

VIEW FROM THE HILL



2nd Quarter 2009

As tax receipts slip, fiscal woes continue to dominate the discussion on Beacon Hill. April revenue projections fell short by \$300 million adding to the \$2.5 billion gap closed in the existing budget. When the budget process began early this year, both the Governor and House lawmakers based spending on estimates the state would bring in \$19.5 billion next year. But even before the ink was dry on the House version of the budget, it was \$1.5 billion out of balance leaving the Senate to further adjust expectations. In the coming weeks, the Senate Ways & Means Committee will review the House proposal and develop its own bill based on the new revenue projections. Like the House, the Senate then debates and votes on the Senate budget bill. Legislative leaders then assign members to a joint conference committee to negotiate the differences between the House and Senate bills.

Among the hundreds of amendments filed to the House budget was a proposal by Rep. Peter Kocot (D-1st Hampshire) to impose a 5% new sales tax on services. The amendment was withdrawn before it could be taken up for formal debate. Had it been adopted, labor sold to the public in any trade could be captured within the definition of service. Virtually all real estate services may be subjected to a sales tax, including: credit reports, mortgage origination, attorneys fees, surveys, brokerage commissions, appraisal fees, home inspection fees, title fees, construction services, architectural services, and site preparation. The language of the amendment also indicated there would be a new sales tax due on all real estate commissions paid in Massachusetts. GBREB opposed the measure out of concern it would adversely impact the cost of real estate and hamper economic growth.

Although in the end the House chose to raise the sales tax as part of its budget proposal and the Senate approach is yet to be determined, other tax bills are sure to be up for consideration. Included is a recent report issued by the Special Commission on Municipal Relief. Created by the Legislature in July of 2008, the Commission was tasked with examining ways to provide relief to local communities suffering from drastic cuts to local aid. In addition to new taxes the broad ranging report included a series of recommendations from administrative and regulatory reforms to regionalization and shared services. The report spells out a series of changes in a forty-eight page bill that includes:

Allowing municipalities to negotiate the amount of the personal property exemption provided in a Tax Increment Financing (TIF) plan. Currently personal property is entirely exempt.

Increasing the hotel/motel tax by 4% and expanding the definition to include corporate apartment rentals.

Allowing municipalities which adopt the Community Preservation Act to provide for a commercial property tax exemption of \$100,000 (mirroring the residential property exemption).

Allowing municipalities to adopt mechanisms to collect unpaid municipal fines.

Allowing 40B revenue to fund municipal services-including public safety education and public works. Current law limits the use of funds to additional housing development and the maintenance of established affordable housing units.

Allowing the taxation of additional units under construction on land subject to a condominium master deed to the developer who retains development rights in the land. Those units now escape taxation until the master deed is amended.

The bill is currently before the Committee on Municipalities and Regional Government and action is expected soon with intense pressure on lawmakers to help local cities and towns. With no end in sight tax issues will continue to be an ongoing concern for every segment of the economy including the real estate industry.