

## 14 Options for Raising Progressive Revenue

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People in Massachusetts seek to live in communities that provide a high quality of life for their family and neighbors. We value good schools, police and fire protection, libraries and parks, smooth roads and reliable transit, and supports to help families struggling through tough times. A community’s day-to-day well-being and its long-term prosperity are built on these fundamentals. State and local taxes are the way we all work together to pay for these investments. How to collect enough revenue to pay for them – and how to collect that revenue fairly – are questions that every community and every state needs to examine.

Large tax cuts enacted in Massachusetts during the last several decades – affecting both state and local tax collections - have significantly reduced our ability to invest in our communities.<sup>1</sup> At the same time, our state and local tax system remains “upside-down”: low- and moderate-income households pay a larger share of their income in taxes than do households with higher incomes.<sup>2</sup> In fact, the highest-income households in Massachusetts – those in the top 1 percent – pay a smaller share of their income in state and local taxes than does any other income group.

### Highest-Income Taxpayers Pay Smaller Share of Income in State and Local Taxes

% of personal income paid in state and local taxes, 2018 projection



Source: Institute for Taxation and Economic Policy

Moreover, the upside-down structure of our tax system is particularly detrimental to Black and Latinx communities. Due to a long history of systemic barriers to opportunity, Black and

Latinx households are over-represented in lower-income groups (the groups paying more of their income in taxes) and under-represented in high-income groups (the groups paying a smaller share of their income in taxes).<sup>3</sup>

Compounding these problems, Congress enacted federal tax cuts at the end of 2017 that are skewed heavily toward the highest-income households,<sup>4</sup> delivering to those in the top one percent of Massachusetts households a total cut in federal taxes of some \$2.58 billion in 2019.<sup>5</sup> Nationwide, the federal revenue loss from these tax cuts is anticipated to reach \$1.9 trillion over a decade, according to the Congressional Budget Office.<sup>6</sup> The lost revenues will curtail the federal government's ability to support programs in Massachusetts and throughout the nation for years to come.<sup>7</sup>

Given these challenges, this paper describes 14 ways the Commonwealth could generate substantial new revenue in a manner that helps turn our upside-down tax system right-side up by making our tax system more progressive. None of the options below would require changing the state constitution.

## Personal Income Tax Options

**Option #1: Raise the Personal Income Tax Rate** – The largest source of tax revenue for the Commonwealth is the personal income tax. In Fiscal Year (FY) 2018, the personal income tax raised \$16.3 billion, or close to 60 percent of total state tax collections in Massachusetts. Current state law requires the personal income tax to have a single, uniform rate, applied to all levels of income (unlike the federal income tax system which applies higher tax rates to higher levels of income).<sup>8</sup> Nonetheless, it is a *progressive* source of revenue for the state because higher-income households pay a larger share of their income toward this tax than do middle- and low-income households. The progressivity of the Commonwealth's personal income tax comes from exemptions and credits, which are discussed under "Option #2."

The most straightforward way to increase revenue from the personal income tax is to raise the state's single, uniform rate. The rate currently stands at 5.05 percent and is expected to fall to 5.0 percent in January 2020 due to a phased reduction in the rate enacted in 2002.<sup>9</sup> Restoring the tax rate to 5.95 percent – the rate in effect in the late 1990s – would generate more than \$3.3 billion in additional revenue in FY 2020.<sup>10</sup> While the large majority of this additional revenue would come from higher-income households, most middle- and low-income households also would pay somewhat more in personal income taxes under such a scenario.

**Option #2: Raise Both the Personal Income Tax Rate and Progressive Exemptions/Credits** – While the Massachusetts' personal income tax applies a single rate to all incomes, it is in effect progressive because the state tax code contains a number of important exemptions and credits for low-income workers. Together, these exemptions and credits reduce the share of personal income paid in taxes by middle- and low-income households.<sup>11</sup> By combining an increase in

some or all of these exemptions and credits with an increase in the overall rate, substantial new revenue can be generated for the Commonwealth while simultaneously insulating many low- and moderate-income filers from significant tax increases. Some middle- and low-income households would even see a net reduction in their income tax.

