



2024 Public Policy and State Competitiveness Report



Executive Summary

The Massachusetts Society of Certified Public Accountants (MassCPAs) conducted surveys in **2023** and **2024** to assess the impact of the recently enacted millionaires tax on high-income earners and businesses in the state.

The survey results indicate a concerning trend: a significant number of high-income individuals and businesses are considering or have already relocated out of Massachusetts. This outmigration coincides with the surge in the number of taxpayers impacted by the surtax.

While the tax reform package passed in **2023** addressed some concerns, MassCPAs believes there's more to be done to make Massachusetts more competitive. Based on the results of these surveys, we recommend several policy changes, including:


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- ◆ **Decoupling from the federal 163(j) business interest expense limitation.**
 - ◆ **Raising the estate tax threshold to to **\$5 million.****
 - ◆ **Reforming or eliminating the "sting tax" on S-corporations.**
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These changes aim to attract new residents, businesses and capital to the state, ultimately strengthening Massachusetts' economic competitiveness.

Introduction

Last year, Massachusetts legislators and Governor Healey enacted a **\$1 billion** tax reform package¹, the largest in decades. Several provisions of this new law demonstrate the Massachusetts Society of Certified Public Accountants' (MassCPAs') advocacy work in action!

At the start of **2023**, the Society launched a survey to gauge outmigration among high-income taxpayers in response to concerns among our members of the potential negative impacts of the recently passed surtax on income over **\$1 million**. In addition to collecting information on that population's response to the new law, we also tested potential mitigation strategies. The results² were used in a report that supported these critical changes. It also helped shape the initial proposal that was filed by Governor Healey and embraced by the Legislature.

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Millionaires tax continues to drive outmigration, impact job growth — the Commonwealth must consider policy changes to keep the state competitive.

The tax reform bill adopted single sales factor apportionment under the corporate income tax (starting in **2025**) and increased the estate tax exemption to **\$2 million**, while eliminating the so-called "cliff effect," and it reduced the short-term capital gains tax rate from **12% to 8.5%** among other changes.

Introduction (continued)

We commend the important work that led to the historic **2023** legislation, but we also believe there is more to be done to mitigate outmigration and other negative economic trends in the Commonwealth that hurt our competitive advantage. That's why we launched the Public Policy and State Competitiveness Survey earlier this year. We did so with the hope of being able to equip the Healey Administration and the Legislature with information to reflect today's realities and stem the flow of outmigration among Massachusetts residents, workers and employers.

The survey results from the past two years have found that Massachusetts is facing a concerning trend: a significant number of high-income individuals and businesses are considering or have already relocated away from the state. This comes at a time when the number of taxpayers impacted by this punitive policy is surging, increasing nearly **50%** between **2020** and **2021**³. Although this may be contributing to a short-term surge in revenues from the surtax, the long-term uncertainty is concerning given the share of total state revenues derived from this group of residents.

While the results from MassCPAs members in **2024** and **2023** are daunting, but there is an opportunity for Massachusetts policymakers. They can consider transforming the tax code from a punitive system to one that attracts new residents, businesses and capital to the state, which will continue to make the Commonwealth more competitive.

