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Media Contact: Chris Anderson
chris@mhtc.org | 339-222-2881

Mass. High Tech Council Supports Governor Baker's Tax Relief Proposals to Maintain Massachusetts' Competitiveness

As budget writers shape Massachusetts' fiscal year 2023 (FY23) budget and determine how to spend unprecedented state and federal resources, the Council supports Governor Baker's proposed tax relief measures as common-sense ideas for boosting Massachusetts' competitiveness.

The Governor's proposal comes as the Massachusetts economy continues its strong rebound from the height of the pandemic. Private-sector resilience has driven historic tax surplus revenue collections, which have provided the Commonwealth ample resources to complement billions in federal aid.

In January, [Comptroller McNamara reported](#) that state revenues in FY21 exceeded estimates by over \$13 billion, with just under \$6 billion from surplus tax revenue alone. As of January, the Commonwealth has collected [an estimated \\$2.3 billion in tax revenue exceeding, initial budget projections](#) in the current fiscal year. Perennial surpluses in recent years have contributed to the highest Rainy Day Fund balance on record: \$4.6 billion as of year-end December 2021. Compare this to the \$1.3 billion balance in 2017 and consider, too, that the Baker Administration projects a balance of \$6.6 billion by the end of FY23. This is in addition to billions in federal funds directed to the Commonwealth from various Congressional spending packages, including over \$5 billion from the American Rescue Plan Act (ARPA)—of which \$2.3 billion remains—and what is estimated to be \$9.5 billion in funds for generational infrastructure investments.

The bottom line: **The Commonwealth has unprecedented resources.** Our robust fiscal reserves and significant revenue surpluses as of late provide fiscal flexibility for policymakers to consider proposals that reduce individuals' and businesses' tax burdens. Such proposals, like those in Governor Baker's tax relief package, are critical in the current economic environment where the barriers to exit for residents and businesses have never been lower.

As the Council has pointed out frequently over the last two years, interstate competition for talent and jobs today is fiercer than it has been for at least a decade and the barriers to exit high-cost states is lower than ever. Tax policy is an increasingly important facet of state competitiveness as businesses adapt and adjust to the transition from pandemic to endemic.

Competition between states is amplified today, largely due to pandemic-related shifts in work and commuting habits. With these shifts, a growing number of workers have realized that living in high-tax states isn't necessary to access high-paying occupations. Flexible work policies like "work from anywhere" practices are now an incentive that large companies use to recruit talent. This is especially true among knowledge industry firms where (a) technical talent is in short supply, and (b) a large share of the workforce can do their jobs with no in-office presence. Massachusetts' nation-leading innovation economy is made possible by such firms, whose workforce growth and high-wage employees disproportionately boost state coffers relative to other industries. **The Commonwealth can help these firms retain competitive talent through tax reductions aimed at bringing our policies more in line with other states.**

Take Massachusetts' short-term capital gains tax rate as one example. As Governor Baker pointed out in his testimony to the Joint Committee Revenue on February 22, we are the only state, out of the 41 (not including Washington D.C.) that impose taxes on income, with a short-term capital gains tax rate (12%) that is higher than the tax rate on personal income.

This is one of many tax policies that makes Massachusetts an outlier nationwide. As the data aggregated on the Council's [50-State Competitiveness Dashboard](#) shows, Massachusetts' tax environment ranks 40 out of all 50 states. Another indicator of Massachusetts' standing relative to other states is the national [Tax Foundation's State Business Tax Climate Index](#), which assesses states' business climates based on corporate taxes, income taxes, unemployment taxes, and other factors. Massachusetts has slid from being in the mid-twenties five years ago to 34 in the most recent index (1 being the best, 50 being the worst).

What bodes even worse for Massachusetts is that a growing trend among other states is efforts to reduce income taxes. New Hampshire is phasing out its interest and dividends tax with the goal of eliminating it completely by 2027. [Leaders in at least ten other states](#) have made a commitment to reduce their state income taxes in the years ahead in recognition of the low-tax policies of other states where talent is migrating and the economy is rapidly growing.

We urge the Legislature to support the Governor's tax relief proposals to support strong state tax revenue growth. Reducing the short-term capital gains tax rate from 12 to 5%, along with doubling the threshold for covered estates to \$2 million, would make a material difference in helping Massachusetts maintain its competitiveness. As many states double down on their efforts to lure businesses and talent from high-tax and high-cost-of-living states like ours, Governor Baker's tax relief package is one of many proposals we should advance to prepare for new economic realities in 2022 and the years to come.

About the Massachusetts High Technology Council

The [Massachusetts High Technology Council, Inc.](#) is an organization of CEOs and senior executives representing technology companies, professional services firms, and research institutions who are dedicated to creating and sustaining conditions that support investment, job growth and improved quality of life in Massachusetts. Our members are growth-oriented, knowledge-intensive employers and institutions that develop, deliver and depend on technology products, services and innovations to advance their organizational objectives—a definition which covers just about all business enterprises in Massachusetts today.

Our mission is to help make Massachusetts the world's most attractive place in which to live and work, and in which to create, operate, and grow high technology businesses.

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