



MASSACHUSETTS DEPARTMENT OF REVENUE

DOR
Update
MCTA
Annual
Conference

Presented by:
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Commissioner
June 11, 2012



MASSACHUSETTS TAX SYSTEM AND TAX EXPENDITURE BUDGET

Revenues

- Background on Massachusetts Taxation
- Recent Developments
- Revenue Trends

Key DOR Initiatives

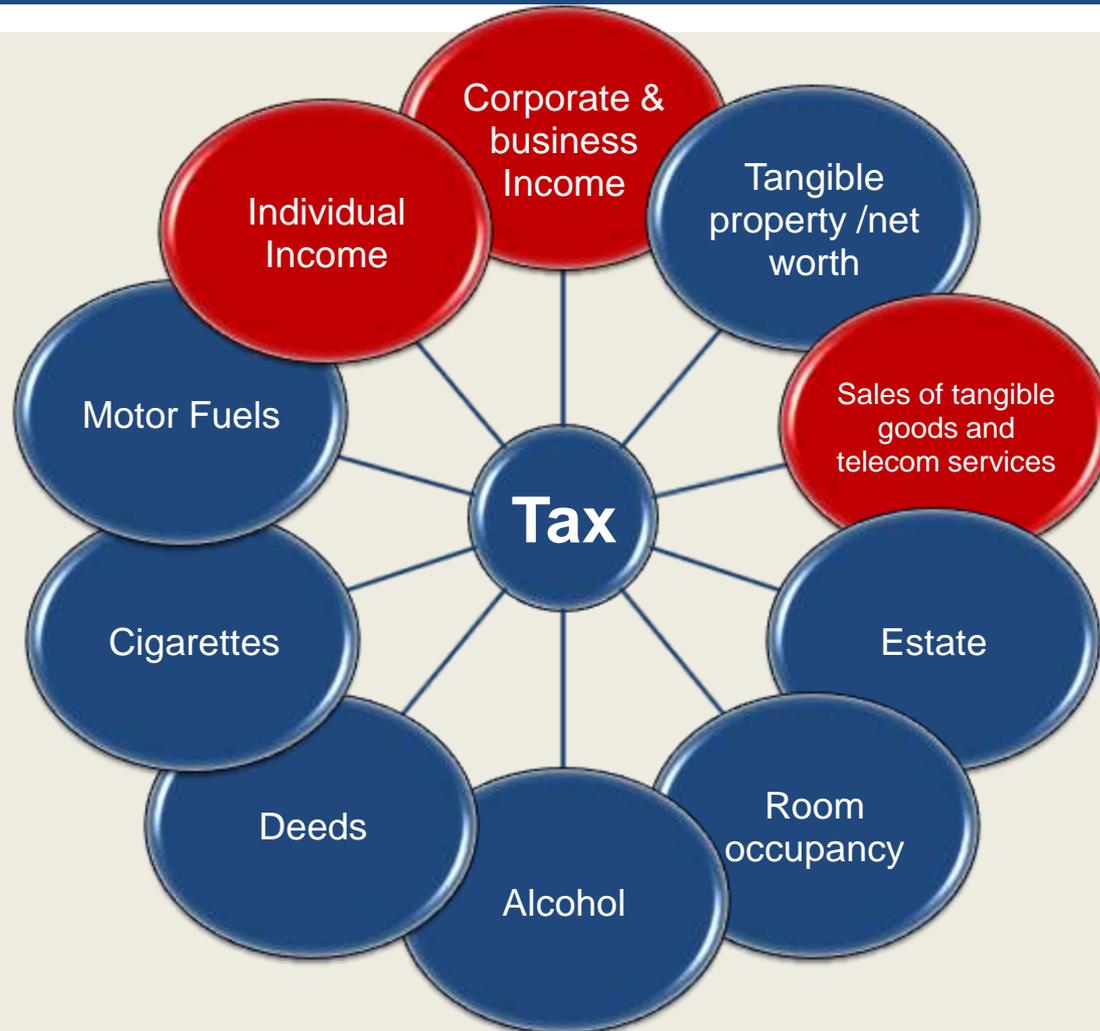
- DOR 360
- Alternative Dispute Resolution
- Audit Model Office
- Performance Mgmt/Operations Research

