

# The Economics of Cutting Massachusetts' Income Tax

By Jared Walczak

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## Introduction

A controversial Supreme Judicial Court decision has denied Massachusetts voters the opportunity to vote on a one percentage point across-the-board income tax rate reduction this November, but the issue is not going away.<sup>1</sup> The prospect of income tax relief has been delayed, not ended.

Initiative Petition 25-18 would have yielded an estimated \$1,095 in annual tax savings for the median household. It would have reduced the Commonwealth's base individual income tax rate from 5 to 4 percent over three years while retaining the 4 percent surtax on income above \$1 million.<sup>2</sup> Adoption would have grown Massachusetts' economy by an estimated \$14.5 billion, created around 43,000 new jobs, and increased total wages by almost 2 percent.

The plan would have reduced revenues in the short term, but this is a cost that Massachusetts can afford, as the Commonwealth has experienced robust, sustained revenue growth far exceeding growth in median household income. Most of the Commonwealth's competitors have cut tax rates in recent years, returning a portion of this revenue growth to taxpayers. Massachusetts instead increased taxes on high earners in 2022, putting the Bay State at a competitive disadvantage compared to its peers.

Importantly, the plan would have reduced income tax burdens through a reduction in the general (currently 5 percent) rate, not the Fair Share surtax, which imposes an additional 4 percentage point tax on high earners. Revenue from the surtax, which is constitutionally dedicated to education and transportation, was unaffected by the proposal.

A portion of the static revenue loss would have been offset by additional growth generated by the tax cut, which would raise individual income, corporate income, and sales tax revenue relative to the baseline. Furthermore, because revenues have grown well beyond the cost of the cut in recent years, the Commonwealth could fund a rate cut from a portion of that growth while the economy and future revenues keep growing. Massachusetts' revenues would have returned to pre-tax cut levels a little more than three years after full implementation of the rate reduction, and the economy—and future revenues—will grow faster due to the additional jobs, higher wages, and greater economic growth facilitated by a lower income tax rate.

This paper situates Massachusetts within a broader state tax competitiveness environment in which the Commonwealth again finds itself an outlier. Since Massachusetts' last rate reduction, 26 states have cut individual income tax rates, and in the past decade, the median top rate has declined from 5.75 to 4.70 percent even as Massachusetts imposed a 9 percent rate on high earners. It demonstrates how Massachusetts' tax code harms Main Street businesses and hinders economic growth.

The paper then analyzes the economic impact of the proposed rate reduction, explaining how it would have provided relief for families and small businesses and drawing on the economic literature to estimate its broader effect. And it shows how the Commonwealth can afford that relief from a portion of its ongoing revenue growth.

The tax cut will increase individual and corporate income, tax revenues, investment and jobs.

## Massachusetts Has Become an Outlier Again

Massachusetts' adoption of a 9 percent top marginal rate (a 4 percent surtax above \$1 million in household income) went against the tide, not only compared to the tax reductions implemented in many other states, but also as a reversal of course after years of effort to help the Commonwealth shed its "Taxachusetts" label and enhance its regional competitiveness.

In 2000, Massachusetts voters approved a phased reduction of the state's individual

income tax rate, from 5.85 to 5.0 percent.<sup>3</sup> This was achieved through reductions to 5.6 and 5.3 percent, respectively, in 2001 and 2002, after which legislators delayed further reductions as the country recovered from the dot-com bubble and the economic aftermath of the September 11th attacks. After substantial delays, in part due to the Great Recession, the remaining reduction to 5.0 percent was phased in between 2012 and 2020.

At the 5.85 percent rate in 2000, Massachusetts' individual income tax raised \$16.97 billion in real (inflation-adjusted) terms. While voters subsequently authorized a surtax on high earners, the 5 percent rate—excluding revenue from the surtax—raised \$23.77 billion in FY 2025, a 40 percent increase in real terms. Due to robust income growth, Massachusetts was able to implement a 14.5 percent reduction in the rate (from 5.85 to 5.0 percent) and see tax revenues *increase* by 40 percent.<sup>4</sup>