Two exemptions and one credit are particularly important to the progressivity of the Massachusetts income tax. The state's automatic personal exemption reduces the amount of income subject to tax by \$4,400 for single filers and \$8,800 for married couples. Exempting a fixed amount of income from tax provides a proportionately larger tax reduction for middle- and lower-income taxpayers than for those with higher incomes (because a smaller share of the middle- and low-income taxpayers' income remains subject to tax). Similarly, the Commonwealth provides tax filers with a \$1,000 exemption for each at-home child or dependent relative.<sup>12</sup> Finally, income taxes also are made more progressive in Massachusetts by the state Earned Income Tax Credit (EITC), a refundable tax credit benefiting low-income households. The amount of the EITC depends on a filer's earned income and phases out as income rises.<sup>13</sup>

There is a trade-off, however, between making a package of tax changes more progressive by increasing these exemptions and credits, and the amount of new revenue that would be generated. For example, increasing the overall rate to 5.95 percent with significant increases in exemptions and credits could generate \$1 billion in additional revenue. This would be more progressive but would generate less revenue than the \$2 billion from an overall rate increase to 5.95 percent with smaller increases to exemptions and credits.

***Options #3 and #4: Raise Tax Rate on Capital Gains and/or Dividends and Interest*** – While the rates must be uniform for all income of a given type, the state constitution permits the use of different rates for taxing different *types* of income. Massachusetts defines several different types of personal income, including wage and salary income, and capital gains, dividend, and interest income. These latter forms of income – especially income derived from stocks, bonds, and other financial assets – go overwhelmingly to households with the top 1 percent of incomes. For instance, the highest-income 1 percent of households receive approximately 80 percent of capital gains income in Massachusetts, while the bottom 80 percent of household – all middle- and low-income households put together – receive only 3 percent.<sup>14</sup>

The Legislature cut tax rates especially sharply over recent decades for these types of income that are most concentrated among the highest-income households. Prior to 1998, wage and salary income (often termed “earned income”) was taxed at roughly half the rate of income from dividends, interest and capital gains (often collectively referred to as “unearned income”): 5.95 percent for earned income compared to 12 percent for unearned income.<sup>15</sup>

Presently, capital gains, dividends, and interest are taxed at the same 5.05 percent rate as wage and salary income (although a higher rate is applied to capital gains income when an asset is held for less than a year). Raising the tax rates on “unearned income” would be a highly

progressive way to raise additional revenue because ownership of these assets (especially financial assets such as stocks, bonds and cash holdings) is narrowly concentrated in top-income households.<sup>16</sup> Taxing dividend and interest income at the prior rate of 12 percent would generate about \$840 million annually for the Commonwealth.<sup>17</sup> With capital gains taxes now delivering about \$1.7 billion in revenues annually, each one percentage point increase in the capital gains tax rate would generate approximately \$300 million in additional annual revenue.<sup>18</sup>

**Option #5: Combine Progressive Tax Exemption Increases with Rate Increases for Personal Income, Dividends, Interest, and Capital Gains** – Options 2, 3, and 4 could be combined by increasing the tax rate on “unearned income” (capital gains, dividends, and interest), in combination with a smaller increase in the personal income tax rate and increased personal exemptions/credits. This would raise significant amounts of new revenue while ensuring that the large majority of new revenue is raised from those with the highest incomes and that a minority of middle- or low-income households would see any increase in their taxes.

### Wealth Tax Options

**Option #6: End Step-Up-In-Basis for Capital Gains** – When people make a profit by selling assets (stocks and bonds, houses, art, etc.) for more than they paid for the assets, they typically pay capital gains taxes on the income resulting from the increase in value. A special preferential rule, however, applies for inherited wealth. Someone who inherits wealth and later sells it will pay taxes only on the increase in value that occurs *after* inheriting the asset, leaving the appreciation in value that occurred prior to inheriting the asset untaxed. This readjustment to the taxable appreciation of an inherited asset based on its value at the time of inheritance is referred to as the “step-up in basis.” According to the Governor’s Tax Expenditure Budget, this “nontaxation of capital gains at death” will result in \$841.9 million in foregone revenue for the Commonwealth in FY 2019.<sup>19</sup>

The benefits of this tax break on inherited wealth are concentrated very narrowly on the most affluent households because wealth is so unequally distributed (much more so than income).<sup>20</sup> Also households with high wealth are able to pass on more wealth that has never been taxed to their heirs, largely because of stepped up basis.<sup>21</sup> Ending stepped-up basis would have a muted impact on middle-income taxpayers because their wealth tends to be in their homes. While homes often appreciate over time and frequently are passed on to heirs at time of death, the increased value of residences is insulated significantly from capital gains taxes because of separate tax rules that provide large exemptions for home sales.<sup>22</sup>

Economic studies conclude that the subsidy granted to capital gains on inherited wealth is inefficient for the economy, encouraging people to hold assets for longer than would otherwise make sense.<sup>23</sup> President Obama in his 2016 budget proposal and in a plan put forward by the co-chairs of the 2010 bipartisan National Commission on Fiscal Responsibility and Reform proposed elimination of step-up basis for capital gains at the federal level.<sup>24</sup>

