

**POLICY BRIEF**

# **Lessons from the 2000 Massachusetts Income Tax Rollback: Expanded Analysis to Inform the 2026 Ballot Debate**

## **Introduction**

Massachusetts is 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 shows that residents feel stretched by high taxes as well as the cost of housing and energy.<sup>1</sup> Voters of both parties, and the roughly 64 percent who are unenrolled,<sup>2</sup> express strong support for tax relief.<sup>3</sup>

A ballot question proposed for November 2026 would reduce the personal income tax rate from 5 percent to 4 percent in increments over three years.<sup>4</sup> Already critics are warning of “billions of dollars in revenue losses” if a reduction from 5 percent to 4 percent in the personal income tax is adopted.<sup>5</sup>

The central argument of this report is straightforward: Massachusetts has successfully done this before. In 2000, voters approved a ballot initiative to cut the personal income tax (PIT) rate from 5.85% to 5.0% in three annual steps (the ballot text referenced the statutory rate of 5.95%, but a separate legislative reduction had already lowered it to 5.85% by election day).<sup>6</sup>

Critics at the time made the same predictions of fiscal disaster,<sup>7</sup> but those concerns proved to be unwarranted. As this report documents, revenues recovered within a few years and ultimately surpassed prior peaks in real, inflation-adjusted terms. This report examines the full 1998 to 2021 history: the boom years, the dotcom bust and September 11 downturn, the mid-2000s recovery, and the final rollback to 5.0 percent in 2020. From fiscal year 1999 to 2022, the year before the initial tax cut to the year before the surtax on high earners was implemented, personal income tax revenue nearly doubled *in inflation adjusted terms*.

## **The Boom Years: 1998–2000**

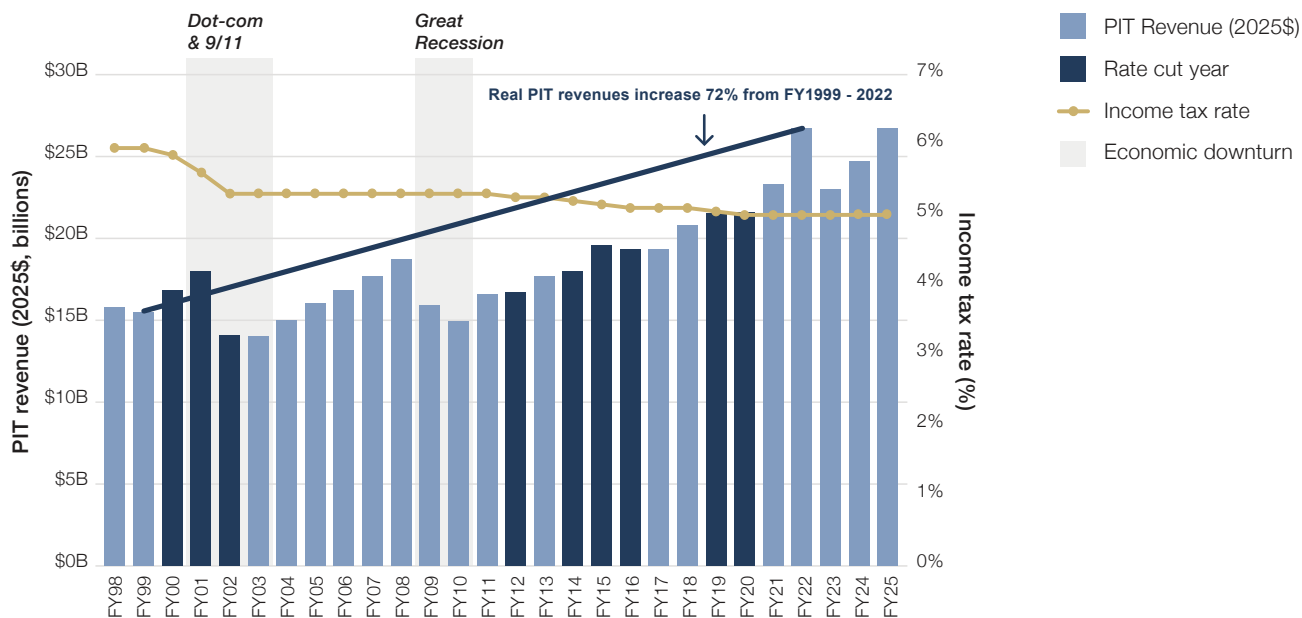
**The rate reduction from 5.95 to 5.85 percent took effect in January 2000 and was adopted via legislation.**

During the late 1990s, Massachusetts experienced rapid revenue growth fueled by the technology sector and extraordinary capital gains realizations.<sup>8</sup> Personal income tax revenues rose from \$8.0 billion in FY1998 to \$9.0 billion in FY2000.<sup>9</sup> Adjusted for inflation, FY2000 collections equaled roughly \$16.8 billion in 2025 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. By FY2000, capital gains revenue had reached an estimated \$1.164 billion representing a disproportionate share of the growth in Personal Income Tax (PIT) collections.<sup>10</sup> This dependence is essential context for what followed: when the dot-com bubble burst, it was the collapse in capital gains, not any change in the income tax rate, that drove the revenue freefall.

