

TESTIMONY

Submitted to the Joint Committee on Revenue

In Support of:

HOUSE BILL 40

Proposal for a legislative amendment to the Constitution ensuring appropriate expenditure of fair share funds

SENATE BILL 14

Proposal for a legislative amendment to the Constitution requiring a supermajority vote for the utilization of rainy-day funds

SENATE BILL 15

Proposal for a legislative amendment to the Constitution to cap the state income tax

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**Elizabeth Mahoney, Vice President of Policy and Government Affairs
Massachusetts High Technology Council**

Dear Chair Cusack, Chair Moran, and Members of the Committee,

Thank you for the opportunity to submit testimony on behalf of the Massachusetts High Technology Council in favor of H.40, S.14, and S.15.

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.

These three bills would insert important taxpayer protections into the state's Constitution.

Two of these bills, H.40 and S.15, relate to the income tax rate and the new income surtax approved by the voters as an amendment to the Constitution last November. H.40 would ensure that the revenue from the income surtax is spent in a manner consistent with how voters believe it will be spent. The amendment proposed in H.40 would add language to the Constitution requiring that appropriations from the surtax revenue, which is to be dedicated to education and transportation, will add to – not replace – the existing funding for these areas of the budget. This is a commonsense amendment which would guarantee that the new income surtax is achieving its purpose of providing more funding for education and transportation.

S.15 would set a constitutional cap on the income tax rate of 6.25%. This would have no effect on the current personal income tax rate of 5%. For those taxpayers subject to the new surtax of 4% on income over \$1 million, however, this would cap their total income tax rate at 6.25%. Massachusetts is already a national outlier on taxes, and the new income surtax further altered

the state's business climate to make us less competitive with other states. The High Tech Council and its members believe state action is urgently needed, or we will continue to lose residents, employees, and businesses to other states. This amendment, combined with other tax reform provisions currently before the Revenue committee, would at least begin to address the negative effects of the income surtax.

The third bill, S.14, would place a limitation on the use of the state's stabilization fund. The stabilization fund (or "rainy day fund") was established in 1986 and provides an important backstop against a drop in revenue during an economic downturn.

The amendment proposed in S.14 would require that any appropriations from the state's stabilization fund be approved by a supermajority vote of two-thirds of the House and the Senate. Establishing a high barrier to withdrawing funds from the "rainy day fund" would help to ensure that those funds are only tapped when it is absolutely necessary to do so.

As of a 2018 report of the National Conference of State Legislatures, more than one-third of states require a supermajority vote of their legislature in order to withdraw from their stabilization fund in at least some circumstances.¹ Eight states require a supermajority vote for a withdrawal in all circumstances, and ten states require a supermajority vote in certain circumstances.

In recent years, robust tax revenue collections driven by strong private sector productivity have combined with significant federal resources and sound budget management by the state's Executive and Legislative branches to produce a record-high stabilization fund balance (projected to be \$8.5 billion at the end of FY23).

However, it was not too long ago that the Commonwealth was heavily relying on the stabilization fund to balance its budget. During the Great Recession, the state withdrew a total of \$1.45 billion from the fund in FY09 and FY10, which was necessary given the drop in tax revenue during those fiscal years. But the state continued to rely on the "rainy day fund" in FY13, FY14, and FY15, even as the state was recovering from the Great Recession. Withdrawals and diversions of revenue from the stabilization fund across those three fiscal year budgets totaled more than \$2 billion.² Using the stabilization fund to balance the budget during a time of economic growth is not a sound fiscal practice, and establishing a higher bar for withdrawals from the fund would protect against such uses of the fund in the future.

The High Tech Council believes these three bills would provide important constitutional protections for the Commonwealth's taxpayers, and we thank you for your consideration.

¹ https://documents.ncsl.org/wwwncsl/Fiscal/RDF_2018_Report.pdf

² https://www.masstaxpayers.org/sites/default/files/publications/2020-04/MTF_Stab_Fund.pdf