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Best Research Underscores Value of Fair Share Amendment for Massachusetts Residents

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Key Takeaways

- An additional 4 percent tax on the portion of taxable income over $1 million ("Fair Share") would support tax fairness and equity as well as economic growth in Massachusetts.
- It would raise over $2 billion a year, all of which would be dedicated for investments in public education and transportation.
- There is abundant evidence documenting the benefits to the Commonwealth of increasing taxes on people with very high incomes and investing the resulting revenue in education and transportation, contrary to claims made by opponents of the initiative.

On November 8, 2022, Massachusetts voters will decide whether to approve an additional 4 percent tax on the portion of a tax filer's income above $1 million. Dubbed the "Fair Share Amendment," this surtax would generate at least $2 billion a year to support public education and transportation.

An extensive body of research shows that Fair Share would improve tax fairness, support economic and racial justice, and strengthen our state economy. The research contradicts inaccurate and/or misleading claims made by opponents. Very clearly, Fair Share would have a meaningful, positive impact on millions of people and every community throughout the Commonwealth.

Below is a summary of research and links to research that clarifies how Massachusetts communities would benefit from Fair Share.

- Tax collections have been higher than expected in the last few years. This, however, is the result of a very unusual set of circumstances, including both the difficulty of forecasting tax collections during COVID and the economic and fiscal effects of unprecedented, unanticipated federal aid to individuals, communities, and the Commonwealth, as well as other one-time factors. Revenue growth is expected to slow markedly in the coming fiscal year. Moreover, sometimes a "surplus" is not really "extra"; Massachusetts has underfunded many critical areas for years and new revenue from the Fair Share Amendment will make sustainable investments in some of those areas (education and transportation) possible. Read more in When a Surplus Is Not Extra.

- Fair Share will raise at least $2 billion a year. Research into the experiences of other states clearly shows that tax migration and tax avoidance are likely to have only a very limited impact on Fair Share net collections. In 2013, for example, California raised its top rate from 10.3 percent to 13.3 (far above the proposed top rate of 9 percent under Fair

Share). In the years that followed, California saw much higher than anticipated revenue gains from this rate increase, while remaining the state with the lowest average annual out-migration of households with incomes over $200,000. Massachusetts, meanwhile, with a tax rate of 5 percent, has a lower rate of out-migration than New Hampshire, which has no income tax.

- An additional $2 billion or more each year for state investment in public education and transportation would make a meaningful difference in educational outcomes and in the state's transportation systems. Extensive research clearly links these targeted investments in education and transportation infrastructure to better outcomes for individuals, communities, and our state economy. Read more in Building a Strong Economy: The Roles of Education, Transportation, and Tax Policy.

- Fair Share would result in only a modest increase in the overall tax rate paid by most very high-income families. This is because the Fair Share surtax would apply only to the portion of income above $1 million. For a household with $1.5 million in income, for example, they would be taxed at a rate of 5 percent on their first $1 million of taxable income and 9 percent on the remaining $500,000. The combined result would be that their overall tax rate would rise from the current flat rate of 5 percent to 6.3 percent. This increase is a far cry from opponents' claims that Fair Share will "almost double" the top tax rate in Massachusetts. While Fair Share *would* help turn our upside down tax system right side up, even after the addition of the Fair Share surtax very high-income households *still* would pay a smaller share of their household income in state and local taxes than the rest of us do. Notably, Fair Share would apply to fewer than 7 in every thousand households.

- Middle-class homeowners will not be "hit hardest" by Fair Share. Fair Share only applies an additional 4 percent tax on the portion of a tax filer's income above $1 million, far from the income of a middle-class homeowner – and far above the taxable profit derived from most home sales. An analysis of 2021 Massachusetts home sales found that less than 1 percent of all sales resulted in a net profit to the sellers of more than $1.5 million. With couples who sell their home being eligible for an automatic $500,000 deduction from the profit generated by their home sale, this $1.5 million figure is the minimum net profit a typical married couple would need to realize before owing any Fair Share tax on the sale of their home. Home sellers can also deduct the cost of improvements made to their home. Read more in Most Home Sales Will Not Likely Lead to Fair Share Tax Payments.

- Unlike most states, Massachusetts has long put major elements of its tax code into the state constitution. That means that to change any of these elements – for example, to create a separate, higher tax rate only on the portion of income above $1 million – we must amend the state constitution. Legislators, however, will continue to have options for adjusting many aspects of our tax code, including income and sales tax rates, the amount of taxes paid by households at different income levels, and more – all without needing to further amend the state constitution.

- Most small businesses are structured for tax purposes as "pass-through entities." This category of business is not taxed directly on its profits. Instead, these businesses "pass" profits (net income after all costs including payroll, rent, inventory, equipment, and other expenses are deducted) through to the owners or partners, who then pay taxes on these profits through their personal income tax filings. However, a U.S. Treasury analysis found that less than half of people who claim pass-through income on their taxes conduct traditional business activity at all – instead many are merely passive investors. On top of that, most of the businesses that pay tax on pass-through income are not what we would consider to be small businesses. Some are very large and very profitable – think Fidelity Investments and the Celtics. It is only filers with income of $1 million or more who will pay any Fair Share tax, and these are not your average "small business" owners. Just 2.6 percent of all tax filers with any pass-through income will pay Fair Share taxes – and they will pay that tax only on the portion of their income above $1 million.

- The volatility of some types of income that Fair Share would tax is entirely manageable. Volatility is not a reason to forgo taxing these kinds of income – it's simply a factor that needs to be addressed. Massachusetts already addresses this issue by setting aside each year a portion of tax collections from more volatile sources during years when those collections are especially high, for use in years when collections from those sources falls. This existing mechanism could be used to smooth Fair Share revenues from such sources and/or similar, additional mechanisms could be established. Read more in Massachusetts Ballot Measure Would Raise Billions for Education, Infrastructure.