**Option #7: Raise the Estate Tax** – This tax is applied, upon death of the owner, to estates with taxable value over \$1 million. Mirroring the federal estate tax structure in effect in 2000, the Massachusetts estate tax applies higher tax rates as the value of an estate increases.<sup>25</sup> In recent years, the Massachusetts estate tax has generated about \$330-470 million per year. Only the wealthiest 2 to 3 percent of estates pay any estate tax in Massachusetts. By raising estate tax rates or increasing rates only for the highest-valued estates, the Commonwealth could generate additional revenue through the estate tax.

**Option #8: Tax Large Private College or University Endowments** – Many colleges and universities collect contributions from alumni and others, which these schools then invest in various ways, generating profits that are used to fund programs, defray capital expenses, and further build the endowment. In Massachusetts, about a dozen private colleges and/or universities have built up especially large endowment portfolios, each ranging in value from a little over \$1 billion to roughly \$40 billion in assets. Taxing these sources of concentrated wealth – even at modest rates – could generate substantial amounts of new revenue for the Commonwealth. A proposal advocated by 2018 gubernatorial candidate and former Secretary of Administration and Finance Jay Gonzalez sought to apply a tax of 1.6 percent to the annual returns of private college and university endowments with assets over \$1 billion.<sup>26</sup> The Gonzalez campaign estimated this tax would deliver about \$1 billion annually to the Commonwealth.

**Option #9: Surtax on Sales of Multi-Million Dollar Homes** – The Commonwealth currently collects a 0.456 percent excise tax on the sale of real estate, levied by county registries of deeds on the seller and often called a “deed excise tax” or “stamp tax.” This tax rate was last increased in 1969. About a dozen states have a higher top real estate transfer tax rate than does Massachusetts.<sup>27</sup> Delaware applies the nation’s highest statewide residential real estate transfer taxes at 4 percent.<sup>28</sup>

About a half dozen states, including Connecticut, Vermont, and parts of Rhode Island, levy a higher tax rate on the sale of more expensive properties. New York (since 1989) and New Jersey (since 2004) began collecting a “mansion tax,” a 1 percent transfer tax on the full value of homes over \$1 million.<sup>29</sup> A 2 percent tax on home sales over \$2 million in Massachusetts might generate around \$70 million annually, based on real estate data on home sales.<sup>30</sup> More revenue could be generated if the tax were graduated, applying higher tax rates to sales of

higher-priced homes, though there are fewer such sales. Applying a 2 percent tax only to sales over \$2.5 million, while applying a 5 percent rate to sales of \$5 million or more would also generate about \$70 million in annual revenue.

## Business Tax Options

**Option #10: Raise C-Corp Tax Rates** – In Massachusetts, as in most states, corporations pay a variety of different taxes, including an excise tax on net income. Most larger businesses (which often choose to structure themselves, for tax and other legal purposes, as C-corporations or “C-corps”) pay the Massachusetts net profit tax at a rate of 8.0 percent. (Banking and financial institutions, as well as insurance companies and some other types of businesses pay a different, though similar tax, often at somewhat higher tax rates.)<sup>31</sup> As part of a tax package that closed a number of corporate tax loopholes, the corporate excise rate in Massachusetts was reduced from 9.5 percent to 8.0 percent between 2009 and 2012.<sup>32</sup>

Currently, the Commonwealth collects about \$2.8 billion annually through various business taxes, though not all of that revenue is generated directly through taxes on corporate income. Roughly speaking, each 1 percentage point increase in the rates applied to C-corps (and other large businesses, including banks, financial institutions, and insurance companies) might generate between \$200 - \$300 million in additional annual tax revenue.<sup>33</sup>

**Option #11: Raise S-Corp Tax Rates** – Separate from the excise tax on C-corp profits, Massachusetts applies an alternate set of corporate income excise tax rates to those businesses organized instead as S-corporations (“S-corps”), which is a legal structure under which net business income is passed through to shareholders to include in their personal income tax filings, rather than being taxed directly at the business entity level.<sup>34</sup> Only those S-corps with significant sales volume must pay this tax: S-corps with total receipts between \$6 million and \$9 million annually are taxed at a rate of 1.93 percent on their net income.<sup>35</sup> Those S-corps with total receipts exceeding \$9 million are taxed at a rate of 2.9 percent on their net income.<sup>36</sup>

