

Proposed Income Tax Cuts in Massachusetts Would Benefit Households with Highest Incomes and Force Deep Public Cuts

Who benefits from the state tax cuts?

Tax cuts will force budget cuts

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Key Takeaways

The proposed ballot question to cut the Massachusetts state income tax would not just force deep cuts to investment in public programs and infrastructure. Its benefits are also highly skewed towards households with the highest incomes.

The highest income 1 percent of households in the state would receive an average tax cut of \$31,600 annually, while the bottom 80 percent of households by income would see an average tax break of only \$534. The lowest income 20 percent of households would receive an average tax cut of \$44.

Income taxes provide the largest single source of revenue to the Commonwealth, enabling support for everything from schools, parks, libraries, roads, and health care, to aid for cities and towns. Big business groups have funded the collection of signatures for a ballot question this November that would cut revenue from the state income tax annually by about \$5 billion. The loss of these public funds would force deep cuts to public programs and infrastructure. The benefits of the tax cut would be highly skewed toward the highest-income households.

The ballot question would reduce the income tax rate by one-fifth over the course of three years, reducing the rate from 5 percent to 4 percent. With base income taxes next year (Fiscal Year 2027) projected at about \$25 billion, that tax cut would reduce public revenues by about \$5 billion a year.¹

Tax Cuts Would Greatly Benefit Those with the Highest Incomes

This rate cut would not deliver tax cuts equally to all Massachusetts households. Middle- and low-income households would see very modest benefits, while those with the highest incomes would receive large windfalls. According to an analysis conducted with the Institute on Taxation and Economic Policy,² the highest-income 1 percent of households (with average incomes of \$3.9 million) would receive, on average, a tax break of \$31,600 annually. Meanwhile the bottom 80 percent of households by income – the vast majority of the state’s population, all with incomes below \$187,500 – would see an average break of only \$534. The lowest income 20 percent of households would receive an average tax cut of only \$44 a year.

The total share of the tax cut would also be highly concentrated among those who already have the highest incomes. The highest-income 1 percent of households would receive almost a quarter of the entire tax cut benefits across the state’s population. The highest-income 20 percent of households would

receive two-thirds of the benefit, with the remaining third of the benefit spread across the bottom 80 percent of households.

By delivering large windfalls to the state’s most affluent and only small or modest benefits to everyone else, the tax cut would widen Massachusetts’ already large inequalities of income and wealth.

The tax cut would not just apply to wages and salaries. It would also apply to taxes on investment income, such as dividends, interest, and long-term capital gains (the profits from selling assets held for more than a year), all of which are heavily concentrated in the highest-income, predominantly white, households.³ Other than wages and salaries, the largest component of the income tax cut would be reduced collections on long-term capital gains.⁴ The cuts to long-term capital gains also would be more heavily skewed toward the highest income households than the cuts to any other type of income would be - or to the package of cuts as a whole.

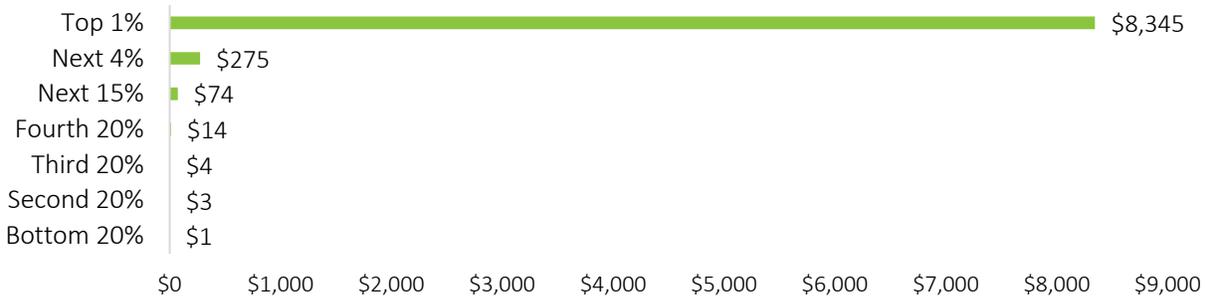
The ballot question would result in a loss to the Commonwealth of an estimated \$347 million in annual tax revenue from long-term capital gains. Seventy-six percent of that tax windfall would be taken by the highest-income 1 percent of households. The bottom 80 percent of households by income – the vast majority of middle- and low-income households – would receive, collectively, only 4 percent of the benefits.

In dollar terms, the average household in the top 1 percent would receive a tax cut on these capital gains profits of about \$8,300 annually. The bottom 80 percent of households, representing the broad middle class and low-income residents, would receive an average tax cut of only \$6. The chart below disaggregates this data for other income groups.

Average Benefit from Tax Cut by Income Group



Benefit of 1% Cut on Long-Term Capital Gains Tax Rate by Income Distribution



Tax Cuts Would Force Public Cuts

While the benefits of the tax cut would be highly skewed toward those with the highest incomes, the opposite is likely to be true of the harms created by the public cuts forced by the loss of state tax revenue. Unlike the federal government, the Commonwealth must balance its budget every year. Balancing the state budget with about \$5 billion less tax revenue would require deep cuts to a wide range of public programs and infrastructure investments, such as local aid, higher education, health care, and public safety. These cuts would inevitably hit low- and middle-income families the hardest, even as these families also receive the smallest benefits from the tax cut. The public cuts will slow the state economy, adding to the negative budgetary and economic impacts of large cuts in federal funding for the Commonwealth.

In the face of large and looming federal cuts, the Commonwealth will need to generate more of its own public revenue, especially to protect low- and middle-income families. Deep state revenue cuts that will deliver a huge windfall to those with the highest incomes but only meager benefits to most households, is precisely the opposite of what Massachusetts needs.

Endnotes

¹ See Department of Revenue projections for FY 2027 (p.5) at <https://www.mass.gov/doc/fy2027-supplemental-materials-to-commissioner-snyders-testimony/download>

² Analysis provided by the Institute on Taxation and Economic Policy based on their in-depth simulation model (Jan. 2026) at <https://itep.org/massachusetts-tax-cut-proposal-capital-gains-cost/>.

³ Analysis conducted by the U.S. Treasury shows that nationally, 92 percent of tax breaks on investment income goes to white families, compared to 3 percent to Hispanic and 2 percent to Black families. This analysis includes both short- and long-term capital gains, as well as dividends. See U.S. Treasury Office of Tax Analysis, Working Paper 122, “Tax Expenditures by Race and Hispanic Ethnicity: An Application of the U.S. Treasury Department’s Race and Hispanic Ethnicity Imputation” (Jan. 2023) at <https://home.treasury.gov/system/files/131/WP-122.pdf>.

⁴ The section of the tax code that the initiative petition proposes to amend specifies that long-term capital gains (Part C income) are taxed at the same rate as wage and salary and most other income (Part B income); so, by reducing the tax rate on Part B income, the initiative likewise reduces the rate on Part C income.