

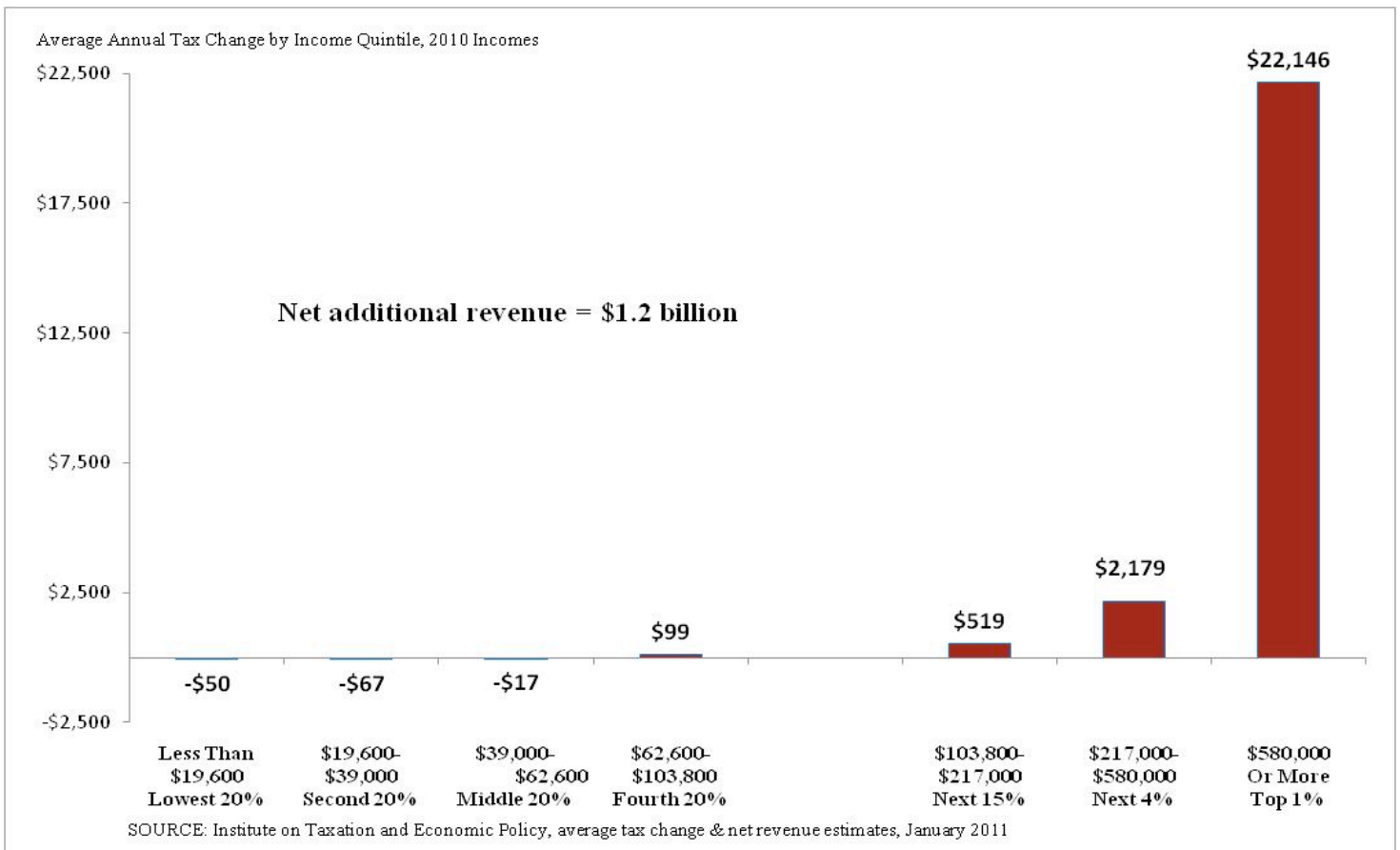
## AN ACT TO INVEST IN OUR COMMUNITIES

**Sponsors: Sen. Sonia Chang-Diaz, Senate Docket 1012; Rep. Jim O’Day, House Docket 2261**

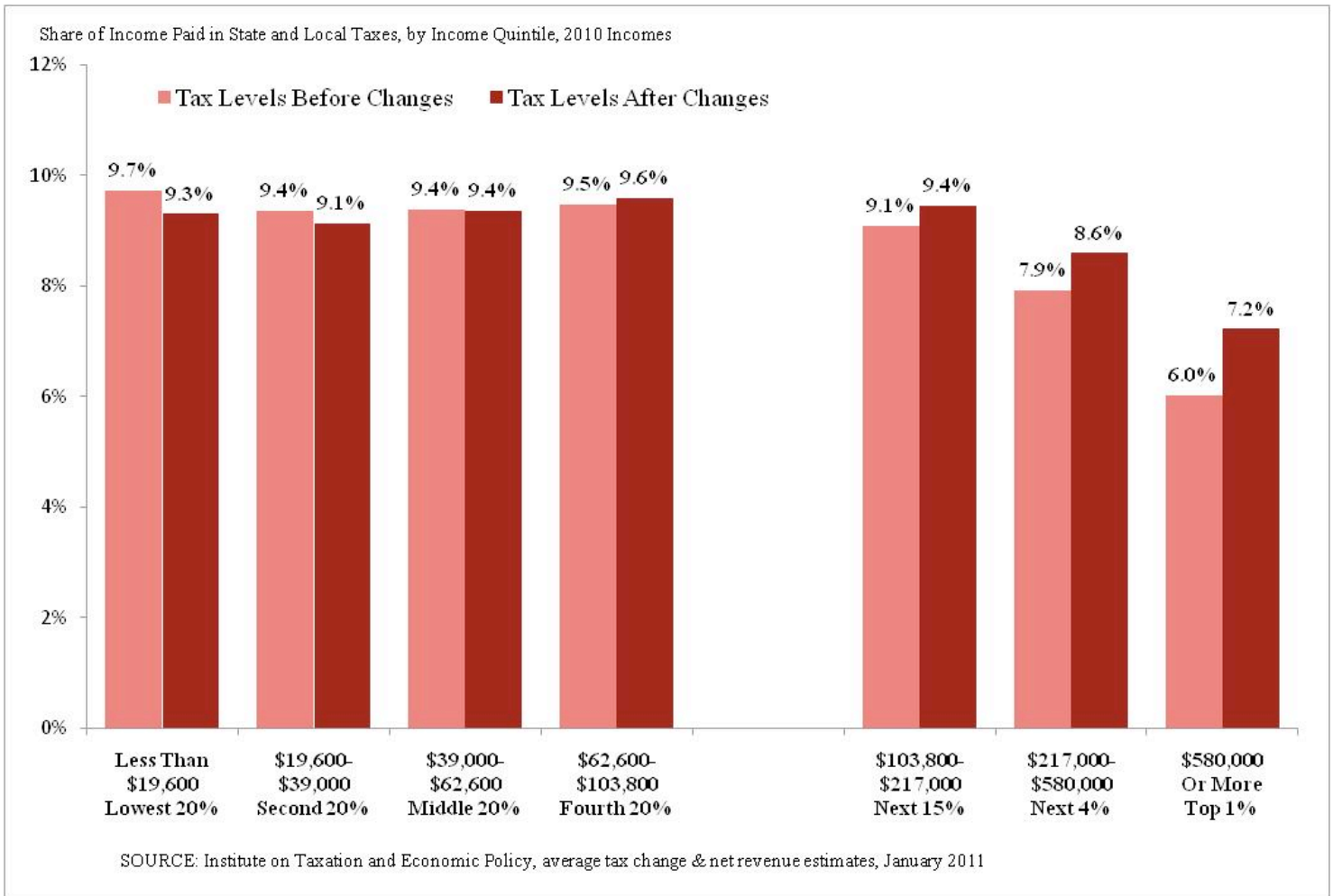
This bill addresses the tax rate on ordinary income and investment income. Specifically, the bill would:

- Increase the rate on ordinary wage and salary income from the current 5.3 percent to 5.95 percent, while also increasing the standard personal exemption amount from the current \$4400 (single)/\$8800 (married) to \$7,900 (single)/\$15,800 (married). The effect of these changes would be to increase taxes on upper income filers while modestly decreasing taxes on most lower income filers.
  
- Set the tax rate on investment income (short and long term capital gains, and dividends and interest income) at 8.95 percent. For most forms of investment income, this change would constitute an increase from the current 5.3 percent tax rate. For a small subset of investment income – income derived from short term capital gains – the new rate would be a decrease from the currently applied 12.0 percent rate. This provision would include an exemption for low and middle income seniors and disabled persons (income eligibility thresholds of \$40,000 (single)/ \$80,000 (married)), effectively setting the tax rate applied to the first \$7,500 (single)/\$15,000 (married) of investment income at the same rate applied to ordinary income (5.95 percent). The bill leaves in place the lower rate (3.0 percent) currently applied to capital gains from investments made in smaller Massachusetts companies and held for more than three years.

In combination, the changes outlined above would generate an additional \$1.2 billion annually in net state revenues, while reducing taxes, on average, for households in the bottom half of the income distribution.



This legislation aims to raise revenues in order to reduce the severity of budget cuts, but also to make the tax system in Massachusetts more equitable. Currently, low income people pay a substantially larger share of their income toward state and local taxes than high income people do (see chart, below). This legislation would help to address this flaw in our tax system. Despite the increases in the annual tax liability of upper income earners that would occur under this legislation, these upper income households nevertheless would continue to pay a much smaller share of their income toward state and local taxes than low income households would (see chart, below).



The lighter bars in the chart above show the percent of income (by income group) paid toward combined state and local taxes under the current tax system. As can be seen, lower income people, on average, currently pay between 9.7 and 9.4 percent of their income in combined state and local taxes. By contrast, people in the top 1 percent of the income distribution, on average, currently pay 6.0 percent of their income toward these taxes.

With the changes that would occur under the proposed legislation, lower income people would see their tax liabilities drop, on average, to somewhere between 9.3 percent and 9.1 percent of their income, while the highest income filers would see about 7.2 percent of their income going toward state and local taxes (see darker bars in chart, above).