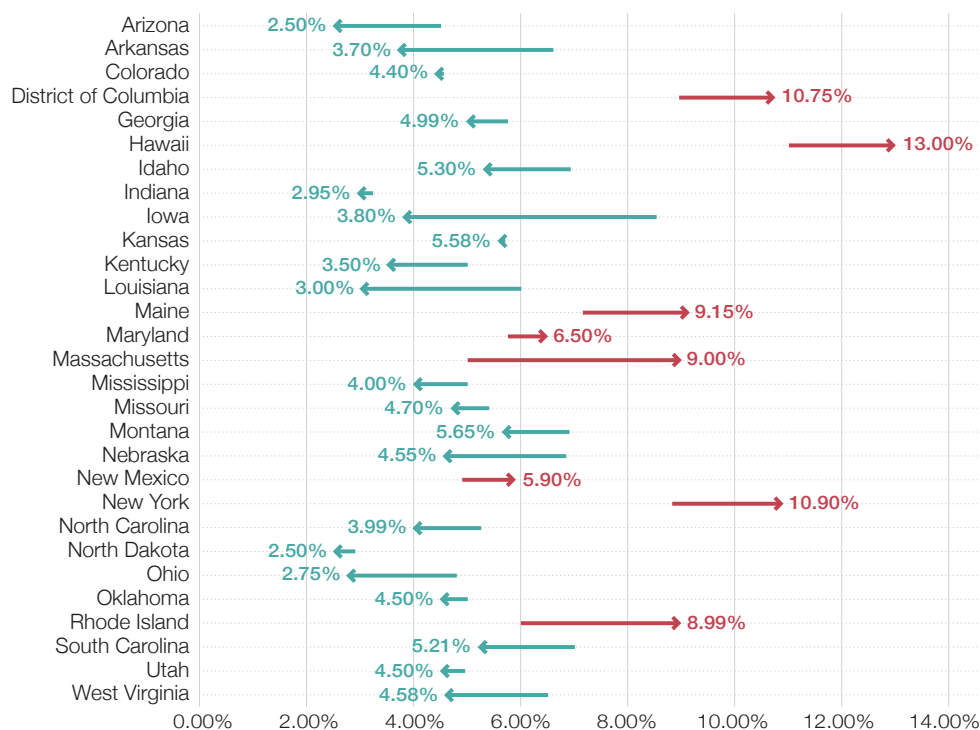
The same story has played out elsewhere. Since Massachusetts' last rate reduction, 26 states have cut individual income tax rates, including 21 that lowered their top rate on ordinary income.<sup>5</sup> The median state's top rate has declined from 5.75 percent to 4.70 percent over the past decade.<sup>6</sup> Against this backdrop of rate cuts, state income tax collections increased by 14.5 percent nationwide over the decade, accounting for both inflation and population growth.

Income tax cuts did not increase revenues, but they expanded an already-growing economy, providing ample room for rate relief. Massachusetts' history and the experience of many other rate-cutting states demonstrate that states can cut rates from a share of their revenue growth.

The median state's top rate has declined from 5.75 percent to 4.70 percent over the past decade.

### Massachusetts Raised Rates While Most States Cut Them

Change in Top Individual Income Tax Rate by State, 2020 through 2026 Enactments.



*Note: Only includes top ordinary rate on individual income. Does not include uncapped non-UI payroll taxes in California, Massachusetts, or Washington, or changes to rates on capital gains income. Several states reduced lower rates but not the top rate and are not included here, and two states eliminated taxes on interest and dividend income and are likewise omitted.*

*Source: State statutes; Tax Foundation data.*

Massachusetts' relatively competitive pre-surtax income tax rate was a bright spot in an otherwise economically uncompetitive tax code. Even this, however, was not enough to staunch the tide of out-migration from Massachusetts, fostered in part by that tax code.

Massachusetts lost 324,000 residents to net out-migration over the past decade for which U.S. Census Bureau data are available (2015–2024), the equivalent of 4.5 percent of the state's current population. Only five states and the District of Columbia have fared worse. Aside from Alaska, which has long struggled with out-migration for reasons unrelated to taxes, these states are distinguished by their high tax burdens. Conversely, the seven states with the greatest net in-migration over the past decade were, with one exception—Delaware, which is regionally competitive and has no sales tax—all low-tax states, most of which meaningfully cut taxes in recent years.<sup>7</sup>

Massachusetts lost 324,000 residents to net out-migration over the past decade.

