The Case Against Question 1

"A catastrophe for the state" -- Boston Herald editorial, 9/23/02

On November 5th, Massachusetts voters will decide the fate of Question 1, the proposal to eliminate the state income tax effective July 1, 2003. In the 84-year history of the initiative petition in Massachusetts, no other proposal with such far-reaching impacts has ever been put before the voters. If adopted, this extreme measure would throw the finances of state and local governments into chaos, and inevitably lead to major increases in sales and property taxes.

<u>Question 1 would radically reduce the revenues available for education, health care, capital investments and other critical services.</u>

- It would wipe out the state's principal revenue stream which has financed a wide variety of state and local programs for more than half a century.
- It would eliminate $8.5 billion of annual revenues, almost two-thirds of total tax receipts and more than one-third of the revenues supporting the state's $23.1 billion budget.
- Measured in current dollars per capita, the reductions required by Question 1 dwarf the impact of Proposition 2½ -- by a margin of ten to one -- and are almost triple that of the country's most well known tax limitation initiative, California's Proposition 13.

<u>While the proponents claim that the huge loss of revenues under Question 1 could be managed by cutting unnecessary expenditures, their plans to eliminate all state spending for education and health care would have devastating effects and would be unconstitutional and illegal as well.</u>

Education

- Under the Massachusetts Constitution and law, every child in the state has the right to an adequate public education, and the legal and financial responsibility for ensuring such an education ultimately rests with the state. This constitutional obligation to provide aid to local schools -- $3.3 billion in fiscal 2003 -- would not disappear if Question 1 were adopted, only the resources needed to meet that obligation.
- Without state aid to education, schools in poor urban districts would have to close their doors, including 14 communities with more than one-fifth of the students in the Commonwealth that rely on state aid for 75 percent of their school budgets. Schools in virtually every other district would face severe financial difficulties as well.

Health

- If state spending for health care were eliminated, almost 1 million Massachusetts low-income, disabled and elderly residents, including more than 400,000 children, would lose their prescription drug and other health coverage, and over 30,000 senior citizens would lose their nursing home care.

- Most of the state's annual health care budget, $6 billion of the $7.3 billion total, goes to the federally sponsored Medicaid program, the primary health care "safety net" in all 50 states. Since Medicaid expenditures are reimbursed 50 percent by the federal government, eliminating health care spending would cost the state $3 billion in federal revenues.

- Other spending in areas such as mental health and mental retardation is mandated by state law and court decrees.

<u>Question 1 would inevitably lead to increases in other taxes, damage the state's credit rating, and undermine the Massachusetts economy.</u>

- Replacing the revenues needed to support the state's education and health care obligations would necessitate major increases in the sales tax or in local property taxes, both of which have a much greater impact on low- and middle-income families than the income tax.

- Making up the $6.3 billion required just to meet the state's obligations to local schools and Medicaid would necessitate an almost 80 percent increase in local property taxes, raising the average property tax rate across the state from $14.08 per $1,000 of assessed value to $25.09 per $1,000.

- Making up the same amount through the sales tax would require at least a tripling of the current rate of 5 percent to 15 percent.

- Dealing with the revenue and spending impacts of Question 1 would propel the state into fiscal and political chaos, leading to downgrades in the state's credit rating and much higher borrowing costs.

- Since the Commonwealth would have to dramatically reduce aid to cities and towns, municipalities would confront the same kind of financial turmoil and increased costs.

- The fiscal instability, lack of resources for educational and infrastructure investments, and the inevitability of major hikes in other taxes, including business taxes, would seriously damage the state's economy.

Key claims made by the proponents of Question 1 are misleading, distorted or false.

- While proponents say that 3 million working people in Massachusetts will each get back $3,000 each year as a result of Question 1, the reality is far different. Almost half a million tax filers have such low incomes that they owe no state income tax and would not benefit at all from Question 1, and more than 250,000 -- the so-called "working poor" -- would actually lose the state tax refunds they now receive as a result of the earned income tax credit. In addition, more than a million tax filers -- a third of the total -- would get back only $175 on average, the amount of taxes they now owe, not the $3,000 touted by proponents.

- Despite the claim of equal benefits for each taxpayer, 45 percent of the total tax relief under Question 1 would go to the 6 percent of tax filers with annual incomes of $150,000 or more.

- Although it is true that nine states impose no income tax, the proponents of Question 1 fail to point out that residents in those states pay much higher property and sales taxes:

  - The nearest of the states, New Hampshire, has the highest property taxes in the nation as a percent of personal income, and the second highest per capita.

  - Washington has the highest sales taxes in the country, with an average burden per capita of $1,446 a year, almost triple Massachusetts' $530 per capita burden.

  - Five of the nine states -- Washington, Nevada, Tennessee, Florida and Wyoming -- rank among the top ten states in sales taxes per capita. Massachusetts' sales tax burden currently ranks near the bottom.

  - Nevada also depends heavily on revenues from casino gambling and other gaming, which generates almost 20 percent of the state's tax receipts.

  - Two of the states -- Alaska and Wyoming -- derive extraordinary revenues from mineral wealth that is unavailable in Massachusetts. Alaska ranks number one in mineral taxes per capita, which generate almost one-fourth of the state's total tax collections. Number-two-ranked Wyoming gets almost 15 percent of its tax receipts from oil, natural gas and mining.