



The First Step Toward Creating 56,400 New Middle-Class Jobs in Massachusetts

A New-Jobs Report
on the Inventory Tax from
New Jobs for Massachusetts, Inc.

August, 2012

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Executive Summary

Massachusetts is one of only nine states that continue to permit taxation of inventory. **Because inventory can be easily moved to where it is not taxed, taxing inventory effectively kills the middle-class jobs associated with inventory.** The demographic groups most strongly affected are high school graduates and blue-collar workers. **For this state's middle-class job seekers, the inventory tax is Adversary #1.**

There are 376,000 inventory-related jobs in Massachusetts. They have over 70 job titles and account for 11 percent of all state employment. The Commonwealth could have many more such jobs. This report recommends taking the one step that will allow more middle-class jobs like these to grow statewide: eliminating the inventory tax.

Compared to Indiana, Massachusetts has 120,000 fewer inventory-related jobs in 20 occupational categories. Indiana is a useful comparison because it is similar in size, climate, work ethic, and the role it plays in its region. Indiana abolished its inventory tax ten years ago, wanting to grow jobs.

Adjusting Indiana's 120,000 inventory-related job lead in 20 occupations over Massachusetts for Indiana's higher proportion of manufacturing jobs gives a Massachusetts job-growth potential of 56,400 jobs. These new jobs, at Massachusetts salaries, would add \$2 billion in annual wages.

At \$200,000 in average annual revenue per worker, those 56,400 jobs imply an increase in Massachusetts' corporate revenue of \$11 billion, **equivalent to a new company the size of Nordstrom or Avon Products.**

The \$2 billion in new middle-class wages would generate \$97.3 million in personal income taxes, \$32.1 million in new sales taxes, and \$54 million in corporate income taxes for the Commonwealth, **a gross total of \$183.7 million in state revenue from these new jobs.**

Massachusetts currently collects \$192 million in inventory tax from corporations. Cities and towns collect roughly \$6 million. **Cities and towns vigorously dislike the hassle that the inventory tax causes** and would gladly stop taxing inventory. Local governments' property tax revenues come overwhelmingly from utility infrastructure for power and communications.

The benefit to the state would be allowing creation of 56,400 new jobs, at a net revenue cost of \$14.8 million, or \$264.07 in revenue reduction for each potential job.

This pro-jobs change would be straightforward to enact: simply exempt all inventories from state and local taxation of personal property.

Eliminating the inventory tax will produce a **five-way win:**

- **56,400 more inventory-related middle-class jobs** allowed to be created statewide.
- **Low state cost of \$264.07 per job created,** with immediate response by business.
- **Lower costs for businesses** large and small, measured in dollars and time saved.
- **Lower costs and fewer headaches for local government** by avoiding a small-revenue tax.
- **An improved reputation** for the Commonwealth and its business climate.



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Massachusetts taxes business inventory. Few people know that Massachusetts taxes business inventory, since the tax goes by two other names. Fewer still know how the tax hurts job growth. An inventory tax exports jobs to the majority of states that don't have such a tax, suppresses middle-class jobs, and prevents companies from growing as fast as they can. This report looks at allowing inventory-related jobs to flourish in Massachusetts.

Inventory requires people. Businesses that make, distribute, or sell things need to hold inventory. Manufacturers, distributors and retailers all keep inventory on hand in order to conduct business. The term inventory includes raw materials, work-in-process (goods that are being manufactured) semi-finished inventory (goods awaiting packaging, final assembly or customization to order), and finished inventory. Inventory in all forms reliably creates new jobs.

Inventory creates jobs just by its presence. Inventory requires people to store and retrieve it; pack and unpack it; move it around in preparation for shipment or sale; count it; and rotate, ship it, and replenish it. Inventory requires people to manage it, protect it, and direct those responsible for it. States that want to create jobs make sure there no barriers to companies holding inventory.

Inventory-related work is diverse. Figure One shows that inventory-related jobs range from operations managers to clerks, drivers to helpers, and analysts to technicians. Here are 71 job titles displayed in May, 2012, on two websites that help fill inventory-related jobs with manufacturers and distributors.

