

Investments and Revenue in the Governor's Budget

In his budget proposal for FY 2014, the Governor introduced three major policy proposals: 1) increased support for education; 2) fixes and improvements to strengthen our transportation system; and 3) new revenue to fund these and other priorities.

Early Education & Care: Quality Early Education & Care can help prepare children for success in school and in life, and it provides parents the flexibility they need to seek and keep jobs. The Governor's plan would provide \$130 million of additional funding, some of it to increase access to care—as part of a multi-year effort to clear the current wait list—and some for teacher training and other mechanisms to improve quality. [See massbudget.org/867](http://massbudget.org/867)

K-12 Education: About 1 million children attend K-12 public schools every day in Massachusetts. With \$84 million of new money, the Governor would: guarantee a \$25 minimum increase for every student; expand learning time for lower-income students; allot additional funding for Gateway cities; and provide fuller support for special education. Additionally, the Governor's plan implements a set of payment reforms first planned in 2007 which would generate additional funding for school districts statewide. [See massbudget.org/864](http://massbudget.org/864)

Higher Education: States with a well-educated workforce tend to have stronger, higher-wage economies. The Governor's \$152 million increase would help make higher education more affordable for families in Massachusetts. It includes new funding for UMass and State Universities—as well as a large expansion of the State Scholarship Program. \$20 million of increased support for Community Colleges would come from gambling revenue. [See massbudget.org/864](http://massbudget.org/864)

Transportation: The bulk of the Governor's \$231 million investment in our ailing transportation system would go to repairing and maintaining existing infrastructure—roads, buses, bridges, and subways. Over the next few years, the Governor's plan would also expand rail routes, extend the Green line, and increase funding for Regional Transit Authorities (among other things). [See massbudget.org/864](http://massbudget.org/864)

Avoiding Cuts: Between 1998 and 2002, Massachusetts passed a series of income tax cuts that now cost the state about \$3 billion per year. Since that time, we have seen persistent budget shortfalls and reduced funding for programs across the state budget. \$581 million of the new revenue in the Governor's budget would be used to prevent further cuts. [See massbudget.org/859](http://massbudget.org/859)

New Revenue to Support New Investments

When fully phased in, the Governor's plan would **raise \$1.9 billion in additional revenue** each year, much of it targeted to the investments described above.

It would also **increase tax fairness**. Currently, low- and middle-income people in Massachusetts pay a larger percentage of their income in taxes than high-income people. The Governor's plan would partially alleviate this imbalance. [See massbudget.org/871](http://massbudget.org/871)

Tax Rate Changes [See massbudget.org/871](http://massbudget.org/871)

Increasing the income tax rate from 5.25% to 6.25%	\$2.5 billion
Lowering the sales tax from 6.25% to 4.5%	-\$1.4 billion
Increasing Tobacco Taxes	\$166 million
Net Revenue	\$1.27 billion

These tax changes raise the bulk of new revenue and have the biggest effect on fairness. They would make the state *less* reliant on the sales tax, which disproportionately affects lower-income people, and instead they would shift the focus towards the income tax, where high-income people pay a higher percentage of their incomes.

Changes to Tax Deductions [See massbudget.org/871](http://massbudget.org/871)

Doubling the Personal Exemption	-\$1.1 billion
Elimination of Targeted Tax Deductions	\$1.26 billion
Ending Exemption for Candy and Soda	\$53 million
Net Revenue	\$213 million

This part of the Governor's plan would consolidate a number of targeted exemptions into a larger personal exemption available to everyone. Many of these targeted exemptions are popular and serve legitimate policy purposes. If they are not eliminated, it would still be possible to raise significant revenue and increase overall fairness – either by not increasing the personal exemption or by limiting the sales tax reduction.

Business taxes [See massbudget.org/871](http://massbudget.org/871)

Extending Sales Tax to Computer Services	\$259 million
Eliminating FAS 109 Deduction	\$76 million
Clarifying Rules for Excise Sales Factor	\$35 million
Reclassification of Certain Businesses	\$83 million
Capping Film Tax Credit	\$30 million
Net Revenue	\$483 million

In addition to these focused changes in the tax code, businesses will also be affected by the new tax rates described earlier. Under the Governor's plan, businesses will pay the lower sales tax rate of 4.5 percent. Certain businesses – those that are legally structured in such a way that they pay taxes at the individual rate – will be subject to the new income tax rate of 6.25 percent. [See massbudget.org/871](http://massbudget.org/871)

For details about how these numbers are calculated, see [Tax Policy Proposals in the Governor's FY 2014 Budget](#)