

62F Credits Benefit the Rich

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The “tax cap law,” or what is known as “62F,”¹ sets an artificial limit on how much tax revenue Massachusetts can collect, regardless of the current needs of the Commonwealth. This law in effect transfers to higher income households tax revenue paid by lower income households. This is because non-income taxes like the sales tax and gas tax make up a higher share of the taxes paid by lower income households, but the law gives tax credits back according to how much *income tax* was paid. The data presented below illustrate how this occurs under income tax credits that do nothing to improve racial or economic equity in our state.

Lower income households contribute significantly to the state’s total tax revenue via sales, gas, and other non-income taxes, but the amount of the 62F tax credit is based only on the amount of *income tax* someone has paid. A low-income family that paid sales and gas taxes would not get a 62F credit if they earned so little they were at what is known as “no-tax status.” Moreover, low-income families might not receive a 62F credit if low-income credits like the Earned Income Tax Credit or dependent tax credits reduce the income tax they owe to \$0.

Current regulations state that taxpayers calculate their credit by multiplying their **previous** year income tax liability by an excess revenue percentage determined by the State Auditor.² The Administration announced that the excess revenue percentage would be 13 percent for this year.³ This means taxpayers would multiply their previous year income tax liability by 13 percent to determine their credit.

Analysis of Department of Revenue (DOR) data⁴ show how the 62F tax credits are regressive, meaning that the credit will disproportionately benefit higher income households. Table 1 is an illustration of how 62F credits would work using 2018 DOR tax data (the latest available) and assuming a 13 percent excess revenue percentage.

Key Takeaways

- 62F sets an artificial limit on tax revenue.
- 62F credits disproportionately benefit high-income earners.
- Using 2018 tax data, tax filers with incomes over \$1 million would receive on average more than \$22,000 in credit while tax filers in the bottom fifth of incomes would receive only \$9 in credit.
- Close to three-quarters of the total credits sent back to taxpayers would go to tax filers in the top fifth of incomes.

Income Group	Lowest Income in Group	Average Income Tax	62F Credit
>= \$1,000,000	\$1,000,000	\$172,208	\$22,387
Top 20%	\$109,000	\$14,780	\$1,921
Middle 20%	\$31,000	\$1,600	\$208
Bottom 20%	----	\$67	\$9
<i>Average</i>		<i>\$4,071</i>	<i>\$529</i>

Table 1. 62F Credits by Income Group

The difference in the size of the credits is substantial. Households in the bottom 20% of the income distribution would get a \$9 credit under 62F. Households in the top 0.57% of the income distribution, with incomes starting at \$1 million and which have an average income of \$3,668,941, would receive a 62F credit of more than \$22,000. We are giving millionaires the equivalent of a Rolex or more than a semester at UMass!⁵

In fact, nearly three quarters of the total credits go to households earning at least \$1,000,000 per year, yet less than one percent of the total credits go to the bottom 20% of earners.

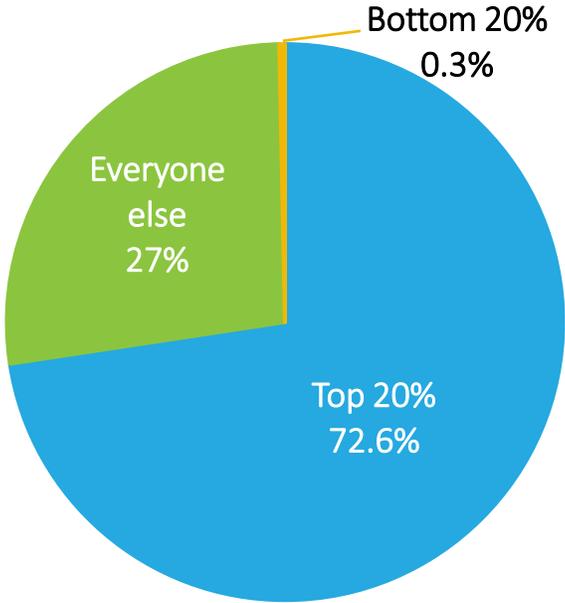


Figure 1. Share of 62F Credits by Income Group

Appendix A. Regulatory Language

Regulatory language for 62F is available at the following website at the time of publication:

<https://www.mass.gov/doc/830-cmr-62f-limitation-on-the-growth-of-state-tax-revenue/download>

830 CMR 62F6.1(4): “The Credit Calculation. Once a taxpayer has determined that he is entitled to an excess revenue credit, the taxpayer must calculate the amount of the credit. To do this, the taxpayer must: (a) determine his personal income tax liability for the previous taxable year under 830 CMR 62F.6.1(5); (b) multiply this amount by the excess revenue percentage determined by the Department under 830 CMR 62F.6.1(6); and (c) adjust the credit under 830 CMR 62F.6.1(7) to reflect any changes in reporting status from the previous taxable year to the current taxable year.

830 CMR 62F6.1(6): “Determining the Excess Revenue Percentage to be Used in Calculating the Excess Revenue Credit. Each year in which the State Auditor determines that excess state tax revenues exist to be credited to the taxpayers, the Department will announce the excess revenue percentage for taxpayers to use in calculating their excess revenue credits for the current taxable year. The Department will derive this percentage by dividing the excess state tax revenues determined by the State Auditor by the estimated total personal income tax revenues received by the state in the current calendar year in payment of personal income tax liabilities incurred for the previous taxable year.”

Endnotes

¹ <https://massbudget.org/2022/08/05/62f-blog/>

² Determined by 830 CMR 62F6.1(4) and 830 CMR 62F6.1(6) “...derive this percentage by dividing the excess state tax revenues determined by the State Auditor by the estimated total personal income tax revenues received by the state in the current calendar year in payment of personal income tax liabilities incurred for the previous taxable year.”

³ <https://www.mass.gov/info-details/chapter-62f-taxpayer-refunds>

⁴ <https://www.mass.gov/doc/tax-year-2018-statistics-of-income-tax-returns-by-quintile-1/download>

⁵ <https://www.mass.edu/datacenter/tuition/appendixtuitionfeesweight7.asp>