



An Act to Promote Downtown Vitality, February 2024

Fiscal Analysis and Recommendations

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How much tax revenue is 5% of the state’s remote retailer (online) sales tax collections?

MassINC’s Policy Center spent several months in dialogue with the MA Department of Revenue requesting this data. Ultimately, DOR informed us that they cannot disaggregate sales tax proceeds. For example, when Walmart pays its sales taxes to the commonwealth, the state does not ask for a breakdown between online sales and in-person sales.

Comparative research from other states indicates that this is common. Most states, like Massachusetts, do not have the technology platform necessary to collect this information. However, it is possible. According to a survey conducted by the Brookings Institution, at least 14 states *do* collect this information; and according to their survey responses, many others would *like* to collect it. Long-term, we believe that DOR should move to such a tax collection platform. But that is not a solution for this legislative session.

As a result, MassINC sought alternative methods for estimating online sales tax collections using data that the state does collect and report. The best figure for our purposes is the final budget’s “Sales Tax - Regular” line item, which is the closest to a pure retail sales tax figure that we can get, and rightfully excludes taxes on meals, motor vehicles, cigarettes, fuels, alcohol, lodging, car rentals, and other special categories. For the final FY24 state budget adopted by the Legislature, the “Sales Tax - Regular” total is \$6.9 billion.

To estimate how much of this derives from online sales, we can look at existing research. Economic studies from across the country have consistently shown that online transactions now represent 15% of all retail sales. With this information, we can make an accurate projection:

“Sales tax-regular” FY24:	\$ 6,882,100,000
Online sales (15% of total):	\$ 1,032,315,000
5% of online sales tax:	\$ 51,615,750

Therefore, we can confidently estimate that 5% of remote retailer tax collections would be approximately \$50M annually. This would be enough for 206 grants of about \$250K each, ensuring widespread coverage of the state. However, very few communities currently have district management entities prepared to receive these funds, so we believe that an incremental ramp-up approach would be necessary.

Alternative approaches amidst an uncertain fiscal environment

We believe that depositing 5% of remote retail tax collections into a fund to support small business districts across the state is both modest and warranted. The commonwealth should return and reinvest a small portion of the wealth that has been siphoned away by remote retailers, and the benefits to our local communities will be considerable. However, we also understand the necessity of creating a balanced state budget.

As a result, we offer some additional calculations:

2.5% of online sales tax:	\$ 25,807,875
1% of online sales tax:	\$ 10,323,150

The Committee could choose a lower percentage of online sales tax collections to dedicate to the Downtown Vitality Fund. However, we believe that within a few years, local demand for this Fund will be significant, and setting too low a percentage in statute would require further legislative action.

Instead, building flexibility for the Fund to start small and grow over time is a more prudent approach.

Potential Pipeline & Demand

There are currently 10 Business Improvement Districts in Massachusetts, but at least half a dozen more are in the exploratory stage. There are also dozens of cultural districts, none of which have sustainable funding. Thirteen Gateway Cities currently participate in MassDevelopment's Transformative District Initiative (TDI) program, and they would all be candidates for establishing a district management entity (along with another dozen past participating districts). The City of Boston has 20 Main Streets organizations. With a reliable state funding source that could help them overcome barriers, MassINC believes that many additional cities and towns will more seriously pursue district creation. The Massachusetts Downtown Initiative (MDI) would have more complete information about the universe of potential candidates, among them past state grant recipients and communities that completed a Local Rapid Response Planning effort during the pandemic.

Recommendation

Legislation should authorize up to 5% of the sales taxes paid by remote retailers to be deposited into the Downtown Vitality Fund each year. The specific number could be allocated and negotiated through the legislative budget-making process. Until such time as the Department of Revenue tracks actual online sales tax data, the 5% threshold could be calculated by taking 5% of 15% (0.0075) of the "Sales Tax – Regular" line item included on the revenue side of the fiscal year budget.

For the current year, MassINC recommends that the Fund at least be large enough to establish a pipeline of 5 or 6 new district management entities, and ideally also to provide several sustaining grants to existing districts to achieve strategic goals. With this modification, Legislature and Governor could determine an appropriate and fiscally responsible allocation each budget year without compromising other needs.