MOA
MASS OPPORTUNITY ALLIANCE

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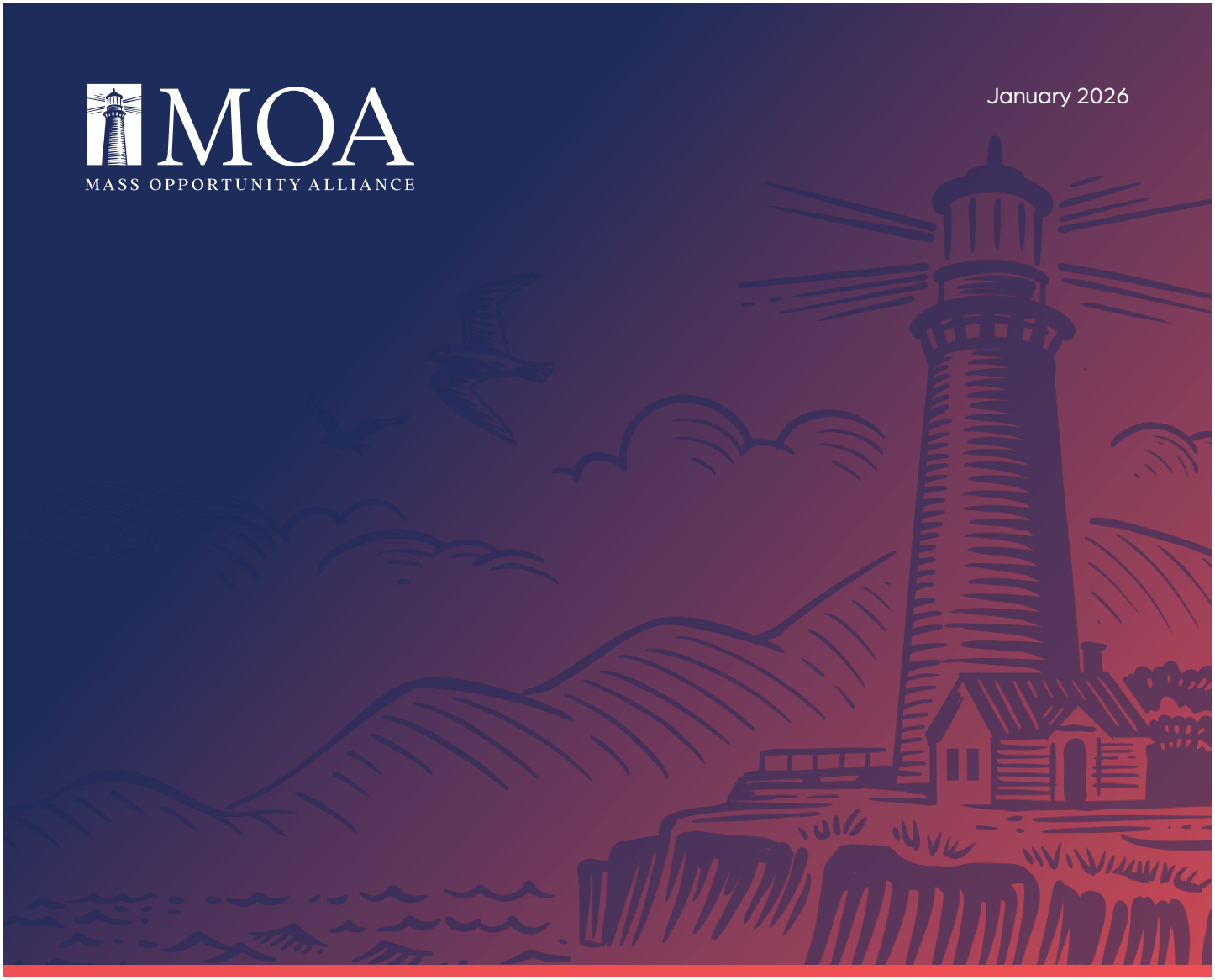

Assessing the Impacts of an Income Tax Cut in Massachusetts

A Technical Analysis

Executive Summary

Massachusetts residents have repeatedly said in polling that their taxes are too high. Those concerns have inspired a 2026 ballot initiative that would reduce the Commonwealth's income tax from 5% to 4%.

