



MASSACHUSETTS BUSINESS ROUNDTABLE

Study Commission on Corporate Taxation

Public Hearing – May 22, 2007

Testimony of Alan G. Macdonald, Executive Director

Thank you for this opportunity to testify today regarding your efforts to streamline, modernize and simplify the state's corporate tax code. On behalf of the Massachusetts Business Roundtable, we thank you for serving on the Commission and appreciate the willingness of Governor Patrick, Senate President Murray and Speaker DiMasi to focus on the issue of fairness in the corporate tax code.

Over the course of the past few months, as the merits of the Governor's tax proposal have been debated, it has been said by some that businesses do not make location, expansion or hiring decisions based upon the state's level of taxation. Recent announcements from state government and current state policy, however, indicate exactly the opposite.

For example, public leaders recently unveiled a tax-incentive package aimed at luring film production investment to the Commonwealth. Similarly, just a few weeks ago, it was announced that Evergreen Solar would build a new, \$150 million plant in Marlborough which is expected to bring nearly 400 jobs to the area. The financing to this proposal also included a package of incentives, including savings from a 30-year lease of state owned land. In fact, it is the mission of the Massachusetts Office of Business Development (MOBD) to develop incentives for businesses to locate or expand in Massachusetts. A quick review of MOBD's website shows a variety of economic incentive programs under the heading of "tax incentives," including the Investment Tax Credit (ITC), Single Sales Factor, Economic Development Incentive Program (EDIP), R&D Tax Credit, and the Job Creation Incentive Payment.

All of these programs were created with the understanding that tax policy clearly does play a role in business decisions. And in our daily and fierce competition with other states and countries for jobs, they are essential tools for the state's job recruitment and retention efforts.

We need these tools now more than ever. Massachusetts had the second highest rate of job loss in the recession of 2001-2003 and has badly trailed the rest of the nation in the economic recovery. Only Louisiana, Michigan and Ohio have worse job creation records over the past four years. And while we have gained some momentum recently, this past

month, in April, we lost 1,900 jobs and the state unemployment rate rose from 4.4 percent to 4.6 percent, above the national jobless rate.

In the mid-1980s and 1990s, when unemployment rates were low in Massachusetts, the state had billion dollar surpluses. Today, as our unemployment rate approaches 5%, the state finds itself in a budget deficit. Massachusetts is still 100,000 jobs shy of its February 2001 peak. With 100,000 fewer jobs than in the days of a stronger state budget, it is understandable that the state is experiencing a budget deficit.

We must reverse this trend. The way to increase and sustain state revenues over the long term is to promote policies that encourage job growth and build the physical and workforce infrastructure to support it. Over the past few years, the employer community and policy makers have begun to do just that. From the landmark health care reform law, to the important economic development tools in the economic stimulus law, to streamlined permitting legislation, to our shared commitment to pre-K-12 and higher education, the business community has worked collaboratively – both with each other and the public sector – to take important steps to improve the business and social climate of our Commonwealth. These reforms must be given an opportunity to work. Returning to pre-recession job levels would generate hundreds of millions of dollars a year in personal income and sales taxes for investment in education, health care, human services and infrastructure.

In contrast, more large tax increases on corporations – coming on top of \$1 billion in business tax increases over the past four years – will discourage job creation and exacerbate the state's fiscal problems in the long run. Massachusetts is a high cost state for both businesses and individuals. In fact, according to Moody's Economy.com, Massachusetts' total business costs are the second highest in the nation. Those high costs translate directly into lost jobs.

MBR supports fairness in the tax code, and we are prepared to support the Commission in its efforts. It is important to recognize, though, that making significant changes in the corporate tax code simply to raise revenue is self-defeating and counterproductive to the state's many efforts to create jobs. Quality public education and a trained workforce, accessible health care, good roads and safe bridges, and a stable, competitive tax structure all support job creation, which will provide additional state revenues. Taken together, these provide a strategy for long term, sustainable growth in the Commonwealth.