Figure One
Inventory-Related Jobs Titles Listed Recently on Two Job Websites

1	Assistant Manager - Distribution Center	25	Inventory Manager	49	Receiving Clerk
2	Buyer Leader - Materials/Contracts	26	Inventory Planner	50	Receiving Manager
3	CNC Router Technician	27	Inventory Specialist	51	Reception Clerk
4	Customer Service	28	Inventory Supervisor	52	Security Officers
5	Director of Distribution	29	Inventory Taker	53	Shipping and Receiving Clerk
6	Director of Stores and Receiving	30	Logistics Analyst	54	Shipping and Receiving Specialist
7	Director of Warehouse Operations	31	Loss Prevention Specialist	55	Stock Clerk
8	Distribution Associate	32	Machine Operator	56	Warehouse Administrator
9	E-Commerce Inventory Manager	33	Material Handler	57	Warehouse Associate
10	Forklift Operator	34	Materials Manager	58	Warehouse Back-Stock Picker
11	Fulfillment Center Associate	35	Merchandise Coordinator	59	Warehouse Bulk Processing Staff
12	Fulfillment Center Coordinator	36	Night Stocker	60	Warehouse Department Manager
13	Fulfillment Specialist	37	Operations	61	Warehouse Lead
14	General Warehouse Associate - Seasonal	38	Operations Manager	62	Warehouse Manager
15	Hospital Inventory Management Coordinator	39	Order Puller	63	Warehouse Operations Business Unit Manager
16	Industrial Maintenance Technician	40	Order Selector	64	Warehouse Operator
17	Inventory	41	Packing Lead	65	Warehouse Pick/Pack
18	Inventory Analyst	42	Part-Time General Warehouse Associates	66	Warehouse Professionals
19	Inventory and Invoice Clerk	43	Part-Time Production	67	Warehouse Push Processor
20	Inventory Assistant	44	Part-Time Professional Tractor Trailer Drivers	68	Warehouse Reserve Processing Staff
21	Inventory Associate	45	Procurement and Services Manager	69	Warehouse Supervisor
22	Inventory Clerk	46	Product Selectors	70	Warehouse Tech
23	Inventory Control Specialist	47	Production Operator	71	Warehouse Truck Unloaders
24	Inventory Control Supervisor	48	Professional Tractor Trailer Drivers		Source: warehousejobs.com, careerbuilder.com

Inventory-related jobs are middle-class jobs. Many people can do this work. Employers seek to fill these jobs with applicants who are careful, reliable, orderly, cooperative and trustworthy. Personal skills and experience are important; advanced education is seldom required, so these



jobs are accessible to many workers. The Commonwealth has a lot of these jobs, 376,260 as of May, 2011, and they pay well. **Figure Two** shows the most recent employment counts and median income for 39 inventory-related occupations in Massachusetts.

Figure Two
Inventory-Related Jobs in Massachusetts, with Median Annual Income

	SOC Code	Occupation Title (In declining order of size)	Massachusetts Employment	Median Annual
1	11-1021	General and Operations Managers	49,630	\$103,250
2	43-5081	Stock Clerks and Order Fillers	44,960	\$22,890
3	41-4012	Sales Representatives, Wholesale and Manufacturing, Except Technical and Scientific Products	31,480	\$66,940
4	53-7062	Laborers and Freight, Stock, and Material Movers, Hand	28,820	\$26,420
5	53-3032	Truck Drivers, Heavy and Tractor-Trailer	21,050	\$43,630
6	53-3033	Truck Drivers, Light or Delivery Services	20,540	\$34,400
7	33-9032	Security Guards	19,490	\$27,310
8	43-5071	Shipping, Receiving, and Traffic Clerks	17,510	\$32,390
9	41-4011	Sales Representatives, Wholesale and Manufacturing, Technical and Scientific Products	15,080	\$86,690
10	53-7064	Packers and Packers, Hand	13,660	\$21,330
11	11-3011	Administrative Services Managers	9,020	\$89,710
12	53-3031	Driver/Sales Workers	8,000	\$24,170
13	53-7051	Industrial Truck and Tractor Operators	7,110	\$33,460
14	51-9111	Packaging and Filling Machine Operators and Tenders	6,970	\$25,300
15	13-1023	Purchasing Agents, Except Wholesale, Retail, and Farm Products	6,650	\$63,520
16	43-5061	Production, Planning, and Expediting Clerks	6,460	\$50,420
17	41-1012	First-Line Supervisors/Managers of Non-Retail Sales Workers	6,350	\$83,220
18	43-3011	Bill and Account Collectors	6,210	\$36,920
19	51-9198	Helpers--Production Workers	5,910	\$23,570
20	17-2112	Industrial Engineers	5,640	\$85,470
21	43-4151	Order Clerks	4,550	\$33,350
22	53-1031	First-Line Supervisors/Managers of Transportation and Material-Moving Machine and Vehicle Operators	3,840	\$55,220
23	49-9041	Industrial Machinery Mechanics	3,780	\$52,440
24	11-3051	Industrial Production Managers	3,430	\$95,920
25	13-1022	Wholesale and Retail Buyers, Except Farm Products	3,290	\$54,230
26	17-3026	Industrial Engineering Technicians	3,050	\$52,410
27	43-9051	Mail Clerks and Mail Machine Operators, Except Postal Service	3,020	\$30,840
28	53-7061	Cleaners of Vehicles and Equipment	2,980	\$22,940
29	53-1021	First-Line Supervisors/Managers of Helpers, Laborers, and Material Movers, Hand	2,600	\$48,400
30	15-2031	Operations Research Analysts	2,510	\$75,010
31	11-3061	Purchasing Managers	2,030	\$102,320
32	13-1081	Logisticians	1,760	\$76,900
33	49-9043	Maintenance Workers, Machinery	1,730	\$38,150
34	11-3071	Transportation, Storage, and Distribution Managers	1,650	\$87,420
35	53-7063	Machine Feeders and Offbearers	1,510	\$27,730
36	49-2094	Electrical and Electronics Repairers, Commercial and Industrial Equipment	1,490	\$52,860
37	43-5011	Cargo and Freight Agents	1,150	\$42,700
38	43-5111	Weighers, Measurers, Checkers, and Samplers, Recordkeeping	980	\$36,700
39	53-7011	Conveyor Operators and Tenders	370	\$32,240
		Total Massachusetts Occupational Employment Related to Inventory	376,260	

