



The Commonwealth of Massachusetts

Department of Revenue

Office of the Commissioner

P.O. Box 9550

Boston, MA 02114-9550

NAVJEET K. BAL
COMMISSIONER

November 25, 2008

Dear Members of the Streamlined Sales Tax Project Governing Board, State and Local Advisory Council and Business Advisory Council:

Massachusetts has been participating in the Streamlined Sales Tax Project since 2003. The Department of Revenue and Governor Patrick support adoption of Streamlined conforming legislation for Massachusetts in 2009 as recently recommended by a Tax Commission containing representatives from the state's Executive and Legislative branches, as well as the business community. I am writing to seek your support of a proposed amendment to the Streamlined Sales and Use Tax Agreement (AM 08018) that will be considered at the December meeting in Providence that would resolve a significant problem for Massachusetts in adopting Streamlined legislation.

The proposed amendment would create a new definition in the Library of Definitions that would, in effect, allow Massachusetts to retain its current \$175 clothing threshold. The definition is similar to the recently added definition of "fur clothing," which was adopted by the Governing Board to accommodate states that wished to tax fur clothing differently from "clothing." The clothing threshold would be administered consistently with thresholds already permitted for sales tax holidays in Section 322 of the SSUTA. This would be an optional "toggle;" current Governing Board states would not be required to make any changes to their existing laws. We think the amendment makes sense from both a practical and tax policy perspective.

On the practical side, exempting all clothing will result in an annual revenue loss for Massachusetts of \$50 - \$100 million dollars. Like most other states, Massachusetts is facing significant budget issues resulting from the recent financial slowdown, as well as a decrease in anticipated sales tax revenues (20% of which are dedicated to public transportation and 20% to school building). Taxing all clothing is not a viable alternative, given the state's decades-long history of exempting essential clothing.

From a tax policy perspective, we believe that a dollar threshold for clothing is both desirable and appropriate as it lessens the regressive nature of the sales/use tax. The \$175 per item threshold is set at a point to exempt most children's clothing and essential clothing items for adults, while collecting substantial tax on expensive and designer items.

I hope that Massachusetts will be able to support the Streamlined Sales Tax Project by enacting conforming legislation and joining the Governing Board states in the near future.

Very truly yours,

A handwritten signature in black ink that reads "Navjeet K. Bal".

Navjeet K. Bal
Commissioner of Revenue