

2026 Report of the Tax Expenditure Review Commission

Table of Contents

Overview

TERC Approach to Implementation of its Statutory Mandate

TERC Observations and Recommendations for the Legislature

Particular Tax Expenditures Flagged in Evaluation Process

Observations Applying to Multiple Tax Expenditures

Appendix A: Members of the Tax Expenditure Review Commission

Appendix B: Process for the Review of Expenditures

Appendix C: Tax Expenditure Summaries

1.018 Exemption of Meals and Lodging Provided at Work

1.037 Survivor Annuities of Fallen Astronauts

1.042 and 1.501 Favorable Tax Treatment of Qualified Small Business Stock (QSBS) Gain

1.046 Exclusion of Benefits Provided to Volunteer Firefighters and Emergency Medical Responders

1.201 Capital Gains Deduction for Collectibles

1.202 Deduction of Capital Losses against Interest and Dividend Income

1.401 and 1.402 Deduction for Employee Social Security and Railroad Retirement Payments/Deduction for Employee Contributions to Public Pension Plans

1.403 Additional Exemption for the Elderly

1.404 Additional Exemption for the Blind

1.405 Dependents Exemption where the Dependent Earns Income

1.408 Deduction for Adoption Fees

1.410 Exemption of Medical Expenses

1.418 Deduction for Costs Involved in Unlawful Discrimination Suits

1.428 Gambling Loss Deduction

1.601 Renewable Energy Source Credit

1.603 and 2.605 EDIP/Economic Development Incentive Program Credit

1.605 Earned Income Credit

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

- 1.615 and 2.619 Conservation Land Tax Credit
- 1.623 and 2.625 Cranberry Bog Renovation Credit
- 2.001 Small Business Corporations
- 2.203 Net Operating Loss Carryover
- 2.502 Exemption for Property Subject to Local Taxation
- 2.602 Investment Tax Credit
- 2.604 Research Credit
- 3.101 Exemption for Food
- 3.102 Exemption for Certain Food and Beverages Sold in Restaurants
- 3.106 Exemption for Newspapers and Magazines
- 3.201 Exemption for Alcoholic Beverages
- 3.309 Exemption for Vessels, Materials, Tools, Fuels, and Machinery Used in Commercial Fishing

Appendix D: Meeting Minutes

Appendix E: Description of Economic Analysis

Appendix F: Current and Previous Studies of Massachusetts Tax Expenditures

Appendix G: All Tax Expenditures Evaluated by Year

Overview

This document is the 2026 Report to the Legislature of the Tax Expenditure Review Commission (referred to herein as “TERC” or the “Commission”) filed pursuant to Section 14 of Chapter 14 of the General Laws.

“Tax expenditures” are defined under Chapter 29 of the General Laws as state tax revenue foregone due to statutory provisions that allow “exemptions, deferrals, deductions from or credits against taxes” imposed on income, businesses, or sales. The Commissioner of Revenue prepares an annual tax expenditure budget estimating the cost of tax expenditures to the Commonwealth in the fiscal year, as directed by Section 5B of Chapter 29 of the General Laws.

The Commission is statutorily required to review the various tax expenditures adopted by the Commonwealth on a five-year cycle and to report biennially to the Legislature on the goals and effectiveness of the expenditures reviewed. The Commission voted to provide annual reports to the Legislature to provide information more promptly.

This 2026 Report is the Commission’s sixth report. It considers a group of tax expenditures that relate to (i) Education and Training, (ii) Employment and Social Services, (iii) General Government, (iv) Health, (v) Income security, (vi) Natural Resources and Environment, and (vii) Veterans' Benefits. For information on current and previous studies of Massachusetts Tax Expenditures, see **Appendix F**.

TERC Approach to Implementation of its Statutory Mandate

The Commission is directed by G.L. c. 14, s. 14(c), as follows:

(c) The commission shall use best practices and standardized criteria to evaluate: (i) the purpose, intent and goal of each tax expenditure and whether the expenditure is an effective means of accomplishing those ends; (ii) the fiscal impact of each tax expenditure on state and local taxing authorities, including past fiscal impacts and expected future fiscal impacts; (iii) the economic impact of each tax expenditure including, but not limited to, revenue loss compared to economic gain and jobs created, retained or lost as a result of the tax expenditure; (iv) the return on the investment made by the tax expenditure and the extent to which the tax expenditure is a cost effective use of resources; and (v) similar tax expenditures, if any, offered by other states and the impact of the tax expenditure on regional and national economic competitiveness.

As described in **Appendix B**, the Commission developed a standardized evaluation template to enable consistency in its analysis of different tax expenditures. The Commission’s evaluations are attached as a part of this appendix.

Many state tax expenditures result from conformity with the Internal Revenue Code (Code). The Commission recognized that, in many instances, decoupling from federal tax expenditures would either be illogical or create significant administrative challenges for taxpayers and the Department of Revenue (DOR). For this reason, the evaluation template includes a checkbox identifying whether the tax expenditure is a result of the state’s conformity with the Code.

TERC Observations and Recommendations for the Legislature

The evaluation template completed for each tax expenditure represents the report of the Commission to the Legislature on its view of the effectiveness of the tax expenditure. Each evaluation is accompanied by a detailed DOR analysis provided to the Commission in association with its discussion. Taking all the reviewed tax expenditures together, the cumulative distribution of the Commission's ratings for each evaluative statement included in this report is shown in the following chart.

It is, of course, the province of the Legislature and the Governor to set tax policy for the Commonwealth, including whether the Commonwealth should maintain a particular tax expenditure.¹ The Commission aims to provide information and guidance through its evaluations of expenditures that the Legislature and Governor may find useful in reviewing the efficacy of those expenditures. The Commission understands this to be its statutory purpose.

Particular Tax Expenditures Flagged in Evaluation Process

The tax expenditure evaluation template includes a checkbox that allows the Commission to flag a particular tax expenditure for legislative review. The tax expenditures that were reviewed in the past year and flagged for legislative review, and the reasons for doing so, are described below.

- **1.201 Capital Gains Deduction for Collectibles:** *Annual Cost: \$0.12 to \$0.58 million. A personal income tax deduction is allowed against long-term capital gain income resulting from the sale of a collectible item. The deduction is equal to 50% of the amount of such gain that is subject to tax.* The Commission flagged this expenditure for review for several reasons. First, the Commission noted that the expenditure is utilized by only 100 to 150 taxpayers per year. Second, it is difficult for DOR to administer; because of differences between Massachusetts and federal computational and presentational rules, desk audits are required to ensure that taxable gains on collectibles are reported and taxed appropriately. No other state offers this specific deduction. The Legislature may wish to consider taxing sales of collectibles at the same rates as all other capital gains: 8.5% if held for less than one year, 5% if held for one year or more.
- **1.401 and 1.402 Deduction for Employee Social Security and Railroad Retirement Payments/Deduction for Employee Contributions to Public Pension Plans:** *Annual Cost: \$319.4 to \$341.5 million. A deduction, up to a maximum of \$2,000 per year, is allowed for employee contributions to Social Security, Railroad Retirement or contributory retirement plans of the federal government or Massachusetts government.* The Commission voted between “strongly disagree” and “somewhat disagree” on the question of whether the tax expenditure's benefit justifies its fiscal cost. In particular, the Commission noted that the deduction provides a double tax benefit with respect to employee contributions to federal retirement plans, which are already excluded from Massachusetts income. In addition, the Commission is not aware of any other state that allows an income tax deduction

¹ See [Appendix A](#) of the Tax Expenditure Budget for recent legislative changes related to Massachusetts tax expenditures.

for contributions to Social Security or Railroad Retirement and noted the significant cost of this tax expenditure. The Legislature may wish to consider whether this tax expenditure's benefit justifies its fiscal cost. Legislators may also wish to consider addressing the double benefit for employee contributions to federal retirement plans.

Tax Expenditures That May Warrant Legislative Review

In reviewing the Commission's evaluations with an eye toward considering the effectiveness of each tax expenditure, it may also be useful for the Legislature to focus on tax expenditures that received "strongly disagree" or "somewhat disagree" ratings for any of the following evaluative statements in the template:

- The tax expenditure's benefit justifies its fiscal cost.
- The tax expenditure is claimed by its intended beneficiaries.
- The tax expenditure amount claimed by each beneficiary is meaningful as an incentive/benefit.
- The tax expenditure is relevant today.

Tax expenditures that were reviewed in the past year, not otherwise flagged for legislative review above, and rated "strongly disagree" or "somewhat disagree" in the indicated categories, are identified below, along with the reasons for those ratings.

- **1.202 Deduction of Capital Losses against Interest and Dividend Income:** *Annual Cost: \$17.5 to \$24.9 million. Individual taxpayers may deduct up to \$2,000 of net capital losses against interest and dividend income. Any remaining capital losses can be carried forward and deducted in a succeeding taxable year.* The Commission voted between "strongly disagree" and "somewhat disagree" on the questions of whether (i) the tax expenditure's benefit justifies its fiscal cost, (ii) the amount claimed is meaningful as an incentive/benefit, and (iii) the tax expenditure is easily administered. With respect to the meaningfulness of the benefit, the Commission noted that the expenditure is not likely to be a meaningful incentive because the state deduction is very small in comparison to the corresponding federal deduction, which is likely what drives behavior. The average annual taxpayer benefit was \$49 to \$54 in tax savings during FY23 through FY27. With respect to ease of administration, the Commission noted that because of the differences between Massachusetts and federal treatment of capital gains and losses, desk audits are required to make sure that this deduction is being utilized appropriately. This is further complicated where capital losses are carried forward, which prompts a need for multi-year review. The Commission also notes that despite there being a federal deduction, Massachusetts cannot simply conform because of differences between Massachusetts and federal treatment of capital gains and losses. Most states that conform to the Code for individual income tax purposes simply allow the federal deduction of \$3,000 of net capital loss to offset ordinary income. The Legislature may wish to consider (i) the differences between Massachusetts and federal rules and (ii) ways to ease the administration of this tax expenditure.
- **1.403 Additional Exemption for the Elderly:** *Annual Cost: \$25.7 to \$29.1 million. Massachusetts allows an additional personal income tax exemption of \$700 for taxpayers*

aged 65 or older before the close of the taxable year. The Commission voted between “strongly disagree” and “somewhat disagree” on the question of whether the amount claimed is meaningful as an incentive/benefit. The average annual taxpayer benefit was \$45 in tax savings during FY22 through FY26. The Commission noted that changing demographics and an aging population may increase the cost of this expenditure to the Commonwealth. In addition, the Commission assumes the goal of this expenditure is progressivity/assistance to low earners but noted that taxpayers with net adjusted gross income (AGI) of \$100,000 or more claim over 30% of the total tax savings resulting from this expenditure. The Legislature may wish to consider ways to better align this expenditure with its goals.

- **1.404 Additional Exemption for the Blind:** *Annual Cost \$0.59 to \$0.6 million.* Massachusetts allows an additional personal income tax exemption of \$2,200 for taxpayers that are blind. The Commission voted between “strongly disagree” and “somewhat disagree” on the question of whether the amount claimed is meaningful as an incentive/benefit. The number of taxpayers claiming the deduction ranged from 5,653 to 5,840 during FY22 through FY26. The average annual taxpayer benefit was \$103 to \$104 in tax savings during this period. The Commission noted that while most of the claimants are lower income, the value of the added exemption is small. The Commission assumes the goal of this expenditure is relief of poverty and health/environment/social justice. The Legislature may wish to consider ways to make the benefit more meaningful.
- **1.428 Gambling Loss Deduction:** *Annual Cost: \$7.0 to \$21.5 million.* Massachusetts allows a personal income tax deduction for gambling losses incurred in certain legal gambling activity, but only to the extent of amounts won in gambling activities. The Commission voted between “strongly disagree” and “somewhat disagree” on the question of whether the tax expenditure is easily administered. The administration of the gambling loss deduction presents challenges for DOR. Due to nonconformity with the federal deduction, DOR cannot rely entirely on information shared by the IRS to monitor compliance. Instead, the DOR must monitor compliance with the deduction through its personal income tax audit processes. Adding to the complexity, the recent changes to the federal rule passed in the One Big Beautiful Bill Act (OBBBA) limiting the federal deduction to 90% of losses will not be picked up by Massachusetts at this time. The Legislature may wish to consider ways to ease the administrative burden related to this tax expenditure.
- **1.603 and 2.605 Economic Development Incentive Program Credit (EDIP):** *Annual Cost: \$13 to \$30 million.* Corporations and individuals that invest in certified projects may be awarded tax credits by the Economic Assistance Coordinating Council (EACC). The EACC may award up to \$30 million in credits annually. The Commission voted between “strongly disagree” and “somewhat disagree” on the questions of whether (i) the tax expenditure’s benefit justifies its fiscal cost (ii) the tax expenditure is claimed by intended beneficiaries, and (iii) the amount claimed is meaningful as an incentive/benefit. The Commission noted that, as has been consistently shown by analyses of enterprise zones, opportunity zones, and tax increment financing, these credits are frequently going to firms and individuals who would have pursued the activities even if the subsidies were not available. For tax years 2019 through 2022, the average claimed plus shared amount varied from \$228,000 to \$326,000 for corporate excise and from \$19,000 to \$54,000 for personal income tax. The tax benefit per claimant averaged \$272,184 for corporations with taxable income of \$1 million or

higher, and \$443,838 for corporations with 500 or more employees. Only 9.8% of the claimants were corporations with taxable income of \$0 to \$49,999 and 35.3% of the claimants were corporations with fewer than 50 employees. The Legislature may wish to consider the efficacy of this tax expenditure.

- **1.605 Earned Income Credit:** *Annual Cost: \$210.5 to \$394.8 million. The Massachusetts Earned Income Tax Credit (EITC) is a refundable tax credit for taxpayers with low or moderate earned income and is based on the federal EITC. The Massachusetts credit is equal to 40% of the federal credit and is available to taxpayers that are eligible for the federal EITC. The Commission voted between “strongly disagree” and “somewhat disagree” on the question of whether the tax expenditure is claimed by a broad group of taxpayers, because only about 80% of those eligible claim the credit. The Commission noted that the Massachusetts EITC is consistent with that of most states. The average taxpayer benefit is estimated to be \$512 to \$975.*
- **1.615 & 2.619 Conservation Land Tax Credit:** *Annual Cost: \$1.6 - \$2.0 million. Massachusetts provides a personal income tax and corporate excise credit equal to 50% of the fair market value of certified conservation land donated to a public or private conservation agency. The credit is limited to \$75,000 for each donation. The Commission voted between “strongly disagree” and “somewhat disagree” on the question of whether the tax expenditure is claimed by its intended beneficiaries. The Commission noted that the number of credits claimed from 2018 to 2022 was small, ranging from only 28 to 46. The amount of the credit is significant, averaging between \$37,728 and \$61,035 per year, though it is likely some of the land would have been conserved even if the credit did not exist. The Commission noted that there is no federal conservation land tax credit but there is a charitable deduction that may apply and a tax deduction for conservation easement contributions. While close to a majority of claimants have taxable incomes between \$200,000 and \$1,000,000, some claimants have low taxable incomes. The Commission noted that it would be helpful to know if lower income claimants are farmers or children of more affluent taxpayers. The Legislature may wish to consider whether this expenditure continues to make sense.*
- **1.623 and 2.625 Cranberry Bog Renovation Credit:** *Annual Cost: \$0.2 to \$0.4 million. Personal income tax and corporate excise filers primarily engaged in cranberry harvesting and production may claim a credit equal to 25% of the expenses they incur (i) in the improvement or repair of a cranberry bog or (ii) any other activity for the renovation of an abandoned cranberry bog. This tax expenditure was adopted in 2021 and is set to expire December 31, 2030. The Commission voted between “strongly disagree” and “somewhat disagree” on the questions of whether (i) the tax expenditure’s benefit justifies its fiscal cost and (ii) the amount claimed is meaningful as an incentive/benefit. The Commission noted that this tax expenditure has a relatively small cost but is claimed by only about 15 taxpayers annually with an average tax savings of \$20,000. The Commission is not aware of any other state with an investment tax credit made available only to cranberry farmers. Given the limited reach of the expenditure, the Legislature may wish to consider letting it expire as scheduled.*
- **2.203 Net Operating Loss Carryover:** *Annual Cost: \$234.3 to \$285.3 million. Certain corporations are allowed a deduction for net operating losses incurred in previous taxable years when computing the net income measure of the corporate excise. The net operating*

loss incurred in a taxable year is the amount by which allowable Massachusetts deductions (including the dividends received deduction but not including the net operating loss deduction itself), exceed the corporation's gross income. Unused NOL may be carried forward up to twenty years and may not be carried back. The Commission voted between "strongly disagree" and "somewhat disagree" on the question of whether the tax expenditure is easily administered. The administration of this deduction presents some challenges for DOR because the corresponding federal deduction is not calculated the same way as the Massachusetts deduction. Most of the businesses that use the carryover are small. The Legislature may wish to consider whether aligning with the Code would ease administration and result in increased revenue.

- **2.502 Exemption for Property Subject to Local Taxation:** *Annual Cost: \$376.0 to \$418.8 million. Tangible property owned by corporations and subject to local taxation is excluded from the calculation of the non-income measure of the Massachusetts corporate excise.* The Commission voted between "strongly disagree" and "somewhat disagree" on the question of whether the tax expenditure is easily administered. The administration of the exemption for property subject to local taxation poses some challenges for DOR. There is no corresponding federal exemption or deduction, and therefore no federal tax data to assist in such administration. Thus, audits are required to ensure that tangible property is being reported accurately. However, the determination of local taxability is made by city and town assessors who have an incentive to impose and collect tax at the local level. Thus, there is enforcement at the local level that ameliorates DOR's administrative burden. The Commission assumes the goal of the expenditure is to avoid tangible property being taxed at both the local and state level. The Legislature may wish to review this tax expenditure given the large fiscal cost.
- **2.604 Research Credit:** *Annual Cost: \$612.2 to \$697.9 million. Massachusetts allows a corporate excise credit for increased spending on research and development (R&D) activity conducted in Massachusetts.* Many states offer this type of credit, making its retention an important part of competitiveness as it shows the state's commitment to R&D-oriented companies. Further, academic research indicates that this credit does payoff in the long run, as it promotes location of primary research within the jurisdiction providing the credit. However, the Commission notes the credit's significant revenue impact, and voted between "strongly disagree" and "somewhat disagree" on the question of whether the tax expenditure is easily administered. The administration of the research tax credit presents challenges for DOR. Although the credit is based on the federal definition of qualified research, there are a number of differences between the federal and Massachusetts credits that require additional state audit review. Specifically, the federal credit applies to activity anywhere in the US whereas the state credit is available only for research conducted in the Commonwealth. Additionally, the federal and state limitations on the credit and carryover rules are different. Finally, the application of the credit on federal consolidated returns is different than its application on Massachusetts combined returns. Massachusetts follows the IRS definition of qualified expenses, which makes the credit available to an expansive list of industries, including financial services and real estate. The Legislature may wish to consider (i) ways to ease the administrative burden of this tax expenditure and (ii) the eligibility of industries that do not consist of R&D-oriented companies, including Finance and Real Estate and Leasing.

- **3.101 Exemption for Food:** *Annual Cost: \$1,066.1 to \$1,314.2 million. Foods and beverages commonly thought of as groceries are exempt from the sales tax, including items purchased with Supplemental Nutrition Assistance Program (SNAP) benefits (formerly known as “food stamps”). The exemption does not apply to restaurant meals. The Commission voted between “strongly disagree” and “somewhat disagree” on the question of whether the tax expenditure is easily administered. The administration of the exemption for food presents challenges to DOR and taxpayers. The exemption is based on statutory definitions that often make it difficult to distinguish between exempt food products and taxable meals. Additionally, the application of the exemption often depends on identifying whether the establishment making the sale is a “restaurant,” a “store,” or a store with “restaurant parts.” Such establishment identification has become increasingly difficult as vendors selling foods and beverages have become more complex (e.g., supermarkets with numerous restaurant parts and options for digital purchasing). The Legislature may wish to consider ways to ease the administrative burden of this tax expenditure.*
- **3.102 Exemption for Certain Food and Beverages Sold in Restaurants:** *Annual Cost: \$10.9 to \$14.4 million. In general, grocery items are exempt from sales and use tax. Restaurant meals are subject to tax. However, certain food and beverage items sold by restaurants are nevertheless exempt because they are viewed as being akin to grocery items. The Commission voted between “strongly disagree” and “somewhat disagree” on the question of whether the tax expenditure is easily administered. The administration of the exemption for eligible food items sold by restaurants presents challenges to DOR and taxpayers. The exemption is based on statutory definitions that often make it difficult to distinguish between exempt food products and taxable meals. The application of the exemption requires DOR and taxpayers to determine whether the establishment making the sale is a “restaurant,” a “store,” or a store with “restaurant parts.” Further, it requires DOR and taxpayers to determine whether certain foods are “commonly sold” as groceries and when they are “available for immediate consumption without further significant preparation.” These determinations require fact-specific analyses that can be complicated for DOR and taxpayers. The Legislature may wish to consider ways to ease the administrative burden of this tax expenditure.*
- **3.201 Exemption for Alcoholic Beverages:** *Annual Cost: \$173.8 to \$186.5 million. Alcoholic beverages, except those sold by a restaurant as a meal, are exempt from sales tax. They are instead subject to an alcoholic beverage excise at the wholesale level. The excise is determined by volume rather than retail sales price. The Commission voted between “strongly disagree” and “somewhat disagree” on the questions of whether (i) the tax expenditure’s benefit justifies its fiscal cost and (ii) the amount claimed is meaningful as an incentive/benefit. In FY25, the average tax savings per Massachusetts household was \$60. The Commission assumes that the goal of the expenditure is to avoid the double taxation of alcoholic beverages that would result if the sales tax applied in addition to the alcoholic beverage excise. However, California, Connecticut, Maine, New York, and Vermont impose both a retail sales tax and a wholesale alcoholic beverages excise on sales of alcoholic beverages. Furthermore, this tax expenditure was adopted in 1967, repealed in 2009, and reinstated in 2010. The Legislature may wish to consider whether this tax expenditure’s benefit justifies its fiscal cost.*

Observations Applying to Multiple Tax Expenditures

The Commission's discussions of particular tax expenditures occasionally led to observations that cut across multiple tax expenditures. The Commission thought it appropriate to point out separately in this report certain of those observations.

- **Year Enacted and Sunset Dates:** About 96% of Massachusetts tax expenditures do not have sunset dates.² Sunset dates encourage policymakers to review whether the expenditure is still necessary or effective and if the Commonwealth should maintain a particular tax expenditure, ensuring long-term fiscal responsibility.

² See **Appendix G** for a list of all tax expenditures evaluated by year.

Appendix A: Members of the Tax Expenditure Review Commission

Rebecca Forter, Massachusetts Department of Revenue, Chairperson

Diana DiZoglio, Massachusetts State Auditor, Member

Lindsay Janeczek, Massachusetts State Auditor, Designee

Deb Goldberg, Massachusetts State Treasurer and Receiver General, Member

Sue Perez, Massachusetts State Treasurer and Receiver General, Designee

Representative Adrian C. Madaro, Joint Committee on Revenue, House Chairperson, Member

Thomas Baranowski, Joint Committee on Revenue, House Chairperson, Designee

Senator James B. Eldridge, Joint Committee on Revenue, Senate Chairperson, Member

David Emer, Joint Committee on Revenue, Senate Designees

Senator Michael J. Rodrigues, Chairperson, Senate Ways and Means

Andrew DeFalco, Senate Ways and Means, Designees

Representative Aaron Michlewitz, Chairperson, House Ways and Means Committee, Member

Tim Sheridan, Chairperson, House Ways and Means Committee, Designee

Representative Bradley H. Jones, House Minority Leader, Member

Jamie Oppedisano, House Minority Leader, Designee

Senator Bruce E. Tarr, Senate Minority Leader, Member

Chris Carozzi, Senate Minority Leader, Designee

Professor Natasha Varyani, Roger Williams University School of Law, Member, Appointed by Governor Maura Healey

Professor Thomas Downes, Tufts University, Member, Appointed by Governor Maura Healey

Cole Doherty-Crestin, Massachusetts Department of Revenue, Tax Expenditure Review
Commission Manager

Amar Patel and Katie Verra, Senate Ways and Means Committee, Previous Designees

Bridgette Maynard, House Chair Joint Committee on Revenue, Previous Designee

Appendix B: Process for Review of Tax Expenditures

The review template for each tax expenditure is the vehicle chosen by the Commission to achieve standardized criteria for review of tax expenditures. As a process matter, a draft of the template was completed for each tax expenditure by one or more Commission members assigned by the Chair. The assigned member or members offered a draft rating that was then discussed by all TERC members in a public meeting. The Commission voted on the ratings of each tax expenditure reviewed. For final evaluation ratings see the excel sheet. In addition to fields for basic background information, the template is structured in three parts: (i) goals;(ii) measurement and effectiveness ratings; and (iii) comments.

Goals

Few tax expenditures have stated policy goals in their authorizing legislation, and the Commission has been left to infer policy goals in most cases, based upon the structure of the expenditure and its beneficiaries. The template lists both business-related goals, such as job-creation and competitiveness, and non-business goals, often related to individuals, such as relief of poverty and access to opportunity. Some commonly applicable goals are identified, with a space to identify other goals as well. The Commission has found that more than one goal often seems relevant to a single tax expenditure. Identification of goals is a necessary step in examining the effectiveness of a tax expenditure.

Measurement and Effectiveness Ratings

The second section of the template contains a series of statements, some of which are descriptive and some of which attempt to rate the effectiveness of a tax expenditure in benefiting the policy goal(s) identified for that tax expenditure. Each statement receives a TERC rating on a scale running from “Strongly Agree” to “Strongly Disagree.”

The descriptive statements relate to the beneficiaries of the expenditure, identifying the degree to which the tax expenditure is broadly used, and the degree to which it benefits small businesses or low-income taxpayers.

The effectiveness ratings begin with a statement as to the degree to which the impact of a tax expenditure on achieving its identified goals is measurable. There are then effectiveness statements relating to different aspects of effectiveness: the degree, in the Commission’s judgment, to which the benefit of the tax expenditure justifies its cost; the degree to which the tax expenditure is claimed by its intended beneficiaries; the degree to which the incentive that a tax expenditure creates is meaningful to taxpayers claiming the benefit of the expenditure; and the degree to which the tax expenditure remains relevant today. Finally, this section of the template has a statement as to the ease of administration of the tax expenditure.

The effectiveness ratings represent the judgment of the Commission members in light of the information available. Based on the uncertainties expressed by Commission members in discussion of various ratings, differences of one level in an evaluation such as, for example, the difference between a “strongly agree” rating and a “somewhat agree” rating, may not be highly meaningful. However, ratings of “strongly agree” and “strongly disagree” generally represent a consensus on a rating among the TERC members and are meaningful as to the statement. It is notable that, to date, the Commission has successfully operated on a consensus basis; there has

not been significant disagreement among Commission members as to particular tax expenditure ratings.

One of the statutory directives in TERC's enabling legislation directs the Commission to evaluate "the return on the investment made by the tax expenditure and the extent to which the tax expenditure is a cost-effective use of resources." The Commission interprets this directive as an instruction to rate the extent to which the benefit of an expenditure justifies its cost, and TERC has found its cost/benefit evaluative statement to be the most difficult to rate. The rating is particularly problematic, of course, to the extent that the benefit is difficult to measure.

However, even though there are prominent tax expenditures such as the Investment Tax Credit or the Research and Development credit where research data on economic impact of comparable federal credits or credits in other states may be available, economic data are seldom sufficient to determine the extent to which a tax expenditure may incent activity that would not otherwise have occurred, as opposed to merely reducing the tax burden for a desired activity, whether or not that activity would have occurred without the tax expenditure. TERC generally concluded that benefits of expenditures justified the costs in situations where the policy goals were reasonably inferred, and the tax expenditure reasonably related to these goals, particularly if the tax expenditure was available in other states.

In many cases the Commission judged interstate competitiveness to be a goal of a business tax expenditure and tax expenditures matching similar tax benefits in other states were often found to be responsive to this goal, thus justifying their cost on this basis. TERC found such tax expenditures to justify their cost even where dynamic analysis of the tax expenditure using the REMI model did not show growth in jobs from a tax expenditure, given the uncertainty in application of such models and the impact of the economic assumptions necessary to such modeling. Information regarding the application of the REMI model is available at **Appendix E**.

Comments

The final section of the template is a comments section to allow members to explain "Strongly Disagree" or "Somewhat Disagree" ratings and other considerations to be highlighted, such as policy proposals

Appendix C: Tax Expenditure Summaries

Tax Expenditure Title: 1.018 Exclusion from Employee Income of Meals and Lodging Furnished for the Convenience of the Employer

Tax Expenditure Category: Exclusions from Gross Income

Tax Type: Personal Income Tax

Legal Reference: Code § 119; M.G.L. c. 62, §§ 1, 2(a)

Year Enacted: 1973

Repeal or Expiration Date: None

Annual Revenue Impact: Tax loss of \$67.3 to \$75.9 million per year during FY23 through FY27.

Number Of Taxpayers: Not available

Average Taxpayer Benefit: Not available

Federal Tax Expenditure: Yes

Description of the Tax Expenditure: Due to its reliance on the Internal Revenue Code (Code) for purposes of determining gross income for personal income tax purposes, Massachusetts allows an income exclusion for the value of meals and lodging provided to employees by their employers for the employers' business purposes.

Is the purpose defined in the statute? The statute does not state the purpose of the tax expenditure.

What are the policy goals of the expenditure? The Commission assumes that the goal of the expenditure is to promote business efficiency by allowing employees to eat or sleep at or near their work locations when necessary for the employer's business purposes, without incurring a tax liability for the value of employer-provided meals or lodging.

Are there other states with a similar tax expenditure? States that conform to the Code for individual income tax purposes adopt the exclusion for certain employer-provided meals and lodging, unless they have specifically decoupled from the Code. California, Connecticut, Maine, New York, Rhode Island and Vermont adopt the exclusion.

Introduction

Due to Massachusetts' reliance on the Internal Revenue Code (Code) for purposes of determining income, the value of meals and lodging provided to employees by their employer for the employers' business purposes is excluded from the employee's Massachusetts gross income. Specifically, Massachusetts adopts Code § 119 (as amended and in effect for the 2024 tax year), which allows the exclusion for federal tax purposes. See M.G.L. c. 62, §§ 1(c), 2(a).

To qualify for the exclusion, the meals and lodging must be furnished on the business premises of the employer. Recognized business purposes for providing on-premises meals or lodging include (i) a lack of nearby eating facilities (so that providing on-premises meals results in time savings), (ii) a need for employees to be available to respond to emergencies, (iii) a need to respond to peak customer demand during a meal period, (iv) enhancement of employee security (so that workers can eat or reside in a safe location), and (v) protection of confidential information (so that employees can be on the premises to prevent unauthorized access to documents and records). See Treas. Reg. § 119-1. In the case of lodging, the employee must be required to accept such lodging as a condition of employment to qualify for the exclusion.

In the absence of the tax expenditure, the value of meals and lodging provided to employees by their employer for the employer's businesses purposes would be included in the employee's taxable income. The revenue forgone as a result of the exclusion constitutes a tax expenditure.

Policy Goals

The Commission assumes that the goal of the expenditure is to promote business efficiency by allowing employees to eat or sleep at or near their work locations when necessary for the employer's business purposes, without incurring a tax liability for the value of employer-provided meals or lodging.

Administrability

The administration of the exclusion of meals and lodging provided to employees does not present any special challenges for the Department of Revenue. Conformity with the Code simplifies tax compliance and administration by allowing the same general rules to be used for Massachusetts and federal purposes. The Commission assumes that this consistency of treatment also eases the compliance burden for taxpayers.

Direct Costs

The revenue loss resulting from this tax expenditure is estimated to be \$67.3 to \$75.9 million per year during FY23 through FY27. See the table below. The estimated revenue loss is based on estimates provided by the Joint Committee on Taxation (JCT) on the impact of federal tax collections due to this income exclusion.³ The JCT's estimates are shared down to

³ [The Joint Committee on Taxation \(JCT\) is a nonpartisan committee of the United States Congress, originally established under the Revenue Act of 1926](#)

Massachusetts based on the state’s share of national non-farm employment.⁴ Shared down estimates are adjusted for differences between federal and state fiscal years and tax rates.⁵

Tax Revenue Loss Estimates for Exclusion from Employee Income of Meals and Lodging Furnished for the Convenience of the Employer

Fiscal Year	2023	2024	2025	2026	2027
Estimated Revenue Loss (\$Million)	\$67.3	\$74.5	\$74.2	\$74.8	\$75.9

Direct Benefits

The direct benefits of this tax expenditure are the income tax savings to employees. Employees are not required to report the value of meals and lodging provided by employers on their tax returns. Additionally, employers are not required to report if they provide meals and lodging to their employees for business purposes in Massachusetts. Thus, there is insufficient data to determine how many taxpayers actually benefit from this tax expenditure and how benefits are distributed amongst various industries or income levels. In tax year 2023, the most recent year for which DOR has this data, there were about 3.25 million Massachusetts taxpayers with wage and salary income. While all these taxpayers may potentially benefit from this exclusion, the actual number of beneficiaries is probably much less than that. For many employers, it may be either impractical or cost prohibitive to provide such meals or lodging benefits to employees due to geographical or market constraints.

Evaluation: Comparing Costs and Benefits

In the previous sections, we report the direct costs (to the Commonwealth, or to the residents and businesses who ultimately bear the costs when the Commonwealth cuts government spending or increases taxes to finance the tax expenditure) and direct benefits of this tax expenditure. In this instance, the direct costs to the Commonwealth, namely the tax revenue that would have been collected, are equal to the direct benefits afforded by the tax expenditure to taxpayers.

Furthermore, there may be indirect and induced costs and benefits associated with this expenditure. To measure indirect and induced costs and benefits, economists often need to utilize complicated models, such as REMI (Regional Economic Models, Inc.) or IMPLAN (Impact Analysis for Planning) models. DOR did not use such models given their complexity and data limitations present in this instance.

⁴ JCT estimates include the impact of both IRC Sections 119 and 132(e)(2); however, Massachusetts’ tax expenditure (1.018) refers only to Section 119 (see the first page). Thus, the estimates as reported in the table are likely to be upward biased.

⁵ Note that the federal fiscal year runs from October 1st to September 30th of the following year, while the Massachusetts fiscal year runs from July 1st to June 30th of the following year.

Similar Tax Expenditures Offered by Other States

States that conform to the Code for individual income tax purposes adopt the exclusion for certain employer-provided meals and lodging, unless they have specifically decoupled from the Code. The Commission is not aware of any state that has decoupled.

Tax Expenditure Title: 1.037 Survivor Annuities of Fallen Astronauts

Tax Expenditure Category: Exclusions From Gross Income

Tax Type: Personal Income Tax

Legal Reference: Code § 101(i); M.G.L. c. 62, §§ 1, 2(a)

Year Enacted: 2003

Repeal or Expiration Date: None

Annual Revenue Impact: Negligible

Number Of Taxpayers: Not available

Average Taxpayer Benefit: Not available

Federal Tax Expenditure: Yes

Description of the Tax Expenditure: Due to Massachusetts' reliance on the Internal Revenue Code (Code) to determine gross income for personal income tax purposes, Massachusetts excludes from income certain employer payments to the family or estate of an astronaut killed in the line of duty.

Is the purpose defined in the statute? The statute does not explicitly state the purpose of this tax expenditure.⁶

What are the policy goals of the expenditure? The Commission assumes the goal of the exclusion is to provide tax relief to the families of astronauts killed in the line of duty.

Are there other states with a similar tax expenditure? States that conform to the Code for individual income tax purposes adopt the exclusion unless they decouple from Code § 101(i). The Commission is not aware of any state that has decoupled. States that conform to Code § 101(i) include California, Connecticut, Maine, New York, Rhode Island, and Vermont.

⁶ Although Code § 101 does not state the purpose of the tax expenditure, the bill that amended Code § 101 to add the exclusion in subsection (i) states that the purpose was to provide tax relief “for families of Space Shuttle Columbia heroes.” See 117 Stat. 1335, § 110(b) (2003) (the “Military Family Tax Relief Act of 2003”). The Space Shuttle Columbia was a National Aeronautics and Space Administration (NASA) [space orbiter that broke apart](#) shortly after reentering the earth’s atmosphere on February 1, 2003.

Introduction

Due to Massachusetts' reliance on the Internal Revenue Code (Code) to determine gross income for personal income tax purposes, Massachusetts excludes from income certain employer payments to the family or estate of an astronaut killed in the line of duty. The exclusion only applies to amounts that exceed the benefits that would have been payable if the death occurred for a reason other than death in the line of duty, unless the payments are from an employer-sponsored stock bonus, pension, or profit-sharing plan as described in Code § 401(a) plan and are tax-exempt under Code § 501(a).

In the absence of the exclusion, the families and estates of astronauts would be required to pay personal income tax on payments received as a result of the astronaut's death in the line of duty. The revenue foregone as a result of the exclusion constitutes a tax expenditure.

Policy Goals

The Commission assumes the goal of the exclusion is to provide tax relief to the families of astronauts killed in the line of duty.

Administrability

The administration of the exclusion of employer payments to the survivors and estates of astronauts killed in the line of duty does not present any special challenges for DOR. Conformity with the federal treatment simplifies tax compliance and administration by allowing the same general rules and definitions to be used for Massachusetts and federal purposes. The Commission assumes that this consistency of treatment also eases the compliance burden for taxpayers.

Direct Costs

The revenue loss resulting from this tax expenditure is estimated to be negligible per year during FY22 through FY26. See the table below and next section.

Tax Revenue Loss Estimates for Survivor Annuities of Fallen Astronauts

Fiscal Year	2022	2023	2024	2025	2026
Estimated Revenue Loss (\$Million)	Negligible	Negligible	Negligible	Negligible	Negligible

Note: "Negligible" means that the estimate is less than \$50,000 but greater than zero.

Direct Benefits

The direct beneficiaries of this tax expenditure are the survivors, and any dependents, of astronauts killed in the line of duty.

Parks (2023) indicates that "...in the last half-century, about 30 astronauts and cosmonauts have died while training for or attempting dangerous space missions. But the vast majority of these deaths occurred either on the ground or in Earth's atmosphere...". Note that this figure is for astronauts of all nationalities.

The National Aeronautics and Space Administration (NASA) indicates that it has selected a total of 360 astronaut candidates since the space program's inception,⁷ 85 of whom are no longer alive.⁸

Out of the 360 NASA astronaut candidates, 13 were born in Massachusetts and 14 astronaut candidates' hometowns were located in Massachusetts.

Out of the 14 astronaut candidates from or born in Massachusetts, 2 have died but not in the line of duty. It is possible that survivors or dependents of astronauts from other states killed in the line of duty moved to Massachusetts and therefore benefit from this tax expenditure. DOR has no data for those taxpayers.

Based on the aforementioned data, DOR infers that the revenue impact of this tax expenditure is negligible.

Evaluation: Comparing Costs and Benefits

In the previous sections, we report the direct costs (to the Commonwealth, or to the residents and businesses who ultimately bear the costs when the Commonwealth cuts government spending or increases taxes to finance the tax expenditure) and direct benefits of this tax expenditure. In this instance, the direct costs to the Commonwealth, namely the tax revenue that would have been collected, are equal to the direct benefits afforded by the tax expenditure to taxpayers.

Furthermore, there may be indirect and induced costs and benefits associated with this expenditure. To measure indirect and induced costs and benefits, economists often need to utilize complicated models, such as REMI (Regional Economic Models, Inc.) or IMPLAN (Impact Analysis for Planning) models. DOR did not use such models given their complexity and the data limitations present in this instance.

Similar Tax Expenditures Offered by Other States

States that conform to the Code for individual income tax purposes adopt the exclusion unless they decouple from Code § 101(i). The Commission is not aware of any state that has decoupled. States that conform to Code § 101(i) include California, Connecticut, Maine, New York, Rhode Island, and Vermont.

References

Parks, J. (2023, September 25). *Astronomy*. Retrieved from How many astronauts have died in space?: <https://www.astronomy.com/space-exploration/how-many-astronauts-have-died-in-space/>

⁷ [NASA Humans in Space article](#) and [NASA Astronaut Fact Book](#)

⁸ Including those who died both in the line of duty and not.

Tax Expenditure Title: 1.042 and 1.501 Favorable Tax Treatment of Qualified Small Business Stock (QSBS) Gain

Tax Expenditure Category: Exclusion from Gross Income and Preferential Rate of Taxation

Tax Type: Personal Income Tax

Legal Reference: Code § 1202; M.G.L. c. 62, § 4(c)

Year Enacted: 1998

Repeal or Expiration Date: None

Annual Revenue Impact: Tax loss of \$28.2 to \$43.9 million per year during FY23 through FY27.

Number Of Taxpayers: 1.042: Not available. 1.501: 17 to 422 for tax years 2021 through 2024.

Average Taxpayer Benefit: 1.042: Not available. 1.501: \$29,000 to \$47,000 per taxpayer during tax years 2021 through 2024.

Federal Tax Expenditure: Exclusion, yes. Preferential tax rate, no.

Description of the Tax Expenditure: Certain gains derived from sales of C corporation stock that is qualified small business stock (QSBS) are excluded from income. Additionally, certain gains on the sale of S corporation stock are taxed at a reduced rate of 3% if the S corporation is domiciled in Massachusetts and its stock otherwise generally meets the requirements of small business stock.

Is the purpose defined in the statute? The statute does not state the purpose of this expenditure.

What are the policy goals of the expenditure? The Commission assumes the goal of the expenditure is to encourage investment in new small businesses.

Are there other states with a similar tax expenditure? A majority of states allow an exclusion for gain on the sale of qualified small business stock, consistent with Code § 1202. These states include New York, Connecticut, Maine, and Vermont. California does not allow the exclusion. In 2025, the District of Columbia decoupled from this tax expenditure.

Introduction

For federal tax purposes, Internal Revenue Code (Code) § 1202 allows individuals an income exclusion for gains derived from the sale of qualified small business stock (QSBS). Qualified small business stock is stock issued by an active domestic C corporation with gross assets not exceeding a specified threshold when the stock is issued. This valuation is based on the original cost of the assets. Gains on the sale of qualified small business stock may be excluded from federal income if certain holding period requirements are met.

Code § 1202 has been amended several times since it was enacted in 1993. The threshold value of the stock and the portion of gain eligible for exclusion have changed from year to year. Most recently, effective for stock acquired after July 4, 2025, Congress expanded the scope of Code § 1202 by raising the threshold value for stock to \$75 million (from \$50 million) and increasing the exclusion to 50% of the gain if the stock is held for at least three years, 75% if held for four years, and 100% if held for five years. Previously a 100% exclusion applied to stock held for five years. The exclusion that a taxpayer can claim over a lifetime was increased to \$15 million (from \$5 million). All the foregoing amounts are adjusted for inflation.

Because Massachusetts generally follows the Code “as amended on January 1, 2024 and in effect for the taxable year” for personal income tax purposes, the Commonwealth follows Code § 1202, as it applied to 2024 tax years.⁹ See M.G.L. c. 62, §§ 1(c), 2(a). Thus, the Massachusetts value threshold is \$50 million, and the stock must be held for five years, after which a 100% exclusion applies. The Massachusetts lifetime exclusion limit is \$5 million.

The federal exclusion does not apply to sales of S corporation stock and, therefore, neither does the Massachusetts exclusion. However, Massachusetts imposes a reduced rate of tax of 3% to the sale of stock in such S corporations where the stock would otherwise generally meet the definition of qualified small business stock. See M.G.L. c. 62, § 4(c).

The Massachusetts personal income tax revenue foregone as a result of the exclusion and reduced rate applicable to gains on the sale of small business stock constitutes a tax expenditure.

Policy Goals

The Commission assumes the goal of the expenditure is to encourage investment in new small businesses.

Administrability

The administration of the exclusion and preferential rate of taxation for qualified small business stock poses some challenges for the Department of Revenue (DOR). While the exclusion from gross income of QSBS is based on the Code, Massachusetts does not conform to the current

⁹ The federal exclusion was increased from 50% to 100% between 1993 and 2010. Prior to adopting the 2022 Code, Massachusetts conformed to the 50% federal exclusion in effect under the 2005 Code. The 100% exclusion thus went into effect in Massachusetts in 2022, causing an increase in excluded income and a decrease in the amount of income subject to the 3% rate.

version of the Code and therefore does not adopt the most recent changes to this Code provision. Historically, Massachusetts has frequently been out of conformity with Code § 1202 due to multiple changes to the federal law and sporadic Massachusetts Code updates. This lack of conformity may cause confusion for taxpayers and DOR. Additionally, the preferential rate of taxation for gains included in income is specific to Massachusetts – there is no such federal provision – so there is no federal tax data to assist with the administration of this provision.

Direct Costs

The revenue loss resulting from the exclusion of qualified small business stock (QSBS) gain (TE 1.042) is estimated to be \$27.6 to \$40.0 million per year during FY23 through FY27. The revenue loss resulting from the preferential tax rate for taxable QSBS gain (TE 1.501) is estimated to be \$0.6 to \$3.9 million per year for the same period. The combined total revenue loss for this period is estimated to be \$28.2 to \$43.9 million per year. See Table 1 below.

Table 1. Tax Revenue Loss Estimates for Favorable Tax Treatment of Qualified Small Business Stock (QSBS) Gain (\$ Million)

Fiscal Year	2023	2024	2025	2026	2027
1.042 (Exclusion)	\$40.0	\$28.7	\$27.6	\$32.0	\$33.8
1.501 (Preferential Tax Rate)	\$3.9	\$1.5	\$0.6	\$0.6	\$0.7
Total Revenue Loss Estimates	\$43.9	\$30.2	\$28.2	\$32.6	\$34.4

The estimates in Table 1 for TE 1.501 are based on DOR’s personal income tax return data for tax years 2022 through 2024 and DOR’s projection of taxable QSBS gains for tax years 2025 to 2027. Given that realized capital gains, especially taxable QSBS gain, is generally difficult to project, DOR is more confident in the estimates for FY23 through FY24 than in the estimates for FY25 through FY27, which should be used with caution.

Revenue loss estimates in Table 1 for TE 1.042 are based on estimates prepared by the federal Joint Committee on Taxation (JCT).¹⁰ The JCT reports the impact on federal tax collections resulting from the corresponding federal exclusion of QSBS gain. To share down the federal estimates into Massachusetts estimates, DOR adjusted the federal estimates for the differences between federal and state fiscal years¹¹, effective tax rates, and size of tax base. Given the use of

¹⁰ The JCT is a nonpartisan committee of the United States Congress, originally established under the Revenue Act of 1926. Among other tasks, the [JCT provides estimates](#) for federal tax expenditures and revenue estimates of tax legislation considered by the Congress.

¹¹ It should be noted that the federal fiscal year runs from October 1st to September 30th of the following year, while the Massachusetts fiscal year runs from July 1st to June 30th of the following year.

external data and the lack of state specific data, the revenue loss estimates for TE 1.042 are uncertain and should be used with caution.

It should be noted that the Massachusetts income exclusion for QSBS gain conforms to the Code as amended and in effect as of January 1, 2024, and therefore does not pick up any of the changes resulting from the passage of the One Big Beautiful Bill Act (OBBBA) in July 2025.

Direct Benefits

The primary direct beneficiaries are investors who invest in qualified small businesses. These investors benefit not only from the favorable tax treatment of gains on qualified small business stock, but also faster growth of the qualified small business due to more investment incentivized by favorable tax treatment.

Taxpayers do not need to report excluded capital gains on their tax return. Therefore, data on beneficiaries of tax expenditure 1.042 is not available. The only beneficiary data available is for those who are eligible for the preferred tax rate on QSBS gains, TE 1.501. These taxpayers are required to report taxable QSBS gains on their tax return.¹² Table 2 below reports the number of tax filers who claimed the preferential tax rate for the tax years 2021 through 2024, as well as the total tax savings and average tax saving to them, by the range of taxable QSBS gains they reported.

Table 2. Massachusetts Tax Filers Who Claimed Preferential Tax Rate for Qualified Small Business Capital Gains (TE 1.501), Tax Years 2021 – 2024

Range of Taxable QSBS Gains	2021			2022			2023			2024**		
	Number of Filers	Total Tax Savings (\$000)	Average Tax Savings (\$000)	Number of Filers	Total Tax Savings (\$000)	Average Tax Savings (\$000)	Number of Filers	Total Tax Savings (\$000)	Average Tax Savings (\$000)	Number of Filers	Total Tax Savings (\$000)	Average Tax Savings (\$000)
\$1 to \$500K	280	\$610	\$2	66	\$115	\$2	20	\$31	\$2	10	\$7	\$1
\$501K to \$1M	37	\$549	\$15	19	\$268	\$14	*	*	*	0	\$0	\$0
Over \$1M	105	\$10,889	\$104	24	\$3,805	\$159	*	*	*	7	\$585	\$84
Total	422	\$12,047	\$29	109	\$4,189	\$38	34	\$1,614	\$47	17	\$592	\$35

¹² [2024 tax form](#)

Source: Massachusetts Department of Revenue. Note: * Information withheld to maintain taxpayer confidentiality

** 2024 data are preliminary and subject to change.

As shown in Table 2, the total number of tax filers taking advantage of preferential tax rate for QSBS gains decreased over time from 422 filers in tax year 2021 to 17 filers in tax year 2024. Most of these filers have taxable QSBS gains in the \$1 to \$500K range, followed by those with more than \$1M taxable QSBS gains, and lastly those in the \$501K to \$1M range.

Table 2 also shows that total tax savings for those filers has decreased over time from \$12.0 million in tax year 2021 to \$0.6 million in tax year 2024. Most tax savings (more than 90%) went to tax filers with more than \$1 million taxable QSBS gains (around 30% of all preferred rate claimers). Average tax savings show a similar pattern with filers with more than \$1 million taxable QSBS gains saving much more tax than other tax filers.

Evaluation: Comparing Costs and Benefits

In the previous sections, we report the direct costs (to the Commonwealth, or to the residents and businesses who ultimately bear the costs when the Commonwealth cuts government spending or increases taxes to finance the tax expenditure) and direct benefits of this tax expenditure. In this instance, the direct costs to the Commonwealth, namely the tax revenue that would have been collected, are equal to the direct benefits afforded by the tax expenditure to taxpayers.

Furthermore, there may be indirect and induced costs and benefits associated with this expenditure. To measure indirect and induced costs and benefits, economists often need to utilize complicated models, such as REMI (Regional Economic Models, Inc.) or IMPLAN (Impact Analysis for Planning) models. DOR did not use such models given their complexity and data limitations present in this instance.

Similar Tax Expenditures Offered by Other States

States that follow the Code for purposes of defining taxable income will allow the federal exclusion of gain on the sale of qualified small business stock unless their statutes provide otherwise. New York, Connecticut, Maine, and Vermont allow an exclusion for such gains on this basis. Maine and Vermont adopt the Code as amended and as in effect on December 31, 2023, and, as such, allow an exclusion for 100% of gains from sales of QSBS acquired after September 27, 2010, and held for more than five years (like Massachusetts). New York and Connecticut conform to the current version of the Code and, as such, conform to the OBBBA updates to this exclusion (see Introduction). California has specifically disallowed the federal exclusion. See California Revenue and Tax Code Section 18152. The Commission is not aware of any state that applies a preferential rate to such gains. In 2025, the District of Columbia decoupled from this tax expenditure.

Tax Expenditure Title: 1.046 Exclusion of Benefits Provided to Volunteer Firefighters and Emergency Medical Responders

Tax Expenditure Category: Exclusions from Gross Income

Tax Type: Personal Income

Legal Reference: Code § 139B

Year Enacted: Code provision was enacted 2007 and updated 2019. MA conformed to Code provision in 2022.

Repeal or Expiration Date: None

Annual Revenue Impact: Estimated tax loss of \$0.4 to \$0.5 million per year during FY23 through FY27.

Number Of Taxpayers: Estimated 12,979 to 15,027 per year during FY23 through FY27.

Average Taxpayer Benefit: Estimated average of \$30 per year during FY23 through FY27.

Federal Tax Expenditure: Yes

Description of the Tax Expenditure: Due to Massachusetts' conformity with the Internal Revenue Code (Code), Massachusetts adopts the federal income exclusion for benefits provided to members of certain volunteer emergency response organizations. The exclusion applies to the value of tax reductions and rebates or cash awarded to a member by a state or local government on account of the member's services. The exclusion for cash payments and reimbursements is limited to \$50 per month.

Is the purpose defined in the statute? The statute does not state the purpose of this tax expenditure.

What are the policy goals of the expenditure? The Commission assumes the goal of the expenditure is to help recruit and retain volunteers to provide emergency services, and to provide limited financial support for those volunteers.

Are there other states with a similar tax expenditure? States that conform to the Code for individual income tax purposes generally adopt the exclusion unless they have specifically decoupled from the Code in that regard. Connecticut, Maine, New York, Rhode Island, and Vermont adopt the exclusion. The California statute does not adopt the exclusion; however, in practice, the California tax forms appear to allow it.

Introduction

Due to Massachusetts' conformity with the Internal Revenue Code (Code), Massachusetts adopts the federal income exclusion for benefits provided to members of certain volunteer emergency response organizations. The exclusion is authorized by Code § 139B, which provides that a member of a "qualified volunteer emergency response organization" may exclude from gross income (i) any qualified state and local tax benefit provided on account of the member's services and (ii) any qualified payment provided on account of the member's services. The exclusion for qualified payments is limited to \$50 per month.

Massachusetts adopts Code § 139B because it relies on federal gross income determined under the Code (with modifications not relevant to this report) as the starting point for the computation of Massachusetts taxable income. See M.G.L. c. 62, §§ 1(c), 2(a).

Eligible volunteer emergency response organizations include any volunteer organization which is organized and operated to provide firefighting or emergency medical services that enters a written agreement with a state or one of its political subdivisions to furnish firefighting or emergency medical services. The term "qualified state and local tax benefit" means any reduction or rebate of a state or local tax on real estate, personal property, or income. The term "qualified payment" means any payment or reimbursement provided by a state or political division on account of a taxpayer's performance of services as a member of a qualified volunteer emergency response organization. See Code § 139B(c).

Policy Goals

The Commission assumes the goal of the expenditure is to help recruit and retain volunteers to assist in providing emergency services, and to provide limited financial support for those volunteers.

Administrability

The administration of the exclusion of benefits provided to volunteer firefighters and emergency medical responders does not present any special challenges for the Department of Revenue. Conformity with the Code simplifies tax compliance and administration by allowing the same general rules to be used for Massachusetts and federal purposes. The Commission assumes that this consistency of treatment also eases the compliance burden for taxpayers.

Direct Costs

The revenue loss resulting from this tax expenditure is estimated to be \$0.4 to \$0.5 million per year during FY23 through FY27. See Table 1 below.

Table 1. Tax Revenue Loss Estimates for Exclusion of Benefits Provided to Volunteer Firefighters and Emergency Medical Responders

Fiscal Year	2023	2024	2025	2026	2027
Estimated Revenue Loss (\$Million)	\$0.5	\$0.4	\$0.4	\$0.4	\$0.4

The estimates in the above table are derived using national data on the number of volunteer firefighters and emergency medical responders from the National Fire Protection Association (NFPA) and the National Registry of Emergency Medical Technicians (NREMT)¹³. The national data was shared down to Massachusetts based on the state’s share of the national population and the benefit cap of \$50 per month per person.

Direct Benefits

The direct beneficiaries of this tax expenditure are Massachusetts taxpayers who claim this exclusion. Table 2 below shows the estimated number of direct beneficiaries and the tax saving per beneficiary.¹⁴

Table 2. Number of Direct Beneficiaries and Average Tax Benefit

Fiscal Year	2023	2024	2025	2026	2027
Number of Beneficiaries	15,027	13,626	13,422	13,208	12,979
Average Tax Benefit	\$30	\$30	\$30	\$30	\$30

Evaluation: Comparing Costs and Benefits

In the previous sections, we report the direct costs (to the Commonwealth, or to the residents and businesses who ultimately bear the costs when the Commonwealth cuts government spending or increases taxes to finance the tax expenditure) and direct benefits of this tax expenditure. In this instance, the direct costs to the Commonwealth, namely the tax revenue that would have been collected, are equal to the direct benefits afforded by the tax expenditure to taxpayers.