Source: Massachusetts Occupational Employment and Wage Statistics Program, May, 2011.

These 376,260 jobs composed roughly 11 percent of the state labor force of 3.45 million in 2011. **Inventory employs one out of every nine Bay Staters going to work each morning.**

Inventory-related jobs pay well. Earning \$38,150 as a machinery maintenance worker (line 33), or \$50,420 as a production, planning and expediting clerk (line 16), appeals to large swathes of the state work force. Considering that Massachusetts high schools graduate 8,300 seniors each



year who do not plan to go on to college, **inventory-related jobs and salaries form an attractive path for new entrants into the work force.** Inventory-related jobs are a way to employ our young people and reduce their need to move to growing states to start a career.

Inventory taxes move inventory and jobs out of the states that levy them. Inventory is mobile; competition forces businesses to relentlessly cut costs. Inventory taxes affect decisions about whether to hold inventory, how much to hold and where to hold it. Inventory taxes figure prominently in decisions to relocate, grow, serve new markets or reduce costs. The presence of an inventory tax is a go-away sign raised by the nine states that still levy it: Arkansas, Georgia, Kentucky, Massachusetts, Mississippi, Texas, Tennessee, Virginia, and West Virginia.

New Jobs compared Massachusetts with Indiana, the state closest to ours in population. Indiana has just 1 percent fewer people than Massachusetts, a similar work ethic and comparable climate. Ten years ago, Indiana dropped its inventory tax, wanting to grow jobs. In 2011 Indiana had 433,810 inventory-related jobs in the 39 occupations in **Figure Two**, 57,550 more than Massachusetts. Most interesting, in 20 inventory-related occupations, Indiana employment exceeded Massachusetts employment by 120,000 jobs, shown in **Figure Three**.

Massachusetts could create 56,400 new inventory-related jobs in 20 occupations. Massachusetts employment is 7.9% manufacturing-based, Indiana's is 16.8%, a ratio of .47.¹ New Jobs reduced the 120,000-job difference by this .47 ratio to calculate adjusted the job-growth potential for Massachusetts of 56,400 inventory-related jobs. New Jobs multiplied those occupations' gains by their average salaries to calculate Bay State potential for inventory-related income growth.

