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**Fiscal Update: House Approves \$1 Billion in New Taxes
Income, Cap. Gains Taxes Up, Charitable Deduction Gone**

**\$1 Billion in Tax
Increases
Approved . . .**

On May 2, the Massachusetts House of Representatives passed a bill containing at least \$1.05 billion in tax increases—one of the largest single tax increases in Massachusetts history.

**Income Tax Freeze,
Cap Gains Tax Hike
Included. . .**

After limited debate and a procedural maneuver by House leadership that prevented amendments to the package, the House voted 131 to 23 to pass an omnibus tax increase bill that included the following:

- **Freezing the income tax rate at 5.3% for 2003, which was scheduled to be 5% as the final step of the voter-approved income tax rollback;**
- **Raising the long-term capital gains tax rate to 5.3%, completely dismantling the 1994 capital gains tax phaseout law that taxed assets held more than six years at 0%. Reducing the short-term capital gains rate from 12% to 5.3%;**
- **Reducing the annual personal exemption from \$4400 to \$3300;**
- **Postponing (perhaps for as much as 9 years) the voter-approved charitable contribution deduction;**
- **Increasing the cigarette tax by 75 cents.**

**Gov. Swift Will
Veto Tax
Package . . .**

The Council staff and members campaigned intensively to combat tax increases that harm our state's competitiveness, while other members of the business community enabled – even encouraged – the House to hike taxes. Fortunately, this is not the end of the tax debate. Governor Jane Swift immediately vowed to veto the package, and some leaders in the Senate (the bill's next destination) have already objected to certain elements of the House plan. While the House succeeded in marshalling the supermajority (2/3) of pro-tax votes needed to override Swift's veto, that unity will be tested as the composition of the tax plan evolves and Election Day nears.

Biz Taxes Spared . . .	<p>On the positive side, all of the effective business competitiveness tax changes of the 1990s – research and development tax credit, single sales factor for manufacturers, and tax changes that support financial services job growth – were left intact by the House.</p>
Need to Adopt Council Revenue Limit . . .	<p>The Council was disappointed with this vote and believes that these tax increases (particularly the increase in the capital gains tax), if enacted, will be a blow to the state’s competitiveness. However, a final evaluation of the House action will depend on whether or not they adopt the Council’s recommendation to improve the statutory Revenue Growth Limit – or a similar long-term mechanism to control spending growth. Discussions with House leadership, including Speaker Tom Finneran, will continue prior to the budget debate in the House scheduled to begin on Wednesday, May 8.</p>
Prevent Excess Spending, Return \$ to Taxpayers . . .	<p>We believe that, in order to justify any increase in existing tax rates, the Legislature must adopt a long-term solution. Specifically, to address the underlying problem of excessive state spending growth, the Council proposed improvements to the state tax revenue limit adopted by voters on the 1986 statewide ballot. By keeping the growth formula linked to a three-year average wage and salary growth factor, but applying that formula to actual state tax revenues of the prior year, we believe Massachusetts will mitigate the likelihood of repeating today’s fiscal crisis during the next recession. This plan would also provide relief to taxpayers in future years, thus offsetting the long-term effects of any tax increases adopted this year by automatically returning surplus funds to the taxpayers in a good economy.</p>
Gaining Bipartisan Support. . .	<p>The Council’s Executive Committee, chaired by George Chamillard of Teradyne, has spent several meetings preparing this proposal. Governor Swift and Republican leaders in the House, including Representative Brad Jones, support this proposal, as do several Democratic leaders, including House Transportation Chair Joseph Sullivan. We intend to have a formal vote in the House next week, and have already begun lining up support in the Senate.</p>
Council Will Continue Tax Fight . . .	<p>We appreciate the efforts of those members who have contacted their state Representatives to reinforce the Council’s agenda. The Council will continue to push for a sensible, economically sound, long-term plan to address the state’s current fiscal situation. We will continue to keep you updated on this important matter.</p>