Furthermore, there may be indirect and induced costs and benefits associated with this expenditure. To measure indirect and induced costs and benefits, economists often need to utilize complicated models, such as REMI (Regional Economic Models, Inc.) or IMPLAN (Impact Analysis for Planning) models. DOR did not use such models given their complexity and data limitations present in this instance.

Similar Tax Expenditures Offered by Other States

States that conform to the Code for individual income tax purposes adopt the exclusion unless they have specifically decoupled from the Code in that regard. Connecticut, Maine, New York, Rhode Island, and Vermont adopt the exclusion. The California statute does not adopt the exclusion; however, in practice, the California tax forms appear to allow it.

¹³ [National Fire Protection Association \(NFPA\) website](#)
[National Registry of Emergency Medical Technicians \(NREMT\)](#)

¹⁴ Note that a joint filer is counted as one beneficiary.

Tax Expenditure Title: 1.201 Capital Gains Deduction for Collectibles

Tax Expenditure Category: Deduction from Gross Income

Tax Type: Personal Income

Legal Reference: M.G.L c. 62, § 2(c)(3)

Year Enacted: Prior to 1986

Repeal or Expiration Date: None

Annual Revenue Impact: Tax loss \$0.12 to \$0.58 million per year during FY23 through FY27.

Number Of Taxpayers: Estimated 95 to 152 per year during FY23 through FY27.

Average Taxpayer Benefit: \$803 to \$6,056 per year during FY23 through FY27.

Federal Tax Expenditure: No

Description of the Tax Expenditure: A personal income tax deduction is allowed against long-term capital gain income resulting from the sale of a collectible item. The deduction is equal to 50% of the amount of such gain that is subject to tax.

Is the purpose defined in the statute? The statute does not state the purpose of this tax expenditure.

What are the policy goals of the expenditure? The Commission assumes the goal of the expenditure is to reduce the disadvantage that would otherwise apply to taxpayers that sell collectibles, by adopting an effective tax rate on long-term gains that is only one percentage point higher than the rate applicable to long-term gain on other personal use property.

Are there other states with a similar tax expenditure? It does not appear that any other state has a deduction for long-term capital gains on collectibles. Note, however, that it appears no other state distinguishes gains on the sale of collectibles from other types of capital gains.

Introduction

The personal income tax applies different rates to various categories of income. Most long-term capital gain is taxed at 5%, but the statutory rate of personal income tax applicable to long-term capital gains on the sale of collectible items is 12%. M.G.L. c. 62, §§ 4(a)(1) and 4(2)(b). However, a deduction of up to 50% of such gain is available. The deduction is equal to 50% of any remaining long-term gain from collectibles after any allowable offset by capital losses. M.G.L. c. 62, § 2(c)(3). Accordingly, the effective rate of tax on long-term gains from the sale or exchange of a collectible item held for more than one year is a maximum of 6%.

Note that Massachusetts adopts the definition of “collectibles” in section 408(m) of the Code. IRC § 408(m)(2). Such items include works of art, antiques, coins, stamps, and similar items. *Id.*

The revenue loss resulting from the deduction constitutes a tax expenditure.

Policy Goals

The Commission assumes the goal of the expenditure is to reduce the disadvantage that would otherwise apply to taxpayers that sell collectibles, by adopting an effective tax rate on long-term gains that is only one percentage point higher than the rate applicable to long-term gain on other personal use property.

Administrability

The administration of the deduction for long-term gains on the sale or exchange of collectibles presents some challenges for the Massachusetts Department of Revenue (DOR). Capital gains from collectibles are reported for federal tax purposes. However, because of differences between Massachusetts and federal computational and presentational rules desk audits are required to ensure that taxable gains on collectibles are reported and taxed appropriately.

Direct Costs

The revenue loss resulting from this tax expenditure is estimated to be \$0.12 to \$0.58 million per year during FY23 through FY27. See Table 1 below.

Table 1. Tax Revenue Loss Estimates for Capital Gains Deduction for Collectibles

Fiscal Year	2023	2024	2025	2026	2027
Estimated Revenue Loss (\$Million)	\$0.58	\$0.12	\$0.44	\$0.48	\$0.51

The estimates in the above table are derived from the DOR’s personal income tax return data.¹⁵

Direct Benefits

The direct beneficiaries of this tax expenditure are Massachusetts taxpayers who claim deductions on capital gains for collectibles against their personal income tax liability. Table 2

¹⁵ More specifically, this deduction is reported on [Schedule B](#), line 27. For tax years 2018 - 2023, about 90 - 190 tax filers claimed this deduction annually with significant year over year fluctuation in both the number of claimants and the dollar amount of claimed deduction.

below shows the estimated number of direct beneficiaries (taxpayers only) and the tax saving per beneficiary.

Table 2. Number of Direct Beneficiaries and Average Tax Benefit

Fiscal Year	2023	2024	2025	2026	2027
Number of Beneficiaries	95	152	144	149	145
Average Tax Benefit	\$6,056	\$803	\$3,076	\$3,180	\$3,542

Table 3 shows the distribution of the deduction and resulting tax savings by income group¹⁶ for tax year 2023.

Table 3. Capital Gains Deduction for Collectibles by Income Bracket Tax Year 2023

Massachusetts Net Adjusted Gross Income (AGI)	Number of All Filers	Capital Gains Deduction for Collectibles (For claimants with tax liability)				Average Tax Saving per Claimant
		Number of Claimants	Deduction Amount	Average Deduction per Claimant	Income Group's % of Total Deduction Amount	
Under \$100,000	2,880,822	21	\$125,166	\$5,960	13%	\$715
\$100,000 under \$150,000	426,975	22	\$41,260	\$1,875	4%	\$225
\$150,000 under \$200,000	236,737	23	\$19,245	\$837	2%	\$100
\$200,000 under \$500,000	364,682	56	\$224,540	\$4,010	23%	\$481
\$500,000 under \$1,000,000	69,630	16	\$363,393	\$22,712	38%	\$2,725
\$1,000,000 or over	29,347	14	\$182,292	\$13,021	19%	\$2,083
Total	4,008,193	152	\$955,896	\$6,289	100.0%	\$803

Source: Massachusetts Department of Revenue, tax year 2023 personal income tax return data

¹⁶ Table 3 is based on Massachusetts net Adjusted Gross Income (AGI), which is calculated as the sum of Earned 5.0% Income, 5.0% Interest and Dividends, 8.5% Short-Term Capital Gains, 12.0% Long-Term Capital Gains on Collectibles, and 5.0% Long-Term Capital Gains. In tax year 2023, these income types include those reported on line 10, line 20, Line 23a, Line 23b, plus Long-Term Capital Gains derived from Line 24, of Form 1, and corresponding lines of other forms.

Table 3 shows that, in tax year 2023, 152 taxpayers (out of ~4 million tax filers) claimed about \$0.96 million in deduction for capital gains on collectibles against their personal income tax liability. The tax savings of this deduction accrue mostly to high income taxpayers with 81% of the total deduction amount claimed by taxpayers reporting over \$200,000 in net adjusted gross income (AGI). Claimants with a net AGI of \$100,000 to \$200,000 claimed 6% of the total deduction amount. Claimants with an AGI less than \$100,000 claimed 13% of the total deduction amount.¹⁷ The average tax saving per claimant is about \$803.

Evaluation: Comparing Costs and Benefits

In the previous sections, we report the direct costs (to the Commonwealth, or to the residents and businesses who ultimately bear the costs when the Commonwealth cuts government spending or increases taxes to finance the tax expenditure) and direct benefits of this tax expenditure. In this instance, the direct costs to the Commonwealth, namely the tax revenue that would have been collected, are equal to the direct benefits afforded by the tax expenditure to taxpayers.

Furthermore, there may be indirect and induced costs and benefits associated with this expenditure. To measure indirect and induced costs and benefits, economists often need to utilize complicated models, such as REMI (Regional Economic Models, Inc.) or IMPLAN (Impact Analysis for Planning) models. DOR did not use such models given their complexity and data limitations present in this instance.

Similar Tax Expenditures Offered by Other States

It does not appear that any other state has a deduction for long-term capital gains on collectibles. Note, however, that it appears no other state distinguishes gains on the sale of collectibles from other types of capital gains.

¹⁷ Some taxpayers with significant capital gains on collectibles may have low net adjusted gross income due to business loss.

Tax Expenditure Title: 1.202 Deduction of Capital Losses Against Interest and Dividend Income

Tax Expenditure Category: Deductions from Gross Income

Tax Type: Personal Income Tax

Legal Reference: M.G.L. c. 62, § 2(c)(2)

Year Enacted: M.G.L. c. 62, § 2(c)(2) was enacted in its current form in 2002 and is based on prior provisions enacted in 1973.

Repeal or Expiration Date: None

Annual Revenue Impact: \$17.5 to \$24.9 million per year during FY23 through FY27.

Number Of Taxpayers: 356,363 to 470,674 per year during FY23 through FY27.

Average Taxpayer Benefit: \$49 to \$54 per benefiting taxpayer.

Federal Tax Expenditure: No

Description of the Tax Expenditure: Individual taxpayers may deduct up to \$2,000 of net capital losses against interest and dividend income. Any remaining capital losses can be carried forward and deducted in a succeeding taxable year.

Is the purpose defined in the statute? The statute does not state the purpose of this tax expenditure.

What are the policy goals of the expenditure? The Commission assumes the goal of the expenditure is to allow taxpayers a limited ability to deduct net capital losses when they have insufficient capital gains to offset. The limit is likely intended to reduce the benefit of loss harvesting across income types, a practice where taxpayers selectively sell capital assets at a loss in order to offset other types of income.

Are there other states with a similar tax expenditure? Most states that adopt the Code for individual income tax purposes allow the federal deduction of \$3,000 of net capital loss to offset ordinary income. Such states include California, Connecticut, Maine, New York, Rhode Island, and Vermont.

Introduction

Generally, for both Massachusetts and federal income tax purposes, capital losses can only be deducted against capital gains. Losses in excess of gains may be carried forward and deducted from net gains in subsequent taxable years. This tax expenditure allows a Massachusetts personal income tax deduction of up to \$2,000 of capital losses in excess of capital gains against interest and dividend income. See M.G.L. c. 62, § 2(c)(2). Unused capital losses can be carried forward and deducted in any subsequent taxable years in which the taxpayer has net capital gain or interest and dividend income.

Note, there is a similar federal deduction that allows up to \$3,000 of net capital loss to be deducted against any ordinary income (not just interest and dividend income). See Internal Revenue Code (Code) § 1211. Massachusetts does not follow that Code provision and, instead, allows the deduction described above.

The revenue that is lost as a result of the deduction constitutes a tax expenditure.

Policy Goals

The Commission assumes the goal of the expenditure is to allow taxpayers a limited ability to deduct net capital losses when they have insufficient capital gains to offset. The limit is likely intended to reduce the benefit of loss harvesting across income types, a practice where taxpayers selectively sell capital assets at a loss in order to offset other types of income.

Administrability

The administration of this deduction of capital losses against any interest or dividend income presents some challenges for the Massachusetts Department of Revenue (DOR). Because of the differences between Massachusetts and federal treatment of capital gains and losses, desk audits are required to make sure that this deduction is being utilized appropriately. This is further complicated where capital losses are carried forward, which prompts a need for multi-year review. However, since the Massachusetts and federal deductions employ similar concepts, information shared by the Internal Revenue Service is helpful in identifying returns for potential review.

Direct Costs

The revenue loss resulting from this tax expenditure is estimated to be \$17.5 to \$24.9 million per year during FY23 through FY27. See Table 1 below. Filers report the amount of capital loss deduction against interest and dividends on their returns. This allows a direct calculation of the amount of accelerated deductions resulting from this tax expenditure.

Table 1. Estimated Revenue Loss to State in the Year the Capital Losses Are Applied Against Dividend and Interest

Fiscal Year	2023	2024	2025	2026	2027
Estimated Revenue Loss (\$Million)	\$24.9	\$24.1	\$17.5	\$17.7	\$18.6

Please note that filers are generally able to carry capital losses forward to offset capital gains in future years. This means that, even without this expenditure, filers could potentially use some or all of their capital losses to offset gains, but in a later year than they would with this expenditure. So, revenue loss figures above could have eventually occurred even without this deduction; the difference is that it would have been spread over an unknown number of years in the future. Without knowing the timing and scope of this delay, it is not possible to further refine the revenue loss estimates above. Also, capital losses fluctuate widely from year to year. Therefore, the estimates for FY25 through FY27 in Table 1 may have significantly estimation uncertainty and should be used with caution.

Direct Benefits

The direct beneficiaries of this tax expenditure are taxpayers who claim capital loss deductions against interest and dividend income. Table 2 below shows the estimated number of direct beneficiaries and the tax saving per beneficiary.¹⁸

Table 2. Number of Direct Beneficiaries and Average Tax Benefits

Fiscal Year	2023	2024	2025	2026	2027
Number of Beneficiaries	470,674	444,809	356,363	362,289	373,441
Average Tax Benefits	\$53	\$54	\$49	\$49	\$50

Table 3 below shows the distribution of tax saving resulting from the deduction of capital losses against interest and dividend income by income bracket for tax year 2023. In 2023, the most recent year for which DOR has this data, about 444,809 tax filers, or 11.1% of all filers, saved about \$24 million in tax. About 66% of total tax saving went to those beneficiaries with a net adjusted gross income (AGI)¹⁹ of \$100,000 or over. About 34% of the total tax saving went to those beneficiaries with a net AGI of under \$100,000. The average tax saving for all beneficiaries was about \$54.

¹⁸ Note that a joint filer is counted as one beneficiary.

¹⁹ Massachusetts Net Adjusted Gross Income (AGI) is calculated as the sum of 5.0% Earned Income, 5.0% Interest and Dividends, 8.5% Short-Term Capital Gains, 12.0% Long-Term Capital Gains on Collectibles, and 5.0% Long-Term Capital Gains. In tax year 2023, these income types include those reported on line 10, line 20, Line 23a, Line 23b, plus Long-Term Capital Gains derived from Line 24, of Form 1, and corresponding lines of other forms.

Table 3. Tax Saving Resulting from Deduction of Capital Losses Against Dividend and Interest, Tax Year 2023

Massachusetts Net Adjusted Gross Income (AGI)	Count of All Filers	Beneficiaries of Capital Loss Deduction Against Dividend and Interest Income			
		Number of Beneficiaries	Tax Saving	Average Tax Saving	Income Group's % of Total Tax Saving
Under \$5,000	394,024	20,838	\$963,998	\$46	4.0%
\$5,000 under \$10,000	230,266	9,305	\$434,772	\$47	1.8%
\$10,000 under \$15,000	204,739	9,089	\$429,285	\$47	1.8%
\$15,000 under \$20,000	181,016	8,892	\$442,392	\$50	1.8%
\$20,000 under \$25,000	163,098	8,698	\$447,541	\$51	1.9%
\$25,000 under \$30,000	152,461	8,503	\$437,205	\$51	1.8%
\$30,000 under \$35,000	152,993	8,393	\$437,409	\$52	1.8%
\$35,000 under \$40,000	154,484	8,219	\$425,794	\$52	1.8%
\$40,000 under \$45,000	151,974	8,230	\$408,314	\$50	1.7%
\$45,000 under \$50,000	142,762	8,141	\$394,288	\$48	1.6%
\$50,000 under \$60,000	256,872	16,029	\$762,503	\$48	3.2%
\$60,000 under \$70,000	218,206	15,901	\$734,982	\$46	3.0%
\$70,000 under \$80,000	186,912	15,937	\$716,732	\$45	3.0%
\$80,000 under \$90,000	158,502	14,952	\$664,806	\$44	2.8%
\$90,000 under \$100,000	132,513	14,115	\$637,210	\$45	2.6%
\$100,000 under \$150,000	426,975	58,678	\$2,732,360	\$47	11.3%
\$150,000 under \$200,000	236,737	44,298	\$2,172,178	\$49	9.0%
\$200,000 under \$500,000	364,682	114,522	\$6,699,008	\$58	27.8%
\$500,000 under \$1,000,000	69,630	35,159	\$2,703,701	\$77	11.2%
\$1,000,000 or Over	29,347	16,910	\$1,487,431	\$88	6.2%
Total	4,008,193	444,809	\$24,131,909	\$54	100.0%

Source: Massachusetts Department of Revenue, tax year 2023 individual income tax return data.

Evaluation: Comparing Costs and Benefits

In the previous sections, we report the direct costs (to the Commonwealth, or to the residents and businesses who ultimately bear the costs when the Commonwealth cuts government spending or increases taxes to finance the tax expenditure) and direct benefits of this tax expenditure. In this instance, the direct costs to the Commonwealth, namely the tax revenue that would have been collected, are equal to the direct benefits afforded by the tax expenditure to taxpayers.

Furthermore, there may be indirect and induced costs and benefits associated with this expenditure. To measure indirect and induced costs and benefits, economists often need to utilize complicated models, such as REMI (Regional Economic Models, Inc.) or IMPLAN (Impact Analysis for Planning) models. DOR did not use such models given their complexity and data limitations present in this instance.

Similar Tax Expenditures Offered by Other States

Most states that adopt the Code for individual income tax purposes allow the federal deduction of \$3,000 of net capital loss to offset ordinary income. Such states include California, Connecticut, Maine, New York, Rhode Island, and Vermont.

Tax Expenditure Title: 1.401 and 1.402 Deduction for Employee Social Security and Railroad Retirement Payments; Deduction for Certain Employee Contributions to Public Pension Plans

Tax Expenditure Title: Deduction for Employee Social Security and Railroad Retirement Payments; Deduction for Certain Employee Contributions to Public Pension Plans

Tax Expenditure Category: Deductions from Adjusted Gross Income

Tax Type: Personal Income Tax

Legal Reference: M.G.L. c. 62, § 3B(a)(3) and (4)

Year Enacted: 1973; the \$2,000 limit was added in 1983

Repeal or Expiration Date: None

Annual Revenue Impact: Tax loss of \$319.4 to \$341.5 million per year during FY22 through FY26.

Number Of Taxpayers: 2,970,947 to 3,080,119 per year during FY22 through FY26.

Average Taxpayer Benefit: \$108 to \$111 per benefiting taxpayer during FY22 through FY26.

Federal Tax Expenditure: No

Description of the Tax Expenditure: A deduction, up to a maximum of \$2,000 per year, is allowed for employee contributions to Social Security, Railroad Retirement or contributory retirement plans of the federal government or Massachusetts government.

Is the purpose defined in the statute? The statute does not state the purpose of the tax expenditure.

What are the policy goals of the expenditure? The Commission assumes the goal of the deduction is to reduce the tax burden of employees that contribute to Social Security, Railroad Retirement or federal or Massachusetts retirement plans.

Are there other states with a similar tax expenditure? The Commission is not aware of any other state that allows an income tax deduction for contributions to Social Security or Railroad Retirement. Federal and state retirement contributions are generally excluded from federal gross income. States that base their income taxes on federal gross income or adjusted gross income will follow the federal exclusion unless a statutory modification applies. Maine and New York have such a modification applicable to state, but not federal, retirement contributions. In these states contributions to state retirement plans are taxed but contributions to federal retirement plans are not. Maine and New York allow tax exemptions for the amount paid to retirees by their state retirement plans.

Introduction

A deduction, up to a maximum of \$2,000 per year, is allowed for employee contributions to Social Security, Railroad Retirement or contributory retirement plans of the federal government or the Massachusetts government. See M.G.L. c. 62, §§ 3B(a)(3) and (4). A government plan is considered contributory only if the employee actually contributes to it from his or her own funds through payroll deductions or by transfers from his or her own accounts. For purposes of the deduction, the federal government includes federal agencies and instrumentalities. The Massachusetts government includes state agencies and political subdivisions (including cities and towns). The deduction is not available for contributions to retirement plans of other states.

Taxpayers that are married and file joint returns may deduct up to \$2,000 each. The limit on deductible contribution amounts may not be combined or transferred from one spouse to the other.

Contributions to Social Security and Railroad Retirement are included in employees' gross income for both federal and Massachusetts purposes. The Massachusetts deduction can therefore be viewed as subsidizing employees' Social Security and Railroad Retirement contributions up to the \$2,000 limit. Massachusetts does not tax Social Security or Railroad Retirement income when received by retirees.²⁰

The federal retirement plan consists of noncontributory and contributory components. The noncontributory component is funded by the federal government and contributions are not included in employees' federal or Massachusetts gross income. However, employee contributions to the contributory portions of federal retirement plans are generally excluded from federal gross income. No provision of the personal income tax requires such contributions to be added back to Massachusetts income. The deduction therefore applies, even if the contribution was excluded from federal and Massachusetts gross income. The Massachusetts deduction can therefore be viewed as a pure bonus, up to the \$2,000 limit, to federal employees that contribute to federal retirement plans. Massachusetts does not tax income from federal pensions when received by retirees.²¹

Contributions to Massachusetts retirement plans are excluded from federal gross income. However, the full amount of the contribution must be added back to federal gross income.²² The deduction can therefore be viewed as subsidizing state retirement contributions up to the \$2,000 limit. Income from Massachusetts state retirement plans is not subject to the personal income tax when received by retirees.²³

The amount of revenue foregone as a result of the deduction constitutes a tax expenditure.

²⁰ See M.G.L. c. 62, § 2(a)(2)(H).

²¹ See M.G.L. c. 62, § 2(a)(2)(E).

²² See M.G.L. c. 62, § 2(a)(1)(I).

²³ See M.G.L. c. 62, § 2(a)(2)(E).

Policy Goals

The Commission assumes the goal of the deduction is to reduce the tax burden of employees that contribute to Social Security, Railroad Retirement or federal or Massachusetts retirement plans.

Administrability

The administration of the deduction for employee contributions to Social Security, Railroad Retirement, and federal and Massachusetts public pension plans does not present any special challenges for the Department of Revenue (DOR). The amount of such contributions is reported on each employee's Form W-2 and the DOR can use this information to monitor compliance with the deduction.

Direct Costs

The revenue loss resulting from this tax expenditure is estimated to be \$319.4 to \$341.5 million per year during FY22 through FY26. See Table 1.

Table 1. Tax Revenue Loss Estimates for Deduction for Employee Contribution to Social Security, Railroad, and Federal and Massachusetts Retirement

Fiscal Year	2022	2023	2024	2025	2026
Estimated Revenue Loss (\$Million)	\$319.4	\$328.4	\$332.7	\$337.0	\$341.5

Revenue loss estimates above are based on the Massachusetts Department of Revenue's Statistics of Income data (SOI).²⁴

Direct Benefits

The direct beneficiaries of this tax expenditure are employees contributing to social security, railroad retirement, and public pension plans. Table 2 shows the estimated number of taxpayer beneficiaries and the average tax savings per claimant, by fiscal year.²⁵

Table 2. Number of Direct Beneficiaries and Average Tax Benefit

Fiscal Year	2022	2023	2024	2025	2026
Number of Beneficiaries	2,970,947	3,000,968	3,027,123	3,053,506	3,080,119
Average Tax Benefit	\$108	\$109	\$110	\$110	\$111

Table 3 shows the distribution of the deduction and the average tax saving per claimant by income bracket for tax year 2022.

²⁴ This deduction is reported on line 11 of 2023 form 1 and corresponding lines on other forms.

²⁵ A joint taxpayer is counted as one taxpayer. Note, the fiscal year estimates reported in Table 2 reflect estimates for the previous tax year reported in Table 3. For example, the 3,000,968 beneficiaries for fiscal year 2023 reflect the 3,000,968 beneficiaries for tax year 2022 assuming they all filed return during the filing season (from January 2023 to June 2023).

Table 3. Deduction for Employee Social Security and Railroad Retirement Payments; Deduction for Certain Employee Contributions to Public Pension Plans by Income Bracket, Tax Year 2022

Massachusetts Net Adjusted Gross Income (AGI)	Number of All Filers	Deduction for Employee Contribution to Social Security, Railroad and federal or Massachusetts Retirement (For claimants with tax liability)				Average Tax Saving per Claimant (at a 5% rate)
		Number of Claimants	Amount Deducted	Average Deduction per Claimant	Income Group's % of Total Deduction	
Under \$5,000	417,769	35,957	\$12,693,128	\$353	0.2%	\$18
\$5,000 under \$10,000	247,164	78,345	\$55,939,324	\$714	0.9%	\$36
\$10,000 under \$15,000	212,002	126,447	\$125,134,161	\$990	1.9%	\$49
\$15,000 under \$20,000	184,944	130,524	\$174,493,806	\$1,337	2.7%	\$67
\$20,000 under \$25,000	166,883	130,887	\$213,002,738	\$1,627	3.2%	\$81
\$25,000 under \$30,000	159,066	129,695	\$239,412,346	\$1,846	3.6%	\$92
\$30,000 under \$35,000	160,022	134,741	\$256,288,855	\$1,902	3.9%	\$95
\$35,000 under \$40,000	159,147	136,922	\$264,984,621	\$1,935	4.0%	\$97
\$40,000 under \$45,000	153,543	134,117	\$262,510,379	\$1,957	4.0%	\$98
\$45,000 under \$50,000	142,121	125,362	\$247,409,808	\$1,974	3.8%	\$99
\$50,000 under \$60,000	252,516	225,838	\$451,261,823	\$1,998	6.9%	\$100
\$60,000 under \$70,000	213,189	192,455	\$394,086,704	\$2,048	6.0%	\$102
\$70,000 under \$80,000	182,138	165,852	\$351,173,109	\$2,117	5.3%	\$106
\$80,000 under \$90,000	154,666	141,484	\$311,996,581	\$2,205	4.8%	\$110
\$90,000 under \$100,000	126,866	116,322	\$269,776,426	\$2,319	4.1%	\$116
\$100,000 under \$150,000	414,198	382,996	\$1,008,989,198	\$2,634	15.4%	\$132
\$150,000 under \$200,000	226,567	212,042	\$644,348,281	\$3,039	9.8%	\$152
\$200,000 under \$500,000	337,034	315,022	\$1,020,584,578	\$3,240	15.5%	\$162
\$500,000 under \$1,000,000	63,519	58,254	\$184,372,663	\$3,165	2.8%	\$158
\$1,000,000 or Over	31,565	27,706	\$79,612,727	\$2,873	1.2%	\$144

Total	4,004,919	3,000,968	\$6,568,071,256	\$2,189	100.0%	\$109
-------	-----------	-----------	-----------------	---------	--------	-------

Source: Massachusetts Department of Revenue, 2022 individual income tax return data

Table 3 shows that, in tax year 2022, 3,000,968 taxpayers²⁶, or 74.9% of all filers, claimed about \$6.6 billion in deductions for employee contributions to Social Security/ Railroad and federal or Massachusetts retirement. Taxpayers with a net adjusted gross income (AGI)²⁷ of \$100,000 to \$500,000 claimed 40.7% of all tax savings resulting from this tax expenditure. The average tax saving per claimant is about \$109.

Evaluation: Comparing Costs and Benefits

In the previous sections, we report the direct costs (to the Commonwealth, or to the residents and businesses who ultimately bear the costs when the Commonwealth cuts government spending or increases taxes to finance the tax expenditure) and direct benefits of this tax expenditure. In this instance, the direct costs to the Commonwealth, namely the tax revenue that would have been collected, are equal to the direct benefits afforded by the tax expenditure to taxpayers.

Furthermore, there may be indirect and induced costs and benefits associated with this expenditure. To measure indirect and induced costs and benefits, economists often need to utilize complicated models, such as REMI (Regional Economic Models, Inc.) or IMPLAN (Impact Analysis for Planning) models. DOR did not use such models given their complexity and data limitations present in this instance.

Similar Tax Expenditures Offered by Other States

The Commission is not aware of any other state that allows an income tax deduction for contributions to Social Security or Railroad Retirement. Federal and state retirement contributions are generally excluded from federal gross income. States that base their income taxes on federal gross income or adjusted gross income will follow the federal exclusion unless a statutory modification applies. Maine and New York have such a modification applicable to state, but not federal, retirement contributions. In these states contributions to state retirement plans are taxed but contributions to federal retirement plans are not.

²⁶ Some joint filers claimed this deduction for both spouses. Therefore, more employees benefited from this deduction than taxpayers. For tax year 2022, the 3,000,968 taxpayers claimed this deduction for 3,969,429 employees. On average, 1 taxpayer claimed this deduction for 1.23 employees.

²⁷ Massachusetts Net Adjusted Gross Income (AGI) is calculated as the sum of Earned 5.0% Income, 5.0% Interest and Dividends, 12% Short-Term Capital Gains and 5.0% Long-Term Capital Gains. In tax year 2022, these income types include those reported on line 10, line 20, Line 23a, plus Long-Term Capital Gains derived from Line 24, of Form 1, and corresponding lines of other forms.

Tax Expenditure Title: 1.403 Additional Exemption for the Elderly

Tax Expenditure Category: Deductions From Adjusted Gross Income

Tax Type: Personal Income Tax

Legal Reference: M.G.L. c. 62, § 3B(b)(1)(C), § 3B(b)(1A)(C), § 3B(b)(2)(C)

Year Enacted: 1973

Repeal or Expiration Date: None

Annual Revenue Impact: Tax loss of \$25.7 to \$29.1 million per year during FY22 through FY26.

Number Of Taxpayers: 573,000 to 652,000 per year during FY22 through FY26.

Average Taxpayer Benefit: \$45 per year during FY22 through FY26.

Federal Tax Expenditure: No

Description of the Tax Expenditure: Massachusetts allows an additional personal income tax exemption of \$700 for taxpayers aged 65 or older before the close of the taxable year.

Is the purpose defined in the statute? The statute does not state the purpose of the tax expenditure.

What are the policy goals of the expenditure? The Commission assumes that the goal of the expenditure is to ease the financial burden on taxpayers aged 65 or older by providing an additional exemption that is not available to younger taxpayers.

Are there other states with a similar tax expenditure? Most states that impose a personal income tax allow some form of income tax exemption or credit for taxpayers over age 65. California, New York, Rhode Island and Vermont do so. Maine does not. The New York exemption is available to taxpayers over the age of 59 ½ at the close of the taxable year. Note that states may provide property tax exemptions for older taxpayers instead of or in addition to these income tax exemptions.

Introduction

Massachusetts allows a personal income tax exemption of \$700 for taxpayers aged 65 or older. M.G.L. c. 62, § 3B(b)(1)(C), § 3B(b)(1A)(C), § 3B(b)(2)(C). If married taxpayers file a joint return, each spouse may claim a \$700 exemption if they reach age 65 as of the last day of the taxable year. The exemption is in addition to the \$4,400 personal exemption (\$8,800 for married taxpayers filing jointly) to which all taxpayers are generally entitled. The Massachusetts additional exemption parallels federal tax provisions allowing a higher standard deduction for taxpayers aged 65 or older.

In the absence of the additional exemption, taxpayers aged 65 or older would be entitled only to the personal income tax exemption that is allowed to younger taxpayers. The revenue foregone as a result of the additional exemption constitutes a tax expenditure.

Policy Goals

The Commission assumes that the goal of the expenditure is to ease the financial burden on elderly taxpayers by providing an additional exemption that is not available to younger taxpayers.

Administrability

The administration of the additional exemption for taxpayers aged 65 or older does not present special challenges for the Department of Revenue (DOR). Eligibility for the exemption is based on the same parameters as the increased standard deduction available to taxpayers aged 65 or older for federal tax purposes. DOR can use information shared by the Internal Revenue Service (IRS) to assist in monitoring eligibility for the additional exemption. The Commission assumes that this consistency of treatment also eases the compliance burden for taxpayers and employers.

Direct Costs

The revenue loss resulting from this tax expenditure is estimated to be \$25.7 to \$29.1 million per year during FY22 through FY26. See Table 1 below.²⁸

Table 1. Tax Revenue Loss Estimates for Additional Exemption for the Elderly

Fiscal Year	2022	2023	2024	2025	2026
Estimated Revenue Loss (\$Million)	\$25.7	\$26.0	\$27.0	\$28.0	\$29.1

Direct Benefits

The direct beneficiaries of this exemption are taxpayers aged 65 or older. According to the U.S. Census Bureau, 1.25 million or 17.9% of Massachusetts' total population of 7.02 million were

²⁸ Revenue loss estimates reported in Table 1 and estimates reported in Table 2 were derived by microsimulation using Massachusetts individual income tax return data for multiple tax years (see Appendix for more details), supplemented with projection to future years based on tax return data and data on Massachusetts' population aged 65 or over from the U.S. Census Bureau.

aged 65 or over in 2022. Table 2 below shows the estimated number of direct beneficiaries and the tax saving per beneficiary, by fiscal year.²⁹

Table 2. Number of Direct Beneficiaries and Average Tax Benefit

Fiscal Year	2022	2023	2024	2025	2026
Number of Beneficiaries	572,636	578,502	602,489	626,831	652,156
Average Tax Benefit	\$45	\$45	\$45	\$45	\$45

Table 3 below shows the distribution of tax saving resulting from the additional exemption for the elderly by income bracket for tax year 2022. In tax year 2022, 578,502 tax filers, or 14.4% of all filers, saved a total of \$26 million in tax with 42% of the tax saving went to those beneficiaries with a net adjusted gross income (AGI)³⁰ under \$50,000. The average tax saving for all beneficiaries was about \$45.

Table 3. Tax Saving Resulting from Additional Exemption for the Elderly by Income Bracket, Tax Year 2022

Massachusetts Net Adjusted Gross Income (AGI)	Count of All Filers	Beneficiaries of Additional Exemption for the Elderly			
		Number of Beneficiaries	Tax Saving	Average Tax Saving	Income Group's % of Total Tax Saving
Under \$5,000	417,769	7,768	\$15,213	\$2	0.1%
\$5,000 under \$10,000	247,164	16,664	\$417,773	\$25	1.6%
\$10,000 under \$15,000	212,002	31,322	\$976,925	\$31	3.8%

²⁹ See footnote 1. Note, the fiscal year estimates reported in Table 2 reflect estimates for the previous tax year reported in Table 3. For example, 578,502 beneficiaries for fiscal year 2023 reflect the 578,502 beneficiaries for tax year 2022 assuming they all filed a return during the filing season (from January 2023 to June 2023). Furthermore, a joint filer is counted as one beneficiary even though both the primary taxpayer and the spouse may be aged 65 or over. In tax year 2022, 781,601 tax filers claimed this exemption but only 578,502 tax filers benefited from this exemption (see Table 3 and appendix for discussion).

³⁰ Massachusetts Net Adjusted Gross Income (AGI) is calculated as the sum of Earned 5.0% Income, 5.0% Interest and Dividends, 12% Short-Term Capital Gains and 5.0% Long-Term Capital Gains. In tax year 2022, these income types include those reported on line 10, line 20, Line 23a, plus Long-Term Capital Gains derived from Line 24, of Form 1, and corresponding lines of other forms.

\$15,000 under \$20,000	184,944	37,339	\$1,515,36 2	\$41	5.8%
\$20,000 under \$25,000	166,883	36,811	\$1,627,59 0	\$44	6.3%
\$25,000 under \$30,000	159,066	32,842	\$1,478,16 1	\$45	5.7%
\$30,000 under \$35,000	160,022	30,324	\$1,382,31 9	\$46	5.3%
\$35,000 under \$40,000	159,147	27,319	\$1,255,03 4	\$46	4.8%
\$40,000 under \$45,000	153,543	24,964	\$1,160,40 8	\$46	4.5%
\$45,000 under \$50,000	142,121	22,980	\$1,076,38 6	\$47	4.1%
\$50,000 under \$60,000	252,516	40,098	\$1,890,52 2	\$47	7.3%
\$60,000 under \$70,000	213,189	33,416	\$1,587,01 5	\$47	6.1%
\$70,000 under \$80,000	182,138	28,007	\$1,339,27 8	\$48	5.1%
\$80,000 under \$90,000	154,666	24,118	\$1,165,02 4	\$48	4.5%
\$90,000 under \$100,000	126,866	20,182	\$976,420	\$48	3.8%
\$100,000 under \$150,000	414,198	64,960	\$3,177,52 8	\$49	12.2%
\$150,000 under \$200,000	226,567	32,930	\$1,629,59 1	\$49	6.3%
\$200,000 under \$500,000	337,034	48,629	\$2,454,50 5	\$50	9.4%
\$500,000 under \$1,000,000	63,519	11,069	\$562,493	\$51	2.2%
\$1,000,000 or Over	31,565	6,760	\$337,910	\$50	1.3%
Total	4,004,9 19	578,502	\$26,025,4 56	\$45	100.0%

Evaluation: Comparing Costs and Benefits

In the previous sections, we report the direct costs (to the Commonwealth, or to the residents and businesses who ultimately bear the costs when the Commonwealth cuts government spending or increases taxes to finance the tax expenditure) and direct benefits of this tax expenditure. In this instance, the direct costs to the Commonwealth, namely the tax revenue that would have been collected, are equal to the direct benefits afforded by the tax expenditure to taxpayers.

Furthermore, there may be indirect and induced costs and benefits associated with this expenditure. To measure indirect and induced costs and benefits, economists often need to utilize complicated models, such as REMI (Regional Economic Models, Inc.) or IMPLAN (Impact Analysis for Planning) models. DOR did not use such models given their complexity and data limitations present in this instance.

Similar Tax Expenditures Offered by Other States

Most states that impose a personal income tax allow some form of income tax exemption or credit for taxpayers aged 65 or older. California, New York, Rhode Island and Vermont do so. Maine does not allow an income tax exemption or credit for elderly taxpayers. The New York exemption is available to taxpayers of the age of 59 ½ at the close of the taxable year. Note that states may provide property tax exemptions for older taxpayers instead of or in addition to these income tax exemptions.

Appendix

DOR estimated the number of beneficiaries³¹ and the amount of tax saving for filers who claimed additional exemption for the elderly by microsimulations using Massachusetts individual income tax return data for tax years 2017 through 2023. Table A-1 reports the microsimulation results and the number of filers who claimed additional exemption for the elderly on their tax returns and the actual amount they claimed. It should be noted that not all additional exemptions for the elderly claimants benefit from the exemption. For example, in tax year 2022, 787,601 tax filers claimed \$755 million in exemptions (equivalent to \$38 million tax saving at tax rate of 5%) but only 578,502 filers benefited from the exemption with total tax saving of \$26 million. The reason is that many claimants may not owe tax even without the exemption due to low income.

Table A-1. Additional Exemption to the Elderly Beneficiaries in Massachusetts Tax Years 2017 to 2023³²

³¹ The number of the additional exemptions for the elderly beneficiaries shows somewhat a stable upward trend, which is compatible with the overall change in Massachusetts' elderly population. From 1970 to 2023, Massachusetts population aged 65 or over grew 1.4% annually on average, compared with the annual average growth rate of 0.4% for the total population. The share of the population aged 65 or over has increased from 11.1% in 1970 to 18.3% in 2023.

³² Please note that the number of beneficiaries in Table A-1 for Tax Year 2021, Tax Year 2022, and Tax Year 2023 match the numbers in Table 2 for Fiscal Year 2022, Fiscal Year 2023, and Fiscal Year 2024, respectively. This is because there is a one-year lag from tax year to fiscal year as explained in footnote 2.

Tax Year	Number of Beneficiaries from the Additional Exemption for the Elderly	Amount of Tax Saving for Beneficiaries	Number of Tax Filers Who Claimed Additional Exemption for the Elderly	Total Amount of Additional Exemption for the Elderly Claimed by All Tax Filers
2017	476,827	\$21,585,128	676,687	\$643,762,700
2018	505,017	\$23,010,983	694,298	\$662,140,500
2019	522,498	\$23,621,552	709,548	\$677,782,700
2020	534,557	\$23,841,301	746,026	\$712,578,300
2021	572,636	\$25,700,191	771,132	\$737,704,100
2022	578,502	\$26,025,456	787,601	\$754,791,800
2023*	602,489	\$26,994,718	804,715	\$772,282,700

Source: Massachusetts Department of Revenue, tax year 2017 through 2023 individual income tax return data. *Numbers for tax year 2023 are preliminary and subject to change.

Tax Expenditure Title: 1.404 Additional Exemption for the Blind

Tax Expenditure Category: Deductions From Adjusted Gross Income

Tax Type: Personal Income Tax

Legal Reference: M.G.L. c. 62, § 3B(b)(1)(B), (1A)(B), (2)(B)

Year Enacted: 1973

Repeal or Expiration Date: None

Annual Revenue Impact: \$0.59 to \$0.6 million per year during FY22 through FY26.

Number Of Taxpayers: 5,653 to 5,840 per year during FY22 through FY26.

Average Taxpayer Benefit: \$103 to \$104 per year during FY22 through FY26.

Federal Tax Expenditure: No

Description of the Tax Expenditure: Massachusetts allows an additional personal income tax exemption of \$2,200 for taxpayers that are blind.

Is the purpose defined in the statute? The statute does not state the purpose of the tax expenditure.

What are the policy goals of the expenditure? The Commission assumes that the goal of the expenditure is to ease the financial burden on taxpayers that are blind by providing an additional exemption that is not available to all other taxpayers.

Are there other states with a similar tax expenditure? Several states provide income tax benefits to blind taxpayers. These states include California, Maine, Rhode Island, and Vermont. Connecticut and New York do not do so. Note that states may provide property tax exemptions instead of or in addition to these income tax benefits.

Introduction

Massachusetts allows a personal income tax exemption, up to a maximum of \$2,200, for taxpayers that are blind. M.G.L. c. 62, § 3B(b)(1)(B), (1A)(B), (2)(B). Taxpayers that are married and file joint returns may deduct up to \$2,200 each if both are blind. These exemptions are in addition to the \$4,400 credit (\$8,800 for married taxpayers filing jointly) that is generally available to all personal income taxpayers. To claim the additional exemption a taxpayer must be blind at the end of the tax year. Department of Revenue (DOR) [guidance explains that a taxpayer is blind for purposes of this exemption](#) if visual acuity with correction is 20/200 or less in the taxpayer's better eye, or if peripheral vision has been reduced to a 10-degree radius or less.

In the absence of the exemption, taxpayers that are blind would be entitled only to the personal income tax exemption available to all taxpayers. The revenue foregone as a result of the additional exemption constitutes a tax expenditure.

Policy Goals

The Commission assumes that the goal of the expenditure is to ease the financial burden on taxpayers that are blind by providing an additional exemption that is not available to other taxpayers.

Administrability

The administration of the additional exemption for blind taxpayers does not present special challenges for the Department of Revenue (DOR). There is a similar federal tax benefit in the form of an increased standard deduction for blind taxpayers. DOR can use information shared by the Internal Revenue Service (IRS) to assist in monitoring eligibility for the additional exemption. DOR may also ask taxpayers that claim the additional exemption to provide a doctor's statement verifying legal blindness.

Direct Costs

The revenue loss resulting from this tax expenditure is estimated to be \$0.59 to \$0.60 million per year during FY22 through FY26. See Table 1 below.³³

Table 1. Tax Revenue Loss Estimates for Additional Exemption for the Blind

Fiscal Year	2022	2023	2024	2025	2026
Estimated Revenue Loss (\$Million)	\$0.59	\$0.59	\$0.59	\$0.60	\$0.60

Direct Benefits

The direct beneficiaries of this exemption are taxpayers that are blind. According to data from the Massachusetts Commission for the Blind, around 28,470 individuals are registered as legally blind in the state, while the American Community Survey estimates that roughly 140,455 persons

³³Revenue loss estimates reported in Table 1 and estimates reported in Table 2 were derived by microsimulation using Massachusetts individual income tax return data for multiple tax years (see Appendix for more details), supplemented with projection to future years based on tax return data and data on Massachusetts' population from the U.S. Census Bureau.

in Massachusetts had a vision disability in 2023³⁴. Table 2 below shows the estimated number of direct taxpayer beneficiaries and the tax saving per beneficiary, by fiscal year.³⁵

Table 2. Number of Direct Beneficiaries and Average Tax Benefit

Fiscal Year	2022	2023	2024	2025	2026
Number of Beneficiaries	5,653	5,656	5,740	5,797	5,840
Average Tax Benefit	\$104	\$104	\$103	\$103	\$103

Table 3 below shows the distribution of tax saving resulting from the additional exemption for the blind by income bracket for tax year 2022. In tax year 2022, 5,656 tax filers, or 0.1% of all filers, saved a total of \$0.59 million in tax with 50.2% of the tax saving going to those beneficiaries with a net adjusted gross income (AGI)³⁶ of less than \$50,000. The average tax saving for all beneficiaries was about \$104.

Table 3. Tax Saving Resulting from Additional Exemption for the Blind by Income Bracket, Tax Year 2022

Massachusetts Net Adjusted Gross Income (AGI)	Count of All Filers	Beneficiaries of Additional Exemption for the Blind			
		Number of Beneficiaries	Tax Saving	Average Tax Saving	Income Group's % of Total Tax Saving
Under \$5,000	417,769	58	\$377	\$7	0.1%

³⁴Compiled by DOR using [the American Community Survey's public use micro data files](#).

³⁵ See footnote 2. Note, the fiscal year estimates reported in Table 2 reflect estimates for the previous tax year reported in Table 3. For example, the 5,656 beneficiaries for fiscal year 2023 reflect the 5,656 beneficiaries for tax year 2022 assuming they all filed a return during the filing season (from January 2023 to June 2023). Furthermore, a joint filer is counted as one beneficiary even though both the primary taxpayer and the spouse may be blind legally. In tax year 2022, 8,356 tax filers claimed this exemption but only 5,656 tax filers benefited from this exemption (see Table 3 and appendix for discussion). These 8,356 tax filers represent 8,430 persons legally blind, which are 30% of the approximate 28,470 individuals who are registered as legally blind in the state. This data suggests that many legally blind people do not to file tax return, likely because they do not reach the income threshold required to file tax return.

³⁶ Massachusetts Net Adjusted Gross Income (AGI) is calculated as the sum of Earned 5.0% Income, 5.0% Interest and Dividends, 12% Short-Term Capital Gains and 5.0% Long-Term Capital Gains. In tax year 2022, these income types include those reported on line 10, line 20, Line 23a, plus Long-Term Capital Gains derived from Line 24, of Form 1, and corresponding lines of other forms.

\$5,000 under \$10,000	247,164	222	\$16,168	\$73	2.7%
\$10,000 under \$15,000	212,002	379	\$37,313	\$98	6.3%
\$15,000 under \$20,000	184,944	442	\$45,014	\$102	7.6%
\$20,000 under \$25,000	166,883	415	\$43,477	\$105	7.4%
\$25,000 under \$30,000	159,066	333	\$35,466	\$107	6.0%
\$30,000 under \$35,000	160,022	291	\$31,128	\$107	5.3%
\$35,000 under \$40,000	159,147	295	\$31,030	\$105	5.3%
\$40,000 under \$45,000	153,543	253	\$27,372	\$108	4.7%
\$45,000 under \$50,000	142,121	261	\$28,359	\$109	4.8%
\$50,000 under \$60,000	252,516	397	\$43,088	\$109	7.3%
\$60,000 under \$70,000	213,189	361	\$39,347	\$109	6.7%
\$70,000 under \$80,000	182,138	255	\$27,325	\$107	4.6%
\$80,000 under \$90,000	154,666	252	\$27,189	\$108	4.6%
\$90,000 under \$100,000	126,866	187	\$19,830	\$106	3.4%
\$100,000 under \$150,000	414,198	530	\$57,176	\$108	9.7%
\$150,000 under \$200,000	226,567	271	\$29,974	\$111	5.1%
\$200,000 under \$500,000	337,034	379	\$40,899	\$108	6.9%

\$500,000 under \$1,000,000	63,519	52	\$5,500	\$106	0.9%
\$1,000,000 or Over	31,565	23	\$2,531	\$110	0.4%
Total	4,004,919	5,656	\$588,564	\$104	100.0%

Evaluation: Comparing Costs and Benefits

In the previous sections, we report the direct costs (to the Commonwealth, or to the residents and businesses who ultimately bear the costs when the Commonwealth cuts government spending or increases taxes to finance the tax expenditure) and direct benefits of this tax expenditure. In this instance, the direct costs to the Commonwealth, namely the tax revenue that would have been collected, are equal to the direct benefits afforded by the tax expenditure to taxpayers.

Furthermore, there may be indirect and induced costs and benefits associated with this expenditure. To measure indirect and induced costs and benefits, economists often need to utilize complicated models, such as REMI (Regional Economic Models, Inc.) or IMPLAN (Impact Analysis for Planning) models. DOR did not use such models given their complexity and data limitations present in this instance.

Similar Tax Expenditures Offered by Other States

A number of states provide income tax benefits to blind taxpayers in the form of additional deductions or credits. These states include California, Maine, Rhode Island, and Vermont. Connecticut and New York do not do so. Note that states may provide property tax exemptions instead of or in addition to these income tax benefits.

Appendix

DOR estimated the number of beneficiaries and the amount of tax saving for filers who claimed the additional exemption for the blind by microsimulations using Massachusetts individual income tax return data for tax years 2017 through 2023. Table A-1 reports the microsimulation results and the number of filers who claimed the additional exemption for the blind on their tax returns and the actual amount they claimed. It should be noted that not all claimants benefit from the exemption. For example, in tax year 2022, 8,356 tax filers claimed \$18.5 million (equivalent to \$0.92 million tax saving at tax rate of 5%) but only 5,656 filers benefited from the exemption with total tax saving of \$0.59 million. The reason is that many claimants may not owe tax even without the additional exemption.

Table A-1. Additional Exemption to the Blind Beneficiaries in Massachusetts Tax Years 2017 to 2023³⁷

Tax Year	Number of Beneficiaries from Additional Exemption for the Blind	Amount of Tax Saving for Beneficiaries	Number of Tax Filers Who Claimed Additional Exemption for the Blind	Total Amount of Additional Exemption for the Blind Claimed by All Tax Filers
2017	5,819	\$605,668	9,371	\$20,834,000
2018	5,823	\$608,599	9,049	\$20,105,800
2019	5,807	\$604,562	8,866	\$19,712,000
2020	5,631	\$583,430	8,762	\$19,560,200
2021	5,653	\$587,047	8,388	\$18,627,400
2022	5,656	\$588,564	8,356	\$18,546,000
2023*	5,740	\$592,906	8,321	\$18,493,200

Source: Massachusetts Department of Revenue, tax year 2017 through 2023 individual income tax return data. *Numbers for tax year 2023 are preliminary and subject to change.

³⁷ Please note that the number of beneficiaries in Table A-1 for Tax Year 2021, Tax Year 2022, and Tax Year 2023 match the numbers in Table 2 for Fiscal Year 2022, Fiscal Year 2023, and Fiscal Year 2024, respectively. This is because there is a one-year lag from tax year to fiscal year as explained in footnote 4.

Tax Expenditure Title: 1.405 Dependents Exemption Where the Dependent Earns Income

Tax Expenditure Category: Deductions From Adjusted Gross Income

Tax Type: Personal Income Tax

Legal Reference: Code § 151 (c); M.G.L. c. 62, § 3B(b)(3)

Year Enacted: 1954 (federal) and 1973 (Massachusetts)

Repeal or Expiration Date: None

Annual Revenue Impact: \$10.5 to \$11.0 million per year during FY22 through FY26.

Number Of Taxpayers: 170,500 to 179,700 per year during FY22 through FY26.

Average Taxpayer Benefit: \$61

Federal Tax Expenditure: No

Description of the Tax Expenditure: The Massachusetts personal income tax provides a \$1,000 exemption for each of a taxpayer's dependents. Taxpayers with dependents may claim the dependency exemption even if a dependent claims the \$4,400 personal exemption on their own return. The \$1,000 exemption allowed to a taxpayer whose dependents file their own return and claim the \$4,400 personal exemption constitutes a tax expenditure.

Is the purpose defined in the statute? The statute does not state the purpose of the tax expenditure.

What are the policy goals of the expenditure? The Commission assumes the goal of the expenditure is to enhance the economic security of families by allowing dependents who work to claim the full amount of their \$4,400 personal exemptions.

Are there other states with a similar tax expenditure? The states of California, Maine, Rhode Island, and Vermont do not allow taxpayers to claim a personal exemption if someone else can claim them as a dependent. The state of New York reduces the standard deduction and eliminates the household credit of a taxpayer that can be claimed as a dependent on another taxpayer's federal return.

Introduction

This tax expenditure results from the interaction between the Massachusetts personal income tax exemption that allows a \$1,000 reduction of taxable income for each of a taxpayer's dependents (see M.G.L. c. 62, § 3B(b)(3)) and the \$4,400 personal exemption that every taxpayer may claim to reduce their own taxable income (see M.G.L. c. 62, § 3B(1)(a)). No provision prevents taxpayers from claiming the \$1,000 exemption for dependents even if the dependent claims the \$4,400 personal exemption against their own income on their own returns.

Massachusetts provides a personal income tax exemption for each of a taxpayer's dependents. See M.G.L. c. 62, § 3B(b)(3). Dependents are defined in the same manner as they are for federal tax purposes under Internal Revenue Code (Code) § 151(c).³⁸ The Code's definition of a dependent includes qualifying children and other qualifying relatives. See Code § 152(a). The Massachusetts exemption allows taxpayers to reduce their taxable income by \$1,000 for each dependent, even when the dependent earns income against which the dependent's own \$4,400 personal exemption is taken.

Note that the federal deduction for personal exemptions is suspended (reduced to \$0) for tax years 2018 through 2025. When the federal exemption was in effect, taxpayers were generally not permitted to claim their own personal exemption if they could be claimed as a dependent on another taxpayer's return. See Code § 151(d)(2). Further, the federal standard deduction was and still is reduced for taxpayers that can be claimed as dependents on another taxpayer's return. See Code § 63(c)(5).

The federal disallowance sought to remove the duplicative benefit that would otherwise occur if taxpayers claimed a dependent exemption for someone who claimed their own personal exemption. The concept of allowing one exemption per person is viewed as a normative feature of a tax exemption system because it allows for each person to be counted once in the aggregate distribution of exemptions. The Massachusetts exemption system departs from the normative rule by allowing some taxpayers to claim a \$1,000 dependency exemption for dependent taxpayers who are themselves claiming a \$4,400 personal exemption against their own income on their own returns. Thus, in effect, Massachusetts allows more exemption amounts than a normative tax system would.

The revenue foregone as a result of allowing some taxpayers a \$1,000 dependency exemption for dependents who claim their own \$4,400 personal exemption constitutes a tax expenditure.

Note that the personal exemption is generally not otherwise considered a tax expenditure.³⁹

³⁸ Effective for tax years beginning on or after January 1, 2024, Massachusetts conforms to Code § 151(c) as amended on January 1, 2024, and in effect for the taxable year, with certain exceptions not relevant to this report. M.G.L. c. 62, § 1(c).

³⁹ For purposes of the Tax expenditure Budget, personal exemptions are viewed as part of the basic structure of the personal income tax in that every person is entitled to a single exemption, whether claimed on their own or someone else's tax return. However, Massachusetts allows a dependent exemption to be used twice when it is claimed by a filer that is also claimed on another taxpayer's return. This is a departure from the basic structure of the income tax and therefore results in a tax expenditure.

Policy Goals

The Commission assumes the goal of the expenditure is to enhance the economic security of families by allowing dependents who work claim the full amount of their personal exemptions.

Administrability

The administration of personal income tax dependency exemptions does not present any special challenges for the Department of Revenue (DOR). Dependents may claim the personal exemption even if claimed as a dependent by another taxpayer. There is therefore no reason to review such claims on audit. As a general matter the DOR verifies exemptions as part of its personal income tax audit process. Conformity with the federal definitions applicable to the dependency exemption simplifies tax compliance and administration by allowing the same general rules and definitions to be used for Massachusetts and federal purposes. The Commission assumes that this consistency of treatment also eases the compliance burden for employers and employees.

Direct Costs

The revenue loss resulting from this tax expenditure is estimated to be \$10.5 to \$11.0 million per year during FY22 through FY26. See Table 1.⁴⁰

Table 1. Tax Revenue Loss Estimates for Dependents Exemption where the Dependent Earns Income

Fiscal Year	2022	2023	2024	2025	2026
Estimated Revenue Loss (\$Million)	\$10.5	\$10.7	\$10.8	\$10.9	\$11.0

Direct Benefits

The direct beneficiaries of this tax expenditure are taxpayers with dependents earning income. Table 2 below shows the estimated number of direct taxpayer beneficiaries and the tax saving per beneficiary, by fiscal year.⁴¹

Table 2. Number of Direct Beneficiaries and Average Tax Benefits

Fiscal Year	2022	2023	2024	2025	2026
Number of Beneficiaries	170,499	174,454	175,994	178,336	179,659
Average Tax Benefits	\$61	\$61	\$61	\$61	\$61

⁴⁰ Revenue loss estimates reported in Table 1 and estimates reported in Tables 2 and 3 were derived mostly by microsimulation using Massachusetts individual income tax return data for multiple tax years, supplemented with projection to future years based on tax return data and data on Massachusetts' population from the U.S. Census Bureau.