In 2012, S-corps paid a total of about \$150 million in income excise taxes, the large majority of which (\$123 million) was paid by those S-corps with more than \$1 million in taxable income.<sup>37</sup> Generating additional revenue through the S-corp tax could focus on raising rates on those S-corps with the highest net incomes. S-corp income is highly concentrated: nationally, tax filers with the top 1 percent of incomes receive over half of all S-corp income.<sup>38</sup> For most tax filers who receive income from S-corps, the effects from a moderate increase in the Massachusetts’ S-corp tax rate likely would be counterbalanced by the large federal tax cuts provided to S-corps as part of the 2017 federal tax law changes.<sup>39</sup>

**Option #12: Raise Corporate Minimum Tax** – A minimum corporate excise tax provides a kind of “tax backstop” by ensuring that all corporations pay some income tax, regardless of the strategies they use to avoid these taxes. In Massachusetts, the minimum corporate excise tax - currently \$456 - has remained unchanged for decades. In 2014, 73.3 percent of all businesses that paid the corporate excise tax filed the minimum \$456 amount.<sup>40</sup> Revenue collections from the minimum tax in 2014 totaled about \$54.7 million.

Some tax filers that pay the minimum are part-time consultants, small businesses that aren’t generating a profit, and others that might find it difficult to afford a higher minimum. To raise additional revenue from the corporate minimum tax, Massachusetts could follow states that use a tiered structure so that businesses with large volumes of sales or profits pay larger minimum rates. In New York, for example, the minimum corporate tax ranges from \$25 to \$200,000, depending on a corporation’s total annual receipts.<sup>41</sup>

**Option #13: Reduce or Eliminate Special Business Tax Breaks** – The Massachusetts tax code includes numerous tax breaks for businesses. While many such tax breaks are available to businesses generally, a subset of several dozen are focused narrowly on particular industries or special types of business activity. In many cases it is unclear if, how, or to what degree these special business tax breaks achieve, in a cost-effective manner, the intended goal of strengthening the state economy or creating high-quality jobs.

Collectively, these special business tax breaks cost the Commonwealth over \$1 billion annually in forgone revenue.<sup>42</sup> Reducing or eliminating such tax breaks could generate hundreds of millions of dollars in tax revenue, dollars which then could be invested in proven approaches to state economic development, such as increased access to education and workforce training, and improvements to transportation infrastructure.<sup>43</sup>

**Option #14: Surtax on Excess CEO Pay** – As of 2018, federal law requires publicly-traded companies to track and disclose the ratio between the compensation provided to their highest-paid employee and their median employee.<sup>44</sup> CEO pay has been rising substantially faster than median worker pay for decades.<sup>45</sup> In 1965, the ratio at America’s largest 350 companies was approximately 20-to-1, rising to 30-to-1 in 1978, and over 300-to-1 in 2017.<sup>46</sup>

The city of Portland, Oregon has enacted a surtax on companies where this ratio is equal to or above 100-to-1 and then further raises the surtax for companies where the ratio exceeds 250-to-1.<sup>47</sup> The Commonwealth could introduce a similar surtax, starting, for example, with an additional 2 percentage point surtax (on top of the corporate tax on net income) on corporations that exceed a designated ratio threshold. It is not clear how much revenue such a tax would raise in Massachusetts. In Portland, which has a much smaller economy than Massachusetts, city officials anticipate the surtax will raise about \$3 million annually.<sup>48</sup>

One limitation of using the new federal Securities and Exchange Commission data on CEO pay ratios for taxation is that companies do not report these data unless they are publicly-traded (and absent the data, it would not be possible to apply the tax). Additionally, other forms of corporate organization such as S-corps and partnerships have come to represent a growing share of corporate profits over the last few decades.<sup>49</sup> A tax on high CEO-employee pay ratios could inadvertently create an incentive for some companies with high CEO compensation operating in Massachusetts to use other corporate forms to avoid the disclosure which triggers the tax. Policymakers might explore ways to address this potential issue.

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<sup>1</sup> MassBudget, “How Has the Level of Taxes in MA Changed Compared to Other States?”, Nov. 2018:

[http://massbudget.org/report\\_window.php?loc=How-Has-the-Level-of-Taxes-in-Massachusetts-Changed-Compared-to-Other-States.html](http://massbudget.org/report_window.php?loc=How-Has-the-Level-of-Taxes-in-Massachusetts-Changed-Compared-to-Other-States.html)

MassBudget, “Income Tax Cuts and Budget Deficits in Massachusetts”, Jan. 2015:

[http://massbudget.org/report\\_window.php?loc=tax\\_cuts\\_factsheet.html](http://massbudget.org/report_window.php?loc=tax_cuts_factsheet.html)

