation rule for corporate taxpayers. If the taxpayer disposes of the property generating the HRC, a portion of the credit may be subject to recapture.

The expenditure for this item (combined with the Historic Rehabilitation Credit for personal income tax filers, item 1.610) was originally capped at $15 million per year, with a start date for the credit of January 1, 2005 and an end date of December 31, 2009. Chapter 123 of the Acts of 2006 extended the availability of the credit for an additional 2 years, to December 31, 2011. Again, Chapter 131 of the Acts of 2010 extended the availability of the credit for an additional 6 years to December 31, 2017, with an annual cap of $50 million. Chapter 165 of the Acts of 2014, further extends this credit, including the $50 million annual limit, for an additional five years to December 31, 2022.For further discussion, see TIR 14-11.

Origin: M.G.L. c. 63, § 38R

Estimate: $46.6

2.614 Film (or Motion Picture) Credit

For taxable years beginning on or after January 1, 2006 and before January 1, 2023, Massachusetts allows two credits for motion picture production companies who meet certain qualification requirements. Production companies who incur at least $50,000 of production costs in Massachusetts are eligible for income and corporate excise tax credits equal to 25% of the total Massachusetts payroll for the production, excluding salaries of $1 million and higher. In addition, production companies whose Massachusetts production expenses exceed 50% of the total production cost receive an income and corporate excise tax credit of 25% of the total Massachusetts production expense. Supporting documentation is available to the
Department of Revenue upon request.

This tax credit is refundable at 90% of the approved credit amounts by the written election of the taxpayer or may be carried forward for up to 5 years. In addition, all or any portion of tax credits issued may be transferred, sold or assigned to other taxpayers with tax liabilities under chapter 62 (the individual income tax) or chapter 63 (the corporate or other business excise taxes). For applications submitted prior to January 1, 2007, film tax credits were capped at $7,000,000 for any one motion picture production; for applications submitted on or after January 1, 2007, there is no cap. Also, the sunset date for the film incentives statute has been extended from January 1, 2013 to January 1, 2023. See TIR 07-15 for more details.

Origin: M.G.L. c. 63, § 38X

Estimate: $77.9

2.615 Medical Device User Fee Credit

The Medical Device Credit is equal to 100% of the user fees actually paid to the United States Food and Drug Administration (USFDA) by a medical device company during the taxable year for which the tax is due for pre-market submissions (e.g., applications, supplements, or 510(k) submissions) to market new technologies or upgrades, changes, or enhancements to existing technologies, developed or manufactured in Massachusetts. The credit may be carried forward for up to 5 years. Also the credit may be transferred or sold to another taxpayer, but is not refundable.

Origin: M.G.L. c. 63, § 31L

Estimate: $1.1

2.617 Life Sciences Tax Incentive Program

On June 16, 2008, "An Act Providing for the Investment in and Expansion of the Life Sciences Industry in the Commonwealth" was passed. The Act established the Life Sciences Tax Incentive Program which initially included, among other things, the following credits: the life sciences research credit, the life sciences refundable research credit, the life sciences refundable investment tax credit, and the life sciences FDA user fees credit, effective from January 1, 2009 through December 31, 2018. Effective January 1, 2011, the life sciences refundable jobs credit was added to this program. Since the tax expenditures under this line item will be subject to approval and their composition will differ from year-to-year, it is not known what proportion will be in the form of corporate tax credits as opposed to income tax credits. However, because the Department of Revenue believes that the largest portion of the tax expenditures described in this line item will be in the form of corporate tax credits, it has placed it in this section of the tax expenditure budget. Except for the life sciences research credit, the other credits are refundable up to 90%.

Origin: M.G.L. c. 62, §§ 6(m), (n), and (r) and c.63, §§38M (j), 38U, 38W and 38CC

Estimate: $20.8

2.618 Dairy Farmers Credit

The Massachusetts dairy farmer tax credit was established to offset the cyclical downturns in milk prices paid to dairy farmers and is based on the U.S. Federal Milk Marketing Order for the applicable market, such that when the U.S. Federal Milk Marketing Order price drops below a trigger price anytime during the taxable year the taxpayer will be entitled to the tax credit. The total cumulative value of the credits authorized pursuant to this section combined with section 6(o) of chapter 62 of the General Laws shall not exceed $4,000,000 annually.
A taxpayer who holds a certificate of registration as a dairy farmer pursuant to M.G.L. Ch. 94, sec. 16A is allowed to take a refundable tax credit based on the amount of milk produced and sold. These credits may not be sold or transferred to another taxpayer, but

are refundable at 100% of face value.

Origin: M.G.L. c. 63, § 38Z

Estimate: $0.0

2.619 Conservation Land Credit

A tax credit is allowed for qualified donations of certified land to a public or private conservation agency. The credit is equal to 50% of the fair market value of the qualified donation. The amount of the credit that may be claimed by a taxpayer for each qualified donation cannot exceed $75,000. Approval of the donation is required from the Secretary of the Office of Energy & Environment Affairs. The credits may not be sold or transferred to another taxpayer, but are refundable. The total credits that may be approved are capped at $2.0 million annually for the combined amount from personal income tax filers and chapter 63 taxpayers.

Origin: M.G.L. c. 63, § 38AA

Estimate: $0.0

2.620 Employer Wellness Program Tax Credit

The 2012 Health Care Act established an Employer Wellness Program Tax Credit that is effective for tax years beginning on or after January 1, 2013 and is set to expire on December 31, 2017. The Employer Wellness Program Tax Credit was created to provide incentives for business to recognize the benefits of wellness programs with the goal of providing smaller businesses with an expanded opportunity to implement these programs. The credit is available to both chapter 62 and chapter 63 taxpayers (personal income taxpayers and corporate & business excise taxpayers).
The Department of Public Health (DPH) will administer the credit program by: 1) determining standards for an Employer Wellness Program that will qualify for the credit; 2) approving a dollar amount of credit for a qualifying taxpayer and issue a certificate to be filed with the appropriate tax return; 3) by developing regulations and procedures with the Department of Revenue to implement the credit program. A business will apply to the DPH describing the proposed wellness program to be implemented by the business and providing an estimated budget and applicable taxpayer identification number.
The credit is set at 25 percent of the costs associated with implementing a "certified wellness program." The maximum amount of Employer Wellness Program Credits available to a taxpayer is $10,000 in any tax year. The total amount of Employer Wellness Program Credits authorized by the DPH is subject to a $15,000,000 annual cap starting calendar year 2013. The Employer Wellness Program Tax Credit is neither refundable nor transferrable. However, the portion of the Employer Wellness Program Tax Credit that exceeds the tax for the taxable year may be carried forward and applied against such taxpayer's tax liability in any of the succeeding 5 taxable years. DPH has promulgated a regulation, 105 CMR 216.000, entitled Massachusetts Wellness Tax Credit Incentive, which sets forth criteria for authorizing and certifying the credit.

Origin: St. 2012, c. 224, §§ 41, 41A, 56, 56A, 238, 239, 297, and 298; M.G.L. c. 62, § 6N; M.G.L. c. 63, § 38FF.

Estimate: $7.5

2.621 Community Investment Tax Credit

The 2012 Jobs Act provides a Community Investment Tax Credit that is effective January 1, 2014 and is set to expire on December 31, 2019. It was created to enable local residents and stakeholders to work with and through community development corporations to partner with nonprofit, public and private entities to improve economic opportunities for low and moderate income households and other residents in urban, rural and suburban communities across the commonwealth. The credit is available to both chapter 62 and chapter 63 taxpayers (personal income taxpayers and corporate & business excise taxpayers).

The Department of Housing and Community Development will administer the credit program by: 1) issuing a certification to a taxpayer after the taxpayer makes a qualified investment; 2) authorizing a dollar amount of credit for a qualified investment; 3) developing regulations and procedures with the Department of Revenue to implement the Community Investment Credit.

The certification will be acceptable as proof that the expenditures related to such investment constitute qualified investments for purposes of the community investment credit. The Community Investment Credit is set at 50 percent of the total qualified investments made by a taxpayer in a "community partner," i.e., a "community development corporation" or a "community support organization," selected by the Department of Housing and Community Development through a competitive process. A qualified investment must be in the form of a cash contribution of at least $1,000. A taxpayer may invest in more than one community partner, but may not claim more than $1,000,000 of credits in any single taxable year. A taxpayer must claim the credit in the taxable year in which a qualified investment is made. The total amount of Community Investment Credits is subject to a $3,000,000 cap in 2014, and an annual cap of $6,000,000 in 2015 to 2019, inclusive. This credit is refundable, but not transferrable and it could be carried over up to five years.

Origin: St. 2012, c. 238, §§ 29, 30, 35, 36 ; M.G.L. c. 62, § 6M; M.G.L. c. 63, § 38EE

Estimate: $3.0

2.700 ENTITY EXEMPT FROM TAXATION

2.701 Exemption of Credit Union Income

Credit unions, which are in effect mutual business organizations, are considered tax-exempt organizations for federal income tax purposes and therefore are generally exempt from the corporate excise, except are taxable on unrelated business income.

Comment: The estimate applies to only state-chartered credit unions.

The estimate applies to only state-chartered credit unions.

Origin: IRC, §501(c)(14)(A); M.G.L. c. 63, § 30

Estimate: $5.4

2.702 Tax-Exempt Organizations

Corporations considered to be tax-exempt under section 501 of the Internal Revenue Code (such as religious, scientific or educational organizations) are taxable under the corporate excise only on their unrelated business taxable income as defined in section 512 of the Code. They are not taxable on other income and are not subject to the non-income measure or on the minimum excise. This non-taxation creates a tax expenditure.

Origin: IRC, § 501; M.G.L. c. 63, § 30

Estimate: N.A.

2.703 Exemption for Regulated Investment Companies

Regulated Investment Companies are exempt from the corporate excise. This item constitutes a tax expenditure in Massachusetts, though it is not considered a tax expenditure at the federal level.

Origin: M.G.L. c. 63, § 68C(8)

Estimate: N.A.

KEY	**ORIGIN**	
	IRC	Federal Internal Revenue Code (26 U.S.C.)
	M.G.L.	Massachusetts General Laws
	U.S.C	United States Code
	ESTIMATES	All estimates are in $ millions.

Massachusetts imposes a sales and use tax on retail sales. In addition to the sales and use tax, there are several separate excises, each limited to a particular type of commodity. These special excises have not been included in this tax expenditure budget.

The Massachusetts sales and use tax, first imposed in 1966, was levied at a rate of 5%. Effective on and after August 1, 2009, the rate was changed from 5% to 6.25%. The sales tax applies to sales made within the state, and the use tax to property and services purchased outside of Massachusetts but intended for use within the state.

Revenue from the sales and use tax represented 23.3% of total Department of Revenue tax collections for Fiscal Year 2015, and was the second largest source of tax revenue after the income tax.

Sales and Use Tax: Basic Structure

Tax Base: For the purposes of this tax expenditure budget, we have chosen not to make any assumptions about the base of the Massachusetts sales and use tax. Some people take a narrow view of what a retail sale is, limiting the term to sales to final consumers, i.e., individuals. Others would include sales to businesses, especially in instances where the purchase will not become an ingredient or component in a product to be sold. In an effort to acknowledge both theories, we will simply list the various exemptions under the sales tax. Some or many of these exemptions could be considered to be properly excluded from the tax base depending upon one's point of view.

Taxable Unit: The sales and use tax is levied on the property or service to be sold or used.

Rate Structure: The sales and use tax rate is 6.25% of the price.

Taxable Period: Except for sales of motor vehicles, in which the tax is imposed and paid by the purchaser to the Registry of Motor Vehicles, the tax is imposed at the time of sale and remitted at specified intervals by the vendor. The use tax is paid directly to the Department of Revenue by the user of the item, and may be paid annually or more often (typically monthly).

Interstate and International Aspects: Massachusetts applies the destination principle to international and interstate sales. Accordingly, exports are exempt and imports are taxable under the sales and use tax. Statutory exemptions for exports of property and for services used outside of the Commonwealth are therefore not listed as tax expenditures.

Computation of Massachusetts Sales and Use Tax by Vendor*

Gross Receipts
From Taxable Sales

↓

Apply 6.25% Tax

↓

Sales Tax

* A purchaser is also responsible for paying use tax directly to the Commonwealth on the sales price of taxable property or services purchased out-of-state and stored, used, or otherwise consumed in the Commonwealth, provided that a sales and use tax of 6.25% or more has not been paid separately to another state.

Types of Tax Expenditures under the Sales and Use Tax

In the case of the sales and use tax, all tax expenditures are of a single type. They all result from the exclusion of certain transactions from the taxable base. The exclusion can be based on any of a number of characteristics of the transaction - who the buyer is, who the seller is, what the product or service is, what the product or service will be used for, etc. - but structurally all such tax expenditures operate in the same way. Hence, we have omitted the designation of tax expenditure types from the descriptions in this section.

List of Sales and Use Tax Expenditures

3.000 EXEMPT ENTITIES

3.001 Exemption for Sales to the Federal Government

Sales to the federal government are exempt from sales tax.

Origin: M.G.L. c. 64H, § 6(d)

Estimate: N.A.

3.002 Exemption for Sales to the Commonwealth

Sales to the Commonwealth, its agencies and political subdivisions are exempt from sales tax.

Origin: M.G.L. c. 64H, § 6(d)

Estimate: N.A.

