MTF
Massachusetts
Taxpayers Foundation

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MTF Bulletin

July 6, 2023

Tax Relief Conference Preview

The House and Senate have both unanimously passed major tax relief legislation in the last two months and a Conference Committee has been appointed to resolve differences. While both bills share many major elements, the bills differ in scope, implementation schedules, and individual components. The timely resolution of these differences is critical; not only to put in place tax relief after eighteen months of discussion, but also to finalize a balanced fiscal year 2024 budget.

This Bulletin summarizes the similarities and differences between the two bills, highlights key considerations for policymakers, and makes recommendations for the final bill. It also demonstrates that a comprehensive tax relief proposal – inclusive of House and Senate proposals– can be implemented with an FY 2024 budget cost of approximately $600 million and an ongoing impact of $1 billion.

Comparing Two Versions of Tax Relief

At a high level the differences between the two tax proposals can be organized into three categories:

- **Scope** – The House proposal has an annualized value of $1.1 billion, compared to $644 million for the Senate.
- **Focus** – The House proposal provides greater benefits in areas of cost and competitiveness; the Senate proposal has a greater focus on housing.
- **Timing** – The House phases its proposals in over several years; all Senate proposals are effective in tax year 2023.

Examining the plans in greater detail, it is clear that the two plans share much in common and in many ways complement each other.

Shared Provisions

The House and Senate include three identical tax relief provisions:

	Earned Income Tax Credit	Senior Citizen Circuit Breaker	Rental Deduction
Proposal	Increase the state credit to 40% of the federal level.	Double the base credit.	Increase the maximum deduction from $3K to $4K.
Annualized Cost	$91 million	$60 million	$40 million
Governor's Bill	Not included	Included	Included

Combined, these provisions provide $191 million in tax relief. This represents about one-third of the total value of the Senate plan and a little less than one-fifth of the value of the House plan.

In addition, both the House and Senate proposals include reforms to the state's child tax credit and estate taxes, but with important differences:

Child Tax Credit		
	House	**Senate**
Policy	Establish $600 per child credit	Establish $310 per child credit
Timeline	Phased in over three years	Effective TY 2023
Annualized cost	$458 million	$164 million
Estate Tax		
	House	**Senate**
Minimum estate value	$2 million	$2 million
Tax benefit for estates >$2 million	$2 million exclusion	$99,600 credit
Timeline	Effective TY 2023	Effective TY 2023
Annualized cost	$231 million	$185 million

The difference in the child tax credit is the single largest fiscal difference between the two proposals, with the House providing $294 million in additional relief to families with children and dependents eligible for the credit.

Different Proposals

The House includes two tax relief provisions, worth $209 million, not included in the Senate:

House-Only Provisions		
	Short-Term Capital Gains	**Single Sales Factor Apportionment**
Proposal	Reduce the rate from 12% to 5%, phased in over two years.	Implement single sales factor apportionment for corporate excise payors, beginning in TY 2025.
Annualized Cost	$130 million, $0 net to budget	$79 million
Governor's Bill	Included	Not Included

The Senate bill includes two major and nine minor tax relief provisions, totaling $84 million, not proposed in the House bill:

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Senate-Only Provisions		
	Low-Income Housing Tax Credit	**Housing Development Incentive Program**
Proposal	Increase the base authorization cap from $40 million to $60 million.	Increase the cap on the tax credit from $10 million to $57 million in TY 2023, $30 million annually.
Annualized Cost	Approximately $55 million	Approximately $20 million
Governor's Bill	Not Included	Included

The minor provisions of the Senate bill have a combined fiscal impact of approximately $14 million; all of them were initially proposed by Governor Healey in some form:

- Tripling the maximum credit for septic system replacement or repair;
- Expanding the state's apprenticeship tax credit and doubling the cap to $5 million
- Exempting employer student loan assistance from taxable income;
- Expanding commuter benefits to commuter ferry, regional transit and bike expenses
- Extending the Brownfields tax credit through 2028;
- Doubling the tax credit for lead paint remediation;
- Increasing the tax credit for volunteer services;
- Updating alcohol thresholds for taxation of ciders; and
- Increasing the dairy tax credit cap from $6 million to $8 million.