Economic research shows income tax cuts allow taxpayers to keep more of their paychecks, prompting greater spending in the economy. Previous research from the Mass Opportunity Alliance (MOA) estimates the proposed tax cut would save taxpayers roughly $1,300 per year, which they can spend on their families, patronize local businesses, and grow the state's economy.

In a new analysis of historical budget and economic data, MOA finds the proposed rate cut would have a modest short-term impact on revenue during implementation, but collections would recover quickly and grow faster following the full implementation of the cut.

Findings include:

- Following full implementation of the tax cut in 2029, income tax revenues are projected to immediately grow again every year after.
- After the tax cut, annual income tax revenue is projected to grow nearly twice as fast compared to before the tax cut went into effect.
- The annual impact on revenue is estimated to be $680 million for three years of implementation. This is roughly one-tenth of what the state overspent on its budget in fiscal year 2025.[1]
- Considering the potential *positive* impacts on state GDP resulting from income tax rate reductions, estimated short-term revenue losses drop to as low as $626 million annually across three years of implementation.
- If the proposed revision to Massachusetts' cap on revenue also passes, projections show the revenue cap would not negatively impact revenues during the implementation of the tax cut.

Data

To understand how income tax revenue would likely be affected by a rate cut, we used data on historical revenue changes under previous income tax cuts to build our model for the future. We constructed a fiscal-year dataset combining Massachusetts tax revenue collections, statutory tax rates, and economic indicators to estimate the effects of changes in the individual income tax rate on state income tax revenue. The dataset spans fiscal years (FY) 1997 through 2024, reflecting a period that encompasses major income tax policy changes over the past few decades.

The primary outcome variable is Massachusetts' individual income tax revenue, sourced from fiscal year collections data reported by the state Office of the Comptroller in its Statutory Basis Financial Reports (SBFR), which are audited and submitted to fulfill legal disclosure requirements in the state of Massachusetts.[2] Given several changes to various components of income tax revenue over the years, we adjusted total income tax revenue to standardize the comparison for all years in the dataset. To better isolate revenue tied to the base income tax rate and reduce year-to-year volatility not attributable to historical income tax rate reductions, we adjusted the raw total income tax revenue to exclude capital gains revenue (which has experienced its own tax rate changes over this period). Capital gains revenue numbers were compiled from both official state budget documents and the Statutory Basis Financial Reports (SBFR), and subtracted from raw income tax revenue levels. For a few fiscal years in which capital gains data were only available on a calendar year basis, proxy fiscal year estimates were constructed by proportionally apportioning calendar year capital gains revenue.

Income tax revenue generated by the surtax on income over $1 million and one-time refunds issued under the state's existing revenue cap, Chapter 62F, are also excluded, as these components do not reflect broad-based changes in the income tax base over time. In addition, revenue from the pass-through entity excise tax, which first generated collections in fiscal year 2022, is excluded to maintain consistency in the income tax revenue series over time.

To make historical (adjusted) total revenue levels directly comparable, we then adjusted all years based on inflation using the Consumer Price Index for All Urban Consumers (CPI-U) for the Boston-Cambridge-Newton metropolitan area.[3] All data and projections from this model are therefore reported in 2024 dollars, based on the latest complete year in our data set.