⁴¹ See footnote 1. Note that a joint filer is counted as one beneficiary in Tables 2 and 3.

Table 3 below shows the distribution of tax saving resulting from the dependent exemption where the dependent earns income by income bracket for tax year 2022.⁴² In tax year 2022, 173,315 tax filers, or 4.3% of all filers, claimed the exemption for 216,816 dependents who earned income and filed their own return, and saved \$10.6 million in tax, with 66% of the tax saving going to those beneficiaries with a net adjusted gross income (AGI)⁴³ of \$100,000 or over.⁴⁴ The average tax saving for all beneficiaries was about \$61.

Table 3. Tax Saving Resulting from Dependent Exemption Where the Dependent Earns Income by Income Bracket, Tax Year 2022

Massachusetts Net Adjusted Gross Income (AGI)	Count of All Filers	Beneficiaries of Dependent Exemption Where the Dependent Earns Income				Number of Dependent filers claimed by the beneficiaries
		Number of Beneficiaries	Tax Saving	Average Tax Saving	Income Group's % of Total Tax Saving	
Under \$5,000	417,769	330	\$596	\$2	0.0%	377
\$5,000 under \$10,000	247,164	289	\$4,625	\$16	0.0%	324

⁴² Table 3 shows only the data when a dependent as reported on schedule DI can be matched with the tax filer who claimed exemption for this dependent (please note that only one person (or married couple filing jointly) may claim the dependent exemption for any one child or other dependent.). For about 1,492 dependents who filed their own return for tax year 2022, DOR could not identify the tax filer who claimed the exemption for these dependents. For these dependents, DOR estimated the number of impacted tax filers who claimed the exemption for these dependents and the resulting revenue loss to the Commonwealth using a method other than micro-simulation. For tax year 2022, DOR identified 226,449 dependent filers who can be matched with 181,543 tax filers who claimed the exemption for them. Out of the 181,543 such tax filers, only 173,315, or 95% of those filers benefited from this tax expenditure (they claimed dependent exemptions for 216,816 dependents who filed their own return). The remaining 8,228 taxpayers did not benefit from the tax expenditure, likely because they had insufficient income to offset. The majority (more than 99%) of the 226,449 identified dependent filers were single filers. 93% of them had less than \$25,000 in Massachusetts net adjusted gross income (AGI).

⁴³ AGI is calculated as the sum of Earned 5.0% Income, 5.0% Interest and Dividends, 12% Short-Term Capital Gains and 5.0% Long-Term Capital Gains. In tax year 2022, these income types include those reported on line 10, line 20, Line 23a, plus Long-Term Capital Gains derived from Line 24 of Form 1, and corresponding lines of other forms.

⁴⁴ The data show that high-income tax filers are more likely to benefit from this tax expenditure likely because: (1) Joint filers, which tend to have higher income than other filers are more likely to claim the dependent exemption, and claim more dependent exemptions; (2) As filers get older, they are more likely to have both higher income and dependents earning income; (3) low-income filers may not have enough income to benefit from additional dependent exemptions; and (4) Employment rate for teenagers and young adults tends to increase with household income according to DOR's analysis of the Current Population Survey (CPS) data and the American Community Survey (ACS) data from the Census Bureau, as well as [a study by UMASS](#), Figure 12.

\$10,000 under \$15,000	212,002	430	\$14,776	\$34	0.1%	466
\$15,000 under \$20,000	184,944	2,191	\$110,654	\$51	1.0%	2,394
\$20,000 under \$25,000	166,883	3,290	\$175,370	\$53	1.6%	3,656
\$25,000 under \$30,000	159,066	3,749	\$200,609	\$54	1.9%	4,151
\$30,000 under \$35,000	160,022	4,260	\$233,384	\$55	2.2%	4,795
\$35,000 under \$40,000	159,147	4,518	\$246,436	\$55	2.3%	5,068
\$40,000 under \$45,000	153,543	4,757	\$261,527	\$55	2.5%	5,349
\$45,000 under \$50,000	142,121	4,413	\$244,644	\$55	2.3%	5,019
\$50,000 under \$60,000	252,516	8,271	\$460,283	\$56	4.3%	9,410
\$60,000 under \$70,000	213,189	7,724	\$438,989	\$57	4.1%	8,970
\$70,000 under \$80,000	182,138	7,337	\$421,333	\$57	4.0%	8,593
\$80,000 under \$90,000	154,666	7,199	\$412,054	\$57	3.9%	8,396
\$90,000 under \$100,000	126,866	6,726	\$389,518	\$58	3.7%	7,954
\$100,000 under \$150,000	414,198	29,743	\$1,804,694	\$61	17.0%	36,599
\$150,000 under \$200,000	226,567	23,945	\$1,542,045	\$64	14.5%	31,116
\$200,000 under \$500,000	337,034	41,309	\$2,760,712	\$67	26.0%	55,749
\$500,000 under \$1,000,000	63,519	8,377	\$581,487	\$69	5.5%	11,758
\$1,000,000 or Over	31,565	4,457	\$327,148	\$73	3.1%	6,672
Total	4,004,919	173,315	\$10,630,882	\$61	100.0%	216,816

Source: Massachusetts Department of Revenue, tax year 2022 individual income tax return data.

Evaluation: Comparing Costs and Benefits

In the previous sections, we report the direct costs (to the Commonwealth, or to the residents and businesses who ultimately bear the costs when the Commonwealth cuts government spending or increases taxes to finance the tax expenditure) and direct benefits of this tax expenditure. In this instance, the direct costs to the Commonwealth, namely the tax revenue that would have been collected, are equal to the direct benefits afforded by the tax expenditure to taxpayers.

Furthermore, there may be indirect and induced costs and benefits associated with this expenditure. To measure indirect and induced costs and benefits, economists often need to utilize complicated models, such as REMI (Regional Economic Models, Inc.) or IMPLAN (Impact

Analysis for Planning) models. DOR did not use such models given their complexity and data limitations present in this instance.

Similar Tax Expenditures Offered by Other States

The states of California, Maine, Rhode Island, and Vermont do not allow taxpayers to claim a personal exemption if someone else can claim them as a dependent. The state of New York reduces the standard deduction and eliminates the household credit of a taxpayer that can be claimed as a dependent on another taxpayer's federal return.

Tax Expenditure Title: 1.408 Deduction for Adoption Fees

Tax Expenditure Category: Deductions from Adjusted Gross Income

Tax Type: Personal Income Tax

Legal Reference: M.G.L. c. 62, § 3B(b)(5)

Year Enacted: 1985. Amended in 1999.

Repeal or Expiration Date: None

Annual Revenue Impact: Tax loss of \$0.27 to \$0.34 million per year during FY22 through FY26.

Number Of Taxpayers: 925 to 1,110 per year during FY22 through FY26.

Average Taxpayer Benefit: \$282 to \$309 per year during FY22 through FY26.

Federal Tax Expenditure: No

Description of the Tax Expenditure: Massachusetts provides a personal income tax deduction for eligible fees paid by taxpayers to licensed adoption agencies in the process of adopting a minor child.

Is the purpose defined in the statute? The statute does not state the purpose of the tax expenditure.

What are the policy goals of the expenditure? The Commission assumes the goal of the deduction is to promote the adoption of minor children by decreasing the financial barriers to adoption.

Are there other states with a similar tax expenditure? Most states provide subsidies to encourage adoptions. Slightly under half the states do so through their tax systems by providing deductions or credits. California and Rhode Island provide credits. The California credit is equal to 50% of adoption fees with a maximum of \$2,500. The Rhode Island credit is equal to 25% of the federal credit for adoption fees.⁴⁵ Connecticut, Maine, and Vermont do not provide deductions or credits.

⁴⁵ See Internal Revenue Code (Code) § 23.

Introduction

Massachusetts provides a personal income tax deduction for eligible adoption fees paid by taxpayers to licensed adoption agencies in the process of adopting a minor child. M.G.L. c. 62, § 3B(b)(5). Amounts paid to any person other than a licensed adoption agency are not eligible for the deduction. Amounts paid to third parties through an adoption agency for services not performed by the adoption agency are likewise not eligible for the deduction. See Letter Ruling 88-12. There is no limit on the amount of adoption expenses that may be claimed as a deduction.

The amount of personal income tax revenue foregone as a result of the expenditure constitutes a tax expenditure.

Policy Goals

The Commission assumes the goal of the expenditure is to promote the adoption of minor children by decreasing the financial barriers to adoption.

Administrability

The administration of the deduction for adoption fees presents some challenge for the Department of Revenue (DOR), as there is no corresponding federal deduction. However, there is a federal credit for adoption fees,⁴⁶ and the DOR can use information shared by the Internal Revenue Service (IRS) to monitor compliance with the deduction. Further, adoption agencies generally provide clients with an accounting of their fees, which taxpayers can use to determine the deduction.

Direct Costs

The revenue loss resulting from this tax expenditure is estimated to be \$0.27 to \$0.34 million per year during FY22 through FY26. See Table 1 below.⁴⁷

Table 1. Tax Revenue Loss Estimates for the Deduction of Adoption Fee

Fiscal Year	2022	2023	2024	2025	2026
Estimated Revenue Loss (\$Million)	\$0.27	\$0.28	\$0.30	\$0.32	\$0.34

Direct Benefits

The direct beneficiaries of this tax expenditure are taxpayers with qualifying adoption fees. The beneficiaries include parents who adopt children and other family members who assist with

⁴⁶ Note that there is no reference to the federal law in the Massachusetts statutory provisions allowing the state deduction for adoption fees.

⁴⁷ Revenue loss estimates reported in Table 1 and estimates reported in Table 2 were derived by microsimulation using Massachusetts individual income tax return data for multiple tax years (see Appendix for more details).

adoption. Table 2 below shows the estimated number of direct taxpayer beneficiaries and the average tax benefits per beneficiary, by fiscal year.^{48,49}

Table 2. Number of Direct Beneficiaries and Average Tax Benefits

Fiscal Year	2022	2023	2024	2025	2026
Number of Beneficiaries	925	993	1,028	1,068	1,110
Average Tax Benefits	\$293	\$282	\$295	\$302	\$309

Table 3 below shows the distribution of tax saving resulting from the adoption fee deduction by income bracket for tax year 2022. In tax year 2022, 993 tax filers, or 0.02% of all filers, saved a total of about \$280,018 in tax, with 88% of the tax saving going to those beneficiaries with a net adjusted gross income (AGI)⁵⁰ of \$50,000 or over. The average tax saving for all beneficiaries was about \$282.

Table 3. Tax Saving Resulting from Adoption Fee Deduction by Income Bracket, Tax Year 2022

Massachusetts Net Adjusted Gross Income (AGI)	Count of All Filers	Beneficiaries of Adoption Fee Deduction			
		Number of Beneficiaries	Tax Saving	Average Tax Saving	Income Group's % of Total Tax Saving
Under \$5,000	417,769	5	\$24	\$5	0.0%
\$5,000 under \$10,000	247,164	14	\$431	\$31	0.2%
\$10,000 under \$15,000	212,002	35	\$1,614	\$46	0.6%
\$15,000 under \$20,000	184,944	26	\$1,648	\$63	0.6%
\$20,000 under \$25,000	166,883	28	\$2,262	\$81	0.8%
\$25,000 under \$30,000	159,066	45	\$4,783	\$106	1.7%

⁴⁸ See footnote 1. Also note that a joint filer is counted as one beneficiary in Table 2 and Table 3. Note, the fiscal year estimates reported in Table 2 reflect estimates for the previous tax year reported in Table 3. For example, the 993 beneficiaries for fiscal year 2023 reflect the 993 beneficiaries for tax year 2022 assuming they all filed a return during the filing season (from January 2023 to June 2023).

⁴⁹ According to the [FY23 annual report released by the Massachusetts Department of Children and Families](#) (DCF) (Figure 34), 720 to 934 adoptions were legalized annually during FY19 through FY23.

⁵⁰ Massachusetts Net Adjusted Gross Income (AGI) is calculated as the sum of Earned 5.0% Income, 5.0% Interest and Dividends, 12% Short-Term Capital Gains and 5.0% Long-Term Capital Gains. In tax year 2022, these income types include those reported on line 10, line 20, Line 23a, plus Long-Term Capital Gains derived from Line 24, of Form 1, and corresponding lines of other forms.

\$30,000 under \$35,000	160,022	35	\$5,403	\$154	1.9%
\$35,000 under \$40,000	159,147	54	\$8,520	\$158	3.0%
\$40,000 under \$45,000	153,543	47	\$5,312	\$113	1.9%
\$45,000 under \$50,000	142,121	38	\$2,996	\$79	1.1%
\$50,000 under \$60,000	252,516	67	\$9,528	\$142	3.4%
\$60,000 under \$70,000	213,189	72	\$15,079	\$209	5.4%
\$70,000 under \$80,000	182,138	58	\$13,389	\$231	4.8%
\$80,000 under \$90,000	154,666	66	\$13,172	\$200	4.7%
\$90,000 under \$100,000	126,866	35	\$11,117	\$318	4.0%
\$100,000 under \$150,000	414,198	157	\$52,495	\$334	18.7%
\$150,000 under \$200,000	226,567	80	\$49,527	\$619	17.7%
\$200,000 under \$500,000	337,034	115	\$66,023	\$574	23.6%
\$500,000 or Over	95,084	16	\$16,696	\$1,044	6.0%
Total	4,004,919	993	\$280,018	\$282	100.0%

Source: Massachusetts Department of Revenue, tax year 2022 individual income tax return data.

Evaluation: Comparing Costs and Benefits

In the previous sections, we report the direct costs (to the Commonwealth, or to the residents and businesses who ultimately bear the costs when the Commonwealth cuts government spending or increases taxes to finance the tax expenditure) and direct benefits of this tax expenditure. In this instance, the direct costs to the Commonwealth, namely the tax revenue that would have been collected, are equal to the direct benefits afforded by the tax expenditure to taxpayers.

Furthermore, there may be indirect and induced costs and benefits associated with this expenditure. To measure indirect and induced costs and benefits, economists often need to utilize complicated models, such as REMI (Regional Economic Models, Inc.) or IMPLAN (Impact Analysis for Planning) models. DOR did not use such models given their complexity and data limitations present in this instance.

Similar Tax Expenditures Offered by Other States

Most states provide subsidies to encourage adoptions. Slightly under half the states do so through their tax systems by providing deductions or credits. California and Rhode Island provide credits. The California credit is equal to 50% of adoption fees with a maximum of \$2,500. The

Rhode Island credit is equal to 25% of the federal credit for adoption fees. Connecticut, Maine, and Vermont do not provide deductions or credits.

Appendix

DOR estimated the number of beneficiaries and the amount of tax savings for filers who claimed the deduction for adoption fees by microsimulations using Massachusetts individual income tax return data for tax years 2016 through 2023. Table A-1 reports the microsimulation results and the number of filers who claimed the deduction on their tax return and the actual amount claimed. It should be noted that not all claimants benefit from the deduction. For example, in tax year 2022, 1,105 tax filers claimed \$6.754 million in adoption fee deductions (equivalent to about \$337,684 in tax savings at the tax rate of 5%) but only 993 filers benefited from the deduction with a total tax savings of \$280,018. The reason for this is that some claimants may not have sufficient income against which to claim the deduction.

Table A-1. Adoption Fee Tax Deduction Beneficiaries in Massachusetts Tax Years 2016 to 2023⁵¹

Tax Year	Number of Adoption Fee Deduction Beneficiaries	Amount of Tax Saving for Beneficiaries	Number of Tax Filers Who Claimed Adoption Fee Deduction	Total Amount of Adoption Fee Deduction Claimed by All Tax Filers
2016	913	\$344,550	1,019	\$8,995,970
2017	1071	\$315,288	1,215	\$7,773,232
2018	1189	\$386,732	1,281	\$8,985,085
2019	1158	\$417,761	1,262	\$9,205,712
2020	849	\$265,211	954	\$6,052,195
2021	925	\$271,189	1,030	\$6,471,245
2022	993	\$280,018	1,105	\$6,753,678
2023*	1028	\$303,206	1,148	\$8,856,249

Source: Massachusetts Department of Revenue, tax year 2016 through 2023 individual income tax return data. *Tax year 2023 data are preliminary and subject to change.

⁵¹ Please note that the number of beneficiaries in Table A-1 for Tax Year 2021, Tax Year 2022, and Tax Year 2023 match the numbers in Table 2 for Fiscal Year 2022, Fiscal Year 2023, and Fiscal Year 2024, respectively. This is because there is a one-year lag from tax year to fiscal year as explained in footnote 4.

Tax Expenditure Title: 1.410 Exemption of Medical Expenses

Tax Expenditure Category: Deductions From Adjusted Gross Income

Tax Type: Personal Income Tax

Legal Reference: Code § 213; M.G.L. c. 62, § 3B(b)(4)

Year Enacted: 1973 by St. 1973, c. 723, s. 2.

Repeal or Expiration Date: None

Annual Revenue Impact: Tax loss of \$54.1 to \$67.4 million per year during FY22 through FY26.

Number Of Taxpayers: 73,237 to 79,521 per year during FY22 through FY26.

Average Taxpayer Benefit: \$739 to \$915 per year during FY22 through FY26

Federal Tax Expenditure: Yes

Description of the Tax Expenditure: Massachusetts allows a personal income tax exemption equal to the federal deduction allowed for medical, dental, and other expenses allowed under the Internal Revenue Code (Code).

Is the purpose defined in the statute? The statute does not state the purpose of the tax expenditure.

What are the policy goals of the expenditure? The Commission assumes the goal of the exemption is to reduce the financial burden of medical and dental costs by allowing a tax exemption for a portion of such costs.

Are there other states with a similar tax expenditure? Most states allow a deduction for medical and dental expenses. States that do so include California, Connecticut, Maine, New York, Rhode Island, and Vermont.

Introduction

Massachusetts allows a personal income tax exemption equal to the federal deduction allowed for medical, dental, and other expenses allowed under the Internal Revenue Code (Code). See M.G.L. c. 62, § 3B(b)(4). The federal deduction is allowed for medical and dental expenses described in Code § 213. Deductible medical expenses include the costs of diagnosis, cure, mitigation, treatment, or prevention of disease. These expenses include payments for legal medical services rendered by physicians, surgeons, dentists, and other medical practitioners. They include the costs of equipment, supplies, and diagnostic devices needed for these purposes. See Internal Revenue Service (IRS) Publication 502 for a detailed explanation of deductible expenses. The federal deduction is allowed to the extent eligible expenses exceed 7.5% of the taxpayer's federal adjusted gross income.

The Massachusetts exemption for medical and dental expenses is equal to the federal deduction allowed under the Code as amended and in effect on January 1, 2024. See M.G.L. c. 62, §§ 1(c), 3B(b)(4). Taxpayers must itemize their deductions for federal purposes to be eligible for the Massachusetts exemption. M.G.L. c. 62, § 3B(b)(4). Further, taxpayers that file joint returns for federal purposes must also do so for Massachusetts purposes in order to claim the Massachusetts exemption.

The personal income tax revenue foregone as a result of the exemption for medical and dental expenses constitutes a tax expenditure.

Policy Goals

The Commission assumes the goal of the exemption is to reduce the financial burden of medical and dental costs by allowing a tax exemption for a portion of such costs.

Administrability

The administration of the exemption of medical and expenses does not present any special challenges for DOR. Conformity with the federal deduction for such expenses simplifies tax compliance and administration by allowing the same general rules and definitions to be used for Massachusetts and federal purposes. Such conformity also allows the DOR to monitor the exemption based on data shared by the IRS. The Commission assumes that conformity also eases the compliance burden for taxpayers claiming the exemption.

Direct Costs

The revenue loss resulting from this tax expenditure is estimated to be \$54.1 to \$67.4 million per year during FY22 through FY26. See Table 1 below.⁵²

⁵² Revenue loss estimates reported in Table 1 and estimates reported in Table 2 were derived by microsimulation using Massachusetts individual income tax return data for multiple tax years (see Appendix for more details).

Table 1. Tax Revenue Loss Estimates for Exemption of Medical Expenses

Fiscal Year	2022	2023	2024	2025	2026
Estimated Revenue Loss (\$Million)	\$54.1	\$61.3	\$62.3	\$64.8	\$67.4

Direct Benefits

The direct beneficiaries of this tax expenditure are taxpayers with medical and dental expenses to the extent that such expenses exceed 7.5% of their adjusted gross income. These taxpayers need to claim the deduction for medical and dental expenses on their federal tax return, schedule A. Table 2 below shows the estimated number of direct beneficiaries (taxpayers only) and the tax saving per beneficiary.⁵³

Table 2. Number of Direct Beneficiaries and Average Tax Saving

Fiscal Year	2022	2023	2024	2025	2026
Number of Beneficiaries	73,237	79,521	74,453	74,045	73,640
Average Tax Saving	\$739	\$771	\$837	\$875	\$915

Table 3 below shows the distribution of tax saving resulting from the exemption of medical and dental expenses by income bracket for tax year 2022. In tax year 2022, 79,521 tax filers (2.0% of all filers) saved about \$61.3 million in tax. The average tax saving increases with net adjusted gross income (AGI)⁵⁴. 42.6% of tax saving went to those beneficiaries with a net AGI between \$100,000 and \$500,000, while almost 0% went to those beneficiaries with a net AGI under \$5,000.

Table 3. Tax Saving Resulting from Exemption of Medical/Dental Expenses by Income Bracket, Tax Year 2022

Massachusetts Net Adjusted Gross Income (AGI)	Number of All Filers	Beneficiaries of Medical/Dental Expenses Exemption			
		Number of Beneficiaries	Tax Saving	Average Tax Saving	Income Group's % of Total Tax Saving
Under \$5,000	417,769	1,423	\$21,208	\$15	0.0%

⁵³ Note that a married couple filing jointly is counted as one beneficiary in Table 2 and Table 3.

⁵⁴ Massachusetts Net Adjusted Gross Income (AGI) is calculated as the sum of Earned 5.0% Income, 5.0% Interest and Dividends, 12% Short-Term Capital Gains and 5.0% Long-Term Capital Gains. In tax year 2022, these income types include those reported on line 10, line 20, Line 23a, plus Long-Term Capital Gains derived from Line 24, of Form 1, and corresponding lines of other forms.

\$5,000 under \$10,000	247,164	2,443	\$278,957	\$114	0.5%
\$10,000 under \$15,000	212,002	3,648	\$867,629	\$238	1.4%
\$15,000 under \$20,000	184,944	4,175	\$1,418,385	\$340	2.3%
\$20,000 under \$25,000	166,883	3,994	\$1,678,557	\$420	2.7%
\$25,000 under \$30,000	159,066	3,748	\$1,816,307	\$485	3.0%
\$30,000 under \$35,000	160,022	3,593	\$2,007,044	\$559	3.3%
\$35,000 under \$40,000	159,147	3,569	\$2,110,714	\$591	3.4%
\$40,000 under \$45,000	153,543	3,388	\$2,149,107	\$634	3.5%
\$45,000 under \$50,000	142,121	3,314	\$2,182,918	\$659	3.6%
\$50,000 under \$60,000	252,516	6,185	\$4,184,645	\$677	6.8%
\$60,000 under \$70,000	213,189	5,421	\$3,883,755	\$716	6.3%
\$70,000 under \$80,000	182,138	4,852	\$3,702,258	\$763	6.0%
\$80,000 under \$90,000	154,666	4,104	\$3,318,707	\$809	5.4%
\$90,000 under \$100,000	126,866	3,425	\$2,834,517	\$828	4.6%
\$100,000 under \$150,000	414,198	10,895	\$10,488,776	\$963	17.1%
\$150,000 under \$200,000	226,567	5,041	\$5,942,058	\$1,179	9.7%
\$200,000 under \$500,000	337,034	5,547	\$9,682,959	\$1,746	15.8%
\$500,000 under \$1,000,000	63,519	609	\$1,885,541	\$3,096	3.1%
\$1,000,000 or Over	31,565	147	\$841,382	\$5,724	1.4%
Total	4,004,919	79,521	\$61,295,426	\$771	100.0%

Source: Massachusetts Department of Revenue, 2022 individual income tax return data

Evaluation: Comparing Costs and Benefits

In the previous sections, we report the direct costs (to the Commonwealth, or to the residents and businesses who ultimately bear the costs when the Commonwealth cuts government spending or increases taxes to finance the tax expenditure) and direct benefits of this tax expenditure. In this instance, the direct costs to the Commonwealth, namely the tax revenue that would have been collected, are equal to the direct benefits afforded by the tax expenditure to taxpayers.

Furthermore, there may be indirect and induced costs and benefits associated with this expenditure. To measure indirect and induced costs and benefits, economists often need to utilize complicated models, such as REMI (Regional Economic Models, Inc.) or IMPLAN (Impact Analysis for Planning) models. DOR did not use such models given their complexity and the data limitations present in this instance.

Similar Tax Expenditures Offered by Other States

Most states allow a deduction for medical and dental expenses. States that do so include California, Connecticut, Maine, New York, Rhode Island, and Vermont.

Tax Expenditure Title: 1.418 Deduction for Costs Involved in Unlawful Discrimination Suits

Tax Expenditure Category: Deductions From Adjusted Gross Income

Tax Type: Personal Income Tax

Legal Reference: Code § 62(a)(20); IRC § 62(e); M.G.L. c. 62, § 2(d)(1)

Year Enacted: Massachusetts conformed to the federal expenditure as of 2022. The federal expenditure was enacted in 2004.

Repeal or Expiration Date: None

Annual Revenue Impact: Tax loss of \$0.2 to \$0.3 million per year during FY22 through FY26.

Number Of Taxpayers: Around 100 per year during FY22 through FY26.

Average Taxpayer Benefit: \$2,000 to \$3,000 per year during FY22 through FY26.

Federal Tax Expenditure: Yes

Description of the Tax Expenditure: 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.

Is the purpose defined in the statute? The statute does not state the purpose of the tax expenditure.

What are the policy goals of the expenditure? The Commission assumes the goal of the expenditure is to reduce the financial burden on taxpayers that wish to file unlawful discrimination suits.

Are there other states with a similar tax expenditure? States that conform to the Code for individual income tax purposes adopt the deduction for costs of unlawful discrimination suits, unless they have specifically decoupled from the Code. The Commission is not aware of any state that has decoupled. States that adopt the federal deduction include California, Connecticut, Maine, New York, Rhode Island, and Vermont.

Introduction

In general, litigation expenses are deductible only if the lawsuit pertains to the taxpayer's trade or business. However, the Internal Revenue Code (Code) § 62(a)(20), provides a deduction for attorney fees and court costs paid by taxpayers to recover a judgment or settlement for a claim of unlawful discrimination even if the claim does not stem from a trade or business. Such costs are allowed as a deduction from federal gross income whether or not the taxpayer wins his or her claim. The deduction cannot exceed the amount of any judgment or settlement that the taxpayer receives. Unlawful discrimination is broadly defined to include any violation of federal, state, local law, or common law claims providing for the enforcement of civil rights. See Code § 62(e).

Massachusetts adopts Code § 62 and allows a deduction for the costs of unlawful discrimination lawsuits. Specifically, Massachusetts allows the federal deductions determined under Code IRC § 62, as amended and in effect on January 1, 2024. See M.G.L. c. 62, §§ 1(c), 2(d)(1). The Massachusetts deduction is equal to the federal deduction.

The personal income tax revenue foregone as a result of the deduction constitutes a tax expenditure.

Policy Goals

The Commission assumes the goal of the expenditure is to reduce the financial burden on taxpayers that wish to file unlawful discrimination suits.

Administrability

The administration of the deduction for costs involved in unlawful discrimination suits does not present special challenges for the Department of Revenue (DOR). Conformity with the federal deduction based on the 2024 Code simplifies tax compliance and administration by allowing the same general rules and definitions to be used for Massachusetts and federal purposes. The Commission assumes that this consistency of treatment also eases the compliance burden for taxpayers.

Direct Costs

Even though this deduction is based on the federal law, the Joint Committee on Taxation, Congress of the United States (JCT)⁵⁵ does not report tax expenditure estimates for this deduction. However, the Internal Revenue Service (IRS) publishes line estimates for individual income tax returns, including this deduction (deduction of attorney fees and court costs for actions involving certain unlawful discrimination claims) as reported on Form 1040, schedule 1, line 24h since tax year 2021. According to the IRS' estimates, about \$245 million in deductions were claimed by 4,169 taxpayers in tax year 2021, and \$508 million by 11,269 taxpayers in tax year 2022. DOR adjusted the national estimates to arrive at estimates for Massachusetts by using data on employment discrimination from the U.S. Equal Employment Opportunity Commission (EEOC). According to the EEOC, about 0.5% to 1.6% of total charges for employment discrimination

⁵⁵ [JCT is a nonpartisan committee of the United States Congress](#), originally established under the Revenue Act of 1926. Among other tasks, JCT provides revenue estimates for federal tax expenditures and tax legislation considered by the Congress.

occurred in Massachusetts during the federal fiscal years 2017 through 2024 (see Table 1 and Figure 1 below). DOR employed this information and the Massachusetts personal income tax rate (5%) to adjust the IRS national estimates to arrive at revenue loss estimates as reported in Table 2 below. Revenue loss resulting from this tax expenditure is estimated to be \$0.2 to \$0.3 million per year during FY22 through FY26.

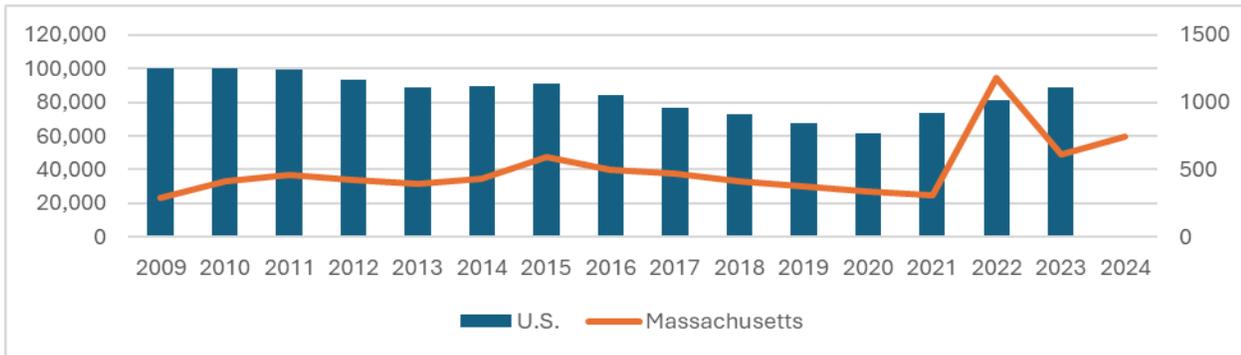
Table 1. Number of Charge Receipts for Employment Discrimination by Federal Fiscal Year

Federal Fiscal Year	2017	2018	2019	2020	2021	2022	2023	2024
U.S.	84,254	76,418	72,675	67,448	61,331	73,485	81,055	88,531
Massachusetts	470	412	379	341	315	1186	613	745
Percent of Massachusetts	0.6%	0.5%	0.5%	0.5%	0.5%	1.6%	0.8%	0.8%

Note: A federal fiscal year is from October 1st to September 30th in the following year.

Source for Table 1: U.S. Equal Employment Opportunity Commission

Figure 1. Number of Charge Receipts for Employment Discrimination by Federal Fiscal Year



Note: A federal fiscal year is from October 1st to September 30th in the following year.

Source for Figure 1: U.S. Equal Employment Opportunity Commission

Table 2. Tax Revenue Loss Estimates for Deduction for Costs Involved in Unlawful Discrimination Suits

Fiscal Year	2022	2023	2024	2025	2026
Estimated Revenue Loss (\$ Million)	\$0.2	\$0.2	\$0.2	\$0.2	\$0.3

Direct Benefits

The direct beneficiaries of the tax expenditure are taxpayers who incur attorney fees and court costs while pursuing unlawful discrimination claims. This deduction serves as a financial relief mechanism for those who have faced discrimination in various contexts, particularly in employment.

Table 1 and Figure 1 above show that in federal fiscal year 2024, the EEOC received 88,531 (U.S.) and 745 (Massachusetts) new employment discrimination charges. Overall, the charges increased every year. The IRS estimated that 4,169 and 11,269 taxpayers claimed this deduction on their federal tax return for tax year 2021 and 2022 respectively, among whom DOR estimated that about 100 are Massachusetts taxpayers. In addition, DOR estimated that this deduction resulted in an average tax saving of \$2,000 to \$3,000 per year for these taxpayers.

Evaluation: Comparing Costs and Benefits

In the previous sections, we report the direct costs (to the Commonwealth, or to the residents and businesses who ultimately bear the costs when the Commonwealth cuts government spending or increases taxes to finance the tax expenditure) and direct benefits of this tax expenditure. In this instance, the direct costs to the Commonwealth, namely the tax revenue that would have been collected, are equal to the direct benefits afforded by the tax expenditure to taxpayers.

Furthermore, there may be indirect and induced costs and benefits associated with this expenditure. To measure indirect and induced costs and benefits, economists often need to utilize complicated models, such as REMI (Regional Economic Models, Inc.) or IMPLAN (Impact Analysis for Planning) models. DOR did not use such models given their complexity and the data limitations present in this instance.

Similar Tax Expenditures Offered by Other States

States that conform to the Code for individual income tax purposes adopt the deduction for costs of unlawful discrimination suits, unless they have specifically decoupled from the Code. The Commission is not aware of any state that has decoupled. States that adopt the federal deduction include California, Connecticut, Maine, New York, Rhode Island, and Vermont.

Tax Expenditure Title: 1.428 Gambling Loss Deduction

Tax Expenditure Category: Deductions From Adjusted Gross Income

Tax Type: Personal Income Tax

Legal Reference: M.G.L. c. 62, § 3(B)(a)(18)

Year Enacted: 2015 (amended in 2023 to include sports wagering losses)

Repeal or Expiration Date: None

Annual Revenue Impact: Tax loss of \$7.0 to \$21.5 million per year during FY22 through FY26.

Number Of Taxpayers: 5,432 to 8,727 per year during FY22 through FY26.

Average Taxpayer Benefit: \$1,291 to \$2,469 per year during FY22 through FY26.

Federal Tax Expenditure: No

Description of the Tax Expenditure: Massachusetts allows a personal income tax deduction for gambling losses incurred in certain legal gambling activity, but only to the extent of amounts won in gambling activities.

Is the purpose defined in the statute? The statute does not state the purpose of the tax expenditure.

What are the policy goals of the expenditure? The Commission assumes the goal of the expenditure is to allow taxpayers to offset gambling winnings with gambling losses.

Are there other states with a similar tax expenditure? A number of states allow gambling loss deductions. Most limit the deduction to the amount of winnings. States with such a limited deduction include California, Maine, and New York. Connecticut, Rhode Island, and Vermont do not allow any deduction for gambling losses.

Introduction

All income from gambling activity is included in Massachusetts and federal gross income, whether from legal or illegal gambling activity.

Massachusetts allows a personal income tax deduction for gambling losses incurred in certain legal gambling activity, but only to the extent of amounts won in gambling activities. M.G.L. c. 62, § 3(B)(a)(18). The deduction is available for losses incurred in wagering activity at Massachusetts-licensed casinos, slot machines, horse races and horse race simulcasts, and online sports betting. The deduction is not allowed for any other gambling losses. See Technical Information Release (TIR) 15-14: Income Tax, Withholding and Reporting Rules for Certain Gambling Income.

The Massachusetts deduction parallels the federal deduction for gambling losses. The federal deduction is allowed as an itemized deduction, up to the amount of gambling winnings. See Internal Revenue Code § 165(d); see also IRS Publication 525 (2024), Taxable and Nontaxable Income. Taxpayers that are engaged in gambling as a trade or business can deduct gambling losses as a business expense, up to the amount of gambling winnings. See *Bathalter v. Commissioner*, 54 T.C.M. 902 (1987) Docket No. 26304-81; see also IRS Publication 525.

Note that the Massachusetts and federal deductions for gambling losses are different. The Massachusetts deduction is available to all taxpayers with gambling winnings, whereas to claim the federal deduction taxpayers are required to itemize or be in the trade or business of gambling. Thus, more Massachusetts taxpayers will be eligible for the state deduction than are eligible for the federal deduction. On the other hand, the Massachusetts deduction is restricted to losses from specified gambling activity as noted above, whereas the federal deduction is allowed with respect to all gambling losses. Thus, the amount of the Massachusetts deduction claimed may be lower than the federal amount.

The amount of personal income tax revenue foregone as a result of the deduction constitutes a tax expenditure.

Policy Goals

The Commission assumes the goal of the expenditure is to allow taxpayers to offset gambling winnings with gambling losses.

Administrability

The administration of the gambling loss deduction presents challenges for the Department of Revenue (DOR). Due to nonconformity with the federal deduction DOR cannot rely entirely on information shared by the IRS to monitor compliance with the deduction. Instead, the DOR must in part monitor compliance with the deduction through its personal income tax audit processes.

Direct Costs

The revenue loss resulting from this tax expenditure is estimated to be \$7.0 to \$21.5 million per year during FY22 through FY26. See Table 1 below.⁵⁶

Table 1. Tax Revenue Loss Estimates for Gambling Loss Deduction

Fiscal Year	2022	2023	2024	2025	2026
Estimated Revenue Loss (\$millions)	\$7.0	\$8.9	\$13.9	\$17.3	\$21.5

Please note that estimates in Table 1 reflect the revenue loss impact of this deduction on the 4% surtax on taxable income exceeding \$1 million since tax year 2023 (or fiscal year 2024).

Table 1 shows that the revenue loss estimates increase over time, reflecting probably that the number of people who gamble and the average amount they spend on gambling increase over time, as shown in Table 2.

Direct Benefits

The direct beneficiaries of this tax expenditure are taxpayers who gamble. Due to this deduction, the gambling taxpayers are able to deduct losses to avoid paying tax on winnings.

Massachusetts' residents can deduct casino losses incurred in establishments licensed to Massachusetts to the extent of gambling winning in their state tax return. Table 2 below shows the estimated number of direct beneficiaries (taxpayers only) and the tax saving per beneficiary.⁵⁷

Table 2. Number of Direct Beneficiaries and Average Tax Benefits

Fiscal Year	2022	2023	2024	2025	2026
Number of Beneficiaries	5,432	5,995	7,075	7,858	8,727
Average Tax Benefits	\$1,291	\$1,482	\$1,970	\$2,205	\$2,469

Table 3 below shows the distribution of tax saving resulting from gambling loss deduction by income bracket for tax year 2022. In 2022, 5,995 tax filers, or 0.1% of all filers, saved about \$8.9 million in tax. 94.8% of the tax saving went to those beneficiaries with a net adjusted gross income (AGI)⁵⁸ of \$50,000 or over. About 74.4% of the tax saving went to taxpayers with AGI of

⁵⁶ Revenue loss estimates reported in Table 1 through 5 were derived by microsimulation using Massachusetts individual income tax return data for multiple tax years (see Appendix or more details), supplemented with projection to future years based on tax return data.

⁵⁷ Note that a joint filer is counted as one beneficiary.

⁵⁸ Massachusetts Net Adjusted Gross Income (AGI) is calculated as the sum of Earned 5.0% Income, 5.0% Interest and Dividends, 12% Short-Term Capital Gains and 5.0% Long-Term Capital Gains. In tax year 2022, these income types include those reported on line 10, line 20, Line 23a, plus Long-Term Capital Gains derived from Line 24, of Form 1, and corresponding lines of other forms. Please note that gambling loss deduction is reported on line 17 of schedule Y for tax year 2022.

\$200,000 or more. Only about 5.2% of total tax saving went to those beneficiaries with AGI under \$50,000. The average tax saving for all beneficiaries was about \$1,482.

Table 3. Tax Saving Resulting from Gambling Loss Deduction by Income Bracket, Tax Year 2022

Massachusetts Net Adjusted Gross Income (AGI)	Count of All Filers	Beneficiaries of Gambling Loss Deduction			
		Number of Beneficiaries	Tax Saving	Average Tax Saving	Income Group's % of Total Tax Saving
Under \$5,000	417,769	166	\$15,893	\$96	0.2%
\$5,000 under \$10,000	247,164	109	\$21,906	\$201	0.2%
\$10,000 under \$15,000	212,002	146	\$35,367	\$242	0.4%
\$15,000 under \$20,000	184,944	157	\$49,126	\$313	0.6%
\$20,000 under \$25,000	166,883	180	\$56,054	\$311	0.6%
\$25,000 under \$30,000	159,066	181	\$52,409	\$290	0.6%
\$30,000 under \$35,000	160,022	148	\$52,319	\$354	0.6%
\$35,000 under \$40,000	159,147	155	\$58,411	\$377	0.7%
\$40,000 under \$45,000	153,543	175	\$68,127	\$389	0.8%
\$45,000 under \$50,000	142,121	164	\$53,222	\$325	0.6%
\$50,000 under \$60,000	252,516	323	\$118,927	\$368	1.3%
\$60,000 under \$70,000	213,189	327	\$137,446	\$420	1.5%
\$70,000 under \$80,000	182,138	276	\$140,749	\$510	1.6%
\$80,000 under \$90,000	154,666	300	\$145,815	\$486	1.6%
\$90,000 under \$100,000	126,866	243	\$111,117	\$457	1.3%
\$100,000 under \$150,000	414,198	973	\$602,349	\$619	6.8%
\$150,000 under \$200,000	226,567	657	\$552,814	\$841	6.2%
\$200,000 under \$500,000	337,034	1,028	\$1,938,463	\$1,886	21.8%
\$500,000 under \$1,000,000	63,519	193	\$1,639,855	\$8,497	18.5%
\$1,000,000 or Over	31,565	94	\$3,031,626	\$32,251	34.1%

Total	4,004,919	5,995	\$8,881,995	\$1,482	100.0%
-------	-----------	-------	-------------	---------	--------

Source: Massachusetts Department of Revenue, tax year 2022 individual income tax return data.

Table 4 shows that in the tax year 2022, 2,449 single filers, or 40.9% of all 5,995 beneficiaries, saved \$3.3 million in tax, or 37.1% of total tax saving of \$8.9 million. 2,919 beneficiaries, or 48.7% of all beneficiaries, are joint filers. They in total saved \$4.5 million in tax, which was 50.9% of total tax saving. 468 beneficiaries, or 7.8% of all beneficiaries, are heads of household. They in total saved \$0.6 million in tax, or 6.7% of total tax saving. The remaining beneficiaries were tax filers who were married but filed separately.

Table 4. Tax Saving Resulting from Gambling Loss Deduction by Filing Status, Tax Year 2022

Filer Status	Number of Beneficiaries	% of Total Number of Beneficiaries	Tax Saving (\$ Million)	% of Total Tax Saving
Single	2,449	40.9%	\$3.3	37.1%
Joint	2,919	48.7%	\$4.5	50.9%
Married, filing Separately	159	2.7%	\$0.5	5.3%
Head-of-Household	468	7.8%	\$0.6	6.7%
Total	5,995	100.0%	\$8.9	100.0%

Source: Massachusetts Department of Revenue, tax year 2022 individual income tax return data

Table 5 shows that for the tax year 2022, 5,371 or 89.6% of the beneficiaries were full year residents. They saved \$7.8 million in tax, or 88.1% of the total tax saving. 624 or 10.4% of the beneficiaries were part-year residents or non-residents or both. They saved \$1.1 million in tax, or 11.9% of the total tax saving.

Table 5. Tax Saving Resulting from Gambling Loss Deduction by Residency, Tax Year 2022

Residency	Number of Beneficiaries	% of Total Number of Beneficiaries	Tax Saving (\$ Million)	% of Total Tax Saving
Residents	5,371	89.6%	\$7.8	88.1%
Non-residents/Part-year residents	624	10.4%	\$1.1	11.9%
Total	5,995	100.0%	\$8.9	100.0%

Source: Massachusetts Department of Revenue, tax year 2022 individual income tax return data

Evaluation: Comparing Costs and Benefits

In the previous sections, we report the direct costs (to the Commonwealth, or to the residents and businesses who ultimately bear the costs when the Commonwealth cuts government spending or increases taxes to finance the tax expenditure) and direct benefits of this tax expenditure. In this instance, the direct costs to the Commonwealth, namely the tax revenue that would have been collected, are equal to the direct benefits afforded by the tax expenditure to taxpayers.

Furthermore, there may be indirect and induced costs and benefits associated with this expenditure. To measure indirect and induced costs and benefits, economists often need to utilize complicated models, such as REMI (Regional Economic Models, Inc.) or IMPLAN (Impact Analysis for Planning) models. DOR did not use such models given their complexity and data limitations present in this instance.

Similar Tax Expenditures Offered by Other States

A number of states allow gambling loss deductions. Most limit the deduction to the amount of winnings. States with such a limited deduction include California, Maine, and New York. Connecticut, Rhode Island, and Vermont do not allow any deduction for gambling losses.

Tax Expenditure Title: 1.601 Renewable Energy Source Credit

Tax Expenditure Category: Credits against tax

Tax Type: Personal Income Tax

Legal Reference: M.G.L. c. 62, § 6(d)

Year Enacted: 1979

Repeal or Expiration Date: None

Annual Revenue Impact: Tax loss of \$6.5 to \$9.7 million per year during FY23 through FY27.

Number Of Taxpayers: Estimated 7,531 to 10,729 per year during FY23 through FY27.

Average Taxpayer Benefit: \$840 to \$907 per year during FY23 through FY27.

Federal Tax Expenditure: No

Description of the Tax Expenditure: Homeowners and tenants are allowed a personal income tax credit equal to 15% of the net expenditure for renewable energy source property or \$1,000, whichever is less. The credit is available for certain types of equipment used directly for the production of solar or wind energy for residential use.

Is the purpose defined in the statute? The statute does not explicitly state the purpose of this tax expenditure.

What are the policy goals of the expenditure? The Commission assumes the goal of the expenditure is to provide homeowners and tenants an incentive to purchase and install renewable energy source property to promote energy efficiency and reduce environmental pollution.

Are there other states with a similar tax expenditure? Renewable energy tax incentive programs are common among states. The programs include sales tax, property tax and income tax incentives. States that have such programs include California, Connecticut, Maine, New Hampshire, New York, Rhode Island, and Vermont.

Introduction

Owners and tenants of residential property located within Massachusetts who are not dependents of another taxpayer and who occupy the property as their principal residence are allowed a credit equal to 15% of the net expenditure for renewable energy source property or \$1,000, whichever is less. Renewable energy source property is defined as property that transmits or uses solar energy or another form of renewable energy for the purposes of providing heating, cooling, hot water, or electricity for a residence. The net expenditure is equal to the cost of the renewable energy source property plus installation costs, less any federal grants or credits. For more details on eligibility for and computation of the credit, see 830 CMR 62.6.1.

Unused credits may be carried forward for three (3) years. The credit is neither transferable nor refundable.

The personal income tax revenue loss resulting from the credit constitutes a tax expenditure.

Policy Goals

The Commission assumes the goal of the expenditure is to provide homeowners and tenants an incentive to purchase and install renewable energy source property to promote energy efficiency and reduce environmental pollution.

Administrability

The administration of this credit presents some challenges for the Massachusetts Department of Revenue (DOR) because there is no corresponding federal credit or deduction on which to rely. Therefore, the DOR must make more administrative effort to process taxpayers' returns where this credit is claimed, including potentially requesting substantiating documentation from the taxpayers.

Direct Costs

The revenue loss resulting from this tax expenditure is estimated to be \$6.5 to \$9.7 million per year during FY23 through FY27. See Table 1 below.

Table 1. Tax Revenue Loss Estimates for Renewable Energy Source Credit

Fiscal Year	2023	2024	2025	2026	2027
Estimated Revenue Loss (\$Million)	\$8.8	\$9.7	\$6.6	\$7.2	\$6.5

The estimates in the above table are derived from the DOR's personal income tax return data, supplemented with projection to future years.⁵⁹

⁵⁹ The projection is based on preliminary tax year 2024 return data and projections for the renewable energy markets, especially solar panel market, available from various sources, such as [Solar Energy Industries Association](#) (SEIA), [BloombergNEF](#), etc. These projections are very uncertain, reflecting the inherent uncertainty of the market and federal policy impact (tariff, federal

Direct Benefits

The direct beneficiaries of this tax expenditure are Massachusetts taxpayers (homeowners and tenants) who claim renewable energy source credit against their personal income tax liability. In Massachusetts, the [average cost of a typical 5kWh system](#) is \$15,372 (2025); a \$1,000 credit would represent a 6.5% reduction in the cost of such a system. Table 2 below shows the estimated number of direct beneficiaries (taxpayers only) and the tax saving per beneficiary.

Table 2. Number of Direct Beneficiaries and Average Tax Benefit

Fiscal Year	2023	2024	2025	2026	2027
Number of Beneficiaries	9,666	10,729	7,802	8,510	7,531
Average Tax Benefit	\$907	\$900	\$840	\$845	\$862

Table 3 shows the distribution of credit by income group⁶⁰ for tax year 2023.

Table 3. Renewable Energy Source Credit Claimed by Taxpayers by Income Level Tax Year 2023

Massachusetts Net Adjusted Gross Income (AGI)	Number of All Filers	Renewable Energy Source Credit (For claimants with tax liability)			
		Number of Claimants	Credit Amount	Average Credit Amount	Income Group's % of Total Credit Amount
Under \$5,000	394,024	*	*	*	*
\$5,000 under \$10,000	230,266	*	*	*	*
\$10,000 under \$15,000	204,739	16	\$3,822	\$239	0.0%
\$15,000 under \$20,000	181,016	39	\$12,006	\$308	0.1%
\$20,000 under \$25,000	163,098	53	\$18,141	\$342	0.2%

tax credits and other incentives). Therefore, the estimates reported in Table 1-2, especially those for FY26-FY27, are extremely uncertain and should be used with caution.

⁶⁰ Table 3 is based on Massachusetts net Adjusted Gross Income (AGI), which is calculated as the sum of Earned 5.0% Income, 5.0% Interest and Dividends, 8.5% Short-Term Capital Gains, 12.0% Long-Term Capital Gains on Collectibles, and 5.0% Long-Term Capital Gains. In tax year 2023, these income types include those reported on line 10, line 20, Line 23a, Line 23b, plus Long-Term Capital Gains derived from Line 24, of Form 1, and corresponding lines of other forms.

\$25,000 under \$30,000	152,461	70	\$39,139	\$559	0.4%
\$30,000 under \$35,000	152,993	142	\$101,302	\$713	1.0%
\$35,000 under \$40,000	154,484	145	\$117,234	\$809	1.2%
\$40,000 under \$45,000	151,974	202	\$163,545	\$810	1.7%
\$45,000 under \$50,000	142,762	213	\$183,463	\$861	1.9%
\$50,000 under \$60,000	256,872	388	\$325,424	\$839	3.4%
\$60,000 under \$70,000	218,206	415	\$351,216	\$846	3.6%
\$70,000 under \$80,000	186,912	450	\$393,986	\$876	4.1%
\$80,000 under \$90,000	158,502	464	\$400,945	\$864	4.2%
\$90,000 under \$100,000	132,513	430	\$378,287	\$880	3.9%
\$100,000 under \$150,000	426,975	2,164	\$1,952,295	\$902	20.2%
\$150,000 under \$200,000	236,737	1,574	\$1,457,433	\$926	15.1%
\$200,000 under \$500,000	364,682	3,176	\$2,998,932	\$944	31.0%
\$500,000 under \$1,000,000	69,630	615	\$595,849	\$969	6.2%
\$1,000,000 or Over	29,347	168	\$163,149	\$971	1.7%
Total	4,008,193	10,729	\$9,660,225	\$900	100.0%

Source: Massachusetts Department of Revenue, Tax Year 2023 Personal Income Tax Return Data.

*Information withheld to maintain taxpayer confidentiality.

Table 3 shows that, in tax year 2023, 10,729 taxpayers, or 0.27% of all filers, claimed about \$9.7 million of the tax credit against their personal income tax liability. Claimants with a net AGI between \$100,000 to \$500,000 received 66.3% of the total tax credit amount. The average tax credit amount per taxpayer increases with income level from \$239 for claimants with a net AGI between \$10,000 to \$15,000 to \$971 for claimants with a net AGI of more than \$1 million. The average credit amount for all taxpayers is about \$900.

Evaluation: Comparing Costs and Benefits

In the previous sections, we report the direct costs (to the Commonwealth, or to the residents and businesses who ultimately bear the costs when the Commonwealth cuts government spending or increases taxes to finance the tax expenditure) and direct benefits of this tax expenditure. In this instance, the direct costs to the Commonwealth, namely the tax revenue that would have been collected, are equal to the direct benefits afforded by the tax expenditure to taxpayers.

Furthermore, there may be indirect and induced costs and benefits associated with this expenditure. To measure indirect and induced costs and benefits, economists often need to utilize complicated models, such as REMI (Regional Economic Models, Inc.) or IMPLAN (Impact

Analysis for Planning) models. DOR did not use such models given their complexity and data limitations present in this instance.

More information regarding the renewable energy source credit can be found in the appendix.

Similar Tax Expenditures Offered by Other States

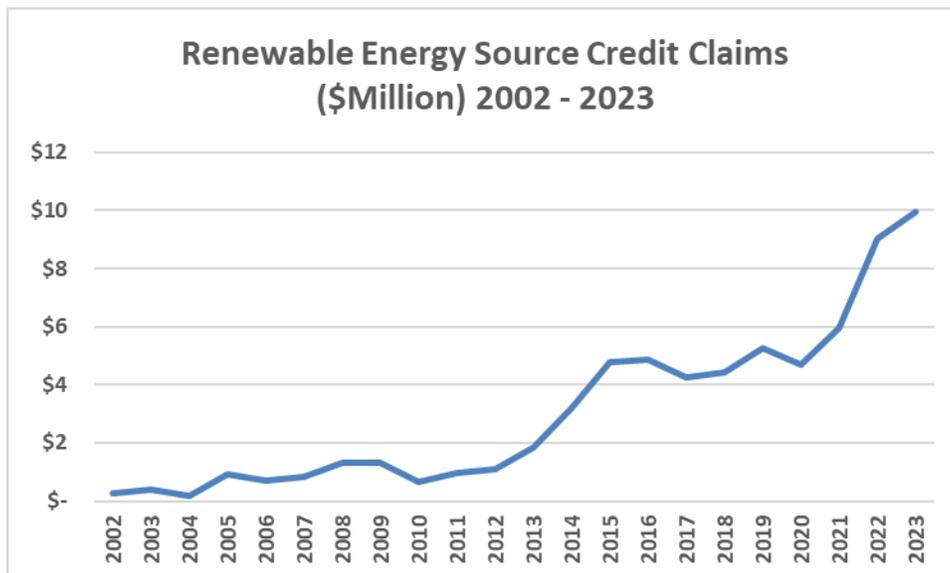
Renewable energy tax incentive programs are common among states. The programs include sales tax, property tax and income tax incentives. States that have such programs include California, Connecticut, Maine, New Hampshire, New York, Rhode Island, and Vermont.

Appendix

The renewable energy source credit was enacted in 1979. It was claimed infrequently in its early years. As the cost of solar photovoltaic installations has fallen, claims for the credit have increased. This was most pronounced over the past 10 years.

The chart below shows the actual credits claimed by filers (\$millions). Annual total claims plateaued at around the \$1 million level from 2005 through 2012. The installation costs for solar power have decreased over time and the credit has likely helped make investment in home renewable energy sources more attractive. Claims increased rapidly to around \$5 million in 2015 and to around \$10 million in 2023. While the renewables credit is only part of the reason for increased solar installations, this increase in claims is an indication that the credit is contributing to the goal of expanded use of renewable electric generation.

Note that this credit was originally for any renewable energy source property. As the market for renewables developed, solar power emerged as the most cost-effective renewable source. The credit provided a renewable incentive, while the market selected the particular technology (solar) as the principal technology generating the credit.