3.003 Exemption for Sales to Tax-Exempt Organizations

Non-profit organizations are exempt from sales tax on purchases of goods and services to be used in carrying out their tax-exempt purposes.

Comment: This estimate excludes sales of building materials and supplies used in construction contracts, which are covered under item 3.412.

This estimate excludes sales of building materials and supplies used in construction contracts, which are covered under item 3.412.

Origin: M.G.L. c. 64H, § 6(e) and (x)

Estimate: $477.0

3.004 Exemption for Sales of Tangible Personal Property to Motion Picture Production Companies

Sales of tangible personal property to a qualifying motion picture production company or to an accredited film school student for the production expenses related to a school film project are exempt from the sales tax.

Origin: M.G.L. c. 64H, § 6(ww)

Estimate: $0.3

3.005 Exemption for Sales of Certain Tangible Personal Property Purchased for a Certified Life Sciences Company

Sales of tangible personal property purchased for a certified life sciences company, to the extent authorized pursuant to the life sciences tax incentive program, for use in connection with the construction, alteration, remodeling, repair or remediation of research, development or manufacturing facilities and utility support systems, are exempt from sales tax.

Origin: M.G.L. c. 64H, § 6(xx)

Estimate: $0.1

3.100 EXEMPT PRODUCTS/SERVICES

3.101 Exemption for Food

Food for human consumption is exempt from sales tax, including food purchased with federal food stamps. The exemption does not cover meals served in restaurants and similar establishments. Meals are taxed under the sales tax at a rate of 6.25%.

Origin: M.G.L. c. 64H, § 6(h) and (kk)

Estimate: $716.4

3.102 Exemption for Certain Food and Beverages Sold in Restaurants

Although generally food and beverages sold in restaurants are taxed, there are certain exceptions. These are: a) food sold by weight, measure, count, or in unopened original containers or packages (for example, milk, meat, bread); b) beverages in unopened original containers which have a capacity of at least 26 fluid ounces; and c) bakery products sold in units of six or more.

Origin: M.G.L. c. 64H, § 6(h)

Estimate: N.A.

3.103 Exemption for Clothing

Sales of clothing or footwear up to $175 per item are exempt from sales tax. The exemption does not include special clothing or footwear designed for athletic or protective uses and not normally worn except for these uses.

Origin: M.G.L. c. 64H, § 6(k)

Estimate: $288.6

3.104 Exemption for Medical and Dental Supplies and Devices

Medical and dental supplies and devices, such as prescription drugs, oxygen, blood, artificial limbs and eyeglasses, are exempt from sales tax.

Comment: This estimate includes sales of medical marijuana.

This estimate includes sales of medical marijuana.

Origin: M.G.L. c. 64H, § 6(l) and (z)

Estimate: $502.0

3.105 Exemption for Water

Sales and service of water are exempt from sales tax.

Comment: This estimate excludes sales of bottled water, which are included under item 3.101.

This estimate excludes sales of bottled water, which are included under item 3.101.

Origin: M.G.L. c. 64H, § 6(i)

Estimate: $57.1

3.106 Exemption for Newspapers and Magazines

Newspapers and magazines are exempt from sales tax.

Origin: M.G.L. c. 64H, § 6(m)

Estimate: $35.5

3.107 Exemption for the American Flag

The American flag is exempt from sales tax.

Origin: M.G.L. c. 64H, § 6(w)

Estimate: N.A.

3.108 Exemption for Certain Precious Metals

Sales valued at $1,000 or more of the following precious metals are exempt from the sales tax: rare coins of numismatic value; gold or silver bullion or coins; and gold or silver tender of any nation which is traded and sold according to its value as precious metal. Fabricated precious metals that have been processed or manufactured for industrial, professional, or artistic use do not qualify for the exemption.

Origin: M.G.L. c. 64H, § 6(ll)

Estimate: N.A.

3.109 Exemption for Cement Mixers

Concrete mixing units mounted on the back of trucks are exempt from sales tax. Spare parts for such units are also exempt. The truck chassis is subject to sales tax.

Origin: M.G.L. c. 64H, § 6(y)

Estimate: N.A.

3.112 Exemption for Aircraft & Aircraft Parts

Airplanes, helicopters, balloons and other aircraft are exempt from sales tax. Also exempt are parts used exclusively for the repair of aircraft.

Origin: M.G.L. c. 64H, § 6(uu) and (vv)

Estimate: $17.8

3.113 Exemption for Breast Pumps

Physician-prescribed, medically necessary breast pumps are exempt from sales tax.

Origin: M.G.L. c. 64H, § 6(l)

Estimate: included in 3.104

3.200 EXEMPT, TAXED UNDER ANOTHER EXCISE

3.201 Exemption for Alcoholic Beverages

Exemption for Alcoholic Beverages
Alcoholic beverages, except those sold as part of a meal, were exempt from sales tax through July 31, 2009. Effective August 1, 2009, this exemption was repealed. However, as the result of a referendum question on the November 2, 2010 ballot, this exemption was reinstated, effective for sales on or after January 1, 2011. Alcoholic beverages are also subject to an excise tax determined by volume.

Comment: Revenues collected under the alcoholic beverages excise were $77.7 million in Fiscal Year 2014 and $79.9 million in Fiscal Year 2015.

Revenues collected under the alcoholic beverages excise were $77.7 million in Fiscal Year 2014 and $79.9 million in Fiscal Year 2015.

Origin: M.G.L. c. 64H § 6(g)

Estimate: $119.3

3.202 Exemption for Motor Fuels

Motor fuels are exempt from sales tax. They are subject to an excise at a rate higher than 6.25% of the retail price. The estimate represents revenues that would be collected under the sales tax if motor fuels were taxed at 6.25% of the retail price. Effective July 31, 2013, the excise on gasoline and special fuels was increased from 21 cents per gallon to 24 cents per gallon.

Comment: Revenues collected under the motor fuels excise were $732.5 million in Fiscal Year 2014 and $756.2 million in Fiscal Year 2015.

Revenues collected under the motor fuels excise were $732.5 million in Fiscal Year 2014 and $756.2 million in Fiscal Year 2015.

Origin: M.G.L. c. 64H, § 6(g)

Estimate: $647.2

3.300 EXEMPT COMPONENT OF A PRODUCT OR CONSUMED IN PRODUCTION

3.301 Exemption for Items Used in Making Clothing

Sales of materials used in making clothes, such as thread and fabric, are exempt from sales tax.

Origin: M.G.L. c. 64H, § 6(v)

Estimate: N.A.

3.302 Exemption for Materials, Tools, Fuels and Machinery Used in Manufacturing

Materials, tools, fuels and machinery, including spare parts, used in manufacturing are exempt from sales tax if they become components of a product to be sold or are consumed or directly used in the manufacturing process.

Origin: M.G.L. c. 64H, § 6(r) and (s)

Estimate: $627.4

3.303 Exemption for Materials, Tools, Fuels and Machinery Used in Research and Development

Materials, tools, fuels and machinery, including spare parts, used in research and development by certified manufacturing or research and development corporations are exempt from sales tax.

Comment: This estimate includes sales /use tax exemption of $6.2 million for qualifying limited partnership engaged in research activities under Section 66 in St. 2014, c. 287.

This estimate includes sales /use tax exemption of $6.2 million for qualifying limited partnership engaged in research activities under Section 66 in St. 2014, c. 287.

Origin: M.G.L. c. 64H, § 6(r) and (s)

Estimate: $81.2

3.304 Exemption for Materials, Tools, Fuels, and Machinery Used in Furnishing Power

Materials, tools, fuels, and machinery, including spare parts, used in furnishing gas, water, steam, or electricity to consumers through mains, lines or pipes are exempt from sales tax if they are consumed or directly used in furnishing the power.

Comment: Estimate excludes costs associated with the natural gas industry due to a lack of reliable data.

Estimate excludes costs associated with the natural gas industry due to a lack of reliable data.

Origin: M.G.L. c. 64H, § 6(r) and (s)

Estimate: $80.1

3.306 Exemption for Materials, Tools, Fuels, and Machinery Used in Newspaper Printing

Materials, tools, fuels, and machinery, including spare parts, used in newspaper printing are exempt from sales tax if they become components of a product to be sold or are consumed or directly used in newspaper publishing.

Origin: M.G.L. c. 64H, § 6(r) and (s)

Estimate: $61.4

3.308 Exemption for Materials, Tools, Fuels, and Machinery Used in Agricultural Production

Materials, tools, fuels, and machinery, including spare parts, used in agricultural production are exempt from sales tax if they become components of products to be sold or are consumed or directly used in agricultural production. The exemption includes the same items when used for the production of livestock, poultry and animals in research. Also included are seeds and plants used to grow food for human consumption outside the agricultural industry (e.g., by home gardeners).

Origin: M.G.L. c. 64H, § 6(r), (s) and (p)

Estimate: $17.7

3.309 Exemption for Vessels, Materials, Tools, Fuels, and Machinery Used in Commercial Fishing

Materials, tools, fuels, and machinery, including spare parts, used in commercial fishing are exempt from sales tax if they become components of a product to be sold or are consumed or directly used in commercial fishing.

Origin: M.G.L. c. 64H, § 6(r), (s) and (o)

Estimate: $12.2

3.310 Exemption for Materials, Tools, Fuels and Machinery Used in Commercial Radio and TV Broadcasting

Materials, tools, fuels and machinery, including spare parts, used in commercial radio and TV broadcasting are exempt from sales tax.

Origin: M.G.L. c. 64H, § 6(r) and (s)

Estimate: N.A.

3.400 EXEMPTIONS FOR SPECIFIED USES OF PRODUCTS/SERVICES

3.401 Exemption for Electricity

Residential electricity, electricity purchased by businesses with five or fewer employees, and electricity purchased for qualified industrial use is exempt from sales tax.

Origin: M.G.L. c. 64H, § 6(i) and (qq)

Estimate: $357.0

3.402 Exemption for Fuel Used for Heating Purposes

Residential heating fuel, heating fuel purchased by businesses with five or fewer employees, and heating fuel purchased for qualified industrial use is exempt from sales tax. Comment: This estimate is based on purchases of heating oil only; natural gas is included in item 3.403.

This estimate is based on purchases of heating oil only; natural gas is included in item 3.403.

Origin: M.G.L. c. 64H, § 6(j) and (qq)

Estimate: $61.3

3.403 Exemption for Piped and Bottled Gas

Residential gas, gas purchased by businesses with five or fewer employees, and gas purchased for qualified industrial use is exempt from sales tax.
Comment: Estimate is for piped gas only.

Estimate is for piped gas only.

Origin: M.G.L. c. 64H, § 6(i) and (qq)

Estimate: $177.3

3.404 Exemption for Steam

Residential steam, steam purchased by businesses with five or fewer employees, and steam purchased for qualified industrial use are exempt from sales tax.

Origin: M.G.L. c. 64H, § 6(i) and (qq)

Estimate: $14.4

3.405 Exemption for Certain Energy Conservation Equipment

Equipment for a solar, wind or heat pump system used as a primary or auxiliary energy source in a principal residence is exempt from sales tax.

Origin: M.G.L. c. 64H, § 6(dd)

Estimate: N.A.

3.406 Exemption for Funeral Items

Coffins, caskets, and other funeral items are exempt from sales tax.

Origin: M.G.L. c. 64H, § 6(n)

Estimate: $13.3

3.407 Exemption for a Motor Vehicle for a Paraplegic

A motor vehicle owned and registered for the personal use of a paraplegic is exempt from sales tax.

Origin: M.G.L. c. 64H, § 6(u)

Estimate: $1.3

3.408 Exemption for Textbooks

Textbooks and other books required for instruction in educational institutions are exempt from sales tax.

Origin: M.G.L. c. 64H, § 6(m)

Estimate: $52.0

3.409 Exemption for Books Used for Religious Worship

Bibles, prayer books and other books used for religious worship are exempt from sales tax.

Origin: M.G.L. c. 64H, § 6(m)

Estimate: N.A.

3.410 Exemption for Containers

Most containers are exempt from sales tax. These include sales of empty returnable and non-returnable containers to be filled and resold, containers the contents of which are exempt from the sales tax, and returnable containers when sold with the contents or resold for refilling.

Origin: M.G.L. c. 64H, § 6(q)

Estimate: $193.9

3.411 Exemption for Certain Sales by Typographers, Compositors, Color Separators

Sales by typographers, compositors or color separators of composed type, film positives and negatives and reproduction proofs, or transfers of such items to a printer, publisher, or manufacturer of folding boxes for use in printing, are exempt from sales tax.

Origin: M.G.L. c. 64H, § 6(gg)

Estimate: N.A.

3.412 Exemption for Sales of Building Materials and Supplies to be Used in Connection with Certain Construction Contracts

Materials and supplies used in connection with construction contracts with the United States and the Commonwealth of Massachusetts, or any of its subdivisions are tax exempt where the construction is for public purposes. Materials and supplies used in connection with construction contracts with a tax-exempt organization are tax exempt where the construction is to be used exclusively in carrying out the organization's charitable purpose. The exemption includes rentals of equipment as well.

Origin: M.G.L. c. 64H, § 6(f)

Estimate: $144.9

3.417 Exemption for Commuter Boats

Vessels, materials, tools, repair and spare parts used exclusively to provide scheduled commuter passenger service are exempt from sales tax.