Report Findings

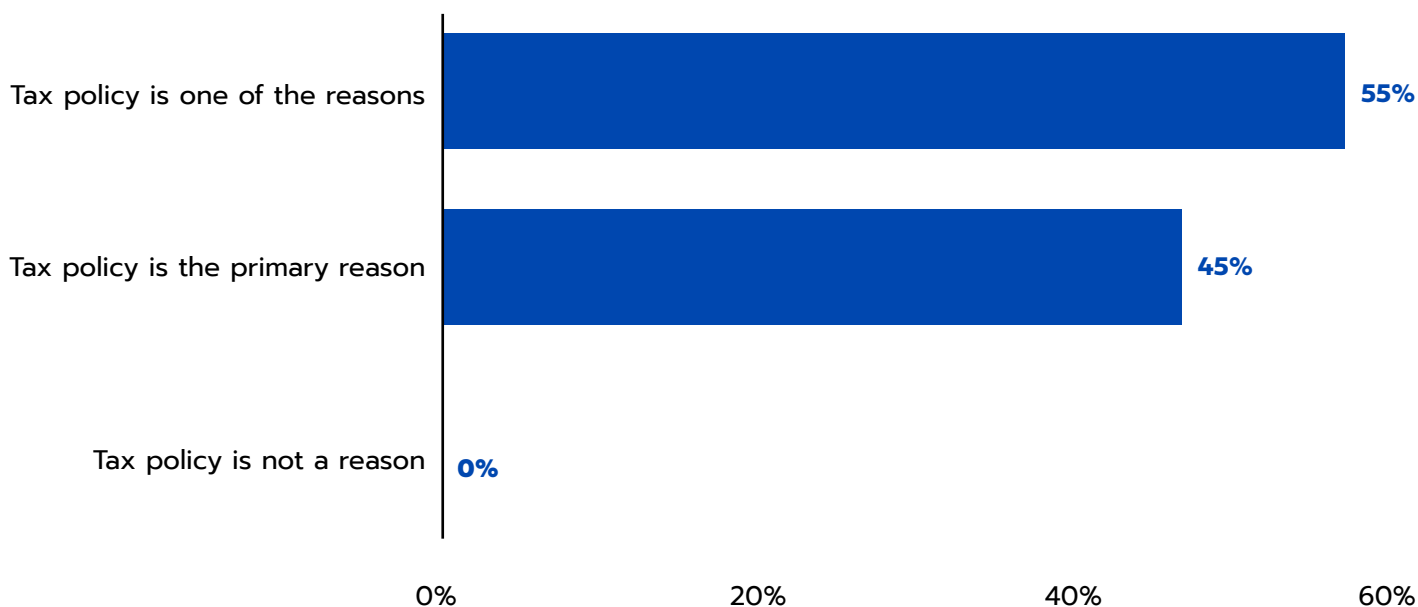
Two-thirds of accounting professionals reported that at least one of their high-income clients have relocated from Massachusetts in the last year, and more high-income clients are seriously considering a move.

At the beginning of **2024**, we surveyed in-state industry leaders, as well as more than **120** MassCPAs members, representing roughly **3,600** high-income clients (defined as clients with an annual taxable income in excess of **\$1 million**). The survey focused on the impact of tax policy on high-income taxpayers and businesses, and the results indicate that many are seriously considering changing their tax domicile or changing their growth plans as a result of the Commonwealth's overall tax policy.

- ◆ Every individual surveyed said that overall tax policy in the Commonwealth was either the primary reason clients are moving or one of the reasons that clients are considering moving. **55% of those surveyed earlier this year indicated that tax policy was the primary reason for relocating.** Nearly everyone surveyed stated that the millionaires tax *specifically* factored into their client's decision to relocate, with **64%** stating that the tax was one of the reasons that their client is considering moving their domicile and **34%** indicating that the tax was the primary reason for relocating.

Report Findings (continued)

Does Massachusetts' overall tax policy play a significant role in your client's consideration to move their domicile out-of-state?



- ◆ **Two-thirds** of those surveyed reported that at least one of their clients has already established their domicile away from Massachusetts within the last **12 months**. Many high-income residents are seriously considering changing their domicile, with **90%** of respondents indicating that their high-income clients are considering moving from Massachusetts in the next year. This has increased by **8%** in just one calendar year, from **82%** of individuals surveyed in 2023.
- ◆ Both former Massachusetts residents who relocated, and current residents considering moving away, are considering the same states. **The top three states to which Massachusetts residents are moving or considering moving are New Hampshire, Florida and Texas. Fifty-three percent** of accounting professionals say that their clients are considering moving across the border to New Hampshire, suggesting that the tax burden imposed by Massachusetts plays an important part in the decision to relocate – and refuting the claims that individuals are just relocating due to a desire for sunnier weather and more coastline.