**Figure Three
Potential Gain in Massachusetts Employment and Income**

1	2	3	4	5	6	7	8	9	10
Line #	SOC Code	Occupation Title In declining order of Indiana Occupational Employment Greater than Massachusetts	Indiana Employment by Occu- pation	Massachu- setts Employment by Occu- pation	Number of Jobs by which Indiana exceeds MA	Reduction factor, MA vs. IN share of Mfg'g	Industry Mix- Adjusted MA Job Growth Potential	Massachu- setts Median Annual Income by Occupation	Potential for earnings growth in Massachusetts, by Occupation
					Col. 4 less Col. 5		Col. 6 x Col. 7		Col. 7 x Col. 8
1	53-7062	Laborers and Freight, Stock, and Material Movers, Hand	58,320	28,820	29,500	0.47	13,865	\$26,420	366,313,300
2	53-3032	Truck Drivers, Heavy and Tractor-Trailer	47,780	21,050	26,730	0.47	12,563	\$43,630	548,128,053
3	53-7051	Industrial Truck and Tractor Operators	22,380	7,110	15,270	0.47	7,177	\$33,460	240,139,074
4	51-9198	Helpers-Production Workers	15,760	5,910	9,850	0.47	4,630	\$23,570	109,117,315
5	49-9041	Industrial Machinery Mechanics	11,710	3,780	7,930	0.47	3,727	\$52,440	195,449,124
6	53-7064	Packers and Packers, Hand	18,530	13,660	4,870	0.47	2,289	\$21,330	48,822,237
7	53-7061	Cleaners of Vehicles and Equipment	7,420	2,980	4,440	0.47	2,087	\$22,940	47,871,192
8	51-9111	Packaging and Filling Machine Operators and Tenders	10,790	6,970	3,820	0.47	1,795	\$25,300	45,423,620
9	11-3051	Industrial Production Managers	7,200	3,430	3,770	0.47	1,772	\$95,920	169,960,648
10	53-7063	Machine Feeders and Offbearers	5,100	1,510	3,590	0.47	1,687	\$27,730	46,788,829
11	53-1021	First-Line Supervisors/Managers of Helpers, Laborers, and Material Movers, Hand	4,780	2,600	2,180	0.47	1,025	\$48,400	49,590,640
12	53-7011	Conveyor Operators and Tenders	2,360	370	1,990	0.47	935	\$32,240	30,154,072
13	53-1031	First-Line Supervisors/Managers of Transportation and Material-Moving Machine and Vehicle Operators	5,280	3,840	1,440	0.47	677	\$55,220	37,372,896
14	17-2112	Industrial Engineers	7,020	5,640	1,380	0.47	649	\$85,470	55,435,842
15	53-3031	Driver/Sales Workers	9,010	8,000	1,010	0.47	475	\$24,170	11,473,499
16	43-5111	Weighers, Measurers, Checkers, and Samplers, Recordkeeping	1,790	980	810	0.47	381	\$36,700	13,971,690
17	11-3071	Transportation, Storage, and Distribution Managers	2,220	1,650	570	0.47	268	\$87,420	23,419,818
18	43-5011	Cargo and Freight Agents	1,530	1,150	380	0.47	179	\$42,700	7,626,220
19	49-2094	Electrical and Electronics Repairers, Commercial and Industrial Equipment	1,790	1,490	300	0.47	141	\$52,860	7,453,260
20	13-1081	Logisticians	1,930	1,760	170	0.47	80	\$76,900	6,144,310
		Excess Indiana Employment over Massachusetts (Col. 6)	242,700	122,700	120,000				
		TOTALS, Potential Increase in MA Jobs and Income					56,400		\$2,060,655,639

Source: US BLS Website; Tab on Employment, State and Local; Entries on SAE Databases

¹ US Bureau of Labor Statistics website, May 2012 figures.



Adding 56,400 inventory-related jobs would increase personal income by \$2.0 billion. This increase averages \$36,536 per worker. Any company or start-up, in any city or town, could decide to expand its inventory or recall it from another state, so the gains would be geographically dispersed. **Massachusetts companies have been suppressing inventory growth for years, often by moving it out of state.** Inventory-intensive Massachusetts firms expand elsewhere if they can. Jobs departed along with inventory. According to the Pioneer Institute’s 2010 study *Failure to Thrive*, Massachusetts employment still remains below 1990 levels, 22 years later. **The inventory tax is a key barrier to resuming middle-class job growth state wide.**

Inventory-related job growth will increase state tax revenue in three major categories:

The personal income tax: The \$2.0 billion annual gross increase in salaries and wages would produce an additional \$97.3 million in personal income tax revenue, assuming 90 percent of the new income is taxed at 5.25 percent. Please see **Figure Four**.

The sales tax: Assuming that one-quarter of the new income is used to purchase taxable merchandise subject to 6.25 percent state sales tax, the new jobholders would pay \$32.1 million in sales taxes. They would also pay gasoline and cigarette taxes, and purchase lottery tickets.

The corporate income tax: The 56,400 potential jobs would mostly be created by the expansion of existing companies. Every job in the private sector needs to be supported by a certain level of profitable revenues; the ratio varies by industry and company. Massachusetts’ mix of companies averages around \$200,000 of revenue per job. TJX Companies, for example, a national retailer based in Framingham, will generate about \$199,360 in per-employee revenue in 2012. So 56,400 new inventory-related jobs imply the potential for an additional \$11.2 billion in business revenue. That business expansion, when converted into profits and then taxed, would produce an estimated \$54.1 million in additional corporate income tax revenues.