Tax Relief Summary

The House and Senate bills include 18 combined tax relief proposals, with twelve unique to one branch or the other.

		All-Inclusive Plan	
		FY 2024 Cost	Annualized Cost
Identical	EITC	$91.00	$91.00
	Circuit Breaker	$60.00	$60.00
	Rental Deduction	$40.00	$40.00
Shared	CDTC	$165.00	$458.00
	Estate Tax	$231.00	$231.00
House Unique	Short Term Cap Gains	$67.00	$130.00
	Single Sales	$0.00	$79.00
Senate Unique	LIHTC	$0.00	$55.00
	HDIP	$0.00	$20.00
	Minor Provisions (9)	$14.00	$14.00
Total Fiscal Impact		**$668.00**	**$1,178.00**
Total Impact Net to Budget		**$601.00**	**$1,048.00**

$ in millions

If all proposals were included, the FY 2024 budget cost would be approximately $600 million and the annualized cost slightly over $1 billion. The FY 2024 cost is notable because it means that all tax provisions are affordable within the parameters of the FY 2024 budget.

Non-Tax Relief Provisions

In addition to tax relief, both the House and Senate include several other tax policy provisions related to the income surtax, the state's Chapter 62F tax threshold, the pass-through entity (PTE) tax and several other polices:

- **Income Surtax** – The Senate bill expands the scope of the recently enacted 4 percent surtax to married couples whose combined income exceeds the $1 million threshold in a given year. The provision requires all Massachusetts married couples who file joint federal returns to also file joint state returns. Historically, Massachusetts married couples could choose whether or not to file joint state returns irrespective of federal filing status. This allowed couples whose individuals incomes were less than $1 million to file their state returns separately and thereby avoid the 4 percent surtax on their combined income. The surtax language made no changes to how married returns are filed, and so this provision is simply an expansion of the tax put in place six months ago.
- **Chapter 62F Tax Limit** – Both the House and Senate include sections related to the Chapter 62F tax revenue cap:
  - The House requires that any future 62F rebates be paid in equal amounts to all taxpayers. Currently, the rebates are distributed in proportion to the amount of income taxes paid.
  - The Senate requires the Comptroller to provide monthly reports on tax collections compared to the likely Chapter 62F threshold.

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- **Pass-Through Entity Excise** – The Senate requires the Department of Revenue to study options for expanding the 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 negative revenue impact for the state.
- **Other Provisions**:
  - The House:
    - Increases the cap on the state's Stabilization Fund balance from 15 percent of revenues to 25.5 percent. After the cap is reached, any excess revenue is transferred to a tax reduction fund.
  - The Senate:
    - Authorizes a local option for municipalities to exempt rental properties with low-income tenants from property taxes.
    - Requires the Executive Office for Administration and Finance to study the feasibility of the advanced payment of tax credits, including the child tax credit.

MTF Recommendations

In February, MTF published a series of detailed recommendations for tax relief which included several key principles for policymakers to consider:

- Focus tax relief on addressing key cost pressures for residents and uncompetitive outliers in the state's tax code;
- Commit to significant tax reform, of approximately $1 billion in annualized tax relief;
- Implement phase-in schedules for specific tax relief provisions to ensure fiscal sustainability, if necessary;
- Avoid complicating any proposal with provisions that undermine the cost and competitiveness goals of tax relief.

House and Senate conferees have the opportunity to negotiate a compromise tax relief bill that adheres to these principles, includes all of the proposals put forward by both branches, and remains within the $600 million set aside for FY 2024.

In developing that compromise, it is critical that the bill retain the House's greater focus on cost reduction and competitiveness, while also incorporating Senate proposals to expand successful housing tax credits. In addition, the bill should retain proposals to assess options to expand the PTE tax and study the timing of tax credit payment to maximize taxpayer benefits. However, expanding the scope of the surtax by changing the law on tax filing requirements for married couples, would run directly counter to the broader goals of addressing high costs and competitiveness and should not be included in the final version.