News you can use

- ITD Municipal Liaison
- Local Options Update
- DLS Databanks



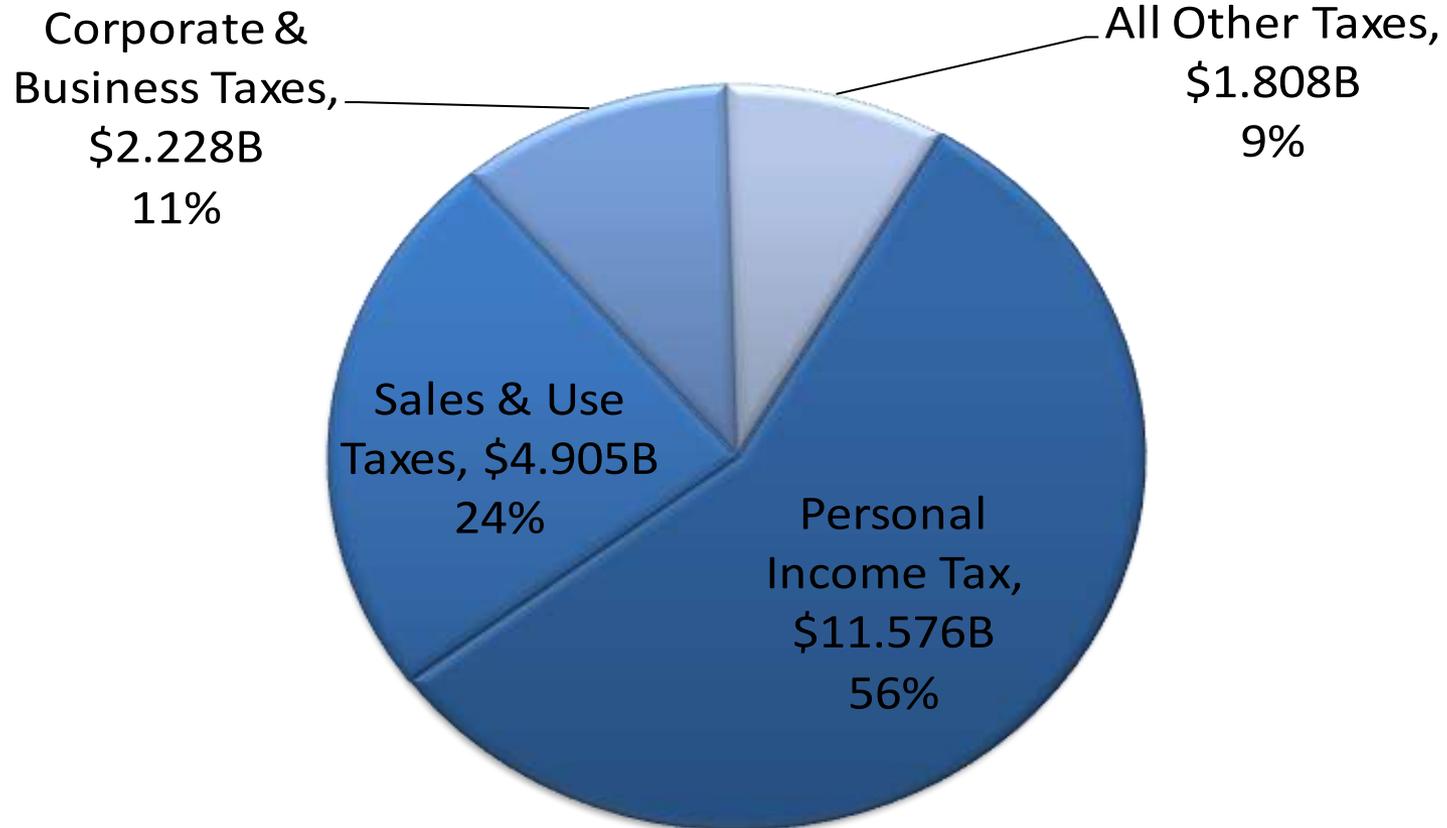
OVERVIEW OF MASSACHUSETTS TAXATION





OVERVIEW: SOURCES OF MASSACHUSETTS TAX REVENUES

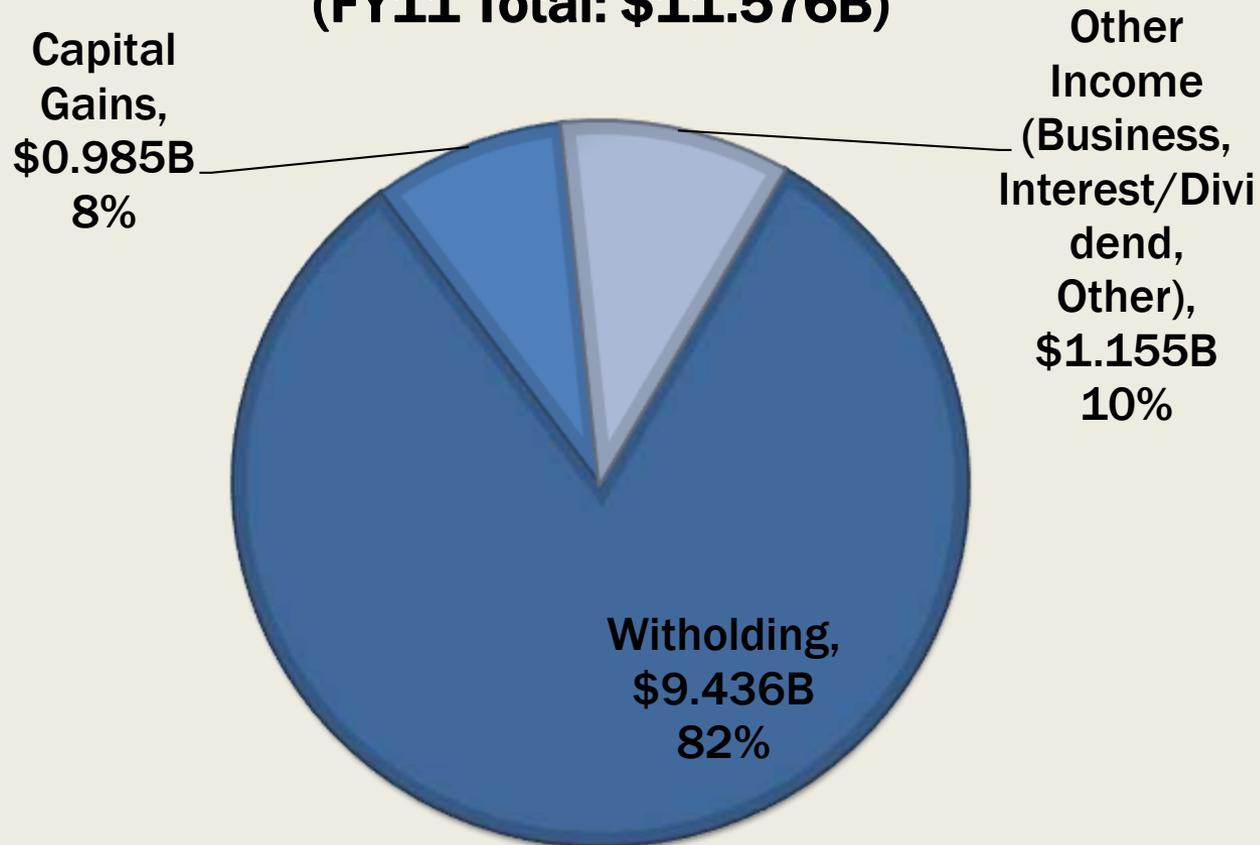
Sources of Massachusetts Tax Revenues (FY11 Total: \$20.517B)





