



April 24, 2023

President Karen Spilka
Massachusetts State Senate
State House, Room 332
Boston, MA 02133

Chairman Michael Rodrigues
Senate Committee on Ways & Means
State House, Room 212
Boston, MA 02133

Chair Susan Moran
Joint Committee on Revenue
State House, Room 506
Boston, MA 02133

RE: H.3700 and Tax Competitiveness Opportunities in Massachusetts

Dear President Spilka, Chair Rodrigues, and Chair Moran:

In anticipation of the Senate's tax and FY24 budget debate, the Associated Industries of Massachusetts (AIM), on behalf of our 3,400 member companies, submits the following policy recommendations with timely suggestions for tax relief that we believe will generate economic growth and maintain the Commonwealth's competitive edge.

Our main goal in presenting this proposal is to partner with the Senate and determine how we can effectively reform the Massachusetts tax code to help bolster the state's competitive business environment. The Commonwealth is in competition with 49 other states to grow and retain businesses, and AIM believes taxes are a strong value proposition as employers decide where to both set up shop and expand.

We strongly encourage Massachusetts policy makers to use Governor Healey's and the House's tax plans as solid first steps and to go above and beyond in supporting businesses by including two targeted reforms that will directly assist our member businesses and support the state's overall competitiveness:

- 1) reforming the sting tax, and*
- 2) decoupling from IRS code section 163(j).*

AIM would welcome the opportunity to discuss these matters with you and your staff further and are happy to make ourselves available to you at your earliest convenience.

I. H.3770 the House Tax Package

AIM is generally supportive of H.3770 *An Act creating tax relief for affordability, competitiveness, and equity*. We believe that the Commonwealth's stable financial situation presents a unique opportunity to rewrite the tax code to make it more equitable and competitive, and AIM believes the House's approach to Governor Healey's proposal is a strong first step.

Most notably, *we support the efforts to raise the floor of the estate tax and to cut the short-term capital gains tax from 12% to 5%*. These two provisions will remove our status as an outlier and help narrow the gap between Massachusetts and competing states.

In addition, we support the concept of phasing in tax reforms over the course of several years. AIM believes that the gradual implementation of these proposals will allow policy makers the necessary flexibility to enact more ambitious reforms to the tax code without jeopardizing year to year financial stability.

II. Relief for Small and Family-owned Businesses

Pass through entities are the AIM members most directly impacted by the Question 1 income surtax adopted by the voters last year. Many pass-through entities are small and family-owned businesses, including S corporations, and we strongly believe they need additional incentives to continue operating here in Massachusetts.

Sting Tax Reform – Currently, S corporations are taxed an additional 1.93% on net income of gross receipts are between \$6 million and \$9 million. S corporations are taxed an additional 2.9% on net income if receipts are \$9 million or more. The sting tax thresholds have not been changed in decades, and this policy was anticompetitive well before the adoption of Question 1. Now with the surtax in play, there are three levels of onerous taxation on pass through entities with the lowest threshold, \$1 million, carrying the highest penalty of 4%. This new paradigm deeply disadvantages certain Massachusetts pass throughs. Thus, modernizing the sting tax regime is a critical component in providing relief for our small businesses.

To that end, AIM suggests eliminating the \$6M tier as a critical first step in reforming the sting tax. Based on Department of Revenue (DOR) data from 2018-2019, the estimated fiscal impact of this change would be between \$15-\$20 million.

In addition, AIM believes an update to the \$9 million sting tax tier, which hasn't been adjusted in over 30 years, should be considered as well. There are a number of potential changes to consider here, from adjusting the threshold to adjusting the tax rate. Our suggestion, in collaboration with the Mass Taxpayers Association, would be to reduce the tax percentage

to 2% (from 3%), which would cost an estimated \$80 million based on 2018-2019 data from DOR.

In sum, AIM estimates the cost of implementing these reforms, using 2018-2019 DOR data, will be roughly \$100 million annually.

III. Increasing Massachusetts Business Competitiveness

Business Interest Deduction – Federal limits on interest expense deductions weaken the incentive for companies to borrow and invest. By following several other states and decoupling from federal tax code section 163(j), Massachusetts will ensure companies continue to make meaningful investments in their presence in the Commonwealth.

Following the passage of the *Tax Cuts and Jobs Act of 2017*, new rounds of corporate tax deduction limits were triggered January 1, 2023. Furthermore, rising interest rates are significantly impacting Massachusetts companies as well. Decoupling 163(j) will counteract these new economic norms, encourage employers to borrow in the Commonwealth, and alleviate the cost of new investments and expansion.

Thus, AIM asks that you consider decoupling the state from the federal tax code for 163(j) limits on corporate tax deductions on debt. We estimate the cost of implementing this reform will be between \$40-\$80 million annually.

Thank you for taking AIM's position into consideration while crafting your FY24 budget and tax plan, and beyond. We appreciate the opportunity to provide recommendations on tax relief that we believe will allow businesses to thrive in Massachusetts and reaffirm our commitment to competitiveness. Again, our team would welcome the opportunity to meet with you and your staff to discuss our proposals at your convenience.

Please feel free to contact me if you have any questions or need any further information at either 617-230-6608 or bthomson@aimnet.org.

Sincerely,



Brooke M. Thomson
Executive Vice President of Government Affairs
Associated Industries of Massachusetts