

MASSACHUSETTS
HIGHTECHNOLOGYCOUNCIL

Dedicated to Growth... Committed to Action

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Massachusetts High Technology Council Economic Strategy Recommendations 2007

Overview

The Massachusetts High Technology Council (MHTC) recommends that the Patrick Administration work with the Legislature to develop a comprehensive economic development plan that boosts the state's overall competitiveness. MHTC advocates a long-term technology-based economic development strategy that anticipates economic dynamics, rather than repeating the state's frequent practice of instituting permanent tax hikes to solve temporary budget challenges.

Below are a few key issues that represent the foundation of a more comprehensive overall economic plan.

\$100 Million Matching Grant Fund

MHTC recommends the commitment of \$100 million enabling our research institutions to compete for large-scale collaborative federal R&D awards.

MHTC, was an early supporter of state matching grants, which, primarily through the John Adams Innovation Institute, have delivered more than \$70 million in federal and private funding on a \$16 million state investment. This low-risk, high-reward approach and post-award ROI demands increased financial support from the legislature.

Currently, Massachusetts and the John Adams Innovation Institute support a \$10 million Research Center Matching Fund which supports efforts to enable university-based research centers to develop and transfer technology to industry in the Commonwealth. We applaud that effort, but recognize that for Massachusetts to keep up with significant R&D investments of other states and nations, we must focus on bigger awards and a larger-scale center.

MHTC Proposed Capital Gains Structure

We propose a modified capital gains tax rate structure that encourages long term investment and provides a less punitive tax structure while sustaining a reliable tax-revenue source. This proposal, which could be adopted as soon as January 1, 2008, reduces the short-term capital gains tax rate from 12% to 10.6% (double the personal income tax rate); maintains the current rate for assets held 1-5 years at the personal income tax rate of 5.3%; and reduces the rate on gains from assets held more than 5 years from 5.3% to 2.65% (½ the personal income tax rate).

In 2002, the Legislature voted to raise capital gains taxes and estimated the burden resulting from their increase to be less than \$500 million annually (despite more accurate MHTC projections that predicted the tax hike to be nearly \$1 billion). The Department of Revenue (DOR) recently projected the burden on Massachusetts taxpayers in 2006 to be more than \$1.8 billion.

By comparison, our proposal reestablishes the incentive for long term investment and provides a more competitive tax structure for a workforce whose compensation is increasingly based in capital gains.

MHTC Proposed Unemployment Insurance Reform

For decades, the state's UI system has been a competitive disadvantage for Massachusetts employers and among the most costly in the nation. We must adopt a comprehensive set of reforms to make our UI system competitive for the long term while protecting the benefits of those currently without a job.

We recommend:

Providing Benefits for 26 Weeks – Currently, all unemployed workers in Massachusetts are eligible for 30 weeks of benefits and in 49 other states benefits last 26 weeks. We strongly recommend a review of duration and other non-wage benefits, such as the dependency allowance.

Strengthening Eligibility Requirements – Massachusetts currently allows an individual who has been working for 15 weeks to be eligible for the same benefits as someone who has been in the workforce for 20 years. We recommend a minimum of 20 weeks, which is still low but more competitive with other state systems.

Replacing Rate-Setting Mechanism - We suggest creating an automated rate-setting system that accounts for Trust Fund balance, unemployment data and economic conditions. A new rate-setting mechanism will make UI costs more stable and predictable without the need for annual legislative action.

Employers fund 100% of state Unemployment Insurance bills, so any increase in base costs means more money out of employers' pockets. However, if the reforms outlined above are adopted, then the additional costs expected of the employer community to return the UI Trust Fund to solvency will be justified in a way that does not sour the business climate.

None of these necessary reforms will reduce the amount of weekly benefits paid out to displaced workers, which is the highest in the nation at a maximum of \$600. Overall, Massachusetts pays out more on average to its unemployed workers than any other state – in some cases paying 150% of the benefit amount of key competitor states.

The High Tech Council urges Governor Patrick and the Legislature to bring efficiency and reform to the state's Unemployment Insurance system before the end of the 2007 legislative session.

Other Reforms

MHTC will also work to broaden existing economic development incentives, such as the Life Sciences Manufacturing Tax Credit, so that they have greater breadth and are more representative of the entire innovation economy.

Additionally, MHTC will continue to advocate for competitive, stable and predictable tax rates, lower business costs, and economic incentives that will lead to greater capital formation and employment growth.

About the Massachusetts High Technology Council – www.mhtc.org

The Massachusetts High Technology Council is composed of CEOs from the state's top technology employers who work to make Massachusetts a more competitive place for technology growth. The nonpartisan Council has a 33-year record of working with state and federal leaders in a decisive and effective manner on issues of education, taxation, economic development, energy, defense technology and more. Council members run leading global companies from all sectors of the state's diverse innovation economy.

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