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MTF Brief

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Governor Healey's Tax Proposal

Today, Governor Healey announced the details of a tax relief proposal that she plans to file in conjunction with her Fiscal Year (FY) 2024 budget proposal on March 1st. The tax package, which has an FY 2024 budget impact of \$742 million and an annualized impact of \$986.5 million, shares key elements with House and Senate tax bills from 2022 and follows through on the Governor's campaign promise to more than double the child and dependent tax credit. The content and framing of the plan is also consistent with the income and estate tax proposals recommended by the Foundation earlier in the month.

This Brief summarizes the components of the proposal and assesses their impact on state finances.

Plan Details

Governor Healey's proposal includes five major components, and reflects two main themes: easing key cost pressures and addressing tax outliers.

Easing Cost Pressures:

- **Rental Deduction** – Increases the rental deduction cap from \$3,000 to \$4,000. Taxpayers in Massachusetts are able to claim a deduction on 50 percent of rent costs, up to the maximum deduction.
- **Senior Circuit Breaker** - Doubles the cap on the Senior Circuit Breaker from \$1,200 to \$2,400. The Senior Circuit Breaker program provides income-eligible seniors facing high property tax and housing costs with a refundable tax credit.
- **Child and Dependent Tax Credit** - Expands the child tax credit by:
 - Increasing the credit to \$600. The current maximum credit amount is \$240.
 - Establishing one credit amount for all dependents under 13, eliminating different credit amounts depending on whether expenses can be itemized.
 - Eliminating the two dependent cap for families.

Addressing Tax Outliers:

- **Estate Tax** - Increases the estate tax threshold from \$1 million to \$3 million and provides a \$182,000 credit for all estates, which will also address the 'cliff effect.'
- **Short-Term Capital Gains** - Establishes a uniform tax rate for all capital gains at 5 percent.



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- Currently, capital gains on assets held one year or less are taxed at 12 percent.

Assessing Gov. Healey’s Tax Plan v. Other Proposals

Gov. Healey	House	Senate	MTF
Rent deduction capped at \$4K	✓	✓	Rent deduction capped at \$5K
Double Senior Circuit Breaker tax credit	✓	✓	✓
\$600 child credit; no cap	\$310 per dependent; no cap	\$310 per dependent; no cap	✓
\$3M estate tax threshold; uniform credit	\$2M estate tax threshold; tax applies above; rate increase for \$7M+ estates	\$2M estate tax threshold; \$99,600 credit for all estates	\$5M estate tax threshold; tax applies to amount over threshold
Short-term capital gains at 5%	Not included	Not included	✓

As demonstrated in the table, Governor Healey’s proposal clearly builds on tax ideas that were put forward and gained traction over the past year. Four of the five provisions were included, in some form, in the House and Senate tax bills from 2022. The one exception, a reduction of the short-term capital gains rate, was included in Governor Baker’s original proposal and has been recommended by MTF, the Greater Boston Chamber of Commerce, and the Massachusetts Society of CPAs.

In addition to the five major tax provisions, the Healey Administration is also proposing ten smaller tax changes that provide \$36.5 million in additional tax relief. The most prominent of these changes is an increase to the annual cap on tax credits provided through the Housing Development Incentive Program (HDIP). The current cap is \$10 million and the Healey Administration proposes upping that level to \$50 million in FY 2024 and \$30 million thereafter. The House and Senate supported similar proposals last year. Other tax changes include:

- Expanding the state’s apprenticeship tax credit;
- Exempting employer student loan assistance from state taxable income;
- Expanding commuter tax benefits to regional transit and bike commuter expenses;
- Extending the state’s brownfields tax credit;



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- Doubling tax abatements for lead paint remediation and tax credits for septic replacements and repairs;
- Creating a new live theater tax credit, similar to a proposal adopted by the House last year;
- Increasing the cap on the state’s dairy tax credit; and
- Updating alcohol thresholds for taxation of ciders and still wines, similar to a proposal adopted by the Senate last year.

