



## Governor's Revenue Proposal

	Annualized Revenue Gain/Loss (millions)	% of Proposed New Revenues
<b>Changes in Tax Rates</b>		
Raise the personal income tax rate from 5.25% to 6.25% and double the personal exemption	\$1,480	
Reduce the sales tax rate from 6.25% to 4.5%	(\$1,370)	
<b>Subtotal, Tax Rate Changes</b>	<b>\$110</b>	<b>6%</b>
<b>Expanded Individual Taxes</b>		
Eliminate 44 personal income tax exemptions and deductions (estimate based on 6.25% rate)	\$1,080	
Expand sales tax to cover candy and soda (estimate based on 4.5% rate)	\$53	
Increase cigarette/smokeless tobacco taxes	\$166	
<b>Subtotal, Expanded Individual Taxes</b>	<b>\$1,299</b>	<b>68%</b>
<b>Additional Corporate Taxes</b>		
Apply the sales tax to customized computer software and computer and data processing services	\$265	
Reclassify security and utility corporations as corporations or financial institutions	\$83	
Eliminate the FAS 109 deduction	\$76	
Change sourcing rule for services in calculating sales factor in apportionment formula	\$35	
Limit film tax credits to \$40 million per year	\$40	
<b>Subtotal, Corporate Taxes</b>	<b>\$499</b>	<b>26%</b>
<b>Total</b>	<b>\$1,908</b>	<b>100%</b>

**Governor’s Revenue Proposal:  
Eliminate 44 Personal Income Exemptions and Deductions**

Personal Income Tax Exemptions/Deductions	Value at 6.25% rate	Value at 5.25% rate	No. of Filers Affected
<b>Deduction for Employee Contributions to Social Security and Public Pension Plans</b>	<b>\$357 million</b>	<b>\$300 million</b>	<b>3,585,000</b>
<ul style="list-style-type: none"> <li>▪ Taxpayers would no longer be able to deduct up to \$2,000 from personal income to offset contributions to the Social Security system and public pension systems.</li> </ul>			
<b>Exemption of Capital Gains on Home Sale<sup>1</sup></b>	<b>\$285 million</b>	<b>\$240 million</b>	<b>55,000</b>
<ul style="list-style-type: none"> <li>▪ Homeowners would no longer be permitted to exclude up to \$500,000 of gain from the sale of a primary residence, as allowed under federal law.<sup>2</sup> This exemption was expanded in recent years to apply to all homeowners, not just for homeowners over age 55 or for the sale of a first home. Under the proposal, the exemption would be eliminated for everyone.</li> </ul>			
<b>Child/Family Related Exemptions/Deductions</b>	<b>\$196 million</b>	<b>\$164 million</b>	
<b>Deduction for Dependent(s) Under 12</b>	<b>\$162 million</b>	<b>\$136 million</b>	<b>510,000</b>
<ul style="list-style-type: none"> <li>▪ Residents with dependents under age 12 would no longer be permitted to deduct \$3,600 for one dependent or \$7,200 for two or more.</li> </ul>			
<b>Deduction for Business-Related Childcare Expenses</b>	<b>\$18 million</b>	<b>\$15 million</b>	<b>54,000</b>
<ul style="list-style-type: none"> <li>▪ Taxpayers would not be permitted to deduct the costs of employment-related childcare from personal income. Currently, taxpayers are allowed to deduct \$4,800 for one dependent and \$9,600 for two or more.</li> </ul>			
<b>Exemption of Dependent Care Expenses</b>	<b>\$11 million</b>	<b>\$9 million</b>	<b>Not reported</b>
<ul style="list-style-type: none"> <li>▪ Employees would no longer be allowed to exempt up to \$5,000 of employer-provided day care from personal income.</li> </ul>			
<b>Exemption of Certain Foster Care Payments</b>	<b>\$4 million</b>	<b>\$3 million</b>	<b>Not reported</b>
<ul style="list-style-type: none"> <li>▪ Foster parents would no longer be permitted to exempt qualified payments from personal income.</li> </ul>			

<sup>1</sup> In the tax expenditure budget, the Department of Revenue uses the term “exemption” to refer to exclusions from gross income. For consistency, this analysis follow DOR’s convention and uses exemption in place of exclusion.

<sup>2</sup> For the sale of a primary residence, homeowners may exclude from gross income capital gains of up to \$250,000 for individuals or \$500,000 for joint filers.