### Net Migration as a Percentage of Population, 2015–2024

States with highest net in- and out-migration as a share of current population

| Most Net In-Migration |               | Most Net Out-Migration   |               |
|-----------------------|---------------|--------------------------|---------------|
| State                 | Net Migration | State                    | Net Migration |
| 1. Arizona            | +9.4%         | 51. Alaska               | –10.3%        |
| 2. Idaho              | +9.2%         | 50. New York             | –9.0%         |
| 3. South Carolina     | +8.7%         | 49. Illinois             | –8.5%         |
| 4. Nevada             | +8.6%         | 48. New Jersey           | –7.1%         |
| 5. North Carolina     | +6.5%         | 47. District of Columbia | –5.4%         |
| 6. Delaware           | +6.2%         | 46. California           | –5.2%         |
| 7. Florida            | +5.8%         | 45. Massachusetts        | –4.7%         |

Source: U.S. Census Bureau; author's calculations.

Internal Revenue Service data tells a similar story. In 2023 (most recent year), Massachusetts saw a net reduction of \$4.18 billion in adjusted gross income due to migration, and the present value of the past ten years' net out-migration is \$28 billion.<sup>8</sup>

Massachusetts' world-class universities attract top talent to the state, and those who grow up in the Commonwealth have excellent educational opportunities. Yet Massachusetts struggles to retain them as they embark on their careers. A 2023 survey commissioned by the Greater Boston Chamber of Commerce Foundation found that 25 percent of young Bostonians expected to leave the area in the next five years, and only 38 percent reported that they were “very likely” to remain. Respondents rated economic factors as the most significant for their decision to remain or depart.<sup>9</sup>

Separately, a survey commissioned by the Mass Opportunity Alliance asked former Massachusetts residents who had recently relocated to Florida (35 percent of the sample) or New Hampshire (65 percent) why they left, and how Massachusetts' policies impacted their decision. Taxes were by far the most cited government policy influencing the decision to leave, mentioned by 71 percent of respondents. Those surveyed were far more likely to attribute their departure to the high cost of living (including higher tax costs) and dissatisfaction with state policies than they were to cite a desire for a different lifestyle, proximity to family and friends, warmer weather, or other non-policy factors.<sup>10</sup> By polling only those who relocated to two states without an income tax, the survey likely selected for departing residents who are uniquely sensitive to tax differentials, but the results still serve to illustrate how high taxes can drive residents elsewhere.

A Boston Chamber survey found that 25 percent of young Bostonians expected to leave the area in the next five years.

Reducing Massachusetts' income tax rate to 4 percent for most taxpayers would have provided meaningful relief for families and shored up the Commonwealth's tax competitiveness, particularly for small businesses.

## Tax Cuts for Massachusetts Households

Like the Commonwealth's previous income tax rate reduction, this proposal would have used a three-year phase in for tax relief. It would have reduced the base income tax rate from 5 to 4.67 percent in 2027, to 4.33 percent in 2028, and finally to 4 percent in 2029.

Massachusetts' income tax applies to a broad base of income. The Commonwealth disallows federal itemized deductions, and, beyond the exclusion of Social Security income, state-specific deductions and exemptions are limited. The only broadly available subtractions from income are a \$4,400 personal exemption (\$8,800 for joint filers) and a \$1,000 dependent deduction.<sup>11</sup> The current 5 percent rate applies to all taxable income below \$1 million, and a 9 percent rate (including the 4-percentage-point surtax) applies above that threshold.<sup>12</sup>

Consequently, while the effective rate reduction is smaller for earners with household incomes above \$1 million, a reduction in the general rate from 5 to 4 percent would have a straightforward result for most taxpayers: a one-fifth reduction in liability once fully phased in. That represents \$1,095 in annual tax savings for the median Massachusetts household. Since average income exceeds the median, we estimate average household savings at \$1,404.<sup>13</sup>

The proposed tax cut will provide \$1,095 in annual tax savings to the media household, \$1,404 to the average household.

