The Income Tax

OVERVIEW

Massachusetts has an income tax rate of 5.3 percent. The income tax is the single-largest source of revenue for the state, with collections totaling $10.1 billion in Fiscal Year (FY) 2010.[1] Forty-three states have an income tax, several with rates as high as 11 percent.[2] Of the states with an income tax, Massachusetts is one of only seven states that do not have a higher income tax rate for those with higher incomes.[3]

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

Based on projected FY 2011 income tax collections of $10.8 billion, if the income tax rate were raised by one percentage point to 6.3 percent (or lowered by one percentage point to 4.3 percent), the state would gain (or lose) $2.0 billion in revenue.[4]

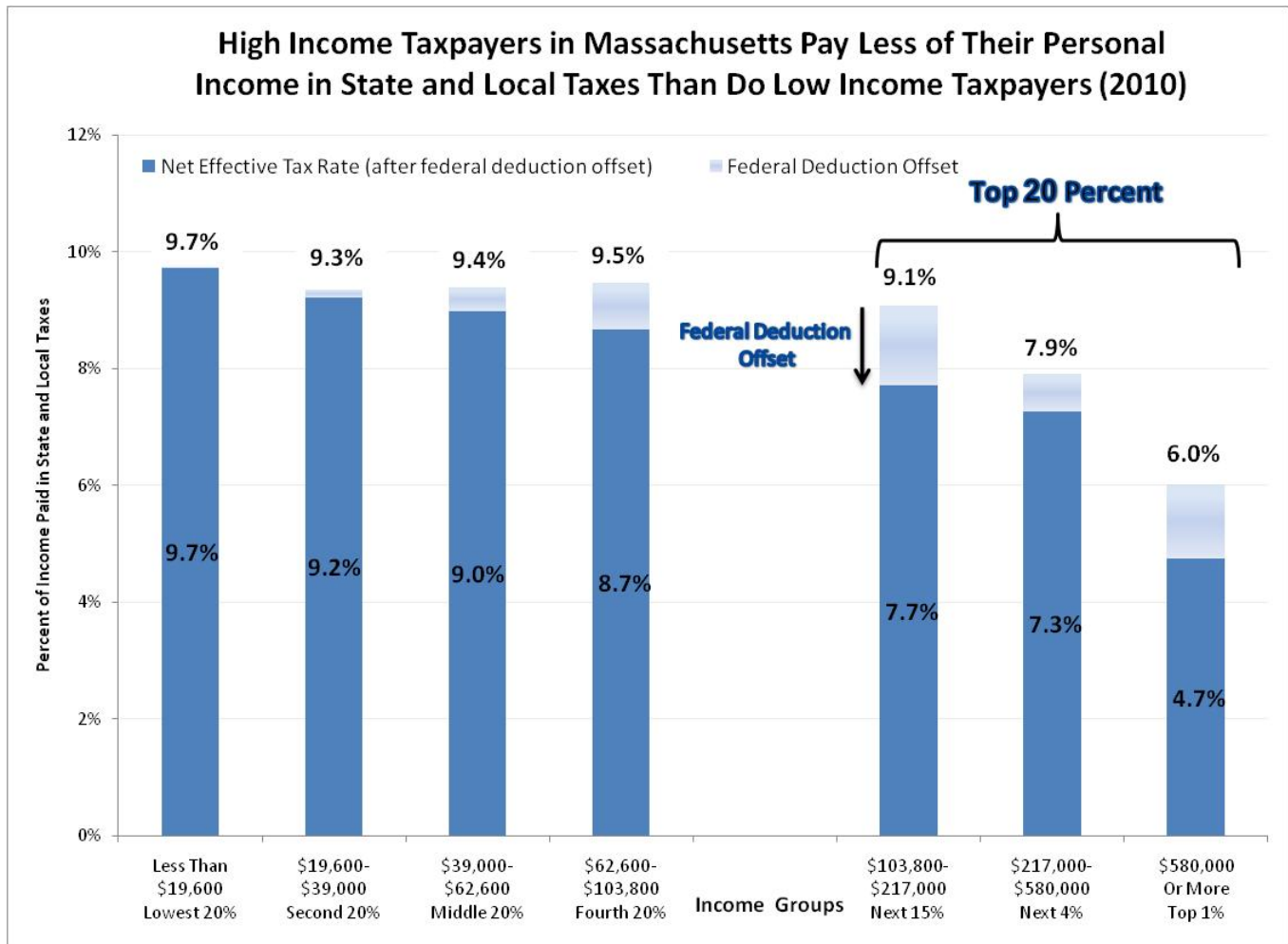## IS THE INCOME TAX PROGRESSIVE OR REGRESSIVE?

While many states and the federal government use a graduated income tax, the Massachusetts Constitution prohibits the use of a graduated income tax, a structure that taxes high incomes at higher rates than low incomes. Instead, Massachusetts has a "flat rate" structure, taxing both low and high incomes at the same 5.3 percent rate. The tax rate, however, is not the only element that determines how much income tax a filer owes. As it turns out, several other elements of the Commonwealth's income tax structure make the net effects of the state's income tax quite progressive. As the chart below indicates, lower-income people pay a smaller share of their income in income taxes than higher-income people do.

Those with High Incomes in Massachusetts Pay More of Their Income in Personal Income Taxes Than Do Those With Low Incomes (2010)
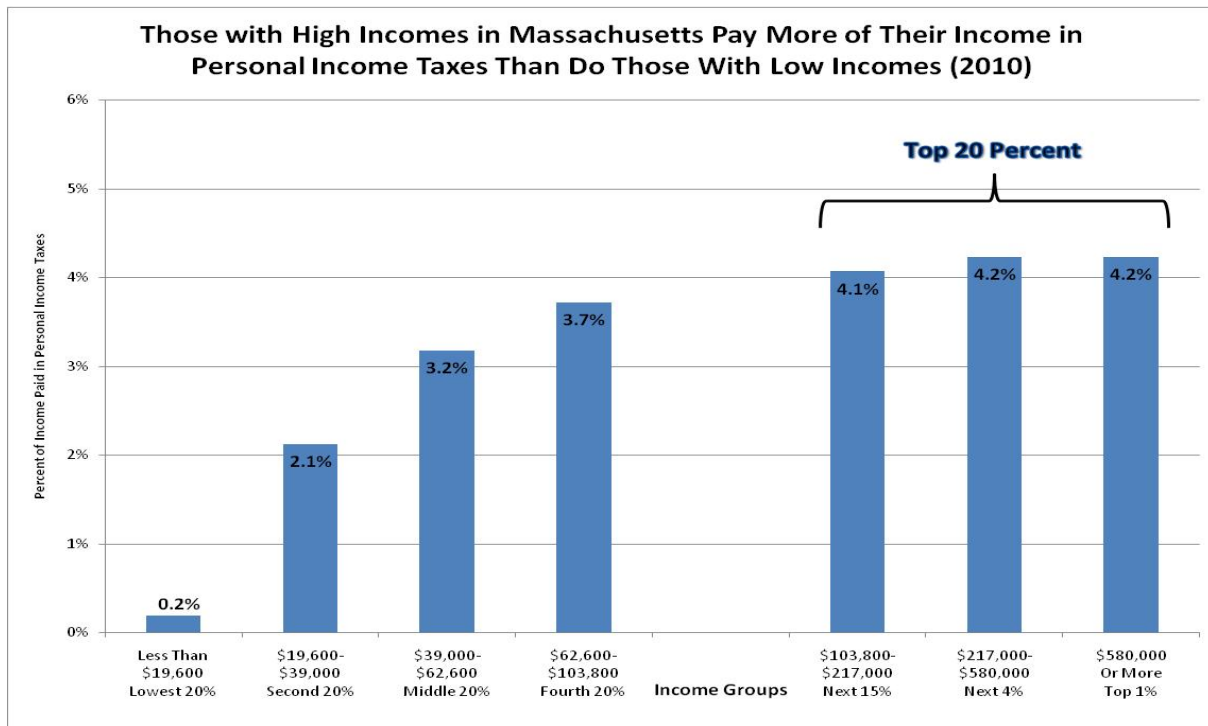
The reason that the Massachusetts income tax – despite its flat-rate structure – is progressive in its results is primarily because of four elements, each of which reduces the impact of the income tax on lower-income families and individuals:

- **No Tax Status:** When a taxpayer's income is under a particular threshold, the taxpayer qualifies for No Tax Status and pays no income tax for that year. The thresholds for Tax Year 2009 were $8,000 for single taxpayers and $16,400 for married couples filing jointly (plus $1,000 per dependent).[5]

- **Low Income Credit:** Taxpayers who do not qualify for No Tax Status are eligible for a Low Income Tax Credit if their income does not exceed $14,000 for single taxpayers and $28,700 (plus $1,750 per dependent) for married couples filing jointly.[6]

- **Earned Income Tax Credit (EITC):** The state provides a tax credit to lower-income filers based on eligibility for the federal EITC. The size of an individual's or family's credit is determined both by the amount of their earned income and the number of children in the tax filer's care. For the 2009 tax year, a married couple (filing jointly) with three children were eligible for some amount of credit if they had an income of less than $48,300 (the maximum credit would have been $849).[7] A single filer with no children would have been eligible for some amount of credit with an income below $13,400 (the maximum credit would have been $69).[8]

- **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.[9] This exemption provides greater benefit (on a percentage basis) to lower-income earners than to higher-income earners, since the exemptions represent a larger portion of lower-income earners' incomes. The result is that the personal exemption adds to the progressivity of the state income tax.

