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MTF Bulletin

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The Tax Growth Limitation Ballot Question

A Primer for Understanding the Question and Potential Impacts

On March 30th, the Special Joint Committee on Initiative Petitions heard testimony on H.5006 *An Act Relative to Limiting State Tax Collection Growth and Returning Surpluses to Taxpayers*. MTF was asked to provide expert testimony on the proposal, which would change the calculation of the state's limit on tax collection growth (established in Chapter 62F of the Massachusetts General Laws) and make refunds of excess revenue collections to taxpayers more likely. This bulletin explains what the ballot question proposes and then provides an overview of:

- The recent history of the 62F cap;
- The impact of the question on the maximum tax collections cap;
- The impact of the question on residents and the state economy; and
- The impact of the question on public finances.

This Bulletin is intended to provide information and context essential for policymakers and the public.

Understanding the Ballot Question

Chapter 62F of the Massachusetts General Laws creates a process to provide taxpayers with tax refunds if actual state tax collections exceed a computed level (the “maximum tax collections cap.”) The ballot question makes two changes related to the Chapter 62F process: (1) it adjusts the calculation of maximum tax collections to align with actual tax collections from the prior year, and (2) it includes revenues from the state's income surtax in the definitions of actual and maximum tax collections.

Calculation of Maximum Tax Collections

Currently, the maximum tax collections cap is calculated by multiplying the prior year's cap by the three-year average growth rate of wages and salaries in Massachusetts, as published by the Bureau of Economic Analysis. The original cap was equal to tax collections in Fiscal Year (FY) 1986 (when the law went into effect), and since that time, the cap has simply been adjusted for wage and salary growth each year. This means that there is no direct relationship between the calculation of the maximum tax collection cap and actual tax collections in a given year.

The ballot question would make the cap equal to actual collections in the prior fiscal year, multiplied by the three-year average of wage and salary growth. Effectively, the cap would be reset each year and be limited to prior year collections plus a growth factor.

Comparison of Current v. Proposed Calculation of Maximum Tax Revenues¹

	Current Status	Proposed Change
Base Tax Collection Year	FY 1986	Last completed fiscal year
Adjustment Factor	3-year average of MA wage and salary growth	3-year average of MA wage and salary growth
FY 2025 Maximum Tax Collections Cap	\$46.4B	\$41.5B

As demonstrated in the table above, calculating the maximum tax collections cap based on actual prior year collections is likely to sharply reduce the 62F limit, as the current level of actual tax collections has fallen short of 1986 collections adjusted for wage and salary growth.

Calculation of State Tax Revenues

The question also changes the calculation of actual and maximum tax collections to include revenues from the state’s income surtax. Under the process established in the FY 2024 state budget to collect and spend surtax revenues, policymakers excluded the tax from the 62F calculation. The ballot question would include surtax collections in the 62F calculation beginning in FY 2027. Including the surtax would increase both actual collections and the maximum cap.

Using the FY 2025 example from above, the inclusion of the surtax would have slightly increased the amount by which the state exceeded the maximum tax collections cap under the calculation proposed by the ballot question.

Impact of Surtax on 62F Calculation as Proposed by Ballot Question

	Proposed (without Surtax)	Proposed (with Surtax)
FY 2025 Maximum Tax Collections Cap	\$41,472	\$44,012
FY 2025 Actual Tax Collections	\$41,683	\$44,670
Amount Over Cap	\$211	\$658

\$ in millions

Recent History of 62F Maximum Tax Collections Cap

The 62F maximum tax collections cap was put in place 40 years ago, and after being triggered in FY 1987, lay dormant – and largely forgotten about – for several decades. That dormancy changed in FY 2022 when state

¹ This table does not include surtax collections in the calculation of the new cap.

revenue collections grew by about \$7 billion (20.1%) in a single year.² That unprecedented growth led to collections exceeding the 62F cap by nearly \$3 billion. The Auditor certified excess revenues in September of 2022, and the Baker administration provided refunds to taxpayers in November of the same year. Refund payments were provided proportionately to eligible taxpayers' income tax liability from the most recently completed tax year.