Source: Massachusetts Department of Revenue, Personal Income Tax Return Data

Other Massachusetts plans that support renewable energy production

It should be noted that this renewable energy source credit is not the only incentive for the installation of these systems. The two programs described below, in combination with this credit, have contributed to the expanded use of renewables, particularly solar, in Massachusetts.

Massachusetts solar tax exemptions

Sales tax and property tax exemptions are two major tax incentives for solar homeowners in addition to this credit. These incentives provide a 100% tax exemption from both sales and property tax payments.

Mass Solar Loan program⁶¹

This financing program is a state-level incentive that allows homeowners fixed, low-interest loan payments for solar photovoltaic installations. It is believed to be a major reason for the rising popularity of renewable solar energy in Massachusetts. Legislators wanted to incentivize homeowners to get the best value out of their solar panel installation by owning it rather than getting into complex third-party ownership agreements.

Federal tax credits and other policies

Federal policies also affect the adoption of renewable energy source properties in Massachusetts.

The Residential Clean Energy Credit equals 30% of the costs of qualified clean energy property installed anytime from 2022 through 2032. Note the credit percentage rate phases down to 26% for property placed in service in 2033 and 22% for property placed in service in 2034. However, this credit is no longer available for property installed and placed in service after December 31, 2025, due to the One Big Beautiful Bill Act (OBBBA). Besides federal tax credits, other federal policies such as tariffs, impact the price and therefore the adoption of renewable energy source properties in Massachusetts.

⁶¹ [Link to mass solar loan website.](#)

Tax Expenditure Title: 1.603 and 2.605 Economic Development Incentive Program Credit (EDIP)

Tax Expenditure Category: Credit against tax

Tax Type: Corporate excise and personal income tax

Legal Reference: M.G.L. c. 63, § 38N; c. 62, § 6(g)

Year Enacted: 1993

Repeal or Expiration Date: None

Annual Revenue Impact: Tax loss of \$15 to \$25 million from corporate filers and \$3 to \$5 million from personal income tax filers during FY23 through FY27.

Number Of Taxpayers: 53 corporate filers, and 78 personal income tax filers for tax year 2021.

Average Taxpayer Benefit: About \$233,000 per claimant for corporate filers and \$35,000 for personal income tax filers for tax year 2021.

Federal Tax Expenditure: No

Description of the Tax Expenditure: Corporations and individuals that invest in certified projects may be awarded tax credits by the Economic Assistance Coordinating Council (EACC). The EACC may award up to \$30 million in credits annually.

Is the purpose defined in the statute? The statute does not state the purpose of this tax expenditure.

What are the policy goals of the expenditure? The Commission assumes the goal of the expenditure is to provide incentives to invest in new or expanded business ventures in Massachusetts by awarding tax credits for such investments, thus reducing the cost of capital and spurring economic growth.

Are there other states with a similar tax expenditure? Most states have some form of economic development incentive program. These programs take on various forms including credits, deductions, and property tax abatements. California, Maine, New Hampshire, New York and Rhode Island award credits through programs similar to EDIP. Connecticut offers incentives through property tax abatements. Vermont awards cash incentives rather than tax credits.

Introduction

The Massachusetts Economic Development Incentive Program (EDIP) authorizes corporate excise and personal income tax credits for investments in certified projects. Owners and certain lessees of eligible property within certified projects may be awarded tax credits by the Economic Assistance Coordinating Council (EACC). See M.G.L. c. 23A, §§ 3A – 3F. The EACC may award up to \$30 million in credits annually and has broad discretion regarding the amounts of credits awarded within the constraints of the cap. The amount of credit awarded to a taxpayer is based on numerous factors set forth in M.G.L. c. 23A, § 3D, including the number of jobs expected to be created, the amount of capital to be invested, and the net new economic benefit expected to be created. The EACC determines the amount of the credit and provides documentation of the credit to the taxpayer and DOR.

The EACC is authorized to award both refundable and non-refundable credits, and it can determine the schedule upon which filers may claim the credit. The credit is not transferable. If a certified project is sold the EACC may allow the new owner to assume the remainder of the credit. Credits may be carried forward up to 10 years, but not more than 5 years after a project ceases to qualify under M.G.L. c. 23A.

The amount of corporate excise and personal income tax foregone as a result of the credit constitutes a tax expenditure.

Policy Goals

The Commission assumes the goal of the expenditure is to provide incentives to invest in new or expanded business ventures in Massachusetts by awarding tax credits for such investments, thus reducing the cost of capital and spurring economic growth.

Administrability

The administration of the economic development incentive program credit does not pose any special challenges for the Department of Revenue (DOR). The EACC determines eligibility for the credit, the amount of credit awarded to each taxpayer, and the schedule upon which the credit may be taken. DOR reviews this information and certifies the final credit amount. The documentation provided by the EACC gives DOR the means to monitor the credit.

Direct Costs

Table 1 reports revenue loss estimates for this tax expenditure, which range from \$15 to \$25 million per year for corporate excise and from \$3 to \$5 million per year for personal income tax during FY23 through FY27. The combined total revenue loss for this period is estimated to be \$13 to \$30 million per year. See Table 1 below. These estimates reflect historical trends, available tax credit, recent law changes, etc.

Table 1. Tax Revenue Loss Estimates for combined EDIP and EOAC Credit

Fiscal Year		2023	2024	2025	2026	2027
	Corporate and Business Excise	\$15.0	\$15.0	\$22.5	\$25.0	\$25.0

Estimated Revenue Loss (\$Million)	Personal Income Tax	\$3.0	\$3.0	\$4.5	\$5.0	\$5.0
	Total	\$13.0	\$13.0	\$27	\$30.0	\$30.0

Table 2 below shows the amount and number of available, claimed, and shared credits in each year during the period 2019 through 2022. “Available credit” refers to the maximum amount of credit that a taxpayer can claim based on tax liability, provided there are no other restrictions. “Claimed credit” is the amount a taxpayer actually claimed. “Shared credit” is the amount of a taxpayer’s credit that was used by other members of the taxpayer’s combined group. “Count” refers to the number of claimants.

There were 38 to 71 corporate and business tax claimants per year, and 35 to 94 personal income tax claimants per year during the tax years 2019 through 2022. Total claimed plus shared amount varied from \$8.7 to \$20.2 million for corporate and business tax, and from \$1.8 to \$2.9 million for personal income tax during those years. About 80% to 90% of the total claimed amounts were claimed by corporate and business tax filers. The average claimed plus shared amount for those years varied from \$228,000 to \$326,000 for corporate excise, and from \$19,000 to \$54,000 for personal income tax. The average claimed plus shared amount for those years varied from \$113,600 to \$176,500.

The number of claimants from both tax types decreased during the period 2019 to 2022, from 71 (corporate and business tax) and 94 (personal income tax) in 2019 to 38 (corporate and business tax) and 35 (personal income tax) in 2022.

The percent of available credit actually claimed or shared ranged from 21.9% to 58.1% for corporate and business tax, and from 19.7% to 73.7% for personal income tax. Total available credit may not be fully claimed or shared where a taxpayer has insufficient tax liabilities to take full advantage of the credit, or where certain statutory limitations⁶² prevented them from doing so.

Table 2. Dollar Amount and Count of combined EDIP and EOAC Credit by Tax Year

		Amount (\$000) (Tax Year 2019)	Count (Tax Year 2019)	Amount (\$000) (Tax Year 2020)	Count (Tax Year 2020)	Amount (\$000) (Tax Year 2021)	Count (Tax Year 2021)	Amount (\$000) (Tax Year 2022)	Count (Tax Year 2022)
Corporate excise	Available Credit - A	\$77,589	89	\$60,234	76	\$21,244	64	\$15,554	49
	Claimed Credit	\$14,637	66	\$18,055	57	\$12,117	53	\$6,338	34
	Shared Credit	\$2,342	11	\$2,186	9	\$218	6	\$2,344	9

⁶² In Massachusetts, for some credits such as EDIPC and ITC (investment tax credit), the claimed amount may not exceed 50% of a tax filer’s corporate tax liability. The rule is not applicable for personal income tax filers.

	Claimed plus Shared Credit - B	\$16,979	71	\$20,241	62	\$12,336	53	\$8,682	38
	B/A	21.9%	79.8%	33.6%	81.6%	58.1%	82.8%	55.8%	77.6%
	Average Claimed or Shared Amount	\$239	N.A.	\$326	N.A.	\$233	N.A.	\$228	N.A.
Personal Income Tax	Available Credit - A	\$3,705	96	\$3,905	72	\$9,888	81	\$9,644	45
	Claimed Credit-B	\$1,760	94	\$2,878	69	\$2,740	78	\$1,898	35
	B/A	47.5%	97.9%	73.7%	95.8%	27.7%	96.3%	19.7%	77.8%
	Average Claimed Amount	\$19	N.A.	\$42	N.A.	\$35	N.A.	\$54	N.A.
All	Claimed plus Shared Credit	\$18,739	165	\$23,118	131	\$15,076	131	\$10,580	73
	Average Claimed or Shared Amount	\$113.6	N.A.	\$176.5	N.A.	\$115.1	N.A.	\$144.9	N.A.

Source: Massachusetts Department of Revenue.

Notes: 1. 2021 and 2022 data are preliminary and subject to change. 2. The count is the number of claimants. 3. "N.A." denotes "Not Applicable".

Direct Benefits

Tables 3 through 5 show the number of claimants and the claim amounts by taxable income level, number of employees, and industry, respectively, for tax year 2021.⁶³ 9.8% of the claimants were corporations with taxable income ranging from \$0 to \$49,999, 35.3% of the claimants were corporations with fewer than 50 employees, and 43.1% of the claimants were in the manufacturing industry.

⁶³ Due to data matching, Tables 3 through 5 show that there were 51 claimants for the credit in 2021, which is slightly different from the 53 claimants reported in Table 2.

The tax benefit per claimant averaged \$197,977, varying from \$29,285 for corporations with taxable income ranging from \$50,000 to \$99,999 to \$272,184 for corporations with taxable income ranging \$1 million or higher, from \$30,474 for corporations with 50 to 99 employees to \$443,838 for corporations with 500 or more employees, and from \$16,970 for corporations in the “Management of Companies and Enterprises” industry to \$356,606 for corporations in the “Unmatched” category. Many of the industries had no or very few claimants of the credit.

Table 3. Combined EDIP and EOAC Credit by Taxable Income Level for Corporations Tax Year 2021

Taxable Income Range	Tax Liability after Credit (\$000)	Claimed Credit (\$000)	Shared Credit (\$000)	Number of Claimants	Percent Distribution of Number of Claimants	Tax Savings per Claimant (\$)
Less than \$0	*	*	*	*	*	*
\$0 to \$49,999	\$191	\$231	\$	5	9.8%	\$46,172
\$50,000 to \$99,999	\$187	\$217	\$18	8	15.7%	\$29,285
\$100,000 to \$149,999	*	*	*	*	*	*
\$150,000 to \$199,999	*	*	*	*	*	*
\$200,000 to \$499,999	*	*	*	*	*	*
\$500,000 to \$999,999	\$455	\$894	\$8	12	23.5%	\$75,174
\$1 million or more	\$39,028	\$5,523	\$193	21	41.2%	\$272,184
Total or average	\$39,896	\$9,879	\$218	51	100.0%	\$197,977

Source: Massachusetts Department of Revenue (2021 corporate excise return)

Notes: 1.* Information withheld to maintain taxpayer confidentiality. 2. The data is preliminary and subject to change.

Table 4. Combined EDIP and EOAC Credit by Number of Employees for Corporations Tax Year 2021

Employees Range*	Tax Liability after Credit (\$000)	Claimed Credit (\$000)	Shared Credit (\$000)	Number of Claimants	Percent Distribution of Number of Claimants	Tax Savings per Claimant (\$)
Less than 5	\$327	\$231	\$	8	15.7%	\$28,838
5 to 49	\$7,892	\$2,757	\$	10	19.6%	\$275,720
50 to 99	\$646	\$268	\$37	10	19.6%	\$30,474
100 to 199	**	**	**	**	**	**
200 to 499	\$3,508	\$1,750	\$	8	15.7%	\$218,730
500 or more	\$27,426	\$4,722	\$160	11	21.6%	\$443,838
Unmatched***	**	**	**	**	**	**
Total	\$39,896	\$9,879	\$218	51	100.0%	\$197,977

Source: Massachusetts Department of Revenue (2021 corporate excise return). Notes: 1. * Information is based on the number of employees as reported by taxpayers. 2. ** Information withheld to maintain taxpayer confidentiality. 3. *** “Unmatched” means that we could not find some taxpayers in one or more of data sets to match. 4. The data is preliminary and subject to change.

Table 5. Combined EDIP and EOAC Credit by Industry for Corporations Tax Year 2021

Industry	Tax Liability after Credit (\$000)	Claimed Credit (\$000)	Shared Credit (\$000)	Number of Claimants	Percent Distribution of Number of Claimants	Tax Savings per Claimant (\$)
11 Agriculture, Forestry, Fishing and Hunting	**	**	**	**	**	**
21 Mining, Quarrying, and Oil and Gas Extraction	**	**	**	**	**	**
22 Utilities	**	**	**	**	**	**
23 Construction	**	**	**	**	**	**

31-33 Manufacturing	\$1,876	\$2,270	\$194	22	43.1%	\$112,017
42 Wholesale Trade	\$524	\$126	\$	3	5.9%	\$41,930
44-45 Retail Trade	\$28,516	\$628	\$	6	11.8%	\$104,625
48-49 Transportation and Warehousing	**	**	**	**	**	**
51 Information	**	**	**	**	**	**
52 Finance	**	**	**	**	**	**
53 Real Estate and Rental and Leasing	**	**	**	**	**	**
54 Professional, Scientific, and Technical Services	**	**	**	**	**	**
55 Management of Companies and Enterprises	\$131	\$85	\$	5	9.8%	\$16,970
56 Administrative and Support and Waste Management and Remediation Services	**	**	**	**	**	**
61 Educational Services	**	**	**	**	**	**
62 Health Care and Social Assistance	**	**	**	**	**	**
71 Arts, Entertainment, and Recreation	**	**	**	**	**	**
72 Accommodation and Food Services	**	**	**	**	**	**
81 Other Services	**	**	**	**	**	**

Unmatched or others *	\$417	\$1,775	\$8	5	9.8%	\$356,606
Total	\$39,896	\$9,879	\$218	51	100.0%	\$197,977

Source: Massachusetts Department of Revenue (2021 corporate excise return)

Notes: 1. * “Unmatched” means that we could not find some taxpayers in one or more of data sets to match. 2. ** Information withheld to maintain taxpayer confidentiality. 3. The data is preliminary and subject to change.

Table 6 shows the distribution of claimed credit by personal income taxpayer’s income level for tax year 2021. Looking at the table, in 2021 the average tax saving due to the tax credit was \$36,456. Claimants with Massachusetts net adjusted gross income of \$1 million and over represented 43.3% of the total claimants. That group claimed 91.2% of the total credit amount, with an average tax saving of \$76,802, which was much higher than that for any other income group.

Table 6. Combined EDIP and EOAC Credit by Net Adjusted Gross Income for Personal Income Tax Filers, Tax Year 2021

Massachusetts Net Adjusted Gross Income	Percent of claimed amounts	Percent of the number of claimants	Tax Saving per Claimant (\$)
Under \$200,000	1.8%	20.9%	\$3,113
\$200,000 under \$500,000	3.1%	28.4%	\$4,021
\$500,000 under \$1,000,000	3.9%	7.5%	\$19,062
\$1,000,000 or Over	91.2%	43.3%	\$76,802
Total	100.0%	100.0%	\$36,456

Source: Massachusetts Department of Revenue (2021 personal income tax return).

Notes: 1. Massachusetts Net Adjusted Gross Income (AGI) is the sum of Earned Income, Interest and Dividends, Short-Term Capital Gains and Long-Term Capital Gains. 2. Missing data due to data matching was excluded when calculating the distribution in Table 6.

Evaluation: Comparing Costs and Benefits

In the previous sections, we report the direct costs (to the Commonwealth, or to the residents and businesses who ultimately bear the costs when the Commonwealth cuts government spending or increases taxes to finance the tax expenditure) and direct benefits of this tax expenditure. In this instance, the direct costs to the Commonwealth, namely the tax revenue that would have been collected, are equal to the direct benefits afforded by the tax expenditure to taxpayers.

Furthermore, there may be indirect and induced costs and benefits associated with this expenditure. To measure indirect and induced costs and benefits, economists often need to utilize complicated models, such as REMI (Regional Economic Models, Inc.) or IMPLAN (Impact Analysis for Planning) models. DOR did not use such models given their complexity and data limitations present in this instance.

Similar Tax Expenditures Offered by Other States

Most states have some form of economic development incentive program. These programs take on various forms including credits, deductions, and property tax abatements. California, Maine, New Hampshire, New York and Rhode Island award credits through programs similar to EDIP. Connecticut offers incentives through property tax abatements. Vermont awards cash incentives rather than tax credits.

Tax Expenditure Title: 1.605 Earned Income Tax Credit (EITC)

Tax Expenditure Category: Credits Against Tax

Tax Type: Personal Income Tax

Legal Reference: M.G.L. c. 62, § 6(h)

Year Enacted: 1997

Repeal or Expiration Date: None

Annual Revenue Impact: Tax loss estimated to be \$210.5 to \$394.8 million per year during FY22 through FY26.

Number Of Taxpayers: Estimated 327,007 to 442,871 taxpayers per year during FY22 through FY26.

Average Taxpayer Benefit: Estimated \$512 to \$975 per benefiting taxpayer during FY22 through FY26.

Federal Tax Expenditure: Yes

Description of the Tax Expenditure: The Massachusetts Earned Income Tax Credit (EITC) is a refundable tax credit for taxpayers with low or moderate earned income and is based on the federal EITC. The Massachusetts credit is equal to 40% of the federal credit and is available to taxpayers that are eligible for the federal EITC.

Is the purpose defined in the statute? The statute does not state the purpose of the tax expenditure.

What are the policy goals of the expenditure? The Commission assumes the goal of the expenditure is to help support low- and moderate-income individuals and working families by reducing their state tax burden.

Are there other states with a similar tax expenditure? Most states allow an EITC based on the federal EITC. Such states include California, Connecticut, Maine, New York, Rhode Island, and Vermont.

Introduction

The Massachusetts Earned Income Credit (EITC) is a refundable tax credit for personal income taxpayers with low or moderate earned income and is based on the federal EITC. The Massachusetts credit is equal to 40% of the federal credit⁶⁴ and is available to taxpayers who are eligible for the federal EITC.

Eligibility for the credit and the amount of the credit are based on a taxpayer's filing status, number of dependent children and amount of earned income.⁶⁵ For 2024 the maximum amount of the federal credit is \$7,830. Married taxpayers are generally required to file a joint tax return in order to claim the EITC. The federal credit is refundable, but it is not transferable.

The Massachusetts credit is authorized by M.G.L. c. 62, § 6(h). Section 6(h) adopts the federal eligibility and computational rules except that to claim the credit a taxpayer must be a Massachusetts resident for at least part of the taxable year. For part-year residents, the credit is limited to 40% of the federal credit multiplied by the ratio of the number of days the individual resided in Massachusetts during the taxable year by the total number of days in the taxable year.

Massachusetts allows a taxpayer to satisfy the joint filing requirement if the taxpayer files a Massachusetts personal income tax return using a filing status of married filing separately and the taxpayer lives apart from the taxpayer's spouse at the time the taxpayer files the tax return and is unable to file a joint tax return because the taxpayer is a victim of domestic abuse. There is no analogous exception to the joint filing requirement for purposes of the federal EITC.

The personal income tax revenue foregone as a result of the Massachusetts EITC constitutes a tax expenditure.

Policy Goals

The Commission assumes the goal of the expenditure is to help support low- and moderate-income individuals and working families by reducing their state tax burden.

Administrability

The administration of the EITC does not present any special challenges for the Department of Revenue (DOR). General conformity with the federal EITC simplifies state tax compliance and administration by allowing the same eligibility and computational rules to be used for Massachusetts and federal purposes. However, the Massachusetts exception to the federal EITC's joint filing requirement requires some additional work to determine a taxpayers' eligibility for the exception. The Internal Revenue Service (IRS) audits compliance with the federal credit and shares information that the DOR can use to monitor compliance with the state credit.

⁶⁴ More specifically, the credit rate has been 40% of the federal EITC since taxable year 2023. The rate was 30% during taxable years 2019 through 2022, 23% during taxable years 2016 through 2018, and 15% during taxable years 2011 through 2015.

⁶⁵ Internal Revenue Code (Code) § 32 sets out the computation of the federal EITC. Income and credit limits are adjusted for inflation. [The Internal Revenue Service \(IRS\) has published tables and other instructions to determine the amount of the credit.](#)

Direct Costs

The revenue loss resulting from this tax expenditure is estimated to be \$210.5 to \$394.8 million per year during FY22 through FY26. See Table 1 below.

Table 1. Tax Revenue Loss Estimates for Earned Income Tax Credit

Fiscal Year	2022	2023	2024	2025	2026
Estimated Revenue Loss (\$Million)	\$226.8	\$210.5	\$305.9	\$389.8	\$394.8

Massachusetts' revenue loss estimates above are based on the Massachusetts Department of Revenue's Statistics of Income data (SOI).⁶⁶ The increase in revenue loss from FY23 to FY24 reflects the increase in the percentage of the federal EITC from 30% to 40% effective since tax year 2023.

Direct Benefits

The direct beneficiaries of this tax expenditure are taxpayers with low- and moderate-income and working families. Table 2 shows the estimated number of tax filers who claim this credit and the resulting tax savings per beneficiary⁶⁷ for FY22 through FY 26.

Table 2. Number of Direct Beneficiaries and Average Tax Saving

Fiscal Year	2022	2023	2024	2025	2026
Number of Beneficiaries	442,871	328,957	327,007	399,846	406,541
Average Tax Saving	\$512	\$640	\$936	\$975	\$971

Table 3 below shows the distribution of the EITC by income group for the tax year 2022. In tax year 2022, 328,957 tax filers (8.2% of all filers) claimed \$210.5 million in EITC. Tax filers with a net adjusted gross income (AGI)⁶⁸ under \$50,000 claimed 98.9% of the total tax credit amount, with 74.7% of the total tax credit amount going to tax filers with a net AGI between \$10,000 and \$35,000.⁶⁹ The average amount of EITC for all claimants was \$640.

⁶⁶ This credit is reported on line 43 of tax year 2023 Form 1 and on similar lines of other forms.

⁶⁷ A married couple filing jointly is counted as one beneficiary.

⁶⁸ Massachusetts Net Adjusted Gross Income (AGI) is calculated as the sum of Earned 5.0% Income, 5.0% Interest and Dividends, 12% Short-Term Capital Gains and 5.0% Long-Term Capital Gains. In tax year 2022, these income types include those reported on line 10, line 20, Line 23a, plus Long-Term Capital Gains derived from Line 24, of Form 1, and corresponding lines of other forms.

⁶⁹ Some taxpayers with high Massachusetts net adjusted gross income have low federal adjusted gross income and therefore may still be eligible for the earned income tax credit. These taxpayers may have income that is subject to Massachusetts income tax but not federal income tax such as

Table 3. Earned Income Tax Credit by Income Bracket, Tax Year 2022

Massachusetts Net Adjusted Gross Income (AGI)	Number of All Filers	Earned Income Tax Credit			
		Number of Claimants	Credit Amount	Average Credit Amount	Income Group's % of Total Credit Amount
Under \$5,000	417,769	32,993	\$4,992,331	\$151	2.4%
\$5,000 under \$10,000	247,164	50,423	\$16,900,171	\$335	8.0%
\$10,000 under \$15,000	212,002	57,230	\$31,347,331	\$548	14.9%
\$15,000 under \$20,000	184,944	39,885	\$39,525,218	\$991	18.8%
\$20,000 under \$25,000	166,883	27,394	\$34,416,511	\$1,256	16.4%
\$25,000 under \$30,000	159,066	25,973	\$28,737,161	\$1,106	13.7%
\$30,000 under \$35,000	160,022	27,111	\$23,278,730	\$859	11.1%
\$35,000 under \$40,000	159,147	27,026	\$16,157,912	\$598	7.7%
\$40,000 under \$45,000	153,543	22,041	\$8,912,874	\$404	4.2%
\$45,000 under \$50,000	142,121	11,410	\$3,800,959	\$333	1.8%
\$50,000 under \$60,000	252,516	6,536	\$1,916,543	\$293	0.9%

interest from obligations of states and their political subdivisions, other than Massachusetts and its political subdivisions, income earned by a resident from foreign employment, etc. These taxpayers may also take federal deductions that are not allowed for Massachusetts income tax purpose, such as the deduction for traditional IRA contributions, or the allowed Massachusetts deduction may be smaller than the corresponding federal deduction, such as the gambling loss deduction

\$60,000 under \$70,000	213,189	549	\$240,387	\$438	0.1%
\$70,000 under \$80,000	182,138	170	\$112,415	\$661	0.1%
\$80,000 under \$90,000	154,666	74	\$45,269	\$612	0.0%
\$90,000 under \$100,000	126,866	38	\$23,653	\$622	0.0%
\$100,000 under \$150,000	414,198	89	\$61,697	\$693	0.0%
\$150,000 under \$200,000	226,567	7	\$8,447	\$1,207	0.0%
\$200,000 or over	432,118	8	\$7,453	\$932	0.0%
Total	4,004,919	328,957	\$210,485,062	\$640	100.0%

Source: Massachusetts Department of Revenue, 2022 individual income tax return data

Table 4 shows that in tax year 2022, 160,203 head-of-household filers (48.7% of all claimants) claimed \$141.8 million, or 67.4%, of the total tax credit amount of \$210.5 million. 118,307 single filers (36.0% of all claimants) claimed \$28.4 million, or 13.5% of the total credit amount. 49,160 joint filers (14.9% of all claimants) claimed \$39.1 million, or 18.6% of the total tax credit amount. The remaining credits were claimed by tax filers who were married but filed separately.

Table 4. Filing Status of Earned Income Tax Credit Claimants, Tax Year 2022

Filer Status	Number of Claimants	% of Total Number of Claimants	Credit Claimed (\$ Million)	% of Total Credit Amount Claimed
Single	118,307	36.0%	\$28.4	13.5%
Joint	49,160	14.9%	\$39.1	18.6%
Married, filing Separately	1,287	0.4%	\$1.2	0.6%
Head-of-Household	160,203	48.7%	\$141.8	67.4%
Total	328,957	100.0%	\$210.5	100.0%

Source: Massachusetts Department of Revenue, 2022 individual income tax return data

Table 5 shows that, for tax year 2022, 97.9% of the claimants were Massachusetts residents. They claimed 99.2% of the total tax credit amount. 2.1% of the claimants were part-year residents, claiming 0.8% of the total tax credit amount.

Table 5. Residency of Earned Income Tax Credit Claimants, Tax Year 2022

Residency	Number of Claimants	% of Total Number of Claimants	Credit Claimed (\$ Million)	% of Total Credit Amount Claimed
Residents	322,149	97.9%	\$208.8	99.2%
Part-year residents*	6,808	2.1%	\$1.7	0.8%
Total	328,957	100.0%	\$210.5	100.0%

Source: Massachusetts Department of Revenue, 2022 individual income tax return data. *Taxpayers who are nonresidents for the entire taxable year are not eligible for the Massachusetts EITC.

Table 6 shows that in tax year 2022, 109,038 claimants reported no qualifying children (33.1% of all claimants) and claimed \$10.7 million or 5.1% of total tax credit amount. 114,003 claimants reported 1 qualifying child each (34.7% of all claimants) and claimed \$79.1 million or 37.6% of total tax credit amount. 73,686 claimants reported 2 qualifying children each (22.4% of all claimants) and claimed \$80.6 million or 38.3% of total tax credit amount. 32,230 claimants reported 3 or more qualifying children each (9.8% of all claimants) and claimed \$40.0 million or 19.0% of total tax credit amount.

Table 6. Number and Amount of EITC by Number of Qualifying Children, Tax Year 2022

Number of Qualifying Children	Number of Claimants	% of Total Number of Claimants	Credit Claimed (\$ Million)	% of Total Credit Amount Claimed
0	109,038	33.1%	\$10.7	5.1%
1	114,003	34.7%	\$79.1	37.6%
2	73,686	22.4%	\$80.6	38.3%
3 or more	32,230	9.8%	\$40.0	19.0%
Total	328,957	100.0%	\$210.5	100.0%

Source: Massachusetts Department of Revenue, 2022 individual income tax return data

Evaluation: Comparing Costs and Benefits

In the previous sections, we report the direct costs (to the Commonwealth, or to the residents and businesses who ultimately bear the costs when the Commonwealth cuts government spending or increases taxes to finance the tax expenditure) and direct benefits of this tax expenditure. In this instance, the direct costs to the Commonwealth, namely the tax revenue that would have been collected, are equal to the direct benefits afforded by the tax expenditure to taxpayers.

Furthermore, there may be indirect and induced costs and benefits associated with this expenditure. To measure indirect and induced costs and benefits, economists often need to utilize complicated models, such as REMI (Regional Economic Models, Inc.) or IMPLAN (Impact Analysis for Planning) models. DOR did not use such models given their complexity and data limitations present in this instance.

Similar Tax Expenditures Offered by Other States

Most states allow an EITC based on the federal EITC. Such states include California, Connecticut, Maine, New York, Rhode Island, and Vermont.

Tax Expenditure Title: 1.609 Refundable Credit Against Property Tax for Seniors (Circuit Breaker)

Tax Expenditure Category: Credit Against Tax

Tax Type: Personal Income Tax

Legal Reference: M.G.L. c. 62, § 6 (k)

Year Enacted: 1999. Effective in 2001

Repeal or Expiration Date: None

Annual Revenue Impact: Tax loss of \$98.4 to \$179.4 million per year during FY22 through FY26.

Number Of Taxpayers: Estimated 100,624 to 105,013 taxpayers per year during FY22 through FY26

Average Taxpayer Benefit: Estimated \$978 to \$1,709 per benefiting taxpayer during FY22 through FY26

Federal Tax Expenditure: No

Description of the Tax Expenditure: Massachusetts' taxpayers aged 65 or older are eligible for a personal income tax credit equal to the amount by which (i) their property tax payments or (ii) 25% of their rent payments exceed 10% of their income, up to a maximum credit amount.

Is the purpose defined in the statute? The statute does not state the purpose of the tax expenditure.

What are the policy goals of the expenditure? The Commission assumes the goal of the expenditure is to assist lower- and middle-income seniors with their housing expenses.

Are there other states with a similar tax expenditure? 29 states have credits for property taxes paid by lower- and middle-income taxpayers over age 65. Some allow the credit against the personal income tax. Such states include Connecticut, Maine and Rhode Island. New Hampshire and Vermont offer property tax credits or reductions. New York allows an income tax deduction instead of a credit. California does not have a credit or deduction.

Introduction

Massachusetts taxpayers aged 65 or older are eligible for a personal income tax credit equal to the amount by which (i) their property tax payments or (ii) 25% of their rent payments exceed 10% of their total income, up to a maximum credit amount. Such payments must be for the taxpayer's principal residence located in Massachusetts. M.G.L. c. 62, § 6(k)(2).

Property tax payments include real estate taxes, 50% of water and sewage charges, and charges for betterments assessed to the taxpayer. Rent payments include the actual amount of rent paid. M.G.L. c. 62, § 6(k)(1).

Total income for purposes of the credit generally includes all income that is available to pay property taxes. This includes amounts subject to the Massachusetts personal income tax plus additional cash inflows such as (i) income from social security, (ii) non-taxable retirement income, (iii) the cash value of public assistance, (iv) tax-exempt interest and dividends, (v) non-taxable distributions from trusts or pass-through entities and (vi) gifts. M.G.L. c. 62, § 6(k)(1).

For the credit for property taxes to apply, the assessed valuation of the taxpayer's residence as of January 1, 2024 cannot exceed \$1,172,000. See M.G.L. c. 62, § 6(k)(3); Technical Information Release (TIR) 24-10; Annual Update of Real Estate Tax Credit for Certain Persons Age 65 and Older. The credit is available only to taxpayers whose income does not exceed an eligibility limit. For the 2024 tax year, the income limit was \$72,000 for a single individual, \$91,000 for a head of household and \$109,000 for married couples filing a joint return. No credit is allowed for a married individual unless a joint return is filed. For the 2024 tax year the maximum credit amount is \$2,730. TIR 24-10. The credits may not be sold or transferred to another taxpayer but are refundable. M.G.L. c. 62, § 6(k)(7).

The revenue foregone as a result of the Circuit Breaker credit constitutes a tax expenditure.

Policy Goals

The Commission assumes the goal of the expenditure is to assist lower- and middle-income seniors with their housing expenses.

Administrability

The administration of the Circuit Breaker credit does not present special challenges for the Department of Revenue (DOR). Eligibility for the credit is based on parameters that have been in place since the credit was first implemented in 2001. The DOR monitors the credit as part of its personal income tax audit program.

Direct Costs

The revenue loss resulting from this tax expenditure is estimated to be \$98.4 to \$179.4 million per year during FY22 through FY26. See Table 1 below.

Table 1. Tax Revenue Loss Estimates for Refundable Credit Against Property Tax for Seniors (Circuit Breaker)

Fiscal Year	2022	2023	2024	2025	2026
-------------	------	------	------	------	------

Estimated Revenue Loss (\$Million)	\$98.4	\$107.3	\$171.4	\$175.4	\$179.4
------------------------------------	--------	---------	---------	---------	---------

Massachusetts’ revenue loss estimates above are based on the DOR’s Statistics of Income data (SOI).⁷⁰ Effective tax year 2023, the statutory base amount of the credit was increased from \$1,200 to \$2,590. This increase is reflected in the estimates for FY24 through FY26.

Direct Benefits

The direct beneficiaries of this tax expenditure are qualified individuals aged 65 or older to the extent that their property taxes, or 25% of rent, exceed 10% of their income. Table 2 shows the estimated number of beneficiaries and the resulting tax savings per taxpayer.⁷¹

Table 2. Number of Direct Beneficiaries and Average Tax Benefit

Fiscal Year	2022	2023	2024	2025	2026
Number of Beneficiaries	100,624	106,747	102,854	103,928	105,013
Average Tax Benefit	\$978	\$1,005	\$1,667	\$1,688	\$1,709

Table 3 shows the distribution of the credit by income group⁷² for tax year 2022.

Table 3: Circuit Breaker Credit by Income Bracket, Tax Year 2022

Massachusetts Net Adjusted Gross Income (AGI)	Number of All Filers	Circuit Breaker Credit			
		Number of Claimants	Credit Amount	Average Credit Amount	Income Group's % of Total Credit Amount

⁷⁰ This credit is reported on line 44 of tax year 2023 Form 1 or on similar lines of other forms, with credit amount calculated from Schedule CB.

⁷¹ A married couple filing jointly is counted as one taxpayer.

⁷² As DOR usually does for income distribution analysis, Table 3 is based on Massachusetts net Adjusted Gross Income (AGI), which is calculated as the sum of Earned 5.0% Income, 5.0% Interest and Dividends, 12% Short-Term Capital Gains and 5.0% Long-Term Capital Gains. In tax year 2022, these income types include those reported on line 10, line 20, Line 23a, plus Long-Term Capital Gains derived from Line 24, of Form 1, and corresponding lines of other forms. For the [eligibility determination and the calculation of the circuit breaker credit](#), the “income” definition is different from MA net AGI, see the following for more details.

Under \$5,000	417,769	46,153	\$48,779,017	\$1,057	45.5%
\$5,000 under \$10,000	247,164	16,303	\$16,360,300	\$1,004	15.2%
\$10,000 under \$15,000	212,002	13,261	\$12,925,662	\$975	12.0%
\$15,000 under \$20,000	184,944	9,823	\$9,436,096	\$961	8.8%
\$20,000 under \$25,000	166,883	7,061	\$6,719,523	\$952	6.3%
\$25,000 under \$30,000	159,066	4,856	\$4,506,683	\$928	4.2%
\$30,000 under \$35,000	160,022	3,359	\$3,116,767	\$928	2.9%
\$35,000 under \$40,000	159,147	2,131	\$1,974,348	\$926	1.8%
\$40,000 under \$45,000	153,543	1,316	\$1,198,542	\$911	1.1%
\$45,000 under \$50,000	142,121	846	\$754,502	\$892	0.7%
\$50,000 under \$60,000	252,516	920	\$846,856	\$920	0.8%
\$60,000 under \$70,000	213,189	386	\$359,997	\$933	0.3%
\$70,000 under \$80,000	182,138	173	\$165,198	\$955	0.2%
\$80,000 under \$90,000	154,666	106	\$100,897	\$952	0.1%
\$90,000 under \$100,000	126,866	41	\$42,874	\$1,046	0.0%
\$100,000 under \$150,000	414,198	7	\$6,573	\$939	0.0%
\$150,000 or over	658,685	5	\$4,883	\$977	0.0%
Total	4,004,919	106,747	\$107,298,718	\$1,005	100.0%

Source: Massachusetts Department of Revenue, 2022 individual income tax return data

Table 3 shows that in tax year 2022, 106,747 filers (2.7% of all filers) claimed about \$107.3 million of the Circuit Breaker credit. Claimants with a net adjusted gross income (AGI) of less than

\$25,000 received 87.8% of the total tax credit amount. Claimants with a net AGI of less than \$50,000 claimed 98.6% of total tax credit amount. The average tax credit amount per claimant is about \$1,005. For a [breakout of Circuit Breaker claimants by town](#), please see the DOR Press Release and Reports webpage.

Table 4 shows that in tax year 2022, 76,260 single filers (71.4% of all 106,747 claimants) claimed \$77.5 million, or 72.2%, of the total tax credit amount. 28,079 joint filers (26.3% of all claimants) claimed a of \$27.4 million, or 25.5% of total credit amount. The remaining credits were claimed by tax filers who filed as head of household.

Table 4. Filing Status of Circuit Breaker Credit Claimants, Tax Year 2022

Filer Status	Number of Claimants	% of Total Number of Claimants	Credit Claimed (\$ Million)	% of Total Credit Amount Claimed
Single	76,260	71.4%	\$77.5	72.2%
Joint	28,079	26.3%	\$27.4	25.6%
Married, filing Separately	N.A.	N.A.	N.A.	N.A.
Head-of-Household	2,408	2.3%	\$2.4	2.2%
Total	106,747	100.0%	\$107.3	100.0%

Source: Massachusetts Department of Revenue, 2022 individual income tax return data

Table 5 shows the breakout of the Circuit Breaker credit claims by homeowners and renters. For the tax year 2022, 82.7% of the total claimants were eligible homeowners. They claimed 83.8% of the total credit amount. 17.3% of the total claimants were eligible renters, claiming 16.2% of the total credit amount.

Table 5. Circuit Breaker Credit Claimants by Living Status

Claimant Living Status	Number of Claimants	% of Total Number of Claimants	Credit Claimed (\$ Million)	% of Total Credit Amount Claimed
Homeowner	85,749	82.7%	\$87.3	83.8%
Renter	17,972	17.3%	\$16.8	16.2%
Total	103,721*	100.0%	\$104.1	100.0%

Source: Massachusetts Department of Revenue, 2022 Schedule CB - Circuit Breaker Credit data.

*The number of claimants as reported on schedule CB was slightly lower than the number of filers who reported the credit on Form 1 or other forms. Some claimants probably didn't attach schedule CB.

Evaluation: Comparing Costs and Benefits

In the previous sections, we report the direct costs (to the Commonwealth, or to the residents and businesses who ultimately bear the costs when the Commonwealth cuts government spending or increases taxes to finance the tax expenditure) and direct benefits of this tax expenditure. In this instance, the direct costs to the Commonwealth, namely the tax revenue that would have been collected, are equal to the direct benefits afforded by the tax expenditure to taxpayers.

Furthermore, there may be indirect and induced costs and benefits associated with this expenditure. To measure indirect and induced costs and benefits, economists often need to utilize complicated models, such as REMI (Regional Economic Models, Inc.) or IMPLAN (Impact Analysis for Planning) models. DOR did not use such models given their complexity and data limitations present in this instance.

Similar Tax Expenditures Offered by Other States

29 states have credits for property taxes paid by lower- and middle-income taxpayers over age 65. Some allow the credit against the personal income tax. Such states include Connecticut, Maine and Rhode Island. New Hampshire and Vermont offer property tax credits or reductions. New York allows an income tax deduction instead of a credit. California does not have a credit or deduction.

Tax Expenditure Title: 1.615 and 2.619 Conservation Land Tax Credit

Tax Expenditure Category: Credits Against Tax

Tax Type: Personal Income Tax and Corporate Excise

Legal Reference: M.G.L. c. 62, § 6(p); M.G.L. c. 63, §38AA

Year Enacted: Enacted by St. 2008, c. 509, §§1 through 4, effective January 1, 2011. Amended by St. 2010, c. 409, §§ 4 through 13, effective January 1, 2011; and St. 2014, c. 286, § 15, effective August 13, 2014.

Repeal or Expiration Date: None

Annual Revenue Impact: Tax loss of \$1.6 to \$2.0 million for personal income tax, none for corporate excise during FY22 through FY26.

Number Of Taxpayers: 28 to 46 per year for personal income tax during tax years 2018 through 2022.

Average Taxpayer Benefit: \$37,728 to \$61,035 per year for personal income tax during tax year 2018 through 2022.

Federal Tax Expenditure: No. Note there is no federal conservation land tax credit but there is a charitable deduction that may apply and a tax deduction for conservation easement contributions.

Description of the Tax Expenditure: Massachusetts provides a personal income tax and corporate excise credit equal to 50% of the fair market value of certified conservation land donated to a public or private conservation agency. The credit is limited to \$75,000 for each donation.

Is the purpose defined in the statute? The statute does not explicitly state the purpose of this tax expenditure.

What are the policy goals of the expenditure? The commission assumes that the goal of the expenditure is to protect certified conservation land from future development.

Are there other states with a similar tax expenditure? A number of states offer credits for donations of conservation land. Such states include California and Connecticut.

Introduction

Massachusetts provides a personal income tax and corporate excise credit equal to 50% of the fair market value of certified conservation land donated to a public or private conservation agency.⁷³ The credit is limited to \$75,000 for each donation.

Certified conservation land is land designated by the Secretary of the Executive Office of Energy and Environmental Affairs (the Secretary) to have sufficient natural resources to merit being protected from development. Certified conservation land includes (i) land containing drinking water supplies, wildlife habitats, agricultural resources, or forestry resources and (ii) land that provides recreational opportunities, or scenic and cultural values. To qualify for the credit a donation must be made in perpetuity. The credit may be taken in addition to any deduction for charitable contributions resulting from a donation.

The Secretary determines which donations qualify for the credit and the actual amount of the credit awarded to each taxpayer. The credits may not be sold or transferred to another taxpayer but are refundable. The total cumulative value of all credits authorized for personal income tax and corporate excise purposes may not exceed \$2 million annually.

The amount of personal income tax or corporate excise foregone as a result of the credit constitutes a tax expenditure.

Policy Goals

The Commission assumes that the goal of the expenditure is to protect certified conservation land from future development.

Administrability

The administration of the credit for donations of certified conservation land does not pose any special challenge to the Department of Revenue (DOR). The Secretary issues a numbered certificate to the taxpayer that establishes the amount of the credit. No credit is allowed unless the certificate number is included on the taxpayer's return. DOR may request additional validation of the credit as part of its audit processes.

Direct Costs

The revenue loss resulting from this tax expenditure is estimated to range from \$1.6 to \$2.0 for personal income tax and none for corporate excise during FY22 through FY26. Note that the total cumulative value of all credits authorized for personal income tax and corporate excise purposes may not exceed \$2 million annually. The estimates are based on annual credit cap amounts and historical data on credits awarded.

Table 1. Tax Revenue Loss Estimates for Conservation Land Credit (\$Million)

Fiscal Year	2022	2023	2024	2025	2026

⁷³ The personal income tax credit is authorized by M.G.L. c. 62, § 6(p). The corporate excise credit is authorized by M.G.L. c. 63, § 38AA.

Personal Income Tax	\$1.9	\$1.6	\$1.9	\$2.0	\$2.0
Corporate Excise	None	None	None	None	None
Total	\$1.9	\$1.6	\$1.9	\$2.0	\$2.0

Table 2 below shows the amount and count of available and claimed credits for personal income taxpayers for tax years 2018 through 2022. “Available credit” is the maximum amount of credit that a taxpayer can claim based on tax liability, provided that there are no other restrictions; “claimed credit” is the credit amount that a taxpayer actually claimed.

The number of credit claimants ranged from 28 to 46 annually, and the annual dollar amount of credits claimed ranged from \$1.625 to \$1.953 million. The average claimed credit ranged from \$37,728 to \$61,035.

During tax years 2018 through 2022, almost all of the available credits were claimed. Thus far, no corporate and business taxpayers have claimed this credit.

Table 2. The Amount and Count of Conservation Land Credit by Tax Year for Personal Income Tax

Tax Year	2018		2019		2020		2021		2022	
	Amount (\$000)	Count	Amount (\$000)	Count	Amount (\$000)	Count	Amount (\$000)	Count	Amount (\$000)	Count
Available Credit - A	\$1,953	32	\$1,811	47	\$1,912	37	\$1,788	32	\$1,687	28
Claimed Credit-B	\$1,953	32	\$1,736	46	\$1,909	37	\$1,788	32	\$1,625	28
B/A	100.0%	100.0%	95.9%	97.9%	99.9%	100.0%	100.0%	100.0%	96.3%	100.0%
Average Claimed Credit Amount (\$)	\$61,035		\$37,728		\$51,605		\$55,875		\$58,037	

Source: Massachusetts Department of Revenue. More recent data may still be subject to change.

Direct Benefits

The direct beneficiaries of this tax expenditure are the taxpayers who donate certified land. Table 3 shows the distribution of claimed credits by net adjusted gross income for tax year 2021.

Table 3. Conservation Land Credits by Net Adjusted Gross Income for Personal Income Taxpayers for 2021

Massachusetts Net Adjusted Gross Income	Percent of claimed plus shared amounts	Percent of the number of claimants	Tax saving per claimant (\$)
under \$50,000	13.2%	16.0%	\$48,750
\$50,000 to \$100,000	10.2%	12.0%	\$50,417
\$100,000 to \$150,000	9.3%	12.0%	\$45,833
\$150,000 to \$200,000	*	*	*
\$200,000 to \$500,000	37.6%	32.0%	\$69,313
\$500,000 to \$ 1 million	16.9%	16.0%	\$62,500
\$1 million or over	*	*	*
Total	100.0%	100.0%	\$59,030

Source: Massachusetts Department of Revenue (Massachusetts personal income tax returns-tax year 2021). Notes: Massachusetts Net Adjusted Gross Income (AGI) is the sum of Earned Income, Interest and Dividends, Short-Term Capital Gains and Long-Term Capital Gains. * Information withheld to maintain taxpayer confidentiality

Taxpayers in all income brackets claimed the credit with an average tax saving of \$59,030 per claimant. 37.6% of all claimants had Massachusetts net adjusted gross income ranging from \$200,000 to \$500,000. This group claimed 32.0% of the total credit amount with an average tax saving of \$69,313 per claimant.

Evaluation: Comparing Costs and Benefits

In the previous sections, we report the direct costs (to the Commonwealth, or to the residents and businesses who ultimately bear the costs when the Commonwealth cuts government spending or increases taxes to finance this tax expenditure) and the direct benefits. In this instance, the direct costs to the Commonwealth, namely the personal income tax or corporate excise tax that would have been collected, are equal to the direct benefits afforded by the tax expenditure to the taxpayers who claim the credit.

Furthermore, there may be indirect and induced costs and benefits associated with this expenditure. To measure indirect and induced costs and benefits, economists often need to utilize complicated models, such as REMI (Regional Economic Models, Inc.) or IMPLAN (Impact Analysis for Planning) models. DOR did not use such models given their complexity and data limitations present in this instance.

In addition, encouraging conservation of the Commonwealth's lands, as this tax expenditure does, also benefits all Massachusetts residents because protecting water resources, providing open spaces and parks for our urban communities to enjoy, creating and enhancing outdoor recreation opportunities statewide, preserving working farms and forests, and protecting wildlife

habitats, to name a few, are critical in preserving and enhancing quality of life in Massachusetts. However, such “positive externalities” are often difficult to quantify.

Similar Tax Expenditures Offered by Other States

A number of states offer credits for donations of conservation land. Such states include California and Connecticut.

Tax Expenditure Title: 1.623 and 2.625 Cranberry Bog Renovation Tax Credit

Tax Expenditure Category: Credits Against Tax

Tax Type: Personal Income Tax and Corporate Excise

Legal Reference: M.G.L. c. 62 § 6(w); M.G.L. c. 63 § 38II

Year Enacted: 2021 (Acts 2021, 24 § 37). Effective for taxable years beginning on or after January 1, 2020.

Repeal or Expiration Date: December 31, 2030

Annual Revenue Impact: Tax loss of \$0.2 to \$0.4 million per year during FY23 through FY27.

Number Of Taxpayers: About 15 per year during tax years 2022 through 2026.

Average Taxpayer Benefit: About \$20,000 per year during tax years 2022 through 2026.

Federal Tax Expenditure: No

Description of the Tax Expenditure: Personal income tax and corporate excise filers primarily engaged in cranberry harvesting and production may claim a credit equal to 25% of the expenses they incur (i) in the improvement or repair of a cranberry bog or (ii) any other activity for the renovation of an abandoned cranberry bog.

Is the purpose defined in the statute? The statute does not state the purpose of this tax expenditure.

What are the policy goals of the expenditure? The Commission assumes the goal of the expenditure is to encourage the improvement, restoration, or development of cranberry bogs.

Are there other states with a similar tax expenditure? The Commission is not aware of any other state with an investment tax credit made available only to cranberry farmers.

Introduction

Personal income tax and corporate excise filers primarily engaged in cranberry harvesting and production may claim a credit equal to 25% of the cost of certain renovations (qualified renovations) incurred for (i) the renovation, repair, replacement, regrading or restoration of a cranberry bog; or (ii) any other activity or action for the renovation of an abandoned cranberry bog. For purposes of the credit, a “qualified renovation” includes “the renovation, repair, replacement, regrading or restoration of a cranberry bog for the cultivation, harvesting or production of cranberries or any other activity or action associated with the renovation of an abandoned cranberry bog.” See M.G.L. c. 62 § 6(w); M.G.L. c. 63 § 38II. The construction of facilities or structures for the processing of cranberries (as opposed to growing them) is not considered a qualified renovation. *Id.* The credit cannot exceed \$100,000 for any taxpayer.

To be eligible for the credit, the taxpayer must be primarily engaged in cranberry harvesting and production, meaning that its sales from cranberry production equal 50% or more of the taxpayer’s total revenue. See 830 CMR 62.6W.1(2).

A taxpayer must claim the credit in the taxable year in which a qualified renovation is made. The credit is refundable, or alternatively may be carried forward by the taxpayer for 5 years. The credit is not transferable. See M.G.L. c. 62, § 6(w)(2)(ii); M.G.L. c. 63 § 38II(b)(2).

The Executive Office of Energy and Environmental Affairs (EOEEA) is primarily responsible for administering the credit. The total cumulative value of all credits authorized may not exceed \$2 million in any taxable year. M.G.L. c. 62 § 6(w)(2)(i); M.G.L. c. 63, § 38(b)(3).

The amount of revenue foregone as a result of the credit constitutes a tax expenditure.

Policy Goals

The Commission assumes the goal of the expenditure is to encourage the improvement, restoration, or development of cranberry bogs.

Administrability

The administration of the cranberry bog renovation credit does not pose any special challenges for the Department of Revenue (DOR). The EOEEA determines eligibility for the credit and the amount of credit awarded to each taxpayer. DOR reviews this information and certifies the final credit amount. The documentation provided by the EOEEA gives DOR the means to monitor the credit.

Direct Costs

The revenue loss resulting from this tax expenditure is estimated to be \$0.2 to \$0.4 million per year during FY23 through FY27. See Table 1 below. By tax type, revenue loss estimates range from \$0.2 to \$0.3 million per year for personal income tax, and \$0.0 to \$0.2 million per year for corporate excise. The estimates are based on historical data on credits awarded⁷⁴ and claimed.

⁷⁴ [DOR Tax Credit Transparency Report](#)

Table 1. Tax Revenue Loss Estimates for Cranberry Bog Renovation Credit (\$Million)

Fiscal Year	FY2023	FY2024	FY2025	FY2026	FY2027
Personal Income Tax	\$0.3	\$0.2	\$0.2	\$0.2	\$0.2
Corporate Excise	\$0.0	\$0.0	\$0.2	\$0.2	\$0.1
Total	\$0.3	\$0.2	\$0.4	\$0.4	\$0.3

Direct Benefits

This credit creates a material cash incentive for taxpayers engaged in cranberry production to invest in renovating their cranberry bogs. Moreover, the reduction in costs for cranberry growers will likely result in a reduction in the retail price for consumers of cranberry products.

Table 2 below shows the amount and count of available and claimed credits, ratio of claimed credits to available credits, and average credit claim amount by the cranberry farmers who filed personal income tax return in tax years 2020 through 2023. Here, “available credit” is the maximum amount of credit that a taxpayer can claim based on tax liability, provided that there are no other restrictions; “claimed credit” is the credit amount that a taxpayer actually claimed in a tax year. During these years, the annual number of taxpayers who claimed the credit ranged from 10 to 16, and the annual dollar amount of credits claimed ranged from \$74,182 to \$255,796. The average credit amount per claimant ranged from \$5,706 to \$15,987. More than 90% of the available credits were claimed each year.

Table 2. The Amount and Count of Cranberry Bog Renovation Credit by Tax Year for Personal Income Tax

Tax Year	2020		2021		2022		2023	
	Amount (\$)	Count						
Available Credit - A	\$74,182	13	\$139,518	11	\$272,544	16	\$159,188	10
Claimed Credit - B	\$74,182	13	\$126,457	11	\$255,796	16	\$154,524	10
B/A	100.0%	100.0%	90.6%	100.0%	93.9%	100.0%	97.1%	100.0%
Average Claimed Credit Amount	\$5,706		\$11,496		\$15,987		\$15,452	

Source: Massachusetts Department of Revenue.

Table 3 below shows the amount and count of available and claimed or shared credits, ratio of claimed or shared credits to available credits, and average amount of credits claimed or shared by the cranberry growers who filed corporate and business tax return in tax years 2020 through 2023. Here, “available credit” is the maximum amount of credit that a taxpayer can claim based on tax liability, provided that there are no other restrictions; “claimed credit” is the credit amount that a taxpayer actually claimed; and “shared credit” is the amount of a taxpayer’s credit that was used by other members of the taxpayer’s combined group.

During the period from tax year 2020 through 2021, the annual number of corporate and business taxpayers who claimed or shared the credit ranged from 5 to 8, and the annual dollar amount of claimed or shared credits ranged from \$153,232 to \$218,381. The annual average credit amount per claimant ranged from \$27,298 to \$30,646. The annual amount of credits claimed or shared was 94.3% to 100.0% of the available credit amount.

Table 3. The Amount and Count of Cranberry Bog Renovation Credit by Tax Year for Corporate and Business Tax

Tax Year	2020		2021		2022		2023	
	Amount (\$)	Count	Amount (\$)	Count	Amount (\$)	Count	Amount (\$)	Count
Available Credit - A	\$218,381	8	\$162,549	5	*	*	*	*
Claimed or Shared Credit - B	\$218,381	8	\$153,232	5	*	*	*	*
B/A	100.0%	100.0%	94.3%	100.0%	*	*	*	*
Average Claimed or Shared Amount	\$27,298		\$30,646		*	*	*	*

Source: Massachusetts Department of Revenue. * Information withheld to maintain taxpayer confidentiality.

Evaluation: Comparing Costs and Benefits

In the previous sections, we report the direct costs (to the Commonwealth, or to the residents and businesses who ultimately bear the costs when the Commonwealth cuts government spending or increases taxes to finance the tax expenditure) and direct benefits of this tax expenditure. In this instance, the direct costs to the Commonwealth, namely the tax revenue that would have been collected, are equal to the direct benefits afforded by the tax expenditure to taxpayers.

Furthermore, there may be indirect and induced costs and benefits associated with this expenditure. To measure indirect and induced costs and benefits, economists often need to utilize complicated models, such as REMI (Regional Economic Models, Inc.) or IMPLAN (Impact

Analysis for Planning) models. DOR did not use such models given their complexity and data limitations present in this instance.