Origin: M.G.L. c. 64H, § 6(pp)

Estimate: N.A.

3.418 Exemption for Fuels, Supplies and Repairs for Vessels Engaged in Interstate or Foreign Commerce

Fuels, supplies and repairs for vessels engaged in interstate or foreign commerce are exempt from sales tax.

Origin: M.G.L. c. 64H, § 6(o)

Estimate: $0.7

3.419 Exemption for Fuel Used in Operating Aircraft and Railroads

Fuel used in operating aircraft and railroads is exempt from sales tax.
Comment: At a community's option, kero-jet fuel may be subject to a local tax at 5% of average price or $0.05 per gallon, whichever is higher.

At a community's option, kero-jet fuel may be subject to a local tax at 5% of average price or $0.05 per gallon, whichever is higher.

Origin: M.G.L. c. 64H, § 6(j)

Estimate: $43.4

3.420 Exemption for Sales of Certain New or Used Buses

New and used buses that provide scheduled intra-city local service and are used by common carriers certified by the Department of Telecommunications and Energy are exempt from sales tax. The exemption includes replacement parts, materials and tools used to maintain or repair these buses.

Origin: M.G.L. c. 64H, § 6(aa)

Estimate: N.A.

3.421 Exemption for Films

Motion picture films for commercial exhibition are exempt from sales tax.

Origin: M.G.L. c. 64H, § 6(m)

Estimate: N.A.

3.600 MISCELLANEOUS EXEMPTIONS

3.601 Exemption for Casual or Isolated Sales

Casual or isolated sales (sales by private parties) are exempt from sales tax, except casual sales of motor vehicles, trailers, and boats. Sales of these listed items are exempt only when they are between family members.

Origin: M.G.L. c. 64H, § 6(c) and M.G.L. c. 64I, § 7(b)

Estimate: N.A.

3.602 Exemption for Vending Machine Sales

Vending machine sales of ten cents or less are exempt from sales tax. In addition, sales through vending machines, which exclusively sell snacks and candy with a sales price of less than one dollar, are exempt from the sales tax on meals.

Origin: M.G.L. c. 64H, § 6(h) and (t)

Estimate: N.A.

3.603 Exemption for Certain Meals

Meals prepared by churches and hospitals, meals provided to organizations for the elderly, and meals provided by educational institutions are exempt from sales tax.

Comment: Estimate is for meals served in schools only.

Estimate is for meals served in schools only.

Origin: M.G.L. c. 64H, § 6(cc)

Estimate: $12.1

3.604 Exemption for Certain Bed and Breakfast Establishments from Sales Tax on Meals and Room Occupancy Excise

Owner-occupied one-, two-, and three-bedroom bed and breakfast establishments are exempt from both the sales tax on meals and the room occupancy excise.

Origin: M.G.L. c. 64G, § 1, 2, 3, 3A and 6, and M.G.L. c. 64H, § 6(h)

Estimate: N.A.

3.605 Exemption for Certain Summer Camps from Sales Tax on Meals and Room Occupancy Excise

An exemption from both the sales tax on meals and the room occupancy excise is provided for summer camps for children age 18 and under, or for summer camps for developmentally disabled individuals. Camps that satisfy the above criteria but offer their facilities during the off-season to individuals 60 years of age or over for 30 days or less in any calendar year will not lose their exemption.
Comment: Estimate is for meals only.

Estimate is for meals only.

Origin: M.G.L. c. 64G, § 2 and M.G.L. c. 64H, § 6(cc)

Estimate: $1.6

3.606 Exemption for Trade-in Allowances for Motor Vehicles and Trailers

In most cases, motor vehicles and trailers bought in a trade-in transaction are only subject to sales tax on the excess of the purchase price over the amount credited for the trade-in.

Origin: M.G.L c. 64H, § 26, c. 64I, § 27

Estimate: $127.9

3.607 Exemption for Publications of Tax-Exempt Organizations

The publications of tax-exempt organizations are exempt from sales tax.

Origin: M.G.L. c. 64H, § 6(m)

Estimate: $15.7

3.608 Exemption for Gifts of Scientific Equipment

Gifts of scientific equipment or apparatus by manufacturers to non-profit educational institutions or to the Massachusetts Technology Park Corporation are exempt from sales tax.

Origin: M.G.L. c. 64H, § 6(jj)

Estimate: N.A.

3.609 Exemption for Vessels or Barges of 50 Tons or Over

Vessels or barges weighing 50 tons or more are exempt from sales tax when constructed in-state and sold by the builder.

Origin: M.G.L. c. 64H, § 6(o)

Estimate: N.A.

3.610 Exemption for Rental Charges for Refuse Containers

Rental charges in connection with service contracts by and between waste service firms and customers for refuse containers or bins are exempt from sales tax when the containers are placed on the customer's premises by the waste service firm.

Origin: M.G.L. c. 64H, § 6(ii)

Estimate: N.A.

3.611 Exemption for Honor Trays

Food items purchased from honor trays are exempt from sales and meals taxes, provided that no item on the honor tray is sold for $1 or more.

Comment: Honor trays are vending carts in workplaces from which snacks may be purchased on the honor system.

Honor trays are vending carts in workplaces from which snacks may be purchased on the honor system.

Origin: M.G.L. c. 64H, § 6(h)

Estimate: N.A.

KEY	**ORIGIN**	
	M.G.L.	Massachusetts General Laws
	ESTIMATES	All estimates are in $ millions.

ENSE PETIT PLACIDAM SVB LIBERTATE QVIETEM

Fiscal Year 2017 Tax Expenditure Budget – Appendix A
Recent Law Changes Affecting Tax Expenditures

The following tax expenditures have been revised or created due to recent law changes:

The Personal Income Tax:

Circuit Breaker Tax Credit Increased (TE item 1.609) A credit is allowed to an owner or renter of residential property located in Massachusetts equal to the amount by which the real estate tax payment or 25% of the rent constituting real estate tax payment exceeds 10% of the taxpayer's total income, not to exceed $1,070 (for tax year 2015). The amount of the credit is subject to limitations based on the taxpayer's total income and the assessed value of the real estate, which must not exceed $693,000 (for tax year 2015). For tax year 2015, an eligible taxpayer's total income cannot exceed $57,000 in the case of a single filer who is not a head of household filer, $71,000 for a head of household filer, and $85,000 for joint filers. In order to qualify for the credit, a taxpayer must be age 65 or older and must occupy the property as his or her principal residence. See TIR 15-11 for more information.

Farming and Fisheries Personal Income Tax Credit (TE item 1.618)
A new credit applies to personal income taxpayers who are primarily engaged in agriculture, farming or commercial fishing. G.L. c. 62, § 6(s). The credit is 3% of the cost or other basis for federal income tax purposes of qualifying property acquired, constructed or erected during the tax year. Qualifying property is defined as tangible personal property and other tangible property including buildings and structural components that are located in Massachusetts, used solely for farming, agriculture or fishing, and are depreciable with a useful life of at least four years. The credit applies to lessees calculated as follows: 3% of a lessor's adjusted basis in qualifying property for federal income tax purposes at the beginning of the lease term, multiplied by a fraction, the numerator of which is the number of days of the tax year during which the lessee leases the qualifying property and the denominator of which is the number of days in the useful life of the property. Where the lessee is eligible for the credit, the lessor is generally not eligible, with the exception of "equine-based businesses where care and boarding of horses is a function of the agricultural activity."

New Gambling Loss Deduction
For tax years beginning on or after January 1, 2015 a deduction is allowed from Part B income for gambling losses incurred at certain licensed gaming establishments or "racing meeting licensee or simulcasting licensee" establishments but only to the extent of winnings from such establishments included in gross income for the calendar year. See TIR 15-14 and Schedule Y, line 17 for more information. The new gambling loss deduction is the only deduction for gambling losses allowed for a Massachusetts taxpayer, unless the gambling activities constitute a trade or business. See DD 03-3. Massachusetts does not adopt the federal deduction under IRC § 165(d) for gambling losses.

Expansion of Economic Development Incentive Program ("EDIP") Provisions to Include Certified Job Creation Project
For tax years beginning on or after January 1, 2015, The EDIP credit provisions were expanded to include "certified job creation projects" as defined in section 3A and 3F of chapter 23A. The amount of the credit awarded may be up to $1,000 per job created (up to $5,000 in a Gateway Municipality as defined in section 3A of chapter 23A or within a city or town whose average seasonally adjusted unemployment rate, as reported by the Executive Office of Labor and Workforce Development, is higher than the average seasonally adjusted unemployment rate of the Commonwealth). The total award per project may not exceed $1,000,000. The credit for a certified job creation project is allowed only for the year subsequent to that in which the jobs are created. See TIR 14-13.

Changes to the Certified Housing Development Tax Credit Cap

Effective January 1, 2015, the $5 million annual cap on the amount of credit that may be awarded for certain qualified rehabilitation expenditures with respect to a certified housing development project has been increased from $5 million to $10 million. The annual cap for the certified housing development tax credit is part of an over-all cap imposed on the Economic Development Incentive Program credit authorized pursuant to G.L. c. 62, 6(g). The annual cap will be reduced from $10 million back to $5 million effective January 1, 2019. See TIR 14-13.

Current Code Provisions As a general rule, Massachusetts will not adopt any federal tax law changes incorporated into the Internal Revenue Code ("Code") after January 1, 2005. However, certain specific provisions of the personal income tax automatically adopt the current Code. Provisions of the Code adopted on a current Code basis are (i) Roth IRAs, (ii) IRAs, (iii) the exclusion for gain on the sale of a principal residence, (iv) trade or business expenses, (v) travel expenses, (vi) meals and entertainment expenses, (vii) the maximum deferral amount of government employees' deferred compensation plans, (viii) the deduction for health insurance costs of self-employed, (ix) medical and dental expenses, (x) annuities, (xi) health savings accounts, and (xii) employer-provided health insurance coverage and amounts received by an employee under a health and accident plan. See TIRs 98-8, 02-11, 07-4, and 09-21 for further details on the Massachusetts personal income tax current Code provisions.

Parking, Combined Commuter Highway Vehicle Transportation and T-Pass Fringe Benefit — IRC sec. 132(f) (TE Item 1.030) Massachusetts follows IRC sec. 132(f) as amended and in effect under the January 1, 2005 Code. For tax year 2016, the IRS has calculated, based on inflation adjustments contained in the January 1, 2005 Code, the 2016 exclusion amounts for employer-provided parking and combined transit pass and commuter highway vehicle transportation benefits as $255 and $130 per month respectively. Massachusetts adopts these 2016 tax year monthly exclusion amounts because they are based on the January 1, 2005 Code. For further discussion, see TIRs 15-16.

Federal Deduction — Not Allowed Federal "Bonus" Depreciation — IRC sec. 168(k) Under 2002 legislation, Massachusetts decoupled from bonus depreciation allowed under IRC sec. 168(k), as amended and in effect for the current year. Therefore, Massachusetts does not adopt this additional depreciation deduction. See TIRs 02-11 and 03-25 for further details.

Federal Deduction — Not Allowed Domestic Production Activity Deduction — IRC sec. 199 For federal income tax purposes, a business entity that pays wages to employees and conducts eligible domestic production activities is allowed a deduction for domestic production activities under IRC sec. 199. Generally, in the case of a non-corporate taxpayer, the deduction allows a business with qualified production activities to deduct 9% of its U.S. adjusted gross income. Under 2004 legislation, Massachusetts de-coupled from the production activity deduction allowed under IRC sec. 199, as amended and in effect for the current year. Therefore, Massachusetts does not adopt the federal domestic production activity deduction.
See TIR 05-5.

The Corporate and Other Business Excise:

Changes to the Research and Development Credit. Sections 54 and 123 of the Act (St. 2014, c. 287) re-wrote G.L. c. 63, § 38M. Effective for tax years beginning on or after January 1, 2015, a business corporation may elect to calculate its research credit using one of two methods. The first method revises the existing research credit by changing two definitions that affect the calculation of the credit, i.e., the definitions of "base amount" and "fixed base rate". The amount of the credit is equal to the sum of 10% of the excess, if any, of the qualified research expenses for the taxable year over the base amount plus 15% of the basic research expenses determined under I.R.C. § 41(e)(1)(A). The second method, which a taxpayer may elect to use in lieu of the method described above, provides for an alternative simplified research credit, which generally conforms to the methodology of the federal alternative simplified credit provided by I.R.C. § 41(c)(5), as amended and in effect on January 1, 2014.

The Massachusetts alternative simplified credit, the second method, will be phased in over a seven year period. Refer to TIR 14-13 for details.

Deferral of FAS 109 Deduction. St. 2015, c. 46 (the Act) delays implementation of the corporate "FAS 109" deduction applicable to certain publicly held companies as part of a Massachusetts tax law change that, among other things, lowered the corporate tax rate in stages and adopted combined reporting for tax years beginning on or after January 1, 2009. In general, if the enactment of the combined reporting requirement for a unitary business resulted in an increase in the net deferred tax liability of certain combined groups for financial reporting purposes, such groups became eligible to claim a FAS 109 deduction. Under the Act implementation of the FAS 109 deduction will be delayed for five years (from 2016 to 2021) and the time over which a company can claim its overall deduction will be increased from seven to 30 years.