PERSONAL INCOME TAX

Sources of Income Tax Revenues (FY11 Total: \$11.576B)



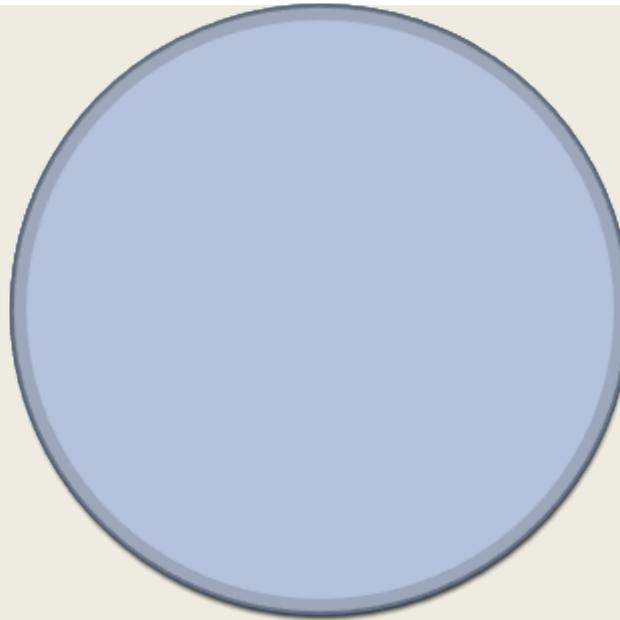


Sources of Corporate and Business Tax Revenues

(FY11 Total: \$2.228B)

■ Corporate, Financial Institutions, and Public Utilities (\$1.951B, 86.7%) (*)

■ Insurance (\$0.296B, 13.3%)



(*) Due to combined reporting, most payments from these companies recorded under corporate tax

Historical: Distribution of Corporate and Business Tax Collections by Type:

