Greater Boston
Chamber of Commerce

April 26, 2021

Representative Mark J. Cusack, Chair
Joint Committee on Revenue
State House, Room 34
Boston, MA 02133

Senator Adam G. Hinds, Chair
Joint Committee on Revenue
State House, Room 109-E
Boston, MA 02133

Dear Chairman Cusack and Chairman Hinds,

On behalf of the Greater Boston Chamber of Commerce, I am writing to oppose H.86, *Proposal for a legislative amendment to the Constitution to provide resources for education and transportation through an additional tax on incomes in excess of one million dollars*.

There are at least two policy flaws with the proposal to add a new four percent tax on income over $1 million: it would make the state more vulnerable to future budget gaps and it would take nearly half a decade to resolve negative or unintended consequences.

The proposed new tax on income over $1 million would make the state more vulnerable to future budget gaps.

This proposal would raise the state's already-high reliance on income tax revenue – a volatile and economically sensitive source – and risk creating budget gaps during periods of slow or stagnant economic growth. As a result, if adopted, residents will be more exposed to the tax increases and budget cuts required to close such gaps.

Personal income tax revenue accounted for more than 58 percent of total state tax revenue in FY 2020.[1] The revenues from the additional four percent surtax on income above $1 million have been estimated to be nearly $2 billion annually. Based on FY 2020 tax collections, income taxes would account for 61 percent of total state tax revenue.

The heavy reliance on personal income tax revenue poses structural budget challenges for the state because the revenue source is sensitive to economic conditions and declines during recessions. Between FY 2001 and FY 2002 personal income tax revenue dropped by 20 percent, or $2 billion. During the Great Recession, personal income tax revenue dropped 15 percent between FY 2008 and FY 2009 and then an additional four percent in the next fiscal year; the total income tax revenue loss in just two years amounted to $2.4 billion.[2]

In FY 2020, which included four months of the COVID pandemic, income tax revenues averted a decline because of strong performance in the first eight months of the fiscal year and the unprecedented $2.2 trillion in federal funding that included an additional $600 per week in unemployment assistance and business loans to retain employees on payrolls.[3]
The practical and predictable outcome of building in $2 billion of a volatile revenue source into the state's budget is that the state will be vulnerable to budget gaps because income tax revenues generally drop at the same time the demand for public services rises. As a result, the state will be required to implement broader and potentially regressive tax increases that will affect all residents when these revenues underperform. On the other side of the ledger, the

[1] Massachusetts Department of Revenue Blue Book, June 2020.
[2] Massachusetts Department of Revenue Blue Books, June 2000 – June 2018.
[3] Through February 2020, the Department of Revenue reported that state tax revenues were one percent above the fiscal year-to-date benchmark.

state could face 9C cuts or look to reduce its non-discretionary spending, including funding for transportation and education. Over the last 20 years, there are several examples of such situation:

- In 2003, the income tax rate reduction approved by voters was repealed. Instead, the rate was set at 5.3 percent and remained there until 2013, affecting all personal income taxpayers. The income tax rate did not reach the 5 percent rate adopted by voters until 2020. That same year the state implemented mid-year budget cuts.

- In 2009, weak revenue performance led to a sales tax rate increase from 5.0 percent to 6.25 percent. The sales tax is a regressive tax.

- In 2017, the Employer Medical Assistance Contribution (EMAC) rate was increased and an additional EMAC supplement was implemented after limited growth in personal income tax revenues. The state also implemented mid-year budget cuts.

These actions demonstrate how the state has responded to declining or underperforming income tax revenues and provide a glimpse into how it will handle the same situation in the future. If the new tax is adopted, the state will be even more reliant on the income tax and so the negative consequences could be greater in magnitude.

It will take years to make any revisions to fix unintended or negative consequences.

By amending the constitution instead of the general laws, proponents are seeking to remove crucial policymaking from the Legislature's hands, both current and future, and replace it with a drawn out process that hamstrings policymakers and voters.

Specific tax rates should be set through the legislative process and contained in general laws. One reason tax rates are handled through the legislative process – rather than enshrining them in constitutions – is that the legislative process can act more quickly to avert or address economic damage.

In the best case scenario it will take at least four years to correct any mistakes or adjust for unintended or negative consequences. At a minimum, the change would require approval from two distinct legislatures, followed by a statewide vote with the majority approving the change. If the measure passes these hurdles, the change can be implemented but that will also take time.

There are real risks with this proposed new tax, and the lure of additional revenue should not overshadow those risks. All residents will be impacted if the proposal is adopted, whether in the form of a different tax increase or cuts to services when there is a decline in income tax revenues or sustaining the consequences that will take years to repair.

On behalf of the 1,300 businesses and employers that compose the Greater Boston Chamber of Commerce, I urge you to consider your fiduciary responsibility to the Commonwealth by opposing this legislative amendment.

Sincerely,

James E. Rooney

James E. Rooney
President & CEO