

2025 Public Policy and State Competitiveness Report



Executive Summary

Massachusetts is at a crossroads in maintaining its economic competitiveness. While the state has made progress with a \$1 billion tax reform package in 2023, ongoing concerns about **tax policy, business climate and workforce trends** continue to drive high-income residents and businesses out of the Commonwealth. To address these challenges, MassCPAs conducted its third annual **Public Policy and State Competitiveness Survey**, providing critical data to inform policymakers and business leaders. Survey participants were in-state industry leaders as well as nearly **200 CPAs** representing roughly **4,600 high-income clients** (defined as clients with an annual taxable income in excess of \$1 million).

Key Findings:

◆ Economic and Fiscal Landscape:

Massachusetts' revenue picture remains uncertain despite stronger-than-expected surtax collections in FY24 and FY25. Future volatility, federal tax policy shifts and economic trends pose risks to fiscal stability.

◆ High-Income Relocation Trends:

- **70% of CPAs** surveyed had clients change their tax domicile in 2024, citing lower taxes (47%) and cost of living (17%) as primary factors.
- States such as **Florida, New Hampshire, Texas and South Carolina** are preferred destinations due to tax-friendly policies.

◆ Business Relocation and Growth Concerns:

- 27% of MassCPAs members' business clients are reconsidering their presence in Massachusetts—up from 22% in 2023.
- The top barriers to growth include the state's **sting tax** (30%), **individual income tax rate** (27%) and **estate tax threshold** (23%).

◆ Workforce Challenges and Talent Retention:

- 42% of businesses are focusing on talent retention strategies, including **increased workplace flexibility**, and 21% are turning to **contractor and gig workers**.
- Massachusetts' efforts, such as the **Internship Tax Credit**, aim to strengthen the talent pipeline but must be expanded to counter ongoing workforce shortages.

◆ Competitiveness and Economic Outlook:

- 49% of surveyed professionals believe **Massachusetts is becoming less competitive than other states**.
- Only 6% see the state as significantly more competitive.

Executive Summary (continued)

Policy Recommendations

To reverse these concerning trends and enhance Massachusetts' business climate, MassCPAs proposes the following key reforms:

1 Eliminate or Reform the Sting Tax:

Modernize tax policy by removing an outdated excise tax on certain S-corporations, which disproportionately affects small businesses.

2 Decouple from Section 163(j):

Align Massachusetts with other states by allowing greater business interest expense deductions, promoting investment and growth.

3 Raise the Estate Tax Threshold:

Further increase the exemption beyond the 2023 reform to \$5 million to prevent continued outmigration of wealth and investment, and to align Massachusetts with regional and national trends.

Conclusion

Massachusetts must act now to address outmigration, improve competitiveness and strengthen workforce development. Targeted tax reforms can help retain talent and investment. MassCPAs remains committed to working with the Healey-Driscoll Administration and the Legislature to advance policies that drive economic growth and long-term competitiveness. By taking bold action, policymakers can ensure Massachusetts remains a top destination for businesses and professionals.

Introduction

Competitiveness is a key concern for Massachusetts business leaders. How can we ensure our state remains attractive for residents and businesses? What steps can policymakers take to drive growth and innovation? These questions are at the forefront for business leaders across the Commonwealth, particularly as we navigate the uncertainties of the current economic climate.

In 2023, Massachusetts passed a **\$1 billion tax reform package**, reflecting MassCPAs' advocacy efforts.¹ Early that year, MassCPAs surveyed high-income taxpayer outmigration and tested solutions, using the results to support key policy changes in Governor Maura Healey's proposal. While we appreciate the progress made, more work is needed to address outmigration and economic challenges.

With that in mind, MassCPAs launched the **Public Policy and State Competitiveness Survey** for the third year, providing the Healey-Driscoll Administration and legislators with updated data to help retain Massachusetts residents, workers and employers. The findings from the 2023, 2024 and 2025 surveys are consistent and found that Massachusetts is facing a concerning trend: a significant number of high-income individuals and businesses are considering relocation or have already left the state. Additionally, business leaders face significant headwinds in implementing job growth strategies to support their organizations and the broader economy.

While these results may seem daunting, there is an opportunity for Massachusetts policy-makers to transform the tax code from a punitive system to one that attracts new residents, businesses and capital to the state, and that continues to make Massachusetts a Commonwealth that embraces competitiveness and innovation.

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Current State of Play

At the end of 2024, budget writers from the Legislature joined officials from the Healey-Driscoll Administration to hear from the Department of Revenue (DOR), the state Treasury, academics and economists as they began to prepare for fiscal year 2026 (FY26). One focus of the hearing was that the Massachusetts surtax on high-income households is currently exceeding expectations.

The surtax in Massachusetts applies to annual household incomes exceeding \$1 million, generating significant revenue for the state. In FY24, the state collected \$967 million more than expected, all that surplus came from surtax revenue. Without it, Massachusetts would have faced a \$463 million budget shortfall.² Surtax funds cannot be used to cover general budget gaps or discretionary spending. Instead, these funds are to be earmarked for specific investments in education and transportation only, meaning the state must find other solutions to address shortfalls in general operating expenses.

