

March 30, 2026

The Honorable Sen. Cincy F. Friedman, Chair
Special Joint Committee on Initiative Petitions
State House, Room 313
Boston, MA 02133

The Honorable Rep. Alice H. Peisch, Chair
Special Joint Committee on Initiative Petitions
State House, Room 234
Boston, MA 02133

RE: Testimony in opposition to initiative petitions: *An Act relative to reducing the state person income tax rate from 5% to 4% (H.5007) and An Act relative to limiting state tax collection and growth and returning surpluses to taxpayers (H.5006)*

Chair Friedman, Chair Peisch, and distinguished members of the Special Joint Committee on Initiative Petitions:

Thank you for the opportunity to submit written testimony in opposition to the two ballot initiatives (H.5006 and H.5007). Massachusetts Budget and Policy Center (MassBudget) is a 39-year-old non-partisan, nonprofit research and advocacy organization. We provide [rigorous research and policy analysis](#), along with [strategic advocacy](#), in partnership with grassroots organizations. MassBudget has produced extensive research and holds critical expertise in revenue among other public policy areas. **We find that these ballot initiatives would cause deep gaps in revenue, which would result in harmful and destabilizing cuts to public programs in the state budget.**

Moreover, these newly proposed, massive reductions in state investment come at a dangerous time for the Commonwealth. They would compound deep federal cuts to public programs and infrastructure that have already been enacted and will become far deeper in 2028.

The comments below address first the ballot initiative to reduce the personal income tax rate (H.5007) and then the ballot initiative to make the 62F tax cap more constraining (H.5006).

Ballot Initiative to Cut the Personal Income Tax (H.5007)

The ballot initiative to cut the personal income tax rate would reduce annual tax revenue by approximately \$5 billion, once fully phased in. The personal income tax is the largest single source of state revenue. The basic personal income tax, not counting the Fair Share surtax, is slated to raise about \$25 billion for the Commonwealth this coming fiscal year from those types of income that would be subject to the ballot question's proposed rate cut.¹ Cutting the tax rate from 5 percent to 4 percent is a cut of one-fifth, reducing this revenue by roughly \$5 billion. This also aligns with the estimate produced by a microsimulation tax model operated by the Institute on Taxation and Economic Policy, which applies the Congressional Budget Office forecasts to the Massachusetts economy and population.²

Proponents of this ballot initiative have tried to deny this math. They suggest that the revenue cost would be far less. They claim the tax cut will generate enormous amounts of additional economic activity that in turn will generate additional revenue. Consider this claim in the context of other taxes. High-income individuals currently pay a 37 percent top marginal income tax rate at the federal level. In addition, they pay Massachusetts' five percent personal income tax rate – or a 9 percent marginal rate if their income is high enough to pay the Fair Share surtax. It is not credible in this context that a one percent lower state tax rate would induce large numbers of people to take jobs or pursue investments they otherwise wouldn't.

Historical evidence also directly contradicts proponents' claims that lost revenue would be offset by increased growth. If the story that “tax cuts largely pay for themselves” sounds familiar, that's because we've heard this story before. President Donald Trump, like President Ronald Reagan before him, insisted that his big tax cuts would induce such huge amounts of new economic activity that tax revenue would increase and the U.S. budget deficit would decline. This was the claim that candidate George H.W. Bush famously called “voodoo economics” in 1980. Both President Trump and Reagan's claims proved false as both sets of federal tax cuts instead greatly reduced revenue and massively increased the deficit.³

The consequences for the Commonwealth are far more dangerous because, unlike the federal government, the state's constitution does not allow it to run a deficit. In the face of massive revenue losses, Massachusetts would instead be forced into unprecedented spending cuts that would overwhelmingly affect the most vulnerable populations.

The \$5 billion in lost revenue would be greater than the largest revenue declines in recent memory. The Great Recession in Fiscal Year (FY) 2009 was an especially deep recession and led to revenue declines of about \$3.1 billion. The lost revenue forced sharp reductions in local aid to cities and towns, as well as cuts to education, human services, public health, and other essential services. All of these cuts hurt the Commonwealth's economy. Adjusting for inflation, that \$3.1 billion in 2009 represents about \$4.8 billion – less than the revenue loss we expect from the present ballot initiative.

Moreover, FY 2009 was merely a *temporary* revenue decline. The Legislature was able to take temporary measures, including withdrawing over half of the Stabilization Fund in one year. By contrast, the proposed ballot initiative would result in a permanent, drastic loss of revenue.

