Massachusetts Taxpayers Foundation

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MTF Analysis of House Ways and Means Tax Proposal

Today, the House Committee on Ways and Means released their tax relief proposal. The plan includes 7 major provisions and carries a fiscal impact of $654 million in FY 2024. When fully-phased in after 3 years, the annualized cost of the proposal is $1.1 billion.

Though significantly larger, the proposal builds off the tax relief packages passed by the House and Senate in 2022, as well as Governor Healey's $987 million tax package.

Annualized Cost of Recent Tax Proposals

	Gov. Baker	House 2022	Senate 2022	Gov. Healey	HWM 2023
Estimated Annualized Cost	$741	$524	$502	$987	$1,089

$ in millions

The bill goes further than Governor Healey by adding an increase to the state's Earned Income Tax Credit and mandating single sales factor apportionment for corporations, but does not match Governor Healey's proposal to increase the estate tax threshold to $3 million (limiting the threshold to $2 million instead). The proposal manages the ongoing cost of the bill by phasing in several provisions over the next few years. This approach, recommended by MTF, makes it easier to plan for the long-term cost of the proposal.

Summary of the Provisions

The bill's 7 provisions are as follows (annualized cost in parentheses):

- ***Child and Dependent Tax Credit ($458 million)*** – The HWM proposal adopts Governor Healey's recommendations to expand the child tax credit to $600 for children under 13 and eliminate the two dependent per family cap; but the changes are phased-in over three years.[1] Because of the phase in schedule, in which the credit is increased to $310 immediately and $455 in the second year, the FY 2024 cost is estimated to be $165 million.

  The proposal will benefit about 700,000 families and caregivers across the Commonwealth. The current credit is capped at $180 or $240 per child (depending on whether or not expenses are itemized), with a limit of two dependents per family.

[1] Because the credit is adjusted for inflation, it is actually $614 per child when fully-phased in under the HWM plan. The $458 million total is in FY 2024 dollars.

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- ***Rent Deduction ($40 million)*** – HWM increases the state's maximum rent deduction from $3,000 to $4,000. This increase mirrors the House's 2022 tax bill and Governor Healey's recent proposal. Renters can deduct 50 percent of rent costs up to the cap.

- ***Senior Circuit Breaker ($60 million)*** – HWM doubles the base amount for the state's Senior Circuit Breaker, which provides a refundable tax credit to income-eligible seniors whose property taxes or rent exceeds a certain level. In 2022, the credit was capped at $1,200. This provision is identical to the 2022 tax bill and Governor Healey's proposal.

- ***Estate Tax ($231 million) –*** HWM increases the estate tax threshold to $2 million and provides a $2 million exclusion to all estates affected by the tax, which eliminates the 'cliff effect' and provides some tax benefit to all affected estates. This is the same proposal put forward by the Governor in 2022, under which all estates will have a $2 million exclusion. Governor Healey proposed increasing the threshold to $3 million and providing a uniform credit for all estates; MTF recommends upping the threshold to $5 million.

- ***Short-Term Capital Gains ($0 budget impact; $130 million fiscal impact when fully phased in)*** – HWM proposes a reduction to the state's short-term capital gains rate from 12 percent to 5 percent, phased in over two years. Under the plan, the current 12 percent rate will be reduced to 8 percent immediately and 5 percent in FY 2025.

- ***Earned Income Tax Credit ($91 million)*** – This proposal increases the state's match of the federal Earned Income Tax Credit from 30 percent to 40 percent. This proposal, not included in Governor Healey's plan, was passed by both the House and Senate in 2022.

- ***Single Sales Factor Apportionment ($79 million)*** – HWM proposes mandatory single sales factor apportionment for all corporate excise payors in Massachusetts. Currently, most industries pay corporate excise based on their share of sales, payroll, and property located in Massachusetts. The rationale for single sales, which is the standard in most other states, is to eliminate tax disincentives for maintaining payroll or property in the state. This provision is effective in tax year (TY) 2025 and has a first year cost of $115 million.

Comparison to Governor Healey and Prior Tax Proposals

The bill released from HWM includes some version of each of the major tax proposals put forward by Governor Healey, but also differs in both policy and implementation timelines.

Comparison of Tax Policy Differences

Tax Proposal	Policy	Timeline
Child tax credit	Same in both proposals	HWM phases in over three years
Rent deduction	Same in both proposals	Same
Senior circuit breaker	Same in both proposals	Same
Estate tax	HWM uses $2 million threshold; Governor Healey proposes $3 million.	Same
Short term capital gains	Same in both proposals	HWM phases in over two years
Earned Income Tax Credit	Included in HWM; not included in Governor Healey's plan	HWM implements immediately
Singe Sales Factor	Included in HWM; not included in Governor Healey's plan	HWM implements in TY 2025

Due to these differences, the two proposals have different costs, both in FY 2024 and on an annualized basis.

Comparison of Tax Plans, Fiscal Impact by Year

	FY 2024	FY 2025	Annualized
HWM	$654	$997	$1,089
Governor Healey	$742	$987	$987

$ in millions

The difference in the estimated annualized cost is due to HWM's inclusion of the EITC increase and mandatory single sales factor apportionment as well as the lower threshold on the estate tax.

Other Proposals

In addition to tax relief, the HWM bill also makes two major changes to state finance law relating to the Stabilization Fund and 62F tax rebates:

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- ***62F Tax Rebates*** – The HWM proposal does not adjust how the state calculates allowable tax revenue in a given year or the total amount of excess revenue to be returned to taxpayers under Chapter 62F. Instead, the bill requires that all taxpayers receive equal tax rebates when there is a determination of excess revenue. Currently, tax rebates are calculated as a percentage of tax paid, delivering larger rebates to those with higher tax liabilities. Under the HWM proposal, all rebates would be equal. This makes any Chapter 62F distribution highly progressive, as low wage earners would receive the same rebate as high wage earners. This is a fundamental change to the current purpose of the law, which is to return excess tax collections to taxpayers based on the amount of tax paid. In 2022, each taxpayer would have received about $965 if rebates were equalized.
- ***Stabilization Fund Cap*** – The HWM bill increases the statutory cap on the state's Stabilization Fund from 15 percent of budgeted revenues to 25.5 percent. Under current law, when the balance of the Stabilization Fund exceeds the 15 percent threshold, any overage is deposited into a tax reduction fund. Once authorized by the legislature, funds in this reserve can only be used to increase the personal exemption. In FY 2022, this change would have increased the allowable Stabilization Fund balance from $9.3 billion to $15.6 billion. Governor Healey's FY 2024 budget projects an end of year Stabilization Fund balance of $9.1 billion. The current 15 percent cap is somewhat arbitrary, however, an increase to the cap should be balanced with ongoing provisions to redirect surpluses to other long-term obligations (such as pension or retiree benefits) or ongoing tax relief.

Bottom Line

House Ways and Means, like Governor Healey, has put forward a significant tax proposal that includes major provisions to assist with affordability and begin to address elements of the tax code that incentivize relocation. The HWM plan shares the same themes and many of the same reforms as the tax recommendations put forward by MTF earlier in the year, though the estate tax proposal falls well short of the $3 million proposed by the Governor, let alone the higher thresholds in states like Vermont, Maine, Connecticut and New York.

As with the Governor's proposal, the HWM plan will not solve the demographic, cost, and outmigration challenges the state faces, but it reflects the need to take those challenges seriously and develop policy proposals in response.