Massachusetts Taxpayers Foundation

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Tax Relief Compromise Bill

House and Senate conferees have released a compromise tax bill that includes an impactful combination of tax cuts to help people and employers in Massachusetts. The $951 million package includes a total of 17 different tax relief provisions, each of which targets issues of cost and competitiveness. The total Fiscal Year (FY) 2024 cost is $571 million, with a net impact to the budget that fits within the amount set aside for tax relief in the recently signed FY 2024 spending plan.

The final bill incorporates some version of each of the tax relief proposals from the House and Senate, resulting in a strong final bill. Consistent with MTF's recommendations, the final package includes close to $1 billion in tax relief and phases in several elements over time to allow for a larger bill that fits within the current budget framework. The compromise bill does not go as far as MTF's recommendations in some areas and includes several concerning tax policy sections, but those issues cannot obscure the fact that this is a timely and significant policy proposal to help address some of the state's most serious economic challenges.

This Bulletin summarizes the compromise bill, analyzes notable changes from earlier versions, and makes comparisons to MTF's earlier recommendations.

Big Picture

The compromise tax relief bill will provide about $951 million in ongoing tax relief and carries an estimated FY 2024 cost of about $571 million. The impact of the package on the FY 2024 budget is approximately $506 million due to the net zero cost of the reduction to the short-term capital gains rate.

Figure 1. Summary of Tax Proposals[1]

		Status of Major Tax Policies		
	Policy	**FY 2024 Cost**	**MTF Annualized Cost**	**Resolution**
Identical	EITC	*$91*	*$91*	*No change*
	Circuit Breaker	*$60*	*$60*	*No change*
	Rental Deduction	*$40*	*$40*	*No change*
Shared	CDTC	*$165*	*$300*	*Compromise*
	Estate Tax	*$128*	*$213*	*Senate*
House Unique	Short Term Cap Gains	*$65*	*$65*	*Compromise*
	Single Sales	*$0*	*$79*	*House*
Senate Unique	LIHTC	*$0*	*$55*	*Senate*
	HDIP*	*$0*	*$20*	*Senate*
	Minor Provisions (9)	*$22*	*$28*	*Senate*
Total Fiscal Impact		**$571**	**$951**	
Total Impact Net to Budget		**$506**	**$886**	

$ in millions

The annualized fiscal impact of the final bill falls in between the House and Senate proposals and is very similar to the cost of Governor Healey's original proposal.

Figure 2. Annualized Cost Comparison with Other Proposals

	Governor Healey	**House**	**Senate**	**Conference**
Annualized Impact	$1,000	$1,089	$630	$951

$ in millions

The FY 2024 budget set aside $580 million to cover the cost of tax relief. The compromise tax bill will fit within that amount, with an estimated $506 million first-year cost of implementation.

Major Tax Relief Provisions

There were nine major tax relief proposals (each with a cost of at least $20 million) found in the House and Senate bills and a version of each can be found in the Conference report. The sections

[1] Updated fiscal impacts reflect final resolution of the bill and recent Department of Revenue analysis. The annualized cost column shows estimates between FY 2025 and FY 2026.

below summarize the final resolution of each provision and provide an FY 2024 and ongoing cost estimate.

Proposals that Differed between House & Senate

- ***Child & Dependent Tax Credit ($165M/$300M)*** – The House and Senate bills differed on the Child & Dependent Tax Credit (CDTC), with the House phasing in a cap of $600 over three years and the Senate increasing the cap to just $310. The final bill splits the difference between these two proposals, with a $440 cap phased in over two years. The conference bill also eliminates the cap on dependents that can qualify for the credit.
- ***Estate Tax ($128M/$213M)*** – Both the House and Senate increased the estate tax cap from $1 million to $2 million, but they addressed the so-called 'cliff effect' in different ways. The Senate proposed a $99,600 credit for all estates, while the House proposed a $2 million exclusion. The final bill includes the credit proposed by the Senate.

House-Only Proposals

- ***Short-Term Capital Gains ($65M/$65M)*** – The House reduced the short-term capital gains rate from 12 to 5 percent over two years; the final bill reduces the rate to 8.5 percent effective for tax year 2023. While the rate reduction is an improvement, it falls short of MTF's recommendation to align short-term capital gains taxation with the 5 percent rate used for all other forms of income. The revenue loss associated with this reduction does not impact the budget, but instead reduces the deposit of capital gains tax collections to the Stabilization Fund.
- ***Single Sales Factor Apportionment ($0/$79M)*** – The House proposed implementing mandatory single sales factor apportionment for corporate taxation effective in tax year 2025. The House language is included in the final bill, along with several language additions that appear technical or clarifying in nature.

Senate-Only Provisions

- ***Housing Development Incentive Program ($0/$20M)*** – The Senate bill increased the cap on the state's Housing Development Incentive Program from $10 million to $57 million in FY 2024, with a $30 million cap in subsequent years. The Senate language is in the final bill.
- ***Low-Income Housing Tax Credit ($0/$55M)*** – The Senate bill increased the base credit cap for the Low-Income Housing Tax Credit from $40 million to $60 million. The cost of this change exceeds the increase in the cap because the total amount of credits available in

any year is the base credit amount plus credits available from prior years, which will also increase with the base increase. The Senate language is in the final bill.