Changes to the Economic Development Incentive Program (EDIP) Annual Cap. Sections 56, 56A and 125 of the Act (St. 2014, c. 287) made the following changes to G.L. c. 63, § 38N: The $25 million annual cap on the amount of credit that may be awarded was increased from $25 million to $30 million effective 1/1/2015. The $30 million annual cap on the amount of credit that may be awarded is scheduled to later decrease from $30 million to $25 million. The decrease in the annual cap will take effect on 1/1/2019.

Expansion of Economic Development Incentive Program ("EDIP") Provisions to Include Certified Job Creation Project. For tax years beginning on or after January 1, 2015, The EDIP credit provisions were expanded to include "certified job creation projects" as defined in section 3A and 3F of chapter 23A. The amount of the credit awarded may be up to $1,000 per job created (up to $5,000 in a Gateway Municipality as defined in section 3A of chapter 23A or within a city or town whose average seasonally adjusted unemployment rate, as reported by the Executive Office of Labor and Workforce Development, is higher than the average seasonally adjusted unemployment rate of the Commonwealth). The total award per project may not exceed $1,000,000. The credit for a certified job creation project is allowed only for the year subsequent to that in which the jobs are created. See TIR 14-13.

Changes to the Certified Housing Development Tax Credit Cap. Effective January 1, 2015, the $5 million annual cap on the amount of credit that may be awarded for certain qualified rehabilitation expenditures with respect to a certified housing development project has been increased from $5 million to $10 million. The annual cap for the certified housing development tax credit is part of an over-all cap imposed on the Economic Development Incentive Program credit authorized pursuant to G.L. c. 62, 6(g); G.L. c. 63, 38N. The annual cap will be reduced from $10 million back to $5 million effective January 1, 2019. See TIR 14-13.

As the part B personal income tax rate has been reduced, tax rates for S corporations have changed accordingly. See below.

Corporations:

Tax Year	Non-income Measure Tax	Income Measure Tax		
		Rate on C Corps' income and S Corps' Qualified and Passive Income	S Corp. Rate (Gross Sales $6M-$9M)	S Corp. Rate (Gross Sales > $9M)
2011	0.26%	8.25%	1.97%	2.95%
2012	0.26%	8.00%	1.83%	2.75%
2013	0.26%	8.00%	1.83%	2.75%
2014	0.26%	8.00%	1.87%	2.80%
2015	0.26%	8.00%	1.90%	2.85%

2016	0.26%	8.00%	1.93%	2.90%
2017*	0.26%	8.00%	1.97%	2.95%

S Corporations:	Rate is equal to:
Large S Corp (Gross Sales > $9M):	C Corp rate minus Part B individual income tax rate
Medium S Corp ($6M < Gross Sales < $9M)	2/3 of Large S Corp rate
Small S Corp (Gross Sales < $6M):	0%

* Based on tax revenue growth projection, the part B personal income tax rate is assumed to further decline to 5.05% effective January 1, 2017. The tax rates for S corporations are therefore assumed to change accordingly.

Financial Institutions:

Tax Year	Non-income Measure Tax	Income Measure Tax		
		Rate on C Corps' income and S Corps' Qualified and Passive Income	S Corp. Rate (Gross Sales $6M-$9M)	S Corp. Rate (Gross Sales > $9M)
2011		9.50%	2.80%	4.20%
2012		9.00%	2.50%	3.75%
2013	No	9.00%	2.50%	3.75%
2014		9.00%	2.53%	3.80%
2015		9.00%	2.57%	3.85%
2016		9.00%	2.60%	3.90%
2017*		9.00%	2.63%	3.95%

S Corporations:	Rate is equal to:
Large S Corp (Gross Sales > $9M):	C Corp rate minus Part B individual income tax rate
Medium S Corp ($6M < Gross Sales < $9M)	2/3 of Large S Corp rate
Small S Corp (Gross Sales < $6M):	0%

* Based on tax revenue growth projection, the part B personal income tax rate is assumed to further decline to 5.05% effective January 1, 2017. The tax rates for S corporations are therefore assumed to change accordingly.

The Sales and Use Tax:

In June 2009 legislation was enacted that amended G.L. c. 64H (sales tax) and G.L. c. 64I (use tax), changing the rate of tax for sales and use of tangible personal property and telecommunications services from 5% to 6.25%. *See* Stat. 2009, c. 27, §§ 53, 55-57, 59. In addition, the new legislation repealed the exemption for alcoholic beverages, including beer, wine, and liquor, sold at retail by amending G.L. c. 64H, § 6(g) to omit reference to c. 138. These changes were effective on and after August 1, 2009. See TIR 09-11 for further details.

As the result of a referendum question on the November 2, 2010 ballot, the law extending the Massachusetts sales and use tax to alcoholic beverages sold at package stores and liquor stores for off-premises consumption, which was enacted on August 1, 2009, has been repealed, effective for sales on or after January 1, 2011. See TIR 10-24 for further details.

Effective July 1, 2011, physician-prescribed, medically necessary breast pumps are exempt from sales and use tax. See St. 2011, c. 68, § 72.

In July 2012 legislation was enacted stating explicitly that "sales that do not involve tangible personal property shall not result in tax expenditures". See St 2012, c.165, §112. Pursuant to this legislation, from fiscal year 2014 on, we remove some items from our tax expenditure estimates, which we regularly reported in prior years. But to facilitate comparison to tax expenditure estimates in prior years, these items (3.203, 3.422, 3.501, 3.502, 3.503 and 3.504) have been listed in appendix D.

On September 27, 2013, the Governor signed a bill that repealed the expansion of the sales tax on computer software and systems design services that had been enacted by the Legislature on July 24, 2013, retroactive to its effective date, July 31, 2013.

Section 66 of St. 2014, c. 287 added subsection (d) to G.L. c. 63, § 42B. Effective August 13, 2014, solely for the purpose of claiming the sales tax exemption available to research and development corporations under chapters 64H and 64I, §§ 6(r) and 6(s), this change allows a limited partnership that is not a business corporation, but that would otherwise qualify as a research and development corporation under § 42B, to be considered a research and development corporation when all partners are corporations. See also TIR 14-13.

Chapter 369 of the Acts of 2012 legalized the sales of marijuana, products containing marijuana such as food, tinctures, aerosols, oils and ointments as well as related supplies or educational materials to qualifying patients or their personal caregivers in the Commonwealth by medical marijuana treatment centers. According to Directive 15-1 issued by the Department of Revenue, the sales tax exemption for medicine on prescription in G.L. c. 64H. § 6(l) applies to sales of marijuana and products containing marijuana to a qualifying patient or the patient's personal caregiver pursuant to a written certification by a licensed physician. Any other supplies, educational materials or other items sold by the medical marijuana treatment center are subject to tax unless another exemption applies.

The estimates for tax expenditure items for sales and use tax reflect these tax law changes.

ENSE PETIT PLACIDAM SVB LIBERTATE QVIETEM

Amortization

Annual deduction allowed for the gradual exhaustion or obsolescence of intangible assets having a limited useful life which are used in the production of income, such as patents and copyrights; analogous to depreciation of tangible assets.

Capital expenditure

An expenditure made in acquiring, adding to or bettering a fixed asset. For accounting purposes, capital expenditures are not charged against current revenue. They are added to capital account or "capitalized" and then may be depreciated, amortized, or recovered when a business is sold. This concept should be distinguished from an expense.

Credit

Amount by which a taxpayer is allowed to reduce a tax liability, as computed by applying the tax rates to the tax base, to be distinguished from a deduction from the tax base.

Deduction

Amount that a taxpayer is allowed to subtract from the gross tax base.

Depreciation

Annual deduction allowed for the gradual exhaustion or obsolescence of tangible property used in the production of income.

Exclusion

The legal elimination from the tax base of items recognized as falling within its definition. The federal term for what is sometimes called an exemption for Massachusetts. (See "Exemption".)

Exemption

The legal elimination from the tax base of items or transactions recognized as falling within its definition, or of taxable units that would normally be subject to tax.

Expense

A revenue expenditure or cost, which, for accounting purposes, is charged against current revenue. To be distinguished from a capital expenditure.

Gross income

The total of all items included in the concept of income that a taxpayer receives during the taxable period.

Net income

Amount remaining after subtracting exempt income and deductions from gross income.

Personal exemption

A specific amount or percentage of net income on which the tax rate is zero. To be distinguished from an "exemption" as defined above, which applies to a class of income or taxpayers. Sometimes called an "allowance".

Taxable income

Amount to which the tax rates are applied in computing tax liability, after subtracting personal exemptions from net income.

ENSE PETIT PLACIDAM SVB LIBERTATE QVIETEM

Fiscal Year 2017 Tax Expenditure Budget: Appendix C Summary Table

The following table shows tax expenditure estimates for the three major taxes from Fiscal Year 2010 to Fiscal Year 2012. In general, the revenue estimate for a tax expenditure tends to follow the anticipated growth of tax collections. However, year-to-year changes in estimates may vary for four other principal reasons: new data sources; refinements to the estimate methodology; changes to federal tax expenditure estimates which are used as the basis for many of the state tax expenditure estimates; and changes in tax laws.

Where possible, we have recalculated past estimates based on revised data, improved methodologies, and changes in statute.

Personal Income Tax (In Millions)

Tax Expenditure	Item Number	FY2013	FY2014	FY2015	FY2016	FY2017
EXCLUSIONS FROM GROSS INCOME						
Exclusions from Gross Income	1.000	3,810.0	3,858.8	3,964.9	3,979.9	4,146.7
Exemption of Premiums on Accident and Accidental Death Insurance1	1.001	23.9	25.1	26.0	26.4	27.3
Exemption of Premiums on Group-Term Life Insurance1	1.002	19.5	20.0	20.5	20.3	20.6
Exemption of Interest on Life Insurance Policy and Annuity Cash Value	1.003	209.6	209.4	212.7	216.6	219.0
Exemption of Employer Contributions for Medical Insurance Premiums and Medical Care1	1.004	851.5	919.0	923.1	903.1	938.0
Exemption of Annuity or Pension Payments to Fire and Police Personnel	1.005	N.A.	N.A.	N.A.	N.A.	N.A.
Exemption of Distributions from Certain Contributory Pension and Annuity Plans2	1.006	310.0	333.7	342.9	351.9	361.0
Exemption of Railroad Retirement Benefits	1.007	4.1	4.3	4.4	4.5	4.7
Exemption of Public Assistance Benefits	1.008	181.3	181.5	184.3	188.9	193.6
Exemption of Social Security Benefits	1.009	819.7	852.8	882.6	913.3	944.9
Exemption of Workers' Compensation Benefits	1.010	6.7	6.6	6.7	6.9	7.1
Exemption for Dependent Care Expenses1	1.011	11.2	15.5	15.9	16.2	14.8
Exemption of Certain Foster Care Payments	1.012	3.2	3.2	3.2	3.2	3.1
Exemption of Payments Made to Coal Miners	1.013	Negligible	Negligible	Negligible	Negligible	Negligible
Exemption of Rental Value of Parsonages1	1.014	2.5	2.5	2.8	2.8	2.8
Exemption of Scholarships and Fellowships	1.015	19.6	20.1	20.5	21.6	22.0
Exemption of Certain Prizes and Awards	1.016	N.A.	N.A.	N.A.	N.A.	N.A.
Exemption of Cost-Sharing Payments	1.017	Negligible	Negligible	Negligible	Negligible	Negligible
Exemption of Meals and Lodging Provided at Work1	1.018	11.0	12.9	13.3	13.2	13.6
Treatment of Business-Related Entertainment Expenses1	1.019	11.8	12.5	13.4	14.4	15.0