While these four elements help make the Massachusetts *income* tax progressive in its effect, the *overall* system of state and local taxation in Massachusetts remains quite regressive. Low-income people in Massachusetts pay a significantly larger share of their household income (9.7 percent) toward state and local taxes than high-income people do (6.0 percent).[10] High-income people also enjoy reductions in their federal tax liability based on the state income taxes and local property taxes they have paid.[11]

High Income Taxpayers in Massachusetts Pay Less of Their Personal Income in State and Local Taxes Than Do Low Income Taxpayers (2010)
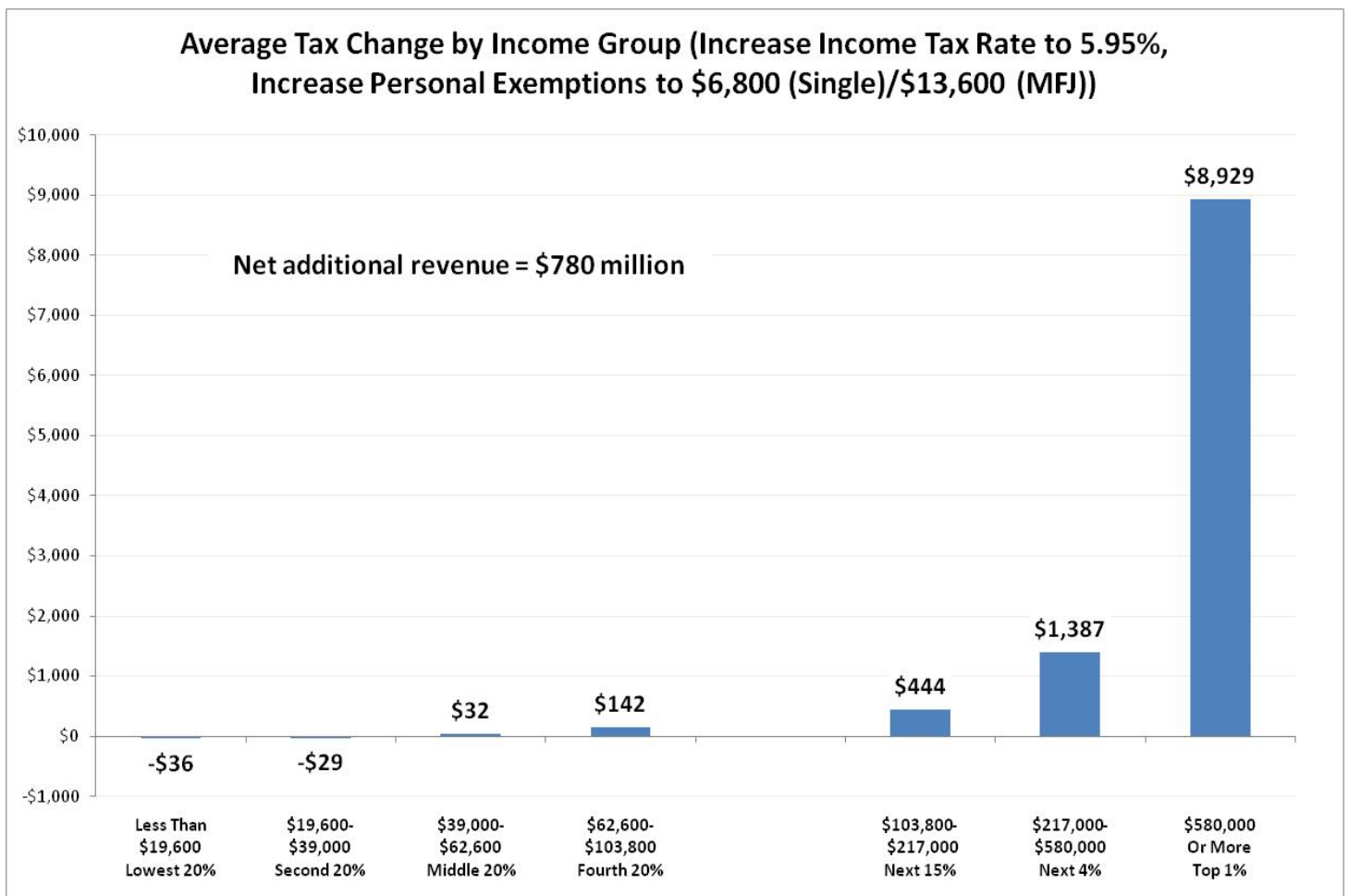

COULD THE INCOME TAX BE MORE PROGRESSIVE?

Because the state's overall tax system results in lower-income people paying a larger share of their incomes in taxes than higher-income people (when all state and local taxes, including sales and property taxes, are taken into account),[12] making the income tax more progressive would help to make the overall system more equitable. The Massachusetts Constitution, however, prohibits a graduated income tax. There have been a number of attempts to repeal this prohibition over the last two decades, and each of these efforts has failed.

Without amending the state Constitution, there still are ways to make the income tax more progressive. In the remainder of this fact sheet we will present five options that would increase revenues while also reducing the overall regressivity of the tax system in Massachusetts.[13]
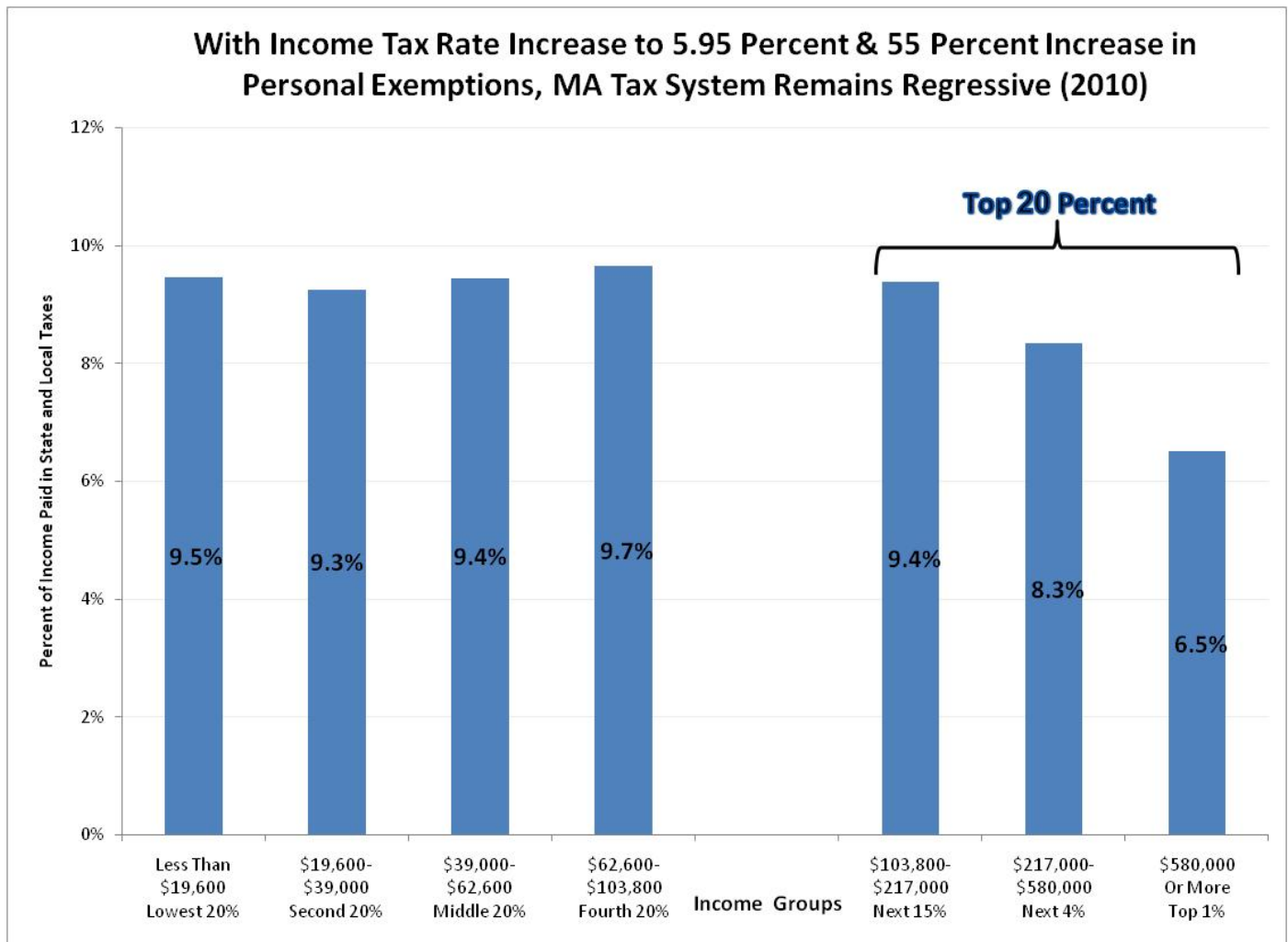
Increasing the Income Tax Rate to 5.95 Percent and the Personal Exemption Amounts by 55 percent

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 primarily from higher-income taxpayers, a group that currently pays a smaller percentage of their income in total state and local taxes than do people with lower incomes. For example, raising the income tax rate from the current 5.3 percent rate to 5.95 percent (the rate in effect throughout much of the 1990s) while simultaneously increasing the personal exemption by 55 percent (to $6,800 for an individual and $13,600 for joint filers) would increase state revenues by approximately $780 million annually.[14] Most low-income taxpayers would see modest decreases in their tax bills while upper-income filers would see increases.

