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Tax Relief: Three Things to Know

Six months after Governor Healey filed her administration's original tax relief bill and one month after a Fiscal Year (FY) 2024 budget that reflects the cost of a tax relief package was signed into law, House and Senate conferees have yet to produce their version of a final tax package. MTF has written extensively on the need for sustainable tax relief, the specifics of each legislative proposal, and made recommendations for the final bill.

This Bulletin reconsiders the current fiscal context and once again makes the case that a major tax package is paid for, affordable, and overdue.

It's Paid For

The FY 2024 General Appropriations Act (GAA), signed into law on August 9th, sets aside $580 million in ongoing resources to cover the first-year costs of a comprehensive tax relief bill. As MTF has previously demonstrated, this amount is consistent with the FY 2024 costs of a tax package that includes all of the tax relief provisions put forward by the House and Senate, with several elements phased in over the next several years.

Figure 1. Tax Relief Fiscal Impact

		All Proposals	
		FY 2024	**MTF Annualized**
Identical	EITC	*$91*	*$91*
	Circuit Breaker	*$60*	*$60*
	Rental Deduction	*$40*	*$40*
Shared	CDTC	*$165*	*$458*
	Estate Tax	*$231*	*$231*
House Unique	Short-Term Cap Gains	*$67*	*$130*
	Single Sales	*$0*	*$79*
Senate Unique	LIHTC	*$0*	*$55*
	HDIP*	*$0*	*$20*
	Minor Provisions (9)	*$14*	*$14*
Total Fiscal Impact		**$668**	**$1,178**
Total Impact Net to Budget		**$601**	**$1,048**

$ in millions

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The House, Senate, and Administration have already agreed to a budget that sets aside the resources necessary to pay for the inclusive tax package summarized above; all that remains now is to finalize the proposal and put it before the Governor.

It's Affordable

Not only is the tax package already paid for, it is affordable and sensible given available resources and long-term fiscal trends. The state's fiscal condition has improved markedly over the last decade, especially in the last five years. The Rainy Day Fund has sextupled its balance and multi-billion end-of-year surpluses have led to the creation of new reserves that remain available to help meet unexpected operating and capital costs that arise. At the same time, the state has made major new investments, including implementation of the Student Opportunity Act and a near tripling of the funding available for early education and care.

Figure 2. Snapshot of Resource Changes, FY 2017 – FY 2023

	FY 2017	Current	Change
Early education (non-surtax)	$540	$1,415	$875
K-12 formula spending	$4,628	$6,585	$1,957
Stabilization Fund balance	$1,301	$8,005	$6,704
Other available reserves	$0	$2,065	$2,065

$ in millions

In fact, even though tax collections declined between FY 2022 and FY 2023, total tax collections remain billions ahead of pre-pandemic trends. In the five years prior to the pandemic (FY 2014 to FY 2019), tax collections grew at a rate of 4.9 percent. Since the pandemic, that rate of growth has effectively doubled to 9.7 percent.

Figure 3. Actual Revenues v. Revenues at Pre-Pandemic Growth Rate

	FY 2020	FY 2021	FY 2022	FY 2023
Actual	$29,633	$34,156	$41,146	$39,164
At pre-pandemic growth rate	$31,211	$32,753	$34,371	$36,069
Difference	***-$1,578***	***$1,403***	***$6,775***	***$3,095***

$ in millions

As a result of this change in collection trends, the state has collected $9.7 billion more in tax revenues than would otherwise be expected, and that's before accounting for any additional revenue brought in by the income surtax.

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The growth in tax collections makes tax relief affordable, and the House's approach to phase in several elements of the plan over time enables budget writers to plan around future changes in a thoughtful and sustainable way.

It's Time

Tax relief has been at the top of the Beacon Hill agenda for 20 months since Governor Baker kicked off discussions with his proposal in January of last year. In that time, the plan has been expanded and improved in light of increasing competitiveness and cost concerns that pose a real threat to the state's economic outlook. Versions of tax relief have now been passed overwhelmingly by each legislative branch, twice. The themes of the two bills being negotiated are complementary, and the cost of all major provisions can be absorbed in the recently passed budget. Now, approaching two years since conversations began, it is time to put tax relief into law.

Assessing Massachusetts tax policy over a longer time horizon makes the case for action even more apparent. It's been more than twenty years since significant tax relief was passed by the Legislature and signed into law by the Governor.[1] Over those two decades, there have been targeted efforts to increase the state's match of the federal earned income tax credit, or enhance tax credits that support specific policy goals like the life sciences industry or housing production in Gateways Cities; but there has not been a comprehensive bill to provide tax relief, reduce costs, and increase competitiveness since well before the Great Recession.

The lack of tax relief in Massachusetts stands out compared to the states we're competing with for people and business, the states we're surrounded by, and the states with whom we share the most in common. States around the country have prioritized sustained tax relief over the last two years. In 2022 and 2023 alone, 15 states reduced income and/or corporate tax rates, while almost every state enacted some form of tax relief since 2021. Looking past the last two years and it is apparent that tax relief is a common tool for states to respond to changing economic circumstances. Over the past 20 years, states like California, Maryland, and New York have used their tax code to reduce costs for residents and become more attractive to employers. Since 2003, more than 20 meaningful tax revenue reductions in these states appear in the National Association of State Business Officers' Fiscal Survey of the States.

Strong tax policy requires ongoing adjustments that reflect changing economic times and priorities. The specific tax provisions being negotiated by the Conference Committee all speak to the need

[1] The most notable tax reductions in the last 20 years, 62F rebates and the reduction of the income tax rate from 5.3 percent to 5 percent – were proposals based on ballot initiatives and put in place decades ago and triggered automatically by the strong condition of the Commonwealth's economy.

to take a fresh look at our tax code and make updates that reflect a shifting tax landscape. Whether targeting people, businesses, or investment, each of the House and Senate proposals is intended to rationalize the way we tax and incentivize location in the state. These are critical policy goals and it’s long past time to use tax reductions as a means to help achieve them.