## Tax Relief for Massachusetts Small Businesses

Individual income taxes apply to most small businesses as well as to households. The vast majority of small businesses are pass-through entities (sole proprietorships, limited liability companies, partnerships, S corporations, etc.), in which business income is "passed through" to owners' returns. This contrasts with C corporations, where businesses are initially taxed at the entity level.

Massachusetts boasts around 700,000 small businesses, representing 99.5 percent of all businesses in the state.<sup>14</sup> Many of these are sole proprietorships, but 144,000 have employees, collectively employing 1.5 million people, which is 44.7 percent of all employment in the Commonwealth. Their combined payroll totaled \$109.6 billion in 2022, and they generated 34 percent of gross revenue from employer businesses in Massachusetts.<sup>15</sup>

The proposed rate reduction would have benefited these small employers, promoting investment, job growth, and economic expansion. It would put Massachusetts-based businesses on a more competitive footing against out-of-state rivals and increase owners' capacity to invest in their businesses.

Most revenue from these businesses goes to payroll and immediate business expenses, but pass-throughs also generate profits for owners, which are often reinvested in the business. Pass-through business income accounts for only 10 percent of personal income in Massachusetts,<sup>16</sup> but the small-business income share is unusually sensitive to changes in tax burdens.

All pass-through businesses would have received the benefit of the 1 percent across-the-board rate reduction. Notably, however, 69 percent of pass-through business income in Massachusetts is reported on the federal income tax returns of 17,000 owners.<sup>17</sup> These are the businesses most responsible for small-business investment and employment, and they would have seen an estimated \$426 million in aggregate tax relief each year once the rate reductions are fully phased in, boosting Main Street jobs and wages.<sup>18</sup>

Individual income taxes apply to the vast majority of Massachusetts' small businesses, which employ about half the state.

## Economic Effects of Income Tax Relief

Lower income tax rates are associated with higher gross state product (GSP), investment, wages, employment, innovation, and consumption. We estimate that the proposed reduction in the income tax rate would have increased GSP by \$14.49 billion, created 43,020 new jobs, reduced the unemployment rate by 0.3 percentage points, and boosted total wages by 1.94 percent. These effects would not have been instantaneous. Projections are for the increase over baseline growth three years after full implementation of the policies in question.

The tax cuts would have boosted personal income by a projected \$12.96 billion and increased consumption expenditures by \$10.74 billion. Patent filings would have been expected to increase by 1.8 percent as the return on innovation increased and innovators were incentivized to remain in-state.<sup>19</sup> The reform would also have helped staunch the flow of out-migration, with increasing effects as wages and employment opportunities rise.<sup>20</sup>

Additionally, the economic literature shows larger effects not only for high earners but specifically for top professions. Economists Enrico Morretti and Daniel Wilson estimate, for instance, that for every percentage point reduction in the marginal income tax rate, the number of star scientists in a state increases by 1.8 percent,<sup>21</sup> which is particularly salient in Massachusetts, with its concentration of scientific researchers.

### The Proposed Income Tax Cut Would Benefit Massachusetts' Economy

Economic impacts of reducing the standard rate from 5 to 4%

| Economic Indicator   | Central Estimate | High-End Estimate |
|----------------------|------------------|-------------------|
| Gross State Product  | \$14.49 billion  | \$17.09 billion   |
| Personal Income      | \$12.96 billion  | \$14.58 billion   |
| Personal Consumption | \$10.74 billion  | n.a.              |
| Job Creation         | 43,020 jobs      | 48,756 jobs       |
| Unemployment Rate    | 0.3% reduction   | n.a.              |
| Patents Filed        | 1.8% increase    | n.a.              |

*Note: Estimates are "medium-run" effects, reflecting adjustments after three years (after tax year 2031). Source: Author's estimates based on elasticities calculated by Akcigit et al. (2022), Cloyne (2013), Mertens & Ravn (2013), Mertens & Olea (2017), Romer & Romer (2010), and Zidar (2019), and using economic forecasting data from the U.S. Congressional Budget Office, Massachusetts budget documents, and other sources. See methodology for further details.*

These are all at least medium-run estimates, showing effects two to three years after implementation, since economic responses to the lower rates will not occur instantaneously. They are calculated using elasticities (measures of responsiveness) identified in the economic literature. Calculations are based on economic projections for tax year 2029, by which time the tax cut would have been fully implemented, but reflect changes in levels two to three years after implementation.