For FY25, the DOR estimates surtax collections between \$2.349 billion and \$2.492 billion, far surpassing the original \$1.3 billion projection. At the same time, non-surtax revenue collections were trailing benchmarks by \$372 million.³ This surge is attributed to higher-than-expected incomes among the state’s wealthiest residents, leading to increased tax liabilities under the surtax.

Despite the surtax’s strong performance, economic analysts warn of volatility in future

revenue collections, and MassCPAs agrees with them based on this report. Geoffrey Snyder, state commissioner of revenue, outlined major uncertainties, including potential changes to the federal State and Local Tax (SALT) deduction cap, geopolitical risks and Federal Reserve policy. If the SALT cap expires on December 31, 2025, Massachusetts could see a “materially negative impact on future income tax revenues” of approximately \$1 billion, primarily in FY26 and FY27.

Doug Howgate, president of the Massachusetts Taxpayers Foundation, projects \$2.6 billion in surtax revenue for fiscal 2026, alongside \$40.9 billion in non-surtax revenue—an increase of 3.1% over 2025 estimates. Similarly, Evan Horowitz, the executive director of the Center for State Policy Analysis at Tufts University, forecasts \$2.4 billion in surtax revenue and total tax collections of \$42.1 billion in FY26. However, he cautions that “while our forecast is relatively sanguine, we expect significant volatility over the next 18 months.”⁴

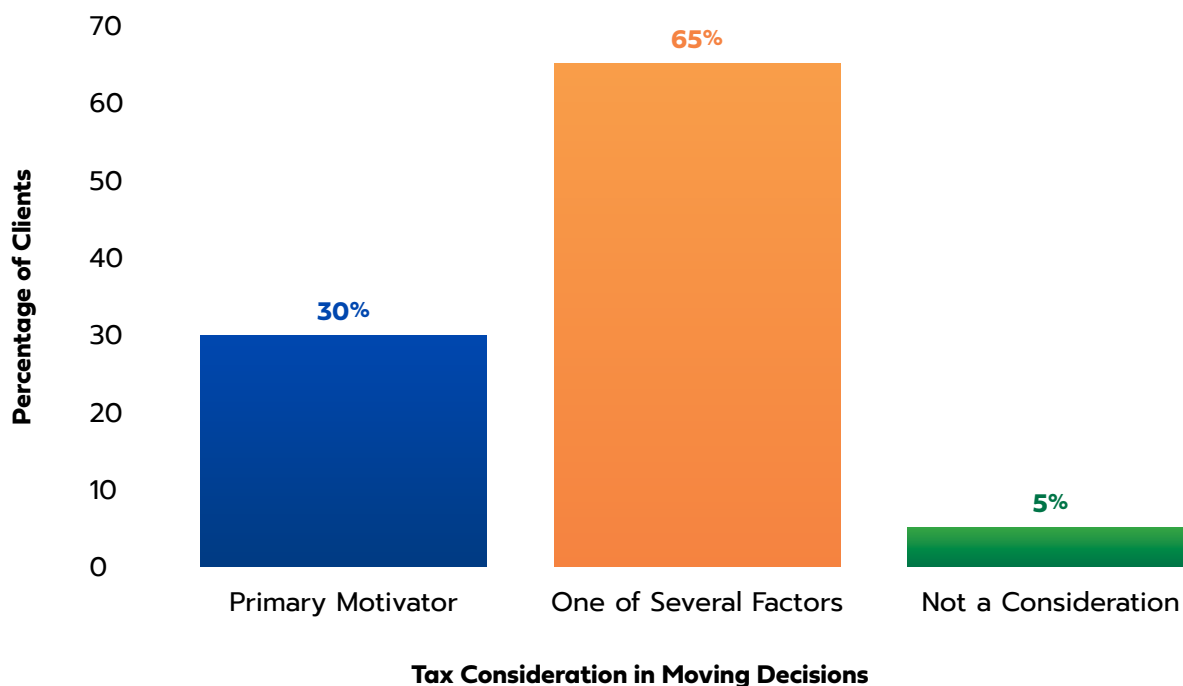
As Beacon Hill lawmakers prepare for future budgets and tackling legislation in the 2025–2026 legislative session, the challenge remains balancing spending growth with revenue trends. The surtax’s performance provides some stability right now, and the investments in transportation and education are valuable. However, with economic and federal policy uncertainties ahead, Massachusetts must tread carefully to ensure fiscal sustainability in the coming years.

High-Income Clients and Relocation Trends

At the beginning of 2025, MassCPAs surveyed in-state industry leaders as well as nearly 200 CPAs representing roughly 4,600 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 many are seriously considering changing their tax domicile or adjusting their growth plans due to the Commonwealth’s tax policies.

