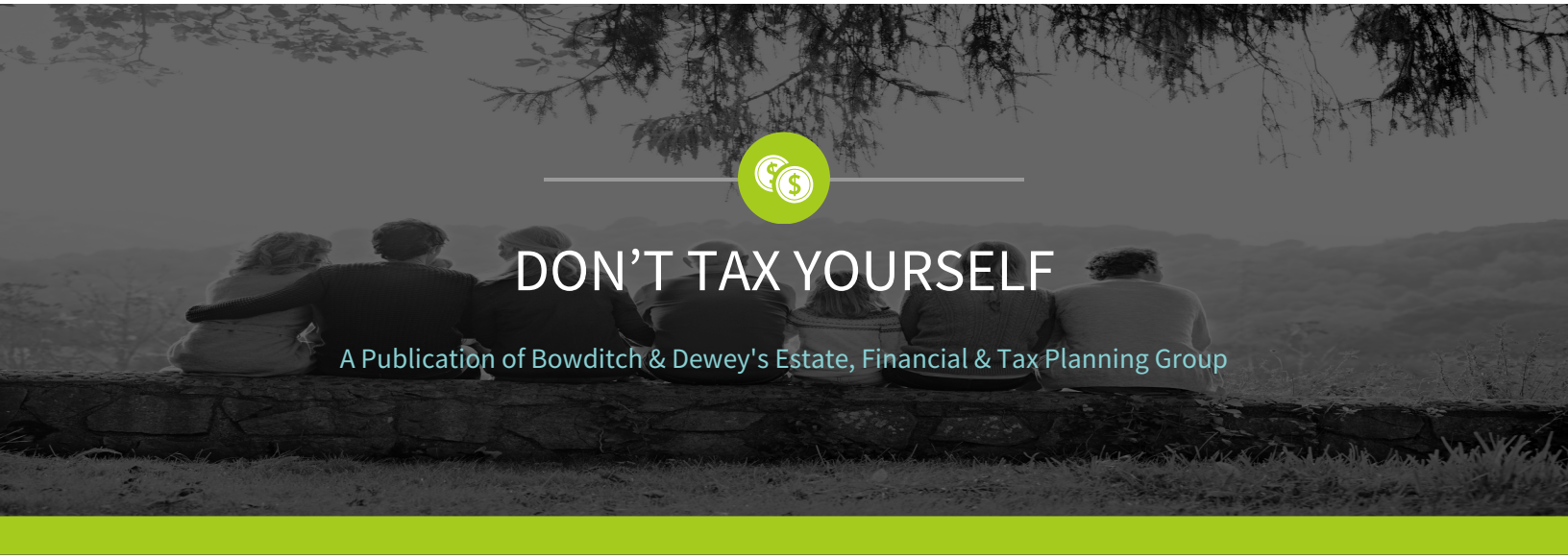

DON'T TAX YOURSELF

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Taxachusetts? Guess Again, Massachusetts Reduces 2016 Income Tax Rate

BY RICHARD BREED IV • JANUARY 5, 2016

If you live in New England, you're likely familiar with Massachusetts' nickname: Taxachusetts. Although that moniker for Massachusetts is still somewhat relevant, taxpayers in Massachusetts woke up today with a .05% reduction in their state income tax rate. For 2016, the Massachusetts income tax rate dropped from 5.15% to 5.10%. Explaining why the tax rate dropped is a little bit more complicated and dates back to 2000.

In 2000, the General Appropriation Act proposed a decrease in the state income tax from 5.95% to 5.75%, with the reduction occurring in three phases over the succeeding three years. However, that proposed reduction didn't sit well with Massachusetts residents and a ballot initiative was proposed, requiring the state income tax to be reduced to 5.0% by the year 2003. That ballot initiative passed in the general election in 2000 and the reduction in income taxes became the new law. However, in 2002, the Massachusetts legislature amended that statute and provided that the income tax rates would be reduced by 0.05% each year until the income tax reached 5.0%, where it would remain fixed at 5.0%. The amendment provided that the 0.05% reduction would only occur if certain economic conditions were satisfied in the preceding year. If the economic conditions were not met, then the tax rate would be the same as the prior year.

The economic conditions that must be met each year are:

1) Inflation adjusted growth in baseline tax revenue for the prior fiscal year must exceed 2.5%; and

2) The inflation adjusted change in baseline taxes for each consecutive 3 month period between August and December of the previous year must be greater than 0.

The following chart shows when these economic conditions were met over the past 14 years:

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Year	Maximum Income Tax Rate	Conditions Met in Prior Year?
2002	5.30%	Inaugural Year
2003	5.30%	No
2004	5.30%	No
2005	5.30%	No
2006	5.30%	No
2007	5.30%	No
2008	5.30%	No
2009	5.30%	No
2010	5.30%	No
2011	5.30%	No
2012	5.30%	No
2013	5.25%	Yes
2014	5.20%	Yes
2015	5.15%	Yes
2016	5.10%	Yes

With two more years of strong economic performance, the state income tax rate could be reduced to 5.00%, completing an initiative that began almost twenty years ago!

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