



Massachusetts 4% Surtax on High Income

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Three topics

- **Origins** of the Massachusetts “millionaire tax”
- **Debates** over policy
- **Investments** resulting from new revenue



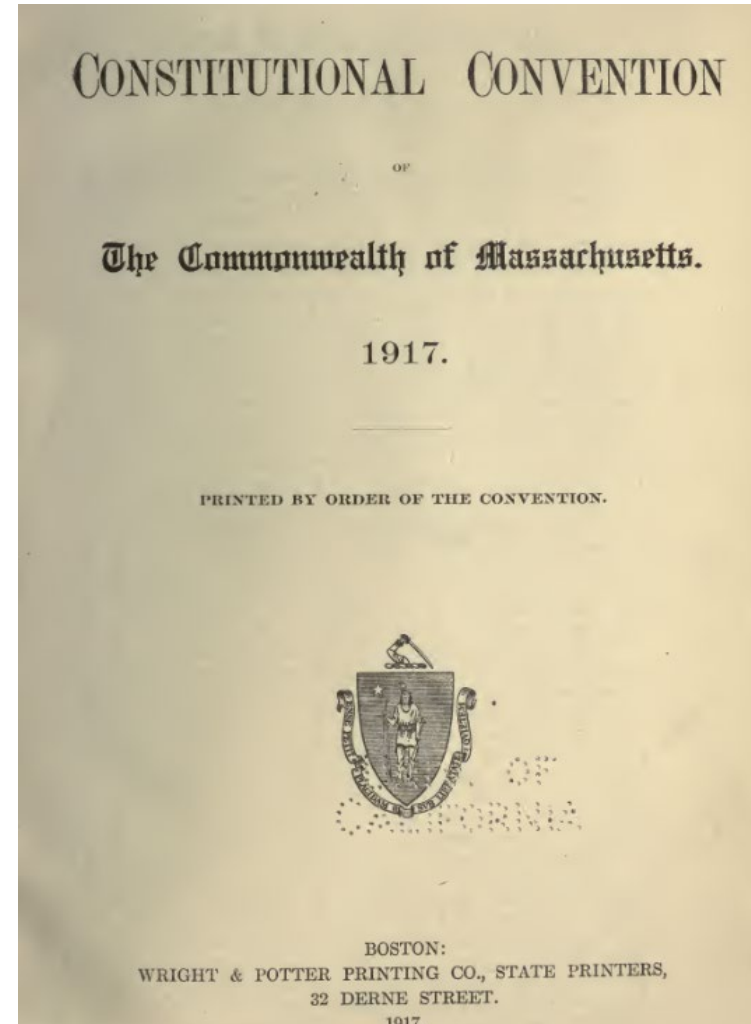
Origins of Fair Share Amendment

- 1916 constitutional prohibition
- Investment needs
- Rising economic inequality
- Demand for racial equity

1917-1919 Constitutional Convention forbade graduate income tax rates

Article XLIV.

Full power and authority are hereby given and granted to the general court to impose and levy a tax on income in the manner hereinafter provided. Such tax may be at different rates upon income derived from different classes of property, but shall be levied at a uniform rate throughout the commonwealth upon incomes derived from the same class of property.