Corporate 59-64%

Insurance 13-17%

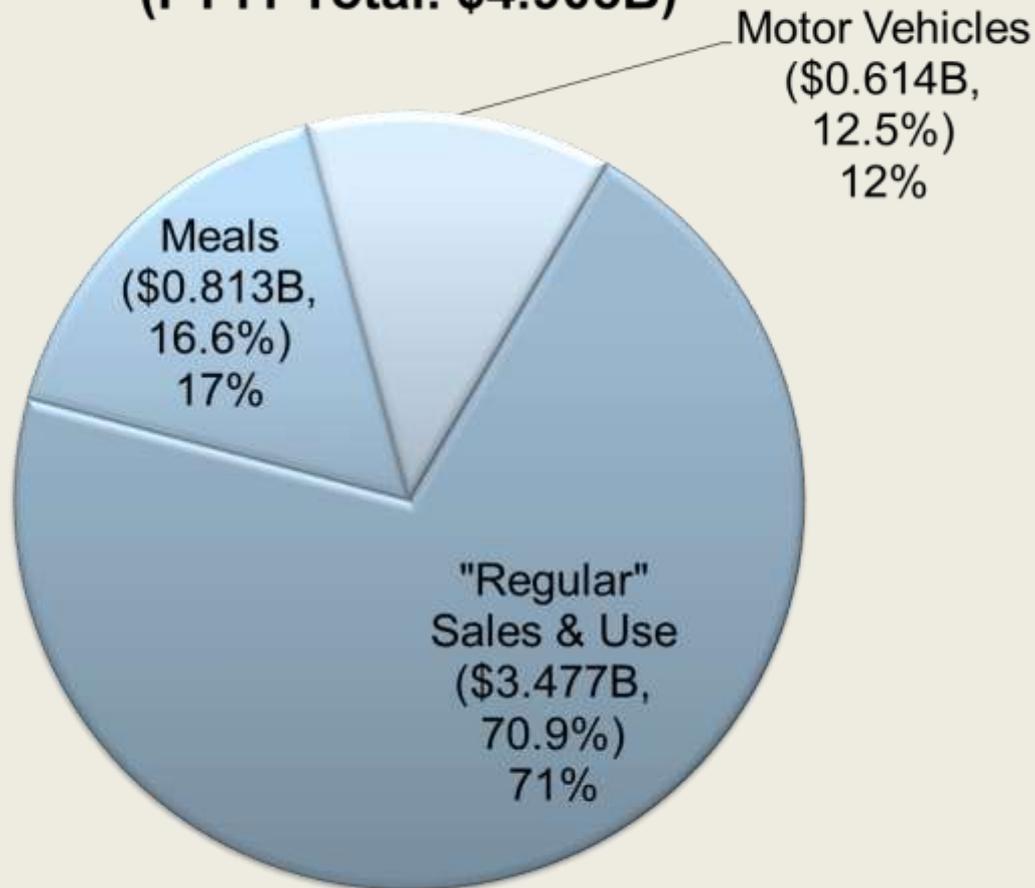
Financial Inst. 14-21%

Public Utilities 4-7%



SALES AND USE TAX

Sources of Sales and Use Tax Revenues (FY11 Total: \$4.905B)





ALL OTHER TAXES

All Other Taxes (\$Millions) \$1,808

Other Budgetary DOR collections \$1,720

Motor Fuels	660.83
Cigarettes	453.57
Estate	309.60
Room Occupancy	110.40
Deeds	98.88
Alcoholic Beverages	72.73
Miscellaneous	14.31

Other Budgetary Non-DOR collections \$88

Deeds, Sec. of State	\$41
Division of Insurance	\$24
UI Surcharges	\$20
Beano 3/5ths	\$1
Raffles/Bazaars	\$1



RECENT & CURRENT DEVELOPMENTS: *PERSONAL INCOME, CORPORATE, AND SALES/USE TAXES*

Income Tax:

- Part B income tax rate is reduced to 5.25% from 5.3% on January 1, 2012
- Potential lowering of rate to 5.20% on January 2013
 - Statutory requirement
 - DOR Certification

Corporate Tax Reform:

- Combined Reporting
- Phased-in Rate Reduction from 9.5% to 8% for 2012

Sales/Use Tax:

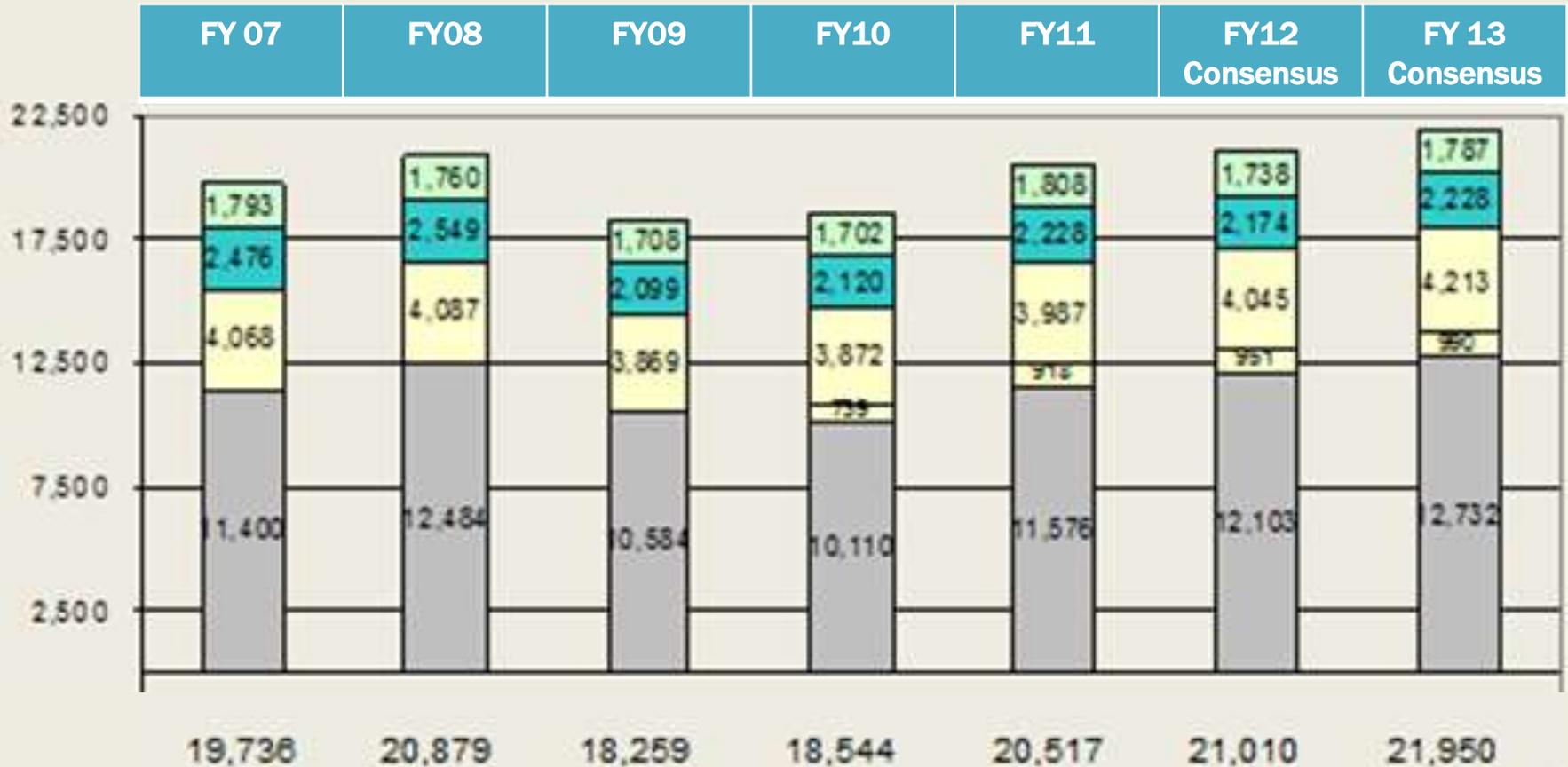
- Rate change (5.0% to 6.25%)
- Sales Tax on Alcohol—Instituted and then repealed



