

M A S S A C H U S E T T S
HIGHTECHNOLOGYCOUNCIL

Dedicated to Growth... Committed to Action

February 3, 2016

Dear Representative:

Over the past 20 years, Massachusetts has taken positive steps to shed much of its “Taxachusetts” moniker and high-tax brand. The Mass. High Tech Council has been proud to work with Council members, the legislature and other policymakers to analyze data, assess trends and make informed judgments about tax policy in the Commonwealth.

Similarly, Massachusetts citizens have also shown great skepticism about tax policies they know instinctively will be bad for the state economy and they have regularly rejected ballot questions proposing permanent or automatic tax increases that make it more difficult for taxpayers to have a voice in shaping tax policy in the future.

The imposition of the graduated “Millionaires Tax” income tax proposal before you would damage Massachusetts’ competitive position as a hub for business and investment, add instability to Massachusetts’ fiscal foundation and severely limit legislative and citizen power to set and amend tax policy in response to economic conditions. For the reasons enumerated below, the Massachusetts High Technology Council urges you to reject the proposed constitutional amendment that would allow and impose a graduated income tax in Massachusetts.

Damaging the Competitive Climate

Aggressive, anti-competitive state tax policies clearly played a role in General Electric’s decision to leave Connecticut, as stated by GE CEO Jeff Immelt in a [June 2015 email to employees](#) which was accompanied by a [fact sheet outlining the many ways Connecticut’s tax policies are not competitive](#).

Other states that have imposed significantly higher tax rates upon higher income earners have experienced an outflow of high net worth individuals including many job creators, start-up investors, and philanthropists. In recent years, Maryland saw significant revenue outflows when more than 30,000 high income residents fled to other states in response to a similar graduated income tax

Under the proposed amendment, the top income tax rate in Massachusetts would rise to 9.15%, among the highest state tax rates in the nation. As importantly, Massachusetts would have the third highest tax rate among Massachusetts’ [Peer Technology States](#), as shown in the table below excerpted from the [Mass. Technology, Talent and Economic Reporting System \(MATTERS\)](#). The Council believes this would severely harm the competitive position of the state’s business climate and negatively impact Massachusetts’ brand as a hub for innovators and business creators.

State	Personal Income Tax: Top Rate
California	12.30%
Minnesota	9.85%
Massachusetts	9.15%
New Jersey	8.97%
New York	8.82%
Connecticut	6.70%
Maryland	5.75%
Virginia	5.75%
Ohio	5.33%
Utah	5.00%
Colorado	4.63%
Illinois	3.75%
Pennsylvania	3.07%
Texas	0.00%
Washington	0.00%

It is critical to our collective economic success that we reject anticompetitive tax policies that would damage Massachusetts’ ability to retain growing employers and attract large job creators like GE to Massachusetts.

Enabling Unchecked State Spending and Undermining Fiscal Discipline

The proposed income tax increase under consideration today would give pro-spending advocates a “blank check” for even more additional state spending of any kind. Proponents misleadingly assert that all new revenues from the tax increase will be dedicated to educational and transportation purposes. These “dedicated purpose” assertions are nothing less than a complete fiction. The Massachusetts Constitution prohibits the use of a ballot question to earmark funds for specific spending. Thus, if the proposed constitutional amendment receives final approval to appear before voters, then by definition the revenues will be available to be spent for any purpose whatsoever. A recent poll indicates that when voters are aware that graduated tax revenues cannot be dedicated for specific purposes and must be included in the general fund, only 24% support the proposal.

These voters know that the biggest impediment to fiscal health and stability of the Commonwealth is not a lack of revenue, but an insatiable demand for spending. Massachusetts currently maintains one of the highest levels of state spending in the nation, higher than 41 other states on a per capita basis and 52% above the national average according to the Kaiser Foundation. In recent years, state spending in Massachusetts has increased by as much as 8% per year, a rate that is simply unsustainable under any reasonable tax structure. The key to establishing and sustaining Massachusetts’ long term fiscal stability

lies in managing state spending in a prudent manner that focuses limited resources on investments on true public priorities, not in finding yet another new source of revenue.

Creating Un-amendable Tax Policy and Usurping Voter & Legislative Oversight

The proposed amendment does not simply remove the current prohibition on a graduated income tax from the Massachusetts Constitution to and authorize the General Court to impose one. Instead, the proposed amendment would actually embody the tax in the language of the constitution itself and even go so far as to specify the tax rate and income threshold in the text of the constitution.

Due to the elaborate and lengthy process required to amend the constitution, both voters and future legislatures would be severely constrained in their ability to modify the tax should adjustments be warranted or necessary in response to changing circumstances in the future. Through periods of recession and expansion, boom and bust, inflation or deflation, you and your successors in the General Court would be virtually powerless to modify this key state tax policy in a timely manner. An abdication of this type by any state legislature would be highly unusual but in Massachusetts it would be an affront to the General Court's policy-setting prerogative.

Although many states impose tax limitations through their state constitution (as Massachusetts does today), no other state embodies a permanent personal income tax and fixed rate in their state constitution according to the Tax Foundation¹. "A major reason why tax rates are in statutes rather than in constitutions is that constitutions are less flexible to alter in changing situations. If...the tax increase turned out to be an awful mistake, it would take another constitutional amendment to change it."²

We respectfully urge you to consider and weigh the proposal's far-ranging impacts on Massachusetts' competitive environment, businesses, and citizens and reject it.

Sincerely,

Mark J. Gallagher
Executive Vice President
Public Policy & Communications
Mass. High Technology Council

¹ Alabama imposes a corporate tax via constitution and a temporary personal income tax surcharge in the California Constitution will sunset at the end of this year.

² Joseph Henchman, *Massachusetts May Set Its Income Tax Rate in the Constitution. How Unusual Is That?*; The Tax Policy Blog; February 2, 2016; <http://taxfoundation.org/blog/massachusetts-may-set-its-income-tax-rate-constitution-how-unusual>