The calculated increase in revenues from these three categories of personal and corporate taxes would be \$183.7 million, or **\$3,257 in new taxes from each new inventory-related job.**

**Figure Four
Potential Growth in State Revenue from Growth in Inventory-Related Jobs**

Line	Item	Amount	Explanation
1	Gain in employment	56,400	From Figure Three
2	Average annual income	\$36,536	From text, top of page 4
3	Total gain in income	\$2,060,630,400	Line 1 times Line 2
4	Taxable proportion of income, simplified for tax form adjustments & exemptions	90%	New Jobs Estimate
5	Increase in taxable income	\$1,854,567,360	Line 3 times Line 4
6	Income tax rate 2012	5.25%	DOR Website
7	Estimated increase in personal income tax revenue	\$97,364,786	Line 5 times Line 6
8	Estimated proportion of income spent on sales taxable items	25%	New Jobs Estimate
9	Increase in taxable sales	\$515,157,600	Line 3 times Line 8
10	Sales tax rate 2012	6.25%	DOR Website
11	Estimated increase in sales tax revenue	\$32,197,350	Line 9 times Line 10
12	Sum of the increase in personal income and sales tax revenue	\$129,562,136	Line 7 plus Line 11
13	Increase in corporate revenue necessary to support each job	\$200,000	New Jobs Estimate
14	Implied increase in corporate revenue	\$11,280,000,000	Line 1 times Line 13
15	Net profit margin of a typical Massachusetts firm (as percent of company revenue)	6.0%	New Jobs Estimate
16	Calculated increase in corporate profits	\$676,800,000	Line 14 times Line 15
17	Mass corporate income tax rate 2012	8.0%	DOR Website
18	Estimated increase in corporate income tax revenue	\$54,144,000	Line 16 times Line 17
19	Combined increase in three largest tax categories from new inventory-related jobs	\$183,706,136	Line 12 plus Line 18

Sources: See “Explanation” Column



It's easier to grow existing businesses than recruit new ones. Allowing the expansion of \$11.2 billion in statewide corporate revenue (line 14 in **Figure Four**) is a lot easier than bringing in a new \$11 billion corporation. As Pioneer Institute's 2011 study *Failure to Thrive* study predicts, Massachusetts is not going to persuade a large corporation to move in from a state that is more centrally located, levies lower taxes, enjoys warmer weather, regulates business less, and offers lower costs. **The Pioneer study shows that Massachusetts' future job growth will come from the expansion of existing corporations and from start-ups.** Eliminating the inventory tax will allow local companies to create middle-class jobs right here, right now.

Figure Five shows five examples of major corporations in the \$11 billion range. What could possibly induce a company like one of these to move into Massachusetts in 2012?

Figure Five
Well-Known Companies with 2011 Revenues around \$11 Billion

Company	2011 Revenues (Billions)	Employees (2011)
1. Avon Products	\$11.3	40,600
2. Textron	11.3	32,000
3. Norfolk Southern	11.1	30,330
4. Nordstrom	10.8	56,500
5. H.J. Heinz	10.7	34,800

Sources: Fortune 1000 website, ValueLine Investment Survey

The Massachusetts inventory tax is complex and time-consuming. First of all, the Commonwealth calls it an *excise tax*, and the municipalities consolidate and report it with other *personal property taxes*. Seldom will you hear the term *inventory tax* except from accountants. Massachusetts' inventory tax is so complex that it confounds tax experts nationwide. In six months of research for this report New Jobs didn't find one state-by-state analysis that correctly reports the Massachusetts inventory tax.

Five variables affect what inventory tax a business will pay:

1. Legal form of the business (corporation, partnership, others),
2. Local tax structure (split or single tax rate for property taxation),
3. Local tax rate (dollars per thousand valuation, at cost),
4. Local minimum tax threshold (set by some municipalities),
5. Inventory value (as reported by the business).

This variability affects location and legal decisions, and the complexity lengthens them.

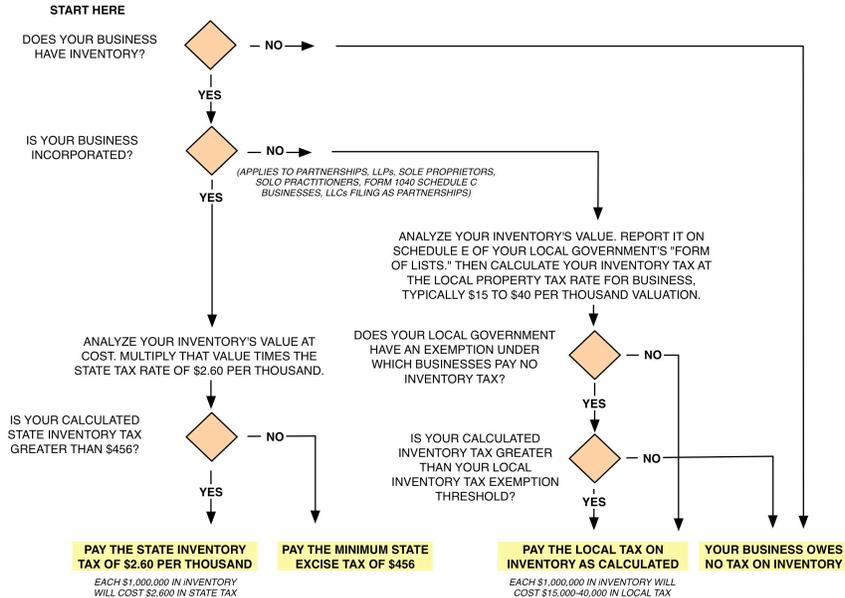
State law permits the Commonwealth and municipalities to tax personal property, which includes: vehicles; furniture; computers; inventory; and utilities' conduits, wires and cables. The Commonwealth itself taxes corporate inventory, and the 351 cities and towns tax the inventory of other business forms, such as sole proprietorships and 1040 Form C businesses. Cities and towns tax inventory at much higher rates than the Commonwealth does, putting small and new businesses at a disadvantage. Some cities and towns set split rates, meaning businesses pay higher rates on property than households do. Some cities and towns also exempt some base amount of inventory from taxation, typically several thousand dollars.