Trend of Tax Revenue Collections in Recent Years

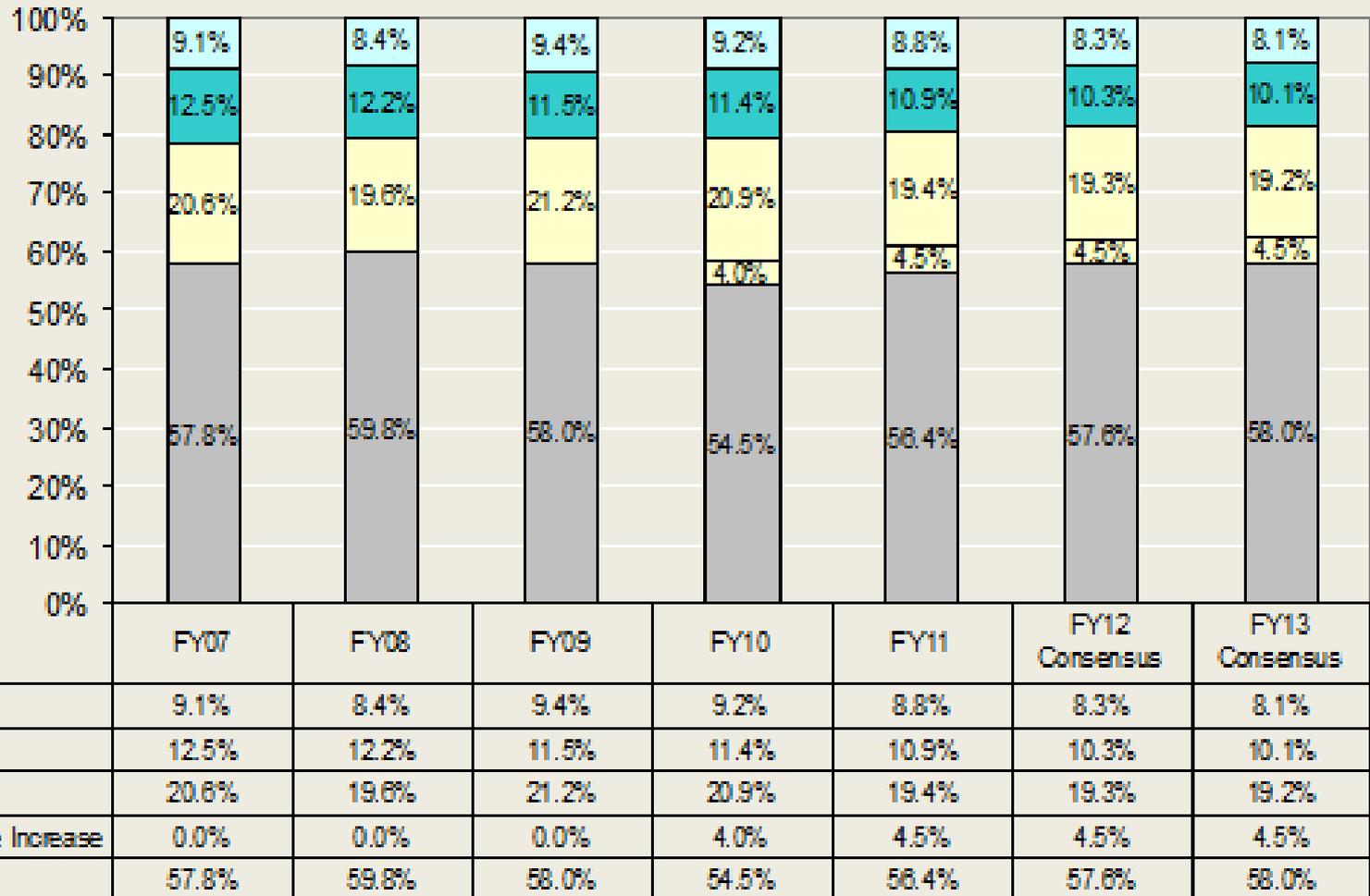


TAX REVENUE COLLECTIONS BY FISCAL YEAR AND CATEGORIES





TAX REVENUE COLLECTION % BY CATEGORIES





TRENDS OF TAX REVENUE COLLECTIONS IN RECENT YEARS:

REVENUE COLLECTIONS IN FY12 YEAR TO DATE:

- Tax revenues for the first eleven months of fiscal 2012, ended May 31, 2012, totaled approximately \$18.822 billion, an increase of approximately \$458 million, or 2.5%, over the same period in fiscal 2011.

Year-to-date increase in revenues is attributable, in large part, to

- a) an increase of approximately \$243 million, or 2.8%, in **withholding** collections,
- b) an increase of approximately \$137 million, or 3.0%, in **sales and use tax** collections,
- c) an increase of approximately \$94 million, or 5.2%, in **corporate and business** collections,

which were partly offset by

- a) a decrease of approximately \$20 million, 1.4%, in **income cash estimated payments**,
- b) an increase of approximately \$8 million, or 0.6% in **income cash refunds**,
- c) a decrease of approximately \$1 million in **income payments with returns and extensions**,

- Year-to-date fiscal 2012 tax collections through May are approximately \$12 million below the year-to-date benchmark for the fiscal 2012 tax revenue estimate of \$21.010 billion.
- We will continue monitoring revenues in June, which has historically been the second largest tax collection month of the year after April as quarterly estimated payments are due for both income tax and corporate/business taxpayers.



REVENUE FORECASTS IN FY12 AND FY13

- While the national and state economies continued to grow, the growth has slowed down in 2011, and is expected to remain slow during 2012 and 2013. Therefore tax revenues are expected to grow moderately in FY12 and FY13.
- The FY12 consensus revenue estimate assumed FY12 revenue collections of \$20.525 billion. After adjusting for revenue initiatives enacted as part of the FY12 budget, and the sales tax holiday, the FY12 tax forecast was \$20.615 billion, reflecting actual growth of 0.48% and baseline growth of 1.2% from FY11 collections.
- On October 17, 2011 the Executive Office for Administration and Finance (A&F) increased the FY12 revenue estimate by \$395 million, to \$21.010 billion. The revised estimate reflects projected revenue increase of 2.4% actual and 3.1% baseline from FY11 collections.
- On January 12, 2012, the FY12 estimate was kept at \$21.010 and a fiscal 2013 consensus tax revenue estimate of \$21.950 billion was agreed upon by the Secretary of Administration and Finance and the chairs of the House and Senate Committees on Ways and Means. The fiscal 2013 consensus tax revenue estimate of \$21.950 billion represents revenue growth of 4.5% actual and 5.4% baseline from the revised fiscal 2012 estimate of \$21.010 billion.
- There is still substantial uncertainty on economic growth and tax revenue collections in FY13, mostly due to the uncertainty on U.S. fiscal policy and the Eurozone's sovereign debt/banking crisis.



RECENT & CURRENT DEVELOPMENTS: *TAX EXPENDITURE COMMISSION*

Last year, the Legislature established and Governor Patrick approved a **Tax Expenditure Commission** to study carefully for the first time the various exemptions, deductions, and credits in the Massachusetts tax code, and to recommend methods for measuring and reviewing their effectiveness.

This Commission met publicly nine times from October 2011 until April 2012, reviewed reams of data and analysis assembled by the Department of Revenue and others.

The Commission concluded:

- Tax Expenditure Budget is too large and too complicated.
- Many Massachusetts tax expenditures serve important public policy objectives, some may not,
- Lack of adequate data
- Lack of regular review and consideration of existing tax expenditures' cost and effectiveness by policymakers.

The Commission adopted formal findings and guiding principles, and ultimately several recommendations to the Governor and Legislature.

The Commission's report posted on the DOR web site:

<http://www.mass.gov/dor/tax-professionals/news-and-reports/tax-expenditure-commission-materials/>



TEC RECOMMENDATIONS

■ TEC

- No one quite knew what to expect going in – and at what level of detail the eventual recommendations would
- What came out of the review was a framework that recognized the need for predictability and certainty when it comes to long term business planning but included developing a basis for systemic transparency, review, and accountability.
- Respect for the need for predictability
- Grant like sunset after 5 years
- Targeted review every 5 years but no sunset
- Long term planning – review every 10 years
- I also think the recognition for long term planning is evident in the treatment of existing credits versus new credits. New credits are subject to stricter standards – of stating specific purposes and having accountability standards – there is no real attempt to retrofit these new rules into existing credits



RECENT & CURRENT DEVELOPMENTS: TAX CREDIT TRANSPARENCY REPORTING

Recently enacted tax legislation requires DOR to compile and disclose the recipients of benefits from those tax expenditures that involve refundable or transferable tax credits (e.g., film, Brownfields, low income housing, historical rehabilitation, etc.).

