

The Single Sales Factor in Massachusetts

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Apportionment In Massachusetts

- Until 1996, Massachusetts used a three-factor corporate apportionment formula, double-weighted for sales.
- In response to concerns about the high cost of doing business in Massachusetts, a single sales factor formula was allowed for three industries:
 - Defense industry (effective 1/1/96)
 - Other manufacturing industry (phased in 1996-2000)
 - Mutual fund service corporations (effective 1/1/97 & 7/1/97)

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Eligibility For Single Sales Factor

- Defense Corporations
 - 50% of sales must be to the Department of Defense or U.S. armed forces
- Other Manufacturing Corporations
 - must derive 25% of receipts from sales of its own manufactured goods, pay 25% of its payroll or use 25% of its property for manufacturing operations *and* derive 15% of receipts from sales of manufactured goods, or use 35% of its property for manufacturing operations.

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Eligibility For Single Sales Factor

- Mutual fund service corporations
 - companies that derive more than 50% percent of gross income from provision of services to or on behalf of a regulated investment company, or from trustees, sponsors and participants of employee benefit plans which have accounts in a regulated investment company
 - Effective 1/1/97, mutual fund service providers source mutual fund sales to a state based on the domicile of shareholders in the mutual funds, not the location of the sales office.
 - Effective 7/1/97, mutual fund service providers were further allowed to apportion their income to Massachusetts based solely on the percentage of sales to Massachusetts residents (single sales factor)

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Property, Payroll, and Employment Retention Requirements for Maintaining Single Sales Factor Eligibility

- To be eligible for single sales factor treatment, corporations had to maintain certain property, payroll, and employment levels in Massachusetts
- Defense Corporations
 - Between 1996 and 2000, defense corporations electing single sales factor apportionment were required to maintain property and payroll levels in Massachusetts equal to at least 90% of their property and payroll levels in tax year 1995. For 2000 and beyond, no property or payroll requirements, as defense corporations were subject to the same requirements as other manufacturing corporations (see below).
 - Retention requirements were waived if corporation could show that defense-related business had declined.

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Property, Payroll, and Employment Retention Requirements for Maintaining Single Sales Factor Eligibility

- Other manufacturing companies
 - No property or payroll retention requirements
- Mutual Fund Service Corporations
 - Were required to increase employment by 5% per year above a 1/1/96 employment base through tax year 2002, and maintain that higher employment level in tax year 2003. No requirements starting in tax year 2004.
 - Exception was made for “adverse economic” conditions, defined as an S&P 500 decline of 10% or more, an average daily trading volume decline of 15% or more, or a decline of 12.5% or more in a particular company’s assets under management.

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Corporations Utilizing Single Sales Factor

	Number of Companies	Massachusetts Employment
Manufacturers (Includes Defense)	750	125,000 - 160,000
Mutual Fund Service Providers	35 - 50	18,000 - 20,000
Total	785 - 800	143,000 - 180,000

Annual Tax Savings: \$150 to \$200 million

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Tax Year 2000 Tax Savings Due to Utilization of Single Sales Factor -- All Corporations

Gross Sales (\$)	Net Tax Savings	
	N	Sum
<=0 or Missing	149	\$5,216,309
>0 and <100,000	3	\$23,272
>100,000 and <=1,000,000	10	\$8,800,747
>1,000,000 and <10,000,000	74	\$5,646,695
>10,000,000 and <25,000,000	87	\$2,033,055
>=25,000,000 and <50,000,000	64	\$2,822,980
>=50,000,000 and <100,000,000	80	\$2,090,518
>=100,000,000 and <500,000,000	155	\$15,940,364
over 500,000,000	173	\$135,678,264
All	795	\$178,252,204

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Tax Year 2000 Tax Savings Due to Utilization of Single Sales Factor -- Defense and Manufacturers