Understanding the capital gains tax structure in place during this period is essential. Between 1996 and 2002, Massachusetts taxed long-term capital gains on a graduated sliding scale based on holding period: assets held one to two years at 5 percent, two to three years at 4 percent, three to four years at 3 percent, four to five years at 2 percent, five to six years at 1 percent, and assets held more than six years at 0 percent.<sup>11</sup> Capital gains tax revenue is reported in the total Personal Income Tax Collections number.



Source: MA DOR Annual Reports; MA Comptroller SBFR/ACFR. Inflation-adjusted using BLS CPI-U (2025\$). FY2024–25 include 4% surtax on income over \$1M (approved Nov 2022).

A note on timing: Massachusetts fiscal years run from July 1 to June 30 (e.g., FY2002 = July 2001 through June 2002). Tax rate changes take effect on January 1. This means every rate change falls midway through a fiscal year, so FY revenue reflects roughly six months at the old rate and six months at the new one. The first full fiscal year at a new rate is always the following year.

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

### The rate reduction from 5.85 to 5.6 percent took effect in January 2001.

The first step down, from 5.85% to 5.6%, took effect in January 2001, halfway through fiscal year 2001 (July 2000–June 2001). Despite this reduction, PIT revenues grew by roughly \$900 million, coming to a total of \$9.9 billion in FY2001, or to approximately \$18.0 billion in 2025 dollars.<sup>12</sup>

### The rate reduction from 5.6 to 5.3 percent took effect in January 2002.

The second step down, from 5.6% to 5.3%, took effect in January 2002, midway through FY2002 (July 2001–June 2002). This fiscal year brought a dramatic downturn, reflecting the collapse in stock market activity from the dotcom bubble burst, eroding the Commonwealth’s unusually high reliance on capital gains tax receipts.<sup>13</sup> In fact, capital gains tax revenue dropped by approximately 70 percent, or by roughly \$827 million.<sup>14</sup>

In total, FY2002 PIT collections plunged by 20 percent to \$7.9 billion, marking the sharpest single-year decline in modern Massachusetts fiscal history.<sup>15</sup> Yet, the fall was driven not by tax policy but by economic shocks; specifically, the continued unwinding of the dotcom 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.<sup>16</sup>

While the statutory rate was reduced from 5.6 percent to 5.3 percent, 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.<sup>17</sup>

### Year-by-Year Scorecard

The year-by-year scorecard makes the pattern clear:

- **FY1999 (5.95%):** \$8.0B, *flat*
- **FY2000 (legislative cut to 5.85%):** \$9.0B, *plus \$1.0B*
- **FY2001 (ballot-driven cut to 5.6%):** \$9.9B, *plus \$0.9B*
- **FY2002 (ballot-driven cut to 5.3%):** \$7.9B, *down \$2.0B due to dot-com bust and 9/11*
- **FY2003 (no change, full year at 5.3%):** \$8.0B, *stabilizing*

### Cross-State Tests for FY2002 declines

If the tax cut was the primary cause of Massachusetts' revenue decline, we would expect states that did not cut their income tax rates to have fared better. They did not. California, another state with heavy dependence on capital gains, saw personal income tax receipts fall by roughly 24 percent in FY2002.<sup>18</sup> New York, hit especially hard by the September 11 attacks, recorded a significant double-digit decline in personal income tax collections, with All Funds PIT receipts dropping approximately 13 percent between SFY 2001–02 and SFY 2002–03.<sup>19</sup>

Even states with broader and more diversified economies, such as Illinois and Pennsylvania, experienced stagnation or contraction in their income tax revenues.<sup>20</sup> None of these four states had implemented income tax reductions. To the contrary, each adopted short-term, revenue-protective measures: California suspended deductions and accelerated withholding; New York enacted major cigarette tax increases; and Illinois and Pennsylvania adopted a mix of one-time fiscal measures, including interfund transfers, federal depreciation decoupling, and tobacco settlement fund transfers, to close emerging budget gaps.<sup>21</sup>

### No rate reduction in January 2003 (FY2003) due to a legislative freeze

With the 5.3 percent rate in place for a full year, revenues stabilized. PIT collections rose modestly to \$8.0 billion, an increase of approximately 1.3 percent.<sup>22</sup> 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.<sup>23</sup>

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## The Legislative Freeze and Capital Gains Changes

In 2002, the Legislature passed Chapter 186 of the Acts of 2002, freezing the income tax rate at 5.3 percent and replacing the final scheduled step down to 5.0 percent (which voters had approved just two years earlier with 59.4 percent support) with a revenue-trigger mechanism that would eventually allow the rate to reach 5.0 percent, but only when certain economic conditions were met.<sup>24</sup> The stated justification was fiscal prudence during a revenue crisis.<sup>25, 26</sup> Critically, Chapter 186 did not merely freeze the income tax rate.

