

Tax Expenditure Review Commission Public Meeting Minutes
Thursday, February 25, 2021
Via Teleconference
9AM

Commission Members in Attendance:

Chairman Kevin Brown, MA Department of Revenue
Auditor Suzanne Bump, MA Auditor
Chairman Adam Hinds, Joint Revenue Committee, Senate Co-Chair
Ryan Sterling, Designee, Joint Revenue Committee, House Co-Chair
Professor Matthew Weinzierl, Governor's Appointee
David Sullivan, Designee, Senate Ways and Means Committee
Greg Sullivan, Designee, Senate Minority Leader
Sue Perez, Designee, MA Treasurer
William Burke, Designee, House Minority Leader

Commission Members Absent:

Chairman Aaron Michlewitz, House Ways and Means Committee
Professor Michelle Hanlon, Governor's Appointee

List of Documents:

1. Meeting Agenda
2. Draft Minutes – February 12, 2021 Meeting
3. Draft Tax Expenditure Review Commission March 2021 Report to Legislature

Members were asked to announce themselves and a quorum was recognized by Chairman Brown. The meeting via teleconference was called to order at 9:05AM.

Chairman Brown advised that the meeting is public, but due to the COVID-19 State of Emergency, public participation is limited to listening without posing questions during the meeting. Chairman Brown put the Commission and public on notice that the meeting is recorded for purposes of minutes. Once the minutes are approved, the recording will be deleted.

Chairman Brown requested that Commission members provide any changes to the February 12, 2021 draft meeting minutes. Members voted to approve the February 12, 2021 meeting minutes with a correction to the start time of the meeting.

Chairman Brown discussed delaying the report to the legislature, which is due Monday, March 1, 2021. Members agreed it is important that all members have the opportunity to review the

draft report that was provided to them this week. A letter will be sent to the legislature explaining the brief delay.

Dr. Kazim Ozyurt, Department of Revenue (DOR) Chief Economist, discussed the REMI model appendix that was provided to members. DOR proposed moving the REMI discussion out of the tax expenditure summaries to an appendix to be included in the report to the legislature. Chairman Brown explained the goal of providing readers with a clear understanding of the economic evaluation. Professor Weinzierl expressed his support for this plan; an appendix may draw more attention to the Commission's analysis. Members agreed to inserting the REMI model discussion as a report appendix.

Chairman Brown discussed the layout of the draft report. Professor Weinzierl expressed his support for the draft with a suggestion for a table noting which tax expenditures fell into "Strongly Agree" and "Strongly Disagree". David Sullivan stated that the report is well-drafted and highlights which tax expenditures raised most concern for the Commission. He suggested noting that, where applicable, the 2012 Commission also expressed the same concerns. Greg Sullivan suggested that keeping the report concise may encourage readership. Senator Hinds stated that he refiled a bill proposing action on the Commission's recommendations (HD2447 - *An Act Promoting Accountability in Tax Expenditures*). Unfortunately the recommendations of the 2012 Commission were not acted upon by the legislature. Chairman Brown stated that an updated draft report will be provided to the Commission, with the inclusion of suggested changes and additions.

Chairman Brown and Will Burke led a discussion of the Unequal Weighting of Sales, Payroll and Property in Apportionment Formula (e.g. Single Sales Factor), as reviewed by Professor Michelle Hanlon and William Burke. During the February 12, 2021 meeting, Commission members agreed to delay a vote on the review template until Dr. Ozyurt could provide economic impact data. The original three-factor formula was developed in Massachusetts over a century ago with the goal of avoiding taxation by multiple states where corporations are doing business. The weighted formula consisted of taking a fraction of payroll costs, tangible property, and sales location to determine how much income is taxable. In recent years Massachusetts and other states have dropped the property and payroll factors. The shift toward weighting the sales factor exclusively has a significant revenue cost.

Mr. Burke discussed the template he reviewed with Professor Hanlon. Chairman Brown stated that there is considerable litigation pertaining to this tax expenditure related to income associated with mutual fund services and their other income, as well as which companies qualify as manufacturers. As a result, Chairman Brown suggested changing ease of administration from Strongly Agree to Somewhat Agree.

David Sullivan stated that while it is a policy matter for the legislature to determine, it remains unclear why mutual fund providers are afforded this benefit. Massachusetts is not a leader in this industry. However, the 1996 lobbying campaign was significant and based on jobs retention. David suggested lowering “Strongly Agree” to “Somewhat Agree” that the cost is worth benefit.

Chairman Brown and Dr. Ozyurt discussed how mutual funds were more prevalent in the 1990s. There has been a decline in their economic value to the Commonwealth. Sue Perez stated that she agrees with David Sullivan that this tax expenditure should be highlighted in the Commission’s report as it is unclear why it continues to be provided given the decline of mutual funds’ value to Massachusetts. Greg Sullivan agreed. Senator Hinds suggested noting the arbitrariness of this tax expenditure. Members agreed that the report should include a write-up of the Commission’s concerns with this expenditure.

Kevin Brown stated that perhaps if the Commission looked at this tax expenditure in two parts, the ratings may be different. For example, the relevance today for mutual funds versus manufacturers may be different than when the expenditure was adopted. As a result, Chairman Brown offered to include a summary of this in the report. Members voted to move benefit justifies cost to “Somewhat Agree” and ease of administration to “Somewhat Agree, as well as include a note about the Commission’s discussion of the arbitrariness of the benefit to the mutual fund industry.

Chairman Brown reviewed next steps for one more meeting to vote on the report in a final draft. Additionally, Dr. Ozyurt will provide an overview of the next round of tax expenditures the Commission will be reviewing.

Members agreed to schedule another meeting for mid-February. Chairman Brown concluded the meeting at 1013AM.