Our main independent variable in the model is the statutory base income tax rate (i.e. the rate that applies to all residents' wage and salary income under $1 million). To account for underlying economic conditions in our model, other independent variables include Massachusetts' real gross domestic product (GDP) as a measure of overall economic activity, the statutory individual income tax rate, the inflation rate, seasonally adjusted unemployment rate, and number of tax filers in the state. Real GDP data comes from the U.S. Bureau of Economic Analysis[4], while inflation and unemployment measures are collected from the U.S. Bureau of Labor Statistics.[5] Tax filer counts are obtained from the U.S. Internal Revenue Service Statistics of Income dataset.[6]

All revenue numbers were reported in nominal terms and converted to real 2024 dollars. Inflation-adjusted income tax revenue and state-level real GDP are used in the primary model specification to ensure comparability across fiscal years.

Methods

We employed a multiple linear regression model to estimate how base individual income tax revenue changes in response to changes in the statutory income tax rate, controlling for broader economic conditions. The model is estimated using historical fiscal-year data and is subsequently used to project revenue outcomes over a ten year forecast period.

The relationship is estimated using the following regression model:

$$IncomeTaxRevenue_t = B_0 + B_1 RealGDP_t + B_2 TaxRate_t + B_3 Inflation_t + B_4 Unemployment_t + B_5 Filers_t + \varepsilon_t$$

Where:

$IncomeTaxRevenue_t$ denotes inflation-adjusted individual income tax revenue in year t;

$TaxRate_t$ is the statutory individual income tax rate;

$RealGDP_t$ is Massachusetts real gross domestic product;

$Inflation_t$ is the CPI-U inflation rate;

$Unemployment_t$ is the seasonally-adjusted unemployment rate; and

$Filers_t$ is the number of Massachusetts tax filers.

Using the estimated coefficients, we simulated the revenue impact of a phased reduction in the individual income tax rate from 5% to 4%. The modeled phase-in schedule reduces the tax rate to 4.67% in 2027, 4.33% in 2028, and 4.0% in 2029, with all other model parameters held constant.* Projected revenues are generated by applying the estimated regression coefficients to annual projected values of real GDP, inflation, unemployment, and number of tax filers, together with the statutory income tax rate as specified under the phased-in reduction schedule, using the last fiscal year with observed data as the starting point for the forecast. For the purposes of this analysis, FY2025 and FY2026 are modeled with the above economic parameters, and the effective tax rate held at 5.0%. FY2027 is modeled as Year 1 of the three-year implementation of the tax cut, for continuity with historical data.

To assess sensitivity to economic conditions, the model is evaluated under three alternative economic scenarios reflecting worsening, stable, and improving conditions. These scenarios adjust assumptions related to inflation and unemployment while holding the decreasing tax rate constant, allowing revenue outcomes to be compared across economic environments.

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* The official ballot measure language implements these changes by calendar year (2027-2029); to keep the analysis in line with state budget reporting, we use fiscal years (FY2027-2029).

Results

How Revenues Fare Across Economic Conditions

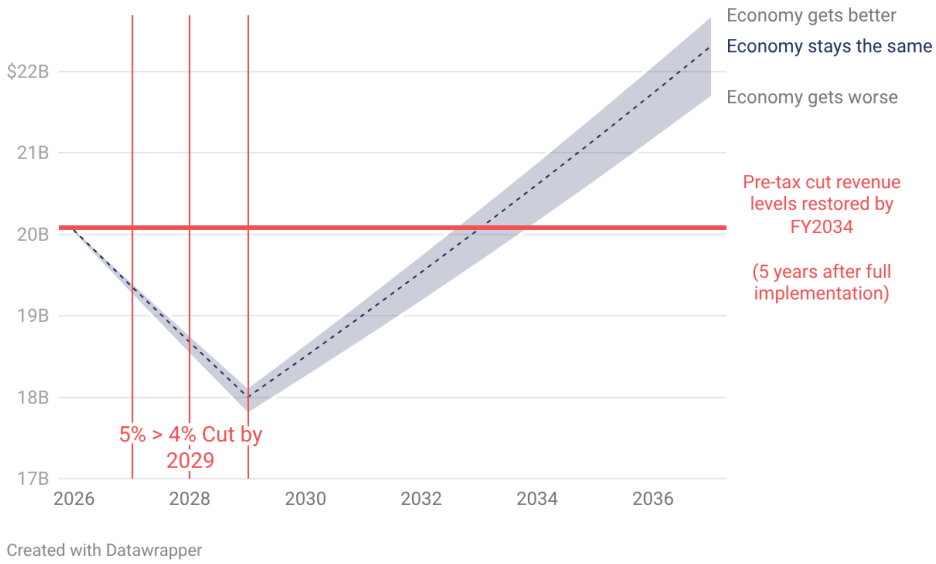
Table 1 shows the results of our multiple regression analysis. This model finds a statistically significant positive relationship between tax rates and related revenues, showing a one percentage point cut in the income tax rate results in a $3.49 billion reduction in individual income tax revenue.