A 2008 study by Suffolk University's Beacon Hill Institute, *Business Taxes in Massachusetts: Toward Fundamental Reform*, called the existing inventory tax **regressive, pro-cyclical, and inequitable**. *Regressive* means the tax hits smaller taxpayers harder. *Pro-cyclical* means the inventory tax worsens the condition of inventory-heavy companies during down cycles. When sales decline, inventories rise, profits fall, yet inventory taxes still come due. *Inequitable* means that the same inventory in different hands is subject to different taxes. **Imagine the uproar if per-**



sonal income or sales taxes varied by 10 or 20 times from person to person, town to town. Figure Six presents the tax problem a business faces in anticipating its inventory tax exposure.

Figure Six
How the Inventory Tax Applies to Business



Sources: Tax accounting experts, city and town assessors and office staff

Corporations pay inventory tax to the Commonwealth. Massachusetts divides corporations into *tangible property corporations* and *intangible property corporations*; the latter are reported as *net worth corporations*.² Mass DOR aggregates its reporting of inventory tax revenue with the minimum excise tax, all of which DOR labels the *corporate excise tax*. Working from written answers and revenue ranges provided by DOR³, **Figure Seven** shows New Jobs’ estimate of the annual inventory tax revenue to the Commonwealth of Massachusetts from both business types.

Figure Seven
Estimate of State Revenue from Existing Inventory Tax

Line	CATEGORY	NUMBER OF CORPORATIONS	CORPORATE EXCISE TAX PAYMENTS TO STATE OF MASS, BY BUSINESS TYPE	MINI-MUM EXCISE TAX	ESTIMATED MINIMUM TAX PAID ...	ESTIMATED INVENTORY TAX PAID...	AVERAGE INVENTORY TAX PAID BY EACH...
1	DOR STATEMENTS ABOUT TANGIBLE PROPERTY CORPORATIONS	"MORE THAN 47,000"	"107 TO 118 MILLION NON-INCOME MEASURE TAX"		COL. 2 X COL. 4	COL. 3 MINUS COL. 5	COL. 6 DIV BY COL. 2
2	NEW JOBS' INTERPRETATION OF DOR	47,500	\$112,500,000	\$456	... BY TANGIBLE PROPERTY CORPS.	... BY ALL TANGIBLE PROPERTY CORPS.	... TANGIBLE PROPERTY CORP.
4	NET WORTH CORPORATIONS	"7,000 TO 8,000"	"100 TO 110 MILLION IN NON-INCOME MEASURE TAX"		... BY NET WORTH CORPS.	... BY ALL NET WORTH CORPS.	... NET WORTH CORP.
5	NEW JOBS' INTERPRETATION OF DOR	7,500	\$105,000,000	\$456	\$3,420,000	\$101,580,000	\$13,544
7	ALL TAX-PAYING CORPORATIONS	55,000	\$217,500,000		\$25,080,000	\$192,420,000	\$3,499
8						ESTIMATE OF STATE INVENTORY TAX REVENUE	AVERAGE INVENTORY TAX PER PAYING CORPORATION

² As noted on a DOR page of the Mass.gov website, “**Tangible Property Corporation:** A corporation is classified as a tangible property corporation if 10% or more of its total assets, not subject to local taxation, is Massachusetts situated tangible property that is also not subject to local taxation. Conversely, if less than 10% of the corporation's total assets, not subject to local taxation, is this type of asset, the corporation is classified as an intangible property corporation.”

³ For the full DOR text, please see the **Sources** page inside the back cover of this report.



