

SWM budget gives boost to low-income caregivers, does not seize opportunity for bold investments

The Senate Ways and Means (SWM) Committee’s budget proposal for Fiscal Year (FY) 2022 contains some bright spots but does not seize the opportunity — given better-than-expected revenues — to buoy the Massachusetts economy and communities still grappling with the effects of COVID.

The SWM proposal is similar to the [House Ways and Means \(HWM\)](#) and [House](#) proposals, particularly in headline-grabbing areas like public school funding. It is not unusual for State House leaders to agree beforehand on some of the most potentially controversial items, like funding for K-12 schools, ahead of the debate.

Last week, Senators filed amendments to the SWM budget and will debate these amendments starting May 25. Below are highlights from the SWM budget for FY 2022.

See the end of this report for a table of [funding by category](#) and [revenue proposals](#).

Tax revenue

SALT WORKAROUND: The SWM budget includes a proposal that would allow Massachusetts passthrough business owners to pay less in federal income taxes. This will mostly benefit higher income households in Massachusetts. (Passthrough businesses are not required to pay corporate income taxes. Instead the profits are “passed through” to their owners who pay taxes on those profits through personal income taxes. Examples include S-corps, partnerships, LLCs and sole proprietorships.)

- The SWM proposal provides passthrough businesses with a “workaround”, allowing them to avoid what is known as the “SALT” deduction cap on their *personal* income taxes. SALT stands for State And Local Taxes. Taxpayers can use the amount they paid in state and local taxes to lower (deduct) the taxable amount of income that the federal government uses to calculate their federal taxes. The SALT cap ([instated in a 2017 federal law](#)) limits this deduction to \$10,000. The SWM proposes allowing passthrough businesses to essentially sidestep this SALT cap.
 - Under the SWM proposal — which largely mirrors the Governor’s proposal — passthrough businesses would pay a 5 percent corporate income tax. Paying these taxes on its income reduces the taxable profit that is passed through to the owner who, under the SWM plan, can claim a tax credit that’s worth 90 percent of what their business paid in taxes.
- The Governor’s similar proposal would offer owners a 100 percent tax credit of what the business paid and would result in a modest reduction in state tax revenue. By contrast, the SWM proposal would yield \$90 million in additional revenue to the state.
- The House did not include this SALT workaround in its FY 2022 budget proposal.

FILM TAX CREDIT: SWM proposes extending the film tax credit from its current January 2023 expiration to January 2027 ([Section 33](#)). It also proposes additional changes to raise the threshold for claiming the credit.

- The SWM proposed changes include:
 - Increasing the percentage of production expenses or time spent shooting in Massachusetts from 50 percent to 75 percent ([Sections 13 and 16](#));
 - Creating a cap so the credit is eligible only for workers paid \$1 million or less ([Section 12 and 15](#)); and
 - Prohibits claimants from transferring or selling the credit ([Section 44](#)).
- The House, by contrast, [proposed making the film tax credit permanent](#).
- The film tax credit enjoys popularity thanks to celebrity sightings and the appearance of job creation. A [legislative commission found](#), however, that this costly tax break does little for the Massachusetts economy.
- MassBudget recommends that the state either eliminate the film tax credit altogether or — failing that — that the Senate and Conference Committee select a proposal like the SWM one, which includes clearer limits to who can claim the credit and buys more time for the state to consider its merits.

CHARITABLE DEDUCTION: SWM, like both the Governor and the House, proposes delaying the start of a state charitable deduction by a year ([Section 43](#)). Like the federal charitable deduction, this would allow taxpayers to deduct charitable giving from state taxes — and research shows this overwhelmingly benefits wealthy households. The one-year delay would save the state \$64 million.

Federal funds

Federal relief continues to play a key role in the budget creation process, even though much of it will not hit state coffers right away. Although the state anticipates \$4.5 billion in federal recovery funds coming to the budget through the American Rescue Plan (ARP) none of that money has yet been included in either the House or SWM budgets.

The U.S. Treasury Department last week released [guidance](#) on the eligible uses of ARP funds and state leaders have said they will lay out plans in June. MassBudget recommends that lawmakers hold a statewide public engagement process to ask those hardest hit by the pandemic how the state should be spending and distributing this money.