FY 2022 Determination of Maximum Tax Collections

	FY 2022
Actual Tax Collections	\$41,813
Maximum Tax Collections	\$38,871
Amount Over Cap	\$2,941
Refund as a share of tax liability	13%

\$ in millions

After the 62F payments were made, budget writers made two changes to how the future maximum tax collections cap would be calculated and refunds paid:

- In the FY 2024 budget, lawmakers excluded all income surtax revenues from the 62F maximum tax collections cap calculation;
- In tax relief legislation signed into law in October of 2023, lawmakers changed the calculation of the rebates to make them equal for all taxpayers.

Since FY 2022, tax revenue collections have remained relatively flat, with most growth occurring in the income surtax, which is not part of the 62F maximum tax collections cap calculation. As such, actual revenue collections have fallen well short of the maximum cap in each year.

FY 2022 through FY 2025 Maximum Tax Collections Cap Calculation

	Maximum Cap	Actual Collections	Difference
FY 2022	\$38,871	\$41,813	\$2,941
FY 2023	\$41,161	\$36,924	-\$4,237
FY 2024	\$44,131	\$39,457	-\$4,674
FY 2025	\$46,385	\$41,683	-\$4,702

\$ in millions

The Impact of the Question on the 62F Calculation

Given that the ballot question proposes two meaningful changes to the 62F law, this brief considers the impact of each proposed change on the 62F calculation separately.

² Tax collections as used for the purposes of 62F differ slightly from tax collection totals used in state financial statements. Using financial statement tax data, FY 2022 taxes grew by just under \$7 billion over FY 2021.

Tying the Maximum Tax Collections Cap to Prior Year Collections

The proposed change to rebase the maximum tax collections cap by tying it to prior year revenue collections increases the likelihood that the cap is triggered in a given year. Because the current cap is only tied to FY 1986 collections, adjusted for wage and salary growth, it adjusts irrespective of current tax collection trends. Under the ballot question proposal, the cap will be triggered in any year when tax collections grow faster than the three-year average for wage and salary growth. To illustrate this, the table below shows that over the last 10 years, the maximum tax collections cap would have been exceeded four times based on the proposed calculation (but setting aside the surtax proposal).

Comparison of Current Law v. Ballot Question Proposal

Current Law			Proposed			
	Actual Collections (No Surtax)	Maximum Cap	Actual v. Cap	Actual Collections (No Surtax)	Maximum Cap	Actual v. Cap
FY 2016	\$25,802	\$29,477	-\$3,675	\$25,802	\$26,503	-\$701
FY 2017	\$26,044	\$31,095	-\$5,051	\$26,044	\$27,218	-\$1,174
FY 2018	\$28,179	\$32,531	-\$4,353	\$28,179	\$27,247	\$931
FY 2019	\$30,203	\$33,977	-\$3,775	\$29,271	\$29,431	-\$160
FY 2020	\$30,164	\$35,515	-\$5,351	\$30,164	\$30,596	-\$431
FY 2021	\$34,656	\$36,790	-\$2,134	\$34,656	\$31,247	\$3,409
FY 2022	\$41,813	\$38,871	\$2,941	\$38,404	\$36,616	\$1,788
FY 2023	\$36,924	\$41,161	-\$4,237	\$35,137	\$40,666	-\$5,529
FY 2024	\$39,457	\$44,131	-\$4,674	\$39,457	\$37,672	\$1,786
FY 2025	\$41,683	\$46,385	-\$4,702	\$39,898	\$41,472	-\$1,575

\$ in millions, Italics and highlighting denote years in which the maximum tax collections cap is triggered

The comparison of the current law versus the proposal is more complicated than it might appear because any 62F refund must be deducted from tax collections in the subsequent fiscal year. In FY 2023, for example, the \$36.9 billion in actual collections accounts for the \$2.9 billion in 62F tax refunds paid out to filers.³ Because the maximum tax collections cap is exceeded more often under the “proposed” scenario, actual tax collection totals for some years differ in the table above.