Based on DOR’s statements, New Jobs estimates that 55,000 corporations pay state tax on their inventories. As shown in **Figure Seven**, New Jobs multiplied the flat-rate minimum of \$456 times the estimated counts of corporations of each type, deducted that amount from the revenues, and then added the remainders to get inventory tax revenues. **New Jobs estimates that Massachusetts collects \$192 million annually from the inventory tax.** By comparison, the Commonwealth collects ten times that amount from the corporate income tax.

Non-corporations pay inventory tax to the municipalities. In FY 2012 Massachusetts cities and towns levied \$618 million in personal property taxes on all types of property. Few municipalities’ assessors add up the amount of inventory reported by unincorporated businesses in Section E of the required submittal called the Form of Lists. No breakdown of inventory tax assets or obligations is compiled by municipalities or by their tax software and it is not reported to the state. So New Jobs called 13 assessor’s offices in cities ranging in size from Springfield down to Marion and talked with nine of them. According to the assessors, overwhelmingly the \$618 million total local property tax revenue is derived from utility lines, wires, pipes, conduits and cables. Five or six corporate taxpayers in each town—all utilities—pay the vast bulk of personal property taxes. Sturbridge, a town with prominent retailing outlets, is an exception, collecting 4.55 percent of its personal property tax from inventories. Sturbridge had the highest ratio of the nine towns.

Inventory taxes are an aggravation for local government. Many assessors described the tax as a “nuisance to everyone involved” in calculating the inventory, reporting it, assessing it, paying it, and collecting it. Amherst, not a big inventory town, collects .03 percent of its property tax from inventory, accounting for just \$13,000 of Amherst’s \$40 million total municipal revenue. One assessor described his town’s inventory-based tax revenue as “miniscule”; another called it “tiny.” One assessor said, **“I’d gladly give up the inventory revenue to fill some empty buildings in this town.”** Many assessors said that their town or city collected less than 2 percent of its property tax from inventory. Several described long-running scofflaw schemes to avoid paying the tax, setting up situations where the revenue lost is too small to justify pursuit of payment.

Possibly to minimize the nuisance, cities and towns are permitted by state law to exempt the first \$5,000 to \$10,000 of taxable personal property an entity owes, simply to cut down on the aggravation it causes taxpayers and the tax assessor’s and tax collector’s offices. A few do so.

The local inventory tax is a small-revenue, time-wasting tax that costs a lot to administer. There’s no way to determine total local receipts from taxing non-corporate inventory. If the actual proportion is around 1.0 percent of the \$618 million local personal property taxes paid, that means \$6.18 million in municipal inventory tax revenue. Given the state’s population of 6.59 million, **the average town’s inventory tax revenue is less than a dollar per person.**

**Figure Eight
Estimated Net Impact of Eliminating the Inventory Tax**

Line	Item	Amount	Explanation
1	Estimated increase in personal income tax revenue	\$97,364,786	From Figure 4, Line 7
2	Estimated increase in sales tax revenue	\$32,197,350	From Figure 4, Line 11
3	Estimated increase in corporate income tax revenue	\$54,144,000	From Figure 4, Line 18
4	Combined increase in three largest tax categories from new inventory-related jobs	\$183,706,136	Lines 1 plus 2 plus 3
5	Current state revenue solely from inventory taxation, estimated	\$192,420,000	From Figure 7, Line 7
6	Current local revenue solely from inventory taxation, estimated	6,180,000	Page 7 text, above
7	Estimated total current state and local revenues from inventory taxation	\$198,600,000	Line 5 plus Line 6
8	Net impact on state and local revenue from eliminating the inventory tax	(\$14,893,864)	Line 4 minus Line 7

Sources: See “Explanation” column



By comparison, in 2011 the state income tax brought in \$10.9 billion, the sales tax brought in \$3.5 billion, the corporate income tax brought in \$1.8 billion, and the Lottery netted \$888 million.⁴ For the Commonwealth, the inventory tax is a small-revenue tax. For municipalities, it's an aggravation. **For the state's middle-class job seekers, the inventory tax is Adversary #1.**

There are five job-related arguments for eliminating the Massachusetts inventory tax:

First, it will allow the growth of 56,400 inventory-related jobs. Eliminating the inventory tax will allow inventory-related middle-class jobs to grow at any Massachusetts company, distribution site, retailer, branch office, or start-up that relies on inventory.

Second, it will retrieve inventory business and jobs from across state borders. Since Boston and Massachusetts are the regional centers of distribution in New England, eliminating the inventory tax will encourage distribution business operations to move into Massachusetts from New Hampshire, Connecticut, Rhode Island, and possibly even New York.

Third, it will reduce costs for businesses and local governments. Eliminating the local inventory tax will eliminate the time burden, staff cost and hassle collecting it presents for both smaller businesses and local governments already under staff cost pressure. Business cost reductions normally go into business expansion.