Another area in which federal funds play a significant role is through MassHealth, the state's Medicaid program. Federal reimbursement for MassHealth will remain at a higher rate through the national public health emergency, meaning the 2 million MassHealth members will be able to hold onto coverage at no added cost to the state.

Spending highlights

CHILD CARE AND DEPENDENT CARE TAX CREDITS: SWM proposes making both the child care and the dependent deductions refundable so that more people of all incomes can benefit from them. (A refundable tax credit allows taxpayers not only to offset the taxes they owe, but also get some of that back in cash.)

- This change, which could cost \$16.3 million, would benefit those with the least income who have certain expenses related to child care or caring for dependent children, elders, or people with disabilities ([Sections 11 and 14](#))
- The value of the benefit for lower-income filers would be the same as for those who currently are able to use the deduction: either a maximum of \$480 for childcare-related expenses or \$360 for caring for dependents.

SCHOOL FUNDING: Like the House, the SWM proposal for school funding goes further than the Governor’s budget in catching up with a law (the Student Opportunity Act) whose aim is to ensure every child in Massachusetts can get a great education regardless of their family’s income, the wealth of their town, or the challenges they face. Both the House and SWM proposals fall short of fully staying on track with the law by about \$90 million, however, because they use a lower enrollment number to calculate funding.

RENTAL ASSISTANCE: SWM proposes a 77.4 percent decrease in FY 2022 (compared to the current year) to [Residential Assistance for Families in Transition \(RAFT\)](#), a program that provides assistance with rent, mortgages, and housing-related costs. The SWM proposal — \$16.3 million — is less than the House proposal and the same as the Governor’s proposal.

- While the state can expect incoming federal relief for housing, it is important to build a strong foundation for programs like RAFT to address long-term housing challenges, rather than underfunding them and relying on temporary federal funds to fill the gaps. (Learn more about the [details of SWM’s RAFT proposal here.](#))

COMMUNITY COLLEGE GRANTS: SWM does not include a House proposal for grants to community colleges (called [Supporting Urgent Community College Equity through Student Services or SUCCESS grants](#)). The House proposed \$10.5 million in grants to help community colleges provide support services, particularly to students with low-incomes, first-generation college students, and LGBTQIA+ students.

REGIONAL TRANSIT AUTHORITIES: Typically, the state holds back a portion of the funds for Regional Transit Authorities (RTAs) as performance-based grants, rather than including those funds in their operating support. Instead of including the House’s proposal to convert all the funding to RTA operating support, the SWM proposal maintains the status quo by holding back a portion of RTA funds as performance grants.

- Holding these funds back as performance grants make it challenging for RTAs to plan for the future, partly because the payment of these funds often are delayed.
- MassBudget recommends the state release the portion of funding that’s currently held back in performance grants as operating support for RTAs.

ASSET LIMIT FOR CASH BENEFITS: SWM proposes to prohibit the state from using a limit on the value of a household’s assets (like a car) when calculating its eligibility for cash assistance through [Transitional Aid to Families with Dependent Children \(TAFDC\)](#) and [Emergency Aid to the Elderly, Disabled and Children](#). (The SWM proposal is in [Sections 18, 19, and 32](#). Learn more about the [SWM proposed changes to these programs here.](#))

- This means when people apply for cash assistance they will not be penalized for necessities like having a car to drive to work.
- Neither the House nor the Governor included such a proposal.
- MassBudget recommends the Legislature adopt this SWM proposal to remove the asset cap.

