


M A S S A C H U S E T T S
HIGHTECHNOLOGYCOUNCIL

Dedicated to Growth... Committed to Action

LEGISLATIVE MEMO

To: Members of the General Court

From: Christopher R. Anderson
President 

Date: April 8, 2013

Re: **H.3382:** Our perspective on the current tax debate and a preview of our upcoming Competitiveness Study

Congratulations! The transportation funding proposal announced by the Senate and House last week represent a clear improvement over the plan advanced by the Governor.

We believe the share of our personal and corporate income, including payroll taxes, to fund the Commonwealth's budget must be competitive with other states. Since all taxes are ultimately borne by individuals, the distribution of the tax burden between corporations and individuals misses the central point. In fact, efforts to disguise unrealistically high taxes by collecting them through corporations will result in inflated prices, loss of competitiveness, and damage to the economy.

In this context, we believe that aspects of the legislative alternative revenue and spending plan will help to address long-neglected state transportation and infrastructure needs while avoiding most – but not all – of the negative impacts on state competitiveness contained within the Governor's proposal. In particular, we feel that the Legislature's proposal to increase the gas tax by three cents presents a logical alignment between road users and the need to repair state infrastructure.

As noted in our 2009 Legislative Memo regarding transportation funding (attached): "The High Tech Council contends that maximum reform must be achieved before accurate estimates can be made regarding any funding gap." Legislation that followed promised to produce savings of over \$6 billion over 20 years, and those reforms deserve to be fully implemented and assessed prior to permanent new funding schemes.

The High Tech Council is pleased that the Legislature's plan:

- **Abandons** the increase in the personal income tax from 5.25% to 6.25%
- **Abandons** the proposal to eliminate 44 personal income tax deductions
- **Abandons** the proposal to eliminate the Security Corporation classification
- **Includes** the provision to reduce the revenue subject to the state business income tax for MA-based employers by exempting income earned outside of Massachusetts (market-sourcing)

However, we remain concerned the provision in H.3382, Section 23, expands the sales tax to include custom software, a policy shift that would remove an existing and important competitive advantage that supports our state Information Technology sector (an interconnected ecosystem of software, networking, hardware, and IT Services firms).

We believe the Legislature has intended to narrow the scope of the sales tax provision by eliminating its application to data storage. However, in order to prevent damage to a vital sector of the Massachusetts economy with unintended interpretations by the Department of Revenue, the Council **recommends clarifying language that specifically excludes areas that were included in the Governor's broader tax proposal**, H.1, Outside Section 7, Subsection (AA).

At this time, only nine states levy a tax on custom software. Even more critically, of the 15 states with which Massachusetts most closely competes (see list, below), only one—Texas—taxes custom software.

Introducing the Mass. High Tech Council Cost Competitiveness Study

The plan that ultimately becomes law following the current tax debate will have far reaching and lasting effects on our state's economy. We will see needed improvements to the transportation infrastructure that is vital to the provision of goods and services. The changes will directly affect our competitiveness as a state and will be keenly observed both by employers who have a presence here now and those outside of Massachusetts considering an office or headquarters here.

In an effort to gain specific insights and gauge the overall cost competitiveness of the Massachusetts business climate compared with its chief competitor states, the High Tech Council is currently producing a Cost Competitiveness Study. With support from KPMG and Deloitte, the Study will provide an analysis of corporate tax rates and other relevant data points and business costs and compare them with states with whom we regularly compete for high tech jobs.

Below is the list of states against which we will benchmark Massachusetts' cost competitiveness across the range of above-mentioned areas. We look forward to sharing the full results of this study with members of the Legislature later this month.

Peer States:
(Alphabetically)

- | | |
|-------------------|------------------|
| 1. California | 9. New Hampshire |
| 2. Colorado | 10. New Jersey |
| 3. Connecticut | 11. New York |
| 4. Georgia | 12. Pennsylvania |
| 5. Maryland | 13. Texas |
| 6. Massachusetts | 14. Utah |
| 7. Minnesota | 15. Virginia |
| 8. North Carolina | 16. Washington |

For further information, please contact Felix Browne, Vice President for Policy and Communications at (781) 890-6482 Ext. 15.