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TESTIMONY

Statement before the Joint Committee on Revenue

In Opposition to:

Senate Bill 16 and House Bill 86

Proposals for a legislative amendment to the Constitution to provide resources for education and transportation through an additional tax on incomes in excess of one million dollars

April 11, 2019

Christopher R. Anderson, President Massachusetts High Technology Council

Thank you, Chairman Hinds, Chairman Cusack and members of the Committee for the opportunity to speak with you today regarding these critically important and historic proposed amendments to the Massachusetts Constitution.

My name is Chris Anderson and I am President of the Massachusetts High Technology Council.

The Council is an organization of CEOs and senior executives representing technology companies, professional services firms, and academic and research institutions dedicated to creating and sustaining conditions that support investment and job growth in Massachusetts. Our members are growth-oriented, knowledge-intensive employers and institutions that develop, deliver and depend on technology products, services and innovations to advance their organizational objectives.

I don't plan to spend our time together today articulating the many reasons why the Council's leaders think the proposal before you is unwise or believe it to be unwarranted and imprudent.

The proposed amendment will result in unavoidable negative impacts on Massachusetts' economic climate during an historic expansion of economic growth, opportunity and momentum and state revenues at record levels. This is a certainty, borne out by actual experiences in states which have similarly attempted to segment taxpayers with so-called progressive tax strategies that overreach.

Over the past 20 years, the Massachusetts business community and state political leaders have taken positive steps to shed much of the old “Taxachusetts” moniker and high-tax brand. As a result, Massachusetts is thriving right now, and our economy is expanding. Unemployment rates have hovered at record low levels and state tax revenues are at an all-time high. Adoption of the proposed tax increase would be a damaging step backward for the state.

The ongoing discussion we are engaged in is of critical importance to the future of the Commonwealth and our debates and decisions must be data-driven and firmly rooted in reality. So today I want to highlight for you 5 items of historic fact and verified data, much of it derived from federal sources and aggregated in MATTERS, the Council’s 50-state competitiveness data dashboard. I would welcome the opportunity to meet with any of you to discuss in greater detail the data and information we are presenting today.

As you consider this critically important decision, I ask you to note the following facts:

1. The Commonwealth’s long-term fiscal condition is unstable but is being buttressed by a strong private economy which is preventing the Commonwealth from suffering the same flight of employment, capital, and tax revenue seen in Connecticut, New Jersey, and Illinois—states with similarly poor fiscal stability rankings. Massachusetts faces significant financial risk in the face of any economic contraction.

- Massachusetts’ fiscal condition receives poor ratings in several respected and peer-validated rankings. Massachusetts is ranked:
 - 44th in the recently launched MATTERS State Fiscal Stability Index;
 - 47th out of 50 in the George Mason University/Mercatus Center State Fiscal Condition report; and
 - 48th in Fiscal Balance by the Pew Charitable Trusts.
- Massachusetts benefits from a Gross State Product that is growing at the 9th highest rate in the country.
- According to S&P Global Ratings Massachusetts has an “elevated risk” of financial distress during a recession.
- Moody’s Analytics predicted Massachusetts would face a nearly \$3 billion annual budget gap in a moderate recession and a \$5 billion gap in a severe one.

(Sources: MATTERS, Mercatus Center, Pew Charitable Trusts, US Bureau of Econ. Analysis, S&P Global Ratings, Moody’s Analytics)

2. Projected and promised revenues have not in fact materialized in other states that adopted similar hyper-progressive tax policies, further damaging their fiscal condition, budgetary planning and ability to support key state investments.

According to the Institute on Taxation and Economic Policy, Massachusetts’ income tax system is already highly progressive with top quintile earners paying a 4.2% effective rate while the lowest 20 percent of Massachusetts filers pay an effective rate of 0.8 percent.

Massachusetts is heavily-reliant on tax revenues from high income earners, who are the single largest source of revenue for the Commonwealth. The top 20% of tax filers (those who earn roughly \$130,000 per year and up) pay approximately \$12 billion in income taxes, which makes up 42% of the \$28 billion in total revenue the state collects each year in income, sales, corporate, and miscellaneous taxes combined.

Unfortunately, historic data shows that such revenues, particularly those associated with capital gains and investment income, are inherently volatile.

They are also inherently mobile. We could use up my allotted 3 minutes a hundred times over debating whether higher taxes do or don't motivate wealthy people to migrate among states. What cannot be debated, however, is that assets, wealth and associated tax revenues do depart states with high levels of taxation. For example:

- Maryland projected its 2007 "millionaire tax" surcharge would raise \$330 million. In fact, it raised just \$120 million, leaving state lawmakers-who had immediately locked in \$330 million in additional, permanent spending- with a gaping budget deficit.
- Following tax hikes in 2011 and 2015, Connecticut lost 20,179 residents with a total adjusted gross income of \$2.6 billion in 2015. Connecticut first adopted an income tax in 1991 and has lost more than \$12 billion in net adjusted gross income to other states over the past 25 years. (*Source: Yankee Institute/IRS*)
- Following an income tax hike in 2013, Minnesota lost \$2.1 billion in taxable income from 3,099 taxpayers between 2014 and 2016.