Massachusetts has many needs for education and transportation investment

Higher education access and investment

Free community college

Achieve commitments for K-12 investment

High-quality vocational education

Mental health support for students

Early education for all

Fix public transit systems statewide

New rail connections between cities

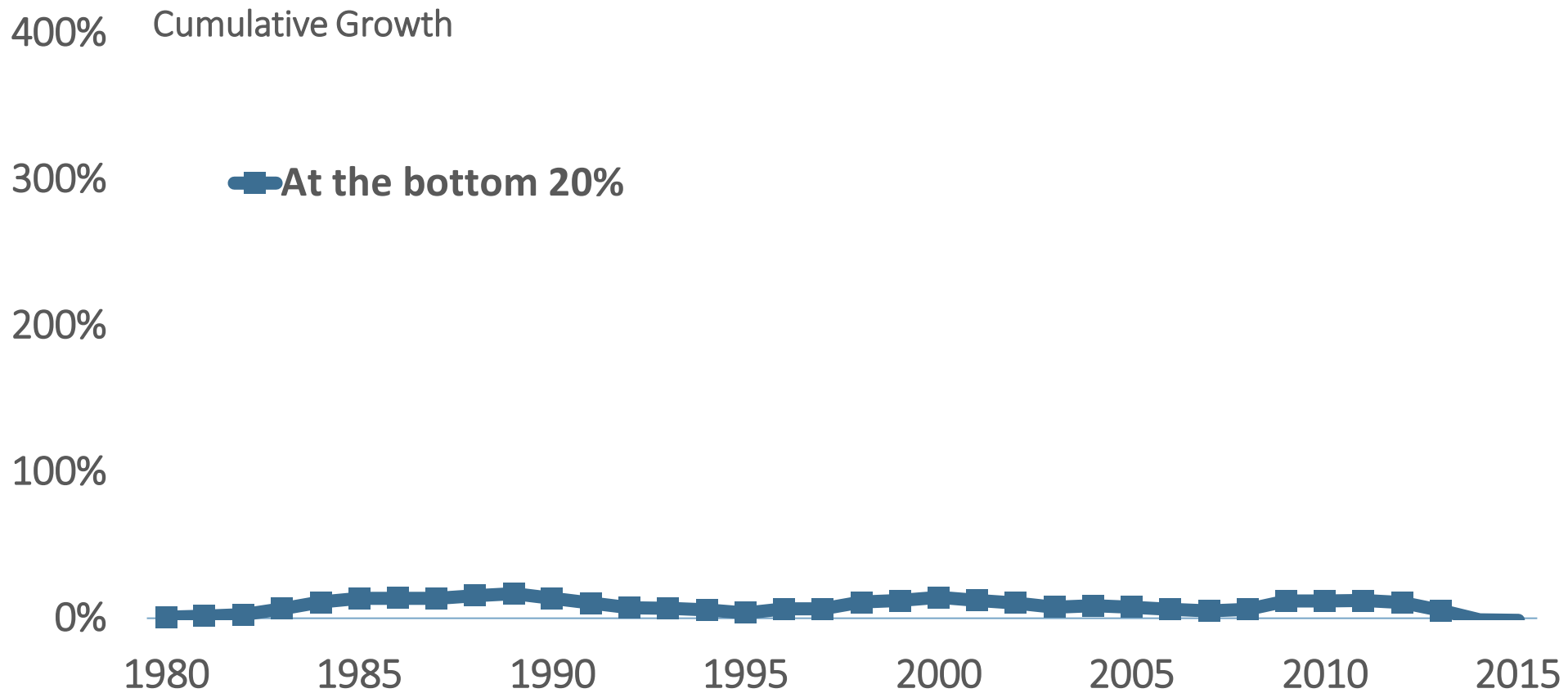
Free and reduced transit fares

Fix structurally deficient bridges

Invest in alternatives to driving

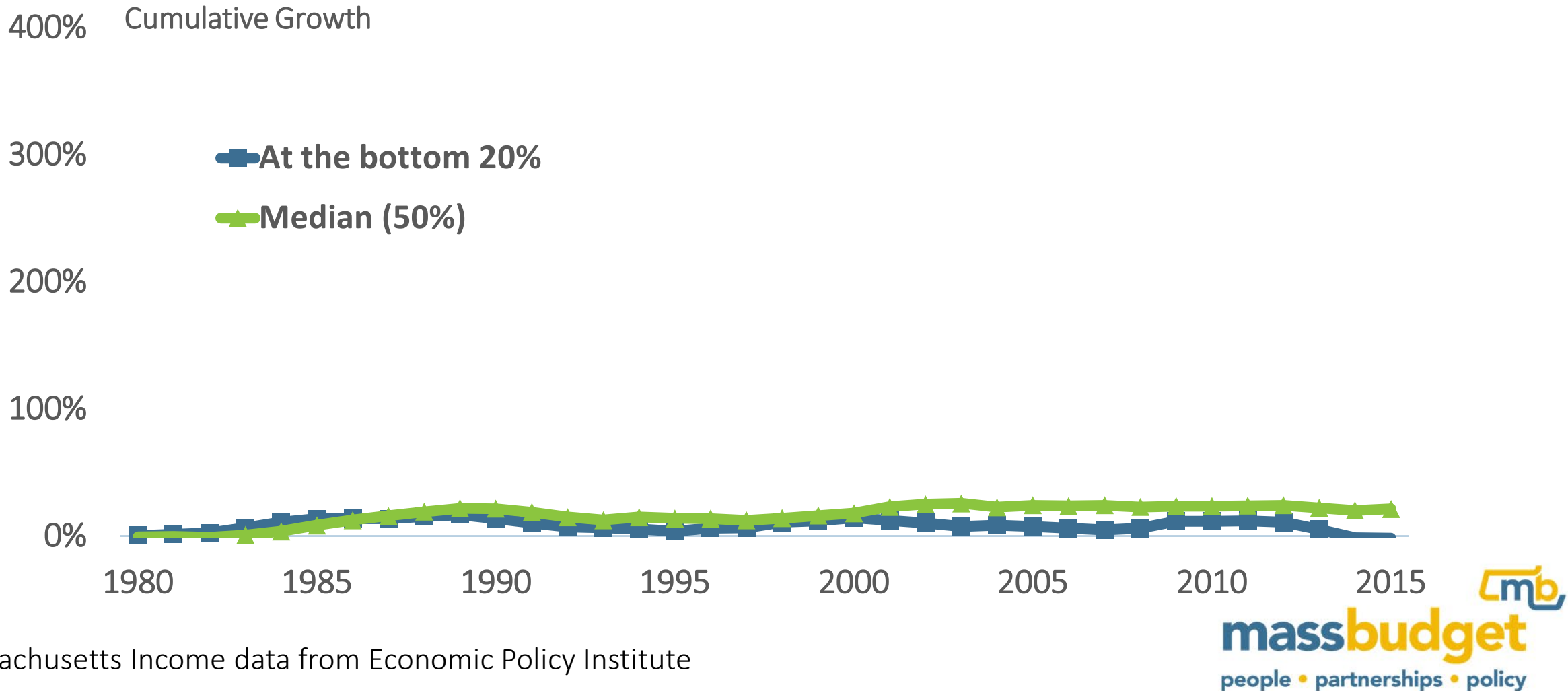
Create low-carbon vehicle infrastructure