Similar Tax Expenditures Offered by Other States

The Commission is not aware of any other state with an investment tax credit made available only to cranberry farmers.

Tax Expenditure Title: 2.001 Small Business Corporations

Tax Expenditure Category: Exclusions from Gross Income and Preferential Rate of Taxation

Tax Type: Corporate Excise

Legal Reference: Code §§ 1361-1363; M.G.L. c. 62, § 17A; M.G.L. c. 63, §32D

Year Enacted: 1986

Repeal or Expiration Date: None

Annual Revenue Impact: Tax loss of \$269.5 to \$310.4 million per year during FY23 through FY27.

Number Of Taxpayers: 119,847 taxpayers in tax year 2021.

Average Taxpayer Benefit: About \$1,750 per impacted taxpayer in tax year 2021.

Federal Tax Expenditure: No

Description of the Tax Expenditure: Certain S corporation income is either not subject to the net income measure of the corporate excise or is subject to the excise at a lower tax rate compared to C corporation income.

Is the purpose defined in the statute? The statute does not state the purpose of this tax expenditure.

What are the policy goals of the expenditure? The Commission assumes the goal of the expenditure is to support smaller businesses by affording them the limited liability of a corporation without the full burden of double taxation that generally applies to C corporation income.

Are there other states with a similar tax expenditure? California, Connecticut, Maine, New York, Rhode Island, and Vermont treat S corporations in a manner similar to Massachusetts. These states impose a corporate level net income tax at a reduced rate but also tax S corporation income at the shareholder level on a flow-through basis. New Hampshire treats S corporations in the same manner as C corporations, offering no reduced rate

Introduction

Corporations with only one class of stock and no more than 100 shareholders are generally permitted to elect to be treated as S corporations for federal tax purposes. See Internal Revenue Code (Code) § 1361. S corporations are generally not subject to federal tax at the corporate level. Code § 163. However, S corporation income is subject to federal tax at the shareholder level on a flow-through basis. See (Code) § 1366. If a corporation does not make an S corporation election, it is generally treated as a C corporation. A C corporation is subject to federal tax on its income at the corporate level and its distributions of profits are subject to tax as dividends at the shareholder level.

Massachusetts conforms to the federal definition of an S corporation. See M.G.L. c. 62, § 17A, M.G.L. c. 63, § 32D. For Massachusetts purposes, S corporations are not subject to the net income measure of the corporate excise if they have total receipts under \$6 million. An S corporation with total receipts that are \$6 million or more, but less than \$9 million, is subject to the net income measure at a rate of 2% and an S corporation with total receipts that are \$9 million or more is subject to the income measure of the corporate excise at a rate of 3%. See M.G.L. c. 63, § 32D. In contrast, C corporations are subject to the net income measure at a rate of 8%. See M.G.L. c. 63, § 39.

The non-income measure of the corporate excise (a .26% tax on net worth or taxable tangible property) applies to S corporations and C corporations in the same manner. Similarly, the \$456 minimum corporate excise applies to both. See M.G.L. c. 63, § 39.

S corporation income is subject to Massachusetts personal income tax at the shareholder level on a flow-through basis. The Massachusetts flow through rules are modeled after the federal flow-through rules. See M.G.L. c. 62, § 17A.

The corporate excise revenue lost as a result of the reduced rates applicable to S corporation net income compared to the 8% rate applicable to C corporation net income constitutes a tax expenditure.

Policy Goals

The Commission assumes the goal of the expenditure is to support smaller businesses by affording them the limited liability of a corporation without the full burden of double taxation that generally applies to C corporation income.

Administrability

The administration of the corporate net income tax as it applies to S corporations does not present any special challenge for the Department of Revenue (DOR). Conformity to the federal treatment of S corporations enables the DOR to monitor compliance based on data shared by the Internal Revenue Service. Further, the computation of S corporation net income is the same as the computation of C corporation net income, and both are based on federal rules. The Commission assumes that such conformity also eases the compliance burden on S corporation filers.

Direct Costs

The revenue loss resulting from this tax expenditure is estimated to be \$269.5 to \$310.4 million per year during FY23 through FY27. See Table 1 below. The estimates are based on several factors, including historical claims, economic forecasts, and related law changes.

Although S corporations pay less corporate excise because of reduced tax rates, they are pass-through entities, and their owners pay personal income tax on their taxable income. Still, the overall tax burden of S corporations is lighter than that of C corporations. Such favorable tax treatment for S corporations results in lost tax revenues to the Commonwealth.

Table 1. Tax Revenue Loss Estimates for Favorable Tax Treatment for S Corporations

Fiscal Year	2023	2024	2025	2026	2027
Estimated Revenue Loss (\$Million)	\$269.5	\$291.3	\$302.5	\$299.9	\$310.4

Direct Benefits

Direct beneficiaries of this tax expenditure are S corporations that conduct business in Massachusetts. As shown in Table 2, 119,847 S corporations filed a Massachusetts return for 2021. About 86.1% had gross receipts of less than \$6 million, representing about 11.5% of total tax liability and 0.9% of total taxable income. About 2.7% had gross receipts of at least \$6 million but less than \$9 million, representing about 5.2% of total tax liability and 7.2% of total taxable income. About 11.1% had gross receipts of at least \$9 million, representing about 83.2% of total tax liability and 91.9% of total taxable income. In 2021, the average taxable income of S corporations filing in Massachusetts was about \$124,339, and the average tax liability was \$4,449. The term “tax liability” for S corporations includes both the income and non-income measure of the corporate excise, when applicable.

Table 2. Tax Liability, Taxable Income of S Corporations by Range of Gross Receipts

Gross Receipts	Tax Liability (\$000)	Percent of Total S Corporation Tax	Taxable Income (\$000)	Percent of Total S Corporation	Average Taxable Income Per	Number of S corporations	Percent of Total Number of S
Less than \$6Million	\$61,57	11.5%	\$130,602	0.9%	\$1	103,205	86.1%
At least \$6Million but	\$27,81	5.2%	\$1,076,693	7.2%	\$328	3,286	2.7%
At least	\$443,8	83.2%	\$13,694,3	91.9%	\$1,025		11.1%
Total or	\$533,2	100.0%	\$14,901,6	100.0%	\$124		100.0%

Source: Department of Revenue (2021 corporate excise returns). Note: All tax liability is from non-income measure for S Corporations with less than \$6 million gross receipts. Some taxable income for this group was reported but actually not taxed.

As shown in Table 3, more than 90% of the S corporations had taxable income between \$0 to \$50,000, representing 12.7% of the total tax liability and 0.5% of total taxable income. Only 2.2% had taxable income of \$1 million or more, but they represented 75.9% of the total tax liability and 90.9% of total taxable income.

Table 3. Tax Liability, Taxable Income of S Corporations by Taxable Income Level

Taxable Income Range	Tax Liability (\$000)	Percent of Total S Corporations Tax Liability	Taxable Income (\$000)	Percent of Total S Corporations Taxable Income	Average Taxable Income Per Impacted Corporation (\$000)	Number of S corporations	Percent of Total Number of S Corporations
Less than \$0	\$4,622	0.9%	-\$511,149	-3.4%	-\$201	2,538	2.1%
\$0 - \$50,000	\$67,641	12.7%	\$71,399	0.5%	\$1	108,971	90.9%
\$50,000 - \$200,000	\$9,203	1.7%	\$290,655	2.0%	\$111	2,628	2.2%
\$200,000 - \$500,000	\$18,768	3.5%	\$602,713	4.0%	\$326	1,846	1.5%
\$500,000 - \$1Million	\$28,061	5.3%	\$906,620	6.1%	\$715	1,268	1.1%
\$1 million or over	\$404,962	75.9%	\$13,541,444	90.9%	\$5,216	2,596	2.2%
Total or average	\$533,257	100.0%	\$14,901,681	100.0%	\$124	119,847	100.0%

Source: Department of Revenue (2021 corporate excise returns)

As shown in Table 4, almost all S corporations had fewer than 100 employees, representing about 65.8% of total tax liability and 61.5% of total taxable income. About 64.8% had fewer than 5 employees, representing 26.3% of total tax liability and 20.7% of total taxable income. Only 0.9% had more than 500 employees, representing 13.3% of total tax liability and 16.2% of total taxable income.

Table 4. Tax Liability, Taxable Income of S Corporations by Number of Employees

Employees Range*	Tax Liability (\$000)	Percent of Total S Corporation Tax Liability	Taxable Income (\$000)	Percent of Total S Corporation Taxable Income	Average Taxable Income Per Impacted Corporation (\$000)	Number of S corporations	Percent of Total Number of S Corporations
Less than 5	\$140,075	26.3%	\$3,088,615	20.7%	\$40	77,658	64.8%
5 to 49	\$132,379	24.8%	\$3,696,981	24.8%	\$107	34,643	28.9%
50 to 99	\$78,608	14.7%	\$2,378,036	16.0%	\$652	3,645	3.0%
100 to 199	\$63,983	12.0%	\$1,917,216	12.9%	\$1,055	1,817	1.5%
200 to 499	\$47,098	8.8%	\$1,403,668	9.4%	\$1,368	1,026	0.9%
500 or more	\$71,114	13.3%	\$2,417,165	16.2%	\$2,285	1,058	0.9%
Total or average	\$533,257	100.0%	\$14,901,681	100.0%	\$124	119,847	100.0%

Source: Department of Revenue (2021 corporate excise returns). Note: * The range is based on number of employees as reported by taxpayers.

As shown in Table 5, 17.4% of S corporations were in the industry of “Professional, Scientific, and Technical Services” representing 11.7% of total tax liability and 12.5% of total taxable income. The industry with the smallest number of S corporations is “Mining, Quarrying, and Oil and Gas Extract” representing 0.2% of total tax liability and 0.2% of total taxable income.

Table 5. Tax Liability, Taxable Income of S Corporations by Industry

Industry	Tax Liability (\$000)	Percent of Total S Corporation Tax Liability	Taxable Income (\$000)	Percent of Total S Corporation Taxable Income	Taxable Income Per Impacted Corporation (\$000)	Number of S corporations	Percent of Total Number of S Corporations
11 Agriculture, Forestry, Fishing and Hunting	\$2,722	0.5%	\$72,645	0.5%	\$70	1,037	0.9%
21 Mining, Quarrying, and Oil and Gas Extract	\$891	0.2%	\$25,377	0.2%	\$251	101	0.1%
22 Utilities	\$714	0.1%	\$16,391	0.1%	\$112	146	0.1%
23 Construction	\$74,222	13.9%	\$1,959,795	13.2%	\$96	20,401	17.0%
31-33 Manufacturing	\$55,810	10.5%	\$1,810,642	12.2%	\$347	5,223	4.4%
42 Wholesale Trade	\$90,119	16.9%	\$2,651,431	17.8%	\$590	4,495	3.8%
44-45 Retail Trade	\$81,560	15.3%	\$2,196,998	14.7%	\$181	12,132	10.1%
48-49 Transportation and Warehousing	\$8,399	1.6%	\$166,836	1.1%	\$40	4,223	3.5%
51 Information	\$6,791	1.3%	\$416,801	2.8%	\$231	1,804	1.5%
52 Finance	\$35,634	6.7%	\$1,039,381	7.0%	\$278	3,744	3.1%
53 Real Estate and Rental and Leasing	\$27,119	5.1%	\$579,106	3.9%	\$53	11,026	9.2%
54 Professional, Scientific, and	\$62,636	11.7%	\$1,867,456	12.5%	\$90	20,851	17.4%

Technical Services							
55 Management of Companies and Enterprises	\$20,944	3.9%	\$630,013	4.2%	\$659	956	0.8%
56 Administrative and Support and Waste Management	\$18,974	3.6%	\$506,229	3.4%	\$81	6,236	5.2%
61 Educational Services	\$1,785	0.3%	\$45,792	0.3%	\$47	973	0.8%
62 Health Care and Social Assistance	\$14,503	2.7%	\$320,017	2.1%	\$45	7,061	5.9%
71 Arts, Entertainment, and Recreation	\$4,693	0.9%	\$99,826	0.7%	\$35	2,876	2.4%
72 Accommodation and Food Services	\$11,678	2.2%	\$228,023	1.5%	\$30	7,514	6.3%
81 Other Services (except Public Administration)	\$11,792	2.2%	\$238,175	1.6%	\$29	8,232	6.9%
Others or unmatched*	\$2,271	0.4%	\$30,745	0.2%	\$38	816	0.7%
Total or average	\$533,257	100.0%	\$14,901,681	100.0%	\$124	119,847	100.0%

Source: Department of Revenue (2021 corporate excise returns). Note: *Unmatched means that we could not find some taxpayers in one or more of data sets to match.

Evaluation: Comparing Costs and Benefits

In the previous sections, we report the direct costs (to the Commonwealth, or to the residents and businesses who ultimately bear the costs when the Commonwealth cuts government spending or increases taxes to finance the tax expenditure) and direct benefits (to S corporations) of this tax expenditure. In this instance, the direct costs to the Commonwealth, namely the tax revenue that

would have been collected, are equal to the direct benefits afforded by the tax expenditure to taxpayers.

Furthermore, there may be indirect and induced costs and benefits associated with this expenditure. To measure indirect and induced costs and benefits, economists often need to utilize complicated models, such as REMI (Regional Economic Models, Inc.) or IMPLAN (Impact Analysis for Planning) models. DOR did not use such models given their complexity and data limitations present in this instance.

Similar Tax Expenditures Offered by Other States

California, Connecticut, Maine, New York, Rhode Island, and Vermont treat S corporations in a manner similar to Massachusetts. These states impose a corporate level net income tax at a reduced rate but also tax S corporation income at the shareholder level on a flow-through basis.

New Hampshire treats S corporations in the same manner as C corporations, offering no reduced rate.

Tax Expenditure Title: 2.203 Net Operating Loss Carryover

Tax Expenditure Category: Deduction against tax

Tax Type: Corporate Excise

Legal Reference: Code § 172; M.G.L. c. 63, § 30(5)

Year Enacted: 1988

Repeal or Expiration Date: None

Annual Revenue Impact: Tax loss of \$234.3 to \$285.3 million per year during FY23 through FY27.

Number Of Taxpayers: 13,007 to 14,621 claimants for the deduction per year during the tax years 2018 through 2021.

Average Taxpayer Benefit: About \$14,800 per claimant for 2021.

Federal Tax Expenditure: No

Description of the Tax Expenditure: Certain corporations are allowed a deduction for net operating losses incurred in previous taxable years when computing the net income measure of the corporate excise. The net operating loss incurred in a taxable year is the amount by which allowable Massachusetts deductions (including the dividends received deduction but not including the net operating loss deduction itself), exceed the corporation's gross income. Unused NOL may be carried forward up to twenty years and may not be carried back.

Is the purpose defined in the statute? The statute does not explicitly state the purpose of this tax expenditure.

What are the policy goals of the expenditure? The Commission assumes the NOL deduction is intended to smooth over the effects of economic and business cycles on corporate taxes over multiple taxable years. The guiding principle is that two companies that have the same earnings over a period of taxable years should bear similar long term tax burdens even though one of the companies had losses in some years and the other was consistently profitable.

Are there other states with a similar tax expenditure? Most states with a corporate income tax allow a deduction for NOLs. States that do so include California, Connecticut, Maine, New Hampshire, New York, Rhode Island, and Vermont. A number of states, however, restrict carryforwards below the 20-year threshold. As of 2022, these include Alabama, Minnesota, North Carolina, Oregon, Tennessee, Illinois, Michigan, Montana, New Hampshire, Vermont, Arkansas, and Rhode Island. Pennsylvania and New Hampshire limit the percentage of losses that may be carried forward.

Introduction

The net operating loss (NOL) deduction is a current year deduction available to certain corporate excise filers that have sustained losses in prior taxable years. The deduction is allowed against gross income when determining Massachusetts net income, which on an apportioned basis, comprises the net income tax base. The amount of NOL incurred in a loss year is the amount by which allowable Massachusetts deductions for that year (including the dividends received deduction but not including the net operating loss deduction itself), exceed the corporation's gross income for the loss year. See M.G.L. c. 63, § 30.4.

If an eligible corporation has income in a subsequent taxable year the NOL deduction is allowed to reduce such income. The deduction is based on the corporation's Massachusetts apportionment percentage for the taxable year of the loss. The apportioned loss may be deducted from income apportioned to Massachusetts based on the corporation's current taxable year apportionment percentage. Unused NOL may be carried forward up to twenty years and may not be carried back.

The NOL deduction may be claimed by business corporations, including S corporations, that are required to determine the net income measure of the corporate excise under M.G.L. c. 63, § 39. Financial institutions are not eligible to claim the deduction. Further, losses incurred in taxable years for which a corporation is not subject to the Massachusetts corporate excise (for example, where the corporation does no business in Massachusetts) are not allowed to be carried forward.

The revenue lost as a result of the deduction constitutes a tax expenditure.

Note that there is a similar federal deduction for NOL under Internal Revenue Code (Code) § 172. Massachusetts does not adopt the federal deduction and instead allows the state-specific deduction described above.

Policy Goals

The Commission assumes the NOL deduction is intended to smooth over the effects of economic and business cycles on corporate taxes over multiple taxable years. The guiding principle is that two companies that have the same earnings over a period of taxable years should bear similar long term tax burdens even though one of the companies had losses in some years and the other was consistently profitable.

Administrability

The administration of this deduction presents some challenges for the Massachusetts Department of Revenue (DOR) because the corresponding federal deduction is not calculated the same way as the Massachusetts deduction. Therefore, the DOR must employ more administrative effort to process and review taxpayers' returns where this deduction is claimed.

Direct Costs

The revenue loss resulting from this tax expenditure is estimated to be \$234.3 to \$285.3 million per year during FY23 through FY27. See Table 1. The estimates are based on several factors, including historical claims, economic forecasts, and related law changes.

Table 1. Tax Revenue Loss Estimates for NOL deduction

Fiscal Year	2023	2024	2025	2026	2027
Estimated Revenue Loss (\$Million)	\$234.3	\$247.6	\$260.6	\$272.4	\$285.3

Table 2 below shows the number of claimed and shared NOL deductions and the amount of such deductions for tax years 2018 through 2021. Here, “Claimed NOL” is the deduction amount that a taxpayer incurred and claimed; and “Shared NOL” is the deduction amount shared from other members of the taxpayer’s combined group.

During tax years 2018 through 2021, (i) the number of NOL deductions claimed or shared ranged from 13,007 to 16,621, (ii) the aggregate amount of NOL deduction claimed or shared ranged from \$2.4 billion to \$4.9 billion, and (iii) the average claimed or shared amount ranged from \$249,700 to \$355,700.

Table 2. Amount and Count of Net Operating Loss Deduction by Tax Year

	2018		2019		2020		2021	
	Amount (\$000)	Count						
Claimed NOL	\$3,088,709	12,780	\$2,273,925	11,191	\$3,672,757	11,128	\$4,595,883	14,277
Shared NOL	\$159,346	390	\$105,370	291	\$102,791	321	\$313,084	564
Total NOL	\$3,248,055	13,007	\$2,379,295	11,387	\$3,775,548	11,328	\$4,908,967	14,621
Average Amount of NOL Deduction	\$249.7	NA	\$208.9	NA	\$333.3	NA	\$335.7	NA

Source: Massachusetts Department of Revenue. Notes: 1. The count is the number of claimants. The count of claimed NOL and shared NOL do not add to total count because some taxpayers have both claimed NOL and shared NOL. 2. “NA” means not applicable.

Direct Benefits

The direct beneficiaries of this deduction are the corporations that conduct business in Massachusetts and have net operating losses. Tables 3 through 5 below show the number of impacted corporations, their tax liability, and their taxable income, by income level (table 3), by number of employees (table 4), and by industry (table 5) for tax year 2021. Corporations claiming

NOL deductions are “impacted corporations”. In 2021, a total of 14,516 impacted corporations⁷⁵ claimed \$4.9 billion in NOL deductions, reducing taxable income by 56.7% from \$8.6 billion to \$3.7 billion.

Table 3 shows that about 82.9% of impacted corporations had taxable income ranging between \$0 and \$49,999, which represented 17.3% of the total tax liability and 1.1% of total taxable income after NOL deductions. About 3.7% of impacted corporations had taxable income ranging from \$1 million or more, which represented 69.2% of the total tax liability and 86.4% of total taxable income after NOL deductions. On average, impacted corporations claimed net operating loss deductions of \$336,042. The average claimed amount varied from \$78,413 for corporations with taxable income ranging from \$50,000 to \$99,999 to \$2.1 million for corporations with taxable income of \$1 million or more.

Table 3. Net Operating Loss Carryover, Tax Liability, and Taxable Income by Taxable Income Level

Taxable Income Range (after NOL)	Taxable Income Before NOL (\$000) - A	Taxable Income After NOL (\$000) - B	Percent Distribution of Taxable Income After NOL	B/A	Tax Liability (\$000)	Percent Distribution of Tax Liability	Number of Impacted Corporations	Percent Distribution of Number of Impacted Corporations	NOL per impacted Corporation (\$)
Less than \$0	-\$1,143	-\$26,230	-0.7%	-	\$564	0.2%	30	0.2%	\$836,259
0 to \$49,999	\$3,287,652	\$39,981	1.1%	1.2%	\$55,221	17.3%	12,034	82.9%	\$269,875
\$50,000 to \$99,999	\$89,536	\$42,880	1.1%	47.9%	\$4,752	1.5%	595	4.1%	\$78,413
\$100,000 to \$149,999	\$82,972	\$37,028	1.0%	44.6%	\$4,104	1.3%	299	2.1%	\$153,657

⁷⁵ Tables 3 through 5 show that there were 14,516 claimants for the deduction in 2021, which is slightly lower than the 14,621 claimants reported in Table 2. The difference was due to data set matching and resultant loss of some observations.

\$150,000 to \$199,999	\$71,056	\$34,234	0.9%	48.2%	\$2,971	0.9%	197	1.4%	\$186,911
\$200,000 to \$499,999	\$376,081	\$163,716	4.4%	43.5%	\$14,726	4.6%	518	3.6%	\$409,971
\$500,000 to \$999,999	\$364,604	\$216,879	5.8%	59.5%	\$16,256	5.1%	312	2.1%	\$473,479
\$1 million or over	\$4,337,929	\$3,222,206	86.4%	74.3%	\$221,355	69.2%	531	3.7%	\$2,101,173
Total	\$8,608,687	\$3,730,695	100.0%	43.3%	\$319,948	100.0%	14,516	100.0%	\$336,042

Source: Department of Revenue (2021 corporate excise returns).

Table 4 shows that 57.0% of the impacted corporations had fewer than 5 employees. These corporations represented 53.9% of the total tax liability and 48.1% of total taxable income after NOL deductions. About 3.7% of impacted corporations had 500 or more employees, representing 15.3% of the total tax liability and 13.8% of total taxable income after NOL deductions. The average claimed amount varied from \$183,802 for corporations with fewer than 5 employees to \$2.2 million for corporations with 500 or more employees.

The ratio of taxable income post-NOLs to taxable income pre-NOLs varied from 29.9% for corporations with 500 or more employees to 54.2% for corporations with fewer than 5 employees.

Table 4. Net Operating Loss Carryover, Tax Liability, and Taxable Income by Number of Employees

Employeees Range*	Taxable Income Before NOL (\$000) - A	Taxable Income After NOL (\$000) - B	Percent Distribution of Taxable Income After NOL	B/A	Tax Liability (\$000)	Percent Distribution of Tax Liability	Number of Impacted Corporations	Percent Distribution of Impacted Corporations	NOL per impacted Corporation (\$)
Less than 5	\$3,316,693	\$1,796,283	48.1%	54.2%	\$172,487	53.9%	8,272	57.0%	\$183,802
5 to 49	\$1,353,751	\$536,061	14.4%	39.6%	\$40,409	12.6%	3,848	26.5%	\$212,497

50 to 99	\$805,523	\$332,242	8.9%	41.2%	\$18,129	5.7%	788	5.4%	\$600,610
100 to 199	\$702,246	\$312,798	8.4%	44.5%	\$19,370	6.1%	577	4.0%	\$674,952
200 to 499	\$714,216	\$239,911	6.4%	33.6%	\$20,594	6.4%	494	3.4%	\$960,133
500 or more	\$1,716,258	\$513,399	13.8%	29.9%	\$48,960	15.3%	537	3.7%	\$2,239,961
Total	\$8,608,687	\$3,730,695	100.0%	43.3%	\$319,948	100.0%	14,516	100.0%	\$336,042

Source: Department of Revenue (2021 corporate excise returns).

Notes: * Information is based on number of employees as reported by taxpayers.

By industry, Table 5 shows that the “Professional, Scientific, and Technical Services” industry represented about 18.1% of impacted corporations, 11.3% of total tax liability, and 13.4% of total taxable income after NOL deductions. The “Manufacturing” industry represented about 11.2% of total impacted corporations, 9.2% of total tax liability, and 9.5% of taxable income after NOL deduction. The average claimed amount varied from \$45,528 for corporations in the “Other Services (except Public Administration)” industry to \$717,088 for corporations in the “Management of Companies and Enterprises” industry. The ratio of taxable income post-NOLs to taxable income pre-NOLs varied from 17.2% for corporations in the “Educational Services” industry to 65.0% for corporations in the “Utilities” industry.

Table 5. Net Operating Loss Carryover, Tax Liability, and Taxable Income by Industry

Industry	Taxable Income Before NOL (\$000) -A	Taxable Income After NOL (\$000) -B	Percent Distribution of Taxable Income After NOL	B/A	Tax Liability (\$000)	Percent Distribution of Tax Liability	Number of Impacted Corporations	Percent Distribution of Number of Impacted Corporations	NOL per impacted Corporation (\$)
11 Agriculture, Forestry, Fishing and Hunting	\$13,775	\$6,124	0.2%	44.5%	\$417	0.1%	69	0.5%	\$110,893
21 Mining, Quarrying,	\$1,822	\$433	0.0%	23.8%	\$20	0.0%	4	0.0%	\$347,104

and Oil and Gas Extract									
22 Utilities	\$45,531	\$29,603	0.8%	65.0%	\$3,293	1.0%	47	0.3%	\$338,907
23 Construction	\$159,319	\$71,310	1.9%	44.8%	\$4,789	1.5%	1,102	7.6%	\$79,863
31-33 Manufacturing	\$1,012,157	\$355,992	9.5%	35.2%	\$29,375	9.2%	1,622	11.2%	\$404,541
42 Wholesale Trade	\$604,443	\$373,403	10.0%	61.8%	\$23,573	7.4%	1,090	7.5%	\$211,963
44-45 Retail Trade	\$507,105	\$202,186	5.4%	39.9%	\$18,827	5.9%	1,102	7.6%	\$276,696
48-49 Transportation and Warehousing	\$161,524	\$60,747	1.6%	37.6%	\$5,761	1.8%	476	3.3%	\$211,716
51 Information	\$461,454	\$259,783	7.0%	56.3%	\$13,934	4.4%	643	4.4%	\$313,641
52 Finance	\$849,619	\$549,474	14.7%	64.7%	\$49,564	15.5%	1,057	7.3%	\$283,960
53 Real Estate and Rental and Leasing	\$776,117	\$501,456	13.4%	64.6%	\$53,911	16.8%	990	6.8%	\$277,436
54 Professional, Scientific, and Technical Services	\$1,947,427	\$498,603	13.4%	25.6%	\$36,174	11.3%	2,621	18.1%	\$552,775
55 Management of Companies and Enterprises	\$576,628	\$279,037	7.5%	48.4%	\$25,490	8.0%	415	2.9%	\$717,088
56 Administrative and Support	\$209,343	\$78,308	2.1%	37.4%	\$6,915	2.2%	575	4.0%	\$227,888

and Waste Management									
61 Educational Services	\$16,485	\$2,837	0.1%	17.2%	\$414	0.1%	125	0.9%	\$109,182
62 Health Care and Social Assistance	\$265,683	\$130,111	3.5%	49.0%	\$12,144	3.8%	478	3.3%	\$283,624
71 Arts, Entertainment, and Recreation	\$65,670	\$20,843	0.6%	31.7%	\$1,580	0.5%	204	1.4%	\$219,742
72 Accommodation and Food Services	\$217,899	\$64,641	1.7%	29.7%	\$5,881	1.8%	693	4.8%	\$221,152
81 Other Services (except Public Administration)	\$44,328	\$17,831	0.5%	40.2%	\$1,503	0.5%	582	4.0%	\$45,528
Others or unmatched*	\$672,358	\$227,975	6.1%	33.9%	\$26,383	8.2%	621	4.3%	\$715,593
Total	\$8,608,687	\$3,730,695	100.0%	43.3%	\$319,948	100.0%	14,516	100.0%	\$336,042

Source: Department of Revenue (2021 corporate excise returns)

Notes: *Unmatched means that we could not find some taxpayers in one or more of the data sets to match.

Evaluation: Comparing Costs and Benefits

In the previous sections, we report the direct costs (to the Commonwealth, or to the residents and businesses who ultimately bear the costs when the Commonwealth cuts government spending or increases taxes to finance the tax expenditure) and direct benefits of this tax expenditure. In this instance, the direct costs to the Commonwealth, namely the tax revenue that would have been collected, are equal to the direct benefits afforded by the tax expenditure to taxpayers.

Furthermore, there may be indirect and induced costs and benefits associated with this expenditure. To measure indirect and induced costs and benefits, economists often need to utilize complicated models, such as REMI (Regional Economic Models, Inc.) or IMPLAN (Impact

Analysis for Planning) models. DOR did not use such models given their complexity and data limitations present in this instance.

Similar Tax Expenditures Offered by Other States

Most states with a corporate income tax allow a deduction for NOLs. States that do so include California, Connecticut, Maine, New Hampshire, New York, Rhode Island, and Vermont. A number of states, however, restrict carryforwards below the 20-year threshold. As of 2022, these include Alabama, Minnesota, North Carolina, Oregon, Tennessee, Illinois, Michigan, Montana, New Hampshire, Vermont, Arkansas, and Rhode Island. Pennsylvania and New Hampshire limit the percentage of losses that may be carried forward.

Tax Expenditure Title: 2.502 Exemption for Property Subject to Local Taxation

Tax Expenditure Category: Exemption for property subject to local taxation

Tax Type: Corporate Excise

Legal Reference: M.G.L. c. 63, § 30.7; c. 63, § 30.8; c. 63 § 39(a)(1)

Year Enacted: 1962

Repeal or Expiration Date: None

Annual Revenue Impact: Tax loss of \$376.0 to \$418.8 million per year during FY23 through FY27.

Number Of Taxpayers: 56,430 to 59,055 tax filers per year during the tax years 2018 through 2021.

Average Taxpayer Benefit: About \$6,329 per claimant for 2021.

Federal Tax Expenditure: No

Description of the Tax Expenditure: Tangible property located in Massachusetts is subject to local property tax unless an exemption applies. Tangible property owned by corporations and subject to local taxation is excluded from the calculation of the non-income measure of the Massachusetts corporate excise.

Is the purpose defined in the statute? The statute does not state the purpose of this tax expenditure.

What are the policy goals of the expenditure? The Commission assumes the goal of the expenditure is to avoid tangible property being taxed at both the local and state level.

Are there other states with a similar tax expenditure? A minority of states impose some type of capital stock or net worth tax. The base for these taxes may include the value of tangible property but they are not taxes on property per se. No such tax is imposed by California, Connecticut, Maine, New Hampshire, New York, Rhode Island, or Vermont. Connecticut, New York and Rhode Island historically imposed such taxes but recently repealed them. The Commission is not aware of any other state that imposes a capital stock or net worth tax that allows an exclusion or exemption for tangible property subject to local taxation. All states provide for local taxation of tangible property.

Introduction

The corporate excise is comprised of a net income tax and a property or net worth tax. M.G.L. c. 63, § 39. Tangible property corporations pay the property tax and intangible property corporations pay the net worth tax. The net income tax applies to both tangible and intangible property corporations. Whether a corporation is a tangible or intangible property corporation is based on the value of its tangible property located in Massachusetts and not subject to local tax, as a percentage of the corporation's total assets. See M.G.L. c. 63, § 30. If the percentage is 10% or more, the corporation is a tangible property corporation. If the percentage is lower than 10%, the corporation is an intangible property corporation.

Tangible property corporations pay a state level tangible property tax equal to .26% of the value of their tangible property located in Massachusetts and not subject to local tax. Thus, tangible property subject to local tax is excluded from the state tax base.

Intangible property corporations pay a state level tax equal to .26% of their net worth apportioned to Massachusetts. However, a deduction from net worth is allowed for the value of tangible property located in Massachusetts and subject to local taxation. See M.G.L. c. 63, § 30.8. Thus, the value of such tangible property is largely excluded from the state tax base.

Whether or not tangible property owned by corporations is subject to tax at the local level is determined under c. 59, § 5. In general, real property is subject to local tax unless an exemption applies. Tangible personal property owned by corporations may be taxable depending on the corporation's line of business or how the corporation uses the property.

Without the state level exemption and deduction for tangible property subject to local taxation, such property would be subject to tax at both the state and local levels. The state level corporate excise lost as a result of the exemption and deduction constitutes a tax expenditure.

Policy Goals

The Commission assumes the goal of the expenditure is to avoid tangible property being taxed at both the local and state level.

Administrability

The administration of the exemption for property subject to local taxation poses some challenges for the Department of Revenue (DOR). There is no corresponding federal exemption or deduction, and therefore no federal tax data to assist in such administration. Thus, audits are required to ensure that tangible property is being reported accurately. However, the determination of local taxability is made by city and town assessors who have an incentive to impose and collect tax at the local level. Thus, there is enforcement at the local level that ameliorates the DOR's administrative burden.

Direct Costs

The revenue loss resulting from this tax expenditure is estimated to be \$376.0 to \$418.8 million annually during FY23 through FY27. See Table 1. The estimates are based on several factors, including historical claims, economic forecasts, and related law changes.

Table 1. Tax Revenue Loss Estimates for Exemption of Tangible Property Subject to Local Taxation

Fiscal Year	2023	2024	2025	2026	2027
Estimated Revenue Loss (\$Million)	\$376.0	\$393.5	\$410.6	\$416.8	\$418.8

As shown in Table 2, during tax years 2018 through 2021, there were 56,430 to 59,055 tax filers per year who reported tangible property subject to local taxation. The average value of such property ranged from \$2.6 million in 2019 to \$3.5 million in 2021.

Table 2. Tangible Property Subject to Local Taxation

	2018		2019		2020		2021	
	Amount (\$Million)	Count						
Tangible property subject to local taxation	\$158,001	59,055	\$146,721	57,269	\$176,572	56,430	\$196,325	56,632
Average Amount	\$2.7	NA	\$2.6	NA	\$3.1	NA	\$3.5	NA

Source: Massachusetts Department of Revenue.

Note: The values are for all tangible properties regardless of tangible corporation status.

Direct Benefits

The incentive reduces the capital costs of doing business by excluding assets such as land, vehicles, and machinery from the calculation of the non-income measure. The reduction in capital costs due to the incentive helps businesses survive and grow. It also may help them retain and create jobs.

Direct beneficiaries of the tax incentive are corporations that have tangible property subject to local taxation in Massachusetts. The tables below show impacted corporations by taxable income level (table 3), by number of employees (table 4), and by industry (table 5) for tax year 2021.

In 2021, as shown in Tables 3 through 5, there were about 56,632 corporations whose tangible property, totaling \$196.3 million, was subject to local taxation. Their total tax liabilities⁷⁶ were

⁷⁶ The term “tax liability” includes both the income and non-income measure of the corporate excise, when applicable.

79.6% of the amount that would have been due in the absence of exclusion (or in other words, this exclusion resulted in total tax savings of 20.4%).

Table 3 shows that among the impacted corporations, about 74.0% had taxable income between \$0 and \$49,999, with 27.2% of the total excluded property being held by that group.

The ratio of tax liability with the exclusion to tax liability without the exclusion varied from 22.0% for corporations with negative taxable income to 93.4% for corporations with taxable income of \$1 million or higher taxable income. The average tax saving per impacted corporation was \$6,329, varying from \$858 for corporations with taxable income ranging from \$50,000 to \$99,999 to \$30,266 for corporations with taxable income of \$1 million or more.

Table 3. Tangible Property Taxed Locally, and Tax Liability, by Taxable Income Level

Taxable Income Range	Tax Liability Under the Current Law (\$000) - A	Tax Liability without the Exemption (\$000) - B	A/B (%)	Tangible Property Taxed Locally (\$000)	Percent Distribution of Tangible Property Taxed Locally	Number of Impacted Corporations	Percent Distribution of Number of Impacted Corporations	Tax Saving Per Impacted Corporation (\$)
Less than \$0	\$46,679	\$212,348	22.0%	\$91,657,636	46.7%	6,782	12.0%	\$24,428
0 to \$49,999	\$53,911	\$149,795	36.0%	\$53,364,521	27.2%	41,923	74.0%	\$2,287
\$50,000 to \$99,999	\$5,869	\$6,710	87.5%	\$1,196,794	0.6%	979	1.7%	\$858
\$100,000 to \$149,999	\$5,778	\$6,382	90.5%	\$509,478	0.3%	627	1.1%	\$965
\$150,000 to \$199,999	\$5,452	\$6,002	90.8%	\$291,961	0.1%	476	0.8%	\$1,155
\$200,000 to \$499,999	\$31,031	\$34,611	89.7%	\$2,583,412	1.3%	1,505	2.7%	\$2,379
\$500,000 to \$0.999 million	\$43,651	\$47,359	92.2%	\$2,110,410	1.1%	1,178	2.1%	\$3,148

\$1 million or over	\$1,206,573	\$1,292,376	93.4%	\$43,494,772	22.2%	2,835	5.0%	\$30,266
Unspecified*	N.A.	\$1,788	N.A.	\$1,116,076	0.6%	327	0.6%	N.A.
Total or average	\$1,398,945	\$1,757,371	79.6%	\$196,325,061	100.0%	56,632	100.0%	\$6,329

Source: Department of Revenue (2021 corporate excise returns)

Notes: *Unspecified due to missing data.

Table 4 shows that 47.0% of impacted corporations had fewer than 5 employees each, representing 57.0% of the total excluded property. The ratio of tax liability with the exclusion to tax liability without the exclusion varied from 57.3% for corporations with fewer than 5 employees to 93.6% for corporations with 50 to 99 employees. The average tax saving per impacted corporation was \$6,329, varying from \$919 for corporations with 5 to 49 employees to \$111,019 for corporations with 500 or more employees.

Table 4. Tangible Property Taxed Locally and Tax Liability, by Number of Employees

Employeees Range*	Tax Liability Under the Current Law (\$000) – A	Tax Liability without the Exemption (\$000) - B	A/B (%)	Tangible Property Taxed Locally (\$000)	Percent Distribution of Tangible Property Taxed Locally	Number of Impacted Corporations	Percent Distribution of Number of Impacted Corporations	Tax Saving Per Impacted Corporation (\$)
Less than 5	\$273,823	\$477,799	57.3%	\$111,934,065	57.0%	26,634	47.0%	\$7,658
5 to 49	\$167,044	\$188,816	88.5%	\$12,024,953	6.1%	23,699	41.8%	\$919
50 to 99	\$115,260	\$123,195	93.6%	\$3,608,867	1.8%	2,825	5.0%	\$2,809
100 to 199	\$112,372	\$120,649	93.1%	\$6,415,869	3.3%	1,369	2.4%	\$6,046
200 to 499	\$172,335	\$184,875	93.2%	\$8,176,095	4.2%	858	1.5%	\$14,615
500 or more	\$558,112	\$660,249	84.5%	\$53,049,136	27.0%	920	1.6%	\$111,019

Unspecified**	N.A.	\$1,788	N.A.	\$1,116,076	0.6%	327	0.6%	N.A.
Total or average	\$1,398,945	\$1,757,371	79.6%	\$196,325,061	100.0%	56,632	100.0%	\$6,329

Source: Department of Revenue (2021 corporate excise returns)

Notes: 1. *Information is based on number of employees as reported by taxpayers. 2.

**Unspecified due to missing data.

Table 5 shows that 55.0% of the property was held by corporations in the “Real Estate and Rental and Leasing” industry, representing 12.2% of the impacted corporations. The ratio of tax liability with the exclusion to tax liability without the exclusion varied from 32.0% for corporations in the industry of “Real Estate and Rental and Leasing” to 98.1% for corporations in the “Management of Companies and Enterprises” industry. The average tax saving per impacted corporation was \$6,329, varying from \$334 for corporations in the industry of “Other Services (except Public Administration)” to \$26,647 for corporations in the “Real Estate and Rental and Leasing” industry.

Table 5. Tangible Property Taxed Locally and Tax Liability, by Industry

Industry	Tax Liability Under the Current Law (\$000) - A	Tax Liability without the Exemption (\$000) - B	A/B (%)	Tangible Property Taxed Locally (\$000)	Percent Distribution of Tangible Property Taxed Locally	Number of Impacted Corporations	Percent Distribution of Number of Impacted Corporations	Tax Saving Per Impacted Corporation (\$)
11 Agriculture, Forestry, Fishing and Hunting	\$12,034	\$13,233	90.9%	\$651,187	0.3%	693	1.2%	\$1,730
21 Mining, Quarrying, and Oil and Gas Extract	\$952	\$1,230	77.5%	\$108,879	0.1%	58	0.1%	\$4,778

22 Utilities	\$3,033	\$5,551	54.6 %	\$1,110,637	0.6 %	118	0.2%	\$21,343
23 Construction	\$72,160	\$78,499	91.9 %	\$2,965,874	1.5 %	10,807	19.1%	\$587
31-33 Manufacturing	\$166,424	\$187,037	89.0 %	\$9,359,848	4.8 %	3,593	6.3%	\$5,737
42 Wholesale Trade	\$159,544	\$162,966	97.9 %	\$2,652,621	1.4 %	2,278	4.0%	\$1,502
44-45 Retail Trade	\$256,378	\$271,430	94.5 %	\$6,390,379	3.3 %	5,984	10.6%	\$2,515
48-49 Transportation and Warehousing	\$32,897	\$36,959	89.0 %	\$4,509,499	2.3 %	2,292	4.0%	\$1,773
51 Information	\$81,585	\$83,992	97.1 %	\$1,831,025	0.9 %	611	1.1%	\$3,939
52 Finance	\$69,863	\$72,361	96.5 %	\$5,719,900	2.9 %	1,105	2.0%	\$2,260
53 Real Estate and Rental and Leasing	\$86,376	\$269,923	32.0 %	\$107,935,166	55.0 %	\$6,888	12.2%	\$26,647
54 Professional, Scientific, and Technical Services	\$117,279	\$131,758	89.0 %	\$6,892,952	3.5 %	5,841	10.3%	\$2,479
55 Management of Companies and Enterprises	\$69,789	\$71,139	98.1 %	\$1,879,469	1.0 %	246	0.4%	\$5,491
56 Administrative and Support and Waste Management	\$24,431	\$26,247	93.1 %	\$1,104,701	0.6 %	2,718	4.8%	\$668

61 Educational Services	\$1,385	\$1,628	85.0 %	\$128,185	0.1 %	327	0.6%	\$746
62 Health Care and Social Assistance	\$34,617	\$39,459	87.7 %	\$2,057,572	1.0 %	2,930	5.2%	\$1,653
71 Arts, Entertainment, and Recreation	\$3,183	\$4,172	76.3 %	\$480,365	0.2 %	820	1.4%	\$1,205
72 Accommodation and Food Services	\$21,365	\$26,150	81.7 %	\$3,416,811	1.7 %	4,515	8.0%	\$1,060
81 Other Services (except Public Administration)	\$14,541	\$15,857	91.7 %	\$596,083	0.3 %	3,941	7.0%	\$334
Others or unspecified*	\$171,112	\$257,780	66.4 %	\$36,533,906	18.6 %	867	1.5%	\$99,963
Total or average	\$1,398,945	\$1,757,371	79.6 %	\$196,325,061	100.0 %	56,632	100.0%	\$6,329

Source: Department of Revenue (2021 corporate excise returns)

Notes: *Unspecified due to missing data.

Evaluation: Comparing Costs and Benefits

In the previous sections, we report the direct costs (to the Commonwealth, or to the residents and businesses who ultimately bear the costs when the Commonwealth cuts government spending or increases taxes to finance the tax expenditure) and direct benefits of this tax expenditure. In this instance, the direct costs to the Commonwealth, namely the tax revenue that would have been collected, are equal to the direct benefits afforded by the tax expenditure to taxpayers.

Furthermore, there may be indirect and induced costs and benefits associated with this expenditure. To measure indirect and induced costs and benefits, economists often need to utilize complicated models, such as REMI (Regional Economic Models, Inc.) or IMPLAN (Impact Analysis for Planning) models. DOR did not use such models given their complexity and data limitations present in this instance.

Similar Tax Expenditures Offered by Other States

A minority of states impose some type of capital stock or net worth tax. The base for these taxes may include the value of tangible property but they are not taxes on property per se. No such tax is imposed by California, Connecticut, Maine, New Hampshire, New York, Rhode Island, or Vermont. Connecticut, New York and Rhode Island historically imposed such taxes but recently

repealed them. The Commission is not aware of any other state that imposes a capital stock or net worth tax that allows an exclusion or exemption for tangible property subject to local taxation. All states provide for local taxation of tangible property.

Tax Expenditure Title: 2.602 Investment Tax Credit

Tax Expenditure Category: Credit against tax

Tax Type: Corporate Excise

Legal Reference: M.G.L. c. 63, § 31A (i), (j)

Year Enacted: 1971 and is applicable to property acquired or constructed after December 31, 1969.

Repeal or Expiration Date: None

Annual Revenue Impact: Tax loss of \$88.1 to \$100.2 million annually during FY23 through FY27.

Number Of Taxpayers: 1,159 to 1,349 claimants per year during tax years 2019 to 2022.

Average Taxpayer Benefit: About \$52,200 to \$100,800 per claimant for tax years 2019 through 2022.

Federal Tax Expenditure: No

Description of the Tax Expenditure: 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 of qualifying tangible property.

Is the purpose defined in the statute? The statute does not explicitly state the purpose of this tax expenditure.

What are the policy goals of the expenditure? The Commission assumes the goal of the expenditure is to encourage manufacturing, research and development, agriculture and commercial fishing.

Are there other states with a similar tax expenditure? A substantial minority of states allow tax credits for the cost of tangible personal property used in business. These include Connecticut, New York, Rhode Island and Vermont. Maine and New Hampshire provide other incentives but not an investment credit tied to the cost of tangible personal property.

Introduction

Manufacturing corporations, and corporations engaged primarily in research and development, agriculture, or commercial fishing are allowed to claim an investment tax credit (ITC) of 3% of the cost of qualifying tangible property. See M.G.L. c. 63, § 31A. Qualifying tangible property includes tangible personal property and other tangible property, including buildings and certain components of buildings, but does not include motor vehicles. Both owners and lessees of qualifying tangible property can claim the credit. The property must be depreciable for federal tax purposes under Code § 167 and have a useful life of four years or more. The property must be used in Massachusetts (except for agricultural equipment, which can be used anywhere⁷⁷).

The amount of ITC allowed to any corporation in any one taxable year cannot exceed fifty percent of the taxpayer's corporate excise due for the taxable year. The credit is neither transferable nor refundable.

A corporation that does not use the full amount of ITC generated in a taxable year because the credit exceeded its excise for the taxable year may carry over the credit, as reduced from year to year, for three years. Any portion of ITC not used in a taxable year because of the fifty percent limitation may be carried over, as reduced from year to year, indefinitely.

A portion of the credit is subject to a recapture tax if the qualifying property is sold or otherwise transferred before the end of its useful life, unless the property was in qualified use for more than twelve years.

Policy Goals

The Commission assumes the goal of the expenditure is to encourage manufacturing, research and development, agriculture and commercial fishing in Massachusetts. However, with respect to agriculture, the credit is not limited to qualifying property used in Massachusetts.

Administrability

The administration of the ITC does not present any special challenges for the Department of Revenue (DOR). Audits are necessary to ensure that the credit is being claimed appropriately, but the federal and state forms generally provide sufficient information to conduct such audits.

Direct Costs

Table 1 reports revenue loss estimates for the ITC, which range from \$88.1 to \$100.2 million per year during FY23 through FY27. The estimates are based on historical claims, economic forecasts, related law changes, etc.

Table 1. Tax Revenue Loss Estimates for ITC

Fiscal Year	2023	2024	2025	2026	2027
Estimated Revenue Loss (\$Million)	\$88.1	\$91.0	\$94.0	\$97.0	\$100.2

⁷⁷ COMMISSIONER OF REVENUE vs. CARGILL, INCORPORATED, 429 Mass. 79 (1999)

Table 2 below shows the count and amount of available, claimed, and shared credit in the past several years. “Available credit” is the maximum amount of credit which a taxpayer can claim based on tax liability, provided there are no other restrictions. “Claimed credit” is the credit amount which a taxpayer actually claimed. “Shared credit” is the credit amount used by other members of the taxpayer’s combined group.

During tax years 2019 through 2022, the number of claimants who claimed or shared credits annually varied from 1,159 to 1,349, and the average claimed or shared amount was about \$52,200 to \$100,800 per year. Note that the total amount of credit claimed or shared ranged from 14.2% to 23.6% of the amount of credit available, meaning that taxpayers did not have enough tax liability to take full advantage of the credit, or certain statutory limitations prevented them from doing so.

Table 2. Dollar Amount and Count of ITC by Tax Year

	2019		2020		2021		2022	
	Amount (\$000)	Count						
Available Credit -A	\$415,885	1,672	\$472,470	1,572	\$443,163	1,504	\$495,576	1,412
Claimed Credit	\$63,251	1,340	\$57,075	1,275	\$73,312	1,232	\$97,327	1,149
Shared Credit	\$15,054	65	\$9,828	71	\$9,449	69	\$19,510	65
Claimed plus Shared Credit - B	\$78,306	1,349	\$66,903	1,282	\$82,761	1,236	\$116,837	1,159
B/A	18.8%	80.7%	14.2%	81.6%	18.7%	82.2%	23.6%	82.1%
Average Claimed plus Shared Amount	\$58.0	N.A.	\$52.2	N.A.	\$67.2	N.A.	\$100.8	N.A.

Source: Massachusetts Department of Revenue, corporate excise return.

Notes: 1. 2021 and 2022 data are preliminary and subject to change. 2. The count is the number of claimants. 3. “N.A.” denotes “Not Applicable”.

Direct Benefits

The credit is available for qualifying tangible property acquired, constructed, reconstructed, or erected after December 31, 1969. Historically, the credit allowed has fluctuated between 3% and 1% of the eligible costs incurred. Pursuant to Section 25 of Chapter 141 of the Acts of 2003, the credit amount was fixed at 3% of the eligible costs. To qualify, a corporation must be characterized under Massachusetts law as a manufacturing corporation, a research and

development corporation, a corporation primarily engaged in agriculture, or a corporation primarily engaged in commercial fishing.

Tables 3 through 5 show the number of claimants and the claim amounts by income level, size of taxpayer in terms of number of employees, and industry, respectively, for tax year 2021. In that year, 53.9% of the claimants were corporations with taxable income ranging from less than \$0 to \$50,000, 44.7% of the claimants were corporations with fewer than 50 employees, and 76.8% of the claimants were in the industries of manufacturing and professional, scientific, and technical services.

In 2021, the average tax benefit per claimant was \$67,000, varying from \$6,700 for corporations with taxable income ranging from \$150,000 to \$199,000 to \$178,200 for corporations with taxable income of \$1 million or higher. The average tax benefit per claimant ranged from \$13,500 for the corporations with 5 to 49 employees to \$237,500 for the corporations with 500 or more employees. The average tax benefit per claimant ranged from \$8,000 for the corporations in the “Agriculture, Forestry, Fishing and Hunting” industry to \$203,800 for the corporations in the “Utilities” industry.

Table 3. ITC by Taxable Income Level, Tax Year 2021

Taxable Income Range	Tax Liability after Credit (\$000)	Claimed Credit (\$000)	Shared Credit (\$000)	Number of Total Claimants	Percent Distribution of Total Number of Claimants	Tax Saving Per Claimant (\$000)
Less than \$0	\$5,419	\$7,366	\$238	366	29.6%	\$20.8
\$0 to \$49,999	\$4,239	\$5,542	\$1,322	300	24.3%	\$22.9
\$50,000 to \$99,999	\$122	\$179	\$1	24	1.9%	\$7.5
\$100,000 to \$149,999	\$195	\$168	\$2	18	1.5%	\$9.4
\$150,000 to \$199,999	\$119	\$147	\$0	22	1.8%	\$6.7
\$200,000 to \$499,999	\$962	\$881	\$40	60	4.9%	\$15.3
\$500,000 to \$999,999	\$1,980	\$1,226	\$78	78	6.3%	\$16.7
\$1 million or more	\$297,562	\$57,803	\$7,767	368	29.8%	\$178.2
Total or average	\$310,596	\$73,312	\$9,449	1,236	100.0%	\$67.0

Source: Massachusetts Department of Revenue (2021 corporate excise return)

Notes: The data is preliminary and subject to change.

Table 4. ITC by Number of Employees, Tax Year 2021

Employees Range*	Tax Liability after Credit (\$000)	Claimed Credit (\$000)	Shared Credit (\$000)	Number of Claimants	Percent Distribution of Total Number of Claimants	Tax Saving Per Claimant (\$000)
Less than 5	\$32,195	\$10,105	\$1,482	124	10.0%	\$93.4
5 to 49	\$17,432	\$5,749	\$47	429	34.7%	\$13.5
50 to 99	\$7,283	\$2,886	\$17	202	16.3%	\$14.4
100 to 199	\$12,219	\$3,914	\$0	140	11.3%	\$28.0
200 to 499	\$17,416	\$6,806	\$54	109	8.8%	\$62.9
500 or more	\$224,050	\$42,260	\$7,849	211	17.1%	\$237.5
Unmatched* *	\$0	\$1,591	\$0	21	1.7%	\$75.8
Total	\$310,596	\$73,312	\$9,449	1,236	100.0%	\$67.0

Source: Massachusetts Department of Revenue (2021 corporate excise return). Notes: 1. * Information is based on the number of employees as reported by taxpayers. 2. ** “Unmatched” means that we could not find some taxpayers in one or more of data sets to match. 3. The data is preliminary and subject to change.

Table 5. ITC by Industry, Tax Year 2021

Industry	Tax Liability after Credit (\$000)	Claimed Credit (\$000)	Shared Credit (\$000)	Number of Claimants	Percent Distribution of Total Number of Claimants	Tax Saving Per Claimant (\$000)
11 Agriculture, Forestry, Fishing and Hunting	\$779	\$270	\$0	34	2.8%	\$8.0
21 Mining, Quarrying, and Oil and Gas Extraction	\$107	\$67	\$0	6	0.5%	\$11.2
22 Utilities	\$1,574	\$560	\$52	3	0.2%	\$203.8
23 Construction	\$2,291	\$287	\$0	17	1.4%	\$16.9

31-33 Manufacturing	\$99,314	\$36,146	\$2,766	759	61.4%	\$51.3
42 Wholesale Trade	\$10,207	\$771	\$13	52	4.2%	\$15.1
44-45 Retail Trade	\$2,324	\$429	\$0	13	1.1%	\$33.0
48-49 Transportation and Warehousing	\$2,079	\$598	\$0	5	0.4%	\$119.5
51 Information	\$1,982	\$2,966	\$308	22	1.8%	\$148.8
52 Finance	\$473	\$199	\$2	5	0.4%	\$40.4
53 Real Estate and Rental and Leasing	\$367	\$288	\$0	10	0.8%	\$28.9
54 Professional, Scientific, and Technical Services	\$51,179	\$14,189	\$3,576	190	15.4%	\$93.5
55 Management of Companies and Enterprises	\$4,248	\$3,190	\$413	32	2.6%	\$112.6
56 Administrative and Support and Waste Management and Remediation Services	\$26,906	\$957	\$0	7	0.6%	\$136.7
61 Educational Services	**	**	**	**	**	**
62 Health Care and Social Assistance	\$4	\$41	\$0	3	0.2%	\$13.8
71 Arts, Entertainment, and Recreation	**	**	**	**	**	**
72 Accommodation and Food Services	**	**	**	**	**	**
81 Other Services (except Public Administration)	**	**	**	**	**	**
Unmatched*	\$106,619	\$12,132	\$2,274	74	6.0%	\$194.7

Total	\$310,596	\$73,312	\$9,449	1,236	100.0%	\$67.0
-------	-----------	----------	---------	-------	--------	--------

Source: Massachusetts Department of Revenue (2021 corporate excise return). Notes: 1.