As the table shows, if the proposal to tie the maximum tax collections cap to prior year collections had been in effect over the last 10 years, collections would have exceeded the limit four times with refunds totaling \$7.9 billion. If the surtax change is also included, the 2024 refund would have been \$3.9 billion, bringing total refunds to \$10.1 billion.

³ Tax collections exceeded the maximum tax collection limit by \$2.941 billion in FY 2022, while 62F refunds totaled \$2.879 billion.

Including Surtax Resources

The inclusion of the surtax in the calculation of actual and maximum tax collections will primarily affect the possibility of refunds due to the potential volatility of that revenue source. The fact that the ballot question also ties each year's maximum tax collections cap to the prior year's collections actually makes the inclusion of the surtax in the Chapter 62F calculation less impactful.

Under the current 62F calculation, the inclusion of the surtax would increase the likelihood of taxpayer refunds a great deal, as it would add about \$3 billion to actual collections, without affecting the maximum tax collections cap at all. Under the ballot question, the maximum collections cap used in FY 2027 would be based on FY 2026 revenues, including the surtax. Therefore, year-over-year growth in the surtax would impact the likelihood of 62F refunds, but the majority of surtax revenues would be factored into both the cap and actual collections.

To illustrate the impact of the surtax provision of the ballot question, we can model what the 62F calculation would have been in FY 2025 if surtax revenue had been included in the maximum tax collections cap (based on FY 2024 collections) and actual collections.

Modeling the Surtax Provision of the Ballot Question in FY 2025

	Current	Proposed
FY 2025 Maximum Cap	\$46,385	\$44,012
FY 2025 Collections (with surtax)	\$41,683	\$40,728
Actual v. Cap	-\$4,702	-\$3,284

\$ in millions

As demonstrated, even with the addition of the surtax in the calculation, 62F refunds would not have been triggered in FY 2025 based on the ballot proposal. The inclusion of the surtax would have triggered a large 62F refund in FY 2024 under the ballot question, as actual collections would have included \$2.4 billion in surtax revenue, while the cap would have accounted for very little surtax revenue. That FY 2024 refund reduces FY 2025 collections in the proposed column above. Going forward, including the surtax in both the maximum tax collections cap calculation and actual collections will limit the impact.

The real impact of the surtax would be to amplify the sensitivity of the new 62F maximum tax collections cap calculation to economic cycles. It is expected that surtax collections will be highly sensitive to the economy and the stock market, similar to capital gains collections. Therefore, in a down economic cycle, the maximum tax collections cap would fall dramatically, making refunds more likely in an economic recovery year.

Impact on Residents and the Economy

While the unpredictability of future tax collections makes accurate projections of future refunds under Chapter 62F impossible, the proposed changes will increase the frequency of refunds for taxpayers. The

revenues returned to taxpayers would cycle through the economy via private spending, providing a level of economic benefit to the Commonwealth.

Taxpayer refunds due to Chapter 62F would vary depending on the level of excess collections. Looking at how the new maximum tax collections cap would have worked over the last ten years, refunds in the four years the cap would have been triggered range from \$269 to \$1,095 per tax filer. The average refund amount would have been \$701.

Projected Refunds for Tax Filers based on Proposed Cap Calculation Change⁴

Year	62F Overage	Prior Year Filers	Per Filer Refund
FY 2018	\$931	3,457,190	\$269
FY 2021	\$3,409	3,646,160	\$935
FY 2022	\$1,788	3,551,710	\$503
FY 2024	\$3,942	3,600,000 ⁵	\$1,095

\$ in millions

In FY 2022, 62F refunds were proportionate to a filer’s tax year 2021 income, but refunds are now required to be evenly distributed to all filers. Therefore, the nominal taxpayer benefit of increased rebates would be equal for all filers, but proportionately larger for lower-income residents.

