# Governor Healey and Lieutenant Governor Driscoll Unveil $750 Million Tax Relief Package

*Proposal includes direct relief for families, seniors and those dealing with high costs of housing*

Governor Maura T. Healey and Lieutenant Governor Kimberley Driscoll today unveiled a $742 million tax relief package that provides significant savings for families, renters, seniors, farmers, commuters and more. The proposal also includes key reforms to the tax code that will bring Massachusetts in line with other states, making it a more attractive place to live, work and do business.

“Everywhere we go, the Lieutenant Governor and I hear from people who are struggling to get by as the cost of living continues to skyrocket past them – the family watching their grocery bill grow each week, the young mom who wants to return to her dream job but can’t afford child care, the recent college graduate who can’t afford both his rent and student loan payments, the seniors who want to keep the home where they raised their family,” said **Governor Healey**. “We’re filing this tax relief package for each of them. This proposal centers affordability, competitiveness and equity each step of the way, delivering relief to those who need it most and making reforms that will attract and retain more businesses and residents to our great state.”

“Massachusetts is a national leader in so many ways – in education, business, science and technology, democracy and civil rights. But we’re not leading when it comes to affordability,” said **Lieutenant Governor Driscoll.** “If people can’t afford to live and work here, we’re not going to be able to maintain our economic edge. Our tax relief package will put more money back in the pockets of those who need it most while also making key reforms in areas where we are an outlier among other states.”

This package of tax reforms for Fiscal Year 2024 (FY24) will be filed on Wednesday as companion legislation to the administration’s FY24 budget (H.1). The proposal is built around relief that will go directly to families, seniors and those dealing with the high costs of housing.

That includes:

- **Healey’s Child and Family Tax Credit**, a new benefit that will provide families with a $600 credit per dependent, including children under 13, people with disabilities, and senior dependents aged 65 and older.
- An **increase to the rental deduction**, currently capped at 50 percent of rent up to $3,000, to $4,000. At a cost of $40 million, this increase will help offset the high cost of housing for 880,000 renters.
- A proposal to **double the senior circuit breaker credit** from $1,200 to $2,400 for low-income seniors with high property taxes or rent, helping seniors in 100,000 households stay in their homes.
- Reforms to two taxes in which the state is currently an outlier. It would **reduce the short-term capital gains tax** from 12 percent to 5 percent. It would also **eliminate the**

**estate tax** for all estates valued at up to $3 million with a credit of up to $182,000. Massachusetts is one of only 12 states that has an estate tax.

Other components of this tax package include:

- **Housing Development Incentive Program (HDIP) -** Increase the $10 million annual cap on HDIP credits to $50 million in the first year, and $30 million per year moving forward for developers as an incentive to produce more market-rate housing in the state's Gateway Cities.
- **Apprenticeships Tax Credit** – Improve access to apprenticeships for workers by expanding the list of occupations that qualify for employer tax credits and doubling the statewide cap on credits to $5 million.
- **Dairy Tax Credit** – Increase the statewide cap from $6 million to $8 million to protect the state's dairy farmers from fluctuations in wholesale milk prices.
- **Live Theater** – Promote local live theater productions with a new credit for a share of payroll, production and transportation costs for qualifying productions.
- **Title V** – Double the maximum credit to $12,000 (40 percent of $30,000) for expenses incurred at a primary residence for repair or replacement of failed cesspool or septic systems.
- **Lead Paint Abatement** – Double the allowable deductions to $3,000 for full lead paint abatement and $1,000 for partial abatement.
- **Local Cider** – Promote more locally produced hard cider and still wine by allowing higher-alcohol content ciders and wines (up to 8.5 ABV) to qualify for lower tax rates typically reserved for low-alcohol content products.
- **Student Loan Repayment** – Exempt employer assistance with student loan repayment from income taxation for student borrowers.
- **Commuter Transit Benefits** – Add regional transit passes and bike commuter expenses, such as bike-share memberships, purchases and storage, to those that qualify for tax deductions, alongside existing expenses like tolls and MBTA passes.
- **Brownfields -** Extend the brownfields tax credit program, currently set to expire in 2023, through 2028. This program allows taxpayers to claim a credit for costs related to cleanup of contaminated properties.

The Administration has created a special brief titled, *FY 2024 Budget Recommendation Budget Brief: Providing Meaningful Tax Relief*. Read more about these proposals in that document, which is attached to this update.