**“Unmatched” means that we could not find some taxpayers in one or more of data sets to

match. 2. ** Information withheld to maintain taxpayer confidentiality. 3. The data is preliminary and subject to change.

Evaluation: Comparing Costs and Benefits

In the previous sections, we report the direct costs (to the Commonwealth, or to the residents and businesses who ultimately bear the costs when the Commonwealth cuts government spending or increases taxes to finance the tax expenditure) and direct benefits of this tax expenditure. In this instance, the direct costs to the Commonwealth, namely the tax revenue that would have been collected, are equal to the direct benefits afforded by the tax expenditure to taxpayers.

Furthermore, there may be indirect and induced costs and benefits associated with this expenditure. To measure indirect and induced costs and benefits, economists often need to utilize complicated models, such as REMI (Regional Economic Models, Inc.) or IMPLAN (Impact Analysis for Planning) models. DOR did not use such models given their complexity and data limitations present in this instance.

Similar Tax Expenditures Offered by Other States

A substantial minority of states allow tax credits for the cost of tangible personal property used in business. These include Connecticut, New York, Rhode Island and Vermont. Maine and New Hampshire provide other incentives but not an investment credit tied to the cost of tangible personal property.

Tax Expenditure Title: 2.604 Research Credit

Tax Expenditure Category: Credit against tax

Tax Type: Corporate excise

Legal Reference: M.G.L. c. 63, § 38M

Year Enacted: 1991

Repeal or Expiration Date: None

Annual Revenue Impact: Tax loss of \$612.2 to \$697.9 million per year during FY23 to FY27.

Number Of Taxpayers: 2,990 to 3,787 claimants per year during tax years 2019 to 2022.

Average Taxpayer Benefit: About \$125,600 to \$199,300 per claimant for tax years 2019 through 2022.

Federal Tax Expenditure: No

Description of the Tax Expenditure: Massachusetts allows a corporate excise credit for increased spending on research and development activity conducted in Massachusetts. The credit is available to both general business corporations and financial institutions.

Is the purpose defined in the statute? The statute does not state the purpose of this tax expenditure.

What are the policy goals of the expenditure? The Commission assumes the goal of the credit is to promote research and development activity in Massachusetts.

Are there other states with a similar tax expenditure? Many states have similar tax expenditures. Connecticut, New Hampshire, Maine, Rhode Island, and Vermont offer a corporate excise tax credit for spending on research and development within their respective states. New York offers a credit for research and development spending within the state, but the credit is limited to certain industries and by certain job creation requirements.

Introduction

Massachusetts allows a corporate excise credit for increased spending on research and development activities conducted in Massachusetts. The credit is available to both general business corporations and financial institutions. The Massachusetts credit is based on the definitions used to determine the federal research credit under Internal Revenue Code (Code) § 41. However, the Massachusetts credit is determined independently of the federal credit.

Corporations can choose between two methods for calculating Massachusetts research credit. Under the general method, the credit equals 10% of the difference between current year Massachusetts qualified research expenses and a base amount. See M.G.L. c. 63, § 38M(a)(1). Massachusetts qualified research expenses are equal to federal qualified research expenses to the extent that such expenses are incurred for research conducted in the Commonwealth. The base amount is a measure of historical research expenses as a percentage of historical gross receipts. See proposed 830 CMR 63.38M.2(4)-(6).

Note that under the general method of determining the credit there is a little-used credit component for contributions by corporations to basic research conducted at universities and eligible research facilities. The credit component equals 15 percent of such contributions in excess of a historical base amount. See M.G.L. c. 63, § 38M(a)(1); IRC § 41 (e)(1)(A). The credit under the general computation is the sum of the qualified research and basic research components.

Under the second method, called the alternative simplified method, the credit is equal to 10% of the difference between the corporation's Massachusetts qualified research expenses for the current taxable year, and 50% of the corporation's average Massachusetts qualified research expenses for the 3 taxable years preceding the taxable year for which the credit is being determined. See M.G.L. c. 63, § 38M(b). The alternative simplified method thus compares current qualified research expenses to historical qualified research expenses without regard to gross receipts.

Regardless of which method the corporation uses to calculate the research credit, the amount of the credit that can be used in a taxable year is limited to 100% of a corporation's first \$25,000 of corporate excise liability, plus 75% of the corporation's excise liability in excess of \$25,000. This \$25,000 threshold applies to the aggregate of affiliated groups of corporations.

In general, the research credit is neither transferable nor refundable.⁷⁸ Unused credit can generally be carried forward for 15 years. The credit can be shared among affiliated corporations that are members of the same combined group, subject to limitations.

The research credit acts as a subsidy to corporations conducting research in Massachusetts.

The corporate excise and financial institution excise revenue foregone because of the research credit constitutes a tax expenditure.

⁷⁸ Unused credits are partially refundable for certain life sciences and climatetech companies, in lieu of carrying unused credits forward for use in later years. M.G.L. c. 63, § 38M(k).

Policy Goals

The Commission assumes the goal of the credit is to promote research and development activity in Massachusetts.

Administrability

The administration of the research tax credit presents challenges for the Department of Revenue (DOR). Although the credit is based on the federal definition of qualified research, there are a number of differences between the federal and Massachusetts credits that require additional state audit review. Specifically, the federal credit applies to activity anywhere in the US whereas the state credit is available only for research conducted in the Commonwealth. Additionally, the federal and state limitations on the credit and carryover rules are different. Finally, the application of the credit on federal consolidated returns is different than its application on Massachusetts combined returns. The DOR reviews the credit as part of its corporate excise audit process.

Direct Costs

The revenue loss resulting from the expenditure is estimated to be \$612.2 to \$697.9 million per year during FY23 through FY27. See Table 1. The estimates are based on several factors, including historical claims, economic forecasts, and related law changes.

Table 1. Tax Revenue Loss Estimates for Research Credit

Fiscal Year	2023	2024	2025	2026	2027
Estimated Revenue Loss (\$Million)	\$612.2	\$632.6	\$653.6	\$675.4	\$697.9

Table 2 below shows the amount and number of available, claimed, and shared credits in each year during the period 2019 through 2022. “Available credit” refers to the maximum amount of credit that a taxpayer can claim based on tax liability, provided there are no other restrictions. “Claimed credit” is the amount a taxpayer actually claimed. “Shared credit” is the amount of a taxpayer’s credit that was used by other members of the taxpayer’s combined group. “Count” refers to the number of claimants.

During tax years 2019 through 2022, the number of claimants who claimed or shared the credits annually varied from 2,990 to 3,787, and the average claimed or shared amount was about \$125,600 to \$199,300 per year. The total amount of credit claimed or shared was 7.5% to 10.8% of the amount of credit available, meaning that tax filers did not have enough tax liability to take full advantage of the credit, or certain statutory limitations⁷⁹ prevented them from doing so.

Table 2. Amount and Count of Research Credit by Tax Year

	2019	2020	2021	2022
--	------	------	------	------

⁷⁹ See the section of “Introduction” for one such limitation: the amount of research credit that can be used in a taxable year is limited to 100 percent of a corporation's first \$25,000 of excise, plus 75 percent of the corporation's excise in excess of \$25,000.

	Amount (\$000)	Count						
Available Credit - A	\$4,813,143	4,955	\$5,383,626	5,386	\$6,311,205	5,941	\$7,020,018	6,277
Claimed Credit	\$308,937	2,952	\$317,887	3,147	\$452,769	3,499	\$602,163	3,742
Shared Credit	\$98,767	304	\$83,866	305	\$94,730	316	\$152,726	333
Claimed plus Shared Credit - B	\$407,705	2,990	\$401,753	3,199	\$547,500	3,536	\$754,889	3,787
B/A	8.5%	60.3%	7.5%	59.4%	8.7%	59.5%	10.8%	60.3%
Average Claimed or Shared Amount	\$136.4	N.A.	\$125.6	N.A.	\$156.5	N.A.	\$199.3	N.A.

Source: Massachusetts Department of Revenue, corporate excise returns. Notes: 1. 2021 and 2022 data are preliminary and subject to change. 2. The count is the number of claimants. 3. “N.A.” denotes “Not Applicable”.

Direct Benefits

This is a popular and significant tax incentive and has been claimed by many corporations, compared to other tax incentives. The incentive reduces expenses paid by corporations for R&D activities. It is incremental and aims to reimburse taxpayers for increasing research expenses over their historical levels.

Tables 3 through 5 show the number of claimants and claim amounts by income level (Table 3), by number of employees (Table 4), and by industry (Table 5), for tax year 2021.⁸⁰ The tables show that, 62.9% of claimants were corporations with negative taxable income or taxable income less than \$50,000, 58.5% of claimants were corporations with less than 50 employees, and 68.2% of claimants were in the industries of “professional, scientific, and technical services” and “manufacturing”.

In 2021, the average tax benefit per claimant was \$154,600, varying from \$5,800 for corporations with taxable income ranging from \$50,000 to \$99,999 to \$672,200 for corporations with taxable income of \$1 million or higher. The average tax benefit per claimant was \$32,500 for corporations with 5 to 49 employees to \$806,200 for corporations with 500 or more employees. The average tax benefit per claimant was \$13,600 for corporations in the “Agriculture, Forestry, Fishing and Hunting” industry to \$764,900 for corporations in the “Management of Companies and Enterprises” industry.

Table 3. Research Tax Credit by Taxable Income Level, Tax Year 2021

⁸⁰ Due to data matching, Tables 3 through 5 show that there were 3,541 claimants in tax year 2021, which is slightly different from the 3,536 claimants reported in Table 2.

Taxable Income Range	Tax Liability after Credit (\$000)	Claimed Credit (\$000)	Shared Credit (\$000)	Number of Claimants	Percent Distribution of Total Number of Claimants	Tax Saving Per Claimant (\$000)
Less than \$0	\$15,847	\$38,990	\$3,488	1,525	43.1%	\$27.9
\$0 to \$49,999	\$6,406	\$13,477	\$6,939	701	19.8%	\$29.1
\$50,000 to \$99,999	\$165	\$612	\$64	116	3.3%	\$5.8
\$100,000 to \$149,999	\$229	\$681	\$62	81	2.3%	\$9.2
\$150,000 to \$199,999	\$205	\$658	\$42	53	1.5%	\$13.2
\$200,000 to \$499,999	\$1,352	\$3,463	\$112	186	5.3%	\$19.2
\$500,000 to \$999,999	\$2,909	\$5,692	\$672	176	5.0%	\$36.2
\$1 million or more	\$745,617	\$389,198	\$83,351	703	19.9%	\$672.2
Total or average	\$772,729	\$452,769	\$94,730	3,541	100.0%	\$154.6

Source: Massachusetts Department of Revenue (2021 corporate excise return). Notes: The data is preliminary and subject to change.

Table 4. Research Tax Credit by Number of Employees, Tax Year 2021

Employees Range*	Tax Liability after Credit (\$000)	Claimed Credit (\$000)	Shared Credit (\$000)	Number of Claimants	Percent Distribution of Total Number of Claimants	Tax Saving Per Claimant (\$000)
Less than 5	\$107,289	\$41,717	\$21,018	780	22.0%	\$80.4
5 to 49	\$38,837	\$33,437	\$8,591	1,294	36.5%	\$32.5
50 to 99	\$17,200	\$18,189	\$412	403	11.4%	\$46.2
100 to 199	\$16,819	\$14,473	\$1,712	300	8.5%	\$53.9
200 to 499	\$22,962	\$28,782	\$849	226	6.4%	\$131.1
500 or more	\$569,622	\$311,942	\$62,143	464	13.1%	\$806.2

Unmatched**	\$0	\$4,230	\$6	74	2.1%	\$57.2
Total or average	\$772,729	\$452,769	\$94,730	3,541	100.0%	\$154.6

Source: Massachusetts Department of Revenue (2021 corporate excise return). Notes: 1. * Information is based on the number of employees as reported by taxpayers. 2. ** “Unmatched” means that we could not find some taxpayers in one or more of data sets to match. 3. The data is preliminary and subject to change.

Table 5. Research Tax Credit by Industry, Tax Year 2021

Industry	Tax Liability after Credit (\$000)	Claimed Credit (\$000)	Shared Credit (\$000)	Number of Claimants	Percent Distribution of Total Number of Claimants	Tax Saving Per Claimant (\$000)
11 Agriculture, Forestry, Fishing and Hunting	\$1,556	\$123	\$0	9	0.3%	\$13.6
21 Mining, Quarrying, and Oil and Gas Extraction	**	**	**	**	**	**
22 Utilities	\$556	\$483	\$0	3	0.1%	\$160.8
23 Construction	\$7,458	\$4,745	\$135	92	2.6%	\$53.0
31-33 Manufacturing	\$100,036	\$109,842	\$19,373	925	26.1%	\$139.7
42 Wholesale Trade	\$40,102	\$7,519	\$2,334	158	4.5%	\$62.4
44-45 Retail Trade	\$10,185	\$1,171	\$58	56	1.6%	\$22.0
48-49 Transportation and Warehousing	\$2,028	\$469	\$215	16	0.5%	\$42.7
51 Information	\$87,618	\$49,497	\$3,675	285	8.1%	\$186.6
52 Finance	\$7,636	\$1,849	\$1,074	46	1.3%	\$63.5
53 Real Estate and Rental and Leasing	\$79,410	\$4,364	\$0	20	0.6%	\$218.2

54 Professional, Scientific, and Technical Services	\$144,989	\$100,018	\$17,967	1,492	42.1%	\$79.1
55 Management of Companies and Enterprises	\$24,332	\$50,864	\$6,507	75	2.1%	\$764.9
56 Administrative and Support and Waste Management and Remediation Services	\$29,003	\$8,078	\$1,266	45	1.3%	\$207.6
61 Educational Services	\$455	\$268	\$0	16	0.0%	\$16.7
62 Health Care and Social Assistance	\$1,735	\$885	\$253	56	1.6%	\$20.3
71 Arts, Entertainment, and Recreation **	**	**	**	**	**	**
72 Accommodation and Food Services	\$138	\$150	\$118	6	0.0%	\$44.7
81 Other Services (except Public Administration)	\$326	\$555	\$0	23	0.0%	\$24.1
Unmatched*	\$235,155	\$111,805	\$41,689	213	6.0%	\$720.6
Total or average	\$772,729	\$452,769	\$94,730	3,541	100.0%	\$154.6

Source: Massachusetts Department of Revenue (2021 corporate excise returns). Notes: 1. * “Unmatched” means that we could not find some taxpayers in one or more of data sets to match. 2. ** Information withheld to maintain taxpayer confidentiality. 3. The data is preliminary and subject to change.

Evaluation: Comparing Costs and Benefits

In the previous sections, we report the direct costs (to the Commonwealth, or to the residents and businesses who ultimately bear the costs when the Commonwealth cuts government spending or increases taxes to finance the tax expenditure) and direct benefits of this tax expenditure. In this instance, the direct costs to the Commonwealth, namely the tax revenue that would have been collected, are equal to the direct benefits afforded by the tax expenditure to taxpayers.

Furthermore, there may be indirect and induced costs and benefits associated with this expenditure. To measure indirect and induced costs and benefits, economists often need to utilize complicated models, such as REMI (Regional Economic Models, Inc.) or IMPLAN (Impact Analysis for Planning) models. DOR did not use such models given their complexity and data limitations present in this instance.

Similar Tax Expenditures Offered by Other States

Many states have similar tax expenditures. Connecticut, New Hampshire, Maine, Rhode Island, and Vermont offer a corporate income tax credit for spending on research and development within their respective states. New York offers a credit for research and development spending within the state, but the credit is limited to certain industries and by certain job creation requirements.

Tax Expenditure Title: 3.101 Exemption for Food

Tax Expenditure Category: Exempt Products / Services

Tax Type: Sales and Use Tax

Legal Reference: M.G.L. c. 64H, § 6(h), (kk)

Year Enacted: Subsection (h) was added in 1967; Subsection (kk) was added in 1986

Repeal or Expiration Date: None

Annual Revenue Impact: Tax loss of \$1,066.1 to \$1,314.2 million per year during FY22 through FY26.

Number Of Taxpayers: Estimated 2.75 to 2.82 million Massachusetts households per year during FY22 through FY26.

Average Taxpayer Benefit: Estimated \$436 per household in FY24.

Federal Tax Expenditure: No

Description of the Tax Expenditure: Foods and beverages commonly thought of as groceries are exempt from the sales tax, including items purchased with Supplemental Nutrition Assistance Program (SNAP) benefits (formerly known as “food stamps”). The exemption does not apply to restaurant meals.

Is the purpose defined in the statute? The statute does not state the purpose of the tax expenditure.

What are the policy goals of the expenditure? The Commission assumes that the goal of the expenditure is to shield groceries, which are a life necessity, from the sales tax. Providing an exemption for groceries is especially helpful to low-income earners for whom grocery expenses may comprise a significant percentage of their income.

Are there other states with a similar tax expenditure? Most states that impose a sales tax provide a similar exemption for food but not meals. Such states include Connecticut, Maine, New York, Rhode Island, and Vermont. Each state defines “food” and “meals” differently, resulting in certain differences between the exemptions. All states that impose a sales tax provide an exemption for food purchases made using SNAP benefits, as required by federal law.

Introduction

Massachusetts imposes a 6.25% sales tax on retail sales of tangible personal property, consisting of any produce, goods, wares, merchandise and commodities. M.G.L. c. 64H, §§ 1, 2. Sales of “food products” are exempt from this tax. M.G.L. c. 64H, § 6(h). Food products are foods and beverages that are commonly understood to be groceries (e.g., cereals, flour, milk, meat, fish, eggs, vegetables, fruits, and spices). *Id.* In general, foods and beverages sold by a store (e.g., supermarket, convenience store, etc.) are considered food products and are tax-exempt. All purchases made using Supplemental Nutrition Assistance Program (SNAP) benefits (formerly called “food stamps”) are exempt from the sales tax. M.G.L. c. 64H, § 6(kk).⁸¹

The food products exemption does not apply to meals sold by a restaurant or restaurant part of a store. M.G.L. c. 64H, § 6(h). A taxable meal is any food or beverage, or both, that has been prepared for immediate consumption and is sold by a restaurant or a restaurant part of a store (e.g., sandwiches, pizza, soup, and poured beverages). *Id.* A restaurant is an establishment that is primarily engaged in the business of selling meals (e.g., diners, bars, cafes, certain catering businesses, and food trucks). *Id.* Certain foods and beverages sold by a restaurant or restaurant part of a store are not considered meals and are exempt from the sales tax. See TER 3.102 (Exemption for Certain Food and Beverages Sold in Restaurants).

Absent the exemption afforded by this tax expenditure, food products would be subject to sales tax. The revenue lost as a result of the exemption constitutes a tax expenditure.

Policy Goals

The Commission assumes that the goal of the expenditure is to shield groceries, which are a life necessity, from the sales tax. Providing an exemption for groceries is especially helpful to low-income earners for whom grocery expenses may comprise a significant percentage of their income.

Administrability

The administration of the exemption for food presents challenges to the Department of Revenue (DOR) and taxpayers. The exemption is based on statutory definitions that often make it difficult to distinguish between exempt food products and taxable meals. Additionally, the application of the exemption often depends on identifying whether the establishment making the sale is a “restaurant,” a “store,” or a store with “restaurant parts.” Such establishment identification has become increasingly difficult as vendors selling foods and beverages have become more complex (e.g., supermarkets with numerous restaurant parts and options for digital purchasing).

Direct Costs

The revenue loss resulting from this tax expenditure is estimated to be \$1,066.1 to \$1,314.2 million per year during FY22 through FY26. See Table 1 below.

⁸¹ M.G.L. c. 64H, § 6(kk) refers to “federal food stamps.”

Table 1. Tax Revenue Loss Estimates for Exemption for Food

Fiscal Year	2022	2023	2024	2025	2026
Estimated Revenue Loss (\$Million)	\$1,066.1	\$1,132.9	\$1,214.9	\$1,265.1	\$1,314.2

The revenue loss estimates are based primarily on data from the Consumer Expenditure Survey (CES)⁸² published by the U.S. Bureau of Labor Statistics (BLS). The CES provides annual expenditure data on food consumed at home for the northeast region of the United States.^{83,84} Please note that estimates in Table 1 cover food sales by vending machine operators, part of which are also covered by TE 3.602 exemption for vending machine sales.⁸⁵ Please also note that a small portion of food items exempt under this tax expenditure may be purchased by businesses and that such sales are excluded from Table 1 due to lack of data.

Due to the use of external data and the limitations of the data for estimating this tax expenditure, the estimates reported in Table 1 may have an estimation uncertainty and should be used with caution.

Direct Benefits

The Massachusetts residents and businesses that buy or sell exempt products (food) are the direct beneficiaries of the sales tax exemption. Buyers benefit from the sales tax exemption in the form of paying a lower “after tax” price while sellers benefit from the sales tax exemption in the form of receiving a higher “before tax” price. The exact split of the direct benefits depends on the interaction of demand and supply and is often difficult to quantify. Out-of-state businesses selling exempt products in Massachusetts are also direct beneficiaries.

As mentioned above, sellers who sell exempt products to Massachusetts residents or businesses benefit from this sales tax exemption. Businesses selling exempt food items (groceries) at the retail level include supermarkets and other groceries retailers, convenience retailers, vending machine operators, fruits and vegetable retailers, meat retailers, fish and seafood retailers, baked goods retailers, confectionary and nuts retailers, and all other specialty food retailers. Table 2 below provides some data for these sellers based on data from the 2022 Economic Census⁸⁶.

⁸² [Consumer Expenditure Survey](#)

⁸³ Besides expenditure, the CES also provides data on income, personal taxes and characteristics of consumer units.

⁸⁴ The CES data covers items purchased with the Supplemental Nutrition Assistance Program (SNAP) benefits. According to [a report by the Center on Budget and Policy Priorities \(CBBP\)](#), the Supplemental Nutrition Assistance Program (SNAP) is the nation’s most important and effective anti-hunger program. It plays a critical role in reducing poverty, improving health and economic outcomes, supporting people who are paid low wages and serving as the first line of defense against hunger during economic downturns. In the federal fiscal year 2024, SNAP program helped 1,113,700 Massachusetts residents, or 16% of the state population (1 in 6).

⁸⁵ [See the TERC 2021 Report.](#)

⁸⁶ [2022 Economic Census](#)

Table 2. Key Facts about Massachusetts Industries that May Sell Exempt Products

2022 NAICS Code	Meaning of NAICS Code	Number of Firms	Number of Establishments ⁸⁷	Sales, Value of Shipments, or Revenue (\$millions)	Annual Payroll (\$millions)	Number of Employees
445110	Supermarkets and Other Grocery Retailers (except Convenience Retailers)	994	1,479	\$21,613.6	\$2,507.7	84,487
445131	Convenience Retailers	1,441	1,554	\$1,250.1	\$123.0	4,991
445132	Vending Machine Operators	44	46	\$86.8	\$15.9	350
445230	Fruit and Vegetable Retailers	61	63	\$132.0	\$23.1	750
445240	Meat Retailers	91	98	\$861.9	\$75.5	1,159
445250	Fish and Seafood Retailers	99	102	\$250.3	\$31.2	966
445291	Baked Goods Retailers	70	73	\$54.9	\$12.4	516
445292	Confectionary and Nut Retailers	57	79	\$45.9	\$8.7	431
445298	All Other Specialty Food Retailers	131	139	\$349.3	\$59.0	1,360
All NAICS	Total	2,988	3,633	\$24,644.8	\$2,856.5	95,010

Source: The U.S. Census Bureau, 2022 Economic Census

According to the U.S. Census Bureau, in 2022 there were 2,988 Massachusetts firms in the industry categories that DOR identified as likely selling exempt food items. These firms jointly employed 95,010 people, generating \$2.9 billion in annual payroll and \$24.6 billion in annual sales.⁸⁸

⁸⁷ An establishment is a single physical location at which business is conducted, or services or industrial operations are performed. It is not necessarily identical with a company or enterprise, which may consist of one or more establishments. A firm is a business organization consisting of one or more domestic establishments in the same geographic area and industry that were specified under common ownership or control.

⁸⁸ Annual sales data reported in Table 2 is for informational purpose only. It should not be confused with the annual sales of the exempt products, because the sellers listed in the table

On the buyer’s side, the direct beneficiaries of this tax expenditure are Massachusetts households, as well as out of state residents who purchase exempt food items in Massachusetts. For simplicity, we assume that the entire tax savings due to the sales tax exemption is passed on to buyers. Based on this assumption, Table 3 reports the distribution of estimated tax savings in FY24 among households by income level. The table is based primarily on the calendar year 2023 CES data published by the U.S. Bureau of Labor Statistics and data from other sources such as Moody’s Analytics and the U.S. Census Bureau. CES reports average annual expenditures on “food at home” and number of households by income level.

According to Table 3, the average tax saving from the exemption is estimated to be \$436 per Massachusetts household in FY24, varying from \$260 for households with annual income of \$15,000 to \$29,999, to \$695 for households with annual income of at least \$200,000. The largest percentage of the total tax savings, or 19.3%, went to households with annual income of \$100,000 to \$149,999. The smallest percentage, or 5.7%, went to households with annual income of less than \$15,000. The tax savings reduced the households’ effective tax rate (the ratio of tax to income) by 0.3 percentage points on average. This reduction varied from 0.2 percentage points for the households with annual income of at least \$200,000 to 3.0 percentage points for households with annual income of less than \$15,000. On average, households with annual income of less than \$15,000 spent a much higher percentage of their income on “food at home” than other income groups.

Table 3. Estimated Distribution of Tax Savings to MA Households by Income Level in FY24

Annual Income Range	Number of MA Households (Millions)	Tax Savings (\$ Millions)	Average Tax Saving (\$)	Tax Savings Distribution	Change in Households’ Effective Tax Rate
Less than \$15,000	0.238	\$69	\$289	5.7%	3.0%
\$15,000 to \$29,999	0.355	\$92	\$260	7.6%	0.9%
\$30,000 to \$39,999	0.231	\$73	\$317	6.0%	0.7%
\$40,000 to \$49,999	0.203	\$70	\$342	5.7%	0.6%
\$50,000 to \$69,999	0.354	\$140	\$397	11.6%	0.5%
\$70,000 to \$99,999	0.393	\$171	\$436	14.1%	0.4%
\$100,000 to \$149,999	0.464	\$235	\$505	19.3%	0.3%
\$150,000 to \$199,999	0.233	\$144	\$618	11.8%	0.3%
\$200,000 to more	0.318	\$221	\$695	18.2%	0.2%

may sell both exempt and taxable products. In addition, sellers in other industries may also sell the exempt products.

Total	2.789	\$1,215	\$436	100.0%	0.3%
-------	-------	---------	-------	--------	------

Note: Numbers in the table are estimated by Massachusetts Department of Revenue.

Evaluation: Comparing Costs and Benefits

In the previous sections, we report the direct costs (to the Commonwealth, or to the residents and businesses who ultimately bear the costs when the Commonwealth cuts government spending or increases taxes to finance the tax expenditure) and direct benefits of this tax expenditure. In this instance, the direct costs to the Commonwealth, namely the tax revenue that would have been collected, are equal to the direct benefits afforded by the tax expenditure to taxpayers.

Furthermore, there may be indirect and induced costs and benefits associated with this expenditure. To measure indirect and induced costs and benefits, economists often need to utilize complicated models, such as REMI (Regional Economic Models, Inc.) or IMPLAN (Impact Analysis for Planning) models. DOR did not use such models given their complexity and data limitations present in this instance.

Similar Tax Expenditures Offered by Other States

Most states that impose a sales tax provide a similar exemption for food but not meals. Such states include Connecticut, Maine, New York, Rhode Island, and Vermont. Each state defines “food” and “meals” differently, resulting in certain differences between the exemptions. All states that impose a sales tax provide an exemption for food purchases made using SNAP benefits (formerly known as “food stamps”), as required by federal law.

Tax Expenditure Title: 3.102 Exemption for Certain Food and Beverages Sold in Restaurants

Tax Expenditure Category: Exempt Products / Services

Tax Type: Sales and Use Tax

Legal Reference: M.G.L. c. 64H, § 6(h)

Year Enacted: 1975⁸⁹

Repeal or Expiration Date: None

Annual Revenue Impact: \$10.9 to \$14.4 million per year during FY22 through FY26.

Number Of Taxpayers: Not available

Average Taxpayer Benefit: Not available

Federal Tax Expenditure: No

Description of the Tax Expenditure: In general, grocery items are exempt from sales and use tax. Restaurant meals are subject to tax. However, certain food and beverage items sold by restaurants are nevertheless exempt because they are viewed as being akin to grocery items.

Is the purpose defined in the statute? The statute does not state the purpose of the tax expenditure.

What are the policy goals of the expenditure? The Commission assumes that the goal of the expenditure is to recognize that some items sold by restaurants are akin to grocery items. Groceries are a life necessity which the legislature has chosen to shield from the sales and use tax.

Are there other states with a similar tax expenditure? Most states that impose a sales and use tax provide an exemption for food sold as groceries, but not for food served as restaurant meals. These states provide rules for when certain restaurant sales are considered sales of tax-exempt grocery items rather than taxable meals. Such states include Connecticut, Maine, New York, Rhode Island, and Vermont.

⁸⁹ The exemption was originally added to M.G.L. c. 64B, § 2B in 1975. In 1977, M.G.L. c. 64B was repealed and the exemption was relocated to M.G.L. c. 64H, § 6(h).

Introduction

Massachusetts imposes a 6.25% sales and use tax on retail sales of tangible personal property, consisting of any produce, goods, wares, merchandise and commodities. M.G.L. c. 64H, §§ 1 and 2; M.G.L. c. 64I, §§ 1 and 2. Sales of “food products” are exempt from tax. M.G.L. c. 64H, § 6(h). Food products are foods and beverages that are commonly understood to be groceries.⁹⁰ *Id.* The food products exemption does not apply to meals sold by a restaurant or restaurant part of a store. *Id.* A meal is any food or beverage, or both, that has been prepared for immediate consumption and is sold by a restaurant or a restaurant part of a store (e.g., sandwiches, pizza, soup, and poured beverages). *Id.* and 830 CMR 64H.6.5. A restaurant is an establishment that is primarily engaged in the business of selling meals (e.g., diners, bars, cafes, certain catering businesses, and food trucks). *Id.* and 830 CMR 64H.6.5.

Although foods and beverages sold by a restaurant are generally taxable as meals, M.G.L. c. 64H, § 6(h) specifies three categories of food and beverages that “shall not be deemed a meal” when sold by restaurants “for consumption off the restaurant premises.” M.G.L. c. 64H, § 6(h). The premise of this rule is that certain items will be taken out and consumed by households in the preparation or serving of meals at home.

The first exemption category is for “food sold by weight, liquid or dry measure, count or in unopened or original containers or packages.” M.G.L. c. 64H, § 6(h). This exemption only applies to sales of foods that are “commonly sold in such manner in a retail food store which is not a restaurant” (e.g., supermarket, convenience store, etc.). *Id.* For example, uncooked pasta sold by weight is exempt from tax even if sold by a restaurant.

The second exemption category is for “[b]everages in unopened original containers or packages as a unit having a capacity of at least twenty-six fluid ounces.” *Id.* For example, a six-pack of 12-ounce beverages is exempt even if sold by a restaurant.

The third exemption category is for “[b]akery products including but not limited to doughnuts, muffins, bagels, and similar items sold in units of six or more.” *Id.* Note that “bakery stores” are not considered restaurants and all their sales are tax-exempt so long as they exclusively sell baked goods. *Id.* and 830 CMR 64H.6.5. However, due to the third exemption category, baked goods sold by restaurants in quantities of six or more are also exempt.

Absent the exemption afforded by this tax expenditure, all foods and beverages sold by a restaurant or restaurant part of a store would be subject to sales and use tax, even if the items purchased will be used by households in the preparation or serving of meals at home. The sales and use tax revenue lost as a result of the exemption for such items constitutes a tax expenditure.

Policy Goals

The Commission assumes that the goal of the expenditure is to recognize that some items sold by restaurants are akin to grocery items. Groceries are a life necessity which the legislature has chosen to shield from the sales and use tax.

⁹⁰ For more detail on the “food products” tax expenditure, please see TERC report 3.101, “Exemption for Food.”

Administrability

The administration of the exemption for eligible food items sold by restaurants presents challenges to the Department of Revenue (DOR) and taxpayers. The exemption is based on statutory definitions that often make it difficult to distinguish between exempt food products and taxable meals. The application of the exemption requires DOR and taxpayers to determine whether the establishment making the sale is a “restaurant,” a “store,” or a store with “restaurant parts.” Further, it requires DOR and taxpayers to determine whether certain foods are “commonly sold” as groceries and when they are “available for immediate consumption without further significant preparation.” These determinations require fact-specific analyses that can be complicated for DOR and taxpayers.

Direct Costs

The revenue loss resulting from this tax expenditure is estimated to be \$10.9 to \$14.4 million per year during FY22 through FY26. See Table 1 below.

Table 1. Tax Revenue Loss Estimates for Exemption for Certain Food and Beverages Sold in Restaurants

Fiscal Year	2022	2023	2024	2025	2026
Estimated Revenue Loss (\$Million)	10.9	12.5	13.2	13.9	14.4

The revenue loss estimates were derived mostly by applying the sales tax rate to the exempt sales reported on the Massachusetts meals tax return by tax filers who are in the industry of “Restaurants and Other Eating Places (NAICS 7225)”⁹¹ before further adjustments, such as growth over time and the adjustment discussed in the next paragraph.

Meals could be exempt from sales tax for various reasons. As listed on DOR’s website⁹², exempt meals include items covered under this tax expenditure, meals sold to certain buyers such as non-profit organizations and governments, and meals sold by certain organizations such as education institutions, certain continuing care facilities, etc. For exempt items covered by this tax expenditure, the sellers are most likely in the industry of “Restaurants and Other Eating Places (NAICS 7225)”⁹³. However, the exempt sales reported by filers may include exempt meals sold to certain buyers such as non-profit organizations or governments. Although DOR has some return data relevant to this tax expenditure, such data is not sufficiently detailed to identify the exempt sales solely due to this tax expenditure. Without further data to break down the exempt sales by filers in this industry, DOR concluded that it was reasonable to assume that 50% of the reported exempt sales were due to this tax expenditure.

⁹¹ Tax filers in this industry report about 65% to 75% of meals, either taxable or exempt, sold by all meals tax return filers.

⁹² [Sales Tax on Meals Guide](#)

⁹³ Some items sold by filers in other industries, such as grocery stores, hotels, etc., may also be exempt due to this tax expenditure.

Due to the limitations of the DOR data for estimating this tax expenditure, some of which are mentioned above, the estimates reported in Table 1 may have significant estimation uncertainty and should be used with caution.

Direct Benefits

The Massachusetts residents and businesses that buy or sell exempt products (certain food and beverages) are the direct beneficiaries of the sales tax exemption. Buyers benefit from the sales tax exemption in the form of paying a lower “after tax” price while sellers benefit from the sales tax exemption in the form of receiving a higher “before tax” price. The exact split of the direct benefits depends on the interaction of demand and supply and is often difficult to quantify.

The scope of this tax expenditure is very broad both in terms of sellers and buyers. For example, all Massachusetts residents⁹⁴ could potentially benefit from this tax expenditure. On the sellers’ side, restaurants and some sellers in other industries could be the potential beneficiaries. In Table 2 below, for informational purposes only, DOR provides some data for the sellers in the industry of “Restaurants and Other Eating Places (NAICS 7225)” based on data from the 2022 Economic Census.

Table 2. Key Facts about Massachusetts Industry of “Restaurants and Other Eating Places”

2022 NAICS Code	Meaning of NAICS Code	Number of Firms	Number of Establishments ⁹⁵	Sales, Value of Shipments, or Revenue (\$millions)	Annual Payroll (\$million s)	Number of Employees
7225	Restaurants and Other Eating Places	11,987	14,455	\$ 19,699	\$6,245	253,370

According to the U.S. Census Bureau, in 2022 there were 11,987 Massachusetts firms in the “Restaurants and Other Eating Places” industry. These firms jointly employed 253,370 people, generating \$6.2 billion in annual payroll and \$19.7 billion in annual sales.

Evaluation: Comparing Costs and Benefits

In the previous sections, we report the direct costs (to the Commonwealth, or to the residents and businesses who ultimately bear the costs when the Commonwealth cuts government spending or increases taxes to finance the tax expenditure) and direct benefits of this tax expenditure. In this

⁹⁴ According to [U.S. Census Bureau data](#), Massachusetts had a population of 7.136 million as of July 1, 2024.

⁹⁵ An establishment is a single physical location at which business is conducted, or services or industrial operations are performed. It is not necessarily identical with a company or enterprise, which may consist of one or more establishments. A firm is a business organization consisting of one or more domestic establishments in the same geographic area and industry that were specified under common ownership or control.

instance, the direct costs to the Commonwealth, namely the tax revenue that would have been collected, are equal to the direct benefits afforded by the tax expenditure to taxpayers.

Furthermore, there may be indirect and induced costs and benefits associated with this expenditure. To measure indirect and induced costs and benefits, economists often need to utilize complicated models, such as REMI (Regional Economic Models, Inc.) or IMPLAN (Impact Analysis for Planning) models. DOR did not use such models given their complexity and data limitations present in this instance.

Similar Tax Expenditures Offered by Other States

Most states that impose a sales and use tax provide an exemption for food but not meals. These states provide rules for when certain restaurant sales are considered sales of tax-exempt food rather than taxable meals. Such states include Connecticut, Maine, New York, Rhode Island, and Vermont.

Tax Expenditure Title: 3.106 Exemption for Newspapers and Magazines

Tax Expenditure Category: Exempt Products/Services

Tax Type: Sales and Use Tax

Legal Reference: M.G.L. c. 64H, § 6(m)

Year Enacted: 1967

Repeal or Expiration Date: None

Annual Revenue Impact: Tax loss of \$25.0 to \$27.6 million per year during FY23 through FY27

Number Of Taxpayers: Buyers and Sellers of Newspapers and Magazines at the Retail Level

Average Taxpayer Benefit: Not available

Federal Tax Expenditure: No

Description of the Tax Expenditure: Sales of periodicals such as newspapers and magazines are exempt from the sales and use tax.

Is the purpose defined in the statute? The statute does not state the purpose of this tax expenditure.

What are the policy goals of the expenditure? The Commission assumes the goal of the expenditure is to encourage publication and readership of newspapers and magazines to enrich citizens' knowledge about current political, social, cultural, and sports events, and world affairs and to avoid the complication of imposing the tax on extremely low-cost items.

Are there other states with a similar tax expenditure? It is not uncommon for states to provide some form of sales and use tax exemption for newspapers or magazines. California allows an exemption for newspapers sold by subscription, but generally taxes magazines. Connecticut allows an exemption for newspapers and for magazines sold by subscription. In Maine, both newspapers and magazines are subject to tax. Rhode Island and Vermont exempt the sale of newspapers but not magazines.

Introduction

Sales of newspapers and magazines are exempt from the sales and use Tax under M.G.L. c. 64H, § 6(m).

The Massachusetts sales tax (and complementary use tax) is a transaction tax that applies to retail sales of tangible personal property (including prewritten computer software regardless of mode of transfer) and enumerated services (currently including only telecommunication services). A retail sale is any sale other than a sale for resale. A sale for resale occurs when a business purchases an item and sells it to a third party in substantially the same form in which it was purchased. All retail sales are taxable unless an exemption applies. These exemptions are tax expenditures because they prevent the imposition of tax on transactions that would otherwise be taxable. One such exemption is the exemption for sales of newspapers and magazines.

The sales and use statutes do not define the scope of the exemption. Through caselaw and Department of Revenue (DOR) rulings it has been established that the exemption generally applies to (i) printed materials (ii) distributed at stated, periodic intervals, (iii) with articles written by multiple authors and (iv) containing matters of interest to a significant segment of the public.⁹⁶

Other printed materials listed in G.L. c. 64H, §6(m), such as books used for religious worship, are considered separate tax expenditures and are discussed separately.

Policy Goals

The Commission assumes the goal of the expenditure is to encourage publication and readership of newspapers and magazines to enrich citizens' knowledge about current political, social, cultural, and sports events, and world affairs and to avoid the complication of imposing the tax on extremely low-cost items.

Administrability

The administrability of the exemption for the sale of newspapers and magazines does not present any special challenges for the Department of Revenue (DOR). Vendors are generally familiar with the well-established distinctions between exempt newspapers and magazines and taxable publications. Such sales are reviewed as part of DOR's sales and use tax audit program.

Direct Costs

The revenue loss resulting from this tax expenditure is estimated to be \$25.0 to \$27.6 million per year during FY23 through FY27. See Table 1 below.

Table 1. Tax Revenue Loss Estimates for Sales Tax Exemption for Newspapers and Magazines

Fiscal Year	2023	2024	2025	2026	2027
Estimated Revenue Loss (\$Million)	\$27.6	\$26.9	\$26.3	\$25.6	\$25.0

⁹⁶ See e.g., *Greenfield Town Crier, Inc. v. Commissioner of Revenue*, 385 Mass. 692 (1982).; Letter Ruling 83-14.

The revenue loss estimates are based mostly on data from the 2017 Economic Census⁹⁷ published by the U.S. Census Bureau, the U.S. Bureau of Labor Statistics (BLS) and the research portal statista.com.

Due to the use of external data and the limitations of these data for estimating this tax expenditure, the estimates reported in Table 1 may have significant estimation uncertainty and should be used with caution.

Direct Benefits

The Massachusetts consumers and businesses that buy and sell newspapers and magazines at the retail level are the direct beneficiaries of the sales tax exemption. Buyers benefit from the sales tax exemption in the form of paying a lower “after tax price” while sellers benefit in the form of receiving a higher “before tax price.” The exact split of the direct benefits depends on the interaction of demand and supply and is often difficult to quantify.

In addition, sellers are spared the administrative expense of collecting, reporting and remitting the sales tax.

Businesses selling newspapers and magazines at the retail level include publishers, dealers, and newsstands. Since the U.S. Census Bureau is yet to release new data on the information sector that includes newspapers and magazines sales, this report relies on the 2017 Economic Census for the beneficiaries of this tax expenditure. According to the U.S. Census Bureau, in 2017, Massachusetts had 99 newspaper publishers, 123 periodicals publishers, 201 internet publishing and broadcasting and web search portals, and 21 news dealers and newsstands. Out-of-state businesses selling newspapers and magazines to Massachusetts residents and businesses are also direct beneficiaries.

For simplicity, we assume that the entire tax savings due to the sales tax exemption are passed on to buyers. Based on this assumption, Table 2 reports the distribution of estimated tax savings in FY24 among households in different income ranges. The table is based primarily on the 2023 Consumer Expenditure Survey data published by the U.S. Bureau of Labor Statistics and data from other sources such as Moody’s Analytics and the U.S. Census Bureau. The Consumer Expenditure Survey reports average annual expenditures on “reading” and number of households by different income groups. Please note that, although newspapers and magazines are purchased by both consumers (households) and businesses,⁹⁸ the distribution of tax savings reported in Table 2 is for consumers (households) only.

According to Table 2, the average tax saving from the exemption is estimated to be \$3.0 per Massachusetts household in FY24, varying from \$1.5 for households with annual income less than \$15,000, to \$6.1 for households with annual income of at least \$200,000. 43% of all tax savings went to households with annual income of less than \$100,000, while 57% went to households with annual income of at least \$100,000. On average, households with annual

⁹⁷ [Data from the 2017 Economic Census](#)

⁹⁸ DOR estimated that about 31.3% of total sales of print newspapers and magazines are sales to consumers while the remainder are sales to businesses.

income of less than \$15,000 spent a much higher percentage of their income on newspapers and magazines than other income groups.

Table 2. Estimated Distribution of Tax Savings to MA Households by Income Level in FY24

Annual Income Range	Number of MA Households (Millions)	Tax Savings (Millions)	Average Tax Savings (\$)	Tax Savings Distribution	Change in Households' Effective Tax Rate
Less than \$15,000	0.239	\$0.3	\$1.5	4.1%	0.015%
\$15,000 to \$29,999	0.356	\$0.7	\$1.9	8.0%	0.006%
\$30,000 to \$39,999	0.231	\$0.4	\$1.7	4.7%	0.004%
\$40,000 to \$49,999	0.204	\$0.4	\$2.1	5.0%	0.004%
\$50,000 to \$69,999	0.355	\$0.9	\$2.5	10.3%	0.003%
\$70,000 to \$99,999	0.394	\$0.9	\$2.4	11.0%	0.002%
\$100,000 to \$149,999	0.465	\$1.8	\$3.9	21.7%	0.002%
\$150,000 to \$199,999	0.234	\$1.0	\$4.3	12.0%	0.002%
\$200,000 to more	0.319	\$1.9	\$6.1	23.0%	0.001%
Total	2.797	\$8.4	\$3.0	100.0%	0.002%

Note: Numbers in the table are estimated by Massachusetts Department of Revenue.

Evaluation: Comparing Costs and Benefits

In the previous sections, we report the direct costs (to the Commonwealth, or to the residents and businesses who ultimately bear the costs when the Commonwealth cuts government spending or increases taxes to finance the tax expenditure) and direct benefits of this tax expenditure. In this instance, the direct costs to the Commonwealth, namely the tax revenue that would have been collected, are equal to the direct benefits afforded by the tax expenditure to taxpayers.

Furthermore, there may be indirect and induced costs and benefits associated with this expenditure. To measure indirect and induced costs and benefits, economists often need to utilize complicated models, such as REMI (Regional Economic Models, Inc.) or IMPLAN (Impact Analysis for Planning) models. DOR did not use such models given their complexity and data limitations present in this instance.

Similar Tax Expenditures Offered by Other States

It is not uncommon for states to provide some form sales and use tax exemption for newspapers or magazines. California allows an exemption for newspapers sold by subscription, but generally taxes magazines. Connecticut allows an exemption for newspapers and for magazines sold by subscription. In Maine, both newspapers and magazines are subject to sales tax. Rhode Island and Vermont exempt sales of newspapers but not magazines.

Tax Expenditure Title: 3.201 Exemption for Alcoholic Beverages

Tax Expenditure Category: Exempt, Taxed under Another Excise

Tax Type: Sales and Use Tax

Legal Reference: M.G.L. c. 64H, § 6(g)

Year Enacted: 1967. Repealed 2009. Reinstated 2010.

Repeal or Expiration Date: None

Annual Revenue Impact: Tax loss of \$173.8 to \$186.5 million per year during FY23 through FY27.

Number Of Taxpayers: Buyers and Sellers of Alcoholic Beverages at the Retail Level.

Average Taxpayer Benefit: \$60 per Massachusetts Household in FY25.

Federal Tax Expenditure: No

Description of the Tax Expenditure: Alcoholic beverages, except those sold by a restaurant as a meal, are exempt from sales tax. They are instead subject to an alcoholic beverage excise at the wholesale level. The excise is determined by volume rather than retail sales price.

Is the purpose defined in the statute? The statute does not state the purpose of this tax expenditure.

What are the policy goals of the expenditure? The Commission assumes that the goal of the expenditure is to avoid the double taxation of alcoholic beverages that would result if the sales tax applied in addition to the alcoholic beverage excise.

Are there other states with a similar tax expenditure? California, Connecticut, Maine, New York, and Vermont impose both a retail sales tax and a wholesale alcoholic beverages excise on sales of alcoholic beverages. Rhode Island imposes a sales tax on retail sales of beer and malt liquor and an excise on all alcoholic beverages. New Hampshire imposes only an excise.

Introduction

Alcoholic beverages, except those sold by a restaurant as a meal, are exempt from the sales tax that would otherwise apply to retail sales of tangible personal property. See M.G.L. c. 64H, §§ 6(g), (h). They are instead subject to an excise that is imposed at the wholesale level, which is determined by volume instead of sales price. See M.G.L. c. 138, § 21. Alcoholic beverages served by restaurants are considered part of a meal and subject to sales tax even though the alcoholic beverage excise has already been paid at the wholesale level.

In 2009, the Legislature repealed the sales tax exemption for alcoholic beverages as of August 1, 2009. St. 2009, c. 27. 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. St. 2010, c. 426.

The revenue foregone as a result of the sales and use tax exemption for alcoholic beverages constitutes a tax expenditure.

Table 1 below reports the current excise tax rates on alcoholic beverages.⁹⁹ The Department of Revenue (DOR) collected \$92.9 million in alcoholic beverages excise in Fiscal Year 2025. See the Appendix for more details.

Table 1. Massachusetts Alcoholic Beverage Tax Rates

Alcoholic Beverages Item	Tax Rate
Malt Beverages	\$3.30/31 gal. bbl.
Still Wine, including Vermouth	\$.55/wine gallon
Champagne and all other sparkling Wines	\$.70/wine gallon
Alcoholic Beverages, other than Malt Beverages, Wine and Vermouth, containing 15% or less of Alcohol by volume at 60 degrees Fahrenheit	\$1.10/wine gallon
Alcohol Beverages containing more than 15% of Alcohol but not more than 50% of Alcohol by volume at 60 degrees Fahrenheit	\$4.05/wine gallon
Alcoholic Beverages containing more than 50% of Alcohol by volume at 60 degrees Fahrenheit	\$4.05/proof gallon
Alcohol sold in containers of one gallon or less	\$4.05/proof gallon
Cider containing more than 3% but not more than 6% of Alcohol by weight at 60 degrees Fahrenheit	\$.03/wine gallon

⁹⁹ The Tax Foundation ranked Massachusetts 36th in distilled spirits excise tax rate with a rate of \$4.05 per gallon (the state with the highest tax rate was ranked 1st); 33rd in wine excise tax rate with a rate of \$0.55 per gallon; and 44th in beer excise tax rate with a rate \$0.11 per gallon. [See the Tax Foundation here.](#)

Policy Goals

The Commission assumes that the goal of the expenditure is to avoid the double taxation of alcoholic beverages that would result if the sales tax applied in addition to the alcoholic beverage excise.

Administrability

Administration of the exemption for sales of alcoholic beverages does not present any special challenge to taxpayers or to the DOR. Retailers are generally aware of the exemption and do not collect sales tax from their customers purchasing alcoholic beverages. Restaurant and bar operators are similarly aware that the sales tax applies to drinks sold in restaurants and bars. However, sales and use tax audits are still required to monitor compliance.

Direct Costs

The revenue loss resulting from this tax expenditure is estimated to be \$173.8 to \$186.5 million per year during FY23 through FY27. See Table 2 below.

Table 2. Tax Revenue Loss Estimates for Sales Tax Exemption for Alcoholic Beverages

Fiscal Year	2023	2024	2025	2026	2027
Estimated Revenue Loss (\$Million)	\$173.8	\$177.7	\$178.3	\$182.1	\$186.5

Direct Benefits

The Massachusetts consumers and businesses who buy and sell alcoholic beverages at retail are the direct beneficiaries of the sales tax exemption. Buyers benefit from the sales tax exemption in the form of paying a lower “after tax price” while sellers benefit from the sales tax exemption in the form of receiving a higher “before tax price”. The exact split of the direct benefits depends on the interaction of demand and supply and is often difficult to quantify.

Businesses in many industries sell alcoholic beverages at the retail level, including supermarkets, convenience stores, beer, wine, and liquor stores, electronic shopping and mail-order houses, etc. Among all these industries, “beer, wine, and liquor stores” is the largest industry selling alcoholic beverages. According to the Massachusetts Alcoholic Beverages Control Commission (ABCC)¹⁰⁰, in calendar year 2022, ABCC issued 13,224 retail alcohol licenses. According to the U.S. Census Bureau, Massachusetts had 1,431 beer, wine, and liquor stores in 2022.

For simplicity, we assume that the entire tax savings due to the sales tax exemption is passed on to buyers. Based on this assumption, Table 3 reports the distribution of estimated tax saving in FY25 among households in different income ranges. The table is based primarily on the 2023 Consumer Expenditure Survey data published by the U.S. Bureau of Labor Statistics as well as data from Moody’s Analytics and the DOR. The Consumer Expenditure Survey reports the average annual expenditure on alcoholic beverages and the number of households by different income

¹⁰⁰ [TERC 2023 Annual Report download](#)

groups. Please note that, although alcoholic beverages are purchased by both consumers (households) and businesses, the distribution of tax savings reported in Table 3 is for consumers (households) only.

According to Table 3, the average tax savings from the exemption is estimated to be \$60 per Massachusetts household in FY25, varying from \$18.94 for households with annual income of \$15,000 to \$29,999, to \$146.19 for households with annual income of at least \$200,000. By percentage, 27.81% of the total tax saving went to households with annual income of at least \$200,000 while 3.04% went to households with annual income of less than \$15,000. On average, the tax saving reduced the households' effective tax rate (the ratio of tax to income) by 0.04 percentage points, but the reduction was much higher for households with annual income of less than \$15,000. For this group, the effective tax rate was reduced by 0.22 percentage points, more than five times the average reduction of 0.04 percentage points for all households. The reason for this difference is that the average household in this bracket spent a higher percentage of their income on alcoholic beverages.

Table 3. Estimated Distribution of Tax Savings to MA Households by Income Level in FY25

Annual Income Range	Number of MA Households (Millions)	Tax Savings (Millions)	Average Tax Savings (\$)	Tax Savings Distribution	Change in Households' Effective Tax Rate
Less than \$15,000	0.241	\$5.15	\$21.36	3.04%	0.22%
\$15,000 to \$29,999	0.359	\$6.80	\$18.94	4.01%	0.06%
\$30,000 to \$39,999	0.234	\$7.54	\$32.28	4.45%	0.07%
\$40,000 to \$49,999	0.206	\$6.34	\$30.79	3.74%	0.05%
\$50,000 to \$69,999	0.358	\$12.83	\$35.83	7.57%	0.05%
\$70,000 to \$99,999	0.397	\$18.98	\$47.77	11.20%	0.04%
\$100,000 to \$149,999	0.470	\$36.74	\$78.18	21.69%	0.05%
\$150,000 to \$199,999	0.236	\$27.91	\$118.39	16.48%	0.05%
\$200,000 to more	0.322	\$47.11	\$146.19	27.81%	0.03%
Total	2.823	\$169.41	\$60.01	100.00%	0.04%

Source: Estimated by Massachusetts Department of Revenue.

Evaluation: Comparing Costs and Benefits

In the previous sections, we report the direct costs (to the Commonwealth, or to the residents and businesses who ultimately bear the costs when the Commonwealth cuts government spending or increases taxes to finance the tax expenditure) and direct benefits of this tax expenditure. In this instance, the direct costs to the Commonwealth, namely the tax revenue that would have been collected, are equal to the direct benefits afforded by the tax expenditure to taxpayers.

Furthermore, there may be indirect and induced costs and benefits associated with this expenditure. To measure indirect and induced costs and benefits, economists often need to utilize complicated models, such as REMI (Regional Economic Models, Inc.) or IMPLAN (Impact Analysis for Planning) models. DOR did not use such models given their complexity and data limitations present in this instance.

Similar Tax Expenditures Offered by Other States

California, Connecticut, Maine, New York, and Vermont impose both a retail sales tax and a wholesale alcoholic beverages excise on sales of alcoholic beverages. Rhode Island imposes a sales tax on retail sales of beer and malt liquor and an excise on all alcoholic beverages. New Hampshire imposes only an excise.

Tax Expenditure Title: 3.309 Exemption for Vessels, Materials, Tools, Fuels, and Machinery Used in Commercial Fishing

Tax Expenditure Category: Exempt Products that are consumed and used directly and exclusively in the production of an exempt item

Tax Type: Sales and Use Tax

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

Year Enacted: 1967

Repeal or Expiration Date: None

Annual Revenue Impact: Tax loss of \$11.2 to \$13.0 million per year during FY23 through FY27

Number Of Taxpayers: 2,957

Average Taxpayer Benefit: About \$4,000 per commercial fishing business

Federal Tax Expenditure: No

Description of the Tax Expenditure: Sales of vessels, materials, tools, fuels, and machinery, including replacement parts, consumed and used directly and exclusively in commercial fishing, are exempt from sales and use tax.