The broader economic impact of increased 62F refunds is hard to forecast for several reasons. First, as is the case with the income tax reduction proposal, near-term economic impacts would likely be subordinate to larger economic trends. This appears to be borne out by the state’s most recent 62F experience. The state returned close to \$3 billion to taxpayers in lump sum checks in November of 2022. However, state tax revenue data does not indicate a notable boost in spending subject to sales tax when the refunds occurred.

Sales Tax Collections, November/December 2021 v. 2022

	FY 2022	FY 2023	Growth
November	\$772	\$780	1.04%
December	\$771	\$800	3.76%
Total	\$1,543	\$1,580	2.40%

\$ in millions

The economic impact of the 62F maximum tax collections cap calculation change would also be affected by potentially reduced state spending and lower state reserves. As with the proposal to reduce the income tax, the positive economic impact would come from refunds that are then spent in the state’s economy by residents and businesses. The state, however, would likely reduce spending in years with a refund or reduce

⁴ This table reflects the inclusion of the surtax change for the calculated refund in FY 2024.

⁵ Estimate of tax filers in tax year 2024.

deposits into the state’s Rainy Day Fund, which by law receives end-of-year budget surpluses. These public finance decisions would offset some of the private sector economic impact.

Impact of the Ballot Question on Public Finances

Lowering the bar for triggering excess tax collection refunds would have several public finance impacts. This section assesses those impacts by examining how the change could affect end-of-year fiscal decisions and recession recovery, but we begin by looking at whether the ballot question is likely to affect spending growth in the budget development process.

One potential rationale for the changes proposed by the ballot question is to provide a constraint on state budget spending as it is being put together. However, the differing timelines of the budget development process and the 62F certification make the impact of the ballot question on spending growth uncertain.

As described above, when Chapter 62F refunds are determined necessary, the amount of those refunds is deducted from actual tax collections in the following fiscal year (for example, FY 2022 refunds were deducted from FY 2023 actual tax collections). Therefore, if policymakers anticipate having to pay out refunds at the end of one fiscal year, they may choose to reduce tax revenue expectations while developing the next year’s budget to reflect a refund payment; a reduced revenue estimate could limit spending growth in the state budget.

However, the timeline of the budget development process would make 62F refund adjustments problematic. Policymakers establish the estimate for revenue collections in the upcoming fiscal year—which serves as the revenue foundation for the budget development process—in January. This estimate is known as the consensus revenue agreement, and it is made six months before the end of the current fiscal year and eight months before the Auditor completes the Chapter 62F certification to determine if refunds are required. At that time, budget writers do not have the information necessary to accurately assess the likelihood or amount of a future refund.

It is possible that this lack of information would incentivize budget writers to use more conservative tax revenue estimates at the start of the budget development process and reduce spending accordingly; though recent history shows that consensus revenue growth estimates have been conservative relative to wage and salary growth.

Consensus Revenue Growth Assumption v. Wage and Salary Growth

	Consensus Revenue Growth Assumption	Three-Year Wage and Salary Growth
FY 2021	2.8%	3.6%
FY 2022	3.5%	5.7%
FY 2023	2.7%	5.9%
FY 2024	1.6%	7.2%
FY 2025	2.0%	5.1%
Average	2.5%	5.5%

It is possible that proposed budgets would make other spending adjustments to account for 62F uncertainty, but it is more likely that the potential for 62F refunds would affect fiscal decisions at the end of the fiscal year.

End-of-Year Fiscal Decisions

The timeline of 62F certifications presents public finance challenges. The Auditor’s certification of tax revenue collections subject to the maximum tax collections cap happens in September, right when the state is managing three different fiscal years: closing the books on the prior fiscal year, one quarter into the new fiscal year, and starting the subsequent year’s budget development process.