The same legislation also repealed the graduated sliding scale for long-term capital gains, setting a new effective date of May 1, 2002.<sup>27, 28</sup> Under the prior tax regime, assets held more than six years had been taxed at 0 percent; under the new law, long-term capital gains were taxed at the Part B rate of 5.3 percent. But as the preceding section demonstrates, the revenue crisis that prompted these actions was not caused by the income tax rollback. It was caused by a 70 percent collapse in capital gains revenue and the economic aftershocks of September 11.

In short, the income tax rate reduction accounted for at most one-quarter of the revenue decline. California suffered a worse decline without any income tax cut. The Legislature attributed the shortfall primarily to the income tax cut and responded with both a rate freeze and a capital gains tax increase, but the evidence suggests the underlying cause was macroeconomic rather than policy driven.

## Stabilization and Recovery (2004–2008)

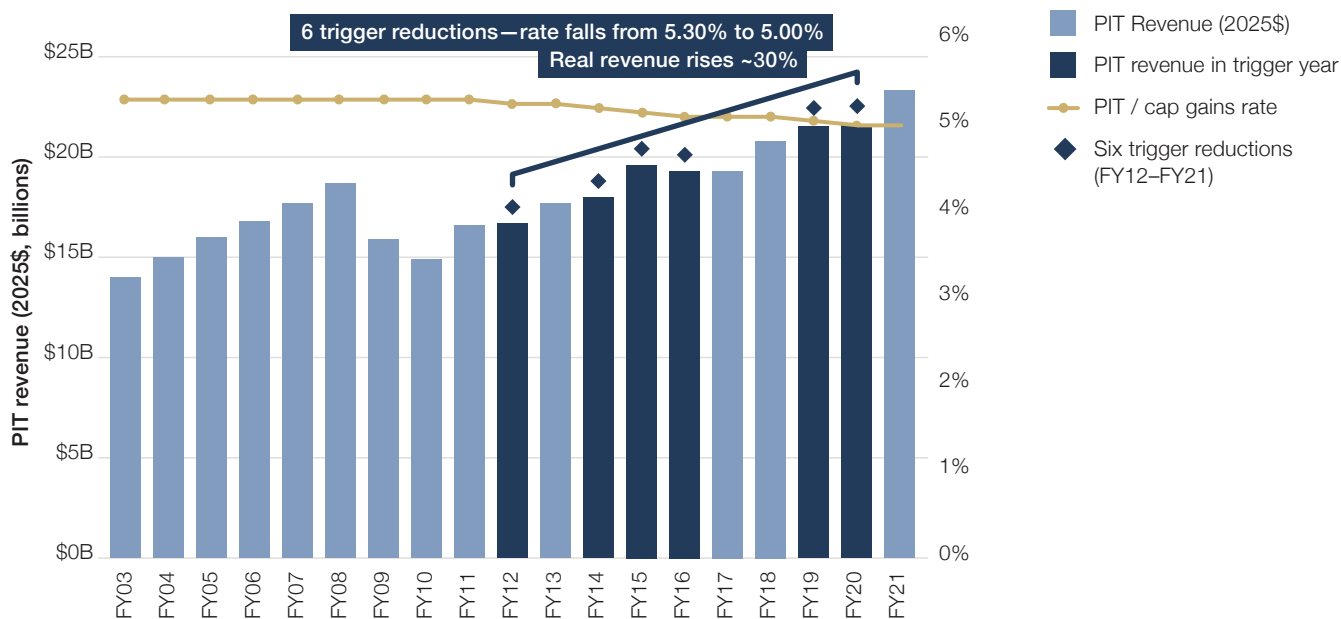
### No rate reduction over this period due to the legislative freeze; rate remains at 5.3 percent.

With the rate frozen at 5.3 percent, revenues recovered alongside the economy.<sup>29</sup> Steady growth lifted personal income tax (PIT) collections from \$8.8 billion to \$12.5 billion from FY2004 to FY2008.<sup>30</sup> This is an increase of 42 percent over four years.

Regarding the long-term capital gains alignment to the personal income tax rate, the exact pre-2003 effective rate cannot be calculated with precision. Under the graduated sliding scale in effect from 1996 to 2002, long-term capital gains were taxed at rates ranging from 5 percent (for assets held one to two years) down to 0 percent (for assets held more than six years), with the effective rate for any given year depending entirely on the mix of holding periods among realized gains. Massachusetts does not actively publish state-level data on capital gains realizations by holding period.

It is worthy of note that between FY2012 and FY2021, six statutory triggers reduced *both* the personal income tax and long-term capital gains rates from 5.3 percent to 5.0 percent. Real PIT revenues rose approximately 40 percent over that span, surpassing the FY2001 peak by FY2015 and the FY2008 pre-recession peak by FY2018. The long-term capital gains rate increase was being reversed, and revenue grew anyway.

**From 2012–2020, the long-term capital gains rate increase was gradually lowered to 5.0 percent, and revenue grew anyway.**



Source: MA DOR Annual Reports; MA Comptroller SBFR/ACFR. Inflation-adjusted using BLS CPI-U (2025\$). Trigger years per Ch. 186 of the Acts of 2002.

