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To the Honorable Senate and House of Representatives:

I am filing for your consideration a bill entitled “An Act to improve Massachusetts’ competitiveness and reduce the cost of living.” Filed alongside my House 2 budget recommendation, this comprehensive tax cut proposal will provide significant relief for housing and childcare costs, relieve the tax burden for very low-income residents, and improve the state’s competitiveness. The Commonwealth concluded last fiscal year with a \$5 billion surplus, and today, revenues continue to exceed benchmarks and our new budget proposal projects significant deposits to our Stabilization Fund. As a result, Massachusetts is in a strong fiscal position to be able to offer this substantial tax relief for our lowest-income residents.

This bill will double the maximum Senior Circuit Breaker Credit for more than 100,000 lower-income homeowners and renters aged 65 and older. Doing so will lessen their overall tax burden and further offset property tax payments for low-income seniors. The credit is adjusted annually for inflation, and in 2021, this change would have raised the credit to \$2,340. Additionally, for taxpayers claiming a rent deduction on their returns, this legislation will increase the cap on the deduction from \$3,000 to \$5,000, allowing Massachusetts renters to keep approximately \$77 million more annually.

For Massachusetts families with dependents, this tax relief package will double the dependent care credit to \$480 for one qualifying individual and \$960 for two or more, resulting in significant savings for working families. For those claiming the household dependent care credit, rates will also double to \$360 for one qualifying individual and \$720 for two or more. Both adjustments will allow more than 700,000 Massachusetts families to retain a total of \$167 million that families can put toward critical individual needs like paying for childcare.

In this legislation, I also recommend increasing the adjusted gross income thresholds for “no tax status” to \$12,400 for single filers, \$24,800 for joint filers, and \$18,650 for head of households. Doing so will align the Commonwealth with the federal government and provide

direct relief to more than 234,000 low-income Massachusetts filers who will no longer have to pay any state income taxes.

This proposal also seeks to maintain Massachusetts' competitiveness through two additional measures. Massachusetts is one of only seventeen states and the District of Columbia with some form of an estate or inheritance tax. At \$1 million, the Commonwealth is tied with Oregon for the least competitive and lowest dollar exemption threshold in the country. This legislation will double that threshold to \$2 million and eliminate the current "cliff effect" that taxes the full amount below the threshold. Similarly, the Commonwealth's 12 percent tax on short-term capital gains is markedly uncompetitive compared to the rest of the country. In 2019, more than 150,000 filers from every income level paid the tax, more than 61,000 of whom had incomes below \$112,000. The bill proposes to treat short-term capital gains the same as other income (5 percent), which will align the Commonwealth with most other states and make Massachusetts a more attractive place to live.

I am pleased to propose this comprehensive tax package targeted toward providing relief to low-income families and residents and improving the Commonwealth's competitiveness. Several of the ideas in this legislation have been proposed in some form by members of the Legislature from both parties, and I look forward to working with the Legislature to enact this legislation promptly.

Respectfully submitted,



Charles D. Baker
Governor