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# Lessons from the 2000 Massachusetts Income-Tax Rollback: A Reality-Check for the 2026 Ballot Debate

By Jim Stergios

## Introduction

Massachusetts is currently experiencing a loss of jobs, talent, and capital—and residents and voters recognize that there is a problem. Polling conducted by the Massachusetts Opportunity Alliance and Pioneer Institute shows that residents feel stretched by high taxes as well as the cost of housing and energy.[1] As a result, voters of both parties—and also the more than 60 percent who are unenrolled—express strong support for tax relief.[2] Already critics are warning of disastrous "billions of dollars in revenue losses" if a reduction from 5 percent to 4 percent in the personal income tax is adopted.[3]

This concern is familiar. In the run-up to the November 2000 election when Massachusetts voters approved a ballot initiative to reduce the personal income tax (PIT) rate from 5.95 percent to 5.0 percent, critics of the proposal said the very same things. Arguing that the proposed tax-rate cut would be deeply irresponsible, the Massachusetts Joint Committee on Taxation (in the official voter-guide majority report) warned it "slashes tax revenues… by $2.7 billion over four years with reckless disregard for the state's economy" and lacks "the necessary prudence of safely predicting the strength or weakness of the economy."[4]

The 2000 measure resembles the proposed 2026 ballot question in that it would occur in three phases: the 2000 measure was to be implemented as a series of rate step-downs, to 5.6 percent in January 2001, to 5.3 percent in January 2002, and to 5.0 percent in January 2003.[5] Opponents at the time claimed the cuts would "cost too much too fast" in lost state revenue, threatening funding for schools and essential services.[6] Supporters countered that the lower rate would help the Commonwealth retain talent and investment.[7]

The Legislature froze the rollback at 5.3 percent in 2002, halting the scheduled final cut.[8] The rate did not reach 5.0 percent until January 2020, when revenue growth triggers set nearly two decades earlier were finally satisfied.[9] This report examines Massachusetts' experience across the three years when the step-downs were put into effect: the dot-com bust and 9/11 downturn, the mid-2000s recovery, and the final rollback to 5.0 percent in 2020.

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## The Boom Years: 1998–2000

During the late 1990s, Massachusetts experienced rapid revenue growth fueled by the technology sector and extraordinary capital gains realizations.[10] Personal income tax revenues rose from $8.0 billion in FY1998 to $9.0 billion in FY2000.[11] Adjusted for inflation, FY2000 collections equaled roughly $14.2 billion in 2021 dollars.

A significant share of this revenue growth stemmed from capital gains realizations as investors cashed in on soaring stock values, leaving the Commonwealth unusually reliant on this inherently volatile source of income. When the dot-com bubble burst, the fiscal consequences were severe.

## The Dot-Com Bust and 9/11 (2001–2003)

Between 2000 and 2001, Massachusetts personal income tax revenues grew by roughly $900 million, coming to a total of $9.9 billion in FY2001, or to approximately $15.2 billion in 2021 dollars.[12]

However, the following tax year brought a dramatic downturn, reflecting the collapse in stock market activity from the dot-com bubble burst, eroding the Commonwealth's unusually high reliance on capital gains tax receipts.[13] In fact, capital gains tax revenue dropped by over 60 percent between tax years 2000 and 2002, or by $700 million.[14]

In total, FY2002 tax collections plunged by 20 percent to $7.9 billion, marking the sharpest single-year decline in modern Massachusetts fiscal history.[15] Yet, the fall was driven not by tax policy but by economic shocks; specifically, the continued unwinding of the dot-com boom and the compounding effects of the September 11 terrorist attacks. Both consumer confidence and regional industries tied to technology and financial markets were hit hard.[16] While the statutory rate was reduced from 5.6 percent to 5.3 percent in January 2002, the magnitude of the collapse makes clear that the tax cut was not the causal factor. If the 2002 income tax base had stayed the same as it was in 2001, the drop in state revenue only would have been at most $530 million due to the 0.3 percent reduction in the personal income tax, as opposed to the $2 billion drop that occurred.

