



MASSACHUSETTS BUSINESS ROUNDTABLE

Joint Committee on Revenue

Public Hearing – March 5, 2008

H.4499 - A message from His Excellency the Governor recommending legislation relative to improving tax fairness and business competitiveness.

Testimony of Alan G. Macdonald, Executive Director

Chairwoman Creem, Chairman Binienda, and members of the Committee, thank you for this opportunity to testify today on H.4499 and, more generally, on the Study Commission on Corporate Taxation's efforts to streamline, modernize and simplify the state's corporate tax code.

It was just about three years ago when the Legislature was considering a package of corporate tax changes proposed by then Governor Romney. At the time, the Massachusetts Business Roundtable urged policymakers to be guided by the "traditional pillars of sound tax policy," namely: certainty; neutrality; fairness and equity; ease of administration; and accountability. Our message today is a similar one, with a particular focus on "fairness" and "certainty."

Last month, the Roundtable convened its members for a Summit on State Fiscal Policy. One of the agenda items was the Study Commission's recommendations. There were some clear messages that emerged from this discussion. For example, we heard that there will be some companies that are significantly and negatively impacted by the "combined reporting" proposal. These impacts play a role in decisions about doing business in Massachusetts, so they are not without consequence. They also contribute to the state's image – warranted or otherwise – as an unfriendly place to do business. In a competitive national marketplace and global economy, real and perceived attitudes toward business and the business climate are becoming increasingly important and relevant to this discussion.

We respectfully suggest two ways to mitigate the impact of these changes. First, regarding the theme of "fairness," a meaningful reduction in the corporate tax rate would put Massachusetts in a more competitive position when compared to other states. Currently, our corporate tax rate is among the highest in the country, putting us at a competitive disadvantage in our efforts to both recruit new employers and encourage growth for those that are here. MBR is supportive of the corporate tax reduction

proposed by Speaker DiMasi, reducing the rate to 7% over three years. We believe this will have an important long term impact on job creation.

Second, relative to “certainty,” MBR is concerned by the broad discretion given to the Department of Revenue in defining a company’s tax structure on a case-by-case basis with regard to combined reporting. This is not to disparage the DOR, but rather to suggest that the uncertainty such broad discretion creates in a company’s forecasting of its tax liability does not allow for the type of stability that encourages companies to plan and invest for long term growth. MBR respectfully suggests that regulatory discretion is specifically defined in any “unitary” tax proposal debated by the Legislature to provide as much uniformity as possible in tax treatment from company to company, if combined reporting is adopted.

MBR has testified in the past that the best 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. 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.

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.