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TESTIMONY
Submitted to the Joint Committee on Revenue
Regarding:

HOUSE BILL 42
An Act creating tax relief for affordability, competitiveness and equity

March 28, 2023

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Chair Moran, Chair Cusack, and members of the Committee—thank you for the opportunity to testify regarding House Bill 42. My name is Elizabeth Mahoney, and I am the Vice President of Policy and Government Affairs for the Massachusetts High Technology Council.

The High Tech Council is the Commonwealth's oldest cross-sector association of CEO-level leaders of technology, professional services, and research institutions. The Council has a 46-year history of non-partisan advocacy in support of our mission to 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.

Massachusetts residents and employers are confronting strong economic headwinds, and High Tech Council members believe state action is urgently needed, or we will continue to lose residents, employees, and businesses to other states.

The legislation Governor Healey filed begins to address the high cost of living in Massachusetts and our status as a national outlier on taxes. Enabled by strong private sector productivity that has produced multi-billion-dollar state tax surpluses, the Commonwealth is well-positioned to provide relief for parents, renters, and seniors to help make Massachusetts more affordable, and the High Tech Council supports these provisions.

However, as the documented outmigration of people and businesses to other states accelerates, we are concerned that the Governor's bill does not go far enough to improve our competitive position. The voter-approved surtax now in the state Constitution has dramatically altered the business climate, and current and future tax proposals must be considered in that reality.

Specifically, while the Governor's proposal would bring our estate tax and short-term capital gains rates more in line with other states, we would still be an outlier on each of these taxes. Passage of either or both will do little to reduce the current outflow of residents.

Only 12 states impose their own estate tax, and our $1 million exemption threshold is the lowest of those 12 states (tied with Oregon). Increasing the exemption to effectively $3 million, as the Governor's bill would do, only moves us ahead of three of those states—meaning, we would still be one of only 12 states with an estate tax, and eight of those states would have a higher or the same exemption threshold as Massachusetts.

To truly improve our competitive position against other states, Council members support aligning the estate tax threshold with the federal threshold, as Connecticut has recently done.

Regarding short-term capital gains, Massachusetts currently has the highest rate in the country when accounting for the new income surtax. Reducing the rate to 5% to align with ordinary income is absolutely an improvement, but it would make the state's approach merely comparable to, not better than, the approach most other states take.

The High Tech Council urges the Legislature to not only address our outlier status on the estate tax and short-term capital gains in any tax proposal you put forward, but to also consider enhancing the Governor's proposal to make Massachusetts more competitive with other states.

You will hear testimony today from those who say we cannot afford to give tax breaks to the "wealthy." We would like to offer two thoughts on that: first, reducing the short-term capital gains rate has zero impact on the operating budget. It will not take funding away from any other priority but will improve our position relative to other states.

Second, the Commonwealth can't afford not to take these steps.

Many people have discovered that they can work anywhere and are moving to states that are more affordable. 110,000 people left Massachusetts during COVID, making the Commonwealth one of the states with the highest rates of outmigration. Following the passage of the new income surtax, Massachusetts taxpayers will pay the highest percentage of their income in taxes among all states this year. In contrast, at least 33 states cut taxes in some form in 2022, including moderate and Democrat-led states like New York, Pennsylvania, and Colorado. Massachusetts was the only state that increased taxes.

High-earners are particularly mobile and willing to move themselves and their businesses to states they view as welcoming. Other states are attracting people and businesses by cutting taxes, and Massachusetts is in danger of losing out to those other states unless we take action to rehabilitate the state's business climate now.

Every person who leaves Massachusetts, regardless of their income, represents lost revenue for the Commonwealth. But the loss of high-income individuals should be of particular concern because of Massachusetts' disproportionate reliance on those earners for income tax revenue. Even before the passage of the income surtax, only six other states had a greater percentage of their taxable income attributable to those earning $1 million or more. It is not "unfair" to implement policies that will persuade these high-earners to stay in Massachusetts, when so many important programs and services funded by the state rely on the income tax revenue they provide—and when we can afford to pursue these policies and provide relief to lower-income residents.

We would like to thank Governor Healey for starting this important conversation about Massachusetts' competitiveness, and we thank you all for your time and attention today. We look forward to working with the Legislature on legislation that will rehabilitate Massachusetts' competitive advantage.