# cSPA Testimony, Joint Committee on Revenue

I want to thank you for giving me the opportunity to provide testimony today. It's always a privilege to help the Commonwealth address complicated policy issues.

My name is Evan Horowitz and I'm the Executive Director of the Center for State Policy Analysis at Tufts University, abbreviated as cSPA.

We provide timely, relevant research on live policy issues — in a strictly non-partisan way. We testify at consensus revenue hearings, work on fiscal and economic policy, assess the impact of ballot questions, and provide consulting services and technical support to independent organizations.

I want to make four main points about the tax package proposed by Governor Maura Healey:

> 1) Expanding the child and dependent care tax credit is a proven and efficient way to address child poverty and support families across the Commonwealth.
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> 2) At a cost of roughly $1 billion per year, the full package of tax cuts is a little too large and could limit fiscal flexibility in the medium term.
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> 3) Those parts of the tax package focused on business competitiveness — including changes to the estate tax and the short-term capital gains rate — are poorly targeted and unlikely to achieve that stated goal.
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> 4) The general framework for handling millionaires tax revenue is sensible, but broader changes should be limited.

Let me expand on these, one at a time.

## 1. The child and dependent care tax credit

One lesson from the federal government's pandemic response is that offering money to families with young kids pays big dividends in terms of reducing child poverty. And with the federal program now curtailed, Massachusetts has a clear opportunity to expand its own efforts.

Part of the virtue of the federal credit was its simplicity, which limited the need for families to collect receipts or otherwise jump through hurdles with the IRS (as sometimes happens with other refundable tax credits, like the earned income tax credit.)

The governor's child and dependent tax proposal builds on this powerful simplicity in a way that will maximize the real-world impact.

Reasonable debates can still be had about the appropriate size of these credits, relative to what's affordable and also to the package as a whole. But the basic approach proposed by the governor is extremely thoughtful, well-designed, and likely to provide disproportionate benefits for those with the highest needs.

## 2. The overall size of the tax package

With a long-term annual cost of roughly $1 billion per year, the tax package proposed by Governor Healey is quite substantial, and could impede the state's ability to sustain vital programs in future.

To be clear, we have no concerns in the near-term. A temporary tax package of this size — or even a far larger one-time program — could be readily supported by ongoing tax revenues and our abundant reserves.

Indeed, given the generally healthy economic trajectory of the state, there is probably room for a meaningful package of permanent tax cuts to support key state priorities, perhaps in the amount of $500 million per year.

But when assessing the affordability of permanent tax cuts, you need to consider not just today's fiscal situation but that of tomorrow and the day beyond.

And while we don't anticipate another large-scale recession, $1 billion in lost annual revenue would be enough to complicate spending plans even in a mild slowdown — when that money might be needed to support the student opportunity act or stabilization grants for early education.

For the record, we also do not find convincing the argument that a cut in the capital gains tax rate would have no budgetary impact. In lean times, capital gains collections will fall below the threshold and and the missing revenues will be felt by budget writers.

## 3. Business competitiveness

To build a thriving state economy, we need a tax code that encourages businesses to launch and expand in our state. That means a competitive corporate tax rate, support for investments and worker training, sensible rules for pass-through businesses, and a clear and consistent application of tax laws.

Right now, there are legitimate tax changes the state could pursue to advance this effort and support business growth. For example, moving to single sales factor apportionment could be a valuable change on this front. Updating the thresholds in the so-called sting tax would be another.

However, the two proposals in the governor's package aimed at boosting business competitiveness are poorly-suited to achieve this goal.

Reducing the tax rate on short-term capital gains would be a boon to day traders, house flippers, and others high-earners who make short-term investment with an eye to rapid turnaround. But there's a reason the federal government also has a higher rate for these kinds of short-term gains: they are not drivers of long-term economic growth.

And while it is It is widely acknowledged that Massachusetts' estate tax is badly designed and out of step with other states, there are a variety of different fixes — not all of which would cost the state significant revenue or overwhelmingly benefit the wealthiest residents.

One way to improve the tax without sacrificing quite so much revenue is to simultaneously adjust the rate table. In the simplest approach, we could borrow the thresholds and rate table of a state with a better-designed estate tax, such as Connecticut, Vermont, or Maryland.

## 4. Millionaires tax revenue

Acknowledging that this topic pushes beyond the question of the governor's tax package, I did want to say a few things about her proposals on how to treat millionaires tax dollars.

By and large, the framework laid out in the governor's budget is quite thoughtful and well-suited to the task of accounting for millionaires tax dollars over time.

In our estimation, however, millionaires tax revenue should count towards 62F. Indeed, whereas the 62F cap was triggered last year for quirky reasons, a new policy like the millionaires tax is precisely the kind of change that 62F was intended to address.

Separately, while it's important to close loopholes — like the ability to file joint federal and separate state returns — we should be wary of creating new loopholes, like a potential exemption for one-time millionaires. At the very least, any effort to redefine income or rethink the application of the tax should wait until we have clearer data about incidence and collections.

I'd like to thank you for your time. I'm happy to answer any questions you may have. And more generally I'd like to say that cSPA is ready to provide additional research on any topic or issue that you think useful.