

Request: Our office is working on a legislative proposal and we are looking for a funding source. In our discussion yesterday, we considered the luxury sales tax. Chelsea Sedani at Mass Budget referred me to you, would you be able to provide us with the following data?

1. Total revenue generated from the luxury sales tax in 2022
2. Total revenue generated from the luxury sales tax in 2022 if the threshold were lowered to \$150
3. Total revenue generated from the luxury sales tax in 2022 if the model shifted from taxing difference of the total cost of the item minus the \$175 threshold to taxing total cost of the item.

DOR response:

- Under current law, clothing items costing less than \$175 are exempt from sales tax. For clothing items that cost more than \$175, sales tax is only due on the amount over \$175 per item.
- DOR interpreted "luxury sales" in the request to mean "clothing items costing more than \$175".
- Sales tax return data does not provide sales tax information by product, and therefore does not identify clothing items costing more than \$175. As a result, DOR used external data sources in addition to sales tax return data to estimate the amount of annualized revenue generated from "luxury sales", as well as the incremental revenue impact of the two proposals. The table below provides lower bound, midpoint, and upper bound estimates of annualized "luxury sales" tax collections and of the incremental revenue impact of the two proposals. The lower and upper bounds equal +/-20% of the midpoint estimates.
- Under the current law, there is no "cliff effect" (i.e., clothing items costing more than \$175 are only taxed on the portion of the price exceeding the \$175 threshold, not on the entire price). For request #3, DOR assumed that the proposal would introduce a cliff effect (i.e., clothing items costing more than \$175 would be taxed on the entire price).
- Due to data limitations and various assumptions made in estimating the revenue impacts, there is a significant degree of estimation uncertainty. So, the revenue impact estimates should be used with caution. DOR does not take a position on these proposals.

Clothing Exemption Proposals - Revenue Impact Estimates (\$M) ("-" : revenue loss; "+" : revenue gain)

		<u>Lower Bound</u>	<u>Midpoint</u>	<u>Upper Bound</u>
1) Estimate of total annualized revenue generated under the current law -- \$175 exemption threshold; no cliff effect:	A	+\$81	+\$101	+\$121
2) Estimate of total revenue that would be generated if the \$175 exemption threshold was reduced to \$150 while maintaining no cliff effect:	B	+\$98	+\$123	+\$147
Incremental Revenue Impact	B-A	+\$17	+\$22	+\$26
2) Estimate of total revenue that would be generated if the cliff effect was introduced (i.e., an item costing above \$175 would now be taxed on the entire price) while keeping the exemption threshold at \$175:	C	+\$115	+\$143	+\$172
Incremental Revenue Impact	C-A	+\$34	+\$42	+\$51