However, this result does not directly measure the proposed income tax rate cut, as the proposed implementation of a one percentage point decrease will be phased in over three years, with a one-third of a percentage point rate cut each year. This means that other economic factors will affect yearly changes in revenue while the income tax cut is still being phased in. Therefore, the net impact on revenue that can be directly attributed to the tax cut must be measured by taking into account other variables that may also change over the course of three years. As such, we calculated the estimated net revenue effects using our model and coefficients with three potential economic scenarios in mind: a worsening economy, a stable economy, and an improving economy.

Table 2 shows the estimated revenue values for FY2025 through FY2037 (ten years after the tax cut begins). Numbers below annual revenue levels show year-over-year change, with red for losses and green for gains. Column A shows estimated annual revenue levels based on worsening economic conditions, marked by higher unemployment and inflation. In this worse-case scenario, the state would lose $744.9 million in FY2027, $735.5 million in FY2028, and $725.8 million in FY2029, totaling $2.21 billion over three years, after which revenues would begin to grow annually. Column B shows estimated revenues based on economic conditions holding at current levels. In this scenario, the state would lose $692.4 million in FY2027, $682.9 million in FY2028, and $673.2 million in FY2029, totaling roughly $2.05 billion over three years, after which revenues grow annually. Column C shows estimated revenue levels based on better economic conditions, based on decreasing unemployment and inflation. In this better-case scenario, the state would lose $660.7 million in FY2027, $651.3 million in FY2028, and $641.6 million in FY2029, totaling roughly $1.95 billion, after which revenues would grow annually.

Figure 1 represents each of these scenarios and revenue levels during and after the tax cut. Regardless of economic conditions, the model estimates the state will experience modest year-over-year decreases in income tax revenue in the three years of implementation, but immediately following full implementation, year-over-year revenues will grow.

Figure 1: Income Tax Revenue FY2026–2037



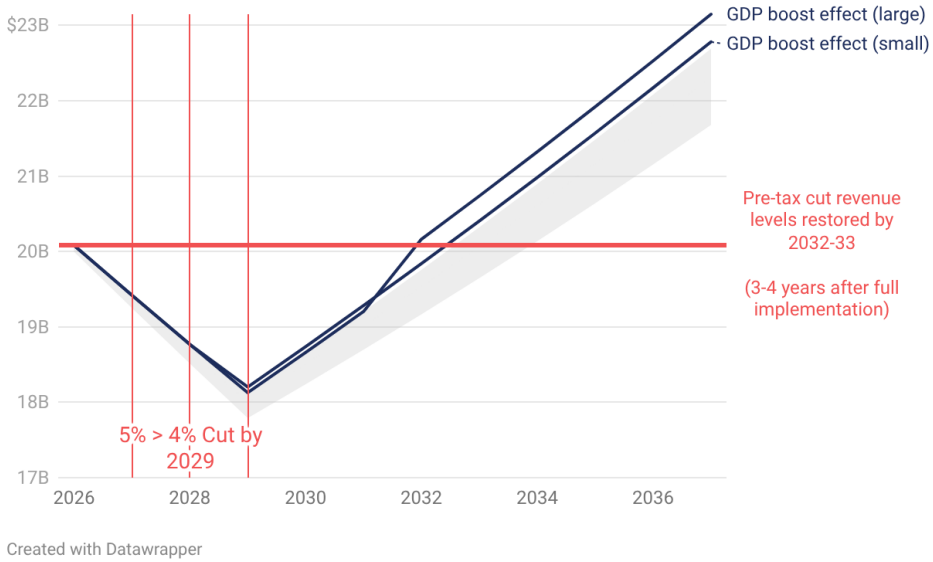
How Revenues Fare With Positive GDP Impacts

