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**Commonwealth
of
Massachusetts**

**Who Pays
Massachusetts
Taxes?**

**Special Commission
on
Tax Reform**

The Sales Tax

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Executive Summary by
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This introduction is part of an interim report of the Massachusetts Special Commission on Tax Reform to be filed with the Clerk of the House of Representatives of the General Court of the Commonwealth of Massachusetts.

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Executive Summary

This report provides information useful in evaluating the fairness of the Massachusetts sales tax.¹ Using original and sophisticated techniques and the most currently available data, the report examines: 1) who pays the Massachusetts sales tax, and 2) how the tax burden is distributed by income, age, and family status.

Dr. Reschovsky's study is one of two reports on the sales tax. The other one, prepared by Paul Smoke, is a general background report covering all issues relevant to the tax. Dr. Reschovsky's paper focuses exclusively on the distribution of the tax burden. Read together, the two reports provide a thorough overview of the Commonwealth's sales tax.

The current report is one in a series by Dr. Reschovsky on the incidence of the major taxes in the Commonwealth. The other two, Who Pays Massachusetts' Taxes? The Personal Income Tax, and Who Pays Massachusetts Taxes? The Property Tax, examine the distribution of the tax burdens of the personal income tax and residential property tax, respectively. These studies should be read together.

How Does the Burden of the Massachusetts Sales Tax Compare With That of Other States?

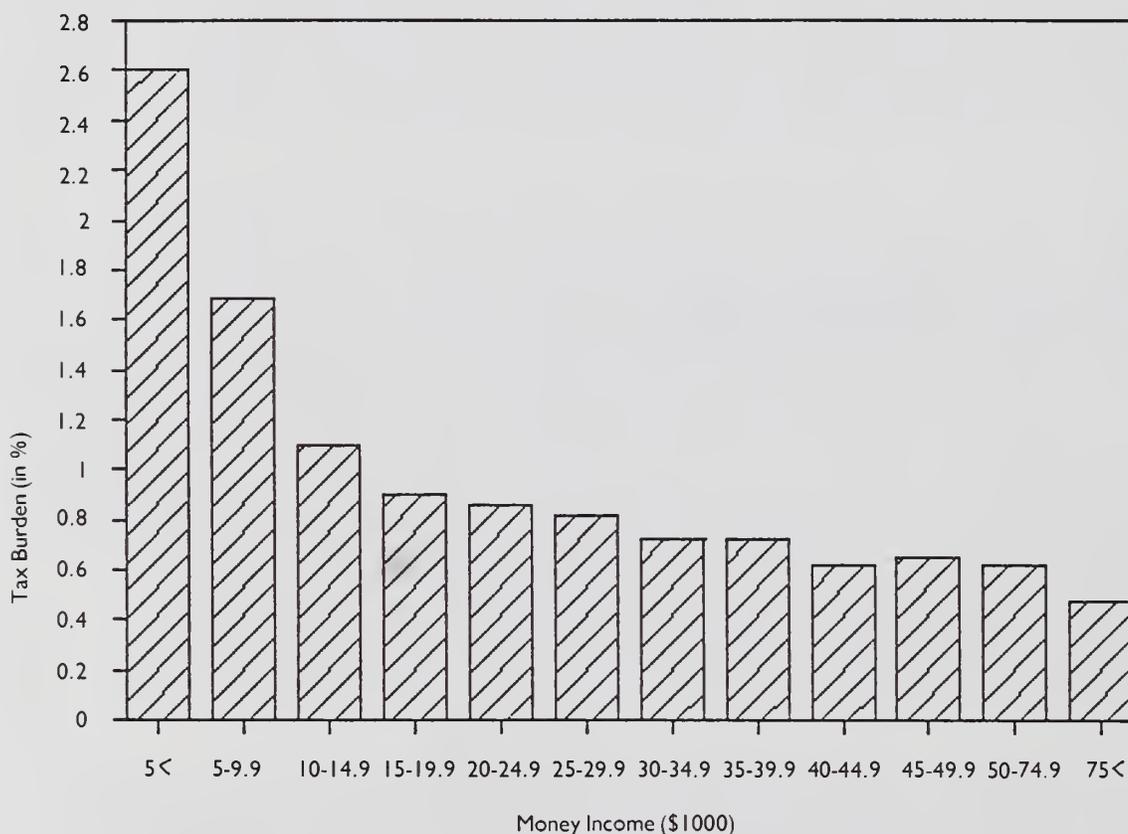
- o The sales tax burden is relatively low. At \$1.68 per \$100 of income in fiscal year 1985, the sales tax burden in the Commonwealth is one of the lowest in the Nation. Only four states with a sales tax face a lower tax burden. The sales tax burden faced by the average Massachusetts household is below 1%.
- o The burden is low because the base of Massachusetts' sales tax is particularly narrow. Items such as clothing, cigarettes, liquor, retail services, magazines, admission to spectator events, and food purchased in grocery stores are not subject to the sales tax.

How Is the Sales Tax Burden Distributed?

- o The sales tax is mildly regressive. The poorest 10% of the population face tax burdens in excess of 1.5% of their income while the richest 10% of the population face tax burdens below 0.5% of their income (see Charts 1 & 2.)
- o The Federal offset resulting from the deductibility of state sales taxes from income taxable at the Federal level, renders the sales tax slightly more regressive.