Fourth, it will allow job creation at a very low cost. The growth in inventory-related jobs at good incomes will cost \$264.07 per job, a very small per-job amount by any comparison.

Fifth, it will improve the state's reputation. By eliminating the inventory tax and its costs, complications and inequities, Massachusetts will markedly improve its reputation with out-of-state corporations and location specialists. Massachusetts is not viewed as business friendly, but that status can improve through concrete steps like eliminating the inventory tax.

Recommendation: Take one action step, and support it with two subordinate steps. **Exempt inventory from taxation in the Commonwealth, period.** Include the intangibles taxes so as not to choose among corporate types. To ease the transition for the worst-hit municipalities, **allow for a taper-down period by assisting the five hardest hit local governments with temporary transition payments.** Pay them a declining proportion of foregone inventory-tax revenues over three years. Finally, **publicize widely** that Massachusetts has abolished inventory taxation. Tell corporate location specialists that Massachusetts has eliminated its inventory tax.

Summary: Eliminating the inventory tax is a five-way win. This first step will:

1. **Allow statewide creation of 56,400 middle-class jobs.** No other proposals come close.
2. **Reduce staff costs and time for local governments,** when they are under pressure.
3. **Cost \$264.07 per job** in state revenue, before adding back in smaller revenue gains.
4. **Reduce costs for business,** by eliminating tax reporting costs and tax payments.
5. **Improve the reputation of the Commonwealth** and its business climate.

Massachusetts companies can create 56,400 inventory-related middle-class jobs, possibly more, once state law eliminates taxation of the inventory that would employ these workers.



⁴ State House News, 2-2-12

Sources of Information Used in this Work

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Tax assessors and their office staff in the towns of Amherst, Ayer, Beverly, Gloucester, Lynn, Middleton, Pembroke, Southbridge, and Sturbridge. New Jobs thanks these officials and their staffs for their help.

Text of an email received from the Mass DOR's Office of Tax Policy Analysis on May 9, 2012. No endorsement by DOR of New Jobs or this report or this report's action recommendation is implied.

Dear Mr. Hruby,

We are assuming that by the "inventory tax" you are referring to a portion of the tax base that may be subject to the so-called "non-income measure" of the corporate excise. As I believe you are aware, and as I'll summarize briefly below, the non-income measure encompasses two alternative measures – a tangible property measure and a net worth measure --, depending on how a corporation is classified under Massachusetts law. "Inventory" is only a part of what is included in the non-income measure, and the degree to which it is a part of that measure will of course depend on a particular corporation's business profile. Unfortunately, we do not have data as to the amount of tax that is attributable only to inclusion of inventory in the non-income measure.

However, I can give you some general information and data that are available with respect to the non-income measure: Corporations are generally classified as either "tangible property corporations" (taxed on tangible property in Massachusetts) or "intangible property corporations" (taxed on apportioned net worth), depending on a somewhat complicated formula in the statute that looks at the degree to which they have tangible property in Massachusetts (generally the test looks to whether tangible property exceeds 10% of total assets, as apportioned to Massachusetts and taking into account various deductions and exclusions). The non-income measure tax is imposed at 0.26% on either a corporation's tangible property in Massachusetts or its net worth apportioned to MA and this tax is imposed only on corporations (or entities that are classified as corporations under the federal entity classification rules, to which Massachusetts now conforms, effective generally January 1, 2009).

The tax base for the non-income measure imposed on corporations generally excludes property that is subject to local property tax (which is imposed at higher rates). Because corporations receive an exemption from local property tax for their inventory, that inventory gets picked up in the base for the lower-rate non-income measure of the corporate excise. It should be noted that the non-income measure tax, as it applies to inventory, is less than a local property tax that applies to inventory held by non-corporate business entities. (<http://www.mass.gov/dor/docs/dls/mdmstuf/propertytax/txrt12.xls>)

We have more than 47,000 tangible property corporations with \$107 to \$118 million non-income measure tax. We also have 7,000 to 8,000 net-worth corporations with \$100 to \$110 million in non-income measure tax. So, corporations report a combined total of \$207 to \$238 million in non-income measure tax annually on their returns.

The Department of Revenue does not have a position on proposals that would eliminate either (a) the current non-income measure tax in full or (b) certain components of the tax base, such as inventory, that may be included in that measure.

About New Jobs for Massachusetts. New Jobs for Massachusetts is a public policy advocate for rapid growth in private sector employment in Massachusetts. Its mission is to accelerate the growth of new jobs across Massachusetts. New Jobs works with legislators, agencies, the media, voters, interest groups and think tanks to devise solutions custom-tailored to Massachusetts' unique resources for job growth. New Jobs is non-partisan and non-profit. It is supported entirely by voluntary contributions and accepts no government funds.