Average Tax Change by Income Group (Increase Income Tax Rate to 5.95%, Increase Personal Exemptions to $6,800 (Single)/$13,600 (MFJ))
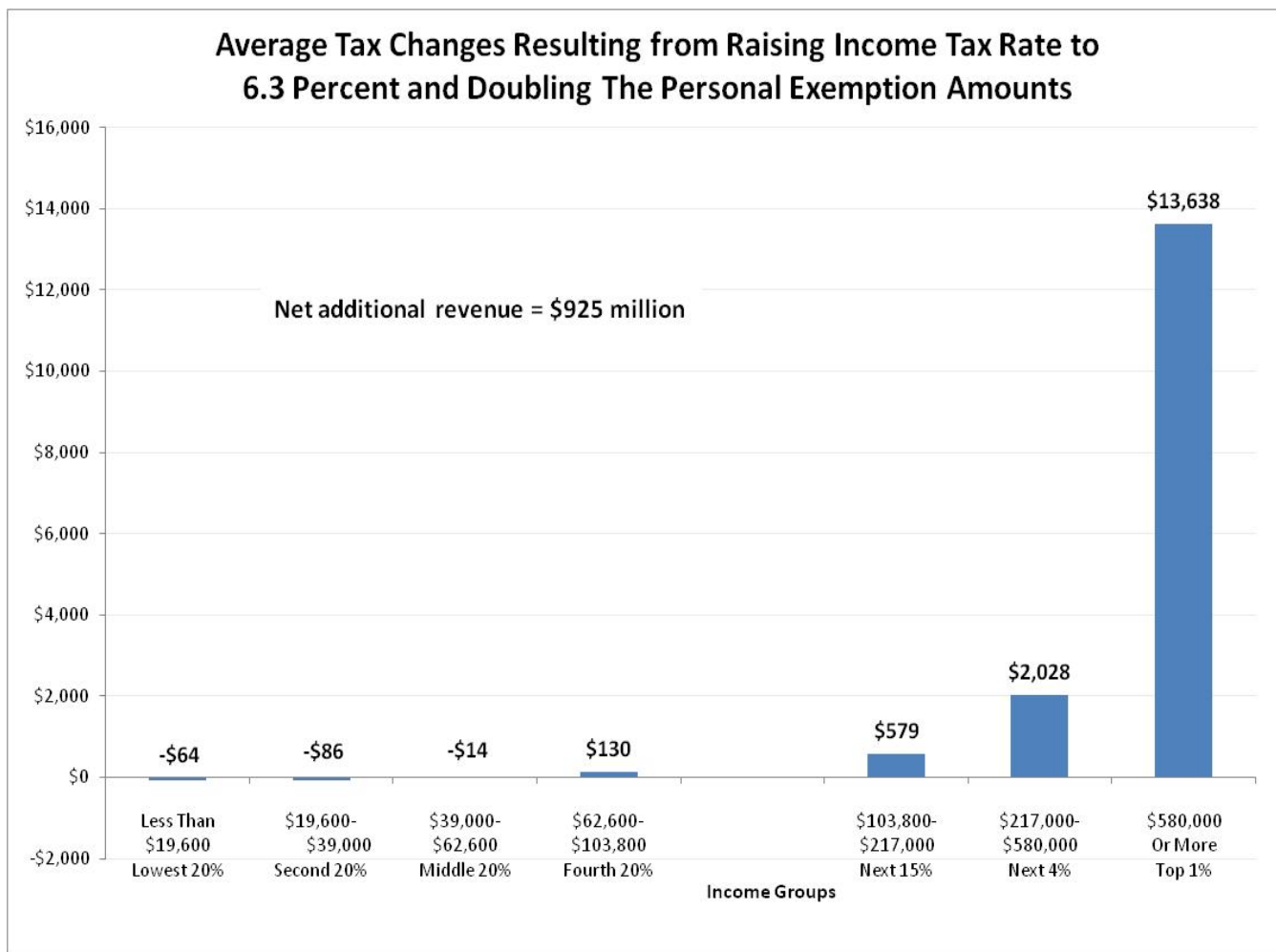
Under this scenario – an income tax rate increase to 5.95 percent and a 55 percent increase in the Personal Exemptions amounts – more than 60 percent of the additional revenue would come from households in the top 5 percent of the income distribution (households with annual incomes above $217,000).[15] More than a third (38 percent) of the additional revenue would come from households in the top 1 percent of the income distribution (households with annual income above $580,000).[16]

By collecting more taxes from households with the highest incomes, this scenario would help to reduce the regressivity of the overall tax system in Massachusetts. Even with these changes, however, low-income households would continue to pay a much larger share of their income (9.5 percent) toward state and local taxes than would households with high incomes (6.5 percent). High-income households also would receive reductions in their federal taxes based on the state income and local property taxes they would pay, an element of the federal tax code from which most low-income households derive no benefit.[17]

With Income Tax Rate Increase to 5.95 Percent & 55 Percent Increase in Personal Exemptions, MA Tax System Remains Regressive (2010)
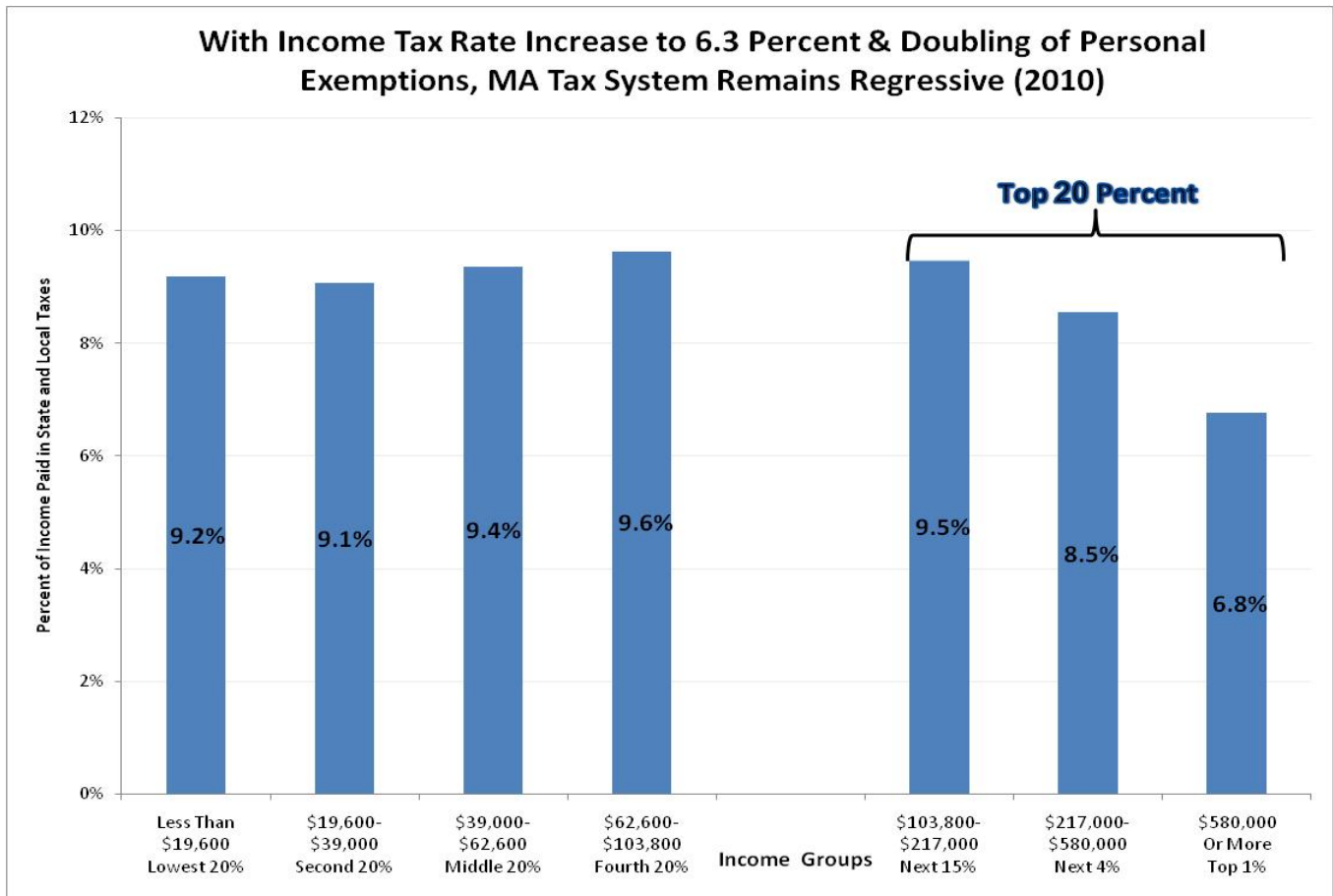
Increasing the Income Tax Rate to 6.3 Percent and Doubling the Personal Exemption Amounts

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 primarily from higher-income taxpayers, a group that currently pays a smaller percentage of their income in total state and local taxes than do people with lower incomes. For example, raising the income tax rate to 6.3 percent (from the current 5.3 percent rate) while simultaneously doubling the personal exemption (to $8,800 for an individual and $17,600 for joint filers) would increase state revenues by approximately $925 million annually.[18] Most low- and moderate-income taxpayers would see modest decreases in their tax bills while upper-income filers would see increases.