Exemption of Income from the Sale, Lease, or Transfer of Certain Patents	1.020	N.A.	N.A.	N.A.	N.A.	N.A.
Exemption of Capital Gains on Home Sales	1.021	301.7	292.4	287.2	346.1	367.9
Nontaxation of Capital Gains at Death	1.022	827.7	746.9	802.1	718.0	775.2
Exemption of Interest from Massachusetts Obligations	1.023	54.7	49.7	51.8	54.5	54.0
Exemption of Benefits and Allowances to Armed Forces Personnel1	1.024	22.1	27.7	27.5	28.1	29.7
Exemption of Veterans' Pensions, Disability Compensation and G.I. Benefits	1.025	34.0	36.3	36.4	39.5	38.0
Exemption of Military Disability Pensions	1.026	0.5	0.5	0.8	0.7	0.7
Exemption of Compensation to Massachusetts-Based Nonresident Military Personnel	1.027	8.7	8.5	8.5	8.7	9.0
Exemption for Taxpayers Killed in Military Action or by Terrorist Activity	1.028	N.A.	N.A.	N.A.	N.A.	N.A.
Exemption for Retirement Pay of the Uniformed Services	1.029	23.5	24.1	24.7	25.2	25.7
Parking, T-Pass and Vanpool Fringe Benefits	1.030	37.7	37.5	37.8	38.7	40.4
Health Savings Accounts	1.031	Included in 1.422	Included in 1.422	Included in 1.422	Included in 1.422	Included in 1.422
Employer-Provided Adoption Assistance	1.032	0.0	0.0	0.0	0.0	0.0
Employer-Provided Educational Assistance	1.033	10.0	11.6	11.5	11.4	11.3
Department of Defense Homeowners Assistance Plan	1.035	N.A.	N.A.	N.A.	N.A.	N.A.
Survivor Annuities of Fallen Public Safety Officers	1.036	N.A.	N.A.	N.A.	N.A.	N.A.
Survivor Annuities of Fallen Astronauts	1.037	N.A.	N.A.	N.A.	N.A.	N.A.
Discharge of Indebtedness for Health Care Professionals	1.039	Negligible	Negligible	Negligible	Negligible	Negligible
Archer Medical Savings Accounts	1.040	Included in 1.420	Included in 1.420	Included in 1.420	Included in 1.420	Included in 1.420
Earnings of Pre-paid and Tuition Savings ("529" plans)	1.041	3.7	4.3	4.3	5.5	7.2
DEFERRALS OF GROSS INCOME						
Deferrals of Gross Income	1.100	998.0	936.9	1,249.0	1,381.2	1,566.0
Net Exemption of Employer Contributions and Earnings of Private Pension Plans2	1.101	693.9	645.1	851.8	1,057.3	1,215.7
Treatment of Incentive Stock Options	1.102	N.A.	N.A.	N.A.	N.A.	N.A.
Exemption of Earnings on Stock Bonus Plans or Profit Sharing Trusts	1.103	N.A.	N.A.	N.A.	N.A.	N.A.
Exemption of Earnings on IRA and Keogh Plans2	1.104	210.7	209.6	285.7	231.9	249.4
Non-taxation of Capital Gains at the Time of Gift	1.106	93.3	82.1	111.5	92.0	100.9
DEDUCTIONS FROM GROSS INCOME						
Deductions from Gross Income	1.200	0.1	0.4	0.4	0.1	0.4
Capital Gains Deduction	1.201	N.A.	N.A.	N.A.	N.A.	N.A.
Deduction of Capital Losses Against Interest and Dividend Income	1.202	N.A.	N.A.	N.A.	N.A.	N.A.
Excess Natural Resource Depletion Allowance	1.203	0.0	0.3	0.3	0.1	0.3
Abandoned Building Renovation Deduction	1.204	0.1	0.1	0.1	0.1	0.1
ACCELERATED DEDUCTIONS FROM GROSS INCOME						
Accelerated Deductions from Gross	1.300	110.3	114.2	114.4	109.2	108.3

Income						
Modified Accelerated Depreciation on Rental Housing	1.301	23.1	23.7	23.0	21.6	20.9
Modified Accelerated Depreciation on Buildings (other than Rental Housing)	1.303	7.4	7.4	7.3	7.2	7.2
Modified Accelerated Cost Recovery System (MACRS) for Equipment	1.304	70.6	70.1	69.0	65.0	65.0
Deduction for Excess First-Year Depreciation	1.305	7.4	11.0	13.2	12.9	12.8
Election to Deduct and Amortize Business Start-up Costs	1.306	0.2	0.2	0.2	0.6	0.5
Expensing Exploration and Development Costs	1.308	Negligible	Negligible	Negligible	Negligible	Negligible
Expensing Research and Experimental Expenditures in One Year	1.309	1.5	1.5	1.5	1.4	1.4
Five-Year Amortization of Pollution Control Facilities	1.310	N.A.	N.A.	N.A.	N.A.	N.A.
Seven-Year Amortization for Reforestation	1.311	N.A.	N.A.	N.A.	N.A.	N.A.
Expensing Certain Capital Outlays of Farmers	1.312	0.1	0.4	0.3	0.4	0.4
DEDUCTIONS FROM ADJUSTED GROSS INCOME						
Deductions from Adjusted Gross Income	1.400	851.9	896.9	905.2	922.1	940.3
Deduction for Employee Social Security and Railroad Retirement Payments	1.401	311.2	326.4	325.5	324.6	323.7
Deduction for Employee Contributions to Public Pension Plans2	1.402	Included in 1.401	Included in 1.401	Included in 1.401	Included in 1.401	Included in 1.401
Additional Exemption for the Elderly	1.403	27.5	29.4	29.9	30.4	31.0
Additional Exemption for the Blind	1.404	1.2	1.1	1.1	1.1	1.1
Dependents Exemption Where the Child Earns Income	1.405	N.A.	N.A.	N.A.	N.A.	N.A.
Deduction for Dependents Under 12	1.406	134.2	131.8	130.0	128.7	127.5
Personal Exemption for Students Age 19 or Over	1.407	9.0	9.0	8.8	8.7	8.5
Deduction for Adoption Fees	1.408	0.4	0.4	0.4	0.4	0.4
Deduction for Business-Related Child Care Expenses	1.409	16.0	16.8	17.5	18.2	19.0
Exemption of Medical Expenses	1.410	106.7	120.8	123.7	127.2	131.0
Rent Deduction	1.411	121.1	124.0	127.6	130.1	132.6
Nontaxation of Charitable Purpose Income of Trustees, Executors or Administrators	1.412	N.A.	N.A.	N.A.	N.A.	N.A.
Exemption of Interest on Savings in Massachusetts Banks	1.413	3.6	3.7	3.0	3.3	3.6
Tuition Deduction (Over 25% of Income)	1.414	36.0	45.5	42.2	46.4	51.1
Charitable Contributions Tax Deduction	1.415	Not Active	Not Active	Not Active	Not Active	Not Active
Deduction for Costs Involved in Unlawful Discrimination Suits	1.418	N.A.	N.A.	N.A.	N.A.	N.A.
Business Expenses of National Guard and Reserve Members	1.419	Negligible	Negligible	Negligible	Negligible	Negligible
Archer Medical Savings Accounts	1.420	Negligible	Negligible	Negligible	Negligible	Negligible
Deduction for Clean-Fuel Vehicles and Certain Refueling Property	1.421	Negligible	Negligible	Negligible	Negligible	Negligible
Health Savings Accounts	1.422	6.2	5.7	6.7	8.0	8.9
Commuter Deduction	1.423	7.9	8.4	9.1	9.0	9.0
Self-Employed Health Insurance Deduction	1.424	43.5	42.8	45.1	47.5	50.0
Student Loan Interest Deduction (allowed Federally or by Massachusetts)	1.425	27.2	30.9	34.4	38.3	42.7

Expenses of Human Organ Transplant	1.426	0.1	0.1	0.1	0.1	0.1
PREFERENTIAL RATE OF TAXATION						
Preferential Rate of Taxation	1.500	0.0	0.1	0.7	2.3	4.0
Small Business Stock, Capital Gains Tax Rate	1.501	N.A.	0.1	0.7	2.3	4.0
CREDITS AGAINST TAX						
Credits Against Tax	1.600	233.0	252.2	255.9	263.4	346.2
Renewable Energy Source Credit	1.601	1.1	1.8	1.7	1.8	1.8
Credit for Removal of Lead Paint	1.602	3.0	2.5	2.5	2.5	2.5
EDIP/Economic Development Incentive Program Credit	1.603	2.8	3.9	3.9	3.9	3.9
Earned Income Credit	1.605	126.7	135.8	135.8	138.8	217.7
Septic System Repair Credit	1.606	10.1	9.9	9.7	9.5	9.2
Low Income Housing Credit	1.607	1.5	2.0	1.5	1.0	1.0
Brownfields Credit	1.608	5.2	3.8	3.9	4.1	4.2
Refundable State Tax Credit Against Property Taxes for Seniors ("Circuit Breaker")	1.609	68.0	70.8	73.9	77.2	80.6
Historic Buildings Rehabilitation Credit	1.610	5.6	6.4	5.4	5.9	6.4
Film (or Motion Picture) Credit	1.611	4.0	1.7	2.1	2.1	2.1
Medical Device User Fee Credit	1.613	Negligible	Negligible	Negligible	Negligible	Negligible
Dairy Farmers Credit	1.614	2.8	3.4	3.4	3.4	3.4
Conservation Land Credit	1.615	2.0	2.0	2.0	2.0	2.0
Employer Wellness Program Tax Credit	1.616	0.0	7.5	7.5	7.5	7.5
Community Investment Tax Credit	1.617	0.0	0.8	2.3	3.0	3.0
Farming and Fisheries Income Tax Credit	1.618	N.A.	N.A.	0.4	0.9	0.9

Fiscal Year 2017 Tax Expenditure Budget: Appendix C
Summary Table

Corporate Tax (In Millions)

Tax Expenditure	Item Number	FY2013	FY2014	FY2015	FY2016	FY2017
EXCLUSIONS FROM GROSS INCOME						
Exclusions from Gross Income	2.000	86.1	84.9	87.7	90.7	91.7
Small Business Corporations	2.001	86.1	84.9	87.7	90.7	91.7
Exemption of Income from the Sale, Lease or Transfer of Certain Patents	2.002	0.0	0.0	0.0	0.0	0.0
DEFERRALS OF GROSS INCOME						
Deferrals of Gross Income	2.100	0.9	0.9	0.9	0.9	0.9
Deferral of Tax on Certain Shipping Companies	2.101	0.9	0.9	0.9	0.9	0.9
DEDUCTIONS FROM GROSS INCOME						
Deductions from Gross Income	2.200	166.5	169.5	177.1	189.5	195.1
Charitable Contributions and Gifts Deduction	2.201	22.8	23.0	23.0	23.0	23.0
Net Operating Loss (NOL) Carry-Forward	2.203	142.4	145.2	152.5	164.9	170.3
Excess Natural Resource Depletion Allowance	2.204	1.2	1.3	1.6	1.7	1.8
Deduction for Certain Dividends of Cooperatives	2.205	N.A.	N.A.	N.A.	N.A.	N.A.
Economic Opportunity Areas; Tax Deduction for Renovation of Abandoned Buildings	2.206	Negligible	Negligible	Negligible	Negligible	Negligible
ACCELERATED DEDUCTIONS FROM GROSS INCOME						
Accelerated Deductions from Gross Income	2.300	358.9	367.4	398.9	411.4	414.2
Modified Accelerated Cost Recovery System on Rental Housing	2.301	3.7	4.1	4.4	4.4	4.4
Expenditures to Remove Architectural and Transportation Barriers to the Handicapped and Elderly	2.303	0.4	0.4	0.4	0.4	0.4
Election to Deduct and Amortize Business Start-up Costs	2.304	0.4	0.4	0.4	0.4	0.4
Modified Accelerated Cost Recovery System for Equipment	2.305	222.6	227.0	241.0	258.5	263.0
Deduction for Excess First-Year Depreciation	2.306	3.7	17.2	36.9	22.3	9.2
Modified Accelerated Depreciation on Buildings (other than Rental Housing)	2.307	1.7	1.7	1.7	1.7	1.7
Expensing Research and Development Expenditures in One Year	2.308	123.3	113.2	110.8	120.3	132.1
Expensing Exploration and Development Costs	2.309	0.9	1.1	1.1	1.2	1.2
Five-Year Amortization of Pollution Control Facilities	2.311	1.8	1.8	1.8	1.8	1.5
Expensing of Alternative Energy Units	2.312	Not Active	Not Active	Not Active	Not Active	Not Active
Seven-Year Amortization for Reforestation	2.313	0.3	0.3	0.3	0.3	0.3
ADJUSTMENTS TO APPORTIONMENT FORMULA						
Adjustments to Apportionment Formula	2.400	355.2	360.0	364.8	369.7	374.7
Unequal Weighting of Sales, Payroll, and Property in the Apportionment Formula	2.401	355.2	360.0	364.8	369.7	374.7
EXCLUSIONS FROM PROPERTY COMPONENT						
Exclusions from Property Component	2.500	228.8	244.9	261.4	279.1	298.0
Nontaxation of Certain Energy Property	2.501	Not Active	Not Active	Not Active	Not Active	Not Active
Exemption for Property Subject to Local Taxation	2.502	228.8	244.9	261.4	279.1	298.0

CREDITS AGAINST TAX

Credits Against Tax	2.600	450.6	449.5	538.4	561.9	578.1
Investment Tax Credit	2.602	54.9	54.8	62.1	63.7	66.4
Vanpool Credit	2.603	Negligible	Negligible	Negligible	Negligible	Negligible
Research Credit	2.604	171.5	180.1	202.5	216.5	208.8
EDIP/Economic Development Incentive Program Credit	2.605	18.7	17.4	19.1	19.8	19.2
Credit for Employing Former Full-Employment Program Participants	2.606	Not Active	Not Active	Not Active	Not Active	Not Active
Harbor Maintenance Tax Credit	2.607	1.1	1.2	1.2	1.2	1.2
Brownfields Credit	2.608	24.9	31.2	32.8	35.5	36.6
Low Income Housing Credit	2.609	48.3	56.7	70.0	79.0	89.0
Historic Buildings Rehabilitation Credit	2.610	37.9	39.9	42.0	44.3	46.6
Film (or Motion Picture) Credit	2.614	76.1	39.7	75.5	68.7	77.9
Medical Device User Fee Credit	2.615	0.8	0.9	0.9	1.0	1.1
Life Sciences Tax Incentive Program	2.617	16.5	19.4	22.5	21.8	20.8
Dairy Farmers Credit	2.618	0.0	0.0	0.0	0.0	0.0
Conservation Land Credit	2.619	0.0	0.0	0.0	0.0	0.0
Employer Wellness Program Tax Credit	2.620	0.0	7.5	7.5	7.5	7.5
Community Investment Tax Credit	2.621	0.0	0.8	2.3	3.0	3.0

ENTITY EXEMPT FROM TAXATION

Entity Exempt from Taxation	2.700	5.1	4.4	4.9	5.1	5.4
Exemption of Credit Union Income	2.701	5.1	4.4	4.9	5.1	5.4
Tax-Exempt Organizations	2.702	N.A.	N.A.	N.A.	N.A.	N.A.
Exemption for Regulated Investment Companies	2.703	N.A.	N.A.	N.A.	N.A.	N.A.

