



MTF Analysis of Senate Ways and Means Tax Proposal

Today, the Senate Committee on Ways and Means (SWM) released its tax relief proposal. The plan, which mirrors the tax bill passed by the Senate in 2022, includes seven major tax relief provisions and carries an estimated Fiscal Year (FY) 2024 cost of \$594 million.¹ Like Governor Healey’s proposal, the plan also includes a number of smaller tax provisions not addressed in the House bill, including an increase to the state’s Housing Development Incentive Program (HDIP) cap and adjustments to the Low Income Housing Tax Credit (LIHTC).

A strength of the SWM tax bill is its focus on housing. Reforms to the HDIP and LIHTC programs will incentivize the production of affordable rental housing and improve opportunities for home ownership. However, compared to the bills put forward by Governor Healey and the House, the proposal represents a step back. Its exclusion of capital gains tax reform and more limited estate tax and child and dependent tax credit relief undercuts its ability to meet two key goals: promote Massachusetts’ competitiveness and address high costs of living.

Annualized Cost of Recent Tax Proposals

	Senate 2022	Gov. Healey	House	SWM 2023
FY 2024 Revenue Impact	\$502	\$742	\$587	\$594
Annualized Revenue Impact	\$502	\$987	\$1,078	\$594

\$ in millions

Summary of the Proposal

The bill’s seven major provisions are as follows:

- ***Child and Dependent Tax Credit (\$164 million)*** – The SWM proposal creates a \$310 tax credit for all children 13 and under. This credit level, which was also proposed in the Senate’s 2022 plan, is \$290 less than the \$600 included in both Governor Healey’s and the House’s proposals. Like Governor Healey, the SWM bill increases the credit fully in tax year 2023. The House proposed increasing the credit to \$600 over the course of three years.

¹ MTF’s \$594M fiscal impact reflects a \$91M fiscal impact for a proposed EITC expansion. This is the same fiscal impact assumed for the same proposed change in 2022 and in the House proposal. SWM estimates this change at \$85M and therefore the impact of the entire proposal at \$588M.



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All three proposals eliminate the two dependent cap which applies to the current child and dependent credits.

- **Senior Circuit Breaker (\$60 million)** – SWM, like the previous two proposals, 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 exceed a certain level. In 2022, the credit was capped at \$1,200. This provision is identical to the 2022 tax bill passed by the Senate and Governor Healey’s proposal.
- **Rent Deduction (\$40 million)** – SWM increases the state’s maximum rent deduction from \$3,000 to \$4,000, matching the Governor and House. Renters can deduct 50 percent of annual rent costs up to the cap.
- **Estate Tax (\$185 million)** – SWM increases the estate tax threshold to \$2 million and provides all estates with a \$99,600 credit to mitigate the ‘cliff effect’ for estates valued at just over \$2 million. The SWM proposal provides the smallest level of estate tax relief of the three proposals because it adopts a lower threshold than the Governor and does not include the House’s proposal to provide all estates with a \$2 million exclusion.

Comparison of Estate Tax Proposals

	Gov. Healey	House	SWM
Estate Threshold	\$3 million	\$2 million	\$2 million
Credit/Exclusion	\$182K credit	\$2 million exclusion	\$99.6K credit
Revenue Impact	\$275 million	\$231 million	\$185 million

- **Earned Income Tax Credit (\$91 million)** – SWM proposes increasing the state’s match of the federal Earned Income Tax Credit (EITC) from 30 percent to 40 percent. The House also proposed this EITC expansion, while it was not included in Governor Healey’s proposal.
- **Housing Development Incentive Program (\$20 million)** – SWM increases the statewide cap for HDIP from \$10 million to \$57 million in FY 2024, and then to \$30 million annually in the following years. Governor Healey proposed a similar increase to the HDIP program in her tax bill, but this provision was not included by the House.



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- **Low-Income Housing Tax Credit (\$20 million)** – SWM proposes to increase the annual authorization for the state’s low-income housing tax credit from \$40 million to \$60 million. The low-income housing tax credit promotes the building and rehabilitation of affordable rental housing across the Commonwealth.