Estimates are obtained by aggregating multiple highly reputable studies where possible for increased confidence. For instance, elasticities from Romer & Romer (2010),<sup>22</sup> Cloyne (2013),<sup>23</sup> and Mertens & Ravn (2013)<sup>24</sup> are all applied to calculate the tax's impact on gross state product, yielding central estimates ranging from \$14.08 billion to \$15.3 billion, reported here as the average of the three results, \$14.49 billion.

Each of these studies is compelling on its own. They are averaged here to provide an estimate that accounts for multiple approaches and relies on the results from multiple

In addition to personal income, the tax cut will grow state GDP, wages, patent filings, consumption and sales taxes, and jobs. Unemployment will go down.



researchers. Because their results are so similar, the average is very close to the estimates from each study individually.

That these three studies, which involve distinct calculations, methodologies, and measures, all yield similar figures should increase our confidence in the resulting estimates. Their congruence also strengthens estimates that share the same methodological assumptions or are downstream of them, such as estimates of wage income and personal consumption (following Cloyne), personal income (following Mertens & Ravn), and job creation and reduction in unemployment, based on Zidar (2019)<sup>25</sup> and Mertens & Olea (2018).<sup>26</sup>

These separate estimates of income and consumption effects also help affirm each other, as the ratio of spending to income increases aligns with expectations for an across-the-board rate reduction. A tax cut more concentrated on reducing the top marginal rate would, dollar-for-dollar, do more to increase investment and yield greater economic growth, albeit at the cost of lower tax savings for lower- and middle-income households.

Several studies used here analyze national rather than state-level elasticities. This strengthens, not weakens, their applicability at the state level. A state economy is what economists refer to as a “small open economy,” characterized by ease of mobility and capital flows. Economic activity across national borders—moving, investing, or earning income—involves more friction than does activity across state lines, so state-level responses to changes in after-tax income are expected to be at least as large as those at the national level, and likely larger.<sup>27</sup>

## Fiscal Effects of Income Tax Relief

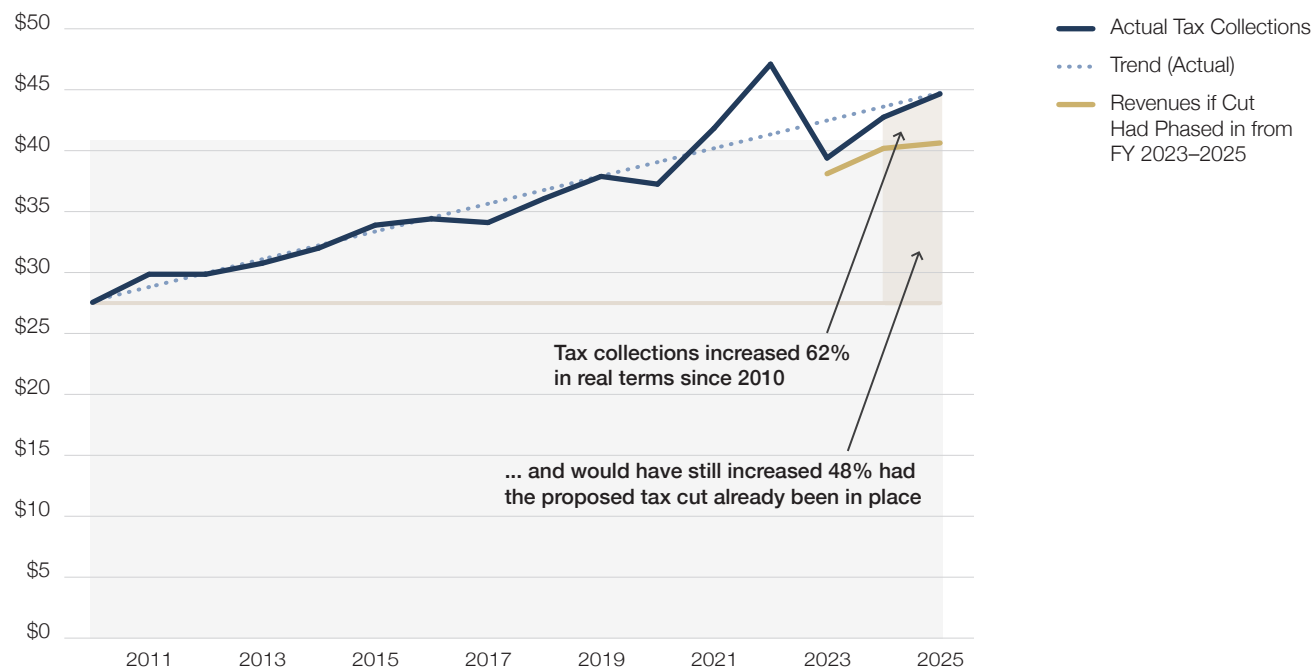
An across-the-board 1 percent rate reduction carries a meaningful price tag, but one that Massachusetts can afford given its lengthy run of robust revenue growth. Most states have responded to rising revenues by returning at least some of the increase to the taxpayers. Massachusetts has not. Real (inflation-adjusted) tax revenue increased by 62 percent between fiscal years 2010 and 2025, or by 50 percent per capita.