Identical Provisions

- ***Earned Income Tax Credit ($91M/$91M)*** – The final bill increases the state's Earned Income Tax Credit match from 30 to 40 percent of the federal level.
- ***Senior Circuit Breaker ($60M/$60M)*** – The final bill doubles the base amount for the state's Senior Circuit Breaker tax credit, which would be indexed to inflation. The program provides a refundable tax credit to income-eligible seniors whose property taxes or rent exceed a percentage of their income. In tax year 2022, the credit was capped at $1,200.
- ***Rent Deduction ($40M/$40M)*** – The final bill increases the maximum rent deduction from $3,000 to $4,000. Renters can deduct 50 percent of annual rent costs up to the cap.

Minor Provisions

The final bill includes eight smaller tax changes included in the Senate version; seven of which were originally proposed in Governor Healey's bills:

Figure 3. Minor Tax Provisions

Policy Proposal	Description	Compromise Bill
Title V Replacement Credit	Tripled Credit from $6K to $18K	✓
Apprenticeship Credit	*Expanding eligible occupations*	✓
Employer Student Loan Assistance	*Exempt from taxable income*	✓
Commuter Benefits	*Expanded to RTA and bike expenses*	✓
Brownfields Credit	*Extended through 2028*	*Included in GAA*
Lead Paint Remediation	*Doubled tax credit*	✓
Dairy Tax Credit	*Increased from $6M to $8M*	✓
Property Tax Deduction for Volunteer Services	Increased from $1,500 to $2,000	✓
Taxation of Ciders	*Updated alcohol thresholds*	✓
Combined Fiscal Impact	**Approximately $22M**	

Tax Policy Proposals

Both the House and Senate included a small number of tax policy proposals in their bills and most of these also found their way into the final bill.

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Married Couple Filing – The final bill adopts a Senate section requiring married couples to take the same filing status on state taxes as they do on federal taxes. This change, which would be effective for tax year 2024, is intended to expand the scope of the income surtax by capturing more couples whose combined income exceeds $1 million, even when the individual income of one or both falls short of the threshold. MTF recommended against the inclusion of this section in the final bill. However, as the Department of Revenue's recent analysis demonstrates, the actual impact of this change is likely limited and could result in more couples filing separately on both state and federal returns.

62F Rebates– The final bill includes a House section changing the distribution formula for tax rebates paid when state tax collections exceed the allowable level under Chapter 62F. Currently, rebates are paid in proportion to tax liability; under the House proposal, rebates would be equal for all taxpayers. State tax collections have exceeded the allowable threshold only once in the last 35 years. In FY 2023, total taxes fell short of the 62F threshold by more than $4 billion.

The bill also includes a Senate proposal requiring the Comptroller to provide monthly updates on tax collections compared to the estimated 62F threshold. This change is intended to allow policymakers to more closely track the likelihood of excess tax collections.

Affordable Housing Property Tax Exemption **–** The final bill includes a Senate section allowing municipalities to offer property tax exemptions for parcels rented to occupants with an income of 200 percent or less of the area median income.

Stabilization Fund Cap – The final bill includes House language increasing the cap on the Stabilization Fund from 15 to 25.5 percent of budgeted revenues. Once the cap is reached, any deposits are diverted into the Tax Reduction Fund. The current cap on the Stabilization Fund is approximately $9 billion and the balance of the Stabilization Fund is $8 billion.

Pass-Through Entity (PTE) Excise Study – The final bill retains Senate language requiring the Department of Revenue to study options for expanding the elective PTE tax to account for income subject to the surtax. Currently, the PTE tax can only be paid at 5 percent; if the tax were expanded, it would provide significant federal tax relief to some surtax payers, with no revenue loss for the state.

Pre-Payment Study – The final bill includes Senate language requiring DOR to study the advisability of pre-paying tax certain tax credits, including the Child Tax Credit.

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Closing Costs Assistance Study – The final bill does not include a Senate provision requiring DOR and the Executive Office of Housing & Livable Communities to study the feasibility of a closing-costs assistance program to be run in conjunction with first-time homebuying programs.

Bottom Line

In February, MTF recommended a $1 billion tax package that did the following:

- Targeted high costs for families and disincentives for investment in the Commonwealth;
- Phased-in some tax relief provisions over multiple years to allow for a larger package that fits within the budget;
- Avoided offsetting tax increases that would blunt the positive effects of the bill; and
- Went further than the proposals from last year.

After the House and Senate proposals were engrossed, MTF made the case that combining the proposals in both bills would make a strong tax relief package that was impactful, affordable, and timely.

This conference report adheres to both sets of these recommendations, resulting in the most significant tax relief bill in more than 20 years. This $951 million package includes versions of all of the tax relief proposals put forward by the House and Senate and does so in a way that is affordable in FY 2024 and can be planned around going forward.

This bill will not solve all of the cost and competitiveness challenges faced by the state. More work must be done in tax and other policy areas to make Massachusetts a place its residents can afford, and which attracts people and investment from other places. But today’s bill provides a strong foundation on which future policies can build. As importantly, it sends a clear message that policymakers take the challenges we face seriously and are willing to take action.