Economists have documented that income taxes also reap positive economic benefits, through higher disposable income for taxpayers due to relative tax savings invested back into businesses and the economy. As a result, economic studies have found reducing income tax rates increase gross domestic product (GDP). To measure the potential positive impacts of the tax cut, we estimated the annual revenue impacts with these potential GDP increases. Using a range of estimated impacts on GDP from the literature, we estimate how these impacts could affect income tax revenue levels.

Table 3 shows the two chosen GDP boost scenarios based on the lower and higher ranges in the literature. A more modest estimate of income tax cuts on GDP estimate there will be a 0.5% additional increase in GDP immediately upon full implementation of a 1% income tax reduction. Resulting annual revenue estimates are in Column E. Since this boost takes effect upon full implementation, the resulting increase in GDP takes effect in FY2029, and as a result reduces the net amount of revenue lost due to the tax rate reduction. The state would lose $660.7 million in FY2027, $651.3 million in FY2028, and $566.2 million in FY2029 – a cumulative revenue loss of $1.88 billion across three years. On the higher end of the literature, economists estimate GDP could increase as much as 2.5% by three years after full implementation of a 1% income tax reduction. Resulting annual revenue estimates are in Column F. Since this GDP boost takes place three years after full implementation (estimated for FY2032), the added positive impacts do not take place during the three implementation years typically facing modest revenue losses, but provide a quicker recovery. In this scenario, the state would experience the estimated annual revenue losses from FY2027–FY2029 as laid out in the previous economic conditions analysis, but see a spike in GDP, and therefore income tax revenue, in FY2032 and beyond.

Figure 2 represents the timeline of these impacts compared to the baseline economic scenarios in the previous section.

Figure 2: Income Tax Revenue FY2026–2037



Regardless of economic conditions or the extent of positive impacts of the tax cut affecting income tax revenues, all estimates show the state would undergo modest annual reductions during the three years of phasing in the income tax cut from 5% to 4% from FY2027 to FY2029. Every model in this analysis shows that immediately upon full implementation, revenues would grow every year and surpass pre-tax cut levels in as early as three years following the full implementation.

This analysis also finds compared to the recent period following the state's last income tax reduction in 2020, state revenues will grow as much as twice as fast. In the years since the last income tax cut (FY2020 to FY2024), adjusted income tax revenues (without capital gains, 62F refunds, or surtax revenues) grew on average 1.5% annually. Following full implementation of the income tax rate cut, revenue is projected to grow faster, by 2.5–2.8% annually.

Conclusion

The model concludes that while there may be modest reductions in income tax revenue during the three-year implementation period, the state will immediately begin increasing income tax revenue the year after full implementation. Future year income tax revenue increases will grow at a higher rate than the historical pre-tax cut average.

In addition, this model upholds the theory behind the proposed revision to Massachusetts' revenue cap: it will restrain overall tax revenue from unsustainable spikes (by prompting refunds to taxpayers in the cases that revenue does substantially increase) while also adjusting to modest revenue declines where necessary. Our model finds during the three-year implementation period, modest revenue losses keep the state below the effective revenue cap ceiling. Yet once revenues start growing, the cap places guardrails on potential revenue spikes.