For further confirmation of the limited impact of the 0.3 percent decrease in the personal income tax, we can look at other states, which experienced similar, if less pronounced, declines correlated with the dot-com bust. For example, California—another state with heavy dependence on capital gains—saw personal income tax receipts fall by nearly 15 percent in FY2002.[17] New York, hit especially hard by the September 11 attacks, recorded a comparable double digit drop in its income tax base.[18] Even states with broader and more diversified economies, such as Illinois and Pennsylvania, experienced stagnation or contraction in their income tax revenues.[19]

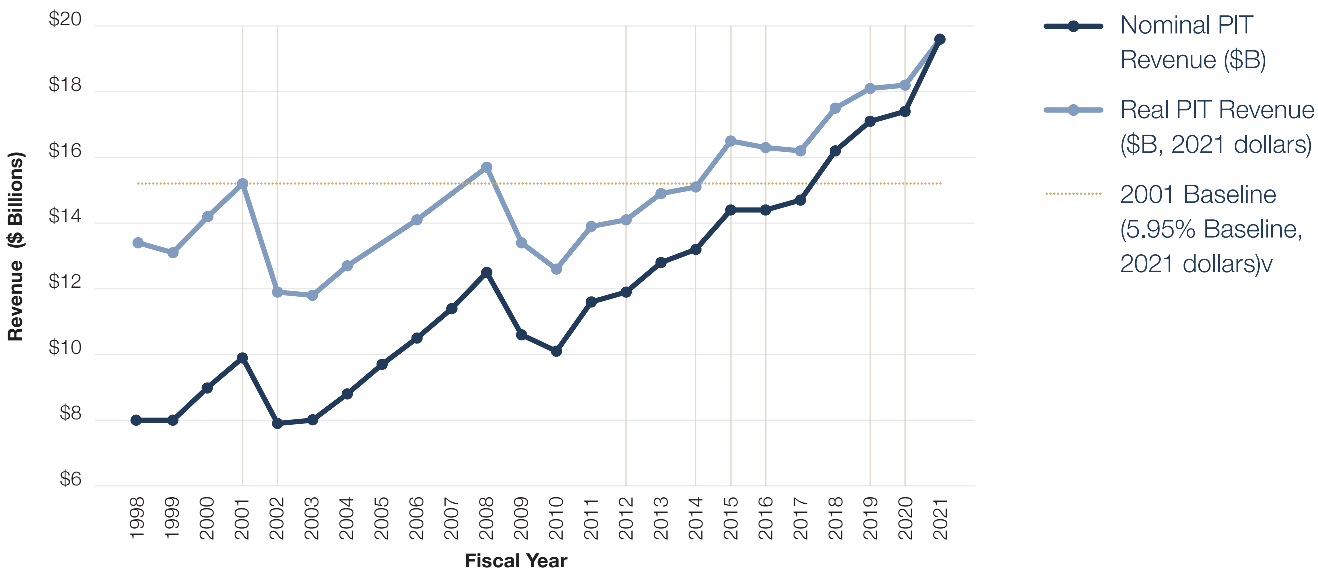
Between 2000 and 2003, neither California nor New York—two large states with significant exposure to capital-gains fluctuations—implemented tax reforms that reduced revenues. Nor did Illinois or Pennsylvania. To the contrary, each adopted short-term, revenue-protective measures to stabilize collections following sharp declines in 2001–2002. For example, California suspended certain credits and deductions and accelerated income-tax withholding; New York enacted a major cigarette-tax increase; and both Illinois and Pennsylvania raised excise taxes and relied on one-time fiscal measures.[20]

The downturn in Massachusetts was part of a national pattern linked to the bursting of the stock market bubble and the broader recession, not the result of state-specific tax policy.

By FY2003, with the 5.3 percent rate in place for a full year, revenues stabilized. Collections rose modestly to $8.0 billion, an increase of 1.4 percent.[21] This slight rebound indicated that the downturn had run its course and that Massachusetts was beginning a gradual recovery from the twin shocks of the stock market collapse and the aftermath of 9/11.

> "The warnings that the tax cut would 'cost too much too fast' proved unfounded. The Commonwealth's economy and tax base expanded enough to more than compensate for foregone revenue over time."

**Figure 1. Massachusetts PIT Revenues, 1998–2021[22]**




## Stabilization and Recovery (2004–2008)

The Legislature froze the rollback at 5.3 percent in 2002.[23] Over the next several years, revenues recovered alongside the economy, with steady growth lifting personal income tax (PIT) collections from $8.8 to $12.5 billion from FY2004 to FY2008.[24]

In inflation-adjusted terms, Massachusetts was collecting more in real PIT revenues in 2008 at a 5.3 percent rate than it had in 2001 at 5.95 percent. The state's growing economy and tax base more than offset the lower rate.