While the harms from the ensuing budget cuts would reach across the entire state, the tax cut **benefits would not be delivered equally** to all Massachusetts households.⁴ Proponents of the ballot question have touted that it could deliver an “average tax cut” of about \$1,300 per year. But the mathematical average amount is starkly different from the benefit that the vast majority of taxpayers would see.⁵

In fact, 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, 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.⁶

One reason that the benefits of the tax rate cut are so concentrated among the highest income 1 percent of households is because the ballot initiative would also reduce tax rates on investment income, such as dividends, interest, and long-term capital gains (the profits from selling assets held for more than a year). These sources of income are heavily concentrated in the highest-income, predominantly white, households. Under the ballot initiative proposal, the average household in the top 1 percent would receive an average tax cut on these capital gains of approximately \$8,345 annually, while the bottom 80 percent of households, representing the broad middle class and low-income residents, would receive an average tax cut of only \$6.⁷

In sum, the ballot question to cut the personal income tax rate would lead to widespread harm from severe budget cuts and would provide by far the largest benefits to those who need them the least.

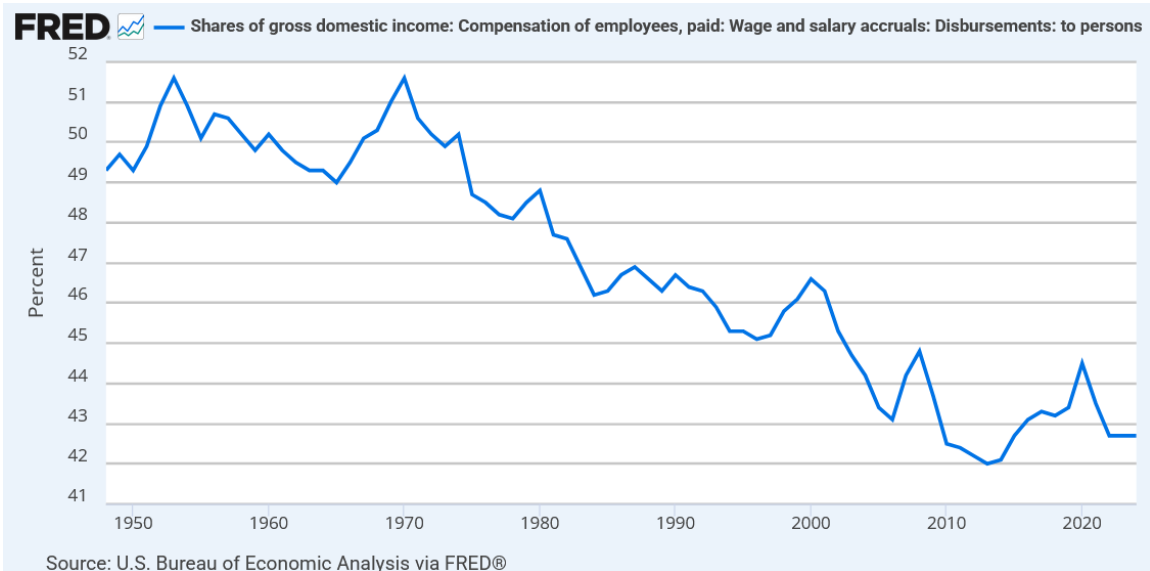
Ballot Initiative to Amend Chapter 62F (H.5006)

The Chapter 62F ballot initiative would make a flawed budgeting cap far more constrictive and likely to be triggered. The [current law](#), which was enacted in 1986, limits revenue collections by the Commonwealth to a somewhat arbitrary index of “allowable tax revenue.” The ballot initiative would make two major changes:

- (1) Ratchet down the extent to which the Commonwealth’s revenue can grow with the economy. At present, the Computed Maximum State Tax Revenues amount increases each year by the compounding increment of each year’s allowable state tax growth factor. Under the ballot question, any year that revenue grows more slowly than the allowable state tax growth factor – perhaps due to a slow economy, a 62F refund for the previous year, or a decline in the stock market – ratchets down the allowable growth of the cap for the following year. The next year’s Computed Maximum State Tax Revenues will then be calculated by applying the allowable state tax growth factor to this lower amount. Slow revenue collections or a 62F refund in one year lowers the permissible revenues for the next year.
- (2) Newly count collections of the constitutionally separate Fair Share surtax as part of the calculations of annual revenue towards potential tax refunds under 62F. This erodes the intent of the 2022 Fair Share ballot initiative to keep surtax collections separate from ordinary spending.