Average Tax Changes Resulting from Raising Income Tax Rate to 6.3 Percent and Doubling The Personal Exemption Amounts

Net additional revenue = $925 million

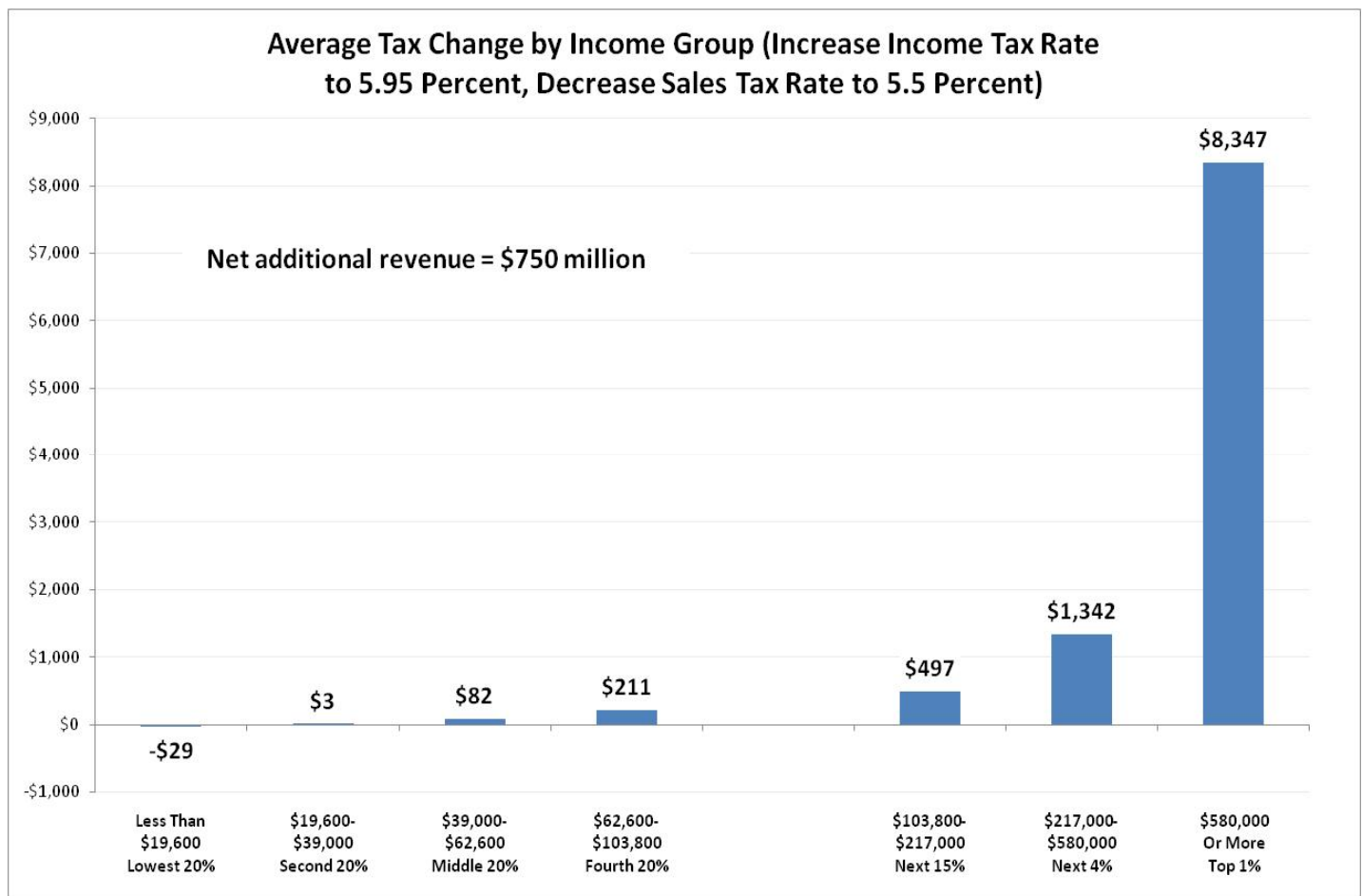| Income Groups	Average Tax Change
Less Than $19,600 (Lowest 20%)	-$64
$19,600-$39,000 (Second 20%)	-$86
$39,000-$62,600 (Middle 20%)	-$14
$62,600-$103,800 (Fourth 20%)	$130
$103,800-$217,000 (Next 15%)	$579
$217,000-$580,000 (Next 4%)	$2,028
$580,000 Or More (Top 1%)	$13,638

Under this scenario – an income tax rate increase to 6.3 percent combined with a doubling of the personal exemption amounts – almost three-quarters (73 percent) of the additional revenue would come from households in the top 5 percent of the income distribution (households with annual income above $217,000). Close to half (46 percent) of the additional revenue would come from households in the top 1 percent of the income distribution (households with annual income above $580,000).[19]

By collecting more taxes from households with the highest incomes, this scenario would help to reduce the regressivity of the overall tax system in Massachusetts. Even with these changes, however, low-income households would continue to pay a much larger share of their income (9.2 percent) toward state and local taxes than would households with high incomes (6.8 percent). High-income households also would receive reductions in their federal taxes based on the state income and local property taxes they would pay, an element of the federal tax code from which most low-income households derive no benefit.[20]

With Income Tax Rate Increase to 6.3 Percent & Doubling of Personal Exemptions, MA Tax System Remains Regressive (2010)
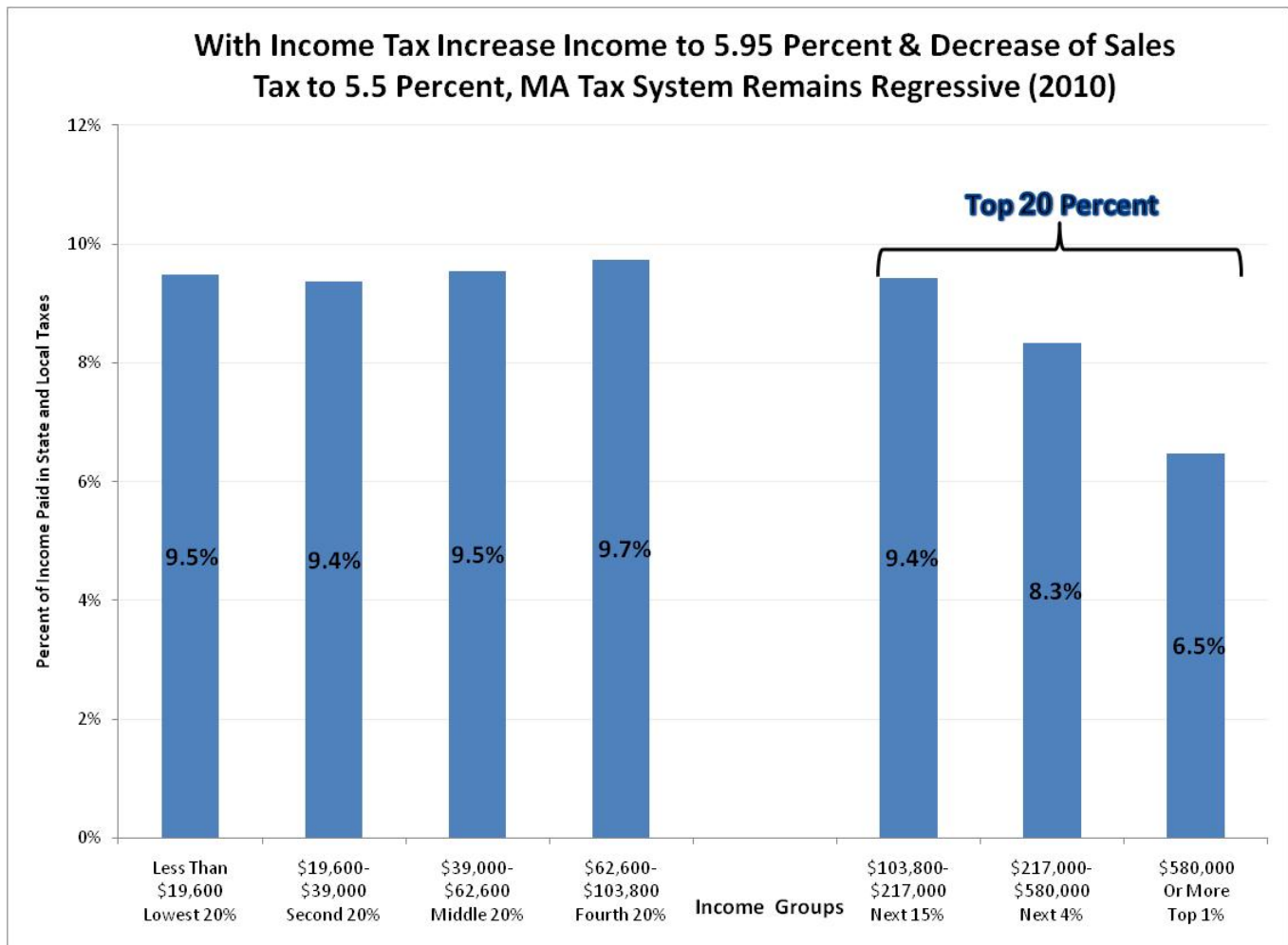
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Increasing the Income Tax Rate to 5.95 Percent and Reducing the Sales Tax Rate to 5.5 Percent