(Sources: ITEP, Mass. DOR, Maryland Public Policy Institute, Yankee Institute for Public Policy, Hartford Courant, Minneapolis Star Tribune)

3. In other states around country, including peer states Massachusetts competes against for economic activity, leaders from both sides of the aisle are rejecting similar proposals, turning away from "Millionaires Taxes" and other hyper-progressive and anti-competitive tax policies.

These leaders recognize that anticipated tax revenues are inflated, illusory and volatile and they understand that the negative impacts of high state taxes on competitiveness have intensified on the face of federal caps on deductibility.

Among those who have "seen the light" are several progressive, Democratic Governors and state legislative leaders who have previously been enthusiastic supporters. Note, for example the following comments from elected leaders in other states:

- Andrew Cuomo, Governor of New York: *If even a small number of high-income taxpayers leave, it has a great effect on this tax base. You are relying on a very small number of people for the vast amount of your tax dollars. Tax the rich. Tax the rich. Tax the rich. We did that. God forbid the rich leave.*
- Dannel Malloy, former Governor of Connecticut: *Connecticut is too dependent on our highest-income earners for our revenue. We need to go down a different road with tax policy, and that's not raising taxes.*
- Steve Sweeney, President, New Jersey State Senate: *You have the ability to save a lot of money. We should be doing that before we're ever talking about raising the income tax, the sales tax or any other tax. NJ is in a "fiscal death spiral" that can't be repaired by raising taxes.*
- Paul Sarlo, Chairman, New Jersey State Senate Budget Committee: *Relying on that millionaire surcharge's volatile revenue is not the best solution compared to sustainable budget savings.*

(Sources: Wall Street Journal, Hartford Courant, NJ.com, NJBIZ.com)

4. Massachusetts is already one of the highest spending states in the nation on a per capita basis, according to nationally reported data.

Per capita state spending in Massachusetts is the 6th highest in the United States. Over the past 15 years, the state budget has DOUBLED to over \$41 billion dollars annually, a growth rate that far outpaces inflation. State revenues for FY19 were 50% higher than they were in FY09.

- Regarding K-12 public education specifically, Massachusetts taxpayers support the 7th highest level of per pupil spending in the country with an average annual expenditure of more than \$15,000 per student.
- And Federal Highway Administration data shows that Massachusetts also spends significantly more to build and maintain roads than nearly every other state in the country. Currently, Massachusetts spends four times the national average to build and maintain each mile of highway, more per mile than 47 other states.

(Sources: MATTERS, US Census Bureau, Reason Foundation)

5. The amendment would affect a radical departure from more than a century of tax policy and constitutional doctrine in Massachusetts and the nation.

For over 100 years Massachusetts has maintained a constitutional requirement that taxes be imposed at a uniform rate, a limitation the citizens have overwhelmingly chosen to preserve 5 times in the past 60 years.

It is also a fact that NO OTHER STATE in the nation permanently imbeds an individual income tax rate in its constitution. Enactment of this amendment would permanently and irreparably infringe upon the power and prerogative to impose taxes which the framers of the Massachusetts Constitution invested solely in the legislature.

The Massachusetts Constitution also provides the legislature with a direct and critical role in approving any amendments to it. Unlike the nearly identical proposal stuck down by the SJC last year, approval of this proposal will be a direct reflection of the collective will of you and your colleagues, not an initiative arising from the citizens themselves. And this legislature will bear responsibility for any negative effects that flow from it.

(Sources: Mass Constitution, Mass. Election Statistics, The Tax Foundation)

The proposed amendment raises serious questions about the Commonwealth's long-term fiscal instability. It would cause immediate and long-term harm to Massachusetts' brand as an attractive hub for innovation, entrepreneurship and investment and would do lasting damage to the fiscal, economic and civic health of the Commonwealth. At a time when our economy is performing well and many economists are seeing economic headwinds on the horizon, the amendment presents a serious risk that the Commonwealth cannot afford to take.

In closing, I thank you for your time and applaud each of you for your ongoing service to the Commonwealth. The Council and its members appreciate the difficult decisions you grapple with each day and respectfully submit that this policy decision is one of the most important you or any other Massachusetts legislator will make.

I urge you to consider the facts, economic realities and far-reaching negative impacts the proposal will have and vote that it ought not to pass.