

## How Does the Massachusetts Sales Tax Compare?

### *State Rankings*

Massachusetts' state sales tax rate is now 6.25 percent and generated \$5.2 billion in FY 2013 (the most current year with complete collections data available from the Massachusetts Department of Revenue).<sup>1</sup> The rate was increased from 5.0 percent beginning in FY 2010.<sup>2</sup> The current rate is similar to other southern New England states but higher than rates in northern New England. There is a range in state-level general sales tax rates across the rest of the US as well. While five states, for example, have a state-level rate of 7.0 percent – well above the Massachusetts rate – fourteen states have rates below 5 percent (including four states that have no sales tax at all).<sup>3</sup>

Tax rates themselves, however, are not an especially useful measure by which to compare the actual impact of taxes in different states. While only some dozen states have state-level general sales tax rates equal to or higher than Massachusetts,<sup>4</sup> a number of factors make the actual *impact* of the Massachusetts general sales tax smaller in Massachusetts than in almost every other state:

- Massachusetts exempts many necessities from the general sales tax (including most food, clothing, prescription medicine, and home energy purchases).
- Massachusetts applies the general sales tax to far fewer services (as opposed to “tangible goods”) than do many other states.
- Massachusetts allows very little “add on” sales tax revenue to be collected at the local level through local option sales taxes. (Unlike New York, for example, which has a 4 percent state sales tax, but also local option sales taxes of 3 percent to 5 percent added on top of the state tax, for a combined average rate of 8.45 percent.)<sup>5</sup>

The result of these features is that in Massachusetts a much smaller percentage of personal income is spent on general sales taxes than in most other states. General sales tax revenue in Massachusetts was equal to 1.4 percent of state personal income in FY 2011 (the most recent nation-wide US Census data available), placing the Commonwealth at a rank of 42<sup>nd</sup> out of the 46 states that levy a general sales tax (see chart, below).

<sup>1</sup> MA Department of Revenue, Monthly Blue Book, June 2013: <http://www.mass.gov/dor/docs/dor/stats/bluebook/fy2013/june.pdf>  
In FY 2011, the total sales tax collections were \$4.9 billion: <http://www.mass.gov/dor/docs/dor/stats/bluebook/fy2011/june-2011.pdf>

<sup>2</sup> The new GST rate took effect on August 1<sup>st</sup>, 2009. Along with the change in Massachusetts law that increased the state sales tax from 5 percent to 6.25 percent, localities were permitted to adopt both a “local option” tax of 0.75 percent on meals and raise their hotel room tax from 4 percent to 6 percent. At the same time, the sales tax was extended to include alcoholic beverages sold at package and liquor stores, but this provision was repealed through ballot initiative, effective for sales on or after January 1<sup>st</sup>, 2011.

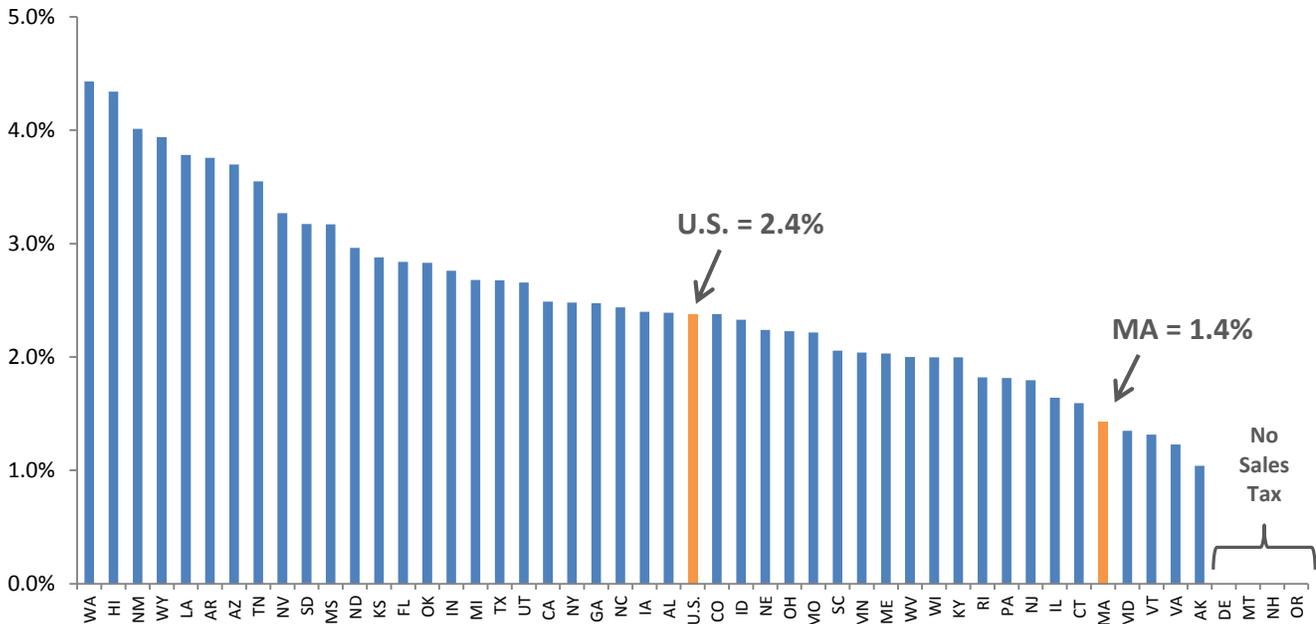
<sup>3</sup> Institute on Taxation and Economic Policy, *ITEP Guide to Fair State and Local Taxes* (see Chapter 3 Appendix): [http://www.itep.org/state\\_reports/guide2011.php](http://www.itep.org/state_reports/guide2011.php)