Fiscal Year 2017 Tax Expenditure Budget: Appendix C
Summary Table

Sales Tax (In Millions)

Tax Expenditure	Item Number	FY2013	FY2014	FY2015	FY2016	FY2017
EXEMPT ENTITIES						
Exempt Entities	3.000	397.2	407.6	426.6	450.2	477.4
Exemption for Sales to the Federal Government	3.001	N.A.	N.A.	N.A.	N.A.	N.A.
Exemption for Sales to the Commonwealth	3.002	N.A.	N.A.	N.A.	N.A.	N.A.
Exemption for Sales to Tax-Exempt Organizations	3.003	396.8	407.3	426.2	449.9	477.0
Exemption for Sales of Tangible Personal Property to Motion Picture Production Companies	3.004	0.4	0.3	0.3	0.3	0.3
Exemption for Sales of Certain Tangible Personal Property Purchased for a Certified Life Sciences Company	3.005	0.0	0.1	0.1	0.1	0.1
EXEMPT PRODUCTS/SERVICES						
Exempt Products/Services	3.100	1,460.2	1,494.2	1,515.0	1,554.9	1,617.5
Exemption for Food	3.101	669.7	686.1	675.2	690.7	716.4
Exemption for Certain Food and Beverages Sold in Restaurants	3.102	N.A.	N.A.	N.A.	N.A.	N.A.
Exemption for Clothing	3.103	254.7	261.9	272.1	278.3	288.6
Exemption for Medical and Dental Supplies and Devices	3.104	434.4	447.9	462.0	478.2	502.0
Exemption for Water	3.105	50.6	51.5	53.8	55.0	57.1
Exemption for Newspapers and Magazines	3.106	36.6	36.3	36.0	35.8	35.5
Exemption for the American Flag	3.107	N.A.	N.A.	N.A.	N.A.	N.A.
Exemption for Certain Precious Metals	3.108	N.A.	N.A.	N.A.	N.A.	N.A.
Exemption for Cement Mixers	3.109	N.A.	N.A.	N.A.	N.A.	N.A.
Exemption for Aircraft & Aircraft Parts	3.112	14.2	15.0	15.9	16.8	17.8
Exemption for Breast Pumps	3.113	included in 3.104	included in 3.104	included in 3.104	included in 3.104	included in 3.104
EXEMPT, TAXED UNDER ANOTHER EXCISE						
Exempt, Taxed Under Another Excise	3.200	836.4	829.5	760.9	847.0	766.5
Exemption for Alcoholic Beverages	3.201	111.6	113.4	113.7	116.1	119.3
Exemption for Motor Fuels	3.202	724.8	716.1	647.2	730.9	647.2
EXEMPT COMPONENT OF A PRODUCT OR CONSUMED IN PRODUCTION						
Exempt Component of a Product or Consumed in Production	3.300	834.0	843.0	855.7	867.3	880.1
Exemption for Items Used in Making Clothing	3.301	N.A.	N.A.	N.A.	N.A.	N.A.
Exemption for Materials, Tools, Fuels and Machinery Used in Manufacturing	3.302	615.0	618.1	621.2	624.3	627.4
Exemption for Materials, Tools, Fuels and Machinery Used in Research and Development	3.303	61.7	65.4	73.7	77.8	81.2
Exemption for Materials, Tools, Fuels, and Machinery Used in Furnishing Power	3.304	73.8	75.1	75.1	77.1	80.1
Exemption for Materials, Tools, Fuels, and Machinery Used in Newspaper Printing	3.306	56.3	57.5	58.5	59.6	61.4
Exemption for Materials, Tools, Fuels, and Machinery Used in Agricultural Production	3.308	14.8	15.5	16.2	17.0	17.7

Exemption for Vessels, Materials, Tools, Fuels, and Machinery Used in Commercial Fishing	3.309	12.3	11.3	11.1	11.6	12.2
Exemption for Materials, Tools, Fuels and Machinery Used in Commercial Radio and TV Broadcasting	3.310	N.A.	N.A.	N.A.	N.A.	N.A.
EXEMPTIONS FOR SPECIFIED USES OF PRODUCTS/SERVICES						
Exemptions for Specified Uses of Products/Services	3.400	922.8	965.1	1,020.3	1,015.0	1,059.4
Exemption for Electricity	3.401	297.3	315.1	333.9	349.3	357.0
Exemption for Fuel Used for Heating Purposes	3.402	81.7	81.2	72.6	58.1	61.3
Exemption for Piped and Bottled Gas	3.403	138.2	165.5	174.2	167.1	177.3
Exemption for Steam	3.404	14.4	14.4	14.4	14.4	14.4
Exemption for Certain Energy Conservation Equipment	3.405	N.A.	N.A.	N.A.	N.A.	N.A.
Exemption for Funeral Items	3.406	12.6	12.8	12.8	12.9	13.3
Exemption for a Motor Vehicle for a Paraplegic	3.407	1.3	1.3	1.3	1.3	1.3
Exemption for Textbooks	3.408	46.4	47.5	48.7	50.0	52.0
Exemption for Books Used for Religious Worship	3.409	N.A.	N.A.	N.A.	N.A.	N.A.
Exemption for Containers	3.410	143.9	138.7	185.0	189.5	193.9
Exemption for Certain Sales by Typographers, Compositors, Color Separators	3.411	N.A.	N.A.	N.A.	N.A.	N.A.
Exemption for Sales of Building Materials and Supplies to be Used in Connection with Certain Construction Contracts	3.412	125.1	128.1	128.0	132.7	144.9
Exemption for Commuter Boats	3.417	N.A.	N.A.	N.A.	N.A.	N.A.
Exemption for Fuels, Supplies and Repairs for Vessels Engaged in Interstate or Foreign Commerce	3.418	0.7	0.7	0.7	0.7	0.7
Exemption for Fuel Used in Operating Aircraft and Railroads	3.419	61.3	59.9	48.7	38.9	43.4
Exemption for Sales of Certain New or Used Buses	3.420	N.A.	N.A.	N.A.	N.A.	N.A.
Exemption for Films	3.421	N.A.	N.A.	N.A.	N.A.	N.A.
MISCELLANEOUS EXEMPTIONS						
Miscellaneous Exemptions	3.600	134.6	145.6	147.9	152.1	157.4
Exemption for Casual or Isolated Sales	3.601	N.A.	N.A.	N.A.	N.A.	N.A.
Exemption for Vending Machine Sales	3.602	N.A.	N.A.	N.A.	N.A.	N.A.
Exemption for Certain Meals	3.603	10.8	11.5	11.9	12.0	12.1
Exemption for Certain Bed and Breakfast Establishments from Sales Tax on Meals and Room Occupancy Excise	3.604	N.A.	N.A.	N.A.	N.A.	N.A.
Exemption for Certain Summer Camps from Sales Tax on Meals and Room Occupancy Excise	3.605	1.4	1.4	1.5	1.5	1.6
Exemption for Trade-in Allowances for Motor Vehicles and Trailers	3.606	109.5	119.3	120.4	123.7	127.9
Exemption for Publications of Tax-Exempt Organizations	3.607	13.0	13.4	14.1	14.9	15.7
Exemption for Gifts of Scientific Equipment	3.608	N.A.	N.A.	N.A.	N.A.	N.A.
Exemption for Vessels or Barges of 50 Tons or Over	3.609	N.A.	N.A.	N.A.	N.A.	N.A.
Exemption for Rental Charges for Refuse Containers	3.610	N.A.	N.A.	N.A.	N.A.	N.A.
Exemption for Honor Trays	3.611	N.A.	N.A.	N.A.	N.A.	N.A.

Fiscal Year 2017 Tax Expenditure Budget – Appendix D
Non-TEB Items

In July 2012 legislation was enacted stating explicitly that "sales that do not involve tangible personal property shall not result in tax expenditures". See St 2012, c.165, §112. Pursuant to this legislation, from fiscal year 2014 on, we remove some items from our tax expenditure estimates, which we regularly reported in prior years. But to facilitate comparison to tax expenditure estimates in prior years, we list these items in this appendix.

Items:

3.203 Exemption for Hotel/Motel Rooms
Rental charges for real property are exempt from sales tax. However, rentals of rooms in hotels, motels or lodging houses are subject to a state excise at a rate of 5.7% of the rental price, and, at a municipality's option, to a local excise of up to 6% of the rental price (6.5% in the city of Boston). A Convention Center financing fee of 2.75% is also included in certain areas.

Origin: General exclusion of real property transactions
Estimate: $185.1

Comment: Revenues collected under the budgeted state room excise were $138.5 million in Fiscal Year 2014 and $150.7 million in Fiscal Year 2015.

3.422 Exemption for Telephone Services
Sales of residential telecommunications services of up to $30 per month are exempt from sales tax.

Origin: M.G.L. c. 64H, § 6(i)
Estimate: $32.2

Comment: Telegraph services are also exempt, but are not included in this estimate.

3.501 Nontaxation of Transfers of Real Property
Real estate is exempt from sales tax but is subject to a deeds excise at a rate of 0.456% of the taxable price of the property (0.342% in Barnstable County). The estimate represents revenues that would be collected under the sales tax if sales of real property were taxed at 6.25%.

Origin: General exclusion of real property transactions
Estimate: $3,696.1

Comment: Revenues collected under the Deeds Excise Tax (including Secretary State Deeds) were $223.1 million in Fiscal Year 2014 and $238.3 million in Fiscal Year 2015.

3.502 Nontaxation of Rentals of Real Property
Rental charges for real property, whether for residential or business purposes, are exempt from sales tax.

Origin: General exclusion of real property transactions

Estimate: $1800.6

Comment: This estimate excludes rentals of hotel/motel rooms, which are separately stated under item 3.203.

3.503 Nontaxation of Certain Services
Certain services are not subject to sales tax. This estimate includes a range of services to individuals and businesses which are excluded from taxation by their omission from the statutory definition of services.

Origin: M.G.L. c. 64H § 1
Estimate: $16,580.5

3.504 Nontaxation of Internet Access and Related Services
Internet access services, electronic mail services, electronic bulletin board services, web hosting services or similar on-line computer services are not subject to the sales and use tax.

Origin: M.G.L. c. 64H § 1
Estimate: $184.1

Summary:

Description of Item	Former TEB number	FY2013	FY2014	FY2015	FY2016	FY2017
Exemption for Hotel/Motel Rooms	3.203	169.0	151.9	165.2	178.7	185.1
Exemption for Telephone Services	3.422	36.1	35.2	33.8	31.8	32.2
Nontaxation of Transfers of Real Property	3.501	2,720.3	3,190.2	3,487.7	3,710.9	3,696.1
Nontaxation of Rentals of Real Property	3.502	1,575.9	1,628.2	1,695.0	1,747.3	1,800.6
Nontaxation of Certain Services	3.503	13,765.7	14,310.1	14,989.4	15,719.7	16,580.5
Nontaxation of Internet Access and Related Services	3.504	162.0	171.7	174.7	177.4	184.1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A

Account

Account is an entity by which the Massachusetts Management Accounting and Reporting System (MMARS) records the status of expenditure authorizations and revenue estimates. Also known as Line-Item or Appropriation. See "account type" to learn more about the six main account types.

Accounts payable

Payments owed for goods or services received before the close of a "fiscal year". Funds should be encumbered by June 30, and paid before August 31, when unspent "encumbrances" lapse. Under certain conditions, Administration and Finance may approve an extension until September 15.

Accrual basis of accounting

Revenues and expenditures are recognized and recorded in the period that they occur, rather than when cash is collected or disbursed. Also see Statutory basis of accounting.

Act

A law passed by the Legislature. The legislative session runs by calendar year and Acts are numbered consecutively in each session. So the first law passed in January is called Chapter 1 of the Acts of 20__; the next law is Chapter 2 of the Acts of 20__, etc. Unless an Act is of limited scope or duration, it is usually written as an amendment to the "General Laws". "Appropriation" acts take effect immediately upon approval by the Governor. All other acts take effect 90 days after the Governor's approval, except for acts which have an "emergency preamble", which take effect immediately.

Administration priorities

Significant areas of public concern upon which the Administration has focused attention and increased funding in order to ensure that meaningful steps are taken to improve the well-being of the Commonwealth and its citizens.

Agency

See Department.

Allotment

The process of making money that has been appropriated by the Legislature available for expenditure. Although obligations can be incurred without money being allotted, money must be allotted before money can be paid out. A fraction of the money in budgetary accounts is automatically allotted periodically: between 1/12 for one month and 1/3 for four months. If an account needs to spend at a greater rate than the periodic allotment, the agency submits an allotment request. Retained revenue receipts, federal grants, and trust funds are automatically fully allotted. "Capital" accounts are administered through a different process.

American reinvestment and recovery act

The American Recovery and Reinvestment Act of 2009, abbreviated ARRA or Federal Stimulus, is an economic stimulus package enacted by Congress in February 2009. The Act includes federal tax cuts, expansion of unemployment benefits and other social welfare provisions, and domestic spending in education, health care, and infrastructure, including the energy sector. The measures are nominally worth $787 billion.