# *Providing Meaningful Tax Relief*

*John Caljouw, Finance Director*

## Introduction

The Healey-Driscoll Administration is committed to fulfilling the promise of delivering an affordable, equitable, and competitive tax structure for Massachusetts. This package will use the state's fiscal strength to deliver real benefits for families balancing caregiving responsibilities. It will provide relief to our most vulnerable populations and make our tax structure more competitive – all in combination with key investments in these areas delivered through the budget. Delivering this package alongside the administration's FY24 H.1 budget recommendation means that we can budget for it sustainably and affordably.

FY24 H.1 funds a tax relief package of $742 million net to budget, or $859 million gross in the first year. Extraordinary tax growth over the past several years, in concert with prudent fiscal management, enables this proposal to be both responsible and provide meaningful relief.

| Proposals | Effective | FY24 Cost |
|---|---|---|
| **Child & Family Credit:** Establishes a $600 credit per qualifying dependent, including children, disabled adults, and seniors, uncapped regardless of number of dependents, fully refundable, and available at all income levels. | Jan-23 | $458 M |
| **Estate Tax:** Reduces estate taxes for all and eliminates tax on estates under $3 M. | Jan-23 | $167 M |
| **Housing – Renter Deduction:** Increases the cap on the rent deduction to $4,000; current deduction is currently 50% of rent, capped at $3,000. | Jan-23 | $40 M |
| **Housing – Senior Circuit Breaker Credit:** Doubles the maximum allowed credit. | Jan-23 | $60 M |
| **Short term capital gains:** Reduces tax rate on short term capital gains to 5% from 12%. | Jan-23 | $117 M ($0 net) |
| Other changes | - | $17 M |
| **Total Tax Relief Package (and net cost to budget)** | | **$859 M; $742 M net** |

## Tax Relief Package at a Glance

The tax relief proposal is focused on delivering meaningful investments in four key areas, within a framework of affordability, equity, and competitiveness:

### *Child & Family Tax Credit*

An expanded and simplified Child & Family credit would establish a $600 refundable credit for each qualifying dependent, including children under 13, disabled adults, and seniors. The centerpiece of the administration's tax proposal, this credit would provide relief for over 700,000 taxpayers who are supporting over 1,000,000 dependents across the Commonwealth.

An expanded and simplified structure would provide relief for all income levels while getting the neediest families the cash benefit of a fully refundable credit. It would provide support for families without requiring potentially burdensome demonstrations of expenses and assist the most burdened families by uncapping the count of qualifying dependents. The credit would replace two interrelated credits that are more complex and smaller than the proposed credit and are capped at two dependents.

Affordable child care is a key building block to an affordable Massachusetts. This credit, in taking some pressure off families' child care budgets, will help attract working professionals and aid businesses as they recruit a skilled workforce. This challenge demands a significant investment, which is why the administration is simultaneously supporting important early childhood care and education initiatives through FY24 H.1.

### *Estate Tax Relief*

A reduction in the estate tax would eliminate the tax for estates under $3 million and reduce taxes for larger estates. Massachusetts is an outlier as one of only 12 states that impose an estate tax at all. The state runs the risk that older residents leave the state, and professionals may not wish to move here if they see the tax climate as unfavorable for themselves and their families.

Under current law, estates with a gross value over $1 million are subject to taxation, starting at a rate of 0.8% and growing to a marginal rate of 16%. (Gross value means the value with certain gifts made by decedents added back to the estate.) Nearby states impose their estate taxes at a much higher threshold – including Vermont at $5 million, Maine at $5.8 million, New York at $6.1 M, and Connecticut at the federal threshold ($12.3 M) beginning next year. The administration's proposal would establish a non-refundable $182,000 credit for each estate, without a tax increase on estates of any size. This credit would have the effect of eliminating all taxes on estates of up to $3 M in net taxable value and would represent $182,000 of tax relief on larger estates. Since 70% of estates now paying tax are under $3 M, this change would eliminate taxes for most estates – and would help keep Massachusetts competitive.

### *Housing Tax Relief for Seniors and Renters*

The housing crisis in Massachusetts demands a multifaceted approach. The administration is committed to expanding the production of housing and assuring emergency relief supports, alongside other strategies to address this issue. As part of this approach, this tax proposal would provide targeted relief to renters and seniors.