The chart below shows inflation-adjusted tax collections since FY2010—up 62 percent (which is 50 percent per capita)—and how a comparable tax cut phased in from 2023 to 2025 would still have produced 48 percent growth (equivalent to 36 percent per capita). This provides a clearer sense of scale than focusing only on 2027–2029.

Real tax revenues grew 62% since 2010—and they would have grown 48% even with a phased-in tax cut.

## State Tax Revenue Increases are Larger than Proposed Cuts

Inflation-adjusted state tax revenue, FY 2010 through 2025, with dynamic estimates of revenue had the proposed three-stage income reduction from 5% to 4% been phased in already (billions).



*Note: Dynamic estimates are based on long-run economic effects (2–3 years), but are shown as of the year of implementation for simplicity's sake. The static revenue estimate for FY 2025 with a 1 percentage point income tax rate reduction is \$39.90 billion, compared to a long-run dynamic estimate of \$40.63 billion. Source: Massachusetts Department of Revenue; author's calculation.*

Considering the effect against actual revenues is useful because it provides a sense of scale and allows us to compare the cut against actual, not projected, revenues. It makes clear that although the reduction is meaningful, it leaves the Commonwealth with robust real revenue growth. Put another way, over the past five years, Massachusetts' inflation-adjusted revenue growth has been nearly twice the cost of the proposed tax cut—enough to fund a 1 percentage-point rate reduction by returning about half (54 percent) of that growth.

The Commonwealth Stabilization ("Rainy Day") Fund also has a healthy \$8.1 billion balance.<sup>28</sup> Because revenue reductions from tax cuts are recurring, the rainy day fund should not be used to pay for tax relief, but it does provide an added buffer for transitional effects, alongside the phased-in nature of the proposed tax relief. The cost of a one-point cut is a modest portion of the Commonwealth's recent real revenue growth, and a portion of continued growth is more than sufficient to fund it.

Because lower tax burdens will increase economic growth, the tax base on which the lower rate applies will be broader. Positive economic feedback from the tax relief—such as higher income and expanded investment—will reduce the cost of the rate reduction. These economic effects apply to individual income tax revenues, but also increase collections from other taxes, particularly the sales tax. These gains reduce the net cost relative to a static revenue estimate. The remaining share of the tax cut could have been funded from ongoing growth.<sup>29</sup> Tax revenues have grown dramatically both in Massachusetts and nationwide in recent years due to robust economic growth.

## The Economics of Income Tax Rate Relief

Taxes reduce economic output and affect decision-making, introducing economically inefficient market distortions. This is simply a reality of taxation, one that policymakers cannot avoid, but also should not ignore. Taxes are necessary, but their design matters.

To say that taxes reduce economic output is not to say that all combinations of taxes and expenditures reduce economic output. Some government spending is clearly conducive to economic growth, with its benefits outweighing the economic drag from the taxes that fund it. It should also be noted that economic efficiency is not the primary aim of government, nor should it be. Many government programs serve valuable and desirable purposes separate from the pursuit of economic maximization. However, consistent with whatever aims policymakers set, there are better and worse ways to raise the necessary revenue.