Reducing the sales tax rate in conjunction with raising the income tax rate would be one way of reforming the Massachusetts tax system so that it would generate more revenue, but do so primarily from higher-income taxpayers, a group that currently pays a smaller percentage of their income in total state and local taxes than do people with lower incomes. For example, raising the income tax rate from the current 5.3 percent rate to 5.95 percent (the rate in effect throughout much of the 1990s) while reducing the sales tax by 3/4ths of a penny (to 5.5 percent) would increase state revenues by approximately $750 million annually.[21] Most low-income taxpayers would see modest decreases or negligible increases in their tax bills while upper-income filers would see increases.

Average Tax Change by Income Group (Increase Income Tax Rate to 5.95 Percent, Decrease Sales Tax Rate to 5.5 Percent)

Net additional revenue = $750 million

| Income Group	Average Tax Change
Less Than $19,600 — Lowest 20%	-$29
$19,600-$39,000 — Second 20%	$3
$39,000-$62,600 — Middle 20%	$82
$62,600-$103,800 — Fourth 20%	$211
$103,800-$217,000 — Next 15%	$497
$217,000-$580,000 — Next 4%	$1,342
$580,000 Or More — Top 1%	$8,347

Under this scenario – raising the income tax rate to 5.95 percent and reducing the sales tax rate to 5.5 percent – more than 50 percent of the additional revenue would come from households in the top 5 percent of the income distribution (households with annual income above $217,000).[22] Almost one-third (32 percent) of the additional revenue would come from households in the top 1 percent of the income distribution (households with annual income above $580,000).[23]

By collecting more taxes from households with the highest incomes, this scenario would help to reduce the regressivity of the overall tax system in Massachusetts. Even with these changes, however, low-income households would continue to pay a much larger share of their income (9.5 percent) toward state and local taxes than would households with high incomes (6.5 percent). High-income households also would receive reductions in their federal taxes based on the state income and local property taxes they would pay, an element of the federal tax code from which most low-income households derive no benefit.[24]

With Income Tax Increase Income to 5.95 Percent & Decrease of Sales Tax to 5.5 Percent, MA Tax System Remains Regressive (2010)
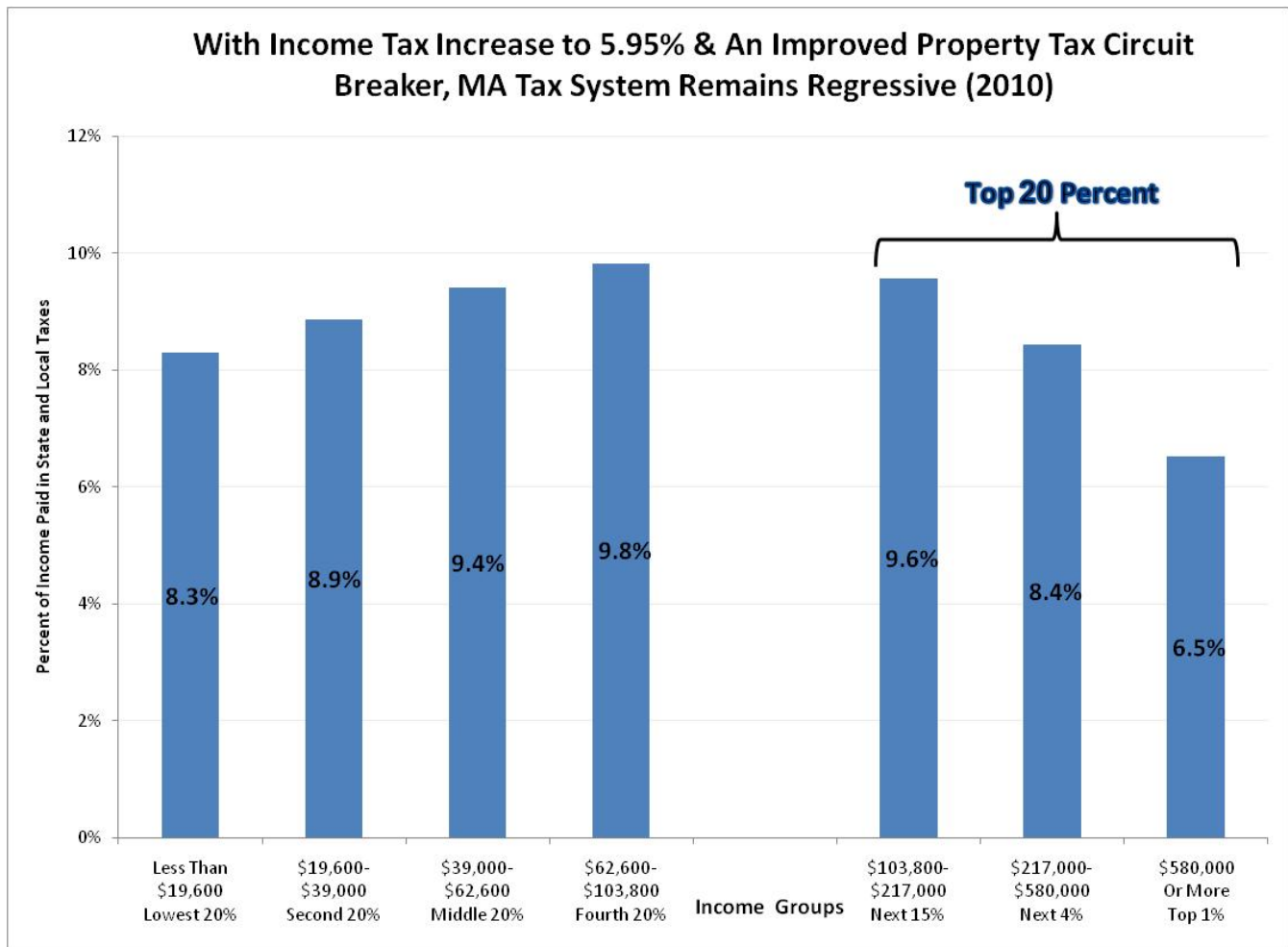
Increasing the Income Tax Rate to 5.95 Percent and Improving Access to the Property Tax Circuit Breaker Program