Report Findings (continued)

- ◆ Notably, the survey indicates that **57%** of respondents said their clients most at risk of relocating are between **30–60** years old. This is a significant data point because it confirms that many taxpayers are considering a change in residency during their prime working years, ensuring they have a well-established domicile well before retirement.

Individual income tax provisions are impacting business growth, and businesses are considering shifting growth away from the Commonwealth.

- ◆ Twenty-two percent of respondents indicated that their business clients are seriously considering leaving Massachusetts or shifting growth away from the Commonwealth. They note that their clients consider New Hampshire, Florida, Texas, Tennessee and Nevada the most attractive tax environments for their businesses.

- ◆ **The three primary barriers to growth for businesses in Massachusetts are individual income tax, the low estate tax threshold and the corporate income tax.**
- ◆ **Industry leaders surveyed also show some desire to leave the Commonwealth, with 33% seriously considering leaving Massachusetts or shifting growth to other states.** Commonly cited states include New Hampshire and Florida.

Primary barrier to business growth: individual income tax provisions

Other states are actively courting industry leaders to relocate their headquarters or adjust their job creation strategies, often through enticing incentives such as tax credits or favorable policies. **Twenty-seven** percent of respondents indicated that they have been approached by other states, with New Hampshire being the most frequently cited state.

Report Findings (continued)

Millionaires tax is a significant factor for those deciding to leave Massachusetts.

According to our members' responses regarding conversations with their clients, the millionaires tax is a significant factor in clients' decision to relocate from Massachusetts. **64%** of those surveyed report that the millionaires tax is one of the reasons their clients decided to move their domicile, and **34%** of MassCPAs members surveyed say it is the **primary reason** their clients decided to move.

Only **2%** of those surveyed report that the millionaire's tax was not a consideration for the relocation of their clients.

Before the surcharge was implemented in **2023**, Massachusetts had a flat income tax rate of **5%**, a competitive advantage amongst neighboring states (other than New Hampshire). After the imposition of the tax, income over **\$1 million** is now taxed at **9%**, putting the rate in line with more burdensome states such as New York, New Jersey and Vermont⁴. The states most frequently indicated as destinations for Massachusetts taxpayers (Florida, New Hampshire and Texas), all impose no individual income tax, although New Hampshire currently does tax interest and dividends income, but at a rate of **3%**, which is significantly lower than Massachusetts.

Businesses feel the squeeze of the surcharge as well. The majority of U.S. companies are pass-through businesses⁵, and they account for over half of national business income. Essentially, these businesses pay taxes by "passing through" their profits to the individual income tax return of the business owners. As a result, the millionaires tax not only impacts individuals, but it also affects businesses in the Commonwealth. More than **20%** of those surveyed report that their business clients are seriously considering leaving or shifting growth away from Massachusetts. When affluent individuals and business owners relocate from the state, it affects more than just their income. It also changes where money is invested and where jobs are created.

It is important to note that the millionaire's tax was indexed for inflation. For the **2023** tax year, the surtax threshold was **\$1,000,000**. For the **2024** tax year, the threshold is **\$1,053,750** and will continue to increase.

Report Findings (continued)

Similarly, the low estate tax threshold is cited as cause for concern for taxpayers. Last year, Massachusetts took a step in the right direction and raised the estate tax exemption to **\$2 million** from **\$1 million**. Prior to this change, the threshold was tied for the lowest in the nation with Oregon at **\$1 million**. While the increase is a positive change, the exemption is still not competitive with many states across the northeast. Connecticut's exemption is **\$12.9 million**, New York's is **\$1.6 million**, Maine's is **\$6.4 million** and Vermont's is **\$5 million**. Of nearby states that impose an estate tax, only Rhode Island's is lower, at **\$1.7 million**. New Hampshire, a perennial destination for outgoing Bay Staters, notably does not levy an estate tax.