It is a maxim in taxation that “whatever you tax, you get less of.” On rare occasions, this is the point: lawmakers might impose high taxes on certain perceived vices to reduce consumption of harmful products. Generally, however, it is an undesirable consequence.

Income taxes fall on the economic returns to labor and investment. They tax work, productivity, and capital formation. They are levied on the means of both current and future consumption and reduce the present value of investment. Importantly, individuals, businesses, and investments subject to income taxation are mobile in varying degrees, able to relocate to jurisdictions with more favorable tax treatment.

By contrast, consumption taxes (such as sales taxes) and real property taxes (which fall on fixed, immobile assets) introduce fewer economic distortions and do less harm to economic growth. Trade-offs abound: income taxes are more progressive than sales taxes and yield faster revenue increases in good years, for instance, while sales taxes are more stable and economically efficient. Most states balance these considerations against each other.

Studies routinely find that income taxes are more economically damaging than other major taxes, which makes them a good target for rate reductions when such opportunities exist. An International Monetary Fund paper concluded that a one percentage-point shift from income to consumption taxes increased gross domestic product (GDP) by 0.92 percent, and a shift to property taxes increased GDP by 1.22 percent.<sup>30</sup> Other studies have echoed these findings at international, national, and regional levels.<sup>31</sup> One study at the state level found that gross state product would decline by 2.7 percent if state sales taxes were replaced through higher income taxes, with household disposable income falling by 3.5 percent.<sup>32</sup>

Massachusetts is not considering tax shifts from income to sales or other taxes. Voters were denied the opportunity to weigh in on a rate reduction to the tax that the economic literature affirms has the greatest effect on economic growth.

Across countless measures, lower income tax rates are associated with better economic outcomes. Gentry & Hubbard (2002) found that for each percentage point reduction in the marginal income tax rate, the likelihood that a taxpayer would move to a better job in the coming year increased by 1.6 percent. The effect was slightly higher for women than for men.<sup>33</sup> Many studies, including some used in this analysis, find that income tax rate reductions increase gross state product, personal income, productivity, investment, workforce participation, patent formation, and (downstream of higher personal income) consumption.

Recent evidence even suggests that states' adoption of income taxes over the past 110 years, while substantially increasing revenue per capita in those states, did not

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meaningfully increase total revenues, as high earners migrated to states with lower (or no) income taxes, resulting in a rough equilibrium.<sup>34</sup> This nicely complements older findings that, while progressive income taxes, such as the one Massachusetts imposes since the surtax's implementation, increase progressivity for taxpayers within the state, they fail to increase progressivity overall, as long-run taxation-induced mobility offsets the effects in aggregate.<sup>35</sup>

If Massachusetts adopts an across-the-board rate reduction, it will benefit wage earners and small business owners alike. The tax cut would affect both what economists term the “intensive” and “extensive” margins. The intensive margin refers to internal effects: increased economic activity among those already in the state. The extensive margin refers to external effects: compositional changes through a change in net migration.

We anticipated that a one percentage point across-the-board rate reduction would yield most of its benefits through the intensive margin. It enhances returns on investment and leaves taxpayers with higher after-tax income, boosting the economy. Over time, as Massachusetts' economy grows and more jobs are available, the Commonwealth will become more attractive to those who might otherwise leave, or conversely, to those who might come to the state for employment.

A 1-point rate reduction will raise after-tax income and investment, strengthening the economy and making Massachusetts more competitive for jobs and talent.

## The Cost of Inaction

The growing divergence between states with high and low income tax rates creates economic risk for high-tax states. Massachusetts' top rate is well above the average for any era, but it is even less competitive in the current environment, when so many states offer a more competitive tax environment. Taxpayers looking for a lower-tax environment have more options than ever before.

Some businesses and individuals move directly because of taxes. Moving has costs, but its attractiveness increases when rates are unusually high relative to alternatives, and it becomes easier when there are so many viable alternatives. But many more people move for jobs or greater economic opportunity. They move where businesses are hiring and expanding—and increasingly, that is happening in lower-tax states.