<sup>2</sup> MassBudget, “Who Pays? Low and Middle Earners in MA Pay Larger Share of Their Incomes in Taxes”, Oct. 2018:

[http://massbudget.org/report\\_window.php?loc=Who-Pays-Low-and-Middle-Earners-in-Massachusetts-Pay-Larger-Share-of-their-Incomes-in-Taxes.html](http://massbudget.org/report_window.php?loc=Who-Pays-Low-and-Middle-Earners-in-Massachusetts-Pay-Larger-Share-of-their-Incomes-in-Taxes.html)

<sup>3</sup> MassBudget, “Who Pays? Low and Middle Earners in MA Pay Larger Share of Their Incomes in Taxes”, Oct. 2018:

[http://massbudget.org/report\\_window.php?loc=Who-Pays-Low-and-Middle-Earners-in-Massachusetts-Pay-Larger-Share-of-their-Incomes-in-Taxes.html](http://massbudget.org/report_window.php?loc=Who-Pays-Low-and-Middle-Earners-in-Massachusetts-Pay-Larger-Share-of-their-Incomes-in-Taxes.html)

<sup>4</sup> MassBudget, “What Does the Federal Tax Law Mean for Massachusetts and How Might the Commonwealth Respond?” Jan. 2018:

[http://massbudget.org/report\\_window.php?loc=What Does the Federal Tax Law Mean.html](http://massbudget.org/report_window.php?loc=What Does the Federal Tax Law Mean.html)

<sup>5</sup> MassBudget, “What Does the Federal Tax Law Mean for Massachusetts and How Might the Commonwealth Respond?” Jan. 2018:

[http://massbudget.org/report\\_window.php?loc=What Does the Federal Tax Law Mean.html](http://massbudget.org/report_window.php?loc=What Does the Federal Tax Law Mean.html)

<sup>6</sup> Center on Budget and Policy Priorities, “2017 Tax Law Heightens Need for More Revenues” (Nov. 2018) at

<https://www.cbpp.org/research/federal-tax/2017-tax-law-heightens-need-for-more-revenues>

<sup>7</sup> One quarter of the state budget comes from federal dollars. See MassBudget, “Partnership in Peril: Federal Funding at Risk for State Programs Relied on by Massachusetts Residents,” Feb. 2017

[http://massbudget.org/report\\_window.php?loc=Partnership-in-Peril-Federal-Funding-at-Risk.html](http://massbudget.org/report_window.php?loc=Partnership-in-Peril-Federal-Funding-at-Risk.html)

<sup>8</sup> Presently, capital gains, dividends, and interest are taxed at the same rate as wages and salary, although a higher rate is applied to capital gains when an asset was held for less than a year.

<sup>9</sup> For anticipated tax rate changes, see Department of Revenue, “Briefing Book FY 2020, Consensus Revenue Hearing,” Dec. 5, 2018:

<https://www.mass.gov/files/documents/2018/12/05/dor-briefing-book-fy2020-consensus-revenue-estimate-hearing.pdf>. For more on the 2002 legislation, see MassBudget, “Automatic Income Tax Rate Cuts: Frequently Asked

Questions”, Dec. 2014: [http://massbudget.org/report\\_window.php?loc=Facts Automatic Income Tax Rate Cuts.html](http://massbudget.org/report_window.php?loc=Facts Automatic Income Tax Rate Cuts.html)

<sup>10</sup> Based on Department of Revenue statement in December 2018 that a 0.05 percent change in the income tax rate would result in a \$175 million change in revenue. See Department of Revenue, “FY 2020 Consensus Revenue Estimate Hearing” (Dec. 2018), page 7 at <https://www.mass.gov/files/documents/2018/12/05/dor-briefing-book-fy2020-commissioner-hardings-testimony.pdf>.

<sup>11</sup> In addition, tax filers with very low incomes qualify for “No Tax Status” and aren’t required to pay Massachusetts income tax; filers with somewhat higher incomes qualify for a low-income credit. Single filers can only qualify for No Tax Status if their income is below \$8,000 and those married filing jointly qualify with an income below \$16,400. See Department of Revenue at <https://www.mass.gov/service-details/learn-about-no-tax-status-and-limited-income-credit>

<sup>12</sup> Dependent relatives must be chiefly supported by the tax filer and earn no more than an IRS-prescribed amount. For further rules, see Department of Revenue, “[Massachusetts Personal Income Tax Exemptions.](#)”