Annualization

Positive annualization is the additional incremental cost in the next fiscal year of new programs, program expansions, or other efforts which are started sometime during the current fiscal year. Negative annualization is the incremental cost reduction in the next fiscal year resulting from savings efforts and other spending reductions begun sometime during the current fiscal year. Annualization is not the same as "annualized cost/saving".

Annualized cost/saving

The full twelve-month cost or saving of an item. This is not the same as "annualization".

Appropriation

A specified sum of money authorized by the legislature for a specific period of time to which expenditures may be made to accomplish a specific purpose identified in the legislation language authorizing the appropriation. An account number, also called line item, identifies each appropriation. See Line Item.

Appropriations tracking

The process of monitoring or tracking the progress of a budget bill through the legislative process.

ARRA

See American Reinvestment and Recovery Act

Assessment

A statutorily mandated form of reimbursement or up-front payment for state expenditures. Assessments are often mandated to charge private sector businesses for state services that are of particular benefit to them.

AT

See Appropriations Tracking.

B

Balance

See Balance Sheet, Statutory Balance, Structural Balance.

Balance sheet

A document produced by Administration and Finance, which summarizes revenue and spending by category and fund, and displays the resulting condition. Balance sheets are produced for prior years based on actual receipts and expenditures, and for current and future years based on projections.

Block grant

A consolidated grant of federal funds awarded to a state agency that may be used at its discretion for a specific issue.

Bond

A financial instrument that is sold by the government for cash. A bond contains a written promise to pay a specified amount of money on a specified date or dates in the future, together with a periodic interest at a specified rate.

Bond cap

The annual limit on bond-funded spending that will be permitted by the Governor in support of the capital program. The "Bond Cap" is set annually based on the Debt Affordability Policy, and published in the Commonwealth's Five-Year Capital Investment Plan.

Bond fund

A fund of the Commonwealth into which bond proceeds are deposited and from which spending may occur.

Bond revenues

The proceeds of bond issued by the Commonwealth and the interest earned thereon.

Budgetary accounts

Budgetary Accounts also called Budgetary Appropriations include "Direct appropriation" and "retained revenue" accounts.

Budgetary appropriations

Funding for these "line-items" come from the following sources: state tax receipts, revenue generate by fees, and federal reimbursements for certain programs. Budgetary Appropriations represent one of the four funding sources. At the Program budget level, appropriations are recommended by the Administration for enactment by the Legislature each fiscal year through the GAA.

Budgetary non-tax revenue

In order to fund its programs and services, the Commonwealth receives revenues from non-tax sources, including the federal government and various fees, fines, court revenues, assessments, reimbursements, interest earnings and transfers from its non-budgeted funds, which are deposited in the General Fund, the Transportation Fund (formerly the Highway Fund) and other operating budgeted funds.

Budgetary recommendation

In the Budget, the level of expenditure recommended by the Administration for a line item.

Budgeted funds

The funds that contribute to the Commonwealth's statutory balance, currently the General Fund, Commonwealth Transportation Fund, and Massachusetts Tourism Fund. All other funds are considered "non-budgeted funds".

C

Capital account

Entity in "MMARS" which records the status of a spending authorization to be funded from the sale of bonds. Capital authorizations are usually for facility and infrastructure construction and maintenance or large equipment purchases, and are generally authorized for 5 years.

Capital projects funds

Capital project funds are for acquisition, long-term construction, and development activities legislatively authorized, but largely funded through bonds and federal receipts.

Chapter 29

The "General Laws" chapter that relates to state finance.

Charge back

A cost item for which payment is made by one state agency to another, for example, paying for central computer services. See Intragovernmental Service Fund Account.

Cherry sheet

A list, prepared annually by the Department of Revenue, of certain local aid distributions. It used to be published on cherry-colored paper, hence the name.

Citation

A reference to a specific statute or regulation.

CIW

See Commonwealth Information Warehouse.

Clerks

The Clerks of the House and Senate are the official recorders of all proceedings in the respective chambers. The Clerks publish the journals, calendars, and other documents, and print copies of all bills filed.

Commonwealth Information Warehouse

Commonwealth Information Warehouse (CIW) brings together enterprise financial (MMARS), budget and payroll (HR/CMS) data that are maintained in separate source applications run by independent agencies. CIW provides access to information through a centralized, integrated repository that supports timely, well-informed business decisions.

Comptroller

The officer responsible for keeping the state's "books" and making rules to ensure that all the state's financial transactions are performed according to statute and regulation, and according to "generally accepted accounting principles" (GAAP). The Comptroller manages the state accounting system, which is called "MMARS".

Condition

The result produced on the balance sheet when revenues are compared to spending. A positive condition indicates that revenues exceed spending.

Conference committee

A group consisting of members from the House and members from the Senate, appointed to work out a compromise version of a bill, when the House-passed and Senate-passed versions of the bill differ.

Consolidated net surplus in the budgetary funds

The sum of undesignated balances in the budgetary funds, except funds established by section 2H and section 2I of Chapter 29, by section 2C of chapter 131 and section 35NN of chapter 10.

Current services budget

Synonymous with "maintenance budget".

Current year budget

The Current Year Budget represents the General Appropriations Act (GAA) enacted by the Legislature in June for the coming fiscal year, as amended by the Governor’s vetoes and any Legislative overrides of these vetoes. This is the approved spending level at the beginning of a fiscal year for each line item account. These amounts are loaded into the Massachusetts Management Accounting System (MMARS). Amounts may include Prior Appropriations Continued (PACs) authorized by the Legislature in the GAA which permit departments to use unexpended funds from the prior fiscal year in the current fiscal year. Departments estimate the funding level for each program based on these amounts. Capital plan items are added to the Current Year Budget to provide an "all funds" view of dollars projected to be spent on each program.

D

Debt

The principal borrowed by the Commonwealth, usually to support capital projects, which are assets with a useful life over a number of years.

Deficiency

A shortfall in an existing appropriation, or an additional amount needed to accomplish a new or expanded purpose. It used to be that the former was always referred to as a "deficiency" and the latter was always referred to as a "supplemental", but the two terms have come to be used more or less interchangeably.

Department
A department is a legal entity of state government established by the legislature with a specific mission. Departments may report to cabinet-level units of government known as executive offices or secretariats or may be independent divisions.

Department code
Three-letter identification field in "MMARS", unique to each agency.

Direct appropriation account
Entity in "MMARS" which records the status of appropriations which are financed by budgeted fund unrestricted revenues.

Direct debt limit
The statutory limit on the total principal amount of all direct debt issued by the Commonwealth for the purposes of financing state capital spending with the exception of debt issued on a short-term basis in anticipation of receipts from taxes and other sources.

E

Earmarking
Language included in a line item which provides that a specific portion of the appropriation be spent for a particular purpose.

Effective date
See Act

Emergency preamble
Language inserted at the beginning of some Acts, which declares that the "Act" is an emergency law. An emergency preamble causes the Act to take effect immediately upon the Governor's approval, rather than after 90 days.

Encumbrance
The setting aside of money in "MMARS" by an agency to meet known obligations. (Payroll is an exception. Even though it is a known obligation, payroll costs are not encumbered, except for "Accounts Payable" obligations at the end of a "fiscal year".)

Estimated receipt amount
The field in "MMARS" that records the amount of money that Administration and Finance believes will become available during the "fiscal year" in "retained revenue", "Intragovernmental Service Fund", and "federal grant" accounts. This amount is used by the "Comptroller" as a limit to obligations.

Expenditure
An expenditure is an outlay in cash for a specific purpose, which includes payroll expenses, payroll-related chargebacks; contracts (grants, interdepartmental service agreements, leases; subsidies; administrative, operational, and programmatic expenses; and chargebacks and payments.

Expenditure classification handbook
A manual published by the "Comptroller" which sets forth the official "object class" and "object codes" used for budgeting funds and recording expenses within "accounts", along with definitions.

F

Federal financial participation

Reimbursement from the federal government for part of the cost of certain programs, such as Medicaid and TAFDC. Often referred to by the acronym "FFP."

Federal grant

Any financial assistance made available from the United States federal government to a state agency, either directly or through an intermediary, whether a project, formula, or block grant; a subvention, a subsidy, an augmentation, or a state plan. A grant award represents an amount that a recipient can spend within a defined period of time.

Federal grant account

Entity in "MMARS" which records the status of grants authorized by the Legislature to be received from the federal government and subsequently expended.

Federal grant spending

Anticipated spending to support a program from a federal grant funding source. This is a sub-category of federal grant funding provided to agencies.

Federal reimbursements

Financial assistance provided under Titles XVIII or XIX of the Social Security Act or other reimbursements received for state entitlement expenditures and credited to the General Fund, or other Federal financial assistance from the Federal government for direct payments to individuals, or for other purposes as provided for in chapter 90, chapter 92 and chapter 151A of the Massachusetts General Laws.

Federal stimulus

See American Reinvestment and Recovery Act

FFP

See Federal Financial Participation.

Fiscal year

Period that the Massachusetts budget covers: July 1 through June 30. (The federal fiscal year covers October 1 through September 30.)

Formula grant

Federal funding for which the allocation methodology is strictly determined in federal statute or regulation, and for which a state agency prepares a single application and receives subsequent years' allocation without re-application.

Fringe benefit charges

Costs assessed against federal grants and other non-budgetary accounts to defray the costs of employee benefits which are paid for centrally.

Fringe benefits

Employee-related costs other than salary, e.g., insurance and retirement costs.

FTE

See Full-Time Equivalent.

Full-time equivalent

A measure of workforce personnel, equal to one position working full time. For example, two half-time positions equal one full-time equivalent. Often referred to by the acronym "FTE".

Fund

An accounting entity in MMARS to which all receipts are credited and against which all expenditures and other liabilities are charged. By law, Massachusetts uses a fund accounting system, where all financial activity is recorded by fund. The law specifies which receipts shall be deposited to which funds. Budget acts specify which expenditures shall be charged to which funds.

Fund balance

A cumulative residual total of a fund's financial operations (revenues vs. expenditures), also measured as the difference between the fund's assets and its liabilities.

Funding source

Accounts are classified based on funding type, also referred to as funding source. There are four main funding types: budgetary appropriations, federal grants, capital, and trust accounts.

G

GAA

See General Appropriation Act.

GAAP

See Generally Accepted Accounting Principles.

GASB

See Government Accounting Standards Board.

General appropriation act

The budget for a fiscal year which is passed by the Legislature and signed into law by the Governor to fund activities for the government for a specified budget fiscal year. The Massachusetts General Laws require that annual budgets are in statutory balance.

General court

The Legislature.

General laws

The codified collection of laws passed by the Legislature, organized into Chapters and Sections by subject. Often referred to by one of the following acronyms: "GL", "MGL", "MGLA (annotated)".

Generally accepted accounting principals

A set of accounting rules which are accrual-based and widely accepted and used. Often noted as GAAP. (The statutory accounting that the state primarily uses is largely cash-based.)

Government accounting standards board

The independent organization that establishes and improves standards of accounting and financial reporting for U.S. state and local governments. Often noted as GASB.

Government area

A group encompassing all government entities according to the organizational structure of state government. There are twelve government areas.

Governor's council

A body of elected officials which, according to the state constitution, must approve all expenditures except those for debt service and salaries for legislators and the Supreme Court justices. The Governor's Council meets weekly to approve "warrants" of expenditures.

Governor's message

A letter to the Legislature from the Governor that covers legislation submitted by the Governor.

Governor's Recommendation

Governor's Recommendation represents the Administration's proposed budget for the next fiscal year. This data is published in January as the Governor's Budget Recommendation.

Grade

See Step Rate

H

Historical budget levels

A comparison of approved funding levels by the Legislature for the previous three fiscal years (General Appropriation Act) to the governor's recommended budget for the next fiscal year

House 1; House 2

The Governor's budget recommendations for the next "fiscal year". According to the Constitution, it must be filed within 3 weeks of the convening of the Legislature in January. Newly-elected governors must file House 1 within eight weeks. In the second year of a legislative session, the Governor's budget is referred to as House 2.

HR/CMS

Human Resources Compensation Management System, the payroll system through which all non-University of Massachusetts state employees are paid.

HRMS

The payroll system through which University of Massachusetts employees are paid.

I

Income Tax

Citizen payments based on annual revenue received from personal work, investment income, rental property, etc. Income taxes are defined by state law and the Department of Revenue.

Incremental budgeting

A budgeting technique where a base budget is established using uniform criteria for all agencies, and additions or deletions are added to or subtracted from that base. See performance-based budgeting, program budgeting, zero-based budgeting.

Indirect cost

Overhead expense, including space rental and other administrative support costs, but not including employee "fringe benefits".

Indirect cost rate

A percentage that the state charges to federal grants for overhead costs which are incurred by the state.

Information warehouse

A sizeable database which contains an extensive and expanding set of financial and payroll data. State agency personnel can extract data to construct analytical and management summary reports and spreadsheets. Also referred to as the Commonwealth Information Warehouse, CIW.

Interagency service agreement

A contract between two state agencies where one agency agrees to perform specified services and the other agency agrees to pay for those services. Often referred to as an ISA.

Internal control

Internal control is a process, effected by an entity's board of directors, management, or other personnel designed to provide reasonable assurance regarding the achievement of the effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations.