Increasing the income tax rate in conjunction with changing some of the eligibility criteria for the Property Tax Circuit Breaker program would be one way of reforming the income tax so that it would generate more revenue, but do so primarily from higher-income taxpayers, a group that currently pays a smaller percentage of their income in total state and local taxes than do people with lower incomes. For example, raising the income tax rate to 5.95 percent (from the current 5.3 percent rate) while simultaneously making the Circuit Breaker credit available to low- and moderate- income people of *all ages* (rather than seniors only) and whose property tax-to-income ratio exceeds 5 percent (rather than the current 10 percent threshold) would increase state revenues by approximately $875 million annually.[25] Many low- and moderate-income taxpayers (with particularly high property tax bills relative to their household incomes) would see meaningful decreases in their tax bills while upper-income filers would see increases.
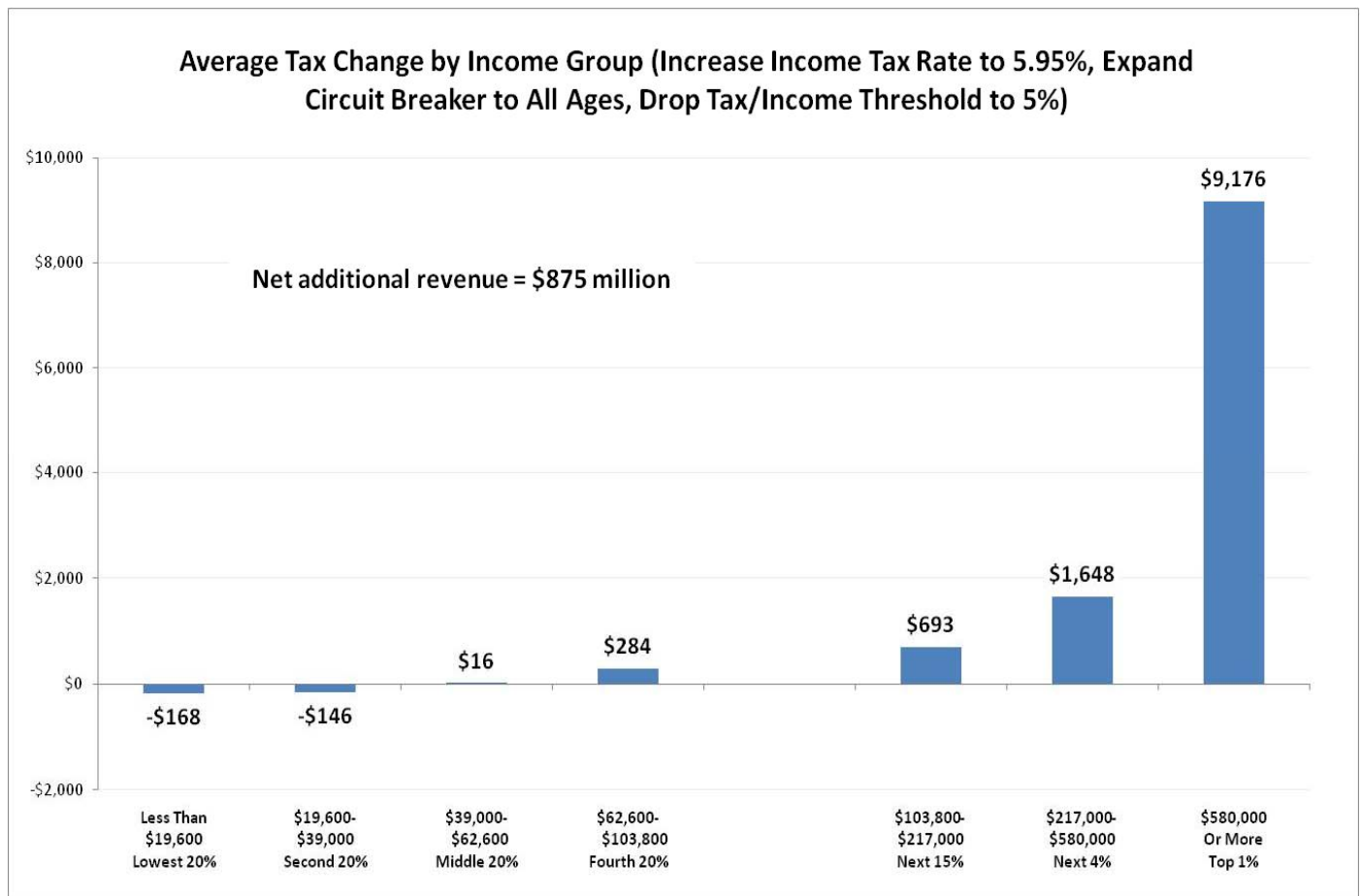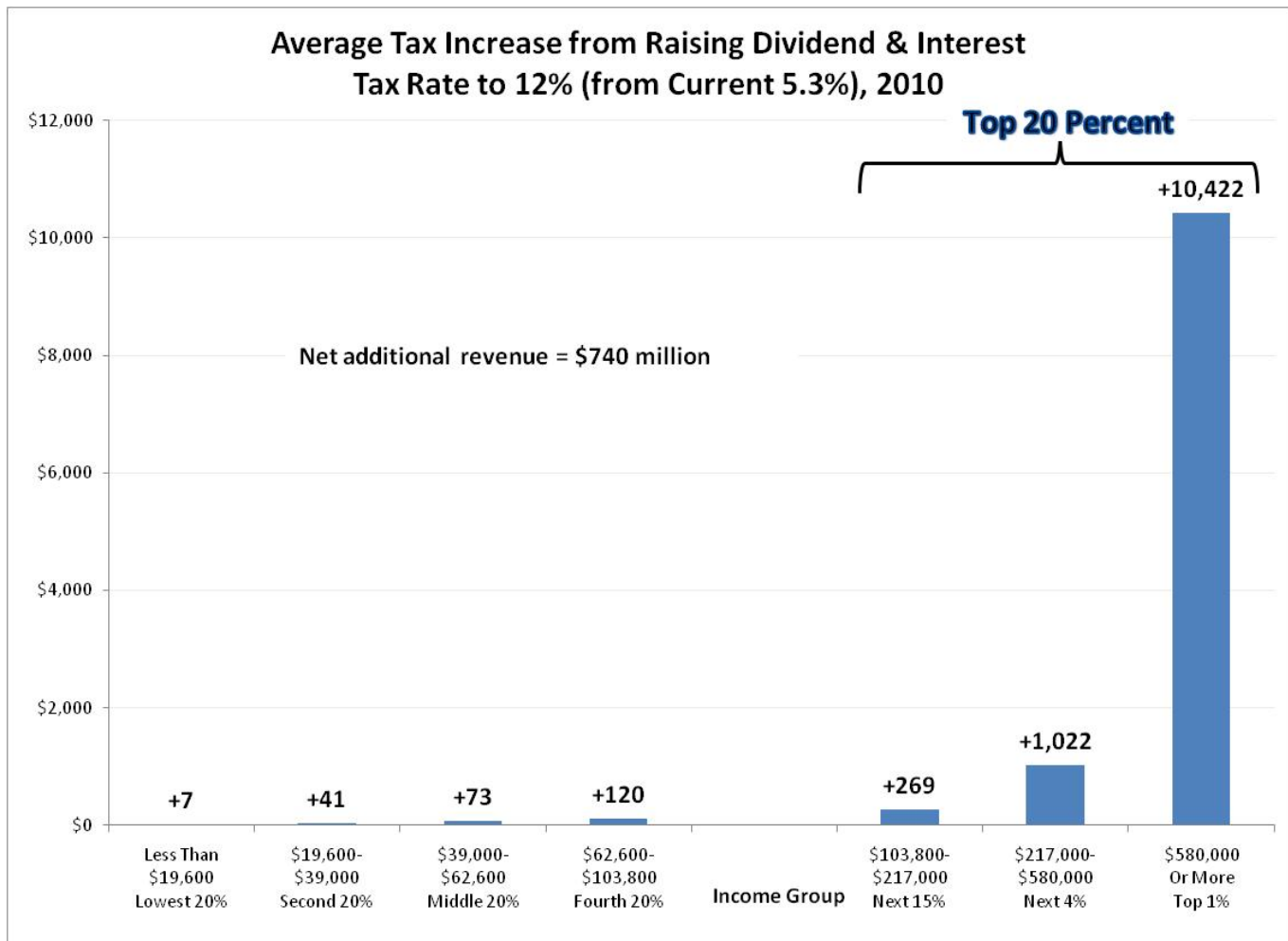

Under this scenario – raising the income tax rate to 5.95 percent and improving access to the Circuit Breaker program – more than 60 percent of the additional revenue would come from households in the top 5 percent of the income distribution (households with annual income above $217,000).[26] Over one third (36 percent) of the additional revenue would come from households in the top 1percent of the income distribution (households with annual income above $580,000).[27]

By collecting more taxes from households with the highest incomes, this scenario would help to reduce the regressivity of the overall tax system in Massachusetts. Even with these changes, however, low-income households would continue to pay a much larger share of their income (8.3 percent) toward state and local taxes than would households with high incomes (6.5 percent). High-income households also would receive reductions in their federal taxes based on the state income and local property taxes they would pay, an element of the federal tax code from which most low-income households derive no benefit.[28]

With Income Tax Increase to 5.95% & An Improved Property Tax Circuit Breaker, MA Tax System Remains Regressive (2010)