## The Final Step to 5.0 Percent (2012–2021)

**After a series of reductions in 0.05 percent increments, the rate declines to 5.0 percent in January 2020.**

After holding at 5.3 percent for nearly a decade,<sup>31</sup> statutory revenue growth triggers between 2012 and 2020 finally allowed six reductions of 0.05 percentage points each, bringing the Massachusetts personal income tax rate down to 5.0 percent on January 1, 2020.<sup>32</sup> 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.<sup>33</sup> Given that Massachusetts imposed widespread shutdowns in spring 2020 and endured a severe national recession,<sup>34</sup> 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 roughly a 13 percent year-over-year increase.<sup>35</sup> The surge reflected both the broader recovery in the economy and the rebound in capital markets, which boosted tax receipts from high-income households.<sup>36</sup>

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.

**Given the widespread state-imposed shutdowns and severe national recession in 2020, the stability of income tax receipts underscored the resilience of the state’s revenue base.**

## Conclusion

The record from 1998 to 2021 offers three clear lessons. (In each case, “absorbable” means that nominal year-over-year PIT revenues did not decline as a result of the rate reduction itself.)

**First, every rate reduction was absorbable.** In all eight ballot-related rate reductions between 2001 and 2020, nominal revenues were neutral or positive year-over-year, with one exception: FY2002.<sup>37</sup> That exception was driven by the dotcom bust and September 11, not the rate cut. In nominal terms, the six trigger-activated reductions from 2012 to 2020 produced no year-over-year revenue declines.

**Second, the 2001 to 2002 revenue collapse was macroeconomic, not policy driven.** California, which did not cut rates, suffered a roughly 24 percent PIT revenue decline; Massachusetts’ 20 percent decline was smaller despite having cut its rate. New York, Illinois, and Pennsylvania experienced comparable revenue stress without any reductions. The rate cut accounted for at most \$530 million of a \$2 billion decline.

**Third, real revenues at lower rates exceeded the prior peak.** 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 5.85 percent rate in FY2001. By FY2008, real PIT revenue at 5.3% (\$18.7B in 2025 dollars) already exceeded the FY2001 peak of \$18.0B, and by FY2019 real revenue at 5.05% reached \$21.5B, 19% above that peak.<sup>38</sup>

## Appendix

Inflation-adjusted to 2025 dollars using BLS CPI-U (U.S. City Average, All Items, NSA)

FY	Tax Rate	PIT Revenue—which includes Capital Gains (Nominal, \$B)	CPI-U (Annual Avg)	PIT Revenue (2025\$, \$B)	YoY Change (2025\$, \$B)	Rate Event
1998	5.95%*	\$8.0	163.0	<b>\$15.8</b>	-	
1999	5.95%*	\$8.0	166.6	<b>\$15.5</b>	-0.3	
2000	5.85%*	\$9.0	172.2	<b>\$16.8</b>	+1.3	Rate cut Jan '00
2001	5.6%†	\$9.9	177.1	<b>\$18.0</b>	+1.2	Step 1 Jan '01
2002	5.3%†	\$7.9	179.9	<b>\$14.1</b>	-3.9	Step 2 Jan '02
2003	5.3%	\$8.0	184.0	<b>\$14.0</b>	-0.1	Freeze
2004	5.3%	\$8.8	188.9	<b>\$15.0</b>	+1.0	
2005	5.3%	\$9.7	195.3	<b>\$16.0</b>	+1.0	
2006	5.3%	\$10.5	201.6	<b>\$16.8</b>	+0.8	
2007	5.3%	\$11.4	207.3	<b>\$17.7</b>	+0.9	
2008	5.3%	\$12.5	215.3	<b>\$18.7</b>	+1.0	
2009	5.3%	\$10.6	214.5	<b>\$15.9</b>	-2.8	
2010	5.3%	\$10.1	218.1	<b>\$14.9</b>	-1.0	
2011	5.3%	\$11.6	224.9	<b>\$16.6</b>	+1.7	
2012	5.25%	\$11.9	229.6	<b>\$16.7</b>	+0.1	Trigger reduction
2013	5.25%	\$12.8	233.0	<b>\$17.7</b>	+1.0	
2014	5.2%	\$13.2	236.7	<b>\$18.0</b>	+0.3	Trigger reduction
2015	5.15%	\$14.4	237.0	<b>\$19.6</b>	+1.6	Trigger reduction
2016	5.1%	\$14.4	240.0	<b>\$19.3</b>	-0.3	Trigger reduction
2017	5.1%	\$14.7	245.1	<b>\$19.3</b>	-	
2018	5.1%	\$16.2	251.1	<b>\$20.8</b>	+1.5	
2019	5.05%	\$17.1	255.7	<b>\$21.5</b>	+0.7	Trigger reduction
2020	5.0%	\$17.4	258.8	<b>\$21.6</b>	+0.1	Final trigger
2021	5.0%	\$19.6	271.0	<b>\$23.3</b>	+1.7	
2022	5.0%	\$24.3	292.7	<b>\$26.7</b>	+3.4	
2023	5.0%	\$21.8	304.7	<b>\$23.0</b>	-3.7	Surtax approved
2024	5% + 4%‡	\$24.1	313.7	<b>\$24.7</b>	+1.7	4% surtax eff.
2025	5% + 4%‡	\$26.7	321.9	<b>\$26.7</b>	+2.0	

\* Rate effective prior to ballot initiative.

