

## **Proposal**

“Raise Up Massachusetts” has submitted a proposed constitutional amendment to the attorney general to create an additional tax on those who earn more than one million dollars in a single year (\*). The text of the proposed constitutional amendment is as follows:

### **An Initiative Petition for An Amendment to the Constitution of the Commonwealth to Provide Resources for Education and Transportation through an additional tax on Incomes in excess of One Million Dollars**

*Amendment Article XLIV of the Massachusetts Constitution is hereby amended by adding the following paragraph at the end thereof:*

To provide the resources for quality public education and affordable public colleges and universities, and for the repair and maintenance of roads, bridges and public transportation, all revenues received in accordance with this paragraph shall be expended, subject to appropriation, only for these purposes. In addition to the taxes on income otherwise authorized under this Article, there shall be an additional tax of 4 percent on that portion of annual taxable income in excess of \$1,000,000 (one million dollars) reported on any return related to those taxes. To ensure that this additional tax continues to apply only to the commonwealth’s highest income residents, this \$1,000,000 (one million dollar) income level shall be adjusted annually to reflect any increases in the cost of living by the same method used for federal income tax brackets. This paragraph shall apply to all tax years beginning on or after January 1, 2019.

(\*) <http://raiseupma.org/2015/08/04/press-release-workers-community-and-faith-leaders-launch-fair-share-amendment-campaign-to-raise-additional-revenue-for-public-education-and-transportation/>

<http://www.mass.gov/ago/docs/government/2015-petitions/15-17.pdf>

## **Revenue Impact Estimate**

- **Impact on state tax revenues:** Based on a microsimulation, DOR estimates that the amendment would generate between \$1.6 billion and \$2.2 billion in additional state tax revenues with a mid-point of \$1.9 billion in tax year 2019 (please note effective date of the proposal is 1/1/2019). DOR projects that, in TY2019, about 19,500 returns will be affected by this proposal; this is about 0.5% of all returns filed with DOR. About 86% of the affected 19,500 returns will be from married filers filing jointly, and 11% from single filers. Of the 19,500 affected returns, about 18,000 are resident returns and 1,500 are non-resident returns.

- **Offsetting impact to Massachusetts taxpayers of Federal deduction for state income taxes:** Since state income taxes are generally deductible against Federal income taxes, those paying more state income taxes under the proposal would generally see their federal income taxes lowered. These federal offsets are estimated to be between \$0.4 billion and \$0.8 billion with a mid-point of \$0.6 billion in tax year 2019.
- The data and assumptions used in the microsimulation are listed below:
  - 1 The reference year is TY2019, which is the first year the proposal becomes effective. The simulation results reflect the difference between the projected state income tax revenue in TY2019 under the current law vs. that if the proposed amendment were adopted.
  - 2 The data used for simulation are TY2013 income tax returns.
  - 3 Income categories used in simulations are adjusted for growth (from TY2013 to TY2019).
  - 4 It is assumed that the income tax rates in TY2019 under the current law would be 12% for short-term realized capital gains and 5% for other income sources. It is assumed that the Part-B income tax rate reduction is triggered enough times during the period of TY2016-TY2019 that the rate will have declined to 5% by TY2019 (note that the tax rate for TY2015 is 5.15%). Under the proposal, a) there will be an additional tax of 4 percent on that portion of annual taxable income in excess of \$1 million in TY2019, and b) the \$1 million taxable income threshold is for all return types (i.e., the additional tax would apply to the excess income over \$1 million, regardless of whether or not the return is for a single filer, a joint filer, or a married couple filing separately).

Please note that there is a great deal of estimation uncertainty, given that many factors may affect revenue impact significantly but are unpredictable and often difficult to measure. For example, taxpayers may respond to the additional tax by changing decisions on migration, consumption, investment, business location, etc. The number of high-income earners and amount of income reported by those earners could also fluctuate considerably from year to year.

Due to these aforementioned uncertainties and the complexities involved in running simulations under various constraints/assumptions, DOR's revenue impact estimates should be used with caution. Please also note that DOR's role is limited to conducting revenue impact analysis of various proposals. DOR does not take any position on the desirability of such proposals.