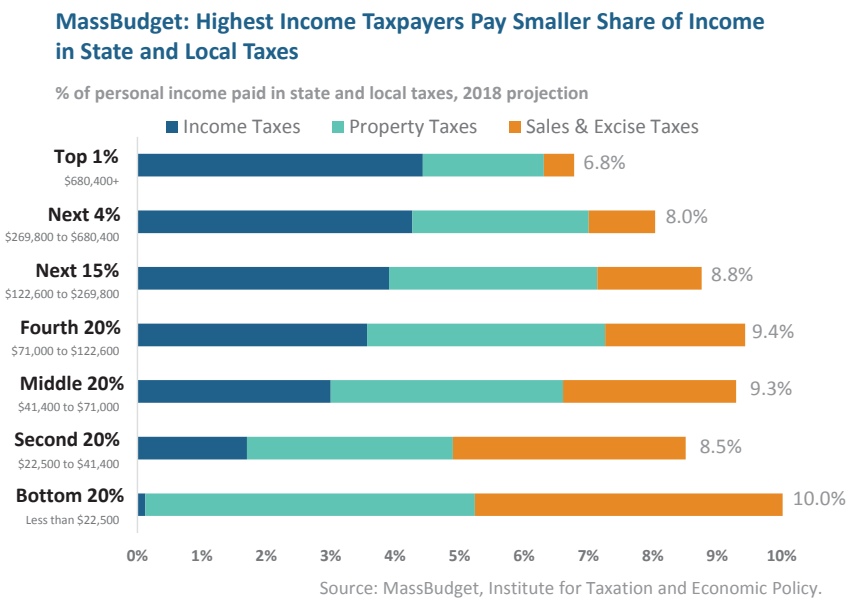
Part 3: The Need for a More Fair Tax System

At the same time, the benefits of economic growth in Massachusetts have increasingly gone only to the very wealthy, and our state tax system is making things worse.

From 2009 to 2015, 58 percent of all income growth in Massachusetts went to the top 1 percent of families in the state. Massachusetts is one of only nine states in which the 1 percent captured more than half of all income growth over this period of economic recovery from the Great Recession.[10]

While Massachusetts's high level of economic inequality is caused by many factors, from our high-tech economy to our failure to properly invest in supports for working people over the last several decades, a big contributor is our state tax system. Instead of helping to reduce economic inequality, the structure of our state tax system is actually making things worse.

When it comes to individual taxes, our state and local tax system is upside down. Low- and moderate-income households in Massachusetts pay a larger share of their income in taxes than households with higher incomes do. In fact, the highest-income households in Massachusetts – those in the top 1 percent – pay a smaller share of their income in state and local taxes than does any other income group.[11] Income tax cuts made in the late 1990s and early 2000s now cost Massachusetts more than $4 billion annually, and the benefits mostly go to the highest-income households. The top 1 percent of households alone receives over a quarter of the total, a reduction of $1.15 billion in their annual taxes.[12]



Proposals to increase transportation-related user taxes and fees, such as the gas tax, tolls, and transit fares, would make this upside-down system even worse. According to the Massachusetts Budget and Policy Center, a 10-cent tax increase would cost, on average, 0.20 percent of income for the lowest-income households, and less than 0.001 percent of income for those in the top 1 percent. Low-and moderate-income individuals also often have less flexibility to change their commuting patterns or to buy a more fuel-efficient car, and many low-and moderate-income families live in communities with few viable alternatives to car travel.[13]

The situation is even worse when it comes to taxes on large corporations, which are largely owned by those individuals in the top 1 percent.[14] For decades, profitable Fortune 500 companies have manipulated the tax system to avoid paying even a dime in federal tax on billions of dollars in U.S. profits. And in 2017, congressional Republicans and the Trump Administration gave corporations a $140 billion annual federal tax cut. Given the relative size of our state economy, this likely translates into a tax cut for MA businesses of around $4 billion a year.[15]

A recent Institute on Taxation and Economic Policy report found that in 2018, 60 of America's biggest corporations paid zero federal income taxes on $79 billion in U.S. pretax income. Worse, instead of paying $16.4 billion in taxes at the 21 percent statutory corporate tax rate, these companies enjoyed a net corporate tax rebate of $4.3 billion. Corporations paying zero federal taxes in 2018 included Amazon, Chevron, Delta Airlines, Eli Lilly, General Motors, Gannett, Goodyear Tire and Rubber, Halliburton, IBM, JetBlue Airways, Netflix, Principal Financial, Salesforce.com, US Steel, and Whirlpool, among others.

