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February 22, 2022

The Honorable Adam G. Hinds
Senate Chair, Joint Committee on Revenue
Statehouse, Room 109-E
24 Beacon Street
Boston, MA 02133

The Honorable Mark Cusack
House Chair, Joint Committee on Revenue
Statehouse, Room 34
24 Beacon Street
Boston, MA 02133

RE: Testimony in Support of [H. 4361](#): **An Act to Improve Massachusetts Competitiveness and Reduce the Cost of Living.**

Dear Chairmen Hinds and Cusack,

On behalf of the Massachusetts Taxpayers Foundation, I write to express my support for **An Act to Improve Massachusetts Competitiveness and Reduce the Cost of Living.**

Massachusetts Taxpayers Foundation is a non-partisan, nationally recognized, non-profit public policy research organization focusing on the state's fiscal and economic health. We have a long track record of providing independent, high quality analysis of important issues facing the state and we have a longstanding reputation for credibility and objectivity.

The package proposed by Governor Baker is fiscally responsible and positions the Commonwealth for future growth while targeting those most in need of tax relief.

Several of the provisions make the income tax code more progressive by reducing the tax liability of those filers with limited means in a way that is not harmful to the economic landscape.

No tax threshold. The Governor proposes increasing the income threshold for triggering tax liability by 33% for single, head-of-household and joint filers. This threshold has not been increased in xx years. Against the backdrop of rising inflation, the adjustment is long overdue and will alleviate the tax burden for thousands of additional taxpayers of limited income.

Dependent Care and Dependent Tax Credit. The doubling of these credits help working families defray the cost of childcare and other expenses associated with caring for a child or other dependents.

Senior Circuit Breaker/Rental deduction. This provision provides relief through the income tax code for those seniors remaining in their homes struggling with their property taxes. By increasing the amount, and then tying it to inflation, the value of this credit can keep pace with rising property values and inflation. An increase in the renter's deduction provides similar relief to those who don't own their homes but struggle with the cost of housing.

Other provisions address areas of our tax code where Massachusetts is an outlier relative to most other states. By aligning Massachusetts more closely with other state tax burdens we eliminate a barrier to attracting and retaining both small businesses and older residents. As a result of the pandemic, and the ability to work remotely, employers and employees have more options of where to locate, making them

more sensitized to relative cost differences among the states. Massachusetts must address these policies that make us an outlier to remain an attractive place to work and live.

Estate tax. Recently I submitted testimony to this committee in support of H.2881 which proposed much needed changes to the estate tax. Without repeating the reasons for MTF's support, I would refer you to that submission as it details the many ways in which Massachusetts is an outlier in terms of imposing an estate tax, the dollar amount at which it applies, and the application of the tax to the full amount. While the Governor's proposal differs from H.2881, both provide much needed updates to the law and we support both as feasible ways to address this issue.

Short-term Capital Gains Tax Rate. Similar to the estate tax, the current rate on short-term capital gains places a heavier tax burden on Massachusetts taxpayers relative to other states. While this tax may have mostly impacted high-wage earners historically, we have seen many middle income earners investing in the stock market in recent years as well as older residents living on fixed income. Taxing this money at the same rate as other income will align Massachusetts more closely with the tax treatment of other states, most notably New Hampshire which is phasing out its tax on interest and dividends.

Conformity

Massachusetts' adherence to the Internal Revenue Code as of 2005 has presented many compliance issues for both DOR and the taxpayers alike. Many changes to federal tax law have been adopted since 2005 that Massachusetts must take proactive action to adopt. Adopting a more recent version, that which is in effect in 2002, will simplify the administration of taxes, and help taxpayers and the DOR alike.

In closing, the unprecedented level of tax collections warrants tax relief. For the first 7 months of FY2022, the tax revenue collection growth rate for Massachusetts is approaching 17%. While it is unlikely we will sustain that growth level for the entire year, it is safe to say we are well above expectations and historic norms. Our Stabilization Fund balance is healthy, and the state has billions of dollars in ARPA and federal assistance that it has just appropriated and is still being spent, and billions more that it has yet to appropriate. Therefore, Massachusetts can and should return some of the surplus tax revenue to taxpayers. The Governor's proposal does just that using a targeted, balanced approach which MTF supports.

Thank you for the opportunity to provide written testimony. For the aforementioned reasons, I respectfully request that the Committee considers H.4361 a reasonable measure to address some of the concerns with the estate tax and report it favorably from Committee at your earliest convenience.

Regards,



Eileen McAnney, President

cc: Members of the Joint Committee on Revenue