Is the purpose defined in the statute? The statute does not state the purpose of this tax expenditure.

What are the policy goals of the expenditure? The Commission assumes the goal of the expenditure is to encourage and support the commercial fishing industry.

Are there other states with a similar tax expenditure? Many coastal states offer similar types of exemptions. Connecticut, Maine, and Rhode Island exempt both vessels and fishing equipment. California exempts vessels and bait. New York exempts vessels. New Hampshire does not have a sales and use tax. Vermont does not provide an exemption for items used in commercial fishing.

Introduction

Sales of vessels used directly and exclusively in commercial fishing are exempt from sales and use tax. See M.G.L. c. 64H, § 6(o). Sales of materials, tools, fuels, and machinery, including replacement parts, used directly and exclusively in commercial fishing are also exempt. See M.G.L. c. 64H, §§ 6(r), (s). Thus, the exemption applies to fishing boats, the fuel used to run them, and nets, lines, hooks, and other equipment used to catch fish.

In the absence of these exemptions such items would be subject to sales and use tax, which would increase expenses for commercial fishing industry and therefore potentially add to the price of fish purchased by households. The revenue lost as a result of the exemption constitutes a tax expenditure.

Policy Goals

The Commission assumes the goal of the exemptions for items used in commercial fishing is to encourage and support the commercial fishing industry. The exemption reduces the cost of participation in the commercial fishing industry. Such reduced cost may result in lower food costs for households.

Administrability

Administration of the exemption for items used in commercial fishing does not present any special challenge to taxpayers or to the Department of Revenue (DOR). Vendors are generally aware of the sales and use tax exemption for sales of commercial fishing vessels and materials, tools, fuels, machinery, including replacement parts that are used directly and exclusively in commercial fishing. Purchasers wishing to claim the exemption must provide an exempt use certificate (Form ST-12) to vendors. The DOR reviews vendors' sales and the industry's purchases as part of its sales and use tax audit program.

Direct Costs

The revenue loss resulting from this tax expenditure is estimated to be \$11.2 to \$13.0 million per year during FY23 through FY27.¹⁰¹ See Table 1.

Table 1. Tax Revenue Loss Estimates for Sales Tax Exemption for Vessels, Materials, Tools, Fuels, and Machinery Used in Commercial Fishing

Fiscal Year	2023	2024	2025	2026	2027
Estimated Revenue Loss (\$Million)	\$13.0	\$11.5	\$11.2	\$11.5	\$11.9

Direct Benefits

The Massachusetts businesses that buy and sell exempt products (vessels, materials, tools, fuels, and machinery) used in commercial fishing are the direct beneficiaries of the sales tax

¹⁰¹ The estimates reported in Table 1 are based mostly on data from the National Oceanic and Atmospheric Administration (NOAA) of the U.S. Department of Commerce and the U.S. Census Bureau. Due to the use of external data and limitations of that data, the estimates reported in Table 1 may have significant uncertainty and should be used with caution.

exemption. Buyers benefit from the sales tax exemption in the form of paying a lower “after tax price” while sellers benefit from the sales tax exemption in the form of receiving a higher “before tax price”. The exact split of the direct benefits depends on the interaction of demand and supply and is often difficult to quantify. Out-of-state businesses that sell exempt products to Massachusetts commercial fishing businesses also benefit from this sales tax exemption.

According to the U.S. Census Bureau, in 2022, Massachusetts had 2,957 businesses in the commercial fishing industry, including businesses with or without paid employees. If we assume that the entire tax saving due to the sales tax exemption is passed on to buyers, the average tax saving per year to commercial fishing businesses is estimated to be about \$4,000.

Evaluation: Comparing Costs and Benefits

In the previous sections, we report the direct costs (to the Commonwealth, or to the residents and businesses who ultimately bear the costs when the Commonwealth cuts government spending or increases taxes to finance the tax expenditure) and direct benefits of this tax expenditure. In this instance, the direct costs to the Commonwealth, namely the tax revenue that would have been collected, are equal to the direct benefits afforded by the tax expenditure to taxpayers.

Furthermore, there may be indirect and induced costs and benefits associated with this expenditure.¹⁰² To measure indirect and induced costs and benefits, economists often need to utilize complicated models, such as REMI (Regional Economic Models, Inc.) or IMPLAN (Impact Analysis for Planning) models. DOR did not use such models given their complexity and data limitations present in this instance.

Similar Tax Expenditures Offered by Other States

Many coastal states offer similar types of exemptions. Connecticut, Maine, and Rhode Island exempt both vessels and fishing equipment. California exempts vessels and bait. New York exempts vessels. New Hampshire does not have a sales and use tax. Vermont does not provide an exemption for items used in commercial fishing.

¹⁰² The indirect benefits of this tax expenditure include that to consumers. The exemption results in a lower retail cost of food purchased for human consumption, such that the price of seafood purchased for human consumption will not include tax previously imposed on materials used to catch the fish. The indirect benefits also include that to the entire seafood industry, which comprises the commercial fishing sector, seafood processors and dealers, seafood wholesalers and distributors, importers, and seafood retailers. The appendix provides some data for the seafood industry compiled by the National Oceanic and Atmospheric Administration (NOAA) of the U.S. Department of Commerce.

Appendix D: Meeting Minutes

Tax Expenditure Review Commission Meeting Friday, March 28, 2025

2:00 PM Via Zoom

Commission Members in Attendance:

- Chairperson Rebecca Forter, MA Department of Revenue
- Lindsay Janeczek, Designee, MA Auditor
- Chris Carlozzi, Designee, Senate Minority Leader
- Katie Verra, Designee, Senate Ways and Means Committee
- Sue Perez, Designee, MA Treasurer
- Bridgette Maynard, Designee, House Chair Joint Committee on Revenue
- David Emer, Designee, Senate Chair Joint Committee on Revenue
- Professor Natasha Varyani, Governor's Appointee
- Professor Thomas Downes, Governor's

Appointee Commission Members Absent:

- Representative Aaron Michlewitz, House Ways and Means Committee
- Representative Bradley Jones, House Minority Leader

List of Documents:

- Meeting Agenda
- Draft Minutes
 - February 26, 2025 Meeting
- Presentation of March tax expenditure evaluation ratings, discuss and vote on ratings
 - 1.615 and 2.619 Conservation Land Tax Credit
 - 1.037 Survivor Annuities of Fallen Astronauts
 - 1.401 and 1.402 Deduction for Employee Social Security and Railroad Retirement Payments/Deduction for Employee Contributions to Public Pension Plans
 - 1.403 Additional Exemption for the Elderly
 - 1.404 Additional Exemption for the Blind
 - 1.405 Dependents Exemption where the Dependent Earns Income
 - 1.408 Deduction for Adoption Fees

Meeting Minutes:

Chairperson Forter welcomed Commission members, and a quorum was recognized. The meeting via teleconference was called to order at 2:04 PM. Chairperson Forter put the Commission and public on notice that the meeting is recorded for the purpose of minutes. The recording of the meeting will be kept for public record.

Chairperson Forter mentioned that the Open Meeting Law, previously set to expire on March 31, 2025, has been extended through June 2027. The Open Meeting Law permits state and local public bodies to conduct public meetings in a hybrid or remote format while also allowing participants at town meetings to participate remotely. Chairperson Forter

reminded members that the TERC 2025 report was submitted to legislature and uploaded to the TERC website March 1, 2025.

Chairperson Forter noted the following changes in membership; (i) Senator James B. Eldrige is the new Senate Chair of the Joint Committee on Revenue, and has appointed David Emer, Senior Policy Counsel, as his designee, (ii) Representative Adrian Madaro is the new House Chair of the Joint Committee on Revenue, and has appointed Bridgette Maynard, Research Director, as his designee, and (iii) Rep. Michael Soter is no longer serving as the designee for Rep. Bradley Jones, House Minority Leader, and Rep. Jones' new designee is to be determined. Members welcomed David and Bridgette.

Chairperson Forter asked for any comments or changes on the February 26, 2025 meeting minutes. Members did not provide any comment. Members voted to approve the February '25 meeting minutes as drafted. The meeting minutes will be posted to the TERC website.

Tom Downes led a discussion on the Conservation Land Tax Credit. This tax expenditure was adopted in 2008 and has an annual revenue impact of \$1.6 to \$2 million during FY22 through FY26 with no sunset date. Massachusetts provides a personal income tax and corporate excise credit equal to 50% of the fair market value of certified conservation land donated to a public or private conservation agency. The credit is limited to \$75,000 for each donation. Note there is no federal conservation land tax credit but there is a charitable deduction that may apply and a tax deduction for conservation easement contributions. Certified conservation land is land designated by the Secretary of the Executive Office of Energy and Environmental Affairs (the Secretary) to have sufficient natural resources to merit being protected from development. Certified conservation land includes (i) land containing drinking water supplies, wildlife habitats, agricultural resources, or forestry resources and (ii) land that provides recreational opportunities, or scenic and cultural values. To qualify for the credit a donation must be made in perpetuity. The credit may be taken in addition to any deduction for charitable contributions resulting from a donation. The Secretary determines which donations qualify for the credit and the actual amount of the credit awarded to each taxpayer. The credits may not be sold or transferred to another taxpayer but are refundable. The total cumulative value of all credits authorized for personal income tax and corporate excise purposes may not exceed \$2 million annually. The amount of personal income tax or corporate excise foregone as a result of the credit constitutes a tax expenditure.

A number of states offer credits for donations of conservation land. Such states include California and Connecticut.

The commission assumes that the goal of the expenditure is to protect certified conservation land from future development.

The administration of the credit for donations of certified conservation land does not pose any special challenge to the Department of Revenue (DOR). The Secretary issues a numbered certificate to the taxpayer that establishes the amount of the credit. No credit is allowed unless the certificate number is included on the taxpayer's return. DOR may request additional validation of the credit as part of its audit processes.

Members noted that close to a majority of claimants have taxable incomes between \$200,000 and

\$1,000,000, and some claimants have low taxable incomes. Members concluded that this a worthwhile credit and agreed that it should not be flagged for legislative review. Members voted to approve the evaluation template for the Conservation Land Tax Credit as presented.

Chairperson Forter led a discussion on Survivor Annuities of Fallen Astronauts. This tax expenditure was adopted in 2003 and has an annual revenue impact of under \$50,000 during FY22 through FY26 with no sunset date.

Due to Massachusetts' reliance on the Internal Revenue Code (Code) to determine gross income for personal income tax purposes, Massachusetts excludes from income certain employer payments to the family or estate of an astronaut killed in the line of duty. The exclusion only applies to amounts that exceed the benefits that would have been payable if the death occurred for a reason other than death in the line of duty, unless the payments are from an employer-sponsored stock bonus, pension, or profit-sharing plan as described in Code § 401(a) plan and are tax-exempt under Code § 501(a). In the absence of the exclusion, the families and estates of astronauts would be required to pay personal income tax on payments received as a result of the astronaut's death in the line of duty. The revenue foregone as a result of the exclusion constitutes a tax expenditure.

States that conform to the Code for individual income tax purposes adopt the exclusion unless they decouple from Code § 101(i). The Commission is not aware of any state that has decoupled. States that conform to Code § 101(i) include California, Connecticut, Maine, New York, Rhode Island, and Vermont.

The Commission assumes the goal of the exclusion is to provide tax relief to the families of astronauts killed in the line of duty.

The administration of the exclusion of employer payments to the survivors and estates of astronauts killed in the line of duty does not present any special challenges for DOR. Conformity with the federal treatment simplifies tax compliance and administration by allowing the same general rules and definitions to be used for Massachusetts and federal purposes. The Commission assumes that this consistency of treatment also eases the compliance burden for taxpayers.

Members noted the negligible cost resulting from the tax expenditure and that it is a result of the state's conformity to the federal code. Members agreed that this tax expenditure should not be flagged for legislative review. Members voted to approve the evaluation template for Survivor Annuities of Fallen Astronauts as presented.

Chairperson Forter led a discussion on the Deduction for Employee Social Security and Railroad Retirement Payments/Deduction for Employee Contributions to Public Pension Plans. This tax expenditure was adopted in 1973 and has an annual revenue impact of \$319.4 to \$341.5 million during FY22 through FY26 with no sunset date.

A deduction, up to a maximum of \$2,000 per year, is allowed for employee contributions to Social Security, Railroad Retirement or contributory retirement plans of the federal government or the Massachusetts government. See M.G.L. c. 62, §§ 3B(a)(3) and (4). A government plan is considered contributory only if the employee actually contributes to it from

his or her own funds through payroll deductions or by transfers from his or her own accounts. For purposes of the deduction, the federal government includes federal agencies and instrumentalities. The Massachusetts government includes state agencies and political subdivisions (including cities and towns). The deduction is not available for contributions to retirement plans of other states. Taxpayers that are married and file joint returns may deduct up to \$2,000 each. The limit on deductible contribution amounts may not be combined or transferred from one spouse to the other. Contributions to Social Security and Railroad Retirement are included in employees' gross income for both federal and Massachusetts purposes. The Massachusetts deduction can therefore be viewed as subsidizing employees' Social Security and Railroad Retirement contributions up to the \$2,000 limit. Massachusetts does not tax Social Security or Railroad Retirement income when received by retirees. The federal retirement plan consists of noncontributory and contributory components. The noncontributory component is funded by the federal government and contributions are not included in employees' federal or Massachusetts gross income. However, employee contributions to the contributory portions of federal retirement plans are generally excluded from federal gross income. No provision of the personal income tax requires such contributions to be added back to Massachusetts income. The deduction therefore applies, even if the contribution was excluded from federal and Massachusetts gross income. The Massachusetts deduction can therefore be viewed as a pure bonus, up to the \$2,000 limit, to federal employees that contribute to federal retirement plans. Massachusetts does not tax income from federal pensions when received by retirees. Contributions to Massachusetts retirement plans are excluded from federal gross income. However, the full amount of the contribution must be added back to federal gross income. The deduction can therefore be viewed as subsidizing state retirement contributions up to the \$2,000 limit. Income from Massachusetts state retirement plans is not subject to the personal income tax when received by retirees. The amount of revenue foregone as a result of the deduction constitutes a tax expenditure.

The Commission is not aware of any other state that allows an income tax deduction for contributions to Social Security or Railroad Retirement. Federal and state retirement contributions are generally excluded from federal gross income. States that base their income taxes on federal gross income or adjusted gross income will follow the federal exclusion unless a statutory modification applies. Maine and New York have such a modification applicable to state, but not federal, retirement contributions. In these states contributions to state retirement plans are taxed but contributions to federal retirement plans are not. Maine and New York allow tax exemptions for the amount paid to retirees by their state retirement plans.

The Commission assumes the goal of the deduction is to reduce the tax burden of employees that contribute to Social Security, Railroad Retirement or federal or Massachusetts retirement plans.

The administration of the deduction for employee contributions to Social Security, Railroad Retirement, and federal and Massachusetts public pension plans does not present any special challenges for the Department of Revenue (DOR). The amount of such contributions is reported on each employee's Form W-2 and the DOR can use this information to monitor

compliance with the deduction.

Members noted that the deduction provides a double tax benefit with respect to employee contributions to federal retirement plans, which are already excluded from federal gross income and there is no provision of the personal income tax that requires contributions to be added back to Massachusetts income as there is for contributions to a Massachusetts retirement program. The Commission is not aware of any other state that allows an income tax deduction for contributions to Social Security or Railroad Retirement. Members also noted the significant cost of this tax expenditure and agreed that this tax expenditure should be flagged for legislative review.

Members voted to approve the evaluation template for the Deduction for Employee Social Security and Railroad Retirement Payments/Deduction for Employee Contributions to Public Pension Plans as presented.

Lindsay Janeczek led a discussion on the Additional Exemption for the Elderly. This tax expenditure was adopted in 1973 and has an annual revenue impact of \$25.7 to \$29.1 million during FY22 through FY26 with no sunset date.

Massachusetts allows a personal income tax exemption of \$700 for taxpayers aged 65 or older. M.G.L. c. 62, § 3B(b)(1)(C), § 3B(b)(1A)(C), § 3B(b)(2)(C). If married taxpayers file a joint return, each spouse may claim a \$700 exemption if they reach age 65 as of the last day of the taxable year. The exemption is in addition to the \$4,400 personal exemption (\$8,800 for married taxpayers filing jointly) to which all taxpayers are generally entitled. The Massachusetts additional exemption parallels federal tax provisions allowing a higher standard deduction for taxpayers aged 65 or older. In the absence of the additional exemption, taxpayers aged 65 or older would be entitled only to the personal income tax exemption that is allowed to younger taxpayers. The revenue foregone as a result of the additional exemption constitutes a tax expenditure.

Most states that impose a personal income tax allow some form of income tax exemption or credit for taxpayers aged 65 or older. California, New York, Rhode Island and Vermont do so. Maine does not allow an income tax exemption or credit for elderly taxpayers. The New York exemption is available to taxpayers of the age of 59 ½ at the close of the taxable year. Note that states may provide property tax exemptions for older taxpayers instead of or in addition to these income tax exemptions.

The administration of the additional exemption for taxpayers aged 65 or older does not present special challenges for the Department of Revenue (DOR). Eligibility for the exemption is based on the same parameters as the increased standard deduction available to taxpayers aged 65 or older for federal tax purposes. DOR can use information shared by the Internal Revenue Service (IRS) to assist in monitoring eligibility for the additional exemption. The Commission assumes that this consistency of treatment also eases the compliance burden for taxpayers and employers.

Members noted that changing demographics and aging population may increase the cost of this tax expenditure to the Commonwealth. Members further noted that taxpayers with net adjusted gross income (AGI) of \$100,000 or more claim over 30% of the total tax savings

resulting from this expenditure and that the average tax savings per beneficiary is \$45.

The Commission assumes the goal of this expenditure is progressivity/assistance to low earners and noted that there may be ways to make it more so. Members agreed that this tax expenditure should not be flagged for legislative review, but should still be mentioned in the year-end report. Members voted to approve the evaluation template for the Additional Exemption for the Elderly with additional comments.

Katie Verra led a discussion on the Additional Exemption for the Blind. This tax expenditure was adopted in 1973 and has an annual revenue impact of \$0.59 to \$0.6 million during FY22 through FY26 with no sunset date.

Massachusetts allows a personal income tax exemption, up to a maximum of \$2,200, for taxpayers that are blind. M.G.L. c. 62, § 3B(b)(1)(B), (1A)(B), (2)(B). Taxpayers that are married and file joint returns may deduct up to \$2,200 each if both are blind. These exemptions are in addition to the \$4,400 credit (\$8,800 for married taxpayers filing jointly) that is generally available to all personal income taxpayers. To claim the additional exemption a taxpayer must be blind at the end of the tax year. Department of Revenue (DOR) guidance explains that a taxpayer is blind for purposes of this exemption if visual acuity with correction is 20/200 or less in the taxpayer's better eye, or if peripheral vision has been reduced to a 10-degree radius or less. In the absence of the exemption, taxpayers that are blind would be entitled only to the personal income tax exemption available to all taxpayers. The revenue foregone as a result of the additional exemption constitutes a tax expenditure.

Several states provide income tax benefits to blind taxpayers. These states include California, Maine, Rhode Island, and Vermont. Connecticut and New York do not do so. Note that states may provide property tax exemptions instead of or in addition to these income tax benefits.

The Commission assumes that the goal of the expenditure is to ease the financial burden on taxpayers that are blind by providing an additional exemption that is not available to other taxpayers.

The administration of the additional exemption for blind taxpayers does not present special challenges for the Department of Revenue (DOR). There is a similar federal tax benefit in the form of an increased standard deduction for blind taxpayers. DOR can use information shared by the Internal Revenue Service (IRS) to assist in monitoring eligibility for the additional exemption. DOR may also ask taxpayers that claim the additional exemption to provide a doctor's statement verifying legal blindness.

Members noted that while taxpayers in all income brackets claim the exemption, most of the claimants are lower income. Members agreed that this tax expenditure should not be flagged for legislative review. Members voted to approve the evaluation template for the Additional Exemption for the Blind as presented.

Chric Carlozzi led a discussion on the Dependents Exemption where the Dependent Earns Income. This tax expenditure was adopted in 1973 and has an annual revenue impact of \$10.5 to \$11.0 million during FY22 through FY26 with no sunset date.

This tax expenditure results from the interaction between the Massachusetts personal income tax exemption that allows a \$1,000 reduction of taxable income for each of a taxpayer's dependents (see M.G.L. c. 62, § 3B(b)(3)) and the \$4,400 personal exemption that every taxpayer may claim to reduce their own taxable income (see M.G.L. c. 62, § 3B(1)(a)). No provision prevents taxpayers from claiming the \$1,000 exemption for dependents even if the dependent claims the \$4,400 personal exemption against their own income on their own returns. Massachusetts provides a personal income tax exemption for each of a taxpayer's dependents. See M.G.L. c. 62, § 3B(b)(3). Dependents are defined in the same manner as they are for federal tax purposes under Internal Revenue Code (Code) § 151(c). The Code's definition of a dependent includes qualifying children and other qualifying relatives. See Code § 152(a). The Massachusetts exemption allows taxpayers to reduce their taxable income by \$1,000 for each dependent, even when the dependent earns income against which the dependent's own \$4,400 personal exemption is taken. Note that the federal deduction for personal exemptions is suspended (reduced to \$0) for tax years 2018 through 2025. When the federal exemption was in effect, taxpayers were generally not permitted to claim their own personal exemption if they could be claimed as a dependent on another taxpayer's return. See Code § 151(d)(2). Further, the federal standard deduction was and still is reduced for taxpayers that can be claimed as dependents on another taxpayer's return. See Code § 63(c)(5). The federal disallowance sought to remove the duplicative benefit that would otherwise occur if taxpayers claimed a dependent exemption for someone who claimed their own personal exemption. The concept of allowing one exemption per person is viewed as a normative feature of a tax exemption system because it allows for each person to be counted once in the aggregate distribution of exemptions. The Massachusetts exemption system departs from the normative rule by allowing some taxpayers to claim a \$1,000 dependency exemption for dependent taxpayers who are themselves claiming a \$4,400 personal exemption against their own income on their own returns. Thus, in effect, Massachusetts allows more exemption amounts than a normative tax system would. The revenue foregone as a result of allowing some taxpayers a \$1,000 dependency exemption for dependents who claim their own \$4,400 personal exemption constitutes a tax expenditure. Note that the personal exemption is generally not otherwise considered a tax expenditure.

The states of California, Maine, Rhode Island, and Vermont do not allow taxpayers to claim a personal exemption if someone else can claim them as a dependent. The state of New York reduces the standard deduction and eliminates the household credit of a taxpayer that can be claimed as a dependent on another taxpayer's federal return.

The Commission assumes the goal of the expenditure is to enhance the economic security of families by allowing dependents who work claim the full amount of their personal exemptions.

The administration of personal income tax dependency exemptions does not present any special challenges for the Department of Revenue (DOR). Dependents may claim the personal exemption even if claimed as a dependent by another taxpayer. There is therefore no reason to review such claims on audit. As a general matter the DOR verifies exemptions as part of its personal income tax audit process. Conformity with the federal definitions applicable to the dependency exemption simplifies tax compliance and administration by allowing the same

general rules and definitions to be used for Massachusetts and federal purposes. The Commission assumes that this consistency of treatment also eases the compliance burden for employers and employees.

Members noted that the federal deduction for personal exemptions is suspended (reduced to \$0) for tax years 2018 through 2025, and that the Massachusetts exemption system departs from the normative rule by allowing some taxpayers to claim a \$1,000 dependency exemption for dependent taxpayers who are themselves claiming a \$4,400 personal exemption against their own income on their own returns.

Members agreed that this tax expenditure should not be flagged for legislative review, but should still be mentioned in the year-end report. Members voted to approve the evaluation template Dependents Exemption where the Dependent Earns Income with additional comments.

Lindsay Janeczek led a discussion on the Deduction for Adoption Fees. This tax expenditure was adopted in 1958 and has an annual revenue impact of \$0.27 to \$0.34 million per year during FY22 through FY26 with no sunset date.

Massachusetts provides a personal income tax deduction for eligible adoption fees paid by taxpayers to licensed adoption agencies in the process of adopting a minor child. M.G.L. c. 62, § 3B(b)(5). Amounts paid to any person other than a licensed adoption agency are not eligible for the deduction. Amounts paid to third parties through an adoption agency for services not performed by the adoption agency are likewise not eligible for the deduction. See Letter Ruling 88-12. There is no limit on the amount of adoption expenses that may be claimed as a deduction. The amount of personal income tax revenue foregone as a result of the expenditure constitutes a tax expenditure.

Most states provide subsidies to encourage adoptions. Slightly under half the states do so through their tax systems by providing deductions or credits. California and Rhode Island provide credits. The California credit is equal to 50% of adoption fees with a maximum of \$2,500. The Rhode Island credit is equal to 25% of the federal credit for adoption fees. Connecticut, Maine, and Vermont do not provide deductions or credits.

The Commission assumes the goal of the expenditure is to promote the adoption of minor children by decreasing the financial barriers to adoption.

Members agreed that this tax expenditure should not be flagged for legislative review. Members voted to approve the evaluation template for the Deduction for Adoption Fees as presented.

Members agreed to reconvene in late April. The purpose of the next meeting is to discuss and vote on the next batch of tax expenditures. The meeting concluded at 3:13 PM.

Tax Expenditure Review Commission Meeting Friday, May 16, 2025

1:00 PM Via Zoom

Commission Members in Attendance:

- Chairperson Rebecca Forter, MA Department of Revenue
- Lindsay Janeczek, Designee, MA Auditor
- Sue Perez, Designee, MA Treasurer
- Lucas Spagnuolo, Stand-in Designee, Senate Chair Joint Committee on Revenue
- Amar Patel, Designee, Senate Committee on Ways and Means
- Chris Carlozzi, Designee, Senate Minority Leader
- Professor Natasha Varyani, Governor's Appointee
- Professor Thomas Downes, Governor's Appointee
- Jamie Oppendisano, Designee, House

Minority Leader Commission Members Absent:

- Representative Aaron Michlewitz, House Ways and Means Committee
- Representative Adrian C. Madaro, House Chair Joint Committee on Revenue

List of Documents:

- Meeting Agenda
- Draft Minutes
 - March 28, 2025 Meeting
- Presentation of May tax expenditure evaluation ratings, discuss and vote on ratings
 - 1.410 Exemption of Medical Expenses
 - 1.418 Deduction for Costs Involved in Unlawful Discrimination Suits
 - 1.428 Gambling Loss Deduction (only if from a trade or business)
 - 1.605 Earned Income Credit
 - 1.609 Refundable Credit Against Property Tax for Seniors (Circuit Breaker)
 - 3.101 Exemption for Food
 - 3.102 Exemption for Certain Food and Beverages Sold in Restaurants

Meeting Minutes:

Chairperson Forter welcomed Commission members, and a quorum was recognized. The meeting via teleconference was called to order at 1:03 PM. Chairperson Forter put the Commission and public on notice that the meeting is recorded for the purpose of minutes. The recording of the meeting will be kept for public record.

Chairperson Forter noted the following changes in membership (i) Representative Bradley Jones, House Minority Leader, has appointed Jamie Oppendisano as his designee and (ii) Bridgette Maynard is no longer the designee for Representative Adrian C. Madaro, Joint Committee on Revenue. A new designee is expected soon.

Chairperson Forter asked for any comments or changes on the March 28, 2025 meeting minutes. Members did not provide any comment. Members voted to approve the March '25 meeting minutes as drafted. The meeting minutes will be posted to the TERC website.

Lindsay Janeczek led a discussion on 1.410 Exemption of Medical Expenses. This tax expenditure was adopted in 1973 and has an annual revenue impact of \$54.1 to \$67.4 million during FY22 through FY26 with no sunset date.

Massachusetts allows a personal income tax exemption equal to the federal deduction allowed for medical, dental, and other expenses allowed under the Internal Revenue Code (Code). See M.G.L. c. 62, § 3B(b)(4). The federal deduction is allowed for medical and dental expenses described in Code § 213. Deductible medical expenses include the costs of diagnosis, cure, mitigation, treatment, or prevention of disease. These expenses include payments for legal medical services rendered by physicians, surgeons, dentists, and other medical practitioners. They include the costs of equipment, supplies, and diagnostic devices needed for these purposes. See Internal Revenue Service (IRS) Publication 502 for a detailed explanation of deductible expenses. The federal deduction is allowed to the extent eligible expenses exceed 7.5% of the taxpayer's federal adjusted gross income.

The Massachusetts exemption for medical and dental expenses is equal to the federal deduction allowed under the Code as amended and in effect on January 1, 2024. See M.G.L. c. 62, §§ 1(c), 3B(b)(4). Taxpayers must itemize their deductions for federal purposes to be eligible for the Massachusetts exemption. M.G.L. c. 62, § 3B(b)(4). Further, taxpayers that file joint returns for federal purposes must also do so for Massachusetts purposes in order to claim the Massachusetts exemption.

The personal income tax revenue foregone as a result of the exemption for medical and dental expenses constitutes a tax expenditure.

The Commission assumes the goal of the exemption is to reduce the financial burden of medical and dental costs by allowing a tax exemption for a portion of such costs.

The administration of the exemption of medical and expenses does not present any special challenges for DOR. Conformity with the federal deduction for such expenses simplifies tax compliance and administration by allowing the same general rules and definitions to be used for Massachusetts and federal purposes. Such conformity also allows the DOR to monitor the exemption based on data shared by the IRS. The Commission assumes that conformity also eases the compliance burden for taxpayers claiming the exemption.

Most states allow a deduction for medical and dental expenses. States that do so include California, Connecticut, Maine, New York, Rhode Island, and Vermont.

Members noted the significant cost of the expenditure and that it is not likely that the Legislature would decouple from this federal code section.

Members agreed that this tax expenditure should not be flagged for legislative review. Members voted to approve the evaluation template as presented.

Lindsay Janeczek led a discussion on 1.418 Deduction for Costs Involved in Unlawful

Discrimination Suits. This is a federal tax expenditure that was enacted in 2004; Massachusetts conformed to the federal expenditure as of 2022. This tax expenditure has an annual revenue impact of \$0.2 to \$0.3 million during FY22 through FY26 with no sunset date.

In general, litigation expenses are deductible only if the lawsuit pertains to the taxpayer's trade or business. However, Code § 62(a)(20) provides a deduction for attorney fees and court costs paid by taxpayers to recover a judgment or settlement for a claim of unlawful discrimination even if the claim does not stem from a trade or business. Such costs are allowed as a deduction from federal gross income whether or not the taxpayer wins his or her claim. The deduction cannot exceed the amount of any judgment or settlement that the taxpayer receives. Unlawful discrimination is broadly defined to include any violation of federal, state, local law, or common law claims providing for the enforcement of civil rights. See Code § 62(e).

Massachusetts adopts Code § 62 and allows a deduction for the costs of unlawful discrimination lawsuits. Specifically, Massachusetts allows the federal deductions determined under Code § 62, as amended and in effect on January 1, 2024. See M.G.L. c. 62, §§ 1(c), 2(d)(1). The Massachusetts deduction is equal to the federal deduction.

The personal income tax revenue foregone as a result of the deduction constitutes a tax expenditure.

The Commission assumes the goal of the expenditure is to reduce the financial burden on taxpayers that wish to file unlawful discrimination suits.

The administration of the deduction for costs involved in unlawful discrimination suits does not present special challenges for the Department of Revenue (DOR). Conformity with the federal deduction based on the 2024 Code simplifies tax compliance and administration by allowing the same general rules and definitions to be used for Massachusetts and federal purposes. The Commission assumes that this consistency of treatment also eases the compliance burden for taxpayers.

States that conform to the Code for individual income tax purposes adopt the deduction for costs of unlawful discrimination suits, unless they have specifically decoupled from the Code. The Commission is not aware of any state that has decoupled. States that adopt the federal deduction include California, Connecticut, Maine, New York, Rhode Island, and Vermont.

Members agreed that health/environmental/social justice should be added as a goal of this tax expenditure due to the nature of the benefit.

Members agreed that this tax expenditure should not be flagged for legislative review. Members voted to approve the evaluation template for the Deduction for Costs Involved in Unlawful Discrimination Suits with a change to the goal of the tax expenditure to include Health/Environment/Social Justice.

Chris Carozzi led a discussion on 1.428 Gambling Loss Deduction (only if from a trade or business). This tax expenditure was adopted in 2015 (amended in 2023 to include sports wagering losses) and has an annual revenue impact of \$7.0 to \$21.5 million per year during FY22 through FY26 with no sunset date. The Commission agreed to discuss this tax

expenditure during the next meeting since one of the assigned members was absent from today's meeting.

Tom Downes led a discussion on 1.605 Earned Income Tax Credit. This tax expenditure was adopted in 1997 and has an annual revenue impact of \$210.5 to \$394.8 million per year during FY22 through FY26 with no sunset date.

The Massachusetts Earned Income Credit (EITC) is a refundable tax credit for personal income taxpayers with low or moderate earned income and is based on the federal EITC. The Massachusetts credit is equal to 40% of the federal credit and is available to taxpayers who are eligible for the federal EITC.

Eligibility for the credit and the amount of the credit are based on a taxpayer's filing status, number of dependent children and amount of earned income. For 2024 the maximum amount of the federal credit is \$7,830. Married taxpayers are generally required to file a joint tax return in order to claim the EITC. The credit is refundable, but it is not transferable.

The Massachusetts credit is authorized by M.G.L. c. 62, § 6(h). Section 6(h) adopts the federal eligibility and computational rules except that to claim the credit a taxpayer must be a Massachusetts resident for at least part of the taxable year. For part-year residents, the credit is limited to 40% of the federal credit multiplied by the ratio of the number of days the individual resided in Massachusetts during the taxable year by the total number of days in the taxable year.

Massachusetts allows a taxpayer to satisfy the joint filing requirement if the taxpayer files a Massachusetts personal income tax return using a filing status of married filing separately and the taxpayer lives apart from the taxpayer's spouse at the time the taxpayer files the tax return and is unable to file a joint tax return because the taxpayer is a victim of domestic abuse. There is no analogous exception to the joint filing requirement for purposes of the federal EITC.

The personal income tax revenue foregone as a result of the Massachusetts EITC constitutes a tax expenditure.

The Commission assumes the goal of the expenditure is to help support low- and moderate-income individuals and working families by reducing their state tax burden.

The administration of the EITC does not present any special challenges for DOR. General conformity with the federal EITC simplifies state tax compliance and administration by allowing the same eligibility and computational rules to be used for Massachusetts and federal purposes. However, the Massachusetts exception to the federal EITC's joint filing requirement requires some additional work to determine a taxpayer's eligibility for the exception. The Internal Revenue Service (IRS) audits compliance with the federal credit and shares information that the DOR can use to monitor compliance with the state credit.

Most states allow an EITC based on the federal EITC. Such states include California, Connecticut, Maine, New York, Rhode Island, and Vermont.

Members noted the significant fiscal impact of this tax expenditure but that a vast majority of taxpayers who have taken the EITC have AGIs below \$50,000 and that the number of taxpayers who have taken the EITC drops once AGI exceeds \$60,000.

Members agreed that this tax expenditure should not be flagged for legislative review but that it should be highlighted in the final report that only about 80% of those eligible for this benefit actually claim it, suggesting there is room for advocacy to increase this share. Members voted to approve the evaluation template for the Earned Income Tax Credit with additional comments.

Amar Patel led a discussion on 1.609 Refundable Credit Against Property Tax for Seniors (Circuit Breaker). This tax expenditure was adopted in 1999 and has an annual revenue impact of \$98.4 to \$179.4 million per year during FY22 through FY26 with no sunset date.

Massachusetts taxpayers aged 65 or older are eligible for a personal income tax credit equal to the amount by which (i) their property tax payments or (ii) 25% of their rent payments exceed 10% of their total income, up to a maximum credit amount. Such payments must be for the taxpayer's principal residence located in Massachusetts. M.G.L. c. 62, § 6(k)(2).

Property tax payments are defined in the statute to include real estate taxes, 50% of water and sewage charges, and charges for betterments assessed to the taxpayer. Rent payments include the actual amount of rent paid. M.G.L. c. 62, § 6(k)(1).

Total income for purposes of the credit generally includes all income that is available to pay property taxes. This includes amounts subject to the Massachusetts personal income tax plus additional cash inflows such as (i) income from social security, (ii) non-taxable retirement income, (iii) the cash value of public assistance, (iv) tax-exempt interest and dividends, (v) non-taxable distributions from trusts or pass-through entities and (vi) gifts. M.G.L. c. 62, § 6(k)(1).

For the credit for property taxes to apply, the assessed valuation of the taxpayer's residence as of January 1, 2024 cannot exceed \$1,172,000. See M.G.L. c. 62, § 6(k)(3); Technical Information Release (TIR) 24-10; Annual Update of Real Estate Tax Credit for Certain Persons Age 65 and Older. The credit is available only to taxpayers whose income does not exceed an eligibility limit. For the 2024 tax year, the income limit was \$72,000 for a single individual, \$91,000 for a head of household and \$109,000 for married couples filing a joint return. No credit is allowed for a married individual unless a joint return is filed. For the 2024 tax year the maximum credit amount is \$2,730. TIR 24-10. The credits may not be sold or transferred to another taxpayer but are refundable. M.G.L. c. 62, § 6(k)(7).

The revenue foregone as a result of the Circuit Breaker credit constitutes a tax expenditure.

The Commission assumes the goal of the expenditure is to assist lower- and middle-income seniors with their housing expenses.

The administration of the Circuit Breaker credit does not present special challenges for DOR. Eligibility for the credit is based on parameters that have been in place since the credit was first implemented in 2001. The DOR monitors the credit as part of its personal income tax audit program.

29 states have credits for property taxes paid by lower- and middle-income taxpayers over age 65. Some allow the credit against the personal income tax. Such states include Connecticut, Maine and Rhode Island. New Hampshire and Vermont offer property tax credits or reductions. New York allows an income tax deduction instead of a credit. California does not have a credit or

deduction.

Members noted that credits like these can lead to slower turnover in property and that this credit can be discriminatory as the credit creates horizontal equity issues because it is only available to taxpayers over 65. These restrictions have the potential to distort the housing market, making housing more expensive for all and disadvantaging the non-elderly poor. Members further noted that the credit will become increasingly expensive, both because the maximum credit amount is increasing and because a growing share of the population will be eligible for the credit.

Members agreed that this tax expenditure should not be flagged for legislative review. Members voted to approve the evaluation template for the Refundable Credit Against Property Tax for Seniors (Circuit Breaker) as presented.

Chairperson Rebecca Forter led a discussion on 3.101 sales tax Exemption for Food. This tax expenditure was adopted in 1967 (with an additional subsection added in 1986) and has an annual revenue impact of \$1,066.1 to \$1,314.2 million per year during FY22 through FY26 with no sunset date.

Massachusetts imposes a 6.25% sales tax on retail sales of tangible personal property, consisting of any produce, goods, wares, merchandise and commodities. M.G.L. c. 64H, §§ 1, 2. Sales of “food products” are exempt from this tax. M.G.L. c. 64H, § 6(h). Food products are foods and beverages that are commonly understood to be groceries (e.g., cereals, flour, milk, meat, fish, eggs, vegetables, fruits, and spices). *Id.* In general, foods and beverages sold by a store (e.g., supermarket, convenience store, etc.) are considered food products and are tax-exempt. All purchases made using Supplemental Nutrition Assistance Program (SNAP) benefits (formerly called “food stamps”) are exempt from the sales tax. M.G.L. c. 64H, § 6(kk).

The food products exemption does not apply to meals sold by a restaurant or restaurant part of a store. M.G.L. c. 64H, § 6(h). A taxable meal is any food or beverage, or both, that has been prepared for immediate consumption and is sold by a restaurant or a restaurant part of a store (e.g., sandwiches, pizza, soup, and poured beverages). *Id.* A restaurant is an establishment that is primarily engaged in the business of selling meals (e.g., diners, bars, cafes, certain catering businesses, and food trucks). *Id.* Certain foods and beverages sold by a restaurant or restaurant part of a store are not considered meals and are exempt from the sales tax. See Tax Expenditure Report 3.102 (Exemption for Certain Food and Beverages Sold in Restaurants). Absent the exemption afforded by this tax expenditure, food products would be subject to sales tax. The revenue lost as a result of the exemption constitutes a tax expenditure.

The Commission assumes that the goal of the expenditure is to shield groceries, which are a life necessity, from the sales tax. Providing an exemption for groceries is especially helpful to low-income earners for whom grocery expenses may comprise a significant percentage of their income.

The administration of the exemption for food presents challenges to DOR and taxpayers. The exemption is based on statutory definitions that often make it difficult to distinguish between exempt food products and taxable meals. Additionally, the application of the exemption often depends on identifying whether the establishment making the sale is a “restaurant,” a “store,”

or a store with “restaurant parts.” Such establishment identification has become increasingly difficult as vendors selling foods and beverages have become more complex (e.g., supermarkets with numerous restaurant parts and options for digital purchasing).

Most states that impose a sales tax provide a similar exemption for food but not meals. Such states include Connecticut, Maine, New York, Rhode Island, and Vermont. Each state defines “food” and “meals” differently, resulting in certain differences between the exemptions. All states that impose a sales tax provide an exemption for food purchases made using SNAP benefits (formerly known as “food stamps”), as required by federal law.

Members noted the significant cost of this tax expenditure and the administrative challenges for DOR. Members agreed that the reality of what is considered a restaurant and what is not is less clear than it used to be. There are many establishments where only a portion of the establishment is considered a restaurant. Examples of this include grocery stores with prepared food sections where meals are available. Members agreed that the administrative challenges are a burden for both vendors and taxpayers. Members agreed that this tax expenditure should not be flagged for legislative review but that it should be highlighted in the final report that it should be reviewed from an administrative perspective. Members voted to approve the evaluation template for the Exemption of Food as presented.

Natasha Varyani led a discussion on 3.102 Exemption for Certain Food and Beverages Sold in Restaurants. This tax expenditure was adopted in 1975 and has an annual revenue impact of \$10.9 to \$14.4 million during FY22 through FY26 with no sunset date.

Massachusetts imposes a 6.25% sales and use tax on retail sales of tangible personal property, consisting of any produce, goods, wares, merchandise and commodities. M.G.L. c. 64H, §§ 1 and 2; M.G.L. c. 64I, §§ 1 and 2. Sales of “food products” are exempt from tax. M.G.L. c. 64H, § 6(h). Food products are foods and beverages that are commonly understood to be groceries. *Id.* The food products exemption does not apply to meals sold by a restaurant or restaurant part of a store. *Id.* A meal is any food or beverage, or both, that has been prepared for immediate consumption and is sold by a restaurant or a restaurant part of a store (e.g., sandwiches, pizza, soup, and poured beverages). *Id.* and 830 CMR 64H.6.5. A restaurant is an establishment that is primarily engaged in the business of selling meals (e.g., diners, bars, cafes, certain catering businesses, and food trucks). *Id.* and 830 CMR 64H.6.5.

Although foods and beverages sold by a restaurant are generally taxable as meals, M.G.L. c. 64H, § 6(h) specifies three categories of food and beverages that “shall not be deemed a meal” when sold by restaurants “for consumption off the restaurant premises.” M.G.L. c. 64H, § 6(h). The premise of this rule is that certain items will be taken out and consumed by households in the preparation or serving of meals at home.

The first exemption category is for “food sold by weight, liquid or dry measure, count or in unopened or original containers or packages.” M.G.L. c. 64H, § 6(h). This exemption only applies to sales of foods that are “commonly sold in such manner in a retail food store which is not a restaurant” (e.g., supermarket, convenience store, etc.). *Id.* For example, uncooked pasta sold by weight is exempt from tax even if sold by a restaurant.

The second exemption category is for “[b]everages in unopened original containers or packages

as a unit having a capacity of at least twenty-six fluid ounces.” Id. For example, a six-pack of 12-ounce beverages is exempt even if sold by a restaurant.

The third exemption category is for “[b]akery products including but not limited to doughnuts, muffins, bagels, and similar items sold in units of six or more.” Id. Note that “bakery stores” are not considered restaurants and all their sales are tax-exempt so long as they exclusively sell baked goods. Id and 830 CMR 64H.6.5. However, due to the third exemption category, baked goods sold by restaurants in quantities of six or more are also exempt. Absent the exemption afforded by this tax expenditure, all foods and beverages sold by a restaurant or restaurant part of a store would be subject to sales and use tax, even if the items purchased will be used by households in the preparation or serving of meals at home. The sales and use tax revenue lost as a result of the exemption for such items constitutes a tax expenditure. The Commission assumes that the goal of the expenditure is to recognize that some items sold by restaurants are akin to grocery items. Groceries are a life necessity which the legislature has chosen to shield from the sales and use tax.

The administration of the exemption for eligible food items sold by restaurants presents challenges to the DOR and taxpayers. The exemption is based on statutory definitions that often make it difficult to distinguish between exempt food products and taxable meals. The application of the exemption requires DOR and taxpayers to determine whether the establishment making the sale is a “restaurant,” a “store,” or a store with “restaurant parts.” Further, it requires DOR and taxpayers to determine whether certain foods are “commonly sold” as groceries and when they are “available for immediate consumption without further significant preparation.” These determinations require fact-specific analyses that can be complicated for DOR and taxpayers.

Most states that impose a sales and use tax provide an exemption for food but not meals. These states provide rules for when certain restaurant sales are considered sales of tax-exempt food rather than taxable meals. Such states include Connecticut, Maine, New York, Rhode Island, and Vermont.

Members noted the administrative challenges associated with this tax expenditure and the lack of clarity of predictability due to broadness of the expenditure. Members agreed that this tax expenditure should not be flagged for legislative review but that it should be highlighted in the final report that it should be reviewed from an administrative perspective.

Members voted to approve the evaluation template for the Exemption of Certain Food and Beverages Sold in Restaurants as presented.

Members agreed to reconvene in September. The purpose of the next meeting is to discuss and vote on the next batch of tax expenditures. The meeting concluded at 1:55 PM.

Tax Expenditure Review Commission Meeting Friday, September 19, 2025

1:00 PM Via Zoom

Commission Members in Attendance:

- Chairperson Rebecca Forter, MA Department of Revenue
- Lindsay Janeczek, Designee, MA Auditor
- Sue Perez, Designee, MA Treasurer
- David Emer, Designee, Senate Chair Joint Committee on Revenue
- Amar Patel, Designee, Senate Committee on Ways and Means
- Chris Carozzi, Designee, Senate Minority Leader
- Professor Natasha Varyani, Governor's Appointee
- Professor Thomas Downes, Governor's Appointee
- Thomas Baranowski, Stand-in Designee, House Chair Joint Committee on Revenue

Commission Members Absent:

- Representative Aaron Michlewitz, House Ways and Means Committee
- Jamie Oppendisano, Designee, House Minority Leader

List of Documents:

- Meeting Agenda
- Draft Minutes
 - May 16, 2025 Meeting
- Presentation of September tax expenditure evaluation ratings, discuss and vote on ratings
 - 1.428 Gambling Loss Deduction
 - 1.623 and 2.625 Cranberry Bog Renovation Credit
 - 1.201 Capital Gains Deduction for Collectibles
 - 1.601 Renewable Energy Source Credit
 - 2.001 Small Business Corporations

Meeting Minutes:

Chairperson Forter welcomed Commission members, and a quorum was recognized. The meeting via teleconference was called to order at 1:04 PM. Chairperson Forter put the Commission and public on notice that the meeting is recorded for the purpose of minutes. The recording of the meeting will be kept for public record.

Chairperson Forter asked for any comments or changes on the May 16, 2025 meeting minutes. Members did not provide any comment. Members voted to approve the May '25 meeting minutes as drafted. The meeting minutes will be posted to the TERC website.

Lindsay Janeczek led a discussion on 1.428 Gambling Loss Deduction. This tax expenditure was adopted in 2015 (amended in 2023 to include sports wagering losses) and has an annual revenue loss estimate to be \$7.0 to \$21.5 million during FY22 through FY26 with no sunset date.

Lindsay Janeczek reviewed ratings on the evaluation sheet for this tax expenditure. Members agreed that it can be difficult to identify taxpayers that claim this deduction but that it is relevant today as thousands of taxpayers claim the deduction.

Members noted that this tax expenditure is not easily administered as the only way to monitor it is through DOR's audit process, which can be challenging. Chairperson Forter noted that the MA rule is separate from the Federal rule and that there were recent changes to the federal rule passed in the One Big Beautiful Bill Act (OBBBA) which limits the federal deduction to 90% of losses. Chairperson Forter mentioned that it would be worth noting in the comment section of the evaluation template that the MA deduction will not conform to the new federal limitations. Members agreed to add this comment.

Members further noted that they disagree that this tax expenditure is beneficial to lower income taxpayers. Tom Downes noted that the summary report indicates that some lower income taxpayers take advantage of this tax expenditure but that a majority of the deduction is claimed by taxpayers with AGI greater than \$500K.

Members discussed whether this tax expenditure incentivizes gambling and if this is worth mentioning in the comment section of the evaluation template. Members discussed the goals of this tax expenditure and agreed that the evaluation template should be edited to remove "access to opportunity" and to add "other" instead.

Chairperson Forter provided a motion to approve the evaluation template with a change of the goal from "access to opportunity" to "other" and with an additional comment noting that the MA deduction will not conform to the new federal limitations passed in OBBBA. Amar Patel seconded the motion. All members were in favor of approving the evaluation template for 1.428 Gambling Loss Deduction with the changes noted above.

David Emer led a discussion on 1.623 and 2.625 Cranberry Bog Renovation Credit. This tax expenditure was adopted in 2021 and has an annual revenue loss of \$0.2 to \$0.4 million during FY23 through FY27. This tax expenditure has a sunset date of December 31, 2030.

David Emer reviewed ratings on the evaluation sheet for this tax expenditure and noted that it is difficult to measure how this tax expenditure is impacting cranberry bogs as it is

difficult to determine whether repairs are happening or not. Members noted that this tax expenditure was enacted recently and that it applies to both personal income and corporate excise. Members agreed that the tax expenditure seems to be easily administered and is a relatively low cost. Members determined that claimants are not necessarily small businesses. Sue Perez pointed out the comments section of the evaluation template which reads, “This tax expenditure is a relatively small cost. But is not limited to small business and is only claimed by a small group of taxpayers. It is also not targeted towards low-income taxpayers.”

Tom Downes suggested checking off an additional goal for this tax expenditure to include Health/Environmental/Social justice. Chairperson Forter and Chris Carlozzi agreed with this suggestion, noting that this credit can be used to renovate abandoned cranberry bogs and that it helps keep farmland as farmland. Sue Perez agreed with this suggestion. Chairperson Forter provided a motion to approve the evaluation template with the suggested change noted above. Sue Perez seconded the motion.

Members were all in favor for this suggested change and moved to approve the evaluation template for 1.623 and 2.625 Cranberry Bog Renovation Credit with the changes noted above.

Chris Carlozzi led a discussion on 1.201 Capital Gains Deduction for Collectibles. This tax expenditure was adopted prior to 1986 and has an annual revenue impact of \$0.12 to \$0.58 million during FY23 through FY27 with no sunset date.

Chris Carlozzi reviewed ratings on the evaluation sheet for this tax expenditure and highlighted that MA uses the federal definition of collectible for this deduction but that this tax expenditure is not a result of conformity to the federal code and that no other state separates collectibles specifically from other types of capital gains.

Members noted that most beneficiaries of this tax expenditure have AGI of more than \$200k and that not many low-income taxpayers are claiming this deduction. Members agreed that this tax expenditure is somewhat relevant today and that the annual revenue impact was negligible enough to justify its fiscal cost.

Members agreed that this tax expenditure is not easily administered since desk audits are required to ensure that taxable gains on collectibles are reported and taxed appropriately.

Chairperson Forter noted that (i) collectibles are taxed at 12%, (ii) all other short term capital gains are taxed at 5%, and that (iii) this tax expenditure essentially reduces the capital gains rate on collectibles to 6%. Members agreed that this could be considered

a structural problem and that additional comments should be added to the evaluation template stating that this tax expenditure is a convoluted way to apply a lower tax rate to collectibles.

Tom Downes noted that this tax expenditure was previously flagged for legislative review by the Commission in the 2021 TERC report. Members agreed that it would be appropriate to flag it again for legislative review and to add additional comments to the evaluation template to treat collectibles the same as other short term capital gains. Chairperson Forter made a motion to approve the evaluation template with the additional comments. Chris Carozzi seconded the motion. Members were all in favor of approving the evaluation template for 1.201 Capital Gains Deduction for Collectibles with additional comments.

Tom Downes led a discussion on 1.601 Renewable Energy Source Credit. This tax expenditure was adopted in 1979 and has an annual revenue impact of \$6.5 to \$9.7 million during FY23 through FY27 with no sunset date.

Tom Downes reviewed the ratings on the evaluation sheet for this tax expenditure and noted that this credit is primarily used for solar installations but is also applicable to wind. Absent this tax expenditure some people would still install solar. The cost of this tax expenditure may understate the total benefits, as some benefits are going to everyone in the Commonwealth. Roughly 7,500 taxpayers claim this credit annually with some taxpayers receiving up to \$11K. Tom also noted that while some lower income taxpayers may take advantage of this tax expenditure, a majority of benefits go to taxpayers with AGI of over \$100K.

Tom Downes noted that this tax expenditure is relevant today. There has been an increase in claims over the past 10 years. Members agreed that this made sense given the Commonwealth's climate goals and changes in federal incentives. Members assume that claims will flatten out since the mirroring federal benefit has been eliminated.

No other comments were made by members. Members agreed that this tax expenditure should not be flagged for legislative review. Tom Downes made a motion to approve the evaluation template. Natasha Varyani seconded the motion. Members were all in favor to approve the evaluation template for 1.601 Renewable Energy Source Credit as presented.

Amar Patel led a discussion on 2.001 Small Business Corporations. This tax expenditure was adopted in 1986 and has an annual revenue impact of \$269.5 to \$310.4 million during FY23 through FY27 with no sunset date.

Amar Patel reviewed the ratings on the evaluation sheet for this tax expenditure and noted that this tax expenditure is not a result of conformity to the federal code and that its primary goal is competitiveness rather than job creation. Amar highlighted that over 90% of the annual 120K claimants have taxable income of greater than \$50K. Members agreed that this tax expenditure justifies its fiscal cost and that it is claimed by its intended beneficiaries, which makes it relevant today.

Amar Patel noted the increasing cost of this tax expenditure. Members agreed that it is difficult to determine whether businesses are opting for being S corporations for such benefits as it appears more and more small businesses are adopting S corporation status. Members agreed that this tax expenditure is easily administered as it can be compared to federal returns.

Chairperson Forter noted that the \$6M to \$9M thresholds may have stayed the same since this tax expenditure was enacted in 1986. Tom Chappel provided a brief history of this tax expenditure and S corporations in general, stating that the \$6M to \$9M thresholds have been a rule since this tax expenditure was enacted. Chairperson Forter mentioned that this would be noting in the comment section of the evaluation template. Kazim Ozyurt noted that other tax expenditures have adjustments for inflation, and this one does not. Chris Carlozzi agreed that adding this additional comment would be beneficial.

David Emer mentioned that it may be worthwhile to add further comments about what constitutes an S corporation (less than 100 shareholders) so that the public is not under the assumption that all S corporation are small 'mom and pop shops'. Tom Downes noted that when the Commission previously evaluated this tax expenditure the report included a question regarding larger entities claiming this tax expenditure. Members agreed that it would be beneficial to include more data on S corps generating over \$9M in gross receipts.

Members agreed that this tax expenditure should not be flagged for legislative review but that additional comments should be added to the evaluation template to address (i) what constitutes an S Corp (ii) size and scale of S corps in Massachusetts, and that the (iii) \$6M to \$9M thresholds have stayed the same since this tax expenditure was enacted.

Chairperson Forter made a motion to approve the evaluation template with additional comments. Tom Downes seconded the motion. Members voted to approve the evaluation template for 2.001 Small Business Corporations with additional comments noted above.

Members agreed to reconvene in October. The purpose of the next meeting is to

discuss and vote on the next batch of tax expenditures. The meeting concluded at 1:55 PM.