† Blended fiscal year: rate changed Jan 1 midway through FY (6 months old rate / 6 months new rate).

‡ FY2024+ includes 4% surtax on taxable income over \$1M (approved Nov 2022, effective tax year 2023).<sup>39</sup>  
2025 CPI-U annual average = 321.9 (11-month avg; Oct 2025 unavailable due to govt shutdown).

Sources: MA DOR annual reports and tax collection data; BLS CPI-U, U.S. City Average, All Items (NSA).

## Endnotes

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- 2 Massachusetts Secretary of the Commonwealth, "Enrollment Breakdown as of 02/01/2025," [https://www.sec.state.ma.us/divisions/elections/download/research-and-statistics/enrollment\\_count\\_20250201.pdf](https://www.sec.state.ma.us/divisions/elections/download/research-and-statistics/enrollment_count_20250201.pdf). As of February 2025, approximately 64 percent of Massachusetts registered voters were unenrolled (not affiliated with any political party).
- 3 Mass Opportunity Alliance, "Tax Cut Gets Majority Support Across Demographic Groups," *Mass Opportunity Alliance Blog*, August 22, 2025, <https://massopportunity.org/content/blog/tax-cut-gets-majority-support-across-demographic-groups>.
- 4 Ballotpedia, "Massachusetts Decrease State Income Tax Rate to 4% Initiative (2026)," [https://ballotpedia.org/Massachusetts\\_Decrease\\_State\\_Income\\_Tax\\_Rate\\_to\\_4%25\\_Initiative\\_\(2026\)](https://ballotpedia.org/Massachusetts_Decrease_State_Income_Tax_Rate_to_4%25_Initiative_(2026)). The initiative was filed with the Massachusetts Attorney General on August 7, 2025, and certified for signature gathering on September 3, 2025 (see Massachusetts Attorney General, Ballot Initiatives: 2026 Biennial Statewide Election, <https://www.mass.gov/info-details/ballot-initiatives-submitted-for-the-2026-biennial-statewide-election-proposed-laws-and-2028-biennial-statewide-election-proposed-constitutional-amendments>). The State Elections Division certified 86,970 valid signatures on December 18, 2025.
- 5 Jon Chesto, "Business Groups Propose Ballot Measures to Lower Income Tax, Boost Refunds," *Boston Globe*, August 8, 2025, <https://www.bostonglobe.com/2025/08/08/business/ballot-proposal-income-tax-refunds/>.
- 6 Ballotpedia, "Massachusetts Question 4, Income Tax Reduction Initiative (2000)," [https://ballotpedia.org/Massachusetts\\_Question\\_4,\\_Income\\_Tax\\_Reduction\\_Initiative\\_\(2000\)](https://ballotpedia.org/Massachusetts_Question_4,_Income_Tax_Reduction_Initiative_(2000)). Voters approved the measure on November 7, 2000, with 1,541,771 votes in favor (59.37%) and 1,055,181 opposed (40.63%). Official certified results via Massachusetts Secretary of the Commonwealth, Elections Statistics Division, [https://electionstats.state.ma.us/ballot\\_questions/view/6026/](https://electionstats.state.ma.us/ballot_questions/view/6026/). Note: The ballot text referenced a reduction from the statutory rate of 5.95 percent (effective September 1, 1999). By election day in November 2000, a separate legislative reduction had already lowered the rate to 5.85 percent, making the practical effect of the initiative a cut from 5.85% to 5.0%.
- 7 Legislature's majority report printed in *The Official Massachusetts "Information for Voters" booklet* (Boston: Secretary of the Commonwealth, Oct. 18, 2000), 31, [https://www.sec.state.ma.us/divisions/elections/download/information-for-voters/IFV\\_2000-English.pdf](https://www.sec.state.ma.us/divisions/elections/download/information-for-voters/IFV_2000-English.pdf). See also Massachusetts State Archives catalog entry, <https://archives.lib.state.ma.us/entities/aggregation/3e2d73d7-02a5-4eaa-82c5-6b1a57a26f0b>.
