

May 9, 2022

Representative Ronald Mariano, Speaker
Massachusetts House of Representatives
State House, Room 356
Boston, MA 02133

Representative Aaron Michlewitz, Chair
House Committee on Ways and Means
State House, Room 243
Boston, MA 02133

Dear Speaker Mariano and Chair Michlewitz,

Our organizations, representing thousands of employers and hundreds of thousands of employees in Massachusetts, write to urge you to adopt the tax changes included in **H.4361, *An Act to improve Massachusetts' competitiveness and reduce the cost of living***. The unique combination of tax adjustments supports a competitive business climate while also providing much needed tax relief to some of our most vulnerable residents.

State revenues exceeded expectations for consecutive fiscal years, indicating a structural budget surplus that allows for both important investments in key priorities as well as targeted tax relief for families, seniors, and small businesses. In April alone, the state collected more than \$2 billion above expected revenues. The state should deploy these available resources to create a more competitive tax environment for workers and small businesses and provide direct benefits to low-and moderate-income families. We urge the House to adopt all proposed changes as filed this session.

Commonsense strategies can improve the state's attractiveness for both employers and employees. Modifying the state's estate and short-term capital gains taxes will help Massachusetts remain a competitive place to start, operate, and retain businesses, which is particularly important during this period of economic uncertainty and personal mobility. In addition, increasing the dependent care credit and the rental deduction will provide relief to our local workforce facing high childcare and housing costs.

Improving Massachusetts' business climate through tax competitiveness

The proposed tax changes will help improve the business climate in Massachusetts by bringing Massachusetts more in-line with the federal government and other states. These changes include updates to the estate tax and the short-term capital gains tax, where the state is an outlier and current policies represent an economic disadvantage.

Massachusetts is one of only 12 states that impose an estate tax.¹ Additionally, Massachusetts has the lowest exemption level at \$1 million (along with Oregon) in the country and applies the tax to the full value of the estate once the valuation threshold is triggered. This places the Commonwealth far outside of the mainstream and hurts our ability to retain business owners and talent, with an acute impact on family and small businesses.

Family businesses already face significant challenges when a founding family member passes away, resulting in the closure of the business in nearly half of such circumstances.² When the value of a family or small business exceeds the \$1 million estate tax threshold, families are faced with difficult choices about whether they can afford to continue operating or are forced to sell or close the business rather than pay the assessed tax.

The Massachusetts Legislature recently addressed the burden the estate tax places on small businesses by changing how it works for farms.³ Prior to 2018, the estate tax applied to a farm's full market rate valuation unless it was protected by an agricultural preservation restriction. This forced many farm families to sell part or

¹ <https://taxfoundation.org/state-estate-tax-state-inheritance-tax-2021/>

² <https://www.johnson.cornell.edu/smith-family-business-initiative-at-cornell/resources/family-business-facts/>

³ Section 18 of chapter 209 of the Acts of 2018

all of their farmland in order to pay the estate tax. The Legislature changed the law and now allows the land to be valued at current or agricultural use value. This change eases the tax burden and helps preserve family farms in the state.

The current estate tax structure presents similar challenges to other small businesses. Raising the exemption threshold to \$2 million and applying the tax only to the value above that threshold will create a far less punitive tax structure and ensure more small businesses stay open and continue to operate through generations. It will also help encourage business formation because starting a business is risky, and knowing that success will not be undermined by an uncompetitive estate tax can encourage entrepreneurship.

In addition to the estate tax, Massachusetts has an uncompetitive tax rate for short-term capital gains. The federal government and many states treat short-term capital gains as ordinary income, applying personal income tax rates to the value of relevant assets with a holding period of less than one year. The proposed change would conform our short-term capital gains tax rate to our normal personal income tax rate, aligning with the federal government's treatment for these taxes and simplifying our tax code.

Tax relief for our workforce

Massachusetts' competitiveness also relies on being a state where individuals and families want to live and work. Affordability increasingly factors into whether employees – and by extension their employers – want to reside in the Commonwealth

The tax relief measures included in this bill are appropriately targeted at making the Commonwealth more affordable, particularly for low-income residents and middle class families. This can help retain our local workforce, an increasingly important priority given the talent crunch experienced by employers of all sizes across the state and the ability of that talent to, in many cases, work remotely from outside the region.

Massachusetts has among the highest housing costs in the country, which increasingly factors into employers' ability to attract and retain workers. Increasing the renter's deduction will lower the tax burden on renters and defray the total costs of housing for renters in Massachusetts.

Increasing the dependent care deduction and no-tax threshold also provides working families savings as they face higher costs for childcare and ordinary household expenses. Tax relief in these areas will provide timely and direct benefits to families and workers without the additional burdens of applying to specific state programs or indirect cost savings.

The House has expressed the possibility of revisiting these proposals before the end of the session, and we are grateful for that. We respectfully urge the House to adopt these provisions as filed by the Governor to advance the state's goals on affordability, attractiveness, and equity, and stand ready to offer any assistance we can during your deliberations.

Thank you for your consideration.