Fiscal Impact

Governor Healey’s proposal, if implemented and effective for the 2023 tax year, would have a fiscal impact of \$859 million in FY 2024 and \$986.5 million when annualized. However, because capital gains taxes above a certain threshold (\$1.48 billion in FY 2024) are automatically deposited into the Stabilization Fund and other reserves, the proposed reduction in the short-term capital gains rate will not affect resources available for the budget (and instead will reduce deposits to state reserves). The actual budget cost of the proposal is \$742 million in FY 2024 and \$869.5 million in future years.

Fiscal Impact of Proposal, FY 2024 & Annualized

Title	FY 2024	Annualized
Increase rental deduction	\$40	\$40
Senior circuit breaker	\$60	\$60
Child & dependent tax credit	\$458	\$458
Estate tax	\$167	\$275
Capital gains	\$117	\$117
Other changes	\$17	\$36.5
<i>Total Impact</i>	<i>\$859</i>	<i>\$986.5</i>
<i>Net of Capital Gains</i>	<i>\$742</i>	<i>\$869.5</i>

\$ in millions

Governor Healey’s proposal is about 1/3 more robust than Governor Baker’s original plan, and almost double the amount of ongoing tax relief proposed in the House and Senate versions that followed. The Healey proposal falls short of the \$1.3 billion proposal put forward by MTF.



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Comparison of Fiscal Impact of Tax Plans

Title	Gov. Baker	House	Senate	MTF	Gov. Healey
Increase no-tax threshold	\$89	\$0	\$0	\$0	\$0
Increase rental deduction	\$77	\$35	\$35	\$77	\$40
Senior circuit breaker	\$60	\$60	\$60	\$60	\$60
Child & dependent tax credit	\$167	\$130	\$130	\$458	\$458
Estate tax	\$231	\$207	\$185	\$450	\$275
Capital gains	\$117	\$0	\$0	\$117	\$117
Earned Income Tax Credit	\$0	\$92	\$92	\$0	\$0
S- Corporation	\$0	\$0	\$0	\$125	\$0
Taxpayer rebates	\$0	\$510	\$510	\$0	\$0
Other changes	\$0	\$510	\$510	\$0	\$37
<i>One-time fiscal impact</i>	<i>\$0</i>	<i>\$510</i>	<i>\$510</i>	<i>\$0</i>	<i>\$0</i>
<i>Ongoing fiscal impact</i>	<i>\$741</i>	<i>\$524</i>	<i>\$502</i>	<i>\$1,287</i>	<i>\$986.5</i>
<i>Ongoing fiscal impact to budget</i>	<i>\$624</i>	<i>\$524</i>	<i>\$502</i>	<i>\$1,170</i>	<i>\$869.5</i>

Next Steps

Governor Healey will file her tax package as standalone legislation at the same time she files her budget. This means that, while her budget will reflect the fiscal impact of tax relief, the proposal will go through a separate legislative process which will begin in the Joint Committee on Revenue. The House could choose to incorporate these, or other, tax provisions in their budget, but last session the House and Senate decided to keep tax relief provisions separate from the budget. Separating tax relief from the budget ensures that the proposal has its own hearing and goes through the legislative process, but it also creates challenges for coordinating tax action with the FY 2024 budget.

Bottom Line

Governor Healey has released a significant tax relief proposal that attacks cost drivers that make it difficult for people to afford living in Massachusetts while also taking action on two tax outliers that do not make sense in light of the surtax. This is the overall income tax relief policy approach that MTF has recommended and is a strong start to tax relief discussions this year.

This proposal will be considered next by the House and Senate and in that process new ideas will be introduced and provisions could be added or removed. What is critical is that the twin principles



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that govern this proposal – making Massachusetts a more affordable and taxpayer friendly state – remain central.

At the same time, it is important to acknowledge that these proposals are not a silver bullet for making Massachusetts a place that attracts and retains people and investment. Proposals to reduce costs on employers and investments must also be part of our coordinated efforts to spur equitable economic growth in the Commonwealth.