March 28, 2023

The Honorable Susan L. Moran
Joint Committee on Revenue
State House, Room 506
Boston, MA 02133

The Honorable Mark J. Cusack
Joint Committee on Revenue
State House, Room 34
Boston, MA 02133

Dear Honorable Chairs and Committee members:

On behalf of the more than 11,500 members of the Massachusetts Society of Certified Public Accountants (MassCPAs), we thank you for the opportunity to testify in support of provisions within **House bill 42,** *An Act Creating Tax Relief for Affordability, Competitiveness and Equity*. We are also pleased to provide information on additional tax policy proposals that will ensure Massachusetts maintains its competitive edge in the region and across the United States.

The way people live and work has changed considerably over the last few years. A recent Census survey found that the number of people who primarily work from home has tripled since 2019, which equates to roughly 18% of people working remotely. Massachusetts is a leader as one of the states with the highest percentage of remote workers, with 24% of people working remotely.

As a result, people have greater flexibility to relocate without the burden of finding a new job. This is particularly true here; Massachusetts is experiencing a surge in outmigration of residents. In addition to the rise of telecommuting, high cost of living, congestion and transportation issues, a lack of affordable housing and other factors, tax policy is also a driving force in one's decision to relocate to another state. Massachusetts is an outlier in many tax policy areas, a disadvantage that impacts individuals and business taxpayers alike. We applaud the Governor's pragmatic approach to address affordability, competitiveness and equity through an enhanced childcare tax credit while also addressing some areas within our tax code to bring us in better alignment with competing states.

Governor Healey's proposals to eliminate tax on estates valued under $3 million and to reduce the short-term capital gains rates are but two policies that would bring the Commonwealth into alignment and help to maintain our competitive edge with other states. As you know, the current estate tax threshold of $1 million and the tax on the entire value of the estate is the most punitive tax of the 12 jurisdictions that employ an estate tax. The Governor's proposal to increase the threshold to $3 million and effectively eliminate the "cliff effect" is a promising and welcomed start to an important change. Additionally, Governor Healey's proposal to reduce the state's 12% tax on short-term capital gains to 5% would similarly bring Massachusetts into the mainstream as compared to other states with a capital gains tax. Both measures and the several other proposals in her recommendation are a commendable start to a necessary conversation that must be strongly considered with urgency.

Earlier this year, MassCPAs and the Greater Boston Chamber of Commerce released a tax policy package that included raising the estate tax threshold to $5 million, reducing the short-term capital gains rate to 5%, eliminating the excise tax on S-Corporations, also known as the Sting Tax, and several other provisions. This was done in response to growing concerns from employers and businesses across industry throughout the Commonwealth who are worried about the impact the 4% surtax on income over $1 million would have on our economic vitality and competitiveness in the future. While we appreciate that the surtax is settled law and engrained within the Massachusetts Constitution, our proposals are made in good faith effort to help the Legislature consider potential policy solutions geared toward mitigating any negative impact and unintended consequences the surtax may bring. Our policy proposals are submitted along with this testimony for your consideration.

With that in mind, MassCPAs recently commissioned a survey to gather data to support the anecdotal evidence we have all heard regarding the flight of high-income taxpayers due to current tax policy. With over 270 CPAs responding to the survey who represent roughly 5,500 high-income taxpayers, defined as those with annual taxable income of over $1 million, the trends of potential outmigration are alarming. 82% of respondents indicated they have had conversations with their clients who are seriously considering relocating out of Massachusetts by the end of 2023.

Our survey, while focusing mostly on personal income tax rather than business tax, also tested the policy proposals mentioned above. Raising the estate tax threshold to $5 million and adjusting annually to inflation was the single most popular policy change selected by respondents. When asked to rank a combination of the proposals, the top three were the estate tax threshold increase to $5 million, a short-term capital gains rate reduction to 5%, and the elimination of the Sting Tax, followed by interest in expanding the use of single sales factor apportionment and others. A single policy change on its own will not be enough to blunt outmigration; however, a package of policies may do the trick. Our survey report is submitted along with this testimony for your consideration.

In terms of state tax policy, Massachusetts was an outlier even before voters approved the 4% surtax in November 2022. Being an outlier makes it more difficult for the Commonwealth to compete with its regional neighbors and on the national landscape when it comes to attracting jobs, residents and capital investment, but it also violates basic tax principles of neutrality and economic efficiency.

The current tax code introduces complexity and incentivizes opportunities to use a domicile change as a tax planning tool, which creates a host of unintended consequences for the state. The consequences of maintaining a tax code that encourages taxpayers to relocate to other states will be significant. Income tax represents about 35% of taxes collected by the Commonwealth, and of that, over 30% is attributed to those with incomes over $1 million. In addition to the loss in income tax revenue, the Commonwealth is poised to lose other revenue sources such as sales and property taxes and other benefits, like charitable giving, as these taxpayers change their behavior to embrace their new communities.

Massachusetts should take action to reduce its status as a policy outlier to retain its residents. Therefore, adopting tax policies that reduce our outlier status such as the recommendations mentioned above, and others would make the Commonwealth more attractive to do business and help to maintain competitiveness.

We look forward to working with you as you consider these important measures to ensure that Massachusetts remains competitive for generations to come.

Please do not hesitate to contact me and our team if we can be of any assistance to you. Thank you for your time and consideration.

Sincerely,

Zach Donah, CAE
Vice President of Advocacy