This high level of corporate tax avoidance occurs in Massachusetts too: many large, profitable corporations that do business here use loopholes to hide their profits, exploit tax breaks to avoid paying their fair share of taxes, and take advantage of weak corporate disclosure laws to keep the public in the dark about just how little they contribute. Special business tax breaks, which apply only to businesses operating in specific industries or reward only certain kinds of business activities, cost the Commonwealth

Thousands of large corporations doing business in Massachusetts pay only $456 each year in state taxes on their profits. That's less than you'd pay for...

A year of bus passes for the MBTA ($660) or for regional transit systems in Worcester ($684), the Pioneer Valley ($648), or Brockton ($480).

5 months of turnpike tolls driving from Framingham to Boston (~$462)

2 months of commuter rail travel from Lynn or Dedham to Boston ($464)

A 1-month Zone 8 commuter rail pass & T pass ($478)

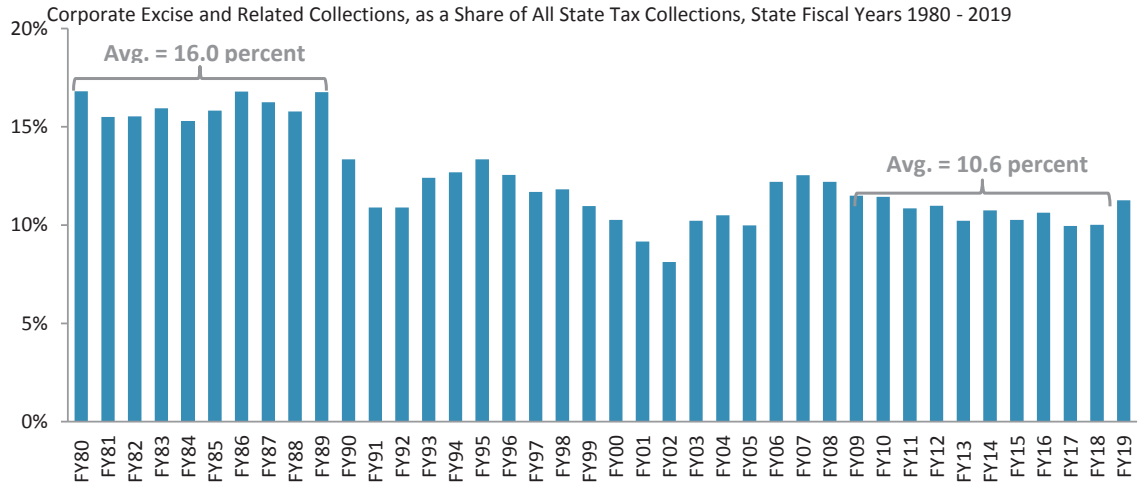
over $1 billion annually.[16] And while more recent data is not readily available, a 2004 Department of Revenue report found that 2,283 companies with gross receipts over $50 million — a third of all such large companies — paid only the existing corporate minimum tax of $456 per year.[17]

It's clear that large corporations are not paying their fair share of taxes in Massachusetts, even when compared to other states. A 2018 report by the Council on State Taxation (COST), a corporate trade association, ranked Massachusetts in the bottom fifth of all states in terms of overall business tax levels, and found that there are only eight other states in which businesses pay a smaller share of total state and local taxes.[18]

What's worse, things are moving in the wrong direction. In Massachusetts, corporate tax payments have dropped significantly as a share of total state tax collections, even as corporate profits haven risen nationally. In the 1980s, corporate tax payments provided 15 to 17 percent of the Commonwealth's total tax collections. But in the 2010s, they provided only 10 to 11 percent of the total tax collections used to invest in public goods and services.[19]

Had the corporate tax share not fallen since the 1980s, Massachusetts would have collected an additional $1.4 billion in corporate taxes in Fiscal Year 2019.[20] It's clearly time for large, profitable corporations to pay their fair share again.

MassBudget: Corporate Excise Collections Have Fallen as Share of Total MA Taxes



Source: MassBudget; Department of Revenue tax data.