Testimony to the Joint Committee on Revenue on the Incidence of State and Local Taxes in Massachusetts and Effects of the Fair Share Amendment

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Thank you Chairperson Cusak, Chairperson Hinds, Vice Chairs Brownsberger and Schmid, and members of the Committee. My name is Phineas Baxandall, and I am a Senior Analyst for the non-profit research organization, the Massachusetts Budget and Policy Center. I've been asked here to discuss the incidence of state and local taxes in Massachusetts and how it would be changed by the Fair Share Amendment.

The main way that tax incidence is measured is by the *percent of a group's income* that is paid in taxes. It is not an appropriate metric of tax fairness to measure the percent of taxes collected from a particular group because this is largely just a function of income inequality, at least for income-based taxes. The more concentrated income is in a few hands, the higher portion of taxes will be collected from that group even if the tax system is regressive.

In recent decades, Massachusetts has reduced our major economically progressive tax, the income tax. If not for these changes, we would collect over $4 billion more a year in income taxes. Meanwhile, the Commonwealth has turned increasingly to regressive consumption revenues: higher sales taxes, cigarette taxes, gas taxes, increased transit fares. While lower income people have to consume nearly their whole income to get by, those with the highest incomes consume can only consume so much. They typically consume only a fraction of their income, meaning a smaller percent of their income is subject to consumption taxes.

Massachusetts state and local taxes are "upside down" when it comes to their incidence. Consider:

- Taxpayers in the lowest-income 20 percent in Massachusetts pay the largest share: 10.0 percent of their incomes in state and local taxes.
- The very broad middle class, comprising the 60 percent of tax filers in the middle of the income spectrum, contribute 9.2 percent of their income in state and local taxes.
- The highest income 20 percent of tax filers contribute less than that, but of particular interest is the subset of the highest-income 1 percent of taxpayers who pay 6.8 percent of their incomes, the smallest share of any

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group. A subset of this group are the tax filers who would pay the additional levy from the Fair Share Amendment.

If the Fair Share Amendment were currently in place, it would mark a large step in equalizing the percent of income contributed across income groups. The top 1 percent of tax filers would pay about the same percent of their income as the rest of the top 5 percent of incomes, but still significantly less than average.

The evidence strongly suggests that only a very small number of high-income tax filers would be induced to leave the state as a result of the Fair Share Amendment. Approximately 99 percent of tax filers with income over $1 million would remain in the state and pay the tax.

Three additional points.

First, this is also a racial equity issue. As a result of long history of systemic barriers to opportunity, Black and Latinx workers are over-represented among low-income taxpayers and underrepresented among higher-income taxpayers. Given the “upside-down” structure of the Massachusetts tax system, this means Black and Latinx taxpayers tend to pay a larger share of their incomes in state and local taxes than White taxpayers do. In other words, the structure of Massachusetts’ current tax system makes it relatively harder for people of color to get ahead.

Secondly, recent changes to the federal tax law have delivered very large tax cuts especially to America’s highest-income households. The tax cuts received by those with the highest incomes are disproportionately large, even as a percent of their much larger incomes. These federal tax reductions are on average larger than the tax increase that the highest-income 1 percent would contribute under the Fair Share Amendment. They will come out ahead nonetheless.

Lastly, there also are several states that in recent years have turned their tax systems “right-side up,” meaning people with the highest incomes contribute a greater percentage of their income in state and local taxes than do people with middle or low incomes. These states, among them California, Minnesota, New Jersey, Vermont, and others have very different tax systems and economies. What almost all have in common is that they have added to their state tax codes a higher top tax rate on personal income, applied above a high threshold like the Fair Share Amendment. A look at the states with high top marginal tax rates also shows that these states have not seen fewer million-dollar incomes or slower growth in such top incomes.

These taxes ensure that those who have the greatest ability to contribute taxes and have benefited most from a state’s economic success pay a more equal share of their incomes in taxes.

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For further information and references, see the following MassBudget reports at www.massbudget.org:

- "Who Pays? Low and Middle Income Earners in Massachusetts Pay a Larger Share of Their Incomes in Taxes," (October 2018).
- "Income Tax Cuts Cost Massachusetts Over $4 Billion Annually, and Benefits Mostly Go to Higher Incomes," (March 2019).
- "What has Happened in Other States with High Taxes on Million-Dollar Incomes?" (April 2018).
- "The Evidence on Millionaire Migration and Taxes" (January 2018).
- "How S-Corp and Other 'Pass-Through' Income is Taxes and the Effects of Proposed Tax Reforms" (June 2017).
- "What Does the Federal Tax Law Mean for Massachusetts, and How Might the Commonwealth Respond?" (January 2018).