## The Final Step to 5.0 Percent (2020–2021)

After holding at 5.3 percent for nearly a decade,[25] statutory revenue growth triggers between 2012 and 2020 finally allowed six eye-dropper-sized reductions of 0.05 percentage points each, bringing the Massachusetts personal income tax rate down to 5.0 percent on January 1, 2020.[26] This marked the completion of the rollback voters had approved in 2000, though it came nearly seventeen years later than originally planned.

Despite the extraordinary economic disruption of the COVID-19 pandemic, personal income tax revenues in FY2020 held essentially flat compared with FY2019. Collections totaled $17.4 billion, a small increase from the prior year's $17.1 billion.[27] Given that Massachusetts imposed widespread shutdowns in spring 2020 and endured a severe national recession,[28] the stability of income tax receipts underscored the resilience of the state's revenue base.

In FY2021, the first full fiscal year at the 5.0 percent rate, PIT revenues rebounded strongly to $19.6 billion, representing a 13.0 percent year-over-year increase.[29] The surge reflected both the broader recovery in the economy and the rebound in capital markets, which boosted tax receipts from high-income households.[30]

This pattern mirrors the state's earlier experience in 2002–2003: once the statutory rate stepped down, revenues were neutral or positive year-over-year, and annual revenues soon surpassed the previous highs in both nominal and real terms.

## Lessons and Long-Term Trends

The record from 1998 to 2021 offers three clear lessons.

First, as evidenced by the experience in states like California and New York, the 2001–2002 collapse in personal income tax (PIT) revenues in Massachusetts was largely caused by the dot-com bust and the September 11 attacks—not by the income tax rollback. Second, in all other instances when there was a step-down in the rate—2012, 2014, 2015, 2016, 2019, and 2020—revenues were neutral or positive year-over-year (see highlighted rows in Figure 2). Third, over the long term, Massachusetts collected more in real, inflation-adjusted PIT revenues at the lower 5.3 percent and 5.0 percent rates than it had at the 5.95 percent rate in 2001.

### Figure 2. Massachusetts Nominal & Inflation-Adjusted PIT Revenues, FY 1998–2021[31]

| FY | Tax Rate | PIT Revs (Nominal, $B) | CPI-U (Annual Avg, 1982–84=100) | PIT Revs (2021 $, $B) |
|---|---|---|---|---|
| 1998 | 5.95 | $8.0 | 163.0 | $13.4 |
| 1999 | 5.95 | $8.0 | 166.6 | $13.1 |
| 2000 | 5.95 | $9.0 | 172.2 | $14.2 |
| 2001 | 5.6 | $9.9 | 177.1 | $15.2 |
| 2002 | 5.3 | $7.9 | 179.9 | $11.9 |
| 2003 | 5.3 | $8.0 | 184.0 | $11.8 |
| 2004 | 5.3 | $8.8 | 188.9 | $12.7 |
| 2005 | 5.3 | $9.7 | 195.3 | $13.4 |
| 2006 | 5.3 | $10.5 | 201.6 | $14.1 |
| 2007 | 5.3 | $11.4 | 207.3 | $14.9 |
| 2008 | 5.3 | $12.5 | 215.3 | $15.7 |
| 2009 | 5.3 | $10.6 | 214.5 | $13.4 |
| 2010 | 5.3 | $10.1 | 218.1 | $12.6 |
| 2011 | 5.3 | $11.6 | 224.9 | $13.9 |
| 2012 | 5.25 | $11.9 | 229.6 | $14.1 |
| 2013 | 5.25 | $12.8 | 233.0 | $14.9 |
| 2014 | 5.2 | $13.2 | 236.7 | $15.1 |
| 2015 | 5.15 | $14.4 | 237.0 | $16.5 |
| 2016 | 5.1 | $14.4 | 240.0 | $16.3 |
| 2017 | 5.1 | $14.7 | 245.1 | $16.2 |
| 2018 | 5.1 | $16.2 | 251.1 | $17.5 |
| 2019 | 5.05 | $17.1 | 255.7 | $18.1 |
| 2020 | 5.0 | $17.4 | 258.8 | $18.2 |
| 2021 | 5.0 | $19.6 | 271.0 | $19.6 |

"At lower rates—5.3 percent and 5.0 percent—Massachusetts collected more in real, inflation-adjusted income-tax revenue than it did at 5.95 percent in 2001."

The warnings that the tax cut would "cost too much too fast" proved unfounded.

Instead, the Commonwealth's economy and tax base expanded enough to more than compensate for foregone revenue from rate reductions over time. For residents who routinely poll significantly in favor of tax cuts—and this one in particular—past experience should offer confidence that critics arguing to keep taxes at elevated levels are overstating the fiscal impact the state will face.

## Endnotes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