

Tax Changes under the Massachusetts Budget for Fiscal Year 2010

In June, 2009, Governor Deval Patrick signed the Massachusetts budget for fiscal year 2010 into law. The budget raised more than \$1 billion in new revenue through a number of tax increases. The tax increase that will be felt most immediately by those who do business in Massachusetts, both companies and individuals alike, is the 25 percent increase in the sales and use tax. This tax increase, combined with the other changes outlined within this article, allowed the Massachusetts Turnpike Authority to avoid passing an increase in tolls that was scheduled to take effect in July.

After it took effect in August, 2009, the Commonwealth's sales/use tax rate increased from its current rate of 5 percent to 6.25 percent. The Commonwealth estimates that \$759 million will be raised by the sales tax increase. Retailers, who are already straining under the impact of the recession, are generally opposed to the higher tax rate, which is likely to have a further negative impact on their sales.

The meals tax also increased by 25 percent, from 5 percent to 6.25 percent. In addition to the state tax increase, cities and towns will have the option of imposing a 0.75 percent tax on top of the state level tax on meals. This is a significant increase in the tax on meals at a time when restaurant sales are down by 4 percent compared with last year. Cities and towns will also have the option to increase the local hotel tax by 2 percentage points to 6 percent, a 50 percent increase from its current 4 percent rate. This increase comes on top of the existing 5.7 percent state level tax on hotel rooms.

Further, retail alcohol sales will no longer be exempt from sales tax under the new budget. Sales of alcohol is now subject to tax at a rate of 6.25 percent. Many business owners are of the opinion that considerable sales revenue will shift across the border into New Hampshire as a result of the termination of the sales tax exemption on alcohol and the increase in the sales tax rate generally. The last time the sales and meals taxes were increased was in 1975.

A new tax introduced by the fiscal year 2010 budget is a 5 percent tax on satellite television service. Representatives of satellite television service providers view this tax as being unfair, since cable television providers are not subject to tax at the state level, although they do pay local franchise fees.

On a positive note for consumers, there will not be an increase in the gasoline tax at this time.

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However, Governor Patrick did indicate that an increase in the gasoline tax could be necessary at a later date in order to provide funds for the state's transportation network.

These tax increases come at a time when the Commonwealth is facing a nearly \$5 billion budget gap, forcing difficult decisions to be made. However, even with the increase in state revenues resulting from increasing the tax rate on certain existing taxes and subjecting some new areas to tax that were previously exempt, many state programs and services will need to be scaled down due to a shortfall in revenue. At the present time, most education spending has been maintained at existing levels.

If you have any questions about the 2010 Massachusetts state budget, including how these changes will impact you, please email [Girard Brisbois](#), Director of State and Local Tax, or call (617) 241-1358.