

Corporate Minimum Taxes in Massachusetts Could Be Better Targeted as in Other States

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The Commonwealth supports corporations in countless ways. For their long-term success and year-to-year profits, corporations rely on a dependable legal system, a healthy and educated workforce, a transportation system that brings goods to market, and more. We pay for all these crucial programs and services chiefly through taxes. Corporations have an important role to play in contributing their own tax dollars toward these efforts.

In response to the many ways corporations avoid taxes, states have long established minimum corporate excise taxes as a backstop to ensure all corporations pay some income tax regardless of how much they report in profits. The Massachusetts corporate minimum tax has not been changed in 30 years. Since 1989, the minimum tax for corporations regardless of their size has been \$456.¹ Several other states target their minimum corporate taxes so that businesses with larger volumes of sales pay larger minimum amounts.

The Commonwealth's corporate minimum tax is widely used, even by many very large corporations:

- 70 percent of all businesses that filed corporate excise taxes in Massachusetts paid the minimum \$456 in 2015.²
- Similarly, an analysis of year 2000 tax data cited by the Commonwealth's Study Commission on Corporate Taxation found that 37 percent of corporations reporting more than \$10 million in gross receipts paid the minimum excise. Additionally, 20 percent of the state's largest 50 employers paid the minimum excise.³
- The Department of Revenue showed that, in 2004, there were 2,283 companies with gross receipts over \$50 million that paid the corporate minimum tax – a third of all such companies. Of this group, 207 companies had annual sales over \$1 billion and paid only the minimum tax. This represented 24 percent of all companies with a billion dollars in sales.⁴
- A study by the Institute on Economic and Tax Policy, based on companies' 2015 filings to the Securities and Exchange Commission, found at least two dozen profitable Fortune 500 companies paid no state income tax other than the corporate minimum.⁵

Revenue collections from the minimum tax in 2015 totaled about \$55.9 million.⁶

States such as New York, New Jersey, and Oregon target their corporate minimum taxes so that businesses with larger volumes of sales pay larger minimum amounts. In New York, for example, the minimum corporate tax tops out at \$200,000 for companies with over \$1 billion in New York receipts.⁷

¹ See Department of Revenue 830-CMR 23B.2.2 at <https://www.mass.gov/regulations/830-CMR-63b22-payments-of-estimated-corporate-excise-for-taxable-years-ending-on-or> . See also MassBudget, "Gone with the Wind: The Vanishing Corporate Income Tax," p. 23 at http://www.massbudget.org/reports/pdf/gonewithwind_final.pdf

² A total of 112,495 of all 161,598 businesses paying the corporate excise paid the minimum. See Massachusetts Department of Revenue, “A Report on 2015 Corporate Excise Returns.” This is the last year for which the Department has published data. See “Excise due” row at Table 3, page 25 at

<https://www.mass.gov/files/documents/2018/12/21/dor-reports-2015-corp-excise-returns.pdf>.

³ Commonwealth of Massachusetts, Study Commission on Corporate Taxation, “Final Report,” December 28, 2007, Appendix M, page 219 at <https://massdocs-digital-mass-gov.s3.amazonaws.com/s3fs-public/2018/study-commission-corp-taxation-final-report.pdf?1ha3NhiPPBDLTKSdHsez18PGriEjyLMk>

⁴ See Appendix M, page 219 at <https://massdocs-digital-mass-gov.s3.amazonaws.com/s3fs-public/2018/study-commission-corp-taxation-final-report.pdf?1ha3NhiPPBDLTKSdHsez18PGriEjyLMk>

⁵ The SEC filings list the amount of total taxes paid to all 50 states as a group, but do not disclose tax payments to individual states. Thus, many more Fortune 500 corporations may have avoided paying corporate income taxes specifically to Massachusetts. See Institute on Taxation and Economic Policy, “3 Percent and Dropping: State Corporate Tax Avoidance in the Fortune 500,” (April 2017), page 2 at <https://itep.org/wp-content/uploads/statecorpstudyv2.pdf/>.

⁶ Massachusetts Department of Revenue, “A Report on 2015 Corporate Excise Returns.” This is the last year for which the Department has published data. See “Excise due” row at Table 3, page 25 at

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⁷ In New York, the minimum is \$500 for companies with between a half million to a million dollars in New York receipts; a \$1,500 tax for receipts above \$1 million but not over \$5 million; a \$3,500 tax up to \$25 million; a \$5,000 tax up to \$50 million; \$10,000 tax up to \$100 million; \$20,000 up to \$250 million; and \$50,000 tax up to \$500 million; \$100,000 up to \$1 billion; and \$200,000 over \$1 billion. See “fixed dollar minimum tax” schedule on page 9 at https://www.tax.ny.gov/pdf/current_forms/ct/ct3i.pdf . In New Jersey, the minimum Corporation Business Tax ranges from \$500 for a corporation with gross receipts less than \$100,000, up to \$2,000 for a corporation with gross receipts of \$1 million or more. In Oregon the minimum tax spans from \$150 for corporations with sales under \$500,000 and reaches \$100,000 for companies with sales of \$100 million or more. See Tax Administration, “Range of State Corporate Income Tax Rates” as of January 1, 2019, at https://www.taxadmin.org/assets/docs/Research/Rates/corp_inc.pdf . Starting in 2020, Oregon will also have a separate corporate tax that applies only to Oregon receipts exceeding \$1 million. See <https://olis.leg.state.or.us/liz/2019R1/Measures/Overview/HB3427> .