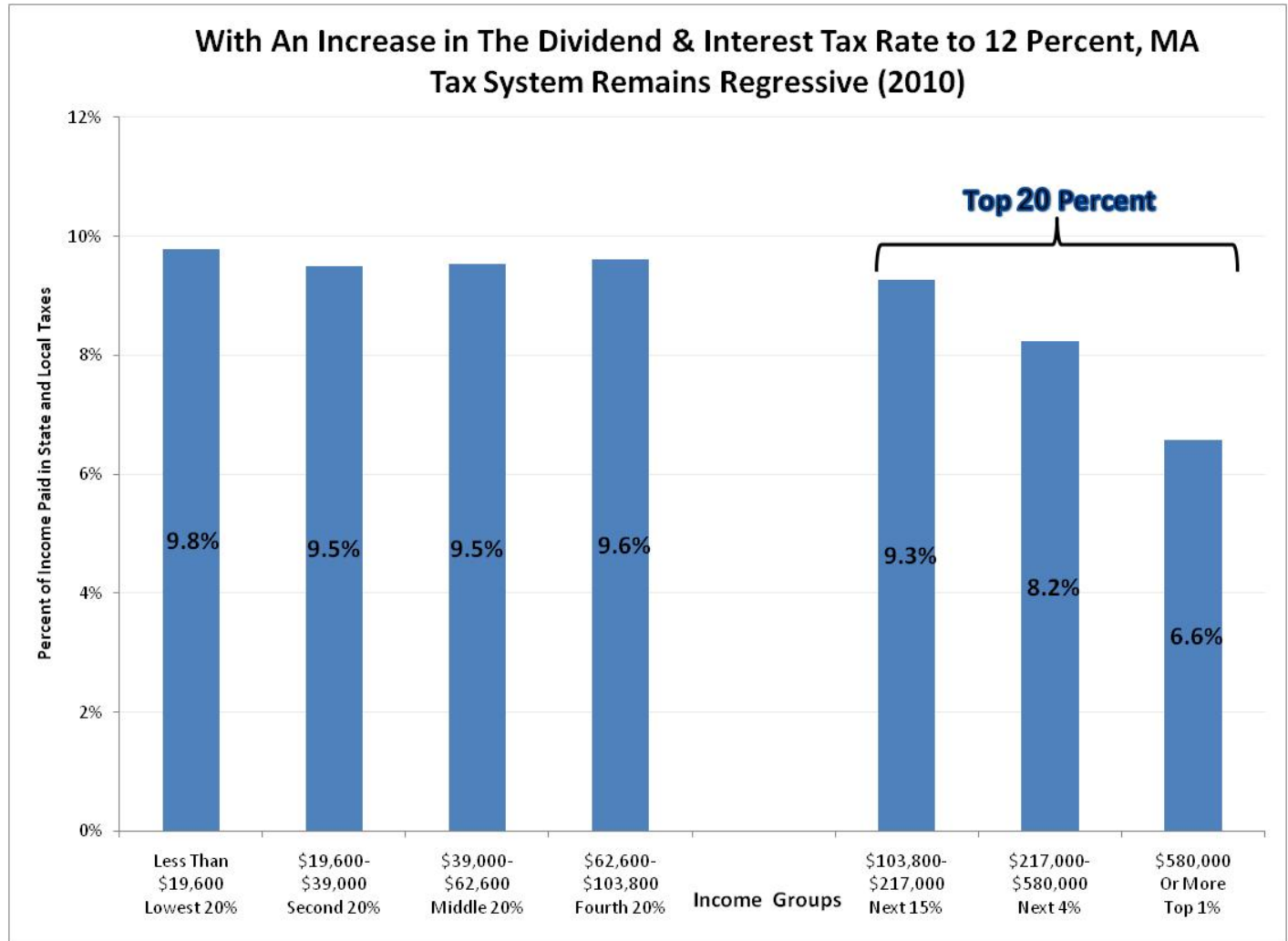## Increasing the Tax Rate on Dividend and Interest Income to 12.0 Percent

Increasing the tax rate on a specific category of income – "dividend and interest" income – would be one way of reforming the income tax so that it would generate more revenue, but do so primarily from higher-income taxpayers, a group that currently pays a smaller percentage of their income in total state and local taxes than do people with lower incomes. For example, raising the tax rate on dividend and interest income from the current 5.3 percent rate back to the 12.0 percent rate in effect as recently as 1998 would increase state revenues by approximately $740 million annually.[29]

Under this scenario – raising the dividend and interest tax rate to 12.0 percent – more than 60 percent of the additional revenue would come from households in the top 5 percent of the income distribution (households with annual income above $217,000).[30] Close to half (45 percent) of the additional revenue would come from households in the top 1 percent of the income distribution (households with annual income above $580,000).[31]

By collecting more taxes from households with the highest incomes, this scenario would help to reduce the regressivity of the overall tax system in Massachusetts. Even with these changes, however, low-income households would continue to pay a much larger share of their income (9.8 percent) toward state and local

taxes than would households with high incomes (6.6 percent). High-income households also would receive reductions in their federal taxes based on the state income and local property taxes they would pay, an element of the federal tax code from which most low-income households derive no benefit.[32]

With An Increase in The Dividend & Interest Tax Rate to 12 Percent, MA Tax System Remains Regressive (2010)

1 DOR Monthly Revenue Statements, June 2010: http://www.mass.gov/Ador/docs/dor/Stats/BlueBook/FY2010/June_2010.pdf

2 Hawaii and Oregon both have top rates of 11 percent. Federation of Tax Administrators website (data updated January 2010): http://www.taxadmin.org/fta/rate/tax_stru.html

[3] Ibid.

[4] The methodology used to produce this estimate ($2.0 billion) is as follows: Currently, FY 2011 income tax revenues are coming in at rates higher than anticipated in the FY 2011 Consensus Revenue Estimate (CRF). With this in mind, *MassBudget* uses the high-end estimate from the FY 2011 CRF – a figure of $10.869 billion – from which we deduct the anticipated revenues derived from short-term capital gains as these are taxed at a higher rate of 12.0 percent (and thus would not be subject to an increase from 5.3 percent). The high-end estimate for all capital gains revenues in the FY 2011 CRF is $892 million. Five-year historical averages indicate that short-term capital gains account for some 13.1 percent of all capital gains revenues or what would be about $117 million of this high-end FY 2011 capital gains estimate. Deducting this amount from the total income tax revenue estimate ($10.869 billion) and applying the higher rate (6.3 percent, an increase of one percentage point) to the remaining $10.752 billion ($10.869 billion - $117 million = $10.752 billion), *MassBudget* arrives at an estimate of additional annual revenues of $2.029 billion for FY 2011 from the rate increase alone (were this rate to have been in effect in FY 2011).

[5] See Mass DOR website:
http://www.mass.gov/?pageID=dorterminal&L=6&L0=Home&L1=Individuals+and+Families&L2=Personal+Income+Tax&L3=Current+Year+Tax+Information&L4=Guide+to+Personal+Income+Tax&L5=Filing+Requirements&sid=Ador&b=terminalcontent&f=dor_help_guides_abate_amend_personal_issues_nts&csid=Ador#Table

[6] Ibid.

[7] See DOR website:
http://www.mass.gov/?pageID=dorterminal&L=6&L0=Home&L1=Individuals+and+Families&L2=Personal+Income+Tax&L3=Current+Year+Tax+Information&L4=Guide+to+Personal+Income+Tax&L5=Credits&sid=Ador&b=terminalcontent&f=dor_help_guides_abate_amend_personal_issues_eic&csid=Ador#Threshold

[8] Ibid.

[9] For details see MA DOR website:
http://www.mass.gov/?pageID=dorterminal&L=6&L0=Home&L1=Individuals+and+Families&L2=Personal+Income+Tax&L3=Current+Year+Tax+Information&L4=Guide+to+Personal+Income+Tax&L5=Exemptions&sid=Ador&b=terminalcontent&f=dor_help_guides_abate_amend_personal_issues_exemptionsform1&csid=Ador#Personal

[10] Based on modeling performed by the Institute on Taxation and Economic Policy (ITEP), December 2010.

[11] The amount of income on which people are taxed at the federal level can be reduced by the amount they have paid in state income tax and local property tax, meaning that their federal tax bill is smaller as a result of this "federal deduction." In effect then, the more people pay in state income and local property taxes, the greater will be their deduction from their federal tax bill. Factoring in the federal deduction offset, low-income MA households continue to pay 9.7 percent of their income in state and local taxes (deriving, on average, no benefit from the federal deduction offset). High-income households, on the other hand, are able to reduce their federal tax liability by an amount that, on average, equals 1.3 percent of their income, based on their combined state and local tax liability. For further discussion of this issue, please see *MassBudget's* Tax Primer (pg 19 in the pdf version):
http://www.massbudget.org/file_storage/documents/Tax_Primer_83110.pdf

[12] For more information on the regressivity of the Massachusetts tax system, see *MassBudget's* Tax Fairness Fact Sheet, available online at http://massbudget.org/doc/750

[13] The five revenue options presented in this paper include two distinct types of estimates: estimates of tax changes by income quintile and estimates of total net additional revenues. These two types of estimates are derived from different sources, the first from analysis performed by the Institute for Taxation and Economic Policy using 2010 income data, and the second from *MassBudget* calculations using MA DOR FY 2011 revenue data. While each type of estimate provides the best numbers available for the relevant measure (tax changes by income group or net additional revenues), because they are derived from different data sets and methodologies, they are not fully cross-comparable. The two methodologies produce very similar, but not identical, net-revenue estimates. The estimates for average tax change by income group, however, cannot be used to reproduce *MassBudget's* DOR-based estimates of net additional revenues. The methodology used to produce each *MassBudget* estimate is included in a footnote accompanying each revenue option.