Massachusetts Incomes at the bottom stagnated

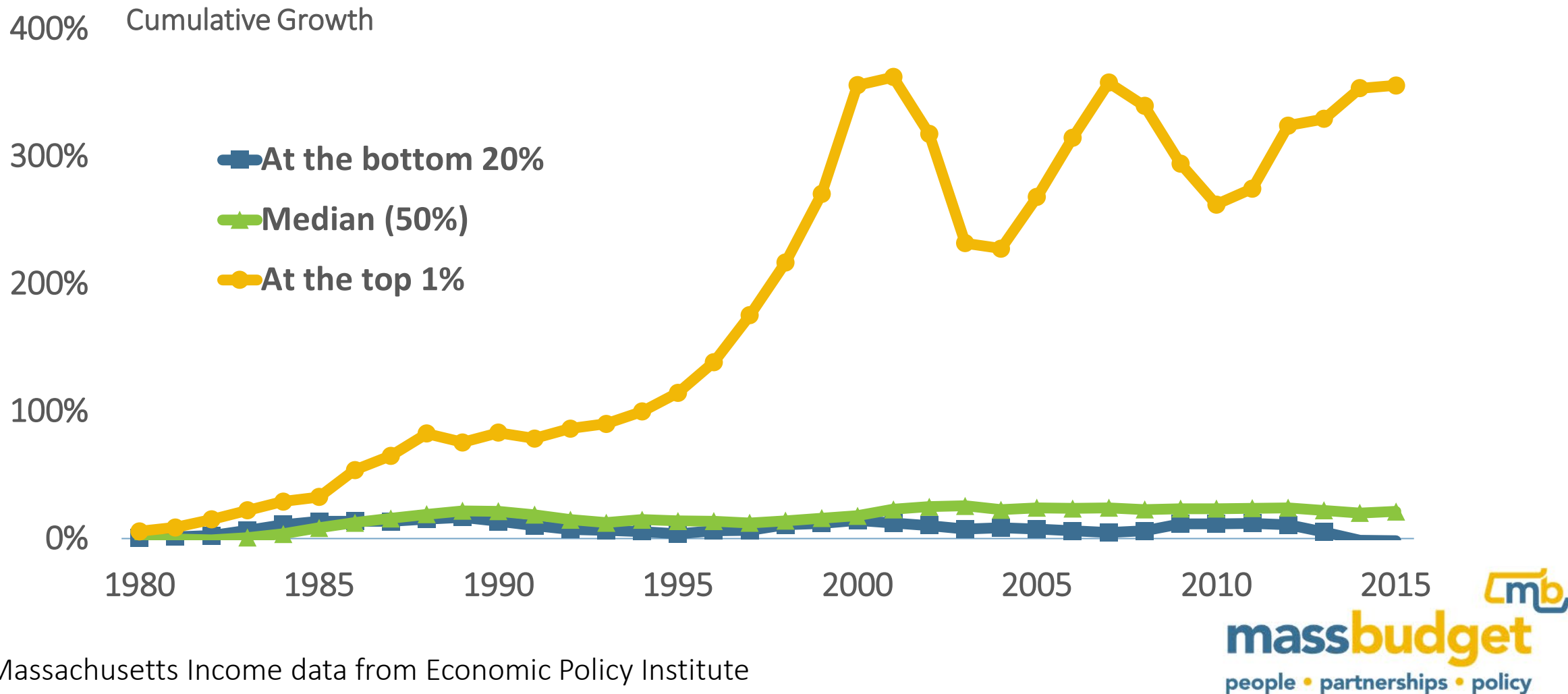


Massachusetts Income data from Economic Policy Institute

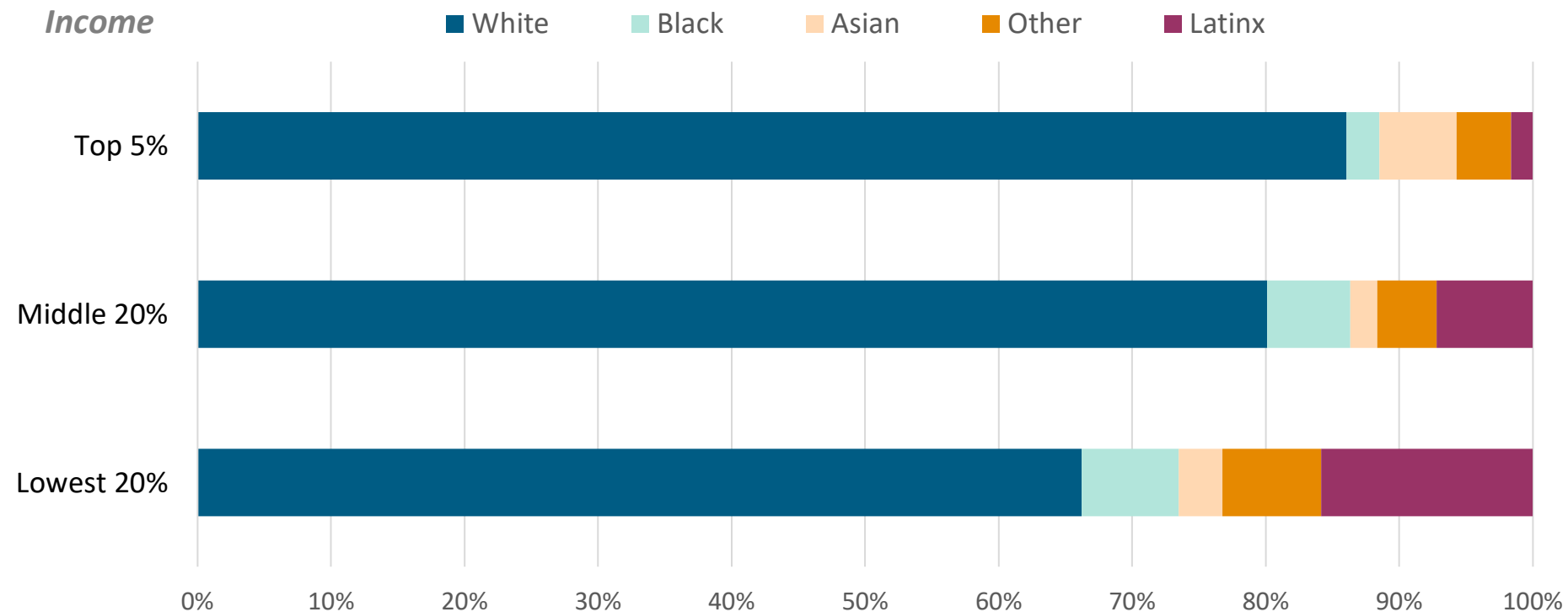
Massachusetts Incomes at the middle stagnated



Economic growth has benefited people at the top much more



Black and Latinx Taxpayers Tend to Be in Income Groups Paying Larger Portion of Income in State and Local Taxes



Source: Institute on Taxation and Economic Policy (2018)