Because of that timing, lawmakers will be reluctant to make end-of-year decisions until they know whether or not refunds will be made and at what amount. Final information will not be available until the Auditor’s certification, and even a rough estimate would not be possible until June revenues are finalized, which happened on August 8th in 2025. This timing would delay closing the books, but more importantly would impact how resources are used at the end of the year.

Currently, when the state ends the year with a sizable tax surplus, those resources are used for three things:

- Balancing the books in the current fiscal year to account for unexpected costs or non-tax revenue shortfalls;
- Moving resources into the next fiscal year to help balance the upcoming budget;
- Building the Rainy Day Fund balance or paying down other long-term liabilities.

In a year with a 62F refund, lawmakers will still need to ensure that the current fiscal year remains in balance, but their ability to use surplus resources to help with the next year’s budget or build reserve balances will be greatly reduced.

Looking at the last 10 years gives an indication of how increased 62F refunds might affect the state’s Rainy Day Fund. In the four years in which \$10.1 billion in 62F refunds would have been made, the state made \$4.6 billion in Rainy Day Fund deposits. In three of the years, the amount of the 62F refund would have exceeded the Rainy Day Fund deposit. It is fair to surmise that if those 62F refunds had occurred, the state’s current \$8.3 billion Rainy Day Fund balance would be significantly lower.

Potential 62F Refunds v. Actual Rainy Day Fund Deposits (FY 2016 – FY 2025)

Year	62F Excess (Proposed)	Stabilization Fund Deposit (Actual)
FY 2018	\$931	\$700
FY 2021	\$3,409	\$1,125
FY 2022	\$1,788	\$2,312
FY 2024	\$3,942	\$488

\$ in millions

Recession Recovery

The final public finance impact of the proposed ballot question is that it would significantly limit state revenue growth following major recessions. Because the ballot question proposes setting the maximum tax collections cap based on prior year collections, and growing that cap based on wage and salary growth each year, any year in which collections grow by more than wage and salary growth will trigger the cap. Growth of that level will occur, almost by definition, when the state is emerging from a major recession.

Impact of Proposed 62F Cap on Great Recession Recovery

	Actual Tax Collections	Revenue Growth	62F Growth
FY 2008	\$21,009		
FY 2009	\$18,513	-11.9%	5.2%
FY 2010	\$18,792	1.5%	1.5%
FY 2011	\$20,776	10.6%	0.4%

\$ in millions

The Great Recession provides an example of this phenomenon. After a large drop in revenues in FY 2009 and flat collections in FY 2010, tax collections rebounded in FY 2011, growing by 10.6 percent. However, if the ballot question had been in effect, FY 2011 revenue growth would have been limited to 0.4 percent over the prior year – about \$2 billion less than the state collected prior to the recession.

The annual rebasing of the 62F maximum tax collections cap, tied to actual collections, would place strong downward pressure on tax collections as recessions turn to recovery. This fact would make it harder for the state to rebuild reserves or restore recession-era cuts.

Bottom Line

The proposed ballot question would make two major changes to the state’s current 62F process. Of those changes, tying the annual maximum tax collections cap to prior year collections would have a dramatic impact on the implementation of the law.

We find that:

- Had the proposed policy been in place over the last 10 years, the maximum tax collections cap would have been exceeded four times, as opposed to once;
- Going forward, lawmakers could expect a 62F refund in any year in which tax collections grew by more than the three-year average of wage and salary growth in Massachusetts;
- The increased frequency of refunds would have provided about \$7 billion in additional refunds to taxpayers, without accounting for the surtax;
- Increased refunds would increase private economic activity, though those positive impacts could be offset depending on the public finance decisions made as a result of the 62F refund payments; and
- The proposed changes would likely reduce Rainy Day fund deposits over the long term and increase fiscal constraints during economic recoveries.