The ballot initiative would leave in place the major flaws of 62F that can cause it to trigger for largely arbitrary reasons. Several flaws in the current 62F law can require the Commonwealth to send tax refunds for reasons unrelated to the volume of revenue collected. In particular:

- **The 62F law is triggered when wages and salaries grow more slowly than revenue; though, wages and salaries have been a shrinking portion of the economy for many decades.** The intent of 62F seems to be that wages and salaries represent the capacity of the Massachusetts economy to support state revenue. Most people may equate wages and salaries with income. Moreover, wages and salaries did comprise a small majority of the nation’s Gross Domestic Product (GDP) from much of the 1950s through the early 1970s. But since then, the general trend has been a declining portion of wages and salaries as a percent of GDP. This trend is illustrated in the chart below from the Federal Reserve Economic Data (FRED) at the Federal Reserve Bank of St. Louis.⁸ It shows how salaries and wages had constituted over half of GDP and that portion has fallen to an average of 43 percent since 2010.



The reasons for the long-term decline in the wage/salary share of GDP are complex. One factor is that income has increasingly become concentrated among households with higher incomes. These households tend to receive more of their income from their ownership of assets - which produce “unearned income” such as capital gains and dividends - rather than from salaries and wages.⁹ Another likely factor is an increase in the number of workers who receive compensation as independent consultants or contractors rather than receiving a wage or salary.¹⁰ **Whatever the reasons, the declining share of wages and salaries in the economy means that allowable revenue under the 62F formula will tend to grow more slowly than the economy, regardless of policy decisions to raise or lower state taxes.**

- **The 62F formula is likely to be triggered during times of rapid inflation.** This is because the formula compares a single year of revenue growth with the average of three years of growth in wages and salaries. On the one hand, a rapid surge in inflation will be fully reflected in that single year’s revenue collections. On the other hand, using a *three-year* wage and salary growth rate calculation means that the single-year inflation spike is dampened by the lower inflation rates of the prior two years. [This was a major factor in the triggering of 62F payments in 2022.](#)
- **The 62F law can also be triggered by policies with revenue effects that don’t impact the current fiscal year.** For example, one reason for the 62F payments in 2022 was due to a timing mismatch in a new policy that helped Massachusetts owners of pass-through entities to reduce their federal taxes. Owners of these pass-through entities were able to avoid the federal cap on deducting their state and local taxes by exchanging one kind of tax liability for a different kind of tax credit. Many eligible filers took advantage of this mechanism for reducing their federal taxes, paying the new state tax as required in 2022, but not claiming their offsetting credits until the following year. As a result, net taxes collected in the first year were overstated by approximately \$1.4 billion when counting for the purpose of 62F.¹¹ These revenues were rebated “as excess revenue” even though tax filers had received credits to offset these taxes.

- **Periods following high unemployment are artificially biased towards triggering the 62F law.** During periods of high unemployment, with fewer people receiving wages and salaries, the amount of “allowable revenue” is depressed. Many workers receive unemployment insurance benefits, which are often federally supported during an economic recession. They are a form of labor compensation which do not count towards wages or salary and therefore do not count for the index of “allowable revenue” for the purposes of 62F. They are, however, subject to the state income tax and therefore generate tax collections that are counted on the revenue side of the 62F ledger. Moreover, when workers spend unemployment benefits or other transfer payments, it boosts sales taxes, gas taxes, and the like. This is another factor that led to an artificial triggering of 62F in 2022 during the COVID-19 pandemic.

The ballot initiative would make the already flawed mechanism of the 62F law far more constraining over time. By ratcheting down the growth of Computed Maximum State Tax Revenues every time actual revenue growth is slow or is reduced the next year by a 62F refund, the policy would tend to continually reduce the cap on state revenues available for budgetary purposes. The result will be often unpredictable budget cuts and the abandonment of planned public investments. On top of that, because the triggered diversions of revenue into 62F payments will tend to follow a recession, the new rules will impair the state’s ability to make investments at just the time when they are most needed to jumpstart the economy.

The twin impacts of this ratchet effect with the addition of Fair Share surtax collections into the calculations will compound one another. Fair Share funds over time are bound to be more volatile than other revenue because affluent households receive far more income from the relatively volatile stock market. During periods when the surtax grows rapidly, it is likely to exceed the growth of wages and salaries. In fact, fluctuations of the stock market may often move in opposite directions as wage and salary trends. When surtax revenues increase rapidly, it will make it more likely to trigger 62F refunds that will reduce the allowable revenues for subsequent years. When surtax revenues periodically soften, those revenue slowdowns will also get baked into lower allowable revenues for subsequent years. The more volatile revenue base used for 62F calculations combined with the ratcheting down of allowable revenue following downturns is a recipe for rapidly tightening revenue constraints.