First, increasing the rental deduction would assist many of our 880,000 residents who rent. Current law allows filers to deduct up to 50% of the cost of the rent for their primary residence, up to $3,000; with this change, the maximum deduction would be $4,000.

Further, the package would double the maximum Senior Circuit Breaker credit from approximately $1,200 up to approximately $2,400. This credit, indexed to inflation, provides critical relief to low-income homeowners and renters aged 65 or older. Equal to the amount by which a homeowner's property tax payments in the current tax year exceeds 10% of the taxpayer's total income, up to a maximum credit amount, the expansion of this credits' cap would recognize the rising cost of housing for many of our most vulnerable residents.

### *Short Term Capital Gains Rate Relief*

A simplified capital gains rate structure, aligning the short-term capital gains tax rate with the long-term capital gains rate at 5%, would eliminate a key area where Massachusetts' tax structure is an outlier compared with nearly all other states. Under current law, capital gains on assets held for less than one year are taxed at 12%, versus 5% for virtually all other forms of individual income. Only two other states tax short-term capital gains at a higher effective rate than long-term capital gains. By eliminating this inconsistency, we will provide relief for 150,000+ taxpayers while simplifying our tax code.

This change has no net cost to the budget, as capital gains taxes above a threshold of approximately $1.4 billion are not available to the budget under current law. Therefore, this change can bring the tax on capital gains more in line with other states, without requiring any tradeoff in terms of other potential budget uses for the funds.

### *Affordability, Equity, and Competitiveness – A framework for success*

The administration has also identified targeted opportunities to improve our tax structure to deliver on making our state more affordable, equitable, and competitive. These investments include:

- *HDIP Cap Increase*: The Housing Development Incentive Program (HDIP) currently awards up to $10 million per year in state tax credits to developers of market-rate housing in Gateway Cities for qualified project expenditures, expanding the supply of housing. The administration would increase the statewide cap from $10 million to $50 million on a one-time basis, and thereafter to $30 million annually. This would provide critical relief to an oversubscribed program, allowing an initial infusion of development support, while sustainably funding an expansion in the future.

- *Apprenticeship Tax Credit*: The package also proposes doubling the statewide cap on the Apprenticeship Tax Credit to $5 million and expanding eligible occupations to ensure employers in critical industries can utilize this credit to grow and modernize our economy and prepare our workforce for success.

- *Student Loan Repayment Exemption*: This package would create a new exemption from taxable income for employer assistance with student loan repayment, ensuring that these benefits will no longer be treated as taxable compensation.

- *Commuter Transit Benefit Expansion*: The expansion of commuter transit benefits to include regional transit passes and bike commuter expenses will both incentivize climate-friendly commuting alternatives and make our tax code more equitable.

- *Lead Paint Abatement Credits*: Doubling the credit for lead paint abatement to $3,000 for full and $1,500 for partial abatement would assist residents with the expense of removing lead paint, and make available housing safer for families.

- *Septic Tank Repair Credits*: The tax relief proposal will also double the maximum credit for septic tank repair or replacement in a primary residence to $12,000, and will allow taxpayers to access these credits on a more accelerated schedule.

- *Brownfields Program*: This proposal also extends the expiring Brownfields tax credit program through 2028, so that eligible taxpayers may claim a credit for certain costs related to cleanup of contaminated properties, making them ready for redevelopment opportunities and creating a cleaner future for Massachusetts communities.

- *Live Theater Tax Credit*: Creating a live theater tax credit would enable tax credits to be claimed for a share of payroll, production, and transportation costs of qualifying live theater productions, fostering an important aspect of our cultural landscape.

- *Dairy Tax Credit*: Expanding the dairy tax credit cap from $6 million to $8 million would support local farms across the state.

- *Cider Tax Treatment*: Allowing locally produced hard cider and still wines to be taxed at a more competitive rate, comparable to similar alcoholic beverages, would make our tax structure more equitable and support local producers.

Together with the FY24 H.1 budget filing, the tax relief package outlined here is both sustainable and meaningful for our residents, and addresses the important issues of affordability, equity, and competitiveness across our Commonwealth. It draws on the consensus that started to emerge in 2022 around opportunities for tax relief and delivers on our promise to support Massachusetts families.