Accountants sound the alarm over high-income residents leaving Massachusetts

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Accountants continue to sound the alarm over high-income residents leaving Massachusetts, in part to avoid the new income surtax that even the CPAs acknowledge has led to a "surge" in state tax revenues.

In its new 2024 public policy and competitiveness report, the Massachusetts Society of Certified Public Accountants said two-thirds of accounting professionals surveyed reported that at least one high-income client relocated out of Massachusetts in the last year.

Ninety percent of accounting professionals indicated high-income clients are considering leaving Massachusetts, the report said, and 64 percent of respondents indicated the 4 percent surtax on household income above $1 million per year is a factor in relocation decisions.

The survey involved 128 CPAs who collectively represent 3,600 clients with annual taxable income of more than $1 million.

"The top three states to which Massachusetts residents are moving or considering moving are New Hampshire, Florida and Texas," the report said. "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."

Massachusetts collected $1.84 billion from the voter-approved surtax on the state's highest earners through the first nine months of fiscal 2024, the Department of Revenue reported in May. Collections from the surtax appear on track to easily surpass $2 billion per year, and Beacon Hill Democrats continue to advance big plans to invest the new revenue in public education and transportation.

Last month, the Raise Up Coalition, which successfully pushed for the tax change as a constitutional amendment, used news of the $1.84 billion in collections to point to investments that it said are "making a real difference in the lives of people across Massachusetts." Examples ranged from increased public college scholarships and free school meals to upgrades at the MBTA and road repair funding for cities and towns.

While collections are roughly aligning with revenue projections that date back to 2015, the Raise Up Coalition used last month's news to assert that those who claimed that multi-millionaires would flee Massachusetts rather than pay the new tax "are being proven wrong every day."

Evan Horowitz, executive director of the Center for State Policy Analysis at Tufts University, said some people are leaving Massachusetts due to the new tax, but said the revenue collections show that it's not a "tidal wave."

The tax is too new to gauge its impact on households that earn just more than $1 million per year versus households with incomes well above that threshold. Horowitz said tax avoidance among high-income households is a "much bigger challenge" than the threat of households leaving Massachusetts for lower-tax states.

The surtax switched Massachusetts away from a flat income tax rate of 5 percent. Income over $1 million is now taxed at an effective 9 percent, putting the rate in line with "more burdensome states" such as New York, New Jersey and Vermont, according to the report, which notes the surtax was indexed for inflation so the threshold for the 2024 tax year will be $1,053,750.

In its report, the accountants group acknowledges “a short-term surge in revenues from the surtax,” while contending that “the long-term uncertainty is concerning given the share of total state revenues derived from this group of residents.”

While major tax policy changes do not appear to be a focus of top Democrats over the last six weeks of formal sessions, the CPA group is calling on the Legislature to pass three measures it says would make Massachusetts more competitive.

First, the society says Massachusetts should join 21 other states by decoupling from the federal limit on business interest expense to support companies that have already invested in Massachusetts and to “ensure that businesses based in Massachusetts deduct more interest from borrowing, which results in more infrastructure investments in our backyard.”

A 2023 tax reform law increased the estate tax exemption to $2 million and the CPA group recommends raising it further to $5 million, and adjusting it for inflation. Neighboring states offer more generous exemptions, including New York ($6.1 million), Vermont ($5 million) and Connecticut, which is aligned with the federal threshold at $12.92 million. New Jersey repealed its estate tax in 2018.

“Despite progress, we believe there remains room for improvement,” the report said. “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.”

CPAs also continue to call on Beacon Hill to eliminate or reform the “sting tax,” an entity-level tax imposed on larger S-corporations. The group says the tax was enacted in the 1980s to safeguard tax benefits for small businesses and level the playing field between large S-corporations and C-corporations, but now “negatively sets Massachusetts apart from other states in terms of its taxation.”

“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,” the group said. “Consequently, an increasing number of small businesses have been adversely affected.”

With the new income surtax, many small businesses and S-corporations find themselves in a position where shareholders are subject to a tax burden exceeding the 8 percent corporate tax rate, “which is in direct conflict with the original intent of the law,” the report said.