Calendar year 2011 credits are the first ones to which the new rules applied.

DOR collaborated with administering agencies of those credits and compiled the necessary data and information.

As required by the statute, DOR disclosed the identity of the taxpayers and projects entitled to such credits and the amount of the credits, among other information on its web site:

<http://www.mass.gov/dor/tax-professionals/news-and-reports/massachusetts-tax-credit-transparency-reports/>



DOR 360

- **Why DOR 360**
- **Activities so far**
 - Audit/ Practitioner to discuss audit projects and to seek input on the effect these projects have on the practitioner and taxpayer community.
 - Meeting with the Boston Chamber of Commerce to start a dialogue seeking taxpayer concerns in their dealings with DOR
 - The reaching out to the practitioner community on the Notice redesign as MASSTAX II continues.
 - Seeking input from the community on changes to the Settlement Process at both the Office of Appeals and Litigation.
 - Working with Boston Bar Association to arrange the IRS Appeals meeting in May.
- **What's Next**
 - More formal infrastructure for collaboration and codesign



ALTERNATIVE DISPUTE RESOLUTION

- Partially an outgrowth of DOR 360
- Settlement Strategy Working Group
- End to End Process – from Audit to Litigation
 - Large cases - Fast Track Settlement/Mediation
 - Inventory Reduction
 - Later priorities
 - Mediation for smaller cases
 - Post appeals mediation



AUDIT MODEL OFFICE

- The AMO will test **collaborative concepts** to explore areas where we can work with the taxpayer or practitioner to improve the examination process for both side, such as incorporating many of the principles outlined in the **IRS Quality Exam Program (QEP)** into our audits of Larger Taxpayers. Maybe changing the questions on our existing customer surveys to solicit ideas as well.
- Another goal is that we will be able to make better **use existing data sources** to provide the auditor with more information going into the audit. I'm thinking of it as a Tee' d up Audit package that helps direct the auditor's review thereby refining or minimizing the amount of documentation requested on audit.
- "Statistical Sampling" AKA **Stat Sampling program** to see how we can encourage many more large taxpayers to participate in this type of review of their voluminous transactions. Utilizing the Stat Sampling program will speed the audit process and it should provide the taxpayer an acceptable comfort level that the review of their books and records was fair and just.



NEWS YOU CAN USE

- **ITD Municipal Liaison and Initiatives**
- **Local Option Taxes**
- **DLS Databanks**



ITD MUNICIPAL LIAISON

- **Tim Sullivan - Municipal Liaison for the Commonwealth of Massachusetts' Information Technology Division (ITD).**
- **Focused on financially assisting municipalities by regionalizing and digitalizing services that are currently offered to citizens of the Commonwealth.**
- **Over the past couple of weeks, Tim has been visiting multiple municipal locations in addition to regional conferences (CSC Annual Conference in Sturbridge, Smarter Cape Summit in Falmouth, Berkshire Regional Meeting in Lenox, Boston's Office of New Urban Mechanics, Local Government Advisory Council at the State House) meeting IT Directors, Town Managers and other municipal leaders.**



ITD/MUNICIPALITIES PROJECTS

- **City of Boston's Office of New Urban Mechanics in developing and expanding a regionalized Citizen's Connect mobile application.**
 - **This application will make services easily available to constituents while cutting down on the amount of time that elapses between when a public service request is made and the service time. In addition, this application will greatly reduce the municipality's cost (i.e. Public Works, Transportation, Energy, etc) to manage requests & transactions.**
- **Cape and Islands regionalized e-permitting and licensing project.**
- **Berkshire Regions automating the creation, processing and management of building permits and replace existing permitting systems with an internet-based program that allows for future expansion to other types of municipal permits.**
- **Royalston and the Community Software Consortium (CSC) are also collaborating with ITD and the Division of Local Services in regionalizing and developing a “cloud”-based integrated municipal financial management system.**



MORE PROJECTS

- **Springfield Data Center (SDC)**
 - The SDC will become one of two primary data centers, backing up and supporting the state's existing Massachusetts Information Technology Center in Chelsea.
 - The SDC will not only will be a national model for green and environmentally-friendly data centers, it will provide various opportunities to host regional or local servers.
 - This hosting service will ultimately enable municipalities to reduce costs of having to maintain and host their own servers.
- **New MassGIS infrastucture**
 - The ITD's Municipal Liaison is creating a partnership with the Mass GIS team in attempting to aggregate municipalities across the Commonwealth.
 - The MassGIS team has already established and developed the Massachusetts Spatial Data Infrastructure.
 - Currently, numerous municipalities have been funding individual vendors to create and maintain their GIS services. With the newly established and improved MassGIS infrastructure, the Commonwealth can assist all 351 cities/towns minimal maintenance costs while eliminating redundant vendor costs.

For more information about ITD's municipal services and how the Commonwealth can help your city/town reduce costs, you can contact Tim Sullivan at 617-626-4407 or Tim.L.Sullivan@state.ma.us.



