

EDITORIAL

Taxing on our innovation

One somnolent corner of the Boston-business ecosystem woke up last week to an unpleasant reality about operating here in the Bay State. If you're not paying attention, Beacon Hill is going to screw you.

The state's IT consulting industry, which is ubiquitous but not well organized, now must charge a 6.25 percent sales tax on its services. They are confused — and hopping mad. Any work under the general category of "the planning, consulting or designing of computer systems that integrate computer hardware, software, or communications technologies and are provided by a vendor or third party" gets taxed.

But the truth is, every single business in the state that aspires to improve the quality of software processes stands to get screwed by this new tax.

That because it's possible that most businesses, even small ones, will have to pay a new tax, for IT upgrades are indispensable to running a competitive business.

So Beacon Hill created, in essence, an innovation tax. If you want to run a smarter, faster, more competitive business in Massachusetts, it's going to cost you an additional 6.25 percent for the privilege.

But it gets stranger and more confusing, for there are exemptions: For example, data management, information management and data processing services are now exempt. Who does that leave? No one is quite sure. Certainly not Beacon Hill.

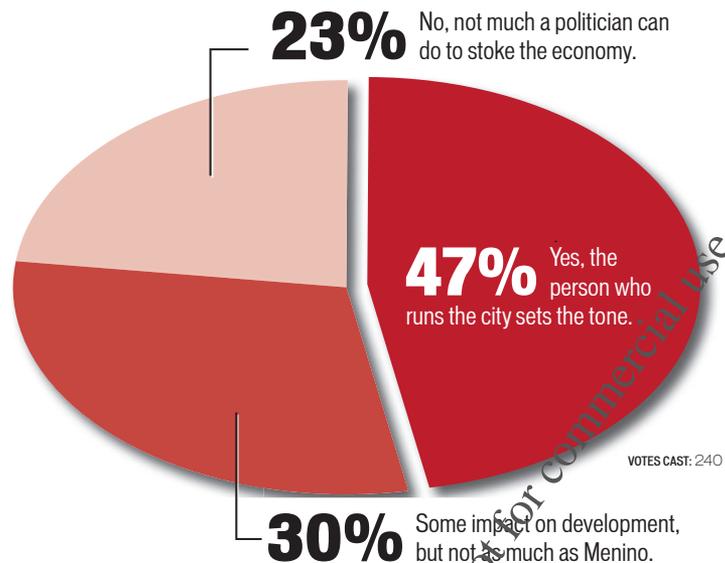
The IT industry has pointed out that legislators obviously didn't know anything about how IT consulting works when they passed the law. That's too kind. Beacon Hill knew next to nothing about what they were doing when they passed this tax.

You know that's true when legislators already are saying they're open to better defining the law as it's just hitting the books under the full enforcement might of the Department of Revenue. The new tax receipts very well could pour in. There's every possibility this new tax will yield \$1 billion in revenue or more because no one really knows just how pervasive software installation and design is in Massachusetts. If there's \$20 billion in annual local economic activity in the industry, the take will be \$1.25 billion. It's likely that the Massachusetts Taxpayer Foundation's estimate of \$500 million is low.

Is there a silver lining? Well, there are always winners when government springs surprises on business. In this case it's tax lawyers. For them, the phone is ringing off the hook.

BUSINESS PULSE

THE QUESTION: Do you think a new mayor will have a big impact on Boston's economy?



NEXT WEEK'S QUESTION: Do you support efforts to repeal the state's new software services tax? Go to: boston.bizjournals.com

BUSINESS VIEW

Investing in early education

The future economic growth of the commonwealth depends on a trained, skilled workforce. Investments in high-quality early education, such as the \$15 million increase recently included in the state's 2014 fiscal year budget, represent the best way to ensure Massachusetts can remain competitive in the global economy.

Today, 68 percent of the jobs in Massachusetts require a college degree, but only 54 percent of the young adults in the state have completed college.

High-quality early education prepares children to enter school ready to learn and go on to achieve school and life success. Children who receive high-quality early education are 30 percent more likely to finish high school and twice as likely to attend college.

Deep and persistent achievement and attainment gaps exist in Massachusetts that show far too many of our students — particularly students from lower-income families, English language learners, students with disabilities and many students of color — are being left behind. These gaps start in the most crucial early years of development. Disparities in children's cognitive, social, behavioral and health outcomes are evident as early as nine months old. These disparities have lifelong effects. Children who struggle with reading in third grade are four times less likely to finish high school than other children.

The economic impact that high-quality early education could have on our commonwealth is staggering. In 2012, more than 7,000 students dropped out of high school in Massachusetts, costing the state approximately \$2.5 billion over their lifetimes in decreased tax revenues and increased public assistance costs. This is almost half of the state's entire education budget in fiscal year 2013.

It is estimated that investments in high-quality early education yield a 10 to 16 percent rate of return, outpacing the average return of the stock market. Additionally, early education programs provide crucial workforce support to parents and employers. Absenteeism due to lack of childcare costs U.S. businesses an estimated \$3 billion per year.

Gov. Deval Patrick and the Legislature have made a serious commitment to early education in the fiscal year that began last month. For the first time in five years, Massachusetts will invest in access to early education with a \$15 million commitment to reduce the waitlist for early education and care for children from income-eligible families.

If Massachusetts is to remain competitive in a highly skilled, evolving global economy, a true public-private partnership with the business community needs to be established to build on the momentum the governor has created and make investing in early education our No. 1 priority.

ASA FANELLI

CEO OF HORIZONS FOR HOMELESS CHILDREN

FEEDBACK

State has made efforts to boost high-tech manufacturing

In their July 26th op-ed, James Brett and Alan Clayton-Matthews highlighted the significance of manufacturing in New England as well as the potential opportunities and obstacles that lie ahead. While I agree with them on the importance of this key sector, they overlook the efforts the House of Representatives has undertaken to foster it in recent years.

The centrality of manufacturing to Massachusetts history is no surprise.

Our one-time primacy is reflected in so many of our local nicknames: Watch City (Waltham), Shoe Town (Brockton), Tanner City

(Peabody). But today we must actively pursue new ways to incorporate advanced manufacturing jobs — for employees of all skill levels — into existing and emerging industries.

After seeing the stark realities of the economic downturn as Speaker, I set out to mitigate what a Northeastern University study termed "the blue collar depression." The gaming law passed in 2011 not only set into motion a process that would authorize up to three resort casinos and a slot facility, it also targeted 13 percent of gaming licensing fees to support manufacturing. Last summer's economic development legislation was the next step. This law created the Manufacturing Futures Program, which offers grants, loans and resources to provide assistance to small and mid-sized manufacturing companies. We were recently able to extend the initiative with an \$18.75 million budget appropriation.

AMP It Up!, a component of the program, promotes advanced manufacturing to students by providing tools and resources so they can experience what it's like to work in the field. The 2012 legislation also codified a Massachusetts Manufacturing Collaborative to gather government, industry, and workforce development leaders with the goal of refining and developing our manufacturing agenda.

As we continue to grow, advanced manufacturing will be essential in furthering our state's development and will help make Massachusetts a better place to live, work and do business. I urge legislators, business leaders and employers to pay attention to the industry and work collaboratively to enhance its role in our overall economy.

ROBERT A. DELEO

HOUSE SPEAKER