Examining Tax Fairness

Determining who is affected most by the state’s tax system, as well as individual taxes, is important in considering the fairness of tax policy changes. While most taxes in Massachusetts have a fixed rate -- for example, the state has a flat 5.3 percent income tax -- different income groups are affected differently by each tax. These differences can be explained in terms of regressivity and progressivity -- how taxes vary by income level.

Progressive Taxes

A tax is progressive if the share of income people pay in that tax increases as their income rises. Progressive taxes are designed to shift taxes away from those with the least ability to pay, and onto people with more income. The federal income tax and many state income taxes are progressive: the higher someone’s income, the higher a tax rate they pay.

The Massachusetts income tax is progressive in effect even though there is a flat income tax rate in Massachusetts. For more information on the features of the state income tax that makes it progressive, see MassBudget’s Income Tax Fact Sheet. Other progressive taxes are those that tax particular types of income that are earned primarily by higher income taxpayers, such as the income tax on capital gains and on dividends.

Regressive Taxes

A tax is regressive if the share of income paid in that tax increases as income decreases. Unlike progressive and flat-rate taxes, regressive taxes are generally viewed as unfair, because they ask those with the least to contribute the most.

State taxes on consumption, such as the sales, gas and cigarette taxes, are all regressive. The local property tax is also regressive.

Proportional Taxes

A tax is proportional if the tax rate remains the same for all income levels. A flat income tax, with no deductions or exemptions, would be proportional because all filers would pay at the same rate.

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1 The MassBudget Income Tax Fact Sheet can be found online at http://www.massbudget.org/doc/753
2 Information on the fairness of specific taxes in Massachusetts can be found in MassBudget’s Tax Primer, available online at http://massbudget.org/doc/748
TAX FAIRNESS IN MASSACHUSETTS

A tax system will generally have some taxes that are progressive and some that are regressive. Regressive taxes sometimes meet other criteria of a good tax, such as enhancing stability of the overall tax system. Therefore when considering progressivity and regressivity it is important to examine not just individual taxes, but rather the overall tax system in a state.

As the above chart shows, overall the Massachusetts tax system is regressive: lower- and middle-income people pay a larger share of their income in taxes than do higher-income people. This is primarily due to the property tax and the sales tax which, as shown in MassBudget’s Sales Tax Fact Sheet, has the effect of taxing lower-income people at significantly higher rates than higher income people. For more information on what makes the property tax regressive, see the property tax chapter of MassBudget’s tax primer.

The state system is even more regressive if we take into consideration the effects of the ability of taxpayers to deduct their state income taxes when calculating their federal taxable income.4

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3 The MassBudget Sales Tax Fact Sheet can be found online at http://massbudget.org/doc/754

4 For more information on the federal offset, please see MassBudget’s Tax Primer, available online at http://massbudget.org/doc/748.