- 8 Lynn E. Browne, "U.S. Economic Performance: Good Fortune, Bubble, or New Era?," Federal Reserve Bank of Boston, *New England Economic Review*, 1999; and Robert Nakosteen and Michael Goodman, "What Caused the Massachusetts Fiscal Crisis?," *Challenge*, vol. 47, no. 4 (July/August 2004), 27–50. See also Macrotrends.net, "NASDAQ Composite (1971–2025)," <https://www.macrotrends.net/1320/nasdaq-historical-chart>.
- 9 Massachusetts Department of Revenue, Annual Report FY2001 (Boston: Massachusetts DOR, 2002), 7, <https://www.mass.gov/doc/dor-annual-report-fy2001/download>. Corroborated by Commonwealth of Massachusetts, Office of the Comptroller, *Statutory Basis Financial Report (SBFR) for the Fiscal Year Ended June 30, 2007*, "Ten-Year Schedule of Tax Revenues by Source," p. 310, [https://www.macomptroller.org/wp-content/uploads/sbfr\\_fy-2007.pdf](https://www.macomptroller.org/wp-content/uploads/sbfr_fy-2007.pdf).
- 10 Massachusetts Taxpayers Foundation, "Capital Gains Revenue in Massachusetts," 2016 <https://masstaxpayers.org/sites/default/files/publications/2020-04/Cap%20Gains.pdf>. The \$1.164 billion figure for FY2000 capital gains revenue is sourced directly from Commonwealth of Massachusetts, Governor's Budget, FY2010, Budget Development: Capital Gains, <https://budget.digital.mass.gov/bb/h1/fy10h1/prnt10/exec10/pbuddevcappgains.htm>. This figure is corroborated by the Massachusetts Taxpayers Foundation, "Capital Gains Revenue in Massachusetts," 2016, which reported a decline of more than 70 percent (\$827 million) from the FY2000 peak.
- 11 Massachusetts Department of Revenue, Technical Information Release TIR 02–21, "Capital Gains and Losses: Massachusetts Tax Law Changes," <https://www.mass.gov/technical-information-release/tir-02-21-capital-gains-and-losses-massachusetts-tax-law-changes>. See also Commonwealth of Massachusetts, Governor's Tax Expenditure Budget, Personal Income Tax Introduction, FY2025 edition, <https://budget.digital.mass.gov/govbudget/fy25/tax-expenditure-budget/personal-income-tax/introduction/>.
- 12 Massachusetts Department of Revenue, *Annual Report FY2001* (see note 9).
- 13 E. Cameron Huff, "Capital Gains: Avoiding Harm to the State Budget," MassINC Policy Center, December 2008, <https://massinc.org/research/capital-gains/>.
- 14 Massachusetts Taxpayers Foundation, "Capital Gains Revenue in Massachusetts" (see note 10).
- 15 Massachusetts Department of Revenue, *Annual Report FY2003* (Boston: Massachusetts DOR, 2004), 7, <https://www.mass.gov/doc/dor-annual-report-fy2003/download>. Corroborated by Commonwealth of Massachusetts, Office of the Comptroller, *ACFR for the Fiscal Year Ended June 30, 2012*, Statistical Section, pp. 159–60, [https://www.macomptroller.org/wp-content/uploads/acfr\\_fy-2012.pdf](https://www.macomptroller.org/wp-content/uploads/acfr_fy-2012.pdf).
- 16 E. Cameron Huff, "Capital Gains: Avoiding Harm to the State Budget," MassINC Policy Center, December 2008 (see note 13); and Justin McCarthy, "U.S. Economic Confidence Hits Highest Point Since 2000," *The Gallup Poll*, January 23, 2020, <https://news.gallup.com/poll/283940/economic-confidence-highest-point-2000.aspx>.
- 17 Author's calculation. The \$530 million maximum revenue impact is derived as follows: FY2001 personal income tax collections totaled \$9.9 billion at a 5.6 percent rate (see note 12). A 0.3 percentage-point reduction (from 5.6% to 5.3%)

