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Research & Commentary: Millionaire Taxes Won't Solve Bay State's Budget Shortfall

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For the seventh time over the past six decades, Massachusetts lawmakers are considering an amendment to the Massachusetts Constitution that would create a new 4 percent surtax on all incomes greater than $1 million. This new tax, commonly referred to as a "millionaire tax" would undermine the current flat tax system, which is mandated in the state constitution and applies a flat 5.1 percent income tax. The estimated $1.9 billion in revenue generated each year by the tax would be used for public education and transportation projects.

Supporters call the proposed tax the "Fair Share Amendment." Critics argue it would make Massachusetts' income tax rates among the highest in the nation. About 20,000 Bay State would pay the new tax, according to the Massachusetts Department of Revenue. Under the current tax system, Massachusetts households with incomes greater than $1 million, 0.05 percent of the state's taxpayers, pay more than 29 percent of the state's income tax, *The Boston Globe* reports.

Massachusetts should avoid implementing tax reform through constitutional changes, says Joseph Bishop-Henchman, executive vice president of the Tax Foundation. "If Massachusetts became flush with revenue or if the tax increase turned out to be an awful mistake, it would take another constitutional amendment to change it," wrote Henchman. Kari Jahnsen, writer for the Tax Foundation's Center for State Tax Policy, argues the proposed increase may violate other parts of the Massachusetts Constitution. Jahnsen points out that the Massachusetts Constitution prohibits ballot initiatives from appropriating funding. Because the millionaire tax designates the new tax revenue for transportation and education, its constitutionality is uncertain.

A millionaire tax is likely to discourage new capital formation in the Bay State. When states increase taxes, they typically drive the most productive residents out, taking their income, capital, and sales tax revenues with them. Further, the revenue-generating results of millionaire taxes have been mixed. In fact, many states that increased taxes on the upper brackets, including Maryland, New York, and New Jersey, have allowed their tax hikes to expire.

A 2018 report from the Pioneer Institute found Massachusetts' current tax system is already causing taxpayers to flee to states with lower taxes. The Pioneer report determined Massachusetts experienced a net outflow of $15.9 billion of adjusted gross income from 1992 to 2015. This trend has proven true nationwide. According to the Cato Institute, raw data suggests taxes heavily influence migration. "Of the 25 highest-tax states, 24 of them had net out-migration in 2016. Of the 25 lowest-tax states, 17 had net in-migration."

Rather than increase taxes on its most productive residents, Massachusetts' elected officials should focus on making the state a more attractive place for businesses and workers, a goal that would best be accomplished by restraining spending, lowering tax rates, and reducing unnecessary regulations.