Appendix

Table 1: Revenue Regression Results

	Income Tax Revenue
Tax Rate	**3,494,369.08**** (0.019)
Real GDP	**21.23**** (0.019)
Inflation	**-17,038,712.15** (0.271)
Unemployment Rate	**-126,978.68** (0.359)
Number of Filers	**4.60** (0.108)
Intercept	**-27,211,152.6**** (0.016)
Observations	27
R Square	0.85
F-Stat	$F(5, 21) = 23.88, p < 0.01$

Table 2: Estimates of Future Annual Revenues Based on Economic Scenarios

Year	Income Tax Rate	(A) Economy Gets Worse	(B) Economy Stays the Same	(C) Economy Gets Better
FY2025	5.00%	$19,586,184,581	$19,586,184,581	$19,586,184,581
FY2026	5.00%	$19,996,735,450	$20,049,298,614	$20,080,939,875
FY2027	4.67%	$19,251,757,092 *–$744,978,358*	$19,356,883,420 *–$692,415,194*	$19,420,165,941 *–$660,773,934*
FY2028	4.33%	$18,516,251,355 *–$735,505,737*	$18,673,940,847 *–$682,942,573*	$18,768,864,629 *–$651,301,313*
FY2029	4.00%	$17,790,435,503 *–$725,815,852*	$18,000,688,158 *–$673,252,688*	$18,127,253,201 *–$641,611,428*
FY2030	4.00%	$18,239,321,729 *$448,886,226*	$18,502,137,548 *$501,449,390*	$18,660,343,852 *$533,090,651*
FY2031	4.00%	$18,698,348,202 *$459,026,472*	$19,013,727,184 *$511,589,636*	$19,203,574,749 *$543,230,897*
FY2032	4.00%	$19,167,748,276 *$469,400,074*	$19,535,690,422 *$521,963,238*	$19,757,179,247 *$553,604,499*
FY2033	4.00%	$19,647,760,937 *$480,012,661*	$20,068,266,247 *$532,575,825*	$20,321,396,333 *$564,217,086*
FY2034	4.00%	$20,138,630,937 *$490,870,000*	$20,611,699,411 *$543,433,164*	$20,896,470,758 *$575,074,425*
FY2035	4.00%	$20,640,608,936 *$501,977,999*	$21,166,240,574 *$554,541,163*	$21,482,653,181 *$586,182,424*
FY2036	4.00%	$21,153,951,647 *$513,342,711*	$21,732,146,449 *$565,905,875*	$22,080,200,317 *$597,547,136*
FY2037	4.00%	$21,678,921,984 *$524,970,337*	$22,309,679,949 *$577,533,501*	$22,689,375,079 *$609,174,761*
Total Loss		**–$2,206,299,947**	**–$2,048,610,456**	**–$1,953,686,674**

Table 3: Estimates of Future Annual Revenues Impacted by GDP Boosts

Year	Income Tax Rate	1% Tax Cut Causes 0.5% GDP Boost On Impact	1% Tax Cut Causes 2.5% GDP Boost After 3 Years
FY2025	5%	$19,586,184,581	$19,586,184,581
FY2026	5%	$20,080,939,875	$20,080,939,875
FY2027	4.67%	$19,420,165,941 *-$660,773,934*	$19,420,165,941 *-$660,773,934*
FY2028	4.33%	$18,768,864,629 *-$651,301,313*	$18,768,864,629 *-$651,301,313*
FY2029	4.00%	$18,202,654,013 *-$566,210,616*	$18,127,253,201 *-$641,611,428*
FY2030	4.00%	$18,737,603,847 *$534,949,834*	$18,660,343,852 *$533,090,651*
FY2031	4.00%	$19,282,739,769 *$545,135,922*	$19,203,574,749 *$543,230,897*
FY2032	4.00%	$19,838,296,266 *$555,556,497*	$20,162,764,343 *$959,189,594*
FY2033	4.00%	$20,404,513,482 *$566,217,215*	$20,736,982,076 *$574,217,734*
FY2034	4.00%	$20,981,637,354 *$577,123,872*	$21,322,303,739 *$585,321,662*
FY2035	4.00%	$21,569,919,759 *$588,282,405*	$21,918,986,070 *$596,682,331*
FY2036	4.00%	$22,169,618,656 *$599,698,897*	$22,527,292,013 *$608,305,943*
FY2037	4.00%	$22,780,998,236 *$611,379,580*	$23,147,490,864 *$620,198,852*
Total Loss		**-$1,878,285,862**	**-$1,953,686,674**