- applied to that base yields approximately \$530 million (0.3/5.6 × \$9.9B ≈ \$530M). The actual FY2002 revenue decline was approximately \$2 billion (see note 15), meaning the rate cut accounted for at most one-quarter of the shortfall.
- 18 California Legislative Analyst's Office, *Cal Facts 2002: State Finances* (Sacramento: LAO, 2002), [https://lao.ca.gov/2002/cal\\_facts/budget.html](https://lao.ca.gov/2002/cal_facts/budget.html); and California Legislative Analyst's Office, *California Spending Plan 2002–03* (Sacramento: LAO, 2002), [https://lao.ca.gov/2002/spend\\_plan\\_02/0902\\_spend\\_plan.pdf](https://lao.ca.gov/2002/spend_plan_02/0902_spend_plan.pdf).
  - 19 US Census Bureau, "State Government Tax Dataset," Census.Gov, April 15, 2025, <https://www.census.gov/programs-surveys/stc/data/datasets.html>; and New York State Department of Taxation and Finance, "Fiscal Year Tax Collections," [https://www.tax.ny.gov/research/stats/statistics/stat\\_fy\\_collections.htm](https://www.tax.ny.gov/research/stats/statistics/stat_fy_collections.htm). Note: All Funds PIT receipts declined approximately 12.9 percent from SFY 2001–02 to SFY 2002–03 (\$27.4B to \$23.9B). See also U.S. Government Accountability Office, "Review of the Estimates for the Impact of the September 11, 2001, Terrorist Attacks on New York Tax Revenues," GAO-02-882R, July 26, 2002, <https://www.gao.gov/assets/gao-02-882r.pdf>; New York State Assembly Ways and Means Committee, *Revenue Report 2002* (Albany: NY Assembly, 2002), <https://www.assembly.ny.gov/comm/WAM/2002RevRep/>.
  - 20 National Association of State Budget Officers (NASBO), *Fiscal Survey of States*, Fall 2002 (Washington, DC: NASBO, 2002), Tables A-1 and A-5, <https://www.nasbo.org/reports-data/fiscal-survey-of-states>; Illinois Commission on Government Forecasting and Accountability, "Illinois' Individual Income Tax," 2002, [https://www.ilga.gov/commission/cgfa/individual\\_it\\_2002.pdf](https://www.ilga.gov/commission/cgfa/individual_it_2002.pdf); US Census Bureau, "State Government Tax Dataset," Census.Gov, April 15, 2025, <https://www.census.gov/programs-surveys/stc/data/datasets.html>.
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  - 22 Massachusetts Department of Revenue, *Annual Report FY2003* (see note 15).
  - 23 Massachusetts Department of Revenue Annual Reports: *FY2001*, *FY2003*, *FY2008*, *FY2020*, *FY2021*.
  - 24 Ballotpedia, "Massachusetts Question 4, Income Tax Reduction Initiative (2000)" (see note 6). Official certified results: 1,541,771 yes votes (59.37%), 1,055,181 no votes (40.63%). Source: Massachusetts Secretary of the Commonwealth, Elections Statistics Division, [https://electionstats.state.ma.us/ballot\\_questions/view/6026/](https://electionstats.state.ma.us/ballot_questions/view/6026/).
  - 25 Huff, "Capital Gains: Avoiding Harm to the State Budget" (see note 13).
  - 26 The 2000 ballot initiative reducing the personal income tax from 5.85 percent to 5.0 percent was partially suspended by the Legislature in 2002, which froze the rate at 5.3 percent. Lawmakers replaced the automatic rollback with a "revenue trigger" mechanism requiring that baseline tax revenues must grow at least 2.5 percent faster than inflation before another one-twentieth-point reduction could take effect. Because the early 2000s recession, the 2008 financial crisis, and subsequent slow recoveries repeatedly stalled revenue growth, it took nearly two decades for the statutory conditions to be satisfied and the rate to finally reach 5.0 percent in 2020. See Massachusetts Taxpayers Foundation, *MTF Bulletin: FY 2002 and FY 2003 Tax Revenue Forecast* (Boston: Massachusetts Taxpayers Foundation, March 6, 2002), 2–3, <https://www.masstaxpayers.org/sites/default/files/publications/2020-04/MTF%20Revenue%20Forecast%2002%20and%2003%20Bulletin.pdf>; Massachusetts Department of Revenue, *Personal Income Tax Rate Reduction* (Boston: Massachusetts Department of Revenue, 2020), <https://www.mass.gov/info-details/personal-income-tax-rate-reduction>.
  - 27 DOR TIR 02-21, "Capital Gains and Losses: Massachusetts Tax Law Changes" (see note 11). Chapter 186 of the Acts of 2002 set May 1, 2002 as the initial effective date for the repeal of the graduated capital gains sliding scale. See also DOR TIR 02-18, "Tax Changes Contained in 'An Act Enhancing State Revenues' and Related Acts," <https://www.mass.gov/technical-information-release/tir-02-18-tax-changes-contained-in-an-act-enhancing-state-revenues-and-related-acts>.
  - 28 The Supreme Judicial Court's decision in *Peterson v. Commissioner of Revenue* (Peterson I, 441 Mass. 420, 2004) struck down the May 1, 2002 mid-year effective date as violating the uniformity requirements of Article 44 of the Massachusetts Constitution. A subsequent decision, *Peterson II* (444 Mass. 128, April 2005), addressed the Legislature's initial corrective attempt. The Legislature ultimately responded with St. 2005, c. 163 ("An Act Relative to Tax Laws"), enacted December 8, 2005, which reset the effective date to January 1, 2003. See DOR TIR 05-13, "Peterson v. Commissioner of Revenue; Tax Year 2002 Capital Gains Tax Rate," <https://www.mass.gov/technical-information-release/tir-05-13-peterson-v-commissioner-of-revenue-tax-year-2002-capital-gains-tax-rate>; and DOR TIR 05-20, "Lower Capital Gains Tax Rates for All of Tax Year 2002; New Capital Gains Tax Rate Beginning on January 1, 2003," <https://www.mass.gov/technical-information-release/tir-05-20-lower-capital-gains-tax-rates-for-all-of-tax-year-2002-new-capital-gains-tax-rate-beginning-on-january-1-2003>.
  - 29 Massachusetts Department of Revenue Annual Reports: FY2004 through FY2008. See also Commonwealth of Massachusetts, Office of the Comptroller, *Statutory Basis Financial Report (SBFR) for the Fiscal Year Ended June 30, 2007*, "Ten-Year Schedule of Tax Revenues by Source," p. 310.
  - 30 Massachusetts Department of Revenue, *Annual Report FY2008* (Boston: Massachusetts DOR, 2009), 8, <https://www.mass.gov/doc/dor-annual-report-fy2008/download>. Corroborated by Commonwealth of Massachusetts, Office of the Comptroller, ACFR for the Fiscal Year Ended June 30, 2012, Statistical Section, pp. 159–60, [https://www.macomptroller.org/wp-content/uploads/acfr\\_fy-2012.pdf](https://www.macomptroller.org/wp-content/uploads/acfr_fy-2012.pdf).
  - 31 See note 26.
  - 32 Massachusetts Department of Revenue, "Income Tax Rate Drops to 5% on January 1, 2020," <https://www.mass.gov/news/income-tax-rate-drops-to-5-on-january-1-2020>. See also