Policy Comparison of Major Tax Proposals to Date

	Governor	House	SWM
Child Tax Credit	\$600 credit/ no cap	\$600 credit/ no cap	\$310 credit/no cap
Rent Deduction	Increase cap to \$4K	Increase cap to \$4K	Increase cap to \$4K
Senior Circuit Breaker	Double base credit	Double base credit	Double base credit
EITC	Not included	Increase match to 40% of fed	Increase match to 40% of fed
Estate Tax	\$3M threshold with credit	\$2M threshold with exclusion	\$2M threshold with credit
Housing Development Incentive Program	\$50M cap in FY 2024, \$30M annually	Not included	\$57M cap in FY 2024, \$30M annually
Low-Income Housing Tax Credit	Not included	Not included	Increase cap to \$60M
Short Term Capital Gains	Reduction to 5%	Reduction to 5%	Not included
Mandatory Single Sales	Not included	Mandatory	Not included
Phase In	All effective TY 2023	Provisions phased in	All effective TY 2023

In addition to the seven major provisions of the Senate plan, SWM also includes eight smaller tax changes with an estimated fiscal impact of \$14 million. Seven of the proposals are identical to proposals in Governor Healey’s tax bill, while the SWM Title V credit expansion goes further than the Administration’s proposal. SWM proposes:

- Tripling the maximum credit amount for septic tank replacement or repair from \$6,000 to \$18,000. Governor Healey proposed doubling the maximum credit;
- Expanding the state’s apprenticeship tax credit and doubling the statewide cap to \$5 million;
- Exempting employer student loan assistance from state taxable income;
- Expanding commuter benefits to regional transit and bike commuter expenses;



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- Extending the state’s brownfields tax credit through 2028;
- Doubling tax credits for lead paint remediation;
- Updating alcohol thresholds for taxation of ciders and still wines; and
- Increasing the cap on the state’s dairy tax credit from \$6 million to \$8 million.

The House budget also extends the Brownfields Tax Credit through 2028. The other proposals are not included in the House tax bill or budget.

Fiscal Comparison of the Tax Proposals To Date

The SWM bill has the smallest fiscal impact of the three tax relief proposals, both in FY 2024 and on an annualized basis.

Comparison of Tax Policy Fiscal Impact

	Governor	House	SWM
Child Tax Credit	\$458	\$458	\$164
EITC	\$0	\$91	\$91
Senior Circuit Breaker	\$60	\$60	\$60
Rent Deduction	\$40	\$40	\$40
Estate Tax	\$275	\$231	\$185
Housing Development Incentive Program	\$0	\$0	\$20
Low-Income Housing Tax Credit	\$0	\$0	\$20
Short Term Capital Gains	\$117	\$130	\$0
Mandatory Single Sales	\$0	\$79	\$0
Other Changes	\$37	\$0	\$14
FY 2024 Budget Impact	\$742	\$587	\$594
Annualized Fiscal Impact	\$987	\$1,089	\$594

\$ in millions/fiscal impacts of tax proposals presented on an annualized basis

Other Proposals

In addition to the tax changes described above, the SWM bill also includes several other notable policy proposals:

- ***Pass-Through Entity Study*** – SWM includes a provision requiring the Department of Revenue to assess the feasibility of expanding the state’s pass-through entity (PTE) tax to



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apply to income subject to the four percent surtax. The current tax, which enables tax filers to mitigate the impact of the federal limit on the deductibility of state and local taxes, is set at 5 percent, which means that the benefit will not apply to income over \$1 million. Expanding the PTE tax would reduce the impact of the surtax on Massachusetts residents at no cost to the state. This study is an important step in figuring out how to expand the credit effectively and efficiently.

- **62F Reporting** – SWM includes a new policy section requiring the Comptroller to report monthly to the Legislature on net state tax revenue collections, including an estimate of if and when revenues may exceed the allowable state tax revenue threshold under Chapter 62F of the Massachusetts General Laws. The SWM proposal does not change the calculation of the 62F threshold or the distribution of the credit.
- **Local Option Property Tax Exemption for Affordable Housing** – SWM includes language permitting municipalities to adopt a local property tax exemption for real estate that is being rented by an individual whose income is less than 130 percent of the area median income.
- **Advanced Payment of Child and Dependent Tax Credit Study** – SWM directs the Executive Office of Administration and Finance to study the feasibility of creating a program to provide advanced quarterly payments of the child and dependent tax credit to qualified taxpayers. The study must include an operational plan describing how the Department of Revenue could create and maintain the program, legislative recommendations to support its establishment, and other credits that may be suitable for advanced quarterly payments.

Next Steps

The Senate will debate the SWM tax proposal next week when it will consider amendments to the bill. The House tax debate was uneventful and the original House Ways and Means proposal remained unchanged. Members filed 26 amendments, but 24 were withdrawn and two were rejected.

Once the Senate debate is complete, the House and Senate tax bills will likely be resolved through a Conference Committee.

Bottom Line

Unlike the House and the Administration, the SWM tax proposal is largely unchanged from the proposal passed by its members last year. There are a number of good tax policy proposals included in the SWM bill, many of which were recommended by MTF earlier in the year. But its exclusion or limitation of major provisions included in other proposals are significant flaws.



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If the Senate adopts a final bill that is generally in line with the SWM proposal, there will be major differences between the two proposals that need to be resolved, all while the FY 2024 budget is being finalized. The priorities for any final bill must remain tax relief that reduces costs for Massachusetts families and meaningfully addresses outlier taxes.