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<b>Personal Income Tax Exemptions/Deductions</b>	<b>Value at 6.25% rate</b>	<b>Value at 5.25% rate</b>	<b>No. of Filers Affected</b>
<b>Deductions for Adoption Fees and Employer-Provided Adoption Assistance</b>	\$0.6 million	\$0.5 million	1,000+
<ul style="list-style-type: none"> <li>▪ Taxpayers would no longer be permitted to deduct the cost of adoption fees from income. In addition, employees would have to include adoption expenses paid by the employer in personal income.</li> </ul>			
<b>Higher Education Related Deductions</b>	<b>\$86 million</b>	<b>\$73 million</b>	
<b>Tuition Tax Deduction</b>	\$43 million	\$36 million	65,000
<ul style="list-style-type: none"> <li>▪ Taxpayers would no longer be allowed a deduction for tuition payments. Currently, the deduction is the amount that exceeds 25 percent of adjusted gross income for payments towards a two- or four-year degree for either the tax filer or his/her dependent.</li> </ul>			
<b>Exemption of Scholarships and Fellowships</b>	\$23 million	\$19 million	255,000
<ul style="list-style-type: none"> <li>▪ Recipients of scholarships and fellowships would no longer be permitted to exclude the amount received for tuition and fees from personal income.</li> </ul>			
<b>Personal Exemption for Students Aged 19 or Over</b>	\$10 million	\$8 million	Not reported
<ul style="list-style-type: none"> <li>▪ Taxpayers would no longer be allowed an exemption of \$1,000 for each dependent age 19 or older who is a full-time student.</li> </ul>			
<b>Employer-Provided Education Assistance</b>	\$10 million	\$8 million	Not reported
<ul style="list-style-type: none"> <li>▪ Currently, employees may exempt up to \$5,250 for undergraduate or graduate education expenses reimbursed by their employer. Eliminating this exemption would require employees to report that assistance as personal income.</li> </ul>			
<b>Exclusions/Deductions for Transit and Commuting</b>	<b>\$54 million</b>	<b>\$46 million</b>	
<b>Exclusion from Gross Income of Parking, T-Pass and Vanpool Fringe Benefits</b>	\$46 million	\$39 million	Not reported
<ul style="list-style-type: none"> <li>▪ Employees would no longer be able to exclude the value of parking, MBTA passes, or vanpools provided by their employer from personal income.</li> </ul>			

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<b>Commuter Deduction</b>	\$8 million	\$7 million	225,000
<ul style="list-style-type: none"> <li>▪ The state would no longer allow commuters who spend more than \$150 per year on commuting costs to deduct up to \$750 for the costs of tolls (through FastLane) and MBTA weekly and monthly passes.</li> </ul>			
<b>Exemption for Premiums on Accident and Accidental Death Insurance</b>	\$28 million	\$24 million	1,970,000
<ul style="list-style-type: none"> <li>▪ Employer contributions to accident or accidental death insurance would no longer be excluded from personal income.</li> </ul>			
<b>Deduction for Health Savings Accounts</b>	\$15 million	\$12 million	10,000
<ul style="list-style-type: none"> <li>▪ Individuals would no longer be allowed to deduct contributions to a health savings account. In 2012, the maximum deduction was \$3,100 for an individual and \$6,250 for a family. The maximum for individuals age 55 or older is \$1,000 higher.</li> </ul>			
<b>Miscellaneous Credits, Deductions, and Exemptions</b>	<b>\$61 million</b>	<b>\$52 million</b>	
Septic System Repair Credit	\$15 million	\$13 million	11,000
Exemption of Premiums on Group-Term Life Insurance	\$14 million	\$12 million	Not reported
Exemption of Workers' Compensation Benefits	\$10 million	\$8 million	Not reported
Exemption of Meals and Lodging Provided at Work	\$9 million	\$8 million	Not reported
Exemption of Interest on Savings in Massachusetts Banks	\$6 million	\$5 million	505,000
Credit for Removal of Lead Paint	\$3 million	\$3 million	1,850
Exemption of Rental Value of Parsonages	\$2.5 million	\$2 million	Not reported
Renewable Energy Source Credit	\$1.5 million	\$1 million	2,000
Expensing of Certain Capital Outlays of Farmers	\$0.3 million	\$0.3 million	Not reported

*Note:* The Governor has also proposed to eliminate the personal charitable deduction, which took effect in 2001 but was rescinded a year later and is scheduled to be reinstated should the state personal income tax rate reach 5 percent. In addition, the Governor has proposed eliminating 18 more exemptions for which no revenue estimate has been made.