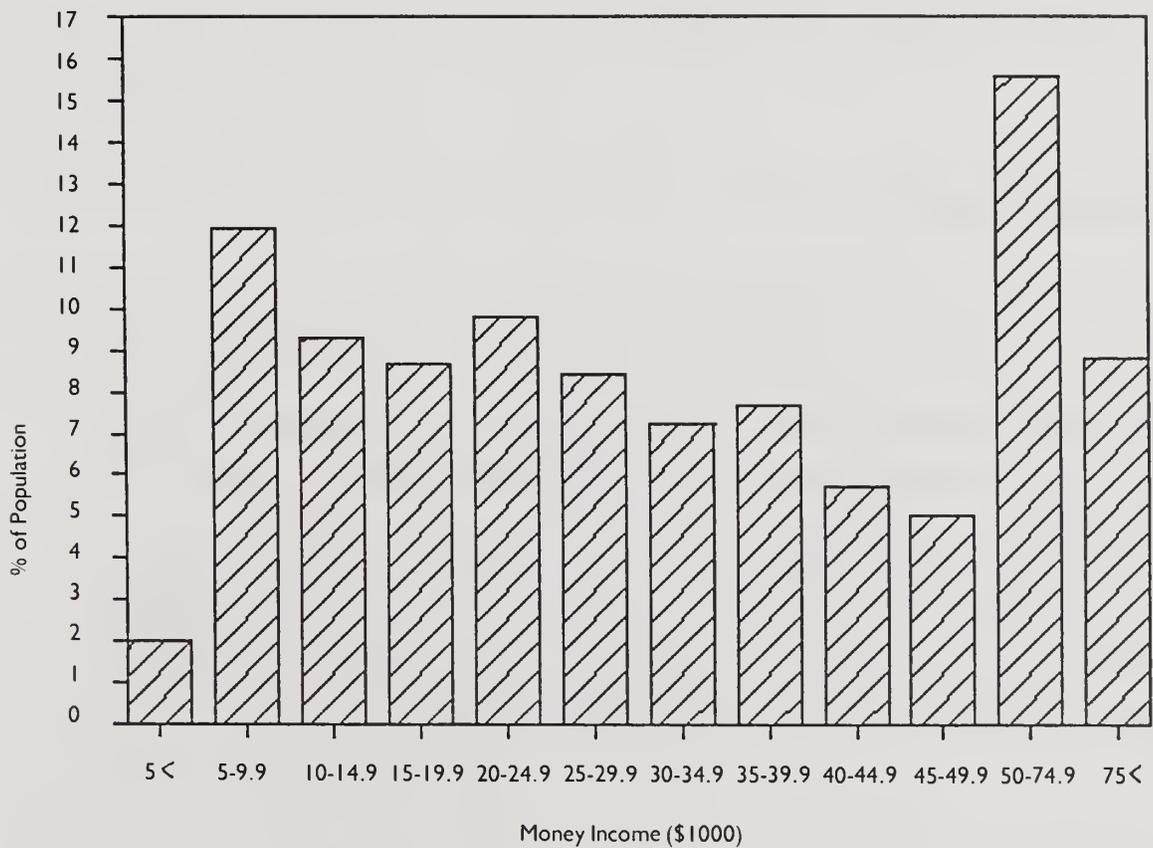
Households with incomes above \$20,000 face slightly lower tax burdens while those households with incomes below \$20,000 receive no benefit from the Federal offset. This is so because most households with income below \$20,000 either owe no Federal income tax, or do not itemize deductions. Currently pending Federal tax reform legislation eliminates sales tax deductibility starting in 1987.

Figure 1
Sales Tax Burden by Money Income Class



- o The majority of the Commonwealth's households face sales tax burdens that are not only low, but are very similar. Roughly 60% of the population faces tax burdens that range between 1.0% and 0.5% of their incomes. (Charts 1 and 2)

Figure 2
Distribution of Population by Money Income Class



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- o Nevertheless, some disparity in sales tax burdens does exist. 16% of all households face tax burdens below 0.5%, while 10% face burdens above 1.5%

Why is the sales tax regressive even though there is only a single rate?

The burden of the sales tax falls as household income rises because poorer families spend a higher proportion of their incomes than the more well-to-do. As household income rises, a greater proportion of it is saved and thus escapes the sales tax.

The Sales Tax and the Poor

- o The very poorest of the Commonwealth's residents face sales tax burdens that are substantially higher than those of the non-poor. About 15% of the population receives incomes below 150% of the poverty line. These households face an average tax burden of 1.9% of their income. By contrast, the non-poor face a tax burden that averages only 0.74% of their income.

Are poor families protected by the numerous exemptions from the base of the sales tax?

- o Apparently not. Spending on items subject to the sales tax as a proportion of total household expenditures does not vary significantly across income groups. Therefore, these exemptions do not offer any greater protection from the sales tax to poorer families than to the more fortunate.

The Sales Tax and the Elderly

- o The average elderly household faces a higher tax burden than the average non-elderly household. This difference exists because elderly households tend to have lower incomes than non-elderly.
- o Elderly households face slightly lower tax burdens than non-elderly households of the same income. This difference exists because elderly households in a given income group spend less and save more of their income than the non-elderly.

The Sales Tax and Household Type

- o The burden of the sales tax varies by type of household. Households composed of single individuals face the lowest burdens. Households composed of couples with no children face the highest burdens. Couples with children and single parent households face tax burdens between these two ranges.

Footnote

1. There are three major components of the sales tax: the general sales tax, the meals tax, and the tax on automobiles. Dr. Reschovsky's analysis treats all of these together.