Tax Expenditure Review Commission Meeting Monday, November 17, 2025

10:00 AM Via Zoom

Commission Members in Attendance:

- Chairperson Rebecca Forter, MA Department of Revenue
- Lindsay Janeczek, Designee, MA Auditor
- Sue Perez, Designee, MA Treasurer
- David Emer, Designee, Senate Chair Joint Committee on Revenue
- Andrew DeFalco, Designee, Senate Committee on Ways and Means
- Professor Natasha Varyani, Governor's Appointee
- Professor Thomas Downes, Governor's Appointee
- Thomas Baranowski, Designee, House Chair Joint Committee on Revenue
- Jamie Oppendisano, Designee, House Minority Leader

Commission Members Absent:

- Representative Aaron Michlewitz, House Ways and Means Committee
- Chris Carozzi, Designee, Senate Minority Leader

List of Documents:

- Meeting Agenda
- Draft Minutes
 - September 19, 2025 Meeting
- Presentation of November tax expenditure evaluation ratings, discuss and vote on ratings
 - 2.203 Net Operating Loss (NOL) Carryover
 - 2.502 Exemption for Property Subject to Local Taxation
 - 1.046 Exclusion of Benefits Provided to Volunteer Firefighters and Emergency Medical Responders
 - 1.018 Exemption of Meals and Lodging Provided at Work
 - 1.202 Deduction of Capital Losses against Interest and Dividend Income
 - 3.201 Exemption for Alcoholic Beverages

Meeting Minutes:

The meeting via teleconference was called to order at 10:02 AM. Chairperson Forter welcomed Commission members and noted changes in membership. Tom Baranowski has been appointed as the new designee for Rep. Adrian C. Madaro, House Chair, Joint Committee on Revenue. Andrew DeFalco has been appointed as the new designee for Sen. Michael Rodrigues, Chair, Senate Ways and Means. Chairperson Forter called roll, and a quorum was recognized. Chairperson Forter put the Commission and public on notice that the meeting is recorded for the purpose of minutes. The recording of

the meeting will be kept for public record and will not be deleted.

Chairperson Forter asked for any comments or changes on the September 19, 2025 meeting minutes. Members did not provide any comment. Sue Perez made a motion to approve the minutes from the last meeting. Tom Downes seconded the motion. Members were in favor to approve the September '25 meeting minutes as drafted. Jamie Oppendisano abstained since he was absent from the last meeting. The meeting minutes will be posted to the TERC website.

Tom Downes led a discussion on 2.203 Net Operating Loss (NOL) Carryover. This tax expenditure was adopted in 1988 and has an annual revenue impact of \$234.3 to \$285.3 million per year during FY23 through FY27 with no sunset date.

Tom noted that most states have similar tax expenditures, highlighting a report recently published by the Tax Foundation which summarizes NOL rules across all states. Members briefly discussed how California had suspended its NOL for budgetary reasons related to COVID.

Tom reviewed ratings on the evaluation sheet for this tax expenditure. The Commission voted "somewhat agree" on the questions of whether i) we can measure the overall benefit of this tax expenditure and ii) the tax expenditure justifies its fiscal cost. The Commission voted "strongly agree" on the questions of whether i) the tax expenditure is claimed by its intended beneficiaries, ii) the tax expenditure is claimed by a broad group, iii) the amount claimed per taxpayer is meaningful as an incentive/benefit, and iv) the tax expenditure is relevant today. Tom mentioned that this tax expenditure is especially helpful to small businesses, and that they represent the vast majority of businesses that claim NOLs. In 2021, more than 14,000 businesses claimed this deduction. Over 12,000 of these businesses had a taxable income range of \$0 to \$49,999 and less than 50 employees. The Commission voted "somewhat disagree" on the question of whether the tax expenditure is easily administered. Tom noted that there is a similar federal deduction for NOLs under Internal Revenue Code (Code) § 172. Massachusetts does not adopt the federal deduction and instead allows the state-specific deduction. The Commission voted "somewhat agree" on the question of whether the tax expenditure is primarily beneficial to smaller businesses. Tom noted that small and large businesses are eligible to claim this deduction. The average claimed amount varied from \$78,413 for corporations with taxable income of \$50,000 to \$99,999 to \$2.1 million for corporations with taxable income of \$1 million or more.

Tom highlighted the questions listed in the comment section of the evaluation template. Would aligning with the federal Code ease administration and result in increased revenue? Is that worth the harm to small businesses? The Commission agreed that this tax expenditure should not be flagged for legislative review. Tom and Natasha made motions to approve the evaluation template. Members voted to approve the evaluation template 2.203 Net Operating Loss (NOL) Carryover as presented.

Lindsay Janeczek led a discussion on 2.502 Exemption for Property Subject to Local

Taxation and noted that it has been previously evaluated by the Commission. This tax expenditure is a corporate excise expenditure that was adopted in 1962 and has an annual revenue impact of \$376.0 to \$418.8 million per year during FY23 through FY27 with no sunset date. The Commission noted that the goal of this tax expenditure is to avoid duplication of state and local taxation.

Lindsay reviewed ratings on the evaluation sheet for this tax expenditure. The Commission voted “somewhat agree” on the questions of whether i) we can measure the overall benefit, ii) the tax expenditure justifies its fiscal cost, iii) the tax expenditure is claimed by its intended beneficiaries, iv) the tax expenditure is claimed by a broad group of taxpayers, v) the amount claimed per taxpayer is meaningful as an incentive/benefit, and vi) the tax expenditure is relevant today. Lindsay noted that this tax expenditure is targeted towards corporations that have tangible property subject to local taxation in Massachusetts and that this reduction in capital costs helps businesses to thrive and grow, highlighting that about 50,000 filers claim this deduction annually. The Commission voted “somewhat disagree” on the question of whether this tax expenditure is easily administered. Lindsay noted that administering this tax expenditure can be challenging for DOR since the only way to ensure that tangible property is being reported properly is through audits. Chairperson Forter mentioned that DOR frequently receives questions from taxpayers regarding this exemption. Natasha Varyani highlighted that some of these questions end up being litigated at the Appellate Tax Board (ATB). The Commission discussed whether this tax expenditure is primarily beneficial to smaller businesses. Members concluded that they “somewhat agree”. Chairperson Forter and Natasha Varyani noted that the exemption is available to all corporate excise taxpayers subject to local taxation, but that the impact may be more significant for smaller businesses.

The Commission agreed that this tax expenditure should not be flagged for legislative review. Chairperson Forter made a motion to approve the evaluation template. Jamie Oppedisano seconded the motion. Members voted to approve the evaluation template for 2.502 Exemption for Property Subject to Local Taxation as presented.

Jamie Oppedisano led a discussion on 1.406 Exclusion of Benefits Provided to Volunteer Firefighters and Emergency Medical Responders. This tax expenditure was adopted in 2022 and has an annual revenue impact of \$0.4 to \$0.5 million per year during FY23 through FY27 with no sunset date. This tax expenditure is a result of Massachusetts’ conformity with the Internal Revenue Code.

Jamie reviewed ratings on the evaluation sheet for this tax expenditure. The Commission assumes the goal of this tax expenditure is to recruit and retain volunteer firefighters and emergency medical responders. The Commission voted “somewhat disagree” on the question of whether we can measure the overall benefit towards achieving the goal. The Commission voted “somewhat agree” on the question of whether the tax expenditure justifies its fiscal cost. The Commission voted “strongly agree” that the tax expenditure is claimed by its intended beneficiaries. The Commission voted “somewhat disagree” on the questions of whether i) the tax expenditure is claimed by a broad group of taxpayers

and ii) the amount claimed per taxpayer is meaningful as an incentive/benefit. Jamie noted that about 15,000 taxpayers claim this exclusion annually and that the average tax savings is about \$30 per taxpayer. The Commission voted “somewhat agree” on the question of whether the tax expenditure is relevant today. The Commission voted “strongly agree” on the question of whether the tax expenditure is easily administered. Jamie noted that this tax expenditure results in a limited revenue impact and it does not present an administrative burden for DOR. The Commission voted “somewhat disagree” on the question of whether the tax expenditure is primarily beneficial to lower income taxpayers. Jamie noted that the intention of the tax expenditure is not the relief of poverty.

The Commission agreed that this tax expenditure should not be flagged for legislative review, highlighting that volunteer firefighters and EMTs serve a vital role in a substantial number of Massachusetts communities. Chairperson Forter noted that this is a new expenditure for Massachusetts (IRC provision enacted 2007; updated 2019; MA conformed to IRC provision in 2022). Members agreed to update the year of adoption in the DOR report to reflect these details. Sue Perez made a motion to approve the evaluation template. Chairperson Forter seconded the motion. The Commission voted to approve the evaluation template for 1.406 Exclusion of Benefits Provided to Volunteer Firefighters and Emergency Medical Responders as presented.

The Commission agreed to review the 1.018 Exemption of Meals and Lodging Provided at Work during the next meeting since the assigned members were absent from this meeting.

Chairperson Forter led a discussion on 1.202 Deduction of Capital Losses against Interest and Dividend Income. This tax expenditure has previously been evaluated by the Commission. This tax expenditure was adopted in 2002 and has an annual revenue impact of \$17.5 to \$24.9 million per year during FY23 through FY27 with no sunset date.

Individual taxpayers may deduct up to \$2,000 of net capital losses against interest and dividend income. Any remaining capital losses can be carried forward and deducted in a succeeding taxable year. Chairperson Forter noted that there is a similar federal deduction that allows up to \$3,000 of net capital loss to be deducted against any ordinary income (not just interest and dividend income). See Code § 1211. Chairperson Forter highlighted that the federal deduction is broader than the Massachusetts deduction and that Massachusetts does not follow that Code provision.

Chairperson Forter reviewed ratings on the evaluation sheet for this tax expenditure. The Commission assumes the goal of the tax expenditure is fairness and to reduce loss harvesting across income types. Loss harvesting is a practice where taxpayers intentionally sell capital assets at a loss in order to offset other types of income. The Commission voted “somewhat disagree” on the question of whether we can measure the overall benefit toward achieving the goal. Chairperson Forter mentioned that the benefit of the federal deduction is significantly larger than the state deduction due to the

differences in tax rates and that, in general, the federal rules are a greater incentive than state rules. The Commission voted “somewhat agree” on the question of whether the tax expenditure justifies its fiscal cost. Chairperson Forter noted that the fiscal cost is not extraordinary nor insignificant. The Commission voted “somewhat agree” on the question of whether the tax expenditure is claimed by its intended beneficiaries. The Commission voted “strongly agree” on the question of whether the tax expenditure is claimed by a broad group of taxpayers. About 500,000 taxpayers claim this deduction annually. The Commission voted “strongly disagree” on the question of whether the amount claimed per taxpayer is meaningful as an incentive/benefit. Chairperson Forter mentioned that the value of the Massachusetts deduction is not that significant, especially in comparison to the federal deduction. The Commission voted “somewhat agree” on the question of whether the tax expenditure is relevant today. The Commission voted “somewhat disagree” on the question of whether the tax expenditure is easily administered. The mismatch between state and federal rules make it somewhat challenging for DOR to track. The Commission voted “strongly disagree” on the question of whether the tax expenditure is primarily beneficial to lower income taxpayers. Chairperson Forter noted that higher income taxpayers are more likely to have investment income compared to lower income taxpayers.

The Commission agreed that this tax expenditure should not be flagged for legislative review. Chairperson Forter mentioned that one reason we may want to flag it is due to the mismatch in state and federal rules, but that Massachusetts cannot simply conform due to its unique structure for classifying and taxing income.

Natasha Varyani suggested voting “somewhat disagree” instead of “somewhat agree” on the question of whether the tax expenditure justifies its fiscal cost. Members agreed with this change. Chairperson Forter provided a motion to approve the evaluation template. Jamie Oppedisano seconded the motion. The Commission voted to approve the evaluation template for 1.202 Deduction of Capital Losses against Interest and Dividend Income with the change mentioned above.

Sue Perez led a discussion on 3.201 Exemption for Alcoholic Beverages. This tax expenditure has previously been reviewed by the Commission. This tax expenditure was adopted in 1967, repealed in 2009, and reinstated in 2010, and has an annual revenue impact of \$173.8 to \$186.5 million per year during FY23 through FY27 with no sunset date. Sue noted the increasing cost of this tax expenditure. The revenue impact was \$120.9 to \$131.6 million per year during FY18 through FY22. Kazim Ozyurt helped clarify the increasing cost of this tax expenditure, highlighting that sales tax would be imposed on the price of alcohol while excise tax is imposed on the volume of alcohol. As the price of alcohol increases over time, so does the revenue loss resulting from this tax expenditure.

Sue Perez reviewed ratings on the evaluation sheet for this tax expenditure. The goal of this exemption is to avoid double taxation. Sue highlighted that alcoholic beverages, except those sold by a restaurant as a meal, are exempt from sales tax. They are instead

subject to an alcoholic beverage excise at the wholesale level. The excise is determined by volume rather than retail sales price. The Commission voted “somewhat agree” on the question of whether we can measure the overall benefit toward achieving the goal. The Commission voted “strongly disagree” on the question of whether the tax expenditure justifies its fiscal cost. The Commission discussed the fiscal cost of this tax expenditure. Chairperson Forter and Kazim Ozyurt clarified that the revenue loss resulting from this tax expenditure is the forgone sales tax that otherwise would have been collected absent this tax expenditure, not the differential between the amount that would be collected in sales tax and the amount actually collected through the alcoholic beverage excise. Sue noted that alcoholic beverage excise tax collections in FY25 totaled \$92.9 million. Sue questioned whether the intent of this sales tax exemption is to forgo more revenue collections than what is actually collected via the excise tax. Natasha Varyani mentioned that she agrees with the Commission’s rating on the question of whether the tax expenditure benefits justify its fiscal cost, highlighting the difference between the sales tax and excise tax on alcohol as well as the growing cost of this expenditure. The Commission voted “somewhat agree” on the questions of whether i) the tax expenditure is claimed by its intended beneficiaries, ii) the tax expenditure is claimed by a broad group of taxpayers and iii) the tax expenditure is relevant today. The Commission voted “strongly disagree” on the question of whether the amount claimed per taxpayer is meaningful as an incentive/benefit. The Commission voted “strongly agree” on the question of whether the tax expenditure is easily administered. The Commission voted “somewhat agree” on the questions of whether i) the tax expenditure is primarily beneficial to smaller businesses and ii) the tax expenditure is primarily beneficial to lower income taxpayers. Sue mentioned that smaller businesses and lower income taxpayers make up a large portion of those claiming this exemption.

The Commission questioned whether this tax expenditure should be flagged for legislative review, noting its increasing costs. Chairperson Forter reminded members that the final report mentions tax expenditures that have received “strongly disagree” measurement and effectiveness ratings. Tom mentioned that most states have double taxation on alcohol, imposing both excise tax and sales tax. Sue noted that Massachusetts excise rates haven’t changed in a long time. Members agreed that it may make sense to flag this tax expenditure for legislative review in light of increasing costs of alcohol and stagnant excise rates. Tom asked about the treatment of cigarettes in comparison not alcohol. Kazim confirmed that both excise and sales tax are imposed on cigarettes. Members discussed the differences in these “sin taxes”. Sue asked whether Massachusetts excise rates (for alcohol and cigarettes) are competitive compared to neighboring states. Kazim confirmed that Massachusetts excise rates for alcohol are competitive, but that excise rates on cigarettes are relatively high compared to other states. The Commission agreed that this tax expenditure should not be flagged for legislative review but that additional comments should be added to the evaluation template noting the structure of the excise tax, the increasing revenue impact, and treatment of alcohol by other states. Chairperson Forter made a motion to approve the evaluation template. Natasha seconded the motion. The Commission voted to approve the evaluation template for

3.201 Exemption for Alcoholic Beverages with the additional comments noted above.

Members agreed to reconvene in December if possible. The purpose of the next meeting is to discuss and vote on the next batch of tax expenditures. The meeting concluded at 10:55 AM.

Tax Expenditure Review Commission Meeting Friday, January 23, 2026

2:00 PM Via Zoom

Commission Members in Attendance:

- Chairperson Rebecca Forter, Designee, MA Department of Revenue
- Lindsay Janeczek, Designee, MA Auditor
- Sue Perez, Designee, MA Treasurer
- David Emer, Designee, Senate Chair Joint Committee on Revenue
- Andrew DeFalco, Designee, Senate Committee on Ways and Means
- Professor Natasha Varyani, Member, Governor's Appointee
- Professor Thomas Downes, Member, Governor's Appointee
- Thomas Baranowski, Designee, House Chair Joint Committee on Revenue
- Jamie Oppendisano, Designee, House Minority Leader
- Chris Carlozzi, Designee, Senate Minority Leader

Commission Members Absent:

- Representative Aaron Michlewitz, Member, House Ways and Means Committee

List of Documents:

- Meeting Agenda
- Draft Minutes
 - November 17, 2025 Meeting
- Presentation of January tax expenditure evaluation ratings, discuss and vote on ratings
 - 2.604 Research Credit
 - 1.018 Exemption of Meals and Lodging Provided at Work
 - 2.602 Investment Tax Credit
 - 1.042 and 1.501 Favorable Tax Treatment of Qualified Small Business Stock (QSBS) Gain
 - 3.106 Exemption for Newspapers and Magazines
 - 1.603 and 2.605 EDIP/Economic Development Incentive Program Credit
 - 3.309 Exemption for Vessels, Materials, Tools, Fuels, and Machinery Used in Commercial Fishing

Meeting Minutes:

The meeting via teleconference was called to order at 2:01 PM. Chairperson Forter welcomed Commission members, called roll, and a quorum was recognized. Chairperson Forter put the Commission and public on notice that the meeting is recorded for

the purpose of minutes. The recording of the meeting will be kept for public record and will not be deleted.

Chairperson Forter asked for any comments or changes on the November 17, 2025 meeting minutes. Members did not provide any comment. Chairperson Forter made a motion to approve the minutes from the last meeting. Natasha Varyani seconded the motion. Members were in favor to approve the November '25 meeting minutes as drafted. The meeting minutes will be posted to the TERC website.

David Emer led a discussion on 2.604 Research Credit. This is a corporate tax expenditure that was adopted in 1991. The annual cost of this tax expenditure is \$612.2 to \$697.9 million. This tax expenditure is not a result of conformity. The Commission noted that the federal Code has its own research credits. The goal of the expenditure is job creation and maintenance, investment, and competitiveness/strategic. David Emer noted that the ratings did not change much since the last time the tax expenditure was evaluated and flagged that some companies that are not traditionally thought of as R&D companies are eligible for this credit, such as Finance and Real Estate and Leasing. Chairperson Forter mentioned that qualifying expenses for the Massachusetts credit are tied to the qualified expenses for purposes of the federal credit. About 10 years ago the IRS revised their regulations on qualifying expenses and significantly expanded them to include fintech research and other types of research not traditionally thought of as eligible for the research credit. David Emer proposed adding these details to the comment section of the evaluation template. Chairperson Forter agreed. Sue Perez stated that the intention is to not flag this tax expenditure for legislative review, but it is to be mentioned in the final report due to the recent expansion of qualified expenses and the tax expenditure's significant cost. David Emer agreed. Sue Perez mentioned that during the last evaluation of this expenditure the Commission voted "somewhat agree" on the question of whether the tax expenditure is easily administered, during this evaluation of the expenditure the Commission voted "somewhat disagree" as administration of this credit presents challenges and it reviewed as a part of DOR's corporate excise audit process. Chairperson Forter agreed with this change and asked whether there were any questions or comments. Kazim Ozyurt highlighted that the amount of credit generated but not yet claimed has increased significantly over the years since it was adopted. There were no other comments from members. Chairperson Forter made a motion to approve the evaluation template with additional comments noting the expansion of the credit. Tom Downes seconded the motion. Members voted to approve the evaluation template for 2.604 Research Credit with the additional comment noted above.

Chris Carlozzi led a discussion on 1.018 Exemption of Meals and Lodging Provided at Work. This a personal income tax expenditure that was adopted in 1973 and has an annual cost of \$67 – 75.9 million with no sunset date. This tax expenditure is a result of conformity to the federal code. The goal of the expenditure is job creation and maintenance as well as to simplify filing. The Commission voted "somewhat disagree" on the question of whether we can measure the overall benefit toward achieving the goals. The Commission voted "strongly agree" on the questions of whether (i) the tax expenditure's benefit justifies its fiscal cost and (ii) the tax expenditure is claimed by its intended beneficiaries. The

Commission voted “somewhat agree” on the questions of whether (i) the tax expenditure is claimed by a broad group of taxpayers, (ii) the tax expenditure is primarily beneficial to smaller businesses, and (iii) the tax expenditure is primarily beneficial to lower income individuals. This tax expenditure was not flagged for legislative review. Chris Carlozzi noted that no other state decouples from this federal Code item and that it simplifies filing. Chairperson Forter noted that this is the income tax exclusion on the employee side and suggested moving the rating on the question of whether the tax expenditure is primarily beneficial to lower income individuals from “somewhat agree” to “somewhat disagree”. Chris Carlozzi agreed with this change. Chairperson Forter asked members if they had any other comments. No comments from members. Chairperson Forter made a motion to approve the evaluation template. Jamie Oppedisano seconded the motion. Members voted to approve the evaluation template for 1.018 Exemption of Meals and Lodging Provided at Work with the change noted above.

Chairperson Forter led a discussion on 2.602 Investment Tax Credit. Corporations engaged in manufacturing, research and development, agriculture or commercial fishing are allowed a credit of 3% of the cost of qualifying tangible property. Qualifying tangible property generally includes buildings and components of buildings. The credit can be claimed by owners and lessees of qualifying property, and the property has to be depreciable for federal tax purposes. Chairperson Forter noted that the ratings did not change much since the last time the tax expenditure was evaluated. This tax expenditure is not a result of conformity to the federal Code. This tax expenditure was not flagged for legislative review. The Commission voted “somewhat disagree” on the questions of whether (i) the tax expenditure is claimed by a broad group of taxpayers and (ii) the tax expenditure is primarily beneficial to smaller businesses. Only a couple thousand taxpayers claim the credit annually, but this may be due to the narrow scope of the credit. Chairperson Forter noted that there isn’t anything particular about this tax expenditure that should be called out to the Legislature. Chairperson Forter made a motion to approve the evaluation template. Lindsay Janeczek seconded the motion. Members voted to approve the evaluation template for 2.602 Investment Tax Credit as presented.

Andrew DeFalco led a discussion on 1.042 and 1.501 Favorable Tax Treatment of Qualified Small Business Stock (QSBS) Gain. Under federal law, certain gains derived from sales of QSBS are excluded from income. Because Massachusetts generally follows the Code “as amended on January 1, 2024 and in effect for the taxable year” for personal income tax purposes, the Commonwealth follows this expenditure as it applied to 2024 tax years. Under those rules, the value threshold is \$50 million, and the stock must be held for five years, after which a 100% exclusion applies. The lifetime exclusion limit is \$5 million. Additionally, under Massachusetts law certain gains on the sale of QSBS are taxed at a reduced rate of 3% if the corporation is domiciled in Massachusetts. The Code has been amended several times since it was enacted. Most recently, effective for stock acquired after July 4, 2025, Congress expanded the scope of this expenditure by raising the threshold value for stock to \$75 million (from \$50 million) and allowing an exclusion of 50% of the gain if the stock is held for at least three years, 75% if held for four years, and 100% if held for five

years. Massachusetts does not conform to those changes because they were not in the Code as in effect on January 1, 2024. The annual cost of this tax expenditure is \$28.2 – \$43.9 million. The goal of this tax expenditure is to incentivize investment in certain small businesses. Andrew DeFalco noted that the evaluation ratings changed slightly since this tax expenditure was last evaluated to account for earlier changes to the Code to which Massachusetts does conform. The Commission voted “somewhat agree” on the questions of whether (i) we can measure the overall benefit toward achieving the goal, (ii) the amount claimed per taxpayer is meaningful as an incentive/benefit, (iii) the tax expenditure is relevant today, and (iv) the tax expenditure is easily administered. The Commission voted “strongly agree” on the questions of whether (i) the tax expenditure’s benefit justifies its fiscal cost and (ii) the tax expenditure is claimed by its intended beneficiaries. The Commission voted “somewhat disagree” on the question of whether the tax expenditure is claimed by a broad group of taxpayers. Tom Baronowski noted that in recent years the number of claimants decreased from several hundred to about 50. The Commission speculated that this may be due to current economic conditions. Kazim Ozyurt mentioned that 2021 was a peak year for capital gains and is unsure of the exact reason for the decline. David Emer talked about an article from November 2025 about taxation and economic policy that reported a growing trend of states decoupling from this federal expenditure, including Alabama, California, Mississippi, and Pennsylvania. Andrew DeFlaco questioned whether states were decoupling as a result of the recent federal change or for other reasons. Tom Chappell suggested that there may not be much of an investment climate in those states. Kazim Ozyurt proposed that states may have decoupled due to decreasing popularity and increasing costs. Chairperson Forter noted that this would be worthwhile to mention in the comment section of the evaluation template. Andrew DeFalco agreed. Chairperson Forter also suggested adding to the comments that while the expenditure is a result of federal conformity to the Code, Massachusetts provides for a reduced tax rate of 3% on the gain that is not excluded if the corporation is domiciled in Massachusetts which is not provided at the federal level. Andrew DeFalco agreed. Chairperson Forter asked members if there were any other comments. Natasha Varyani flagged that there appears to be differences between Massachusetts and federal tax expenditures even when the Massachusetts expenditure is a result of conformity to the Code. Chairperson Forter made a motion to approve the template. Jamie Oppedisano seconded the motion. Members voted to approve the evaluation template for 1.042 and 1.501 Favorable Tax Treatment of QSBS Gain with the additional comments noted above.

Chris Carlozzi led a discussion on 3.106 Exemption for Newspapers and Magazines. The annual cost of this expenditure is \$25 million and is expected to diminish over time. This sales tax exemption was adopted in 1967 and is not a result of conformity to the Code. The Commission assumes that the goal of this tax expenditure is to encourage readership. The Commission voted “somewhat agree” on the questions of whether (i) we can measure the overall benefit toward achieving the goal, (ii) the tax expenditure’s benefit justifies its fiscal cost, (iii) the tax expenditure is claimed by its intended beneficiaries, (iv) the amount claimed per taxpayer is meaningful as an incentive/benefit, (v) the tax expenditure is relevant today, and (vi) the tax expenditure is easily administered. Chris Carlozzi noted that the benefit of this expenditure can be measured by observing sales and that we see a

reduction in people buying print or hard copy versions of newspapers and magazines with the growing trend of publications moving to an online platform. The Commission voted “somewhat disagree” on the questions of whether (i) the tax expenditure is claimed by a broad group of taxpayers, (ii) the tax expenditure is primarily beneficial to smaller businesses, and (iii) the tax expenditure is primarily beneficial to lower income taxpayers. Chris Carlozzi noted that fewer taxpayers benefit from this expenditure today compared to previous years and that many large supermarkets and chains sell newspapers and magazines. This tax expenditure was not flagged for legislative review. Chris Carlozzi reviewed the comment section of the evaluation template which highlights the reasons for not flagging this expenditure for review. Chairperson Forter asked members for any comments. Chris Carlozzi mentioned that online subscriptions for newspapers and magazines are not taxed. Tom Chappell noted that when this exemption was adopted online versions of newspapers and magazines did not exist. Chairperson Forter suggested adding a sentence to the comment section stating the online versions of newspapers and magazines are not subject to tax. Members agreed with this change. Chairperson Forter made a motion to approve the template. Chris Carlozzi seconded. Members voted to approve the evaluation template for 3.106 Exemption for Newspapers and Magazines with the additional comment noted above.

Tom Downes led a discussion on 1.603 and 2.605 Economic Development Incentive Program Credit (EDIP). This credit was adopted in 1993 and is available to both corporate and individual taxpayers. The goal of the expenditure is job creation and maintenance, investment, and competitiveness/strategic. Tom noted that evaluation ratings for this tax expenditure have changed since it was last reviewed. The Commission voted “somewhat disagree” on the questions of whether (i) we can measure the over benefit toward achieving the goals, (ii) the tax expenditure’s benefit justifies its fiscal cost, (iii) the tax expenditure is claimed by its intended beneficiaries, (iv) the tax expenditure is claimed by a broad group, (v) and the amount claimed per taxpayer is meaningful as an incentive/benefit. The Commission voted “somewhat agree” on the questions of whether (i) the tax expenditure is relevant today and (ii) the tax expenditure is easily administered. Tom Downes noted that (i) there is growing evidence that these types of subsidies frequently go to firms/individuals who would have pursued the activities even if the subsidies were not available and (ii) while a number of small businesses benefit from this tax expenditure, over 91% of the claimants are large businesses and high income taxpayers with income of \$1 million or more. For the individuals with income of more than \$1 million, Chris Carlozzi asked whether there was a breakdown of how many were pass-through business versus actual individuals. Tom Downes noted that this specific data was not available in the report, but he assumes mostly pass-through businesses. Natasha Varyani suggested that this tax expenditure not be flagged for legislative review. Tom Downes and Chairperson Forter agreed. Chairperson Forter asked members whether there were any other comments or questions. No comment from members. Chairperson Forter made a motion to approve. Tom Downes seconded the motion. Members voted to approve the evaluation template for 1.603 and 2.605 Economic Development Incentive Program Credit (EDIP) as presented.

Chairperson Forter led a discussion on 3.309 Exemption for Vessels, Materials, Tools, Fuels, and Machinery Used in Commercial Fishing. This is a sales tax exemption. This tax expenditure is not a result of conformity to the code. The Commission voted “somewhat disagree” on the question of whether the tax expenditure is claimed by a broad group of taxpayers. There are only a few thousand beneficiaries of this expenditure since it is aimed at a particular industry. The Commission voted “somewhat disagree” on the question of whether the tax expenditure is primarily beneficial to smaller businesses. Chairperson Forter reviewed the comments section of the evaluation template. The Commission does not have data on who is claiming the exemption, smaller fishing outfits vs. large companies. The last time this expenditure was reviewed, the Commission noted that it has significant benefits outside the commercial fishing industry. It supports the Commonwealth’s tourism industry and contributes to the region’s cultural history. The size of the fishing industry is substantial and is important in several of the Massachusetts’ Gateway Cities. This tax expenditure helps to maintain the fiscal health of those cities. In addition, neighboring states have similar policies. Chairperson Forter asked members whether there were any other questions. No comment from members. Chairperson Forter made a motion to approve the template. Natasha Varyani seconded. Members voted to approve the evaluation template for 3.309 Exemption for Vessels, Materials, Tools, Fuels, and Machinery Used in Commercial Fishing as presented.

Chairperson Forter noted that the next Commission meeting is to be scheduled for February to review the next batch of expenditures and to review the draft annual report. A draft will be circulated to members in upcoming weeks. Chairperson Forter asked members whether there were any other comments or questions. No comments from members. Chairperson Forter thanked members for their participation and made a motion to conclude the meeting. The meeting was adjourned at 2:56 PM.

Appendix E: Description of Economic Analysis

This appendix explains why the Commission uses a static economic impact analysis model for the evaluation of a tax expenditure. A static model is used to measure only the direct impacts. A dynamic model is used to measure the direct impacts and indirect impacts. As explained below, a tax expenditure generates not only direct impacts, but also indirect impacts.

On one hand, a tax expenditure generates direct benefits to some taxpayers in the form of lower production or capital cost, or higher disposable income, or lower consumer price, etc. On the other hand, because the Commonwealth must balance its budget, spending on a tax expenditure means fewer funds available to spend on other expenditure items if there is no increase in state revenues. Reduced spending on other expenditure items means forgone benefits from those items. This is a direct cost¹ to the Commonwealth, which is ultimately borne by the Massachusetts residents or businesses that would have benefitted from additional spending on those other expenditure items. The direct costs to the Commonwealth in the form of other foregone benefits are equal to the direct benefits to taxpayers of the particular tax expenditure.

Besides the direct costs and benefits, there are indirect and induced costs and benefits associated with a tax expenditure. The indirect impact (cost or benefit) is felt by the chain of businesses that provide intermediate products and services to the directly impacted businesses. The induced impact (cost or benefit) is felt by the chain of businesses that benefit when the employees working for the directly impacted businesses spend their wages and salaries to buy goods and services. Accordingly, the total benefits and/or costs to the whole economy are larger than the initial direct impacts. This phenomenon is called the “Multiplier Effect”.² To measure indirect and induced costs and benefits, economists often need to utilize complicated models, such as REMI (Regional Economic Models, Inc.) or IMPLAN (Impact Analysis for Planning) models. The citation in footnote 2 provides a comparison of these three models. DOR did not use such models given their complexity and data limitations present in this instance.

Besides the indirect and induced costs and benefits, there may also be externalities to consider when evaluating a tax expenditure. A negative or positive externality occurs when the production and/or consumption of a good or service exerts a negative or positive effect on a third party independent of the transaction. Below are examples of negative and positive externalities associated with tax expenditures that have been evaluated by the Commission.

¹ Called “Opportunity Cost” in economics.

² For an illustration of “Multiplier Effect”, see Slide 4

Examples of Negative Externalities

- 3.302 Exemption for Materials, Tools, Fuels and Machinery Used in Manufacturing
 - Manufacturing plants may cause noise and air pollution during the manufacturing process. By encouraging manufacturing activities, this tax expenditure may aggravate the problem of negative externality such as noise and pollution if there are no other policies to offset the impact.
- 3.108 Exemption for Certain Precious Metals
 - In order to mint coins and bullion of precious metals, ore must first be extracted from mines. The extraction process for these ores can create dust, land erosion, and possible run-off to local waterways, all of which are detrimental to the environment. By encouraging these activities, this tax expenditure may aggravate the problem of negative externality such as noise and pollution if there are no other policies to offset such negative externalities.
- 3.609 Exemption for Vessels or Barges of 50 Tons or Over
 - A shipyard involved in the building of large vessels may cause noise and air pollution during the building process. By encouraging this activity, this tax expenditure may aggravate these negative externalities if there are no offsetting policies to dampen the impact.
- 3.109 Exemption for Cement Mixers
 - Water, sand, gravel (or crushed stone), and the binder of cement combine to produce concrete. To acquire these aggregates involves quarrying, which in turn create large amounts of dust, and the kilns that are used in the process that ultimately produces cement require significant amounts of energy as they need to reach a temperature of approximately 1,500 degrees centigrade. A by-product of this process is large amounts of carbon dioxide (CO₂). By encouraging these activities, this tax expenditure will aggravate the problem of negative externality such as noise and pollution if there are no other policies to offset the impact. On the other hand, by encouraging the construction of infrastructure, such as roads, bridges, airports, and other products that are often viewed as “public goods”, this exemption generates positive externalities.

3 REMI's Tax-PI is a versatile tool for evaluating the total fiscal and economic impacts of tax policy changes. Tax-PI is a ready-to-use dynamic fiscal and economic impact model which captures the direct, indirect, and induced fiscal and economic impacts of taxation and other policy changes over multiple years. The model integrates input-output, computable general equilibrium, econometric and economic geography methodologies. For an introduction of Tax-PI, please see the following linked file: <https://www.remi.com/wp-content/uploads/2020/07/Estimating-Economic-Fiscal-Impacts-in-Tax-PI.pdf>

- 3.304 Exemption for Materials, Tools, Fuels, and Machinery Used in Furnishing Power, Water, and Steam
 - According to the U.S. Environmental Protection Agency, nearly all parts of the electricity system can affect the environment, and the size of these impacts will depend on how and where the electricity is generated and delivered. In general, the environmental effects can include air and water pollution, solid waste, use of land and water resources, etc. Similarly, burning natural gas emits carbon dioxide. Constant introduction of carbon dioxide into atmosphere will lead to climate change and global warming. In addition, some of the potential problems associate with natural gas pipelines and infrastructure include destruction of thousands of acres of vital habitat, forest, and pristine lands. Loss of the valuable water and air filtering that forests provide.
- 3.418 Exemption for Fuels, Supplies, and Repairs for Vessels Engaged in Interstate or Foreign Commerce
 - A greater movement of vessels engaged in interstate and foreign commerce may impact the life of some aquatic (endangered) species and may create some water and air pollution during the repairing and fueling process. By encouraging this activity, this tax expenditure may aggravate these negative externalities if there are no offsetting policies to dampen the impact.
- 3.306 Exemption for Materials, Tools, Fuels, and Machinery Used in Newspaper Printing
 - The newspaper publishing industry may produce significant amounts of volatile organic compounds (VOCs) along with heavy metals from ink which may cause air and soil pollution. By indirectly encouraging this activity, this tax expenditure may aggravate these negative externalities if there are no offsetting policies to dampen the impact.
- 3.411 Exemption for Certain Sales by Typographers, Compositors and Color Separators
 - The printing industry may produce significant amounts of volatile organic compounds (VOCs) along with heavy metals from ink which may cause air and soil pollution. By indirectly encouraging this activity, this tax expenditure may aggravate these negative externalities if there are no offsetting policies to dampen the impact.
- 2.101 Deferral of Tax on Certain Shipping Companies
 - A shipyard involved in the building or repairing of vessels may cause noise and air pollution during the building/repairing process. By encouraging this activity, this tax expenditure may aggravate these negative externalities if there are no offsetting policies to dampen the impact.
- 3.419 Exemption for Fuel Used in Operating Aircraft and Railroads

- Airplanes/aircrafts and rails operations may cause noise and air pollution during the process. By encouraging aviation and rail operation, this tax expenditure may aggravate the problem of negative externality such as noise and air pollution if there are no other policies to offset the impact.
- 3.401 Exemption for Electricity
 - Electricity generation, transmission, and distribution operations may cause noise and air pollution during the process. By encouraging the usage of electricity, this tax expenditure may aggravate negative externalities such as noise and air pollution if there are no other policies to offset the impact.
- 3.402 Exemption for Fuel Used for Heating Purposes
 - Heating fuel production, storage, and distribution operations may cause water, noise and air pollution during the process. By encouraging the usage of heating fuel, this tax expenditure may aggravate negative externalities such as water, noise and air pollution if there are no other policies to offset the impact.
- 3.403 Exemption for Gas
 - Natural gas exploration, drilling, production, storage, and distribution operations may cause water, soil, noise and air pollution during the process, though probably less compared with the production, storage, distribution of other types of fuel. By encouraging the usage of natural gas, this tax expenditure may aggravate negative externalities such as water, soil, noise and air pollution if there are no other policies to offset the impact.
- 3.404 Exemption for Steam
 - By encouraging the usage of steam, this tax expenditure may aggravate the problem of negative externality such as noise and air pollution if there are no other policies to offset the impact.

Examples of Positive Externalities

- 3.303 Exemption for Materials, Tools, Fuels and Machinery Used in Research and Development
 - Research and development conducted by a company can have positive externalities. Research and development increases the private profits of a company but also has the added benefits of increasing the general level of knowledge within a society and promoting economic growth through its positive effect on innovation and productivity. Since positive externalities cannot be paid for through the market, government intervention, such as subsidy (or public funding to research and development), is often viewed as necessary.
- 1.423 Commuter Deduction
 - In addition, by encouraging use of public transportation, this expenditure helps create a cleaner environment through fewer vehicle emissions and reduced stress on infrastructure (i.e., highways, bridges, etc.), which would generate positive externalities¹, or benefits to each member of the society.
- 3.417 Exemption for Commuter Boats / 3.420 Exemption for Sales of Certain New and Used Buses

- By encouraging use of public transportation, this expenditure helps create a cleaner environment through fewer vehicle emissions and reduced stress on infrastructure (i.e., highways, bridges, etc.), which would generate positive externalities, or benefits to each member of the society.
- 3.605 Exemption for Certain Summer Camps from Sales Tax on Meals
 - The usage of summer camps by children and developmentally disabled individuals will promote the physical and mental health of the users of such summer camps, which will indirectly benefit people around them and the society as a whole.
- 1.606 Septic System Credit
 - By encouraging the repair or replacement of a failed septic system, the expenditure assists to protect public health and environment, which would generate positive externalities, or benefits to each member of the society.
- 3.310 Exemption for Materials, Tools, Fuels, and Machinery Used in Radio and TV Broadcasting
 - Radio and television broadcasting firms produce and broadcast comprehensive coverage of news and current affairs, sports, and other entertainments, the benefits of which extend beyond individual consumers. Hence, the society at large could benefit from a thriving radio and television broadcasting sector. Please note, this exemption would apply to traditional broadcasters and to cable broadcasters, but presumably not to Internet streaming or other Internet services.
- 3.405 Exemption for Certain Energy Conservation Equipment
 - By encouraging the use of clean energy, this expenditure seeks to support a cleaner environment, curb climate change, and enhance public health, which would generate positive externalities. Such positive externalities are often difficult to quantify.
- 3.601 Exemption for Casual or Isolated Sales
 - This expenditure results in a positive externality because it incentivizes the sale of used items, which may reduce the demand for new goods and therefore pollution associated with the manufacturing of such new goods, especially for textiles. In addition, resale of used items may reduce solid waste if the used items would otherwise be disposed.
- 3.610 Exemption for Rental Charges for Refuse Containers
 - By encouraging proper refuse disposal, including the re-use of refuse containers, this expenditure helps create a cleaner and safer environment, which would generate positive externalities.
- 3.417 Exemption for Commuter Boats, 3.420 Exemption for Sales of Certain New and Used Buses, 1.423 Commuter Deduction
 - By encouraging use of public transportation, these expenditures help create a cleaner environment through fewer vehicle emissions and reduced stress on infrastructure (i.e., highways, bridges, etc.), which would generate positive externalities, or benefits to each member of the society.
- 3.605 Exemption for Certain Summer Camps from Sales Tax on Meals

- The usage of summer camps by children and developmentally disabled individuals will promote the physical and mental health of the users of such summer camps, which will indirectly benefit people around them and the society as a whole.

Appendix F: Current and Previous Studies of Massachusetts Tax Expenditures

There has been considerable interest in the last decade regarding the Commonwealth's tax expenditures. The current Tax Expenditure Review Commission (TERC), which was created by the Acts of 2018, follows up on the work of an earlier *ad hoc* TERC, formed pursuant to Acts 2011, section 160, that issued an extensive report to the Legislature on April 30, 2012. Indeed, the formation of the current TERC may be seen as an implementation of certain recommendations of the previous Commission, which advocated for the periodic review of tax expenditures to ensure their continued relevance and effectiveness. The current TERC represents an institutionalization of such an ongoing review process.

The 2012 Report, along with its multiple appendices, provides a wealth of information regarding state and federal tax expenditures. Additionally, the Tax Expenditure Budget, published annually by the Commissioner of Revenue, provides current cost estimates associated with tax expenditures applicable to the particular fiscal year. Readers are referred to these sources for background information related to Massachusetts tax expenditures.

The current TERC was created under Chapter 207 of the Acts of 2018 to review each tax expenditure in the Tax Expenditure Budget every five years; to consider the purpose, goal, and effectiveness of each Tax Expenditure in this review; and to report its findings biennially to the Legislature.

The TERC is chaired by the Commissioner of the Department of Revenue or designee. Other members include the State Auditor; the State Treasurer; the chair of the House Committee on Ways and Means; the chair of the Senate Committee on Ways and Means; the House and Senate chairs of the Joint Committee on Revenue; the Minority Leader of the House of Representatives; the Minority Leader of the Senate; and 3 members to be appointed by the governor, who have expertise in economics or tax policy. The 3 members appointed by the governor will serve 4-year terms. The statutory TERC members listed above may appoint designees. Recent participating members of the Commission, including designees, are identified in **Appendix A**.

2021 TERC Report: In 2021, the Tax Expenditure Review Commission released its first report to the legislature. The report provided the Commission's review of certain tax expenditures pertaining to commerce, energy and research and development.

2022 TERC Report: In 2022, the Tax Expenditure Review Commission released its second report to the legislature. The report provided the Commission's review of certain tax expenditures pertaining to agriculture, transportation, housing, income security, employment and social services.

2023 TERC Report: In 2023, the Tax Expenditure Review Commission released its third report to the legislature. The report provided the Commission's review of certain tax expenditures pertaining to agriculture, transportation, housing, income security, employment and social services.

2024 TERC Report: In 2024, the Tax Expenditure Review Commission released its fourth report to the legislature. The report provided the Commission's review of certain tax expenditures pertaining to agriculture, commerce, regional development, employment and social services, health, housing, and income security.

2025 TERC Report: In 2025, the Tax Expenditure Review Commission released its fifth report to the legislature. The report provided the Commission's review of certain tax expenditures pertaining to education and training, employment and social services, general government, health, income security, natural resources and environment, and veterans' benefits.

See **Appendix G** for all tax expenditure evaluated by year.

Appendix G: All Tax Expenditures Evaluated by Year

Below is the list of all tax expenditures that TERC has evaluated to date.

2021

- 1.019 Exclusion from Employee Income of Business-Related Meals and Entertainment
- 1.020 and 2.002 Exemption of Income from the Sale, Lease, or Transfer of Certain Patents
- 1.201 Capital Gains Deduction for Collectibles
- 1.413 Exemption of Interest on Savings in Massachusetts Banks
- 1.421 Deduction for Clean Fuel Vehicles and Certain Refueling Property
- 1.601 Renewable Energy Source Credit (tax credit)
- 2.001 Small Business Corporations
- 2.203 Net Operating Loss Carryover
- 2.401 Unequal Weighting of Sales, Payroll, and Property in Apportionment Formula
- 2.502 Exemption for Property Subject to Local Taxation
- 2.602 Investment Tax Credit
- 2.604 Research Credit
- 2.607 Harbor Maintenance Tax Credit
- 2.701 Exemption of Credit Union Income
- 3.106 Exemption for Newspapers and Magazines
- 3.201 Exemption for Alcoholic Beverages
- 3.202 Exemption for Motor Fuels
- 3.302 Exemption for Materials, Tools, Fuels, and Machinery Used in Manufacturing
- 3.303 Exemption for Materials, Tools, Fuels, and Machinery Used in Research and Development
- 3.309 Exemption for Vessels, Materials, Tools, Fuels, and Machinery Used in Commercial Fishing
- 3.602 Exemption for Vending Machine Sales
- 1.603 and 2.605 EDIP/Economic Development Incentive Program
- 1.610 and 2.610 Credit Massachusetts Historic Rehabilitation Tax Credit
- 1.613 and 2.615 Medical Device User Fee Credit
- 2.617 and 3.005 Life Sciences Tax Incentive Program
- 1.611 and 2.611 and 3.004 Film Production Incentives

2022

- 1.018 Exemption of Meals and Lodging Provided at Work
- 1.022 Exemption for Capital Gains at Time of Death
- 1.102 Treatment of Incentive Stock Options

- 1.103 Exemption of Earnings on Stock Bonus Plans or Profit-Sharing Trusts
- 1.106 Exemption for Capital Gains at Time of Gift
- 1.202 Deduction of Capital Losses Against Interest and Dividend Income
- 1.501 Favorable Tax Treatment of Qualified Small Business Stock (QSBS) Gain
- 2.101 Deferral of Tax on Certain Shipping Companies
- 2.205 Deduction for Certain Dividends of Cooperatives
- 2.312 Expensing of Certain Expenditures for Alternative Energy Sources
- 2.501 Nontaxation of Certain Energy Property
- 2.703 Exemption for Regulated Investment Companies
- 3.108 Exemption for Certain Precious Metals
- 3.109 Exemption for Cement Mixers
- 3.112 Exemption for Aircraft and Aircraft Parts
- 3.301 Exemption for Items Used in Making Clothing
- 3.304 Exemption for Materials, Tools, Fuels, and Machinery Used in Furnishing Power, Water, and Steam
- 3.306 Exemption for Materials, Tools, Fuels, and Machinery Used in Newspaper Printing
- 3.310 Exemption for Materials, Tools, Fuels, and Machinery Used in Radio and TV Broadcasting
- 3.405 Exemption for Certain Energy Conservation Equipment
- 3.410 Exemption for Containers
- 3.411 Exemption for Certain Sales by Typographers, Compositors and Color Separators
- 3.418 Exemption for Fuels, Supplies, and Repairs for Vessels Engaged in Interstate or Foreign Commerce
- 3.421 Exemption for Films
- 3.601 Exemption for Casual or Isolated Sales
- 3.604 Exemption for Certain Bed and Breakfast Establishments from Sales Tax on Meals and Room Occupancy Excise
- 3.606 Exemption for Trade-in Allowances for Motor Vehicles and Trailers
- 3.609 Exemption for Vessels or Barges of 50 Tons or Over
- 3.610 Exemption for Rental Charges for Refuse Containers
- 3.611 Exemption for Honor Trays
- 1.303 and 2.307 Modified Accelerated Depreciation on Buildings (other than Rental Housing)
- 1.304 and 2.305 Modified Accelerate Cost Recovery System (MACRS) for Equipment
- 1.305 and 2.306 Expense Deduction for Excess First-Year Depreciation
- 1.306 and 2.304 Election to Deduct and Amortize Business Startup Costs
- 1.308 and 2.309 Expensing of Exploration and Development Costs
- 1.309 and 2.308 Expensing of Research and Development Expenditures in One Year

2023

- 1.014 Exemption of Rental Value of Parsonages
- 1.021 Exemption of Capital Gains on Home Sale (formerly only for Persons 55 and over)
- 1.030 Exclusion from Gross Income of Parking, T-Pass and Vanpool Fringe Benefits
- 1.412 Nontaxation of Charitable Purpose Income of Trustees, Executors or Administrators)
- 1.423 Commuter Deduction
- 2.303 Expenditures to Remove Architectural and Transportation Barriers to the Handicapped and Elderly
- 2.603 Vanpool Credit
- 3.003 Exemption for Sales to Tax-Exempt Organizations
- 3.308 Exemption for Materials, Tools, Fuels, and Machinery Used in Agricultural Production)
- 3.406 Exemption for Funeral Items
- 3.409 Exemption for Books used for Religious Worship
- 3.417 Exemption for Commuter Boats
- 3.419 Exemption for Fuel Used in Operating Aircraft and Railroads
- 3.420 Exemption for Sales of Certain New and Used Buses
- 3.603 Exemption for Certain Meals
- 3.605 Exemption for Certain Summer Camps from Sales Tax on Meals
- 3.607 Exemptions for Publications of Tax-Exempt Organizations
- 1.204 and 2.206 Abandoned Building Renovation Deduction
- 1.301 and 2.301 Modified Accelerated Depreciation on Rental Housing
- 1.415 and 2.201 Charitable Contributions and Gifts Deduction
- 1.604 and 2.606 Credit for Employing Former Full-Employment Program Participants
- 1.621 and 2.624 Apprentice Tax Credit

2024

- 1.002 Exemption of Premiums on Group-Term Life Insurance
- 1.003 Exemption of Interest on Life Insurance Policy and Annuity Cash Value
- 1.004 Exemption of Employer Contributions to Accident and Health Plans and Certain Benefits Received
- 1.006 Exemption of Distributions from Certain Contributory Pension and Annuity Plans
- 1.008 Exemption of Public Assistance Benefits
- 1.010 Exemption of Workers' Compensation Benefits
- 1.012 Exclusion of Certain Foster Care Payments
- 1.023 Exemption of Interest from Massachusetts Obligations

- 1.029 Exemption for Retirement Pay of the Uniformed Services
- 1.039 Discharge of Indebtedness for Health Care Professionals
- 1.101 Net Exemption of Employer Contributions and Earnings of Private Pension Plans
- 1.104 Exemption of Earnings on IRA and Keogh Plans
- 1.312 Expensing of Certain Capital Outlays of Farmers
- 1.411 Rent Deduction
- 1.424 Self-Employed Health Insurance Deduction
- 1.426 Expenses of Human Organ Transplant
- 1.602 Credit for Removal of Lead Paint
- 1.606 Septic System Credit
- 1.618 Farming and Fisheries Tax Credit
- 2.702 Tax-Exempt Organizations
- 3.103 Exemption for Clothing
- 3.105 Exemption for Water
- 3.401 Exemption for Electricity
- 3.402 Exemption for Fuel Used for Heating Purposes
- 3.403 Exemption for Gas
- 3.404 Exemption for Steam
- 3.407 Exemption for Certain Motor Vehicles
- 1.607 and 2.609 Low Income Housing Tax Credit
- 1.614 and 2.618 Dairy Farmer Tax Credit
- 1.617 and 2.621 Community Investment Tax Credit
- 1.619 and 2.622 Certified Housing Development Tax Credit
- 3.104 and 3.113 Exemption for Medical and Dental Supplies and Devices Including Breast Pumps

2025

- 1.007 Exemption of Railroad Retirement Benefits
- 1.009 Exemption of Social Security Benefits
- 1.011 Exemption of Dependent Care Expenses
- 1.013 Exemption of Payments Made to Coal Miners
- 1.015 Exemption of Scholarships, Fellowships, and Tuition Reductions
- 1.016 Exclusion of Certain Prizes and Awards
- 1.017 Exclusion of Payments Received Under Government Conservation, Reclamation and Restoration Programs (previously Exemption of Cost-Sharing Payments)
- 1.024 Exemption of Benefits and Allowances to Armed Forces Personnel
- 1.025 Exemption of Veterans' Pensions, Disability Compensation and G.I. Benefits
- 1.026 Exemption of Military Disability Pensions

- 1.027 Exemption of Compensation to Massachusetts-Based Nonresident Military Personnel
- 1.028 Exemption of Income Received by Persons Killed in Military Action or Terrorist Activity
- 1.032 Employer-Provided Adoption Assistance
- 1.033 Employer-Provided Education Assistance
- 1.035 Department of Defense Homeowners Assistance Plan
- 1.036 Survivor Annuities of Fallen Public Safety Officers
- 1.041 Earnings of Pre-paid and Tuition Savings (529 plans)
- 1.407 Personal Exemption for Students Aged 19 or Over
- 1.414 Tuition Tax Deduction
- 1.419 Business Exp of National Guard and Reserve Members
- 1.425 Student Loan Interest Deduction
- 1.427 Prepaid Tuition or College Savings Plan Deduction
- 3.001 Exemption for Sales to the Federal Government
- 3.002 Exemption for Sales to the Commonwealth
- 3.107 Exemption for the American Flag
- 3.408 Exemption for Textbooks
- 3.412 Exemption for Sales of Building Materials and Supplies to be Used in Connection with Certain Construction Contracts
- 3.608 Exemption for Gifts of Scientific Equipment
- 1.031 and 1.422 Health Savings Accounts (exemption and deduction)
- 1.040 and 1.420 Archer Medical Savings Accounts (exemption and deduction)
- 1.203 and 2.204 Excess Natural Resource Depletion Allowance
- 1.310 and 2.311 Five-Year Amortization of Pollution Control Facilities
- 1.311 and 2.313 Deduction and Seven Year Amortization for Reforestation
- 1.608 and 2.608 Brownfields Credit

2026

- 1.615 and 2.619 Conservation Land Tax Credit
- 1.037 Survivor Annuities of Fallen Astronauts
- 1.401 and 1.402 Deduction for Employee Social Security and Railroad Retirement Payments/Deduction for Employee Contributions to Public Pension Plans
- 1.403 Additional Exemption for the Elderly
- 1.404 Additional Exemption for the Blind
- 1.405 Dependents Exemption where the Dependent Earns Income
- 1.408 Deduction for Adoption Fees
- 1.410 Exemption of Medical Expenses
- 1.418 Deduction for Costs Involved in Unlawful Discrimination Suits
- 1.605 Earned Income Credit
- 1.609 Refundable Credit Against Property Tax for Seniors (Circuit Breaker)

- 3.101 Exemption for Food
- 3.102 Exemption for Certain Food and Beverages Sold in Restaurants
- 1.201 Capital Gains Deduction for Collectibles
- 1.601 Renewable Energy Source Credit
- 2.001 Small Business Corporations
- 1.428 Gambling Loss Deduction
- 1.623 and 2.625 Cranberry Bog Renovation Credit
- 2.203 Net Operating Loss Carryover
- 2.502 Exemption for Property Subject to Local Taxation
- 1.046 Exclusion of Benefits Provided to Volunteer Firefighters and Emergency Medical Responders
- 1.202 Deduction of Capital Losses against Interest and Dividend Income
- 3.201 Exemption for Alcoholic Beverages
- 1.018 Exemption of Meals and Lodging Provided at Work
- 2.602 Investment Tax Credit
- 2.604 Research Credit
- 1.042 and 1.501 Favorable Tax Treatment of Qualified Small Business Stock (QSBS) Gain
- 3.106 Exemption for Newspapers and Magazines
- 1.603 and 2.605 Economic Development Incentive Program Credit (EDIP)
- 3.309 Exemption for Vessels, Materials, Tools, Fuels, and Machinery Used in Commercial Fishing