Estate tax and 163(j) are causes for concern for Massachusetts taxpayers.

Other significant concerns for businesses include the corporate income tax rate, unemployment insurance taxes and conformity to the business interest expense limitation (IRC Sec. 163(j)). Massachusetts' **8%** corporate income tax rate is the **12th** highest in the nation, and higher than the rates of many in the region, including New Hampshire, Connecticut, New York and Rhode Island. When it comes to unemployment insurance taxes, the Tax Foundation ranks Massachusetts' unemployment insurance tax system as the worst in the country⁶, and Massachusetts has ranked last since at least **2019**. The ranking considers not only the minimum and maximum tax rates, but it also factors the structure of the tax and its complexity to administer.

The 163(j) rule is a part of the federal tax law that restricts how much business interest expense a company can deduct from its taxes. This rule is meant to balance out another tax provision, IRC Sec. 168(k), which allows companies to fully deduct costs of certain investments immediately (known as **100%** bonus depreciation). Together, 163(j) acts as a deterrent (like a stick), while 168(k) encourages investment (like a carrot). However, Massachusetts has chosen to follow the 163(j) rule, but not the 168(k) rule. This means businesses in Massachusetts only face the restrictive part of these tax provisions, making it more expensive for them to invest and operate. Meanwhile, **21** other states do not impose the full 163(j) limitation. Decoupling from the limitation would be very beneficial to businesses investing in the Commonwealth.

Report Findings (continued)

Outside research supports this survey's findings: Massachusetts is losing residents and taxes matter.

According to a recent

[report by the Tax Foundation](#),

Massachusetts is losing residents at the sixth highest rate in the country.

By analyzing Census Bureau data, they determined that Massachusetts lost **0.6%**

of its population to interstate migration in fiscal year **2023** (FY23). Similarly, the annual [United](#)

[Van Lines report](#) found that Massachusetts had the

seventh-highest rate of outmigration in its **2023** study.

And, a **2023** [Massachusetts Taxpayers Foundation \(MTF\)](#)

[report](#) found the same: more than **110,900** people left Massachusetts between April **2020** and **July 2022**. This outmigration has a significant and urgent impact on the state; the MTF report indicates that the state lost **\$4.3 billion** of adjusted gross income (AGI) in **2020** as a result of these moves.

The reasons behind people moving and what exactly drives their relocation decisions are subjects of ongoing debate. However, it's evident that tax policy plays a role in these decisions, even if it's not always the main factor. Some might relocate primarily due to tax policies, while for others, it might be less significant. Yet, for many considering a move, tax policy and the overall cost of living are important factors in choosing where to reside. Additionally, with the rise of remote work and flexible arrangements, factors like the ability to work from home might also influence relocation decisions.

There is also plenty of research regarding the impact of income tax rates on the economy. A recent [literature review](#) of **10** economic research papers finds that, generally, the directional impact of higher tax rates includes increased outmigration, decreased in-state employment mobility, reduced state gross product, decreased investment and decreased patent formulation. The report summarizes its findings by explaining that **"tax increases can generate increased revenue for government but often at the expense of economic growth and mobility for taxpayers."**

Massachusetts should take proactive measures to address concerns about high tax rates and general cost-of-living issues; otherwise, it risks experiencing a continued exodus of thousands of residents and the loss of billions of dollars in income.

Report Findings (continued)

Governor Maura Healey of Massachusetts is known across the country for her leadership and optimism. In the Commonwealth, she consistently champions the belief that Massachusetts is the premier destination for living, working and learning, both for individuals and families alike. MassCPAs shares in her optimism and eagerly anticipates collaborating with the Governor and the Legislature to maintain Massachusetts' competitive edge.

Policy recommendations will keep Massachusetts competitive.