Funding by category

BUDGET BY CATEGORY AND SUBCATEGORY (\$ millions)	FY 2021 Current*	FY 2022 Governor	FY 2022 House	FY 2022 SWM
Education	9,399.7	9,389.1	9,626.3	9,567.4
Early Education & Care	904.2	775.2	803.8	788.6
Higher Education	1,359.4	1,315.5	1,386.7	1,367.1
K-12: Chapter 70 Aid	5,283.7	5,481.3	5,543.2	5,543.3
K-12: Non-Chapter 70 Aid	871.0	802.8	878.4	854.1
K-12: School Building	981.6	1,014.3	1,014.3	1,014.3
Environment & Recreation	259.0	243.5	254.9	249.2
Environment	121.7	108.8	111.7	109.3
Fish & Game	33.0	32.2	34.3	34.0
Parks & Recreation	104.3	102.5	108.9	105.8
Health	22,973.5	22,167.1	23,577.2	23,631.0
MassHealth (Medicaid) & Health Reform	19,494.7	18,766.8	20,128.5	20,138.3
Mental Health	932.0	943.9	945.6	967.1
Public Health	805.5	725.9	772.6	795.1
State Employee Health Insurance	1,741.3	1,730.5	1,730.5	1,730.5
Human Services	5,193.1	5,184.5	5,310.6	5,297.8
Child Welfare	1,084.2	1,087.7	1,090.7	1,103.0
Disability Services	2,234.1	2,360.6	2,395.4	2,394.2
Elder Services	582.8	577.8	609.1	580.2
Juvenile Justice	174.5	169.1	169.1	169.1
Transitional Assistance	757.8	726.6	772.2	775.8
Other Human Services	359.8	262.8	274.1	275.5
Infrastructure, Housing & Economic Development	2,904.6	2,652.9	2,691.3	2,677.4
Commercial Regulatory Entities	90.7	90.0	91.4	91.9
Economic Development	352.9	212.8	254.1	241.9
Housing	705.8	545.5	586.3	585.5
Transportation	1,755.2	1,804.6	1,759.6	1,758.1
Law & Public Safety	3,277.9	3,283.0	3,297.2	3,292.7
Courts & Legal Assistance	912.7	897.3	921.1	921.3
Law Enforcement	461.4	475.4	473.5	468.4
Prisons, Probation & Parole	1,614.4	1,634.9	1,616.1	1,618.9
Prosecutors	211.8	204.5	210.0	209.9
Other Law & Public Safety	77.6	70.9	76.5	74.2
Local Aid	1,183.1	1,224.0	1,219.9	1,221.0
General Local Aid	1,128.6	1,168.1	1,168.1	1,168.1
Other Local Aid	54.4	55.9	51.7	52.9
Other	6,871.3	6,837.7	6,863.2	6,848.3
Constitutional Officers	99.4	82.9	86.6	85.8
Debt Service	2,686.6	2,745.5	2,769.8	2,745.5
Executive & Legislative	83.0	82.9	83.1	85.6
Libraries	34.0	33.9	36.4	36.0
Pensions	3,115.2	3,423.4	3,423.4	3,423.4
Other Administrative	853.1	469.1	463.9	472.1
Total Budget	52,062.1	50,981.8	52,840.5	52,784.8

* "Current" includes the final, adopted budget and any supplemental budgets, Prior Appropriations Continued (PACs), or 9C funding cuts.

Revenue proposals

BUDGET REVENUE PROPOSALS AND INITIATIVES (\$ millions)	FY 2022 Gov.		FY 2022 House		FY 2022 SWM	
	Ongoing	Temp.	Ongoing	Temp.	Ongoing	Temp.
TAX REVENUES						
Charitable Deduction Delay		64.0		64.0		64.0
Life Sciences Tax Credit Cap	5.0		5.0		5.0	
MEFA College Savings Tax Deduction	(2.3)		(2.3)		(2.3)	
Opioid Gross Receipts	5.0					
Tax-Related Settlements & Judgments		50.0		125.0		125.0
SALT Pass-Through Entity Excise	*				90.0	
Childcare & Dependent Tax Credit					(16.3)	
SUBTOTAL	7.7	114.0	2.7	189.0	76.4	189.0
NON-TAX REVENUES						
Casino-Based and Online Sports Wagering	35.0					
Expansion of Online Lottery Sales	30.0					
Negotiated Drug and Non-Durable Medical Equipment Rebates	23.1				25.0	
Transfer from Stabilization Fund		1,600.0		1,875.0		1,550.0
SUBTOTAL	88.1	1,600.0	0.0	1,875.0	25.0	1,550.0
OTHER BUDGET BALANCING STRATEGIES						
Underfunded: Student Opportunity Act		152.0		90.0		90.0
Underfunded: State Retiree Benefits Trust		229.2		229.2		229.2
SUBTOTAL	0.0	381.2	0.0	319.2	0.0	319.2
TOTAL	95.8	2,095.2	2.7	2,383.2	101.4	2,058.2

*Revenue impact unclear.