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FACTS AT A GLANCE
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The Income Tax

Massachusetts has an income tax rate of 5.3 percent. The income tax is the single-largest source of revenue for the state, totaling $11.4 billion in fiscal year (FY) 2009. Forty-three states have an income tax, with rates as high as 9.5 percent. Of the states with an income tax, Massachusetts is one of only seven states which does not have a higher income tax rate for higher income earners.

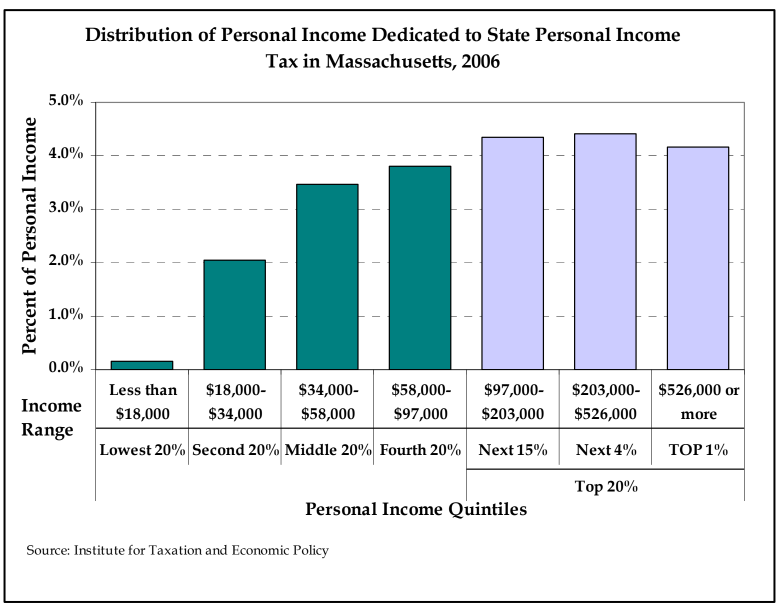
WHAT WOULD BE THE REVENUE EFFECT OF AN INCOME TAX CHANGE?

Based on Department of Revenue projections, if the income tax were increased to its 1999 rate of 5.95 percent, it would raise approximately $1.4 billion in additional revenue. If the income tax were to be increased by a full percentage point, to 6.3 percent, it would raise approximately $2.16 billion in additional revenue.

IS THE INCOME TAX PROGRESSIVE OR REGRESSIVE?

Unlike in many states and at the federal level, the Massachusetts Constitution prohibits a graduated income tax, which taxes higher income earners at higher levels than low-income earners. Still, elements of the state's tax system make the income tax progressive in its administration.

As the chart below indicates, lower income people pay a smaller share of their income in income taxes than higher income people do. This is primarily because of four state policies that lessen the impact of the income tax on lower income families and individuals.



- **No Tax Status**: State law exempts those earning below certain amounts from paying the state income tax. In 2008, the No Tax Status threshold for joint-filing married couples was $16,400; this amount increases by $1,000 for each dependent child.

- **Limited Income Credit:** Residents who do not qualify for No Tax Status can still qualify for the Limited Income Credit, which reduces their income tax bill. For a married couple, filing jointly, the maximum income that qualifies for the Limited Income Credit is $28,700; as with No Tax Status, this amount increases by $1,000 for each dependent child.

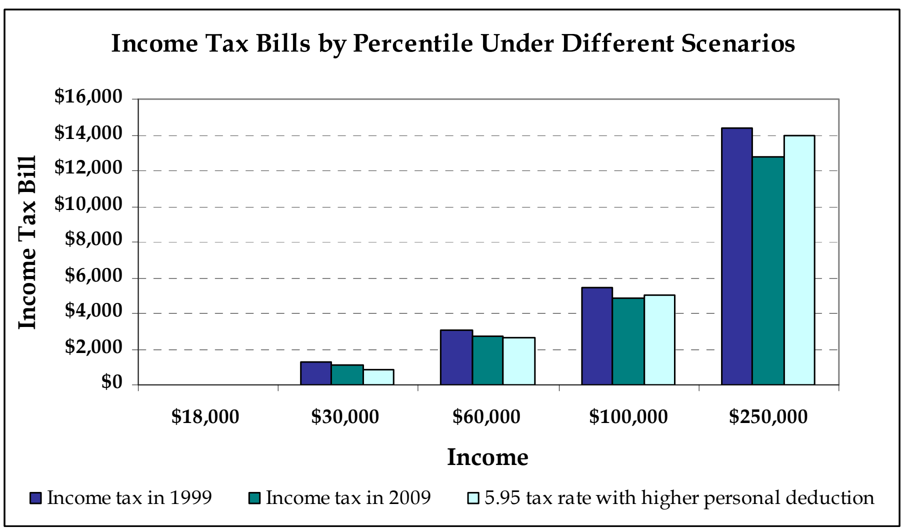
- **Earned Income Tax Credit (EITC):** The state provides a tax credit, based on eligibility for the federal EITC, to encourage work for low-income earners. The state credit is available to married families with two children who earn up to $41,646. The state's maximum credit is $723.60.

- **Personal exemption:** Massachusetts allows all residents to reduce their taxable income by a flat amount of $4,400 for individuals and $8,800 for joint-filing married couples. Because the personal exemption is larger proportionally for low-income earners, it helps to make the income tax more progressive.

COULD THE INCOME TAX BE MORE PROGRESSIVE?

Because the state's tax system overall results in lower income people paying a larger share of their incomes in taxes than higher income people[1], making the income tax more progressive would help to make the overall system more equitable. The Massachusetts Constitution prohibits a graduated income tax. There have been a number of attempts to repeal this prohibition over the last two decades. Each effort failed. If the state were to amend the Constitution it could establish one or several new tax brackets for higher income households. For example, if a new bracket were created setting a 5.95 percent rate for all income over $500,000 a year it would generate approximately $365 million in additional revenue. If the new bracket were to begin at $200,000 it would generate $570 million. If Massachusetts were to keep the income tax at 5.3 percent for those with incomes under $500,000 but set a higher tax rate of 8.97 percent (which is the highest marginal income tax rate in New Jersey and New York) for income over $500,000, then the state would generate $1.2 billion in additional revenue.

Without amending the state constitution, there are other ways to make the income tax more progressive. Raising the personal exemption in conjunction with an increase in the income tax rate would be one way of reforming the income tax so that it would generate more revenue, but do so only from higher income taxpayers. For example, if the tax rate were raised to 5.95 percent, but the personal exemptions were raised to $7,500 for single filers and $15,000 for joint filers, the state would generate $800 million in revenue, but no married couples with a joint taxable income of less than $65,123 (whose gross income is likely over $70,000) would receive a tax increase.



This chart shows the average tax bill for married couples at different income levels under the 1999 income tax, the 2009 income tax, and a 5.95 tax rate with the higher personal deduction discussed above. As the chart indicates, after such a reform higher income taxpayers would be paying more than they are today, but all taxpayers would be paying a smaller share of their income in income taxes than a taxpayer at that income level was paying a decade ago.

1 For more information on the regressivity of the Massachusetts tax system, see MassBudget's Tax Fairness Fact Sheet, available online at http://www.massbudget.org/documentsearch/findDocument?doc_id=662