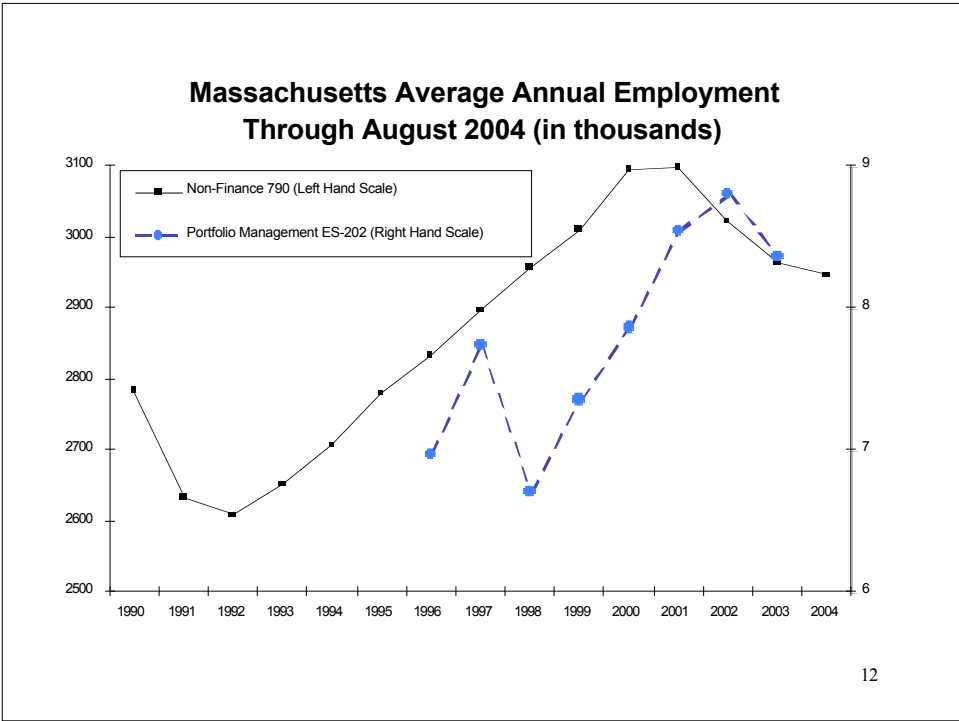
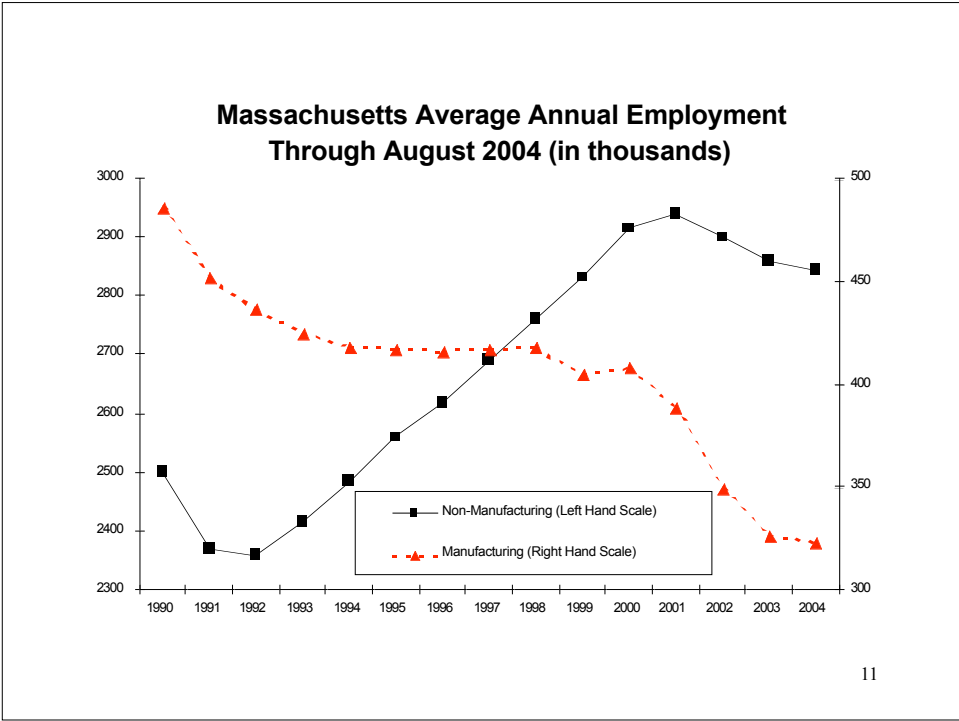
Gross Sales (\$)	Net Tax Savings	
	N	Sum
<=0 or Missing	124	\$2,700,586
>0 and<=10,000,000	78	\$12,230,819
>10,000,000 and<50,000,000	148	\$3,450,032
>50,000,000 and<500,000,000	230	\$8,990,281
over 500,000,000	166	\$27,670,584
All	746	\$55,042,302