Twenty-six states have cut individual income tax rates since Massachusetts' last rate reduction. Meanwhile, Massachusetts lost 324,000 residents to net out-migration over the past decade, which is 4.5 percent of the state's current population. Other states are prioritizing a competitive tax environment. A decade's worth of tax reform in North Carolina, for instance, has contributed to net in-migration of 6.5 percent, in contrast to 4.7 percent net out-migration from Massachusetts. Other states that have prioritized tax relief, like Arizona, Idaho, and South Carolina, have grown even faster, while Massachusetts is joined at the bottom by other states with unusually high top income tax rates.

The consequences are real and significant for Massachusetts' economy. The net present value of the past ten years' net out-migration from Massachusetts is \$28 billion in AGI, and \$4.18 billion from those who left in 2023 (most recent year's data) alone. Income tax rate relief can help stem the tide of out-migration, which in turn would increase tax collections beyond the amounts estimated in this paper. The alternative—continuing to lose jobs and people to other states—should alarm policymakers.

## Conclusion

Just as they did in 2000, Massachusetts voters deserve an opportunity to approve pro-growth income tax rate relief that will benefit families and small businesses by improving the state's competitiveness, creating jobs, and, in time, helping to counteract the brain drain that has long plagued the Commonwealth.

Taxes are not the only driver of economic growth or migration, but they are among the most effective policy levers available to voters and lawmakers. Had Initiative Petition 25–18 appeared on the ballot and been approved by voters, it would have grown Massachusetts' economy by about \$14.5 billion, created an estimated 43,000 new jobs, and increased total wages by almost 2 percent. The median household would have saved \$1,095 per year.

Massachusetts continues to have the capacity to provide this relief from a portion of recent years' revenue growth, and a lower rate will return part of the cost through additional collections generated by a larger economy.

For Massachusetts, the status quo is not working. A one percentage-point income tax cut would help put the Commonwealth back on the path to greater economic competitiveness.

Taxes are not the only driver of growth or migration—but they are among the most powerful policy tools available to policymakers.

## Methodological Notes

To determine baseline personal income, personal consumption, employment, population, and tax revenue for 2027–2029, we relied on the following datasets for preliminary data:

- The U.S. Bureau of Economic Analysis's state-level personal consumption expenditures, gross domestic product, and wage income series<sup>36</sup>
- The Internal Revenue Service's "Statistics of Income" federal income tax data for Massachusetts<sup>37</sup>
- The U.S. Census Bureau's state population data<sup>38</sup>
- Massachusetts Department of Revenue reports for FY 2025<sup>39</sup>
- The Healey administration's FY 2026–2027 biennial budget's projected financial statements<sup>40</sup>
- Estimates from the Commissioner of the Department of Revenue at the December 2025 Consensus Revenue Hearing<sup>41</sup>

These figures were then adjusted as necessary, drawing from the following:

- The Massachusetts Taxpayers Foundation's consensus revenue forecast, for estimated GSP and personal income growth rates for fiscal years 2026 and 2027<sup>42</sup>
- The Congressional Budget Office's forecasts of inflation, GDP growth, and other economic indicators to estimate economic adjustments for fiscal year 2028 and beyond<sup>43</sup>
- The University of Massachusetts Amherst's state population projections<sup>44</sup>

Using the resulting data, we applied elasticities from the economic literature as discussed previously:

- Romer & Romer (2010), Cloyne (2013), and Mertens & Ravn (2013) for gross state product
- Zidar (2019) and Mertens & Olea (2017) for employment effects
- Mertens & Ravn (2013) and Cloyne (2013) for personal income and consumption effects
- Akcigit et al. (2022) for patent formation effect

## Endnotes

- 1 The Massachusetts Supreme Court denied ballot access on the grounds that the ballot summary, which was produced by the Attorney General's office and not by supporters of the measure, contained an inaccuracy. Supporters argued that this could easily be remedied by revising the summary as it would appear on the November ballot. See Mike Deehan, "Mass. High Court Strikes Tax Cut from Ballot," *Axios Boston*, June 18, 2026, <https://www.axios.com/local/boston/2026/06/18/massachusetts-sjc-ballot-tax-cut-struck>.
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