Intragovernmental service fund account

Entity in "MMARS" which records the status of a certain type of "appropriation" where an agency is authorized to make payments for goods, services, and other obligations on behalf of other agencies, and to receive reimbursement from the accounts of those other agencies. These reimbursements are called charge backs. Normally, Intragovernmental Services Fund spending and revenue are not included in statewide totals, since doing so would result in a double count. Also referred to as an ISF account.

ISA

"Interagency Service Agreement". Where an agency is authorized to make payments for goods, services, and other obligations on behalf of other agencies, and to receive reimbursement from the accounts of those other agencies.

ISBT

See Inter-Secretariat Budget Team.

ISF account

See Intragovernmental Service Fund account.

J

Journal

The official record of proceedings in each chamber of the Legislature. The House Journal and Senate Journal are published by the "Clerks" of the respective chambers.

Judicial branch

The Massachusetts Judiciary branch is comprised of the Supreme Judicial Court, the Appeals Court, the Trial Court, and the Committee for Public Counsel Services. The Supreme Judicial Court has original jurisdiction over certain cases and hears appeals from both the Appeals Court, which is an intermediate appellate court, and in some cases, directly form the Trial Court.

L

LCM

Labor Cost Management system, an interface between HR/CMS and MMARS that allows agencies to assign employee payroll expenses among different accounts and programs.

Legislative branch

The Massachusetts Legislature or General Court is a two-house body consisting of 40 senators and 160 representatives. A professional and administrative staff supports legislators, primarily through the committee structure.

Line item

Unit by which the Legislature appropriates money. Line items consist of an "account" number, language that outlines how the money may be spent, the amount, and the "fund" designation. Where no fund designation is given, the "appropriation" is charged to the General Fund.

Line item veto

See Veto

Local aid

Monies appropriated to be distributed to cities and towns. See Cherry Sheet.

M

Maintenance budget

The projected cost in the next fiscal year of maintaining the level of operations that will exist at the end of the current "fiscal year".

Master service agreement

A "blanket contract" which covers services, often referred to as an MSA.

Medicaid

Health coverage authorized in Title XIX of the Social Security Act for individuals and families who meet defined financial eligibility criteria.

MMARS

Massachusetts Management Accounting and Reporting System, the official accounting system of the Commonwealth.

Model budget

A preliminary budget estimate developed in-house, by Administration and Finance, prior to the formal budget development process.

MSA

"Master Service Agreement" consists of qualified vendors with approved rates available to meet the needs of the Commonwealth.

N

Non-budgetary accounts

Spending accounts other than "direct appropriation" and "retained revenue".

Non-budgeted funds

Financial activities authorized by the legislature but funded through receipts of dedicated revenues (such as assessments, federal grants, fees, fines, investment income) and certain designations of tax revenue. All funds except the General, Highway and Health and Wellness Funds which are considered "budgeted funds".

Non-budgeted special revenue funds

Specific revenue sources that have been segregated from the budgeted funds to support specific governmental activities, such as federal grants, funds related to the tobacco settlement and operations of the state lottery.

O

Object class

Formerly known as subsidiary, and often interchanged. Sub-unit of an "account", indicated by a two-character code, AA, BB, CC, etc. "Appropriations" are recorded in "MMARS" by object classes within an account. Object classes specify the purposes for which portions of appropriations are budgeted. For example, money budgeted in the AA can only be spent on salaries; money in KK can only be spent for equipment purchases. Monies in some "budgetary accounts", and in most "non-budgetary accounts", are not subsidiarized, and expenditures in those accounts are not limited by object class controls. See Expenditure Classification Handbook.

Object code

Three-character identifier used in "MMARS" to classify all expenditures. Object codes describe the types of goods and services procured. The hundreds of object codes can be summed into the 18 object classes, and are described in detail in the "Expenditure Classification Handbook".

Official statement

A legally required disclosure document prepared at the time of bond offerings of the Commonwealth or of entities whose bonds are guaranteed by the Commonwealth, frequently referred to as an "OS".

One-time cost

An expenditure by an agency that would not normally be expected to recur in the next year, e.g., an expenditure for the installation of a computer network.

Operating budget

The Massachusetts constitution requires that the Governor recommend to the Legislature a budget which contains a statement of all proposed expenditures of the Commonwealth for the upcoming fiscal year, including those already authorized by law, and of all taxes, revenues, loans, and other means by which such expenditures are to be defrayed.

Operating transfers

Operating transfers for the purposes of this budget document, represent transfers of funds from a budgeted fund to non-budgeted funds. An example of this is the transfer from the General Fund to the Commonwealth Care Trust Fund.

OS

See "Official statement".

Outside sections

Sections in a budget act following section 3, which contain specific provisions of law which govern the particular appropriations contained in the budget, make other special laws that usually apply for only one "fiscal year", and amend the General Laws to implement permanent changes included in the budget.

P

PAC

See "Prior Appropriation Continued".

Planning grant

A grant limited to supporting initial project development work such as research, consultation with subject matter experts or other planning activities. Planning grant funds usually do not support implementation activities.

Pocket veto

Legislative bills sent to the Governor for signature at the end of a legislative session are considered to be vetoed if he does not sign them within 10 days. This is called a pocket veto. (While the Legislature is still in session, a bill held unsigned by the Governor becomes law after 10 days.)

Prior appropriation continued

In general, the balance of unspent and unobligated "appropriations" reverts at the end of a "fiscal year". (See Reversion.) Each year, some accounts are specifically exempted from this provision, and are authorized in budget acts to carry a balance into the next fiscal year. Those accounts are called "prior appropriation continued accounts" or "PAC accounts." Sometimes "PAC" is colloquially as a verb, and accounts are said to be "PAC'd." "Capital" accounts, at the end of their normal 5-year life span, may be subject to the same process.

Proposition 2 1/2

A Massachusetts referendum passed in 1980 that limits the growth of local property tax to an annual increase of 2.5%.

Q

Quasi-public agency

Authorities and quasi-public agencies are state agencies and boards created by statute, that are funded to some extent with state tax dollars, and that are not directly accountable to a single elected official. They tend to be headed by chief executive officers who report to boards of directors who in turn are appointed by multiple elected officials. For example, the State Auditor, Treasurer, and Governor each appoint members to the Board of Directors for the Massachusetts Teachers' Retirement System.

R

Rainy day fund

See "Stabilization Fund".

Receipt ceiling

See Retained Revenue Account

Recommended spending

The level of expenditure recommended by the Administration for a "Program" or "line item". In the Program budget, Recommended Spending includes All Funding Sources. In the line item budget, recommended funding level is called Budgetary Recommendation and is limited to Budgetary Appropriations only.

Reserve

A "line item" which appropriates an amount to be transferred to other line items to fund a particular cost which is not already included in those other line items. Reserves are usually set up to fund new collective bargaining agreements, and other expenses when the distribution of costs across accounts is not known at the time of the "appropriation".

Restricted revenue

Receipts which, instead of being deposited to general or "unrestricted revenue", are diverted for a specific purpose, usually for the purposes of "retained revenue account".

Retained revenue account

Entity in "MMARS" which records the status of a certain type of appropriation where an agency is authorized to spend a specific amount of receipts from a particular revenue source for a particular purpose. The amount specified in the "line item" is entered into the "Receipt Ceiling" field in MMARS, and revenues deposited up to that amount may be retained and spent.

Revenue

Funds received by the Commonwealth from a variety of sources including taxes, federal reimbursements, federal grants, lottery revenue, assessments, motor vehicle license fees and registrations, fees and investment earnings.

Revenue retention account

An account which allows a state agency or other public instrumentality to use retained revenue during the fiscal year in which such revenue is received to maintain all or a portion of its operations.

Reversion

Unexpended and unobligated money which returns at the end of a fiscal year to the fund from which it was appropriated. This money is no longer available for agencies to spend.

Revolving account

A revenue retention account in which the retained revenues unspent or unencumbered at the end of a fiscal year are carried over into the next fiscal year for expenditure.

S

Salary chart

See step rate

Source code

A four-digit code used in "MMARS" to designate the specific type of activity from which revenue is generated. The last four digits of a revenue "account" number comprise the source code.

Spending category

This represents the type of spending that will occur, such as personnel, equipment leases, information technology, etc. This indicates the level of detail within a line item or account that shows actual spending as recorded in the Commonwealth's accounting system.

Spending plan

A document, submitted to Administration and Finance by all state agencies, which contains a detailed estimate of projected spending and revenue for the current year. The Spending Plan usually includes a detailed maintenance budget estimate for the following year as well.

Stabilization fund

A "rainy day" fund into which the end-of-year surplus is deposited up until the limit of 15 percent of budgeted revenues is reached. The stabilization fund is a reserve of surplus revenues used for the purposes of covering revenue shortfalls, state or local losses of federal funds, or for any event that threatens the health, safety, or welfare of the people or fiscal stability of the Commonwealth.

State revenue

All income from state taxes, state agency fees, fines, assessments, charges, and other departmental revenues, retained revenues, federal grants, federal reimbursements, lottery receipts, court judgments and the earnings on such income.

Statutory balance

The amount on the "Balance Sheet" which indicates the condition, if excess revenue carried forward from the previous year is counted. (The laws, or statutes, allow a certain percentage of prior year excess revenue to be counted in the balance.) See Structural Balance.

Statutory basis of accounting

Under the statutory basis of accounting revenues are generally recognized when cash deposits are received by the Treasury and expenditures are generally recorded when cash disbursement occurs.

Statutory debt limit

Enacted in December 1989, Section 60A of Chapter 29 of the General Laws set a fiscal 1991 limit of $6.8 billion on the amount of outstanding direct debt of the Commonwealth, and provided that the limit for each subsequent fiscal year was to be 105% of the previous fiscal year's limit. Certain bond issues, such as refunded bonds and bonds issued for the MBTA, Central Artery/Tunnel Project, Massachusetts School Building Authority, and bonds issued to finance the Commonwealth's accelerated structurally deficient bridge program, are exempt from the statutory debt limit.

Step rate

Salary rates for unionized state employees are outlined in salary tables which contain grades and steps. Grades are determined by position title. Each grade contains salary rates, which increase in increments and are known as "steps". Each year on their anniversary dates, and based on satisfactory performance, employees get a "step" (a predefined salary increase). When they reach the top step, they can proceed no further within a grade, unless specific collective bargaining agreements provide otherwise.

Structural balance
The amount on the "Balance Sheet" which indicates the condition, if excess revenue carried forward from the previous year is not counted. Also called operating or current account balance. See Statutory Balance.

Sub
Short for "Subsidiary".

Subsidiary
See Object Class

Subsidy
A subsidy is considered any monetary assistance, in either cash or tax reduction, provided by the federal government to support a specific project that has a public purpose. Funds designated by the Legislature to be made either as a direct payment or transfer of a specified amount to a designated recipient entity, or are designated specifically as direct payments through "Subsidies" or a "Subsidy program".

Supp
Short for "Supplemental".

Supplemental
See Deficiency

T

Tax exempt lease purchase
A program where state agencies may lease-purchase equipment, and which includes tax benefits for the vendor and price breaks for the state. Usually referred to by the acronym "TELP".

Tax expenditure
Provisions in the tax code, such as exclusions, deductions, tax credits and deferrals, which are designed to encourage certain kinds of activities or aid taxpayers in special circumstances.

Tax expenditure budget
Sources of revenue for all state government.

TELP
See "Tax Exempt Lease Purchase".

Terms bill
A legislative bill authorizing terms and conditions of bond sales, which must be filed by the Governor, and passed by the Legislature, before previously authorized capital outlay bonds can be sold, and before bonded expenditures can be made.

Trust fund
A fund into which monies are deposited to be held by the Commonwealth or states agencies in a trustee capacity and which must be expended in an accordance with the terms of the trust.

Trust spending
This is spending from certain accounts for which the Commonwealth holds a fiduciary role, managing dollars from sources other than direct appropriation by the Legislature, such as private contributions or revenues placed in trust for spending on designated programs.

Trust/other account
Unit in "MMARS" which records the status of monies authorized to be spent by various statutes, other than "appropriations", capital outlay authorizations, and "federal grants".

U

Unrestricted revenue

Receipts which are deposited to the commonwealth's general revenues, as opposed to "restricted revenue".

V

Veto

Action taken by the Governor, authorized by the Constitution, to disapprove a legislative bill. For "appropriation" bills, the Governor may disapprove any "line item", or in some instances portions of line items, and "outside sections".

Veto override

Legislative power to nullify a Governor's veto. Requires a two-thirds vote of both the House and Senate.

W

Warehouse

"Commonwealth Information Warehouse" (CIW) brings together enterprise financial, budget, time and labor, human resources, and payroll data that is maintained in separate source applications run by independent agencies. CIW provides access to information through a centralized, integrated repository that supports timely, well informed business decisions.

Warrant

A report produced weekly (and for some items monthly) which lists all payments about to be made, and which must be approved by the "Governor's Council" before the payments are made.

Ways and means committees

Legislative bodies in the House and Senate, which consist of members of the respective branches appointed by the House Speaker and Senate President. These bodies make recommendations to their respective chambers on all funding bills. The House and Senate Committees on Ways and Means employ budget staff, including analysts.

Z

Zero-based budgeting

A budgeting technique that aims to justify all expenditures associated with an account or program and not just additional or current funding levels. In practice, Zero-based Budgeting includes the development of decision packages that provide a range of reduced, maintenance and growth options for the account or program.