<sup>4</sup> Institute on Taxation and Economic Policy, *ITEP Guide to Fair State and Local Taxes* (see Appendix 3): [http://www.itep.org/state\\_reports/guide2011.php](http://www.itep.org/state_reports/guide2011.php)

<sup>5</sup> Ibid

## MA Ranks in the Bottom Fifth of All States for General Sales Tax Collections as A Share of Personal Income (FY 2011)

General sales tax collections as a share of state personal income, FY 2011



Sources: U.S. Census Bureau, *State and Local Gov't Finance Survey for FY 2011*  
U.S. Bureau of Economic Analysis, *State Personal Income*

### Who Pays The General Sales Tax?

Analysis performed by the Institute on Taxation and Economic Policy (ITEP) finds that, on average, in 2012 Massachusetts families in the lowest 20 percent of incomes paid 1.8 percent of their incomes in direct general sales taxes.<sup>6</sup> The share of income going to direct general sales taxes drops off steadily as income rises, with the top 1 percent paying only 0.3 percent of their total income toward these taxes (see chart, below).

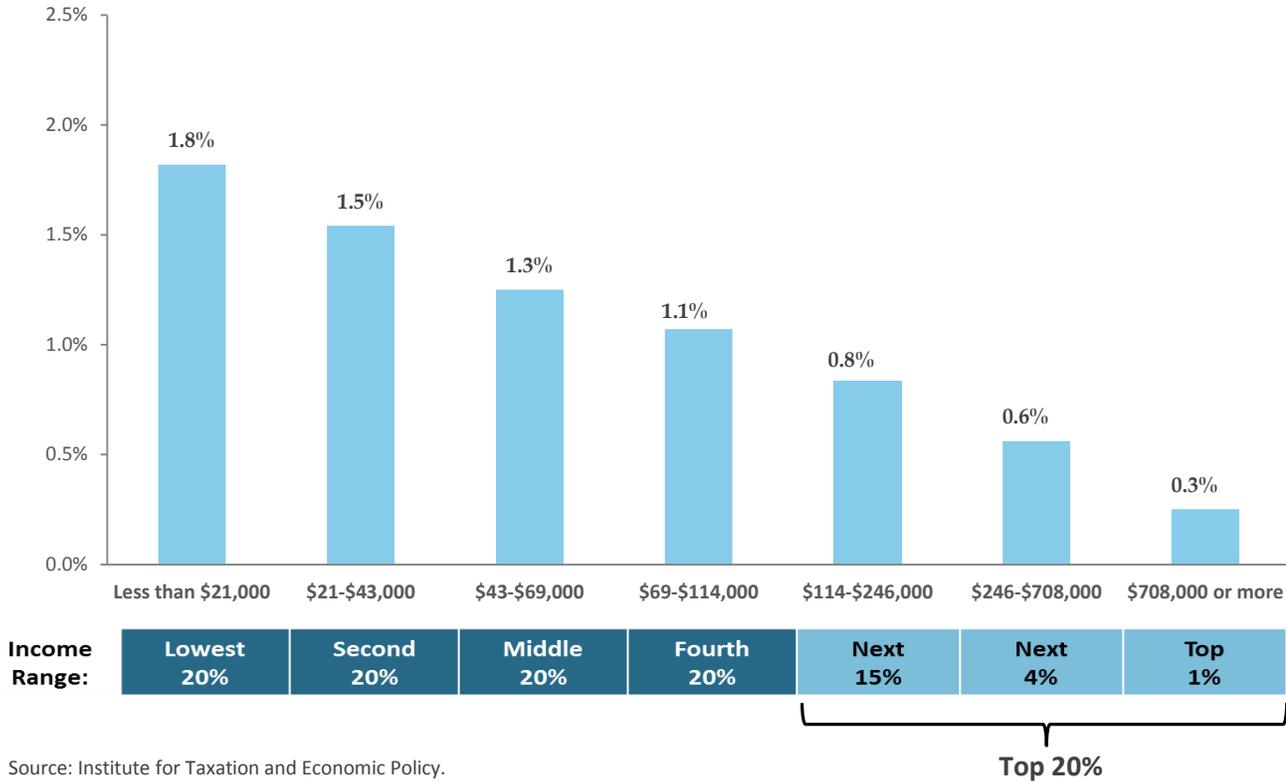
This can be explained by the difference between the consumption requirements of low vs. high-income taxpayers. People with low incomes usually must spend all of their income in order to make ends meet (or even more than their total income in some years, if borrowing and use of savings is taken into account). This means that much of their income becomes subject to the sales tax through the purchases they make. People with high incomes, by contrast, typically spend only a portion of their income, saving or investing the remainder.

The overall effect of the general sales tax therefore is regressive, with poorer people paying more of their income toward this tax than do richer people. At the same time, reducing the sales tax rate would reduce state revenues. Unless these sales tax revenue losses were offset with revenue increases (most likely from other tax sources), the state would have to reduce spending on programs and services, many of which directly benefit low and moderate income people.

<sup>6</sup> Institute on Taxation and Economic Policy, analysis upon special request from MassBudget (2012 incomes and tax policy, all ages)

## Low-Income MA Families Pay More of Their Income Toward Direct General Sales Taxes than Do High-Income Families (2012)

Percent personal income paid in state and local taxes, 2012 incomes



Source: Institute for Taxation and Economic Policy.