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January 25, 2022

The Honorable Adam Hinds, Senate Chair
The Honorable Mark Cusack, House Chair
The Honorable Brendan Crighton, Senate Vice Chair
The Honorable David Paul Linsky, House Vice Chair
Massachusetts Joint Committee on Revenue

Re: COST's Opposition to the Gross Receipts Tax Proposal, H. 2855

Dear Chairs Hinds, Cusack; Vice Chairs Crighton, Linsky; and Members of the Committee:

On behalf of the Council On State Taxation (COST), I am writing in opposition to H. 2855, which would establish the Homelessness Prevention and Housing For All Fund financed by a new gross receipts tax on businesses. The bill would impose a new annual 0.25 percent tax on gross receipts of each business entity engaged in business in the Commonwealth, with an exemption on the first \$50,000,000 of gross receipts received by each business entity. But gross receipts taxes violate fundamental principles of tax policy. A leading professor of public finance and policy, Dr. John Mikesell, has concluded, "[t]here is no sensible case for gross receipts taxation...they do not belong in any program of tax reform."¹ The Commonwealth is no exception and COST urges the Committee to reject a new gross receipts tax for reasons detailed below.

About COST

COST is a nonprofit trade association based in Washington, DC. COST was formed in 1969 as an advisory committee to the Council of State Chambers of Commerce and today has an independent membership of over 500 major corporations engaged in interstate and international business. COST's objective is to preserve and promote the equitable and nondiscriminatory state and local taxation of multijurisdictional business entities. Many COST members have operations in Massachusetts that would be negatively impacted by this legislation.

COST Opposes Gross Receipts Taxes

The COST Board of Directors has adopted a formal policy statement opposing gross receipts taxes. COST's policy position is:

¹ "Gross Receipts Taxes in State Government Finances: A Review of Their History and Performance," by Dr. John L. Mikesell, Indiana University School of Public and Environmental Affairs, January 2007, p. 2, available on the COST website at: <https://cost.org/globalassets/cost/state-tax-resources-pdf-pages/cost-studies-articles-reports/gross-receipts-tax-study.pdf>.

Gross receipts taxes are widely acknowledged to violate the tax policy principles of transparency, fairness, economic neutrality and competitiveness; generally, such taxes should not be imposed on business.²

Lack of Economic Neutrality

An economically neutral tax does not influence business choices (of location, of operational entity, of suppliers, etc.). Gross receipts taxes are among the least neutral of all taxes because they interfere with private market decisions.

A gross receipts tax is imposed every time a product is sold. If each step in a production process is performed by a different business, the final product would have been subjected to multiple levels of tax. This is called “pyramiding”, and it results in an effective tax rate that can be more than three times higher than the actual statutory tax rate. This pyramiding creates a haphazard pattern of incentives and disincentives for business operations. Most significantly, they establish artificial incentives for vertical integration and discriminate against contracting work with independent suppliers and the advantages of scale and specialization that production by independent firms can bring.

Anticompetitive

Gross receipts taxes interfere with the capacity of individuals and businesses to compete with those in other states and other parts of the world. The tax embedded in prices grows as the share of a production chain within the state increases, so there is incentive to purchase business inputs from outside the state. It discourages capital investment by adding to the cost of factories, machinery, and equipment, and the disincentive increases as more of those capital goods are produced in the taxing state. This tax structure inhibits growth and development of the economy of an adopting state.

Unfair

Gross receipts taxes do not treat similarly situated businesses the same. Firms with the same net income will face radically different effective tax rates on that income, depending on their profit margins. Gross receipts taxes are especially unfair to start-up businesses, low margin enterprises, and unprofitable firms. Low-margin firms will be at great disadvantage relative to higher-margin firms, regardless of their overall profitability. Many new and expanding firms have low margins (or even are initially unprofitable). As a result, a gross receipts tax reduces the chance that new and expanding businesses, or low-margin businesses in general, will survive.

Gross receipts taxes also punish firms that buy from in-state suppliers by imposing at least one additional layer of tax on business inputs. Employers are generally unable to pass gross receipts taxes along to consumers in other jurisdictions which results in lower wages and fewer employment opportunities.

² <https://www.cost.org/globalassets/cost/state-tax-resources-pdf-pages/cost-policy-positions/grossreceiptstaxes.pdf>

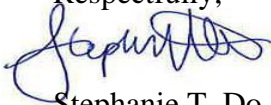
Lacks Transparency

A gross receipts tax is a stealth tax with its true burden hidden from taxpayers. The economic effect of this tax is not easily and readily understood. The public does not see the tax because it is imposed on businesses, and the public has no way of seeing the pyramiding that converts a low legal rate into a much higher effective rate.

Conclusion

COST respectfully opposes this proposal seeking to establish a gross receipts tax. I urge this Committee to reject H. 2855 and any other proposals introducing a new gross receipts tax on businesses in the Commonwealth.

Respectfully,



Stephanie T. Do

cc: COST Board of Directors
Douglas L. Lindholm, COST President & Executive Director