To this end, we have included the following recommendations:

Massachusetts should decouple from the 163(j)

business interest expense limitation. Decoupling from Section 163(j) is critical for Massachusetts businesses. Decoupling from the federal limitation will support companies that have already invested in the Commonwealth and ensure Massachusetts remains a competitive destination for businesses. It would also ensure that businesses based in Massachusetts deduct more interest from borrowing, which results in more infrastructure investments in our backyard. Massachusetts would be joining **21** other states who do not impose the full federal interest expense limitation.

Raise the estate tax threshold. As highlighted in the report, the tax reform legislation signed into law by Governor Healey earlier this year saw an increase in the estate tax exemption to **\$2 million** and eliminated the so-called cliff effect. While this adjustment marks a positive step forward, our findings in the **2023** report suggest that further enhancement is warranted, recommending an increase to **\$5 million** for the exemption. Despite progress, we believe there remains room for improvement.

With the tax reform package signed into law, Massachusetts has transitioned from possessing the lowest estate tax exemption to now ranking as the third lowest in the nation. Neighboring northeastern states offer significantly more generous exemptions: New York stands at **\$6.1 million**, Vermont at **\$5 million** and Connecticut aligns with the federal threshold at **\$12.92 million**. New Jersey repealed its estate tax in **2018**.

Continuing to raise the estate tax threshold and adjusting it for inflation would promptly position Massachusetts as a more competitive player in the region.

Report Findings (continued)

Reform the sting tax. In our recommendations to the Governor and administration last year, MassCPAs advocated for eliminating the sting tax, an additional entity-level tax imposed on certain larger S-corporations. This recommendation did not find its way into the final legislation that was enacted into law. We still encourage the administration and the Legislature to eliminate or reform the sting tax so we can continue to enhance the attractiveness of the Commonwealth to businesses.

Initially enacted in the **1980s**, the sting tax was designed to safeguard tax benefits for small businesses while fostering a level playing field between large S-corporations and C-corporations. However, the thresholds for net income triggering the additional excise tax (**\$6 million** and **\$9 million**) have been neither updated nor adjusted since its original enactment. Consequently, an increasing number of small businesses have been adversely affected.

With the introduction of an additional **4%** surtax, many small businesses and other S-corporations now find themselves in the position where their shareholders are subject to a tax burden exceeding the Massachusetts corporate tax rate of **8%**, which is in direct conflict with the original intent of the law. The framework of imposing an extra tax on S-corporations serves as a substantial disincentive to business expansion within Massachusetts. Coupled with the surtax, this structure negatively sets Massachusetts apart from other states in terms of its taxation policies.

Conclusion

Massachusetts must prioritize policies that attract residents and businesses.

The results of the **2024** and **2023** MassCPAs surveys paint a concerning picture: high-income earners and businesses are leaving the state at an alarming rate. This outmigration is driven, in part, by the millionaires tax and other tax burdens that make Massachusetts less competitive than neighboring states.

Policymakers should take action to reverse this trend. We urge the Commonwealth to decouple from the federal 163(j) limitation, raise the estate tax threshold and reform the sting tax. These changes would make Massachusetts a more attractive place to live, work and invest. By creating a more competitive tax environment, the Commonwealth can ensure its long-term economic prosperity.

Sources



¹ <https://malegislature.gov/Laws/SessionLaws/Acts/2023/Chapter50>

² <https://www.masscpas.org/storage/files/7338cbb72f2eca23dd49a55a446f4f65.pdf>

³ <https://www.irs.gov/statistics/soi-tax-stats-individual-income-tax-state-data>

⁴ <https://taxfoundation.org/data/all/state/state-income-tax-rates-2024/>

⁵ <https://www.taxpolicycenter.org/briefing-book/what-are-pass-through-businesses>

⁶ https://files.taxfoundation.org/20220104110127/2022-State-Business-Tax-Climate-Index3.pdf?_gl=1*5dnnfg*_ga*NTc2MzcyODc4LjE3MDgxMDkzNjg.*_ga_FP7KWDV08V*MTcwOTE1MTI3Ni41L-jEuMTcwOTE1Mjg1OC4xNS4wLjA.#page=51