LOCAL OPTION MEALS TAX DISTRIBUTIONS

State Total by Quarter Local Option Meals Tax (.75%) Distributions

Fiscal Year	September Local Option Meals Distribution	December Local Option Meals Distribution	March Local Option Meals Distribution	June Local Option Meals Distribution	Special July Distribution (FY10 Only)	Fiscal Year Total
2010	0	2,774,514	8,536,939	11,190,480	4,628,080	27,130,013
2011	10,406,1870	17,376,717	15,554,652	17,370,603	0.00	60,708,141
2012	21,129,719	21,678,8233	19,498,211	0	0.00	62,306,753

Number of Communities Adopting Local Option Meals Tax

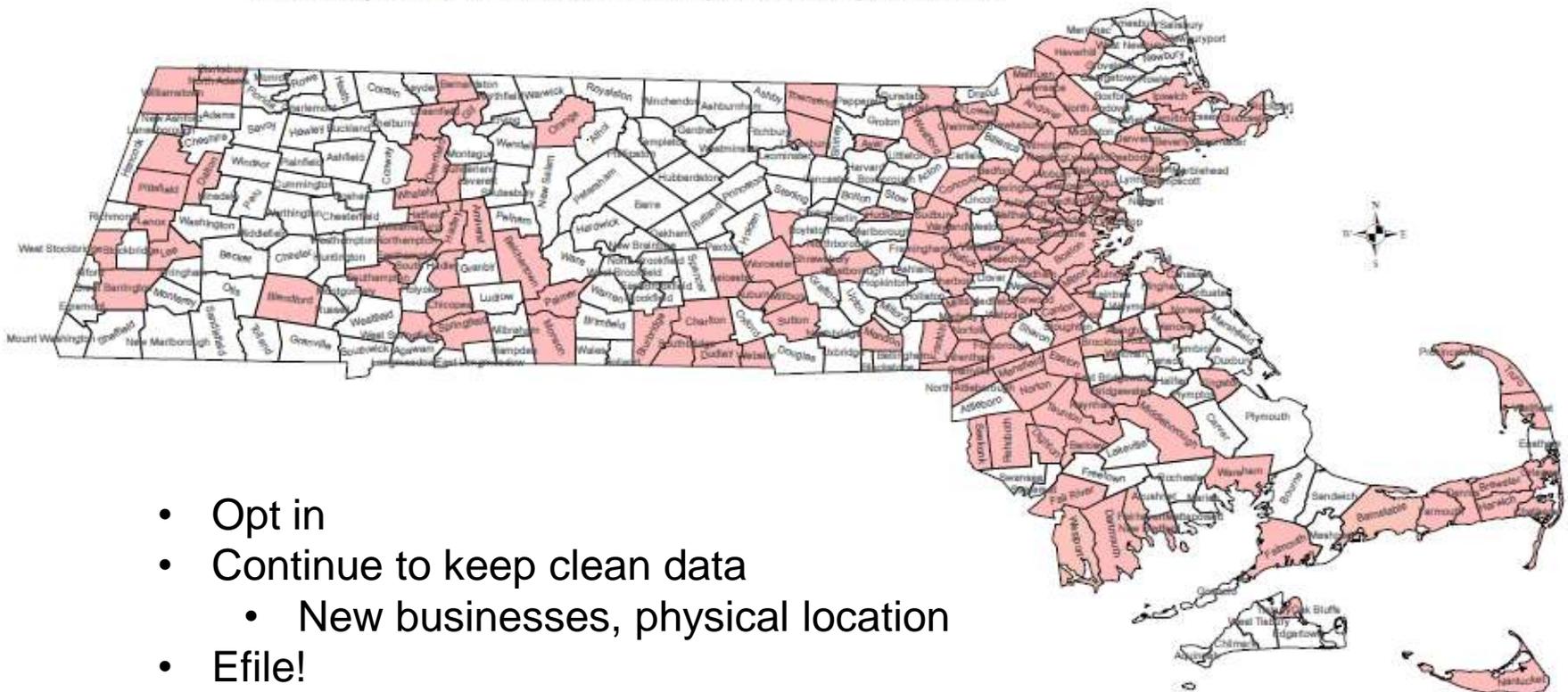
Fiscal Year	Number of Communities Participating	Number Adopting in FY
2010	72	72
2011	124	52
2012	151	27
2013*	159	8



LOCAL OPTION COVERAGE

Massachusetts Department of Revenue
Division of Local Services
Municipal Databank/Local Aid Section

Effective July 1, 2012, 159 Communities have Adopted the Local Option Meals Tax



- Opt in
- Continue to keep clean data
 - New businesses, physical location
- Efile!



DLS DATABANKS

- **Community Comparison Tool within its Municipal Databank.**
 - This new application seeks to address the ongoing need for municipalities to access, sort and compare a wide variety of data sources through a single mechanism.
 - Previously unavailable anywhere else in state government, it serves as a clearinghouse of available information that's reported to DLS and will streamline both the way information is searched and how it's compared.
 - With over 65 data elements, the report includes data on assessed valuations, levies and tax rates by class, revenues by source, actual spending, receivables, reserves, debt levels and bond ratings. For local leaders, the community comparison application can be valuable tool for identifying peer communities, measuring performance and establishing benchmarks.
 - You give it a test-drive by visiting the website at mass.gov/dls.