Finally, in considering the fiscal chaos the tightened tax cap would introduce, it is instructive to consider the first years after Proposition 2 ½ went into effect. It was a milder type of tax cap that nonetheless required a form of fiscal rescue from a higher level of government. In the first years after enactment of Proposition 2 ½, credit rating agencies rightly saw that the new law limited the ability of cities and towns to raise revenues to pay their future obligations to bond holders. Like 62F, Proposition 2 ½ contained no exception to ensure the payment of public debt.¹² Moody’s suspended credit ratings for Boston and 36 other municipalities, threatening their ability to finance capital projects without paying prohibitively high interest rates.¹³ The state had to intervene by creating the [Massachusetts Qualified Bond Program](#), which allows municipalities to issue bonds with a state guarantee and the state treasurer directly paying debt service from state aid. If the proposed ballot question were to be enacted, the bond market could have a similar crisis of confidence in the Commonwealth’s ability to meet future bond obligations from the state’s ongoing revenue stream. Credit rating agencies would have reason to downgrade Massachusetts’ bond rating, which would raise state costs for capital financing and reduce the volume of capital projects the Commonwealth could afford.

Conclusion

We urge the Committee to consider the serious dangers these ballot initiative petitions pose to the Commonwealth's ability to provide adequate and predictable revenue for critical public needs.

Thank you for your time and consideration.

Respectfully submitted,

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Massachusetts Budget and Policy Center

Endnotes

¹ "FY 2026 Revenue Forecasts," Massachusetts Department of Revenue Briefing Book FY 2027, "[Supplemental Materials to Commissioner Snyder's Testimony](#)" (December 16, 2025) p.4.

² Institute on Taxation and Economic Policy, "[An Analysis of a Potential Reduction in Massachusetts' Long-Term Capital Gains Tax Rate](#)" (January 2026). For a discussion of potential criticism, see also, ITEP, "[Pioneer Institute Criticizes ITEP For Not Writing the Paper They Would Have Written](#)" (February 2026).

³ Tax Policy Institute, "[How did the TCJA affect the federal budget outlook?](#)" (January 2024); and Brookings Institution, "[What We Learned from Reagan's Tax Cuts](#)" (2017).

⁴ Massachusetts Budget and Policy Center, "[Proposed Income Tax Cuts in Massachusetts Would Benefit Households with Highest Incomes and Force Deep Public Cuts](#)" (January 2026).

⁵ This is much the same way that the average net worth of a full crowd at the Boston Garden would increase by tens of millions of dollars if Elon Musk walks through the door, even though there would be no general increase in wealth.

⁶ Massachusetts Budget and Policy Center, "[Proposed Income Tax Cuts in Massachusetts Would Benefit Households with Highest Incomes and Force Deep Public Cuts](#)" (2026).

⁷ Massachusetts Budget and Policy Center, "[Proposed Income Tax Cuts in Massachusetts Would Benefit Households with Highest Incomes and Force Deep Public Cuts](#)" (2026).

⁸ U.S. Bureau of Economic Analysis, [Shares of gross domestic income: Compensation of employees, paid: Wage and salary accruals: Disbursements: to persons](#) [W270RE1A156NBEA], retrieved from FRED, Federal Reserve Bank of St. Louis; <https://fred.stlouisfed.org/series/W270RE1A156NBEA>, March 21, 2026.

⁹ Board of Governors of the Federal Reserve System, Distributional Financial Accounts, "[Distribution of Household Wealth in the U.S. Since 1989](#)." See especially selecting "corporate equities and mutual fund shares."

¹⁰ U.S. Bureau of Labor Statistics, Economic News Release, "[Contingent and Alternative Employment Arrangements Summary](#)" USDL-24-2267 (Nov. 8, 2024).

¹¹ Massachusetts Budget and Policy Center, "[Fundamentally Flawed: 62F Formula Overstates 'Excess' by \\$1.4 Billion](#)" (October 2022).

¹² Unlike 62F, a town decision for a Proposition 2 ½ override permanently increases the levy limit.

¹³ Alexander Quintis Jaegerman, "[Implication of the Proposition 2 ½ for the Municipal Bond Market in Massachusetts](#)," Massachusetts Institute of Technology, Department of Urban Studies and Planning masters project, September 1981. See also Christian Science Monitor, "[Municipal Bond Market Resists Massachusetts Downgrading](#)," April 9, 1981.