[14] Distributional effects based on analysis performed by the Institute on Taxation and Economic Policy (ITEP), March 2010 (see *MassBudget's* Tax Primer, Appendix E): http://massbudget.org/doc/748/1364

Net additional revenue estimates are *MassBudget* calculations based on DOR projections. The methodology used to produce this estimate is as follows: Currently, FY 2011 income tax revenues are coming in at rates higher than anticipated in the FY 2011 Consensus Revenue Estimate (CRF). With this in mind, *MassBudget* uses the high-end estimate from the FY 2011 CRF – a figure of $10.869 billion – from which we deduct the anticipated revenues derived from short-term capital gains, as these are taxed at a higher rate of 12.0 percent (and thus would not be subject to an increase from 5.3 percent). The high-end estimate for all capital gains revenues in the FY 2011 CRF is $892 million. Five-year historical averages indicate that short-term capital gains account for some 13.1 percent of all capital gains revenues or what would be about $117 million of this high-end FY 2011 capital gains estimate. Deducting this $117 million from the total income tax revenue estimate ($10.869 billion) and applying the higher rate (5.95 percent, an increase of 0.65 percentage points) to the remaining $10.752 million, *MassBudget* arrives at an estimate of additional revenues of $1.319 billion for FY 2011 (were this rate to have been in effect in FY 2011). From this total we then deduct the revenue losses resulting from higher personal exemption (PE) amounts. Using DOR estimates of revenue losses from the current PEs (see FY 2010 Tax Expenditure Budget (TEB), pg 8-24, footnote 3), we assume that the losses would be less than proportional to the increases in PE value, as some people who now use all or only some of the total credit would not be able to take advantage of the full increase in tax reduction. We assume that only 90 percent of the additional PE benefit actually would be used, giving us a direct PE subtotal loss of $521million (including a additional $57 million loss above that derived from directly adjusting DOR's estimates, due to the now 0.65 percentage point higher tax rate). Similarly, the DOR estimates provided in the TEB for revenue losses related to No Tax Status and Low Income Credit would likely increase were the PE values to increase. *MassBudget* assumes that a doubling of the PE values would increase these combined revenue losses by 50 percent, for a net additional loss of $17 million. The net revenue gain from this combined set of changes (increasing the rate to 5.95 percent while increasing PE values by 54.5%) thus would be $1.319 billion - $521million - $17 million = $780 million.
Absent the availability of official revenue growth projections for FY 2012 (which will be released in mid-December with the FY 2012 Consensus Revenue Forecast), *MassBudget* does not adjust this FY 2011-based estimate to reflect potential revenue growth in FY 2012.

[15] Based on modeling performed by the Institute on Taxation and Economic Policy (ITEP), December 2010.

[16] Ibid. *Average* annual incomes of households in the top 1 percent stood at $1.84 million in 2010.

[17] For further discussion of this issue, please see *MassBudget's* Tax Primer, http://massbudget.org/doc/748/1328

[18] Distributional effects based on analysis performed by the Institute on Taxation and Economic Policy (ITEP), March 2010 (see *MassBudget's* Tax Primer, Appendix E): http://massbudget.org/doc/748/1364

Net additional revenue estimates are *MassBudget* calculations based on DOR projections. The methodology used to produce this estimate is as follows: Currently, FY 2011 income tax revenues are coming in at rates higher than anticipated in the FY 2011 Consensus Revenue Estimate (CRF). With this in mind, *MassBudget* uses the high-end estimate from the FY 2011 CRF – a figure of $10.869 billion – from which we deduct the anticipated revenues derived from short-term capital gains as these are taxed at a higher rate of 12.0 percent (and thus would not be subject to an increase from 5.3 percent). The high-end estimate for all capital gains revenues in the FY 2011 CRF is $892 million. Five-year historical averages indicate that short term capital gains account for some 13.1 percent of all capital gains revenues or what would be about $117 million of this high-end FY 2011 capital gains estimate. Deducting this amount from the total income tax revenue estimate ($10.869 billion) and applying the higher rate (6.3 percent, an increase of one percentage point) to the remaining $10.752 billion ($10.869 billion - $117 million = $10.752 billion), *MassBudget* arrives at an estimate of additional annual revenues of $2.029 billion for FY 2011 from the rate increase alone (were this rate to have been in effect in FY 2011).
From this subtotal ($2.029 billion) we then deduct the revenue losses resulting from higher personal exemption (PE) amounts. Using DOR estimates of revenue losses from the current PEs (see FY 2010 Tax Expenditure Budget (TEB), pg 8-24, footnote 3: http://www.mass.gov/bb/h1/fy10h1/dnld10/taxexpend10.pdf), we assume that the losses would not quite double with a doubling of PE value, as some people who now use all or only some of the total credit would not be able to take advantage of the full increase in tax reduction. We assume that only 95 percent of the additional PE benefit actually would be used, giving us a direct PE subtotal loss of $1.068 billion (including an additional $170 million loss above that derived from directly adjusting DOR's estimates, due to the now one percentage point higher tax rate). Similarly, the DOR estimates provided in the TEB for revenue losses related to No Tax Status and Low Income Credit (same page in TEB) would likely increase were the PE values to increase. *MassBudget* assumes that a doubling of the PE values would increase these combined revenue losses by 100 percent, for a net additional loss of $35 million. The net annual revenue gain from this combined set of changes (increasing the rate to 6.3 percent while doubling PE values) thus would be $926 million ($2,029 million - $1,068 million - $35 million = $926 million).
Absent the availability of official revenue growth projections for FY 2012 (which will be released in mid-December with the FY 2012 Consensus Revenue Forecast), *MassBudget* does not adjust this FY 2011-based estimate to reflect potential revenue growth (or inflation adjustments) in FY 2012.

[19] Ibid. *Average* annual incomes of households in the top 1 percent stood at $1.84 million in 2010.
For further discussion of this issue, please see *MassBudget's* Tax Primer, http://massbudget.org/doc/748/1328

[21] Distributional effects based on analysis performed by the Institute on Taxation and Economic Policy (ITEP), March 2010 (see *MassBudget*'s Tax Primer, Appendix E): http://massbudget.org/doc/748/1364 Net additional revenue estimates are *MassBudget* calculations based on DOR projections. The methodology used to produce this estimate is as follows: Currently, FY 2011 income tax revenues are coming in at rates higher than anticipated in the FY 2011 Consensus Revenue Estimate (CRF). With this in mind, *MassBudget* uses the high-end estimate from the FY 2011 CRF – a figure of $10.869 billion – from which we deduct the anticipated revenues derived from short-term capital gains as these are taxed at a higher rate of 12.0 percent (and thus would not be subject to an increase from 5.3 percent). The high-end estimate for all capital gains revenues in the FY 2011 CRF is $892 million. Five-year historical averages indicate that short term capital gains account for some 13.1 percent of all capital gains revenues or what would be about $117 million of this high-end FY 2011 capital gains estimate. Deducting this $117 million from the total income tax revenue estimate ($10.869 billion) and applying the higher rate (5.95 percent, an increase of 0.65 percentage points) to the remaining $10.752 million, *MassBudget* arrives at an estimate of additional revenues of $1.319 billion for FY 2011 (were this rate to have been in effect in FY 2011).
From this total we then deduct the revenue losses resulting from a sales tax rate reduction. Using DOR's high-end estimate of FY 2011 sales tax revenues (from the FY 2011 CRF) - with revenues from the now-repealed addition of alcoholic beverages to the sales tax base removed ($4,860 million - $112 million = $4748 million) - *MassBudget* calculates that a 3/4ths penny reduction in the rate (a 0.75 percentage point reduction in the rate, to 5.5 percent) would reduce revenues by $570 million annually. The net revenue gain from this combined set of changes (increasing the rate to 5.95 percent while decreasing the sales tax by 3/4ths of a penny) thus would be $1.319 billion - $570 million = $749 million.
Absent the availability of official revenue growth projections for FY 2012 (which will be released in mid-December with the FY 2012 Consensus Revenue Forecast), *MassBudget* does not adjust this FY 2011-based estimate to reflect potential revenue growth in FY 2012 (or adjustments for inflation).

[22] Based on modeling performed by the Institute on Taxation and Economic Policy (ITEP), December 2010.

[23] Ibid. *Average* annual incomes of households in the top 1 percent stood at $1.84 million in 2010.

[24] For further discussion of this issue, please see *MassBudget's* Tax Primer, http://massbudget.org/doc/748/1328

[25] Distributional effects based on analysis performed by the Institute on Taxation and Economic Policy (ITEP), March 2010 (see *MassBudget*'s Tax Primer, Appendix E): http://massbudget.org/doc/748/1364 The net additional revenue estimate of $876 million is a *MassBudget* estimate using DOR-based calculations of the additional revenue ($1.319 billion) to be gained from a 0.65 percentage point increase in the income tax rate (to 5.95 percent) combined with an ITEP estimate of the revenue losses ($443 million) resulting from an expanded Circuit Breaker program (the ITEP revenue loss estimate assumes a CB participation rate of 67 percent among eligible households). The calculation: $1,319 million - $443 million = $876 million.

[26] Based on modeling performed by the Institute on Taxation and Economic Policy (ITEP), December 2010.

[27] Ibid. *Average* annual incomes of households in the top 1 percent stood at $1.84 million in 2010.

[28] For further discussion of this issue, please see *MassBudget's* Tax Primer, http://massbudget.org/doc/748/1328

[29] Distributional effects and net revenue estimate totals based on analysis performed by the Institute on Taxation and Economic Policy (ITEP), March 2010 (see *MassBudget*'s Tax Primer, Appendix E): http://massbudget.org/doc/748/1364
DOR data more current than 2007 for dividend and interest income is not available and hence MassBudget chooses instead to use ITEP's estimate based on 2010 income and economic data.

[30] Based on modeling performed by the Institute on Taxation and Economic Policy (ITEP), December 2010.

[31] Ibid. *Average* annual incomes of households in the top 1 percent stood at $1.84 million in 2010.

[32] For further discussion of this issue, please see *MassBudget's* Tax Primer, http://massbudget.org/doc/748/1328