



P.O. Box 961979  
Boston, MA 02196

[www.aimnet.org](http://www.aimnet.org) | 617.262.1180

June 30, 2023

Honorable Michael Rodrigues  
Honorable Susan Moran  
Honorable Bruce Tarr

Honorable Aaron Michlewitz  
Honorable Mark Cusack  
Honorable Michael Soter

**RE: Associated Industries of Massachusetts testimony on H.3770 and S. 2397, *An Act to improve the Commonwealth's competitiveness, affordability, and equity***

Dear Chair Rodrigues, Chair Michlewitz, and members of the Conference Committee:

On behalf of the Associated Industries of Massachusetts (AIM) and its over 3,400 leading business members, I write to thank you for your commitment to make Massachusetts more competitive through tax policy changes and to offer comments as you begin the conference process to reconcile differences between H.3770 and S.2397.

First, we would like to thank both branches of the Legislature, as well as Governor Healey, for recognizing the fragile state of the Massachusetts economy and the need to retain our competitive edge by addressing outliers in the tax code. In particular, we strongly favor the House of Representative's approach to tax reform, because the chamber put forth a more ambitious package with a greater focus on businesses and economic growth. Moreover, the House phases in reforms over the course of several years resulting in a larger and fiscally prudent plan that balances both relief to individuals and support for businesses as economic engines that exist throughout our state.

**Short Term Capital Gains**

Most importantly, AIM supports including the House proposal to reduce the short-term capital gains rates from 12% to 5% over a two-year period. The current 12% rate is one of the most overt outliers in the Massachusetts tax code when compared to the rest of country. What's more, the Commonwealth taxes all other capital gains income at 5%. Most states either have no capital gains at all, allow taxpayers to deduct their federal taxes from state taxable income, or have favorable treatment for short-term gains. The Commonwealth remains an outlier on this assessment, which can lead to disincentivizing investment in startup companies and beyond.

Angel investors who provide the necessary capital to fund start-up businesses often experience short-term capital gains. With interest rates rising and the current fiscal climate, start-ups are in desperate need of funding. However, angel investing is risky, and many businesses tend to fail. AIM wants to support and encourage the innovation economy, and we believe that those

investors should not be punished for their risky, but necessary, investments with the highest tax rate in our code.

It is also important to note that the proposed short-term capital gains reforms do not strain the state's operating budget as they would only divert revenue from the state's "rainy-day" fund. At present, the state's stabilization fund is enjoying record highs and can provide a necessary financial cushion in the future should the state need it. Ultimately, these reforms do not have an opportunity cost and can be implemented without affecting other reforms or spending priorities.

### **Estate Tax**

We applaud both chambers for targeting the estate tax, another significant outlier in the Massachusetts tax code. The current \$1 million floor is much lower than our neighboring states. As the value of homes in Massachusetts continues to rapidly rise, residences have become the primary assets for most families. The estate tax in its current form does not reflect that reality and will continue to be imposed on middle class families without reform.

While both chambers tackled this issue, AIM favors the House approach. The House bill provides all estates with a \$2 million exclusion. This approach will cover more households and cast a wider net.

### **Housing Development Incentive Program**

AIM supports the Senate's \$57 million FY24 investment in the Housing Development Incentive Program (HDIP) as well as the increase of the HDIP cap from \$10 million to \$30 million in subsequent years. In order to properly address the housing crisis, the state needs more housing stock of every variety. HDIP credits will help clear the backlog of underdeveloped market rate housing in Gateway Cities, some of the communities that need it most.

### **Joint Filing**

AIM opposes Senate language which would require any taxpayers who file income tax returns jointly at the federal level to do so at the state level. Massachusetts has a long-standing practice of allowing flexibility in state level filing. Over 90,000 taxpayers make use of this option. We do not believe that this well-established practice is a "loophole" and do not support making such a significant change to the tax code via the amendment process.

AIM and our members thank you, again, for the diligence and foresight with which you are prioritizing tax reforms early in the legislative session. Should you have any questions or concerns regarding AIM's positions, please do not hesitate to contact me directly at 617-262-1189 or [bthomson@aimnet.org](mailto:bthomson@aimnet.org).

Sincerely,

A handwritten signature in black ink, appearing to read "Brook Lincoln". The signature is fluid and cursive, with a large loop at the end.

Brooke M. Thomson

*President*

*Associated Industries of Massachusetts (AIM)*