Funding Options to Advance an Equitable Recovery

The budget picture for FY22 remains unclear. The Governor proposed a budget that relies on 3.5% growth, but experts have offered a range of perspectives, from a 1% decline to upwards of 8% growth. In most instances, growth is dependent upon federal relief, and we expect Congress to pass a package with significant new investments any day now. Federal relief will help us close the gaps in this year’s budget, but without sustainable, long-term investments, federal relief will not actually help to meet our recovery needs. And even with an influx of new federal money, one thing is for certain: the inequities that persisted prior to the pandemic have only grown since COVID-19. Those inequities, disproportionately borne by communities of color, have followed from a lack of investments in critical infrastructure, including transportation, housing, childcare, and climate.

MAPC has long supported measures that would increase revenue for all of our priorities, and we believe that now is the time to consider many of the options below. We believe that raising revenue to support a strong FY22 budget while also making down payments on critical capital investments is the best way to ensure a strong long-term recovery for the entire Commonwealth. We would not support raising all of these revenue measures at once, and instead view this list as a menu of options the Legislature and Administration should consider. We urge the Administration to make sure to invest in those communities that need it the most, rather than taking the per capita approach we have taken in the past. Finally, we would not support a tax package that was disproportionately funded through regressive taxes and encourage decision-makers to create a more balanced approach to raising revenue.

Statewide Taxes

Income Tax. A one percent increase on the income tax would generate $2.5 billion per year. This change should be coupled with mechanisms to protect low-income individuals, and MAPC continues to support increasing the Earned Income Tax Credit and the dependent care tax credit. We would suggest that this increase last five years, and encourage an effort towards a graduated income tax in that time.

Tax on Corporate Profits. Taxing corporate profits is one of the primary ways Massachusetts generates income from businesses. We presently apply an 8 percent tax on most corporate profits but increasing it to 9.5 percent could generate between $375-$500 million per year. This increase would return the tax to pre-2009 levels. During the Great Recession, businesses received a special break, which we would urge the legislature not to continue as we recover from this recession.

Taxes on Unearned Income. Each one percent increase on long-term capital gains could generate $365 million per year, primarily on the highest-income earners in the Commonwealth. The Legislature could consider an exemption for low- and moderate-income seniors and disabled persons.

Motor Vehicle Fuel Tax. The motor vehicle fuel tax, more commonly called the gas tax, hasn’t been raised since 2014, and because it is not indexed to inflation, it has not kept up with need. Between 1991 and 2013, the gas tax lost 41% of its purchasing power due to inflation. Over this same period, Massachusetts gas tax revenues fell from 0.5% of the state’s GDP to only 0.15%, showing that gas tax revenues have diminished even as the rest of Massachusetts’ economy has grown. We would consider supporting a deduction for low-income residents, alongside increased investments in no- or low-cost transit and EV incentives for individuals who drive older cars and have no access to transit.
Per-Mile Usage Fee. Mileage-based revenue would allow the Commonwealth to supplement the motor vehicle fuel tax as that revenue declines. As vehicles become more fuel efficient and gas tax revenue falls, a per-mile usage tax would keep that revenue source stable. MAPC’s recent research also found that a per-mile usage fee would be more effective in reducing driving (and therefore, GHG emissions) than a gas tax increase. Coupled with robust investments in transit, biking, and walking infrastructure, this shift would align our climate and mobility goals.

Registry of Motor Vehicle (RMV) Fees. An average increase of ten percent across all RMV fees could raise $500 million by 2030.

HERO (Housing and Environmental Revenue Opportunity) Tax. This proposal would double the current real estate excise tax to 9.12% and would raise approximately $300M in new revenue annually. This new revenue would be evenly split to address affordable housing issues, and climate mitigation and adaptation projects. This option, which builds on Governor Baker’s recommendation to increase the fee by 50% for climate only, is supported by a strong coalition of housing, climate, and labor groups. One attractive feature of this tax is that most households only pay this tax a few times in their lives, when they buy a new house.

Sugary Beverage Tax - Create a tiered excise tax on sugary drinks with rates based on the amount of added sugar they contain. Revenue from this tax would go to important public health initiatives like the Prevention and Wellness Trust Fund, which still needs to be recapitalized, and grants to fund school water fluoridation projects. This tax could raise approximately $280 - $320M in year one, and decrease annually thereafter as consumption declines over time.

Tax on Opioid Manufacturers. This would levy a tax on gross receipts of manufacturers of opioids from the sale of their opioid products to support substance misuse and treatments. Initial estimates say this could raise $16M annually. Governor Baker has included this proposal in his last two budget proposals, but the Legislature has not included it in their final budgets.

Local and Regional Options to Raise Revenue

Regional Ballot Initiatives. Cities and towns should be allowed to raise local taxes to invest in local transportation projects. This has long been a priority of MAPC, and we will be working with House and Senate sponsors this session to try and adjust the legislation to encourage passage.

Local Parking Taxes. Cities and towns should be able to tax publicly available private parking facilities and use the revenue for infrastructure improvements.

Value Capture Tools. Cities and towns should be able to create special assessment districts, whereby they can levy additional taxes on themselves to generate revenue for infrastructure improvements. Municipalities should also be able to enter into infrastructure financing agreements in order to share the incremental property tax growth associated with an infrastructure improvement in a specified district.

Regional Mitigation Funds. This is a tool that would allow cities and towns to levy and pool mitigation payments from multiple developments over time. This enables larger-scale investments and helps cities and towns plan for growth. California has a system that requires the fees to be updated periodically in order to ensure that they’re aligned with future growth projections, project costs, and other factors.
**Transportation Network Company (TNC) Fees.** Massachusetts TNC fees are not comparable to fees that are levied across the country and the world. Raising TNC fees would allow us to raise money for local and state transportation investments. An increase in TNC fees passed the Legislature at the end of the last session, but the Governor vetoed it. MAPC will seek to have it passed again and if the Governor vetoes it again, to override that veto.

**Local Real Estate Transfer Fees.** Allow municipalities, as a local option, to implement a local real estate transfer fee of no more than 2%. Each community would be able to determine the price level for properties subject to this fee, and to institute its own exemptions – i.e., owner-occupied, senior, etc. Revenue from this fee would have to be spent on projects and initiatives related to affordable housing.

The Massachusetts Budget & Policy Center (MassBudget) has published reports outlining revenue raising policies, including some of the ones listed above. MAPC believes the recommendations listed and others by groups like MassBudget should be strongly considered by the 192nd General Court and Governor Baker. For more details on some of these recommendations please see MassBudget’s sites:

- [https://massbudget.org/2020/10/29/fy-2021-budget-tax-options/](https://massbudget.org/2020/10/29/fy-2021-budget-tax-options/)

We look forward to pursuing some of these revenue raising tools with our members and coalition partners.