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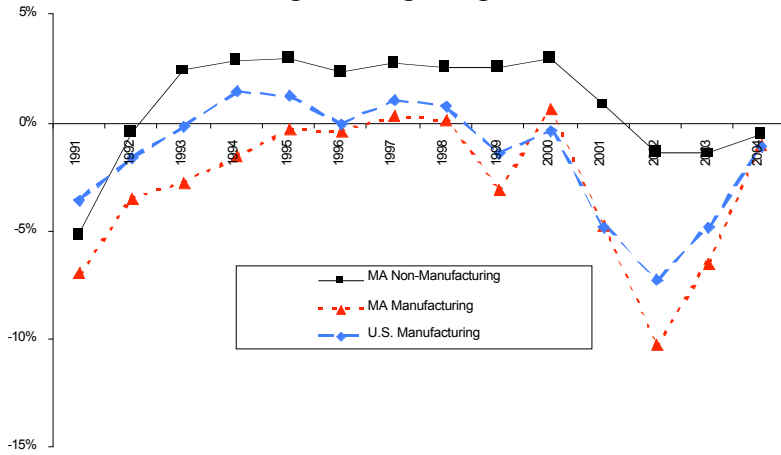
Tax Year 2000 Tax Savings Due to Utilization of Single Sales Factor -- Mutual Funds

Gross Sales (\$)	Net Tax Savings	
	N	Sum
<=0 or Missing	25	\$2,515,723
>0 and<=10,000,000	9	\$2,239,895
>10,000,000 and<50,000,000	3	\$1,406,003
>50,000,000 and<500,000,000	5	\$9,040,601
over 500,000,000	7	\$108,007,680
All	49	\$123,209,902

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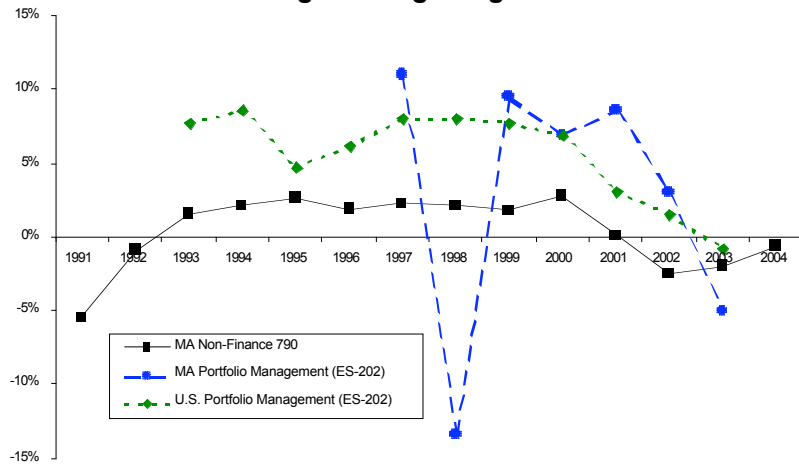


Massachusetts & U.S. % Annual Employment Change Through August 2004



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Massachusetts & U.S. % Annual Employment Change Through August 2004



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Conclusions

- Single sales factor reduces Massachusetts tax bills of manufacturers and mutual fund companies by \$150-\$200 million annually
- Due to general economic boom and deep recession in Massachusetts since the single sales factor changes were implemented, it is difficult to tell whether the single sales factor resulted in increased Massachusetts employment or smaller job losses than would have otherwise occurred
- Auditing job, payroll, or property retention requirements is an issue -- most auditors in the Massachusetts DOR have little training or experience in this area.