<sup>13</sup> “The Massachusetts Earned Income Tax Credit” (MassBudget 2018) at

[http://massbudget.org/report\\_window.php?loc=The-Massachusetts-State-Earned-Income-Tax-Credit.html](http://massbudget.org/report_window.php?loc=The-Massachusetts-State-Earned-Income-Tax-Credit.html)

<sup>14</sup> Data provided by Institute on Taxation and Economic Policy for tax filers of all ages (November 2018). The most recent data available from the Massachusetts Department of Revenue shows that in 2006 some 44 percent of dividend and interest income flowed to Massachusetts households with annual income over \$1 million. Two-thirds of this income in that year flowed to households with annual incomes over \$200,000. MassBudget Tax Primer (Chapter 4, Figure 21):

[http://massbudget.org/report\\_window.php?loc=Tax\\_Primer\\_83110.html](http://massbudget.org/report_window.php?loc=Tax_Primer_83110.html)

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<sup>15</sup> MassBudget, “Income Tax Cuts and the Budget Deficit in Massachusetts”, January 2015:

[http://massbudget.org/report\\_window.php?loc=tax\\_cuts\\_factsheet.html](http://massbudget.org/report_window.php?loc=tax_cuts_factsheet.html)

<sup>16</sup> Rate increases could be coupled with meaningful exemptions for seniors and other groups that may rely on unearned income to cover basic living expenses. Such exemptions would reduce the amount of revenue to be gained from a rate increase on these types of income.

<sup>17</sup> Estimated by the Institute on Taxation and Economic Policy, produced upon request from MassBudget for 2019 income levels, based upon a base income tax rate of 5.05 percent with rate increase to 12.0 percent.

<sup>18</sup> An indirect effect of increasing capital gains taxes would be, in good economic years, an increase of deposits into state budget accounts that receive a portion of capital gains revenue beyond the statutory threshold. By law, capital gains tax revenue in excess of the fiscal year capital gains tax threshold are to be transferred to the Commonwealth Stabilization Fund, with 10 percent of this amount then transferred from the Stabilization Fund and split between the State Retiree Benefits Trust Fund (SRBTF) and the Commonwealth’s Pension Liability Fund (PRIT). See Section 5G of Chapter 29 of the Massachusetts General Laws.

<sup>19</sup> Executive Office of Administration and Finance, “Tax Expenditure Budget, Fiscal Year 2019,” 1.022 “Nontaxation of capital gains at death,” <https://www.urban.org/research/publication/exploring-viability-mansion-tax-approaches>.

<sup>20</sup> Center on Budget and Policy Priorities, “A Guide to Statistics on Historical Trends in Income Inequality,” Updated Dec. 2018, Figure 4 at <https://www.cbpp.org/research/poverty-and-inequality/a-guide-to-statistics-on-historical-trends-in-income-inequality>.

<sup>21</sup> According to analysis of national Federal Reserve Board data, capital gains on which taxes have never been paid constitute about a third of the asset total of all estates valued between \$5 million and \$10 million, and over half the asset total of estates valued at more than \$100 million. See Center on Budget and Policy Priorities, “Eliminating Estate Tax on Inherited Wealth Would Increase Deficits and Inequality,” (April 2015), <https://www.cbpp.org/research/federal-tax/eliminating-estate-tax-on-inherited-wealth-would-increase-deficits-and>. Studies suggest that, compared to middle- and low-income taxpayers, the wealthiest manage to pay the lowest rate of taxes on the income generated by their wealth. A few economic studies have been able to compare individuals’ wealth with what they report to tax authorities about the income generated by those assets. The studies find that one of the most significant tax benefits for holders of the greatest wealth is the stepped-up basis rule. See Tax Policy Center, “Individuals Pay Very Little Individual Income Tax on Capital Income” (Sept. 2018), <https://www.taxpolicycenter.org/taxvox/individuals-pay-very-little-individual-income-tax-capital-income>

<sup>22</sup> Without stepped-up basis, a couple selling their inherited home, for instance, would pay a (currently 5 percent) capital gains tax on the portion of the sale price that was more than \$500,000 greater than the price at which it had last been sold. According to the Governor’s Tax Expenditure Budget Report, “Taxpayers may exclude up to \$250,000 of capital gain (or \$500,000 if filing jointly) on the sale of a principle residence. This exclusion from gross income may be taken any number of times, provided the home was the filer’s primary residence for an aggregate of at least 2 of the previous 5 years.” See item 1.021 (p.15) at <https://www.mass.gov/files/documents/2018/02/12/teb2019.pdf>

<sup>23</sup> The current rule encourages investors to artificially and unproductively “lock in” investments rather than selling assets when it makes most economic sense to do so. As the Congressional Research Office concluded, “Failure to tax capital gains at death encourages lock-in of assets, which in turn means less current turnover of funds available for investment.” Congressional Research Service, “Tax Expenditures,” <https://www.gpo.gov/fdsys/pkg/CPRT-109SPRT31188/html/CPRT-109SPRT31188.htm> (2006) Similarly, the current “stepped-up basis” rule encourages tax avoidance schemes where owners strip the value from assets without actually selling them as a way to avoid capital gains taxes.

