Highlights from DOR analysis of the Education and Transportation Amendment proposal

The initiative petition proposed by "Raise Up Massachusetts":

-An additional tax of 4 percent would be imposed on that portion of annual taxable income in excess of $1 million for both residents and non-residents

-Effective date is 1/1/2019

-The $1 million taxable income **threshold:**

a) would be adjusted annually (after 2019) for the cost of living (inflation), and

b) is for **all** filer types (regardless of whether or not the return is for a single filer, a joint filer, or a married couple filing separately).

-Additional revenues would **only be used**, subject to appropriation, for the purposes of *"…quality public education and affordable public colleges and universities, and for the repair and maintenance of roads, bridges and public transportation,…"*

DOR's Initial Findings:

-Estimated revenue impact on the State tax revenues: a mid-point of +$1.9 billion in tax year 2019, based on DOR simulations[i]. 9% of this amount would come from non-residents.

-Estimated number of affected taxpayers: 19,500 taxpayers in tax year 2019 (about 0.5% of all returns that would be filed with DOR in tax year 2019). About 8% of these would be non-residents (See further note on this below.)

-Potential Federal offsets: a mid-point of $0.6 billion in tax year 2019 (assuming deduction of state tax against federal income would not change in the future).

-Income **distribution** is strongly skewed among the 19,500 affected tax filers with taxable incomes over $1 million:

-The top 1% (less than 200 filers) have over 22% of the total $1 million-plus taxable income;

-The top 20% (the top fifth) represents 63% of total $1 million-plus taxable income;

-The top 20% also have a disproportionately high capital gains, interest and dividend income;

-Most of these high-income filers have business income associated with their returns.

Based on number of filers:

- Of the 851,000 total **filers with business income**, about 15,600 would be affected (1.8% of filers with business income).

-There is a great deal of **uncertainty** in the revenue impact estimates provided above;

- There are a number of factors that could affect the revenue impact, which are unpredictable and difficult to measure: For example, taxpayers may respond to the additional tax by changing decisions on their filing status, migration, consumption, investment, business location, etc.; revenue volatility could also contribute to estimation uncertainty.

- DOR recommends using the revenue impact estimates with caution.

DOR does not take any position on the desirability of such proposals.

[i] *DOR data and assumptions used in the simulation:*

1. The reference year is tax year 2019, which is the first year the proposal becomes effective. The simulation results reflect the difference between the projected state income tax revenue in tax year 2019 under the current law vs. that if the proposed amendment were adopted;
2. The data used for simulation is tax year 2013 income tax return data;
3. Income categories used in simulations are adjusted for growth (from tax year 2013 to tax year 2019);
4. It is assumed that the income tax rates in tax year 2019 under the current law would be 12% for short-term realized capital gains and 5% for other income sources. It is assumed that the Part-B income tax rate reduction is triggered enough times during the period of tax year 2016-tax year 2019 that the rate will have declined to 5% by tax year 2019 (note that the tax rate for tax year 2015 is 5.15%). Note that under current law, the Charitable Deduction will be re-established the tax year after the Part B rate is lowered to 5%; any impact of this on high-income earners is not considered here.
5. Under the proposal, a) there will be an additional tax of 4 percent on that portion of annual taxable income in excess of $1 million in tax year 2019, and b) the $1 million taxable income threshold is for all types (i.e., the additional tax would apply to the excess income over $1 million, regardless of whether or not the return is for a single filer, a joint filer, or a married couple filing separately).
6. Business income includes business income reported on individual income tax returns, plus income from partnerships, S corporations, rent, royalties, and trusts.

NOTE: For the purposes of brevity, MassBudget has selected the highlights, above, from a longer list generated by DOR.