



DEM LAWMAKERS ON FENCE AMID SQUEEZE ON TECH TAX

By Andy Metzger
State House News Service

STATE HOUSE, BOSTON, SEPT. 12, 2013...While Gov. Deval Patrick believes legislative leadership is “trending” toward a repeal of this summer’s tax on software design services, House Speaker Robert DeLeo said Wednesday he needs more time to weigh the issue.

“I don’t think any final determination has been made. We’re still in the process of talking to some folks,” DeLeo told the News Service on his way to a firefighter memorial service.

In a major shift, Patrick on Tuesday said he no longer supports a controversial sales tax on software design services, calling it a "serious blot" on the state's reputation that should be repealed and replaced with another source of new revenue to support transportation investments.

Patrick has said new revenues would need to replace the estimated \$161 million the tech tax is supposed to bring in, a position some Democratic lawmakers have also advocated.

Republican lawmakers have argued the roughly \$161 million budget hole created by repealing the tax could be absorbed in the \$34 billion budget through efficiencies, and Massachusetts Taxpayers Foundation President Michael Widmer said the hole could be plugged with the surplus from the last fiscal year or one-time revenues bound for the rainy day fund.

DeLeo said determining whether replace the revenue source would follow after his decision on whether to keep the tax, saying, at that time, “I’ll be in a better position to decide what if anything would replace.”

As concern mounted through the summer that the tax could hamper the growing technology sector, drawing in as much as \$500 million, House and Senate lawmakers directed the Department of Revenue to limit the parameters of the tax and said they would monitor whether it is exceeding the revenue targets.

The tax code change applies the 6.25 percent sales tax to custom modifications of off-the-shelf software and network services. Republicans and some Democrats have called for a repeal, as a group aims to put the tax to voters on the 2014 ballot.

With the new tax in play, some representatives said they are determining whether limiting the tax is a sufficient response to its potential impacts on technology businesses in the state.

“As an individual member, of course, I’ve looked at it in terms of whether the language sufficiently one: makes clear a limited application of the sales tax; and then two, whether as some of the business advocates have indicated as a taxing policy it makes sense for Massachusetts,” House Transportation Chairman William Straus told the News Service Tuesday.

The \$500 million tax bill boosted by 3 cents the gas tax, providing a revenue stream for transportation funding, and sequestered sales tax revenue from motor vehicle purchases to fund transportation, while increases in tobacco taxes and the computer services tax revenue bolstered the state’s General Fund.

A Mattapoisett Democrat, Straus said discussions of potential replacements for the tech tax are premature.

“I think it’s early to be talking about alternatives versus fixes. This is a discussion that’s going on right now, and one in which I’m not sure there’s even unanimity in the business community,” Straus said.

Patrick, who had proposed a \$1.9 billion tax package that included broader tech service taxes, vetoed the legislation that eventually became law with two largely party-line overrides in the House and Senate.

Senate President Therese Murray, DeLeo and Patrick met last week with technology industry executives, and in subsequent statements were non-committal about what steps might be taken regarding the new tax.

Rep. Denise Provost, a Somerville Democrat who favored sending more money to transportation, was one of several Democrats to join Republicans in a 54-95 April 8 vote, less than a week after the funding proposal had been unveiled, to strike the tech tax from the bill.

“Even at that point I had heard from enough folks,” Provost told the News Service. She said, “I think that we would have to replace the revenue in order to repeal the software tax.”

Transportation for Massachusetts Director Kristina Egan suggested a potential replacement of the tech tax with a gas tax that funds transportation, perhaps coupled with returning motor vehicle sales tax revenues to the General Fund.

“We’re mostly concerned that transportation funding is held harmless,” Egan told the News Service, saying a \$161 million budget hole would over time create pressure on lawmakers to “ramp down” funding for transportation. She said, “We’re getting our message out that we need to find a replacement before any repeal happens.”

Before legislative leaders settled on their preferred method for boosting transportation financing, the Massachusetts Taxpayers Foundation backed a larger, phased-in 15-cent increase to the gas tax, and Egan said gas tax increases that go toward transportation improvements have public support.

Senate President Pro Tem Richard Moore, an Uxbridge Democrat, has said the Senate will consider the tech tax in the fall, and House members have said the new tax is an area of concern.

“I’m very concerned,” said Rep. Alice Peisch, a Wellesley Democrat who is House chairwoman of

the Committee on Education. She said, "I certainly need to know more about what the impact would be on the transportation infrastructure bill" and said lawmakers would "need an alternate revenue source."

Rep. David Linsky, a Natick Democrat who is chairman of the House Committee on Post Audit and Oversight said he has received many calls from technology businesses in his district.

"I'm concerned that it's been difficult to implement," Linsky said. Asked whether he backed a repeal, Linsky said, "I don't know yet. I need to make sure that we have sufficient revenue."

DeLeo and Murray met Thursday morning in DeLeo's office with business community leaders.

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