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STUDY SHOWS THAT QUESTION 1 APPROVAL WOULD DEVASTATE THE STATE'S ECONOMY

***Elimination of income tax would deliver major blow to job creation, close credit markets to cities & towns,
and cripple public education***

If Massachusetts voters approve Question 1 on November 4, it will deal “a disabling blow to state and local government services” and severely damage the Commonwealth’s long-term economic prospects, according to a study released today by four leading business organizations.

Associated Industries of Massachusetts, the Greater Boston Chamber of Commerce, the Massachusetts Business Roundtable, and the Massachusetts Taxpayers Foundation commissioned Global Insight, the leading international economic forecasting firm headquartered in Lexington, to analyze the impacts on the Massachusetts economy of possible spending reductions necessary to bring the state budget into balance if the income tax is eliminated. The proposal will reduce Massachusetts' state revenues by an estimated \$12.5 billion, removing 60% of the Commonwealth's "own-source" tax revenues and 40% of its total revenue sources. Such a change will rank Massachusetts a distant last among the states in tax revenues per capita and per dollar of personal income, the study notes.

“The loss of this major revenue source will undermine the investments in education and infrastructure that are essential to a competitive business environment in Massachusetts,” the report finds. “Private investment in the Commonwealth will be reduced, resulting in fewer jobs being created and slower economic growth.”

Beyond its impact on current revenues, the measure, in the midst of a global financial crisis, “will close credit markets to state agencies, cities, and towns,” the study notes. It would have a “dramatic impact on the Commonwealth's bond rating as a result of a sharp rise in the debt service ratio.”

“If the Commonwealth's bond rating is downgraded to junk bond status,” the report warns, borrowing costs would rise sharply, and “it could become nearly impossible for the Commonwealth to sell its bonds in the market.”

“Elimination of income tax revenues will lead to drastic cuts in current infrastructure expenditures and sharply reduce the capacity to undertake new capital projects, leading to higher risks from an unreliable transportation infrastructure,” said Rick Lord, president and CEO of the Associated Industries of Massachusetts. “Economic studies show that infrastructure is a complement to private capital, creating the conditions for growth by reducing costs of production and raising the returns to other capital and labor, so this will mean less business investment and slower growth for the Massachusetts economy.”

“This report documents that that without income tax revenues there would be a sharp rise in the debt service ratio, leading to a sharp downgrade in the Commonwealth’s bond rating, limiting our options and actually imposing new costs,” said Mike Widmer, president of the Massachusetts Taxpayers Foundation.

“Passing Question 1 will do much more than simply send a signal, it will do tremendous damage to our economy and society,” said Alan Macdonald, executive director of the Massachusetts Business Roundtable. “In addition, many taxpayers will not realize the savings promised. The best way to balance the state budget and create the quality of life that is so important to our state’s employers and residents is to have a robust economy that supports them.”

“Education investments – including early childhood education, K-12, higher education, and workforce training – are absolutely essential to our regional competitiveness,” said Paul Guzzi, president and CEO of the greater Boston Chamber of Commerce. “These investments prepare our workforce for tomorrow’s jobs, and are a key reason for our state’s attractiveness to businesses. The kinds of budget cuts that Question 1 would force could cripple public education at all levels, destroying what has historically been our best economic asset.”

The full report, entitled *Economic Impacts of Eliminating the Massachusetts State Income Tax*, can be accessed at www.bostonchamber.com.

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