<sup>24</sup> Center on Budget and Policy Priorities, “President’s Capital Gains Tax Proposals Would Make Tax Code More Efficient and Fair” (Jan. 2015) at [https://www.cbpp.org/research/presidents-capital-gains-tax-proposals-would-make-tax-code-more-efficient-and-fair?fa=view&id=5260#\\_ftnref2](https://www.cbpp.org/research/presidents-capital-gains-tax-proposals-would-make-tax-code-more-efficient-and-fair?fa=view&id=5260#_ftnref2). On the Simpson-Bowles proposal to “eliminating the “step-up basis” loophole for capital gains at death,” see Center for a Responsible Federal Budget, “Capital Gains and Tax Reform” (Sept. 2012) at <http://www.crfb.org/blogs/capital-gains-and-tax-reform>

<sup>25</sup> Massachusetts uses rates established by the IRS and in effect in 2000. See “Note”, bottom of page 1. MA tax form M-706: <https://www.mass.gov/files/documents/2018/11/02/dor-estate-m-706.pdf>

<sup>26</sup> Boston Globe, “Gonzalez revenue plan would tax state major colleges and universities,” (Sept. 2018) at <https://www.bostonglobe.com/metro/2018/09/18/gonzalez-revenue-plan-would-tax-state-major-colleges-and-universities/Qq6cKSSFj2IYXDXD0aCo6ZO/story.html>

<sup>27</sup> These states include: Alabama, Connecticut, Florida, Hawaii, Maryland, Michigan, New Jersey, New York, Pennsylvania, Vermont, Washington, and the District of Columbia. See National Conference of State Legislators, “Real Estate Transfer Taxes,” collected in 2017. <http://www.ncsl.org/research/fiscal-policy/real-estate-transfer-taxes.aspx>

<sup>28</sup> See Delaware tax form Section C, line 5 at <https://revenuefiles.delaware.gov/docs/5402e.pdf>

<sup>29</sup> “Mansion Tax: The Effect of Transfer Taxes on the Residential Real Estate Market,” National Bureau of Economic Research (2014), <https://www.nber.org/papers/w20084.pdf>.

<sup>30</sup> Based on analysis of MLS data showing 1,106 home sales over \$2 million in 2018. The Urban Institute also studied the revenue potential of a real estate transfer tax in Massachusetts based on 2015-2016 sales of single-family residential sales, including condos, but excluding co-ops and luxury units in apartment buildings. It modeled the revenue created by a 1 percent real estate transfer tax on homes over \$2 million, increasing to a 2 percent tax on homes over \$5 million. Based on MLS sales records, they calculate revenues of \$42.9 million in 2015 and \$44.3 million in 2016. In those years there were about 100 annual sales of houses over \$5 million and a little more than a thousand annual sales over \$2 million [see Urban Institute, “Exploring the Viability of Mansion Tax Approaches” (2018): <https://www.urban.org/research/publication/exploring-viability-mansion-tax-approaches>. The Urban Institute researchers also found that multifamily apartments and commercial properties presented other data complexities].

<sup>31</sup> Massachusetts Department of Revenue, Tax Guides, C Corporate Excise Tax: <https://www.mass.gov/guides/corporate-excise-tax#calculating-the-corporate-excise-tax>

<sup>32</sup> MassBudget, “Understanding Our Tax System: A Primer for Active Citizens”, Chapter 7: Business Taxes (see “Corporate Income Tax”): [http://massbudget.org/report\\_window.php?loc=Tax\\_Primer\\_83110.html](http://massbudget.org/report_window.php?loc=Tax_Primer_83110.html)

<sup>33</sup> Total business tax collections are not sufficiently detailed by the Department of Revenue for more precise estimates and include revenue generated from sources other than the corporate excise tax on net income. The \$200 million to \$300 million per percentage point estimate provided here implies that taxes on C-corps represent between about 60 percent to 90 percent of total business taxes.