Fair Share Amendment is one paragraph

To provide the resources for quality public education and affordable public colleges and universities, and for the repair and maintenance of roads, bridges and public transportation, all revenues received in accordance with this paragraph shall be expended, subject to appropriation, only for these purposes. In addition to the taxes on income otherwise authorized under this Article, there shall be an additional tax of 4 percent on that portion of annual taxable income in excess of \$1,000,000 (one million dollars) reported on any return related to those taxes. To ensure that this additional tax continues to apply only to the commonwealth's highest income taxpayers, this \$1,000,000 (one million dollars) income level shall be adjusted annually to reflect any increases in the cost of living by the same method used for federal income tax brackets. This paragraph shall apply to all tax years beginning on or after January 1, 2023.



Debating the Fair Share Amendment

- Misunderstanding marginal rates
- Who would pay?
- Millionaire migrants or embedded elites

Misunderstanding marginal rates

- Fair Share resulted in only a modest increase in the overall tax rate paid by most very high-income families. The surtax applies only to the portion of income *above* \$1 million.
- Example: For a household with \$1.5 million in income, for example, they would be taxed at a rate of 5 percent on their first \$1 million of taxable income and 9 percent on the remaining \$500,000. The combined result would be that their overall tax rate would rise from the current flat rate of 5 percent to 6.3 percent.
- Far cry from opponents' claims that Fair Share would “almost double” the top tax.



Who would pay

- Fair Share would apply to fewer than 7 in every thousand tax filers.
- *Not* a tax on businesses

Pass-through entities

- S-corporations, partnerships, trusts, and similar pass-through entities “pass” net profits to the owners or partners, who then pay taxes on these profits through their personal income tax filings. Though these corporate forms were historically created with small business in mind, tax filers with pass-through income and income over \$1 million are not representative of small business.
- Just 2.6 percent of all tax filers with any pass-through income are estimated to pay Fair Share.
- However, a U.S. Treasury analysis found that less than half of people who claim pass-through income on their taxes conduct traditional business activity at all – instead many are merely passive investors.
- Some are very large companies, such as Fidelity Investments.

One-time millionaires: rare and generally barely affected

- The largest, most recent, and in-depth study of income tax filers with income over \$1 million finds that only 15 percent of those filers crossed that threshold in just one of the 13 years studied. Most tax filers with million-dollar incomes have high income levels for years at a time.
- For households that have an annual income over \$1 million, their income in prior and subsequent years also tends to average in the top 1 percent of incomes.
- The selling of an asset such as a house or a business can generate taxable income from the gain on the sale, but data shows asset sales are typically a small part of pushing incomes over the edge of \$1 million. It is vethat middle-class earners selling a long-time home or business will have taxable “one-time” income over \$1 million.
- Massachusetts Department of Revenue analysis projected that tax filers with annual incomes over \$5 million would pay fully 70 percent of all the Fair Share tax each year. Ninety percent of the Fair Share revenue would be paid by people with annual incomes over \$2 million.

Evidence: Millionaire tax migration is largely a myth

- Strongest research evidence shows high-income tax flight occurs, “only at the margins of statistical and socioeconomic significance.”
- Those migrating are disproportionately low/middle income and younger.
- Most people leave for housing, family, job reasons – not taxes.
- Wealthy filers and their families tend to be more embedded in local networks and business connections
- Current administration sees “no evidence” of a bump in high-income outmigration.
- The conclusive administrative data couldn’t be until after October 15.
- Official revenue estimate for FY 2025 is 30% *increase* above FY 2024.



Investments

What public investments funded from new Education and Transportation Fund?

Education investments in Fiscal Year 2024

Funded from new dedicated Education and Investment Fund

- Tuition-free community college
- Financial aid for students at public colleges and universities
- Free school meals
- Construction projects and green infrastructure in public schools k-12
- Expanded access to high-quality childcare and better salaries for early education providers



Transportation investments

- Repairs, maintenance, and improvements of public buses, trains and ferries in the Boston Region
- Improved service and free fares at regional transit authorities
- Construct and repair roads and bridges
- Aid to municipalities to improve infrastructure

Not all revenue sources are the same

Transit fares

Sales taxes

Gas taxes

Income tax
on salaries
and wages

Income tax on capital
gains & dividends

Estate tax

Corporate income tax

Fair Share
Amendment

Regressive

Progressive

Tracking the Flow of Fair Share Amendment Dollars