Additional Effects of the Proposed Revenue Cap Revision

Another proposed ballot measure moving toward the 2026 elections looks to revise the state's revenue cap and base it on actual previous state revenue collections to trigger more refunds to taxpayers. This change would also include all tax revenues under the cap, compared to the current formula, which removes certain revenues (such as revenue from the 4% surtax on income over $1 million) from being subject to the cap on revenue.

MOA modeled how this proposal would coincide with changes to total revenue due to the tax cut. If enacted, beginning with FY2028 the state's cap on allowable revenue for the state to collect before refunding excesses back to taxpayers would be revised. First, it would be calculated based on the previous year's (FY2027) actual revenue collections and increased for wage and salary growth. Second, it would include all revenue collected by the state in the previous year (FY2027), notably including surtax collections.[7]

This model estimates that as modest income tax collection reductions occur during the years where the income tax rate cut is being phased in, the revenue cap will respond accordingly, as it is tied to previous years' actual collections. Therefore, the revenue cap will be responsive to actual revenue changes and will not trigger refunds during the phase in period (FY2027–2029).

Projections of the revenue cap revision proposal, in FY2024 dollars, illustrate the likely effect of both ballot measure proposals.

Projected Revenue Cap Revisions Amid Income Tax Changes

(in 2024 Dollars, Fiscal Years)

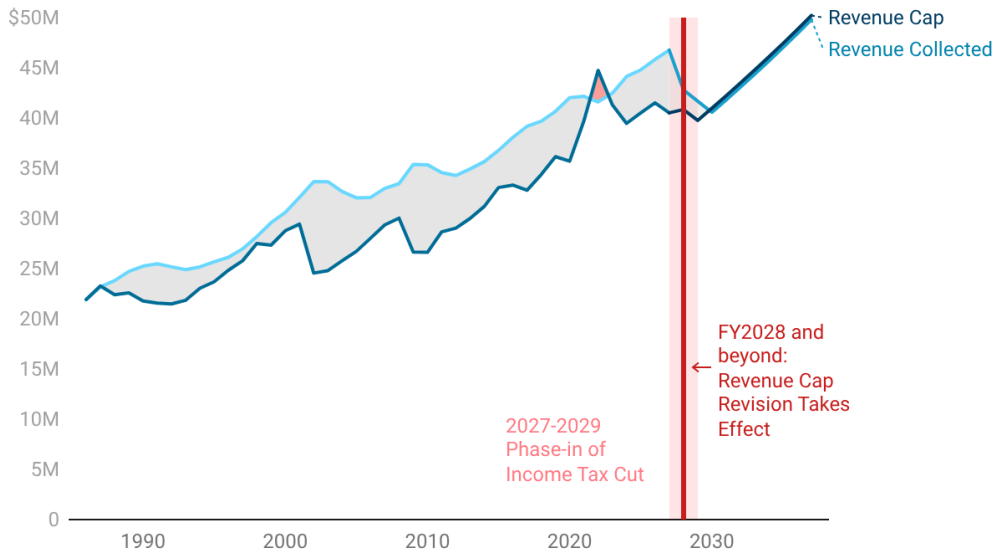


Chart: Mass Opportunity Alliance • Created with Datawrapper

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