- Commonwealth of Massachusetts, Governor's Budget, Tax Expenditure Budget: Personal Income Tax Introduction, FY2021 edition, <https://budget.digital.mass.gov/govbudget/fy21/tax-expenditure-budget/personal-income-tax/introduction>.
- 33 Massachusetts Department of Revenue, *Annual Report FY2020* (Boston: Massachusetts DOR, 2021), 10, <https://www.mass.gov/doc/dor-annual-report-fy2020/download>.
- 34 Federal Reserve Bank of Boston, "New Boston Fed Analyses Outline Grim Economic Consequences of COVID-19 Pandemic in New England," April 22, 2020, <https://www.bostonfed.org/news-and-events/news/2020/04/neppc-covid-analysis.aspx>. The NEPPC estimated Massachusetts tax revenues for FY2020 would be \$3.3 billion to \$3.9 billion lower than FY2019, depending on how high unemployment rose.
- 35 Massachusetts Department of Revenue, *Annual Report FY2021* (Boston: Massachusetts DOR, 2022), 9, <https://www.mass.gov/doc/dor-annual-report-fy2021/download>. Corroborated by Massachusetts DOR, "FY21 Revenue Collections Total \$34.137 Billion," <https://www.mass.gov/news/fy21-revenue-collections-total-34137-billion>.
- 36 Federal Reserve Economic Data (FRED), S&P 500 Index (series SP500), <https://fred.stlouisfed.org/series/SP500>. S&P 500 values surpassed pre-pandemic levels by August 2020, and the recovery in financial markets outpaced the real economy recovery, contributing to elevated capital gains realizations in tax year 2020 and beyond.
- 37 This summary claim is derived from note 38 and the underlying Massachusetts Department of Revenue Annual Reports for each fiscal year in which a rate reduction took effect: FY2001 and FY2002 (see note 9); FY2012, FY2014, FY2015, FY2016, FY2019, and FY2020 (see notes 23 and 38). In every year except FY2002, nominal PIT revenues were flat or higher year-over-year. The FY2002 decline is analyzed in the body of this report and attributed to macroeconomic factors.
- 38 Revenue figures for FY1998–FY2007 are from Commonwealth of Massachusetts, Office of the Comptroller, *Statutory Basis Financial Report (SBFR) for the Fiscal Year Ended June 30, 2007*, "Ten-Year Schedule of Tax Revenues by Source (All Governmental Fund Types—Statutory Basis)," p. 310, [https://www.macomptroller.org/wp-content/uploads/sbfr\\_fy-2007.pdf](https://www.macomptroller.org/wp-content/uploads/sbfr_fy-2007.pdf). Figures for FY2002–FY2011 are from the *Comprehensive Annual Comprehensive Financial Report (ACFR) for the Fiscal Year Ended June 30, 2012*, Statistical Section, pp. 159–60, [https://www.macomptroller.org/wp-content/uploads/acfr\\_fy-2012.pdf](https://www.macomptroller.org/wp-content/uploads/acfr_fy-2012.pdf). Figures for FY2011–FY2020 are from the ACFR for the Fiscal Year Ended June 30, 2021, Statistical Section, pp. 214–15, [https://www.macomptroller.org/wp-content/uploads/acfr\\_fy-2021.pdf](https://www.macomptroller.org/wp-content/uploads/acfr_fy-2021.pdf). The FY2021 personal income tax figure is from the *SBFR for the Fiscal Year Ended June 30, 2021*, "Schedule A—FY2021 Tax Revenues by Revenue Class," [https://www.macomptroller.org/wp-content/uploads/sbfr\\_fy-2021.pdf](https://www.macomptroller.org/wp-content/uploads/sbfr_fy-2021.pdf). Inflation adjustments to 2025 dollars use U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers (CPI-U), U.S. city average, not seasonally adjusted (series CUUR0000SA0), <https://data.bls.gov/timeseries/CUUR0000SA0>. Methodological note: CPI-U figures used here are calendar-year annual averages assigned to the corresponding fiscal year. Because Massachusetts fiscal years run July–June, a precise fiscal-year CPI average would differ slightly and could alter real-dollar estimates by approximately 1–2 percent. This is a standard simplification in policy analysis but readers should be aware of the approximation.
- 39 In November 2022, Massachusetts voters approved Question 1, adding a 4 percent surtax on annual income exceeding \$1 million, effective January 1, 2023. See Ballotpedia, "Massachusetts Question 1, Tax on Income Above \$1 Million for Education and Transportation Amendment (2022)," [https://ballotpedia.org/Massachusetts\\_Question\\_1\\_Tax\\_on\\_Income\\_Above\\_\\$1\\_Million\\_for\\_Education\\_and\\_Transportation\\_Amendment\\_\(2022\)](https://ballotpedia.org/Massachusetts_Question_1_Tax_on_Income_Above_$1_Million_for_Education_and_Transportation_Amendment_(2022)).