<sup>34</sup> MassBudget, “How S-Corp and Other ‘Pass-Through’ Income is Taxed and the Effects of Proposed Tax Reforms” (2018) at [http://www.massbudget.org/report\\_window.php?loc=S-Corps\\_Explainer.html](http://www.massbudget.org/report_window.php?loc=S-Corps_Explainer.html)

<sup>35</sup> Massachusetts Department of Revenue, Tax Guides, S Corporate Excise Tax: <https://www.mass.gov/service-details/s-corporations>.

<sup>36</sup> Financial institutions organized as S-corps are taxed at rates slightly higher than other S-corps.

<sup>37</sup> Analysis provided by the Department of Revenue to MassBudget upon request. The most recent year for which MassBudget has data from the Department of Revenue is 2012.

<sup>38</sup> Applies to S-corps and other similar “pass-through” entities. See Center on Budget and Policy Priorities, “Senate ‘Pass-Through’ Tax Cut Favors Biggest Businesses and Wealthiest Owners,” Nov. 2017 at <https://www.cbpp.org/blog/senates-pass-through-tax-cut-favors-biggest-businesses-and-wealthiest-owners>.

<sup>39</sup> Center on Budget and Policy Priorities, “JCT Highlights ‘Pass-Through’ Deductions Tilt Toward the Top,” Apr. 2018 at <https://www.cbpp.org/blog/jct-highlights-pass-through-deductions-tilt-toward-the-top>.

<sup>40</sup> A total of 119,866 of all 163,426 businesses paying the corporate excise paid the minimum. See Massachusetts Department of Revenue, “A Report on 2014 Corporate Excise Returns.” This is the last year for which the Department has published data. See “Excise due” row at Table 3, page 25 at <https://www.mass.gov/files/documents/2017/12/28/dor-reports-2014-corp-excise-returns.pdf>

<sup>41</sup> Likewise, in New Jersey, for instance, the minimum Corporation Business Tax ranges from \$500 for a corporation with gross receipts less than \$100,000, up to \$2,000 for a corporation with gross receipts of \$1 million or more. In Oregon the minimum tax spans from \$150 for corporations with sales under \$500,000, and reaches \$100,000 for companies with sales of \$100 million or more. [https://www.taxadmin.org/assets/docs/Research/Rates/corp\\_inc.pdf](https://www.taxadmin.org/assets/docs/Research/Rates/corp_inc.pdf)

<sup>42</sup> MassBudget, “The Growing Cost of Special Business Tax Breaks”, May 2017: [http://www.massbudget.org/report\\_window.php?loc=The-Growing-Cost-of-Special-Business-Tax-Break-Spending.html](http://www.massbudget.org/report_window.php?loc=The-Growing-Cost-of-Special-Business-Tax-Break-Spending.html)

<sup>43</sup> MassBudget, “Building a Strong Economy: The Roles of Education, Transportation, and Tax Policy”, January 2016: [http://massbudget.org/report\\_window.php?loc=Building-a-Strong-Economy-The-Roles-of-Education-Transportation-and-Tax-Policy.html](http://massbudget.org/report_window.php?loc=Building-a-Strong-Economy-The-Roles-of-Education-Transportation-and-Tax-Policy.html)

<sup>44</sup> Securities and Exchange Commission, “SEC Adopts Rule for CEO Pay Ratio Disclosure,” at <https://www.sec.gov/news/pressrelease/2015-160.html>

<sup>45</sup> Economic Policy Institute, “CEO Pay Continues to Rise as Typical Workers are Paid Less” (June 2014), <https://www.epi.org/publication/ceo-pay-continues-to-rise/>.

<sup>46</sup> For 2017, see <https://www.epi.org/publication/ceo-compensation-surged-in-2017/>

<sup>47</sup> See City of Portland <https://www.portlandoregon.gov/citycode/article/663142>. See also “Portland Adopts Surcharge on CEO Pay in Move vs. Income Inequality,” New York Times, December, 2016, [http://massbudget.org/report\\_window.php?loc=Who-Pays-Low-and-Middle-Earners-in-Massachusetts-Pay-Larger-Share-of-their-Incomes-in-Taxes.html](http://massbudget.org/report_window.php?loc=Who-Pays-Low-and-Middle-Earners-in-Massachusetts-Pay-Larger-Share-of-their-Incomes-in-Taxes.html).

<sup>48</sup> “Portland Adopts Surcharge on CEO Pay in Move vs. Income Inequality,” New York Times, December, 2016, <https://www.nytimes.com/2016/12/07/business/economy/portland-oregon-tax-executive-pay.html>.

<sup>49</sup> The Tax Foundation, “America’s Shrinking Corporate Sector,” 2015, <https://taxfoundation.org/america-s-shrinking-corporate-sector/>.