A notable trend is the growing relocation of high-income residents. In the past year, 70% of surveyed professionals had at least one client change their domicile—often more—while only 30% reported having no such clients or were unsure. The most cited reasons for relocation include the pursuit of lower taxes (47%), followed closely by a lower cost of living (17%).

Impact of Massachusetts’ Tax Policies on Moving Decisions



Massachusetts’ tax policies play a central role in these decisions. For 30% of clients, taxes were the primary motivator, while 65% said tax policy was one of several factors. Only 5% of MassCPAs members’ clients said taxes were not a consideration in their decision to move.

High-Income Clients and Relocation Trends (continued)



For the second year in a row, states like Florida, New Hampshire, Texas, and South Carolina are among the most popular destinations for these relocating clients. Florida’s lack of a state income tax and favorable weather make it a top choice, while New Hampshire offers no income tax on wages and is geographically convenient. Tax-friendly policies and lower costs in Texas and South Carolina also contribute to their appeal.

Notably, the majority of those surveyed responded on behalf of clients who are working age – meaning they are making the decision to relocate despite the complexity of doing so before their retirement years. Anecdotally, our members have shared that their clients are making the decision to relocate earlier because they want a well-established domicile ahead of major taxable life events – like retirement withdrawals, sale of a business or estate and gift transfers. Many fear, too, that Massachusetts will continue to pursue other punitive taxes like the surtax or lower the threshold to an amount below \$1 million.

Although Massachusetts’ overall population has grown—rising by nearly 70,000 in the past year, according to a UMass Donahue Institute study—this increase has been driven largely by international immigration.⁵ At the same time, long-term residents continue to leave the state, with domestic outmigration still a concern. This trend, coupled with the relocation of high-income earners, raises important questions about the Commonwealth’s ability to sustain economic growth and retain its tax base in the years ahead.

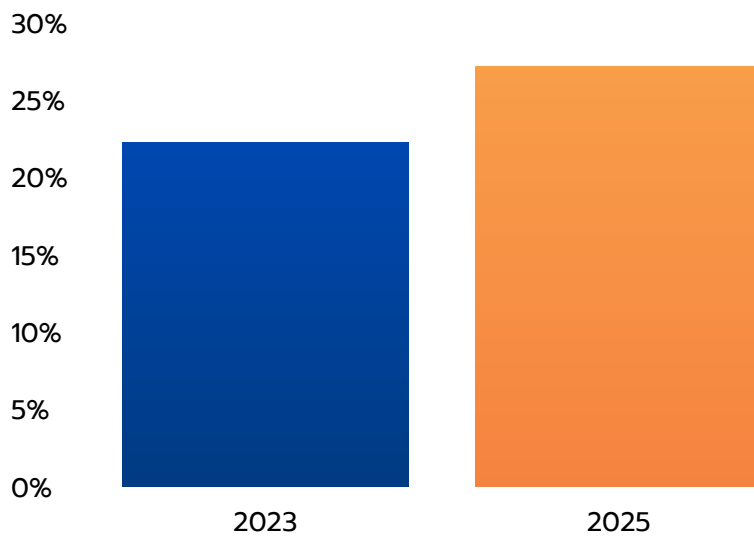
Population Trends & Economic Impact: Massachusetts’ population grew by nearly 70,000 last year, driven largely by international immigration. However, continued domestic outmigration—especially among long-term residents and high-income earners—raises concerns about the state’s economic growth and tax base sustainability.

Business Client Relocation and Growth Concerns



As seen in the chart below, currently, 27% of MassCPAs members' business clients are reconsidering their presence in Massachusetts, with a significant number either seriously considering leaving the state or shifting their growth elsewhere due to operational challenges. That number has risen from 22% in 2023. These trends reflect broader concerns about the business climate and economic competitiveness of the Commonwealth.

MassCPAs Business Clients Considering Relocation



Business Client Relocation and Growth Concerns



When looking for alternative locations, 22% said they prefer states with more favorable tax policies and economic conditions, with 19% saying that the cost of operating a business is too high in the Commonwealth and 14% indicate the cost of living in the state as a driving factor.

The survey of members' clients reveals that the majority of individuals leaving the state are still of working age, particularly those between 30 and 60 years old. In fact, 55.5% of clients fall within this range, indicating that the trend is not primarily driven by retirees. The percentage of clients under 40 is minimal, and only a small percent are in the 71–80 bracket. No clients over 81 years old were reported as leaving the state. These findings suggest that outmigration is largely being led by individuals in the midst of their careers rather than those of retirement age.

Florida and New Hampshire are states where businesses are running to and stand out due to their tax advantages and lifestyle benefits, while Texas, North Carolina and South Carolina are appealing for their economic growth and regulatory flexibility. Some businesses also consider Connecticut and Rhode Island, likely due to their proximity. In 2023, businesses noted they were considering Florida, Texas, New Hampshire, Tennessee and Nevada the most attractive tax environments. While the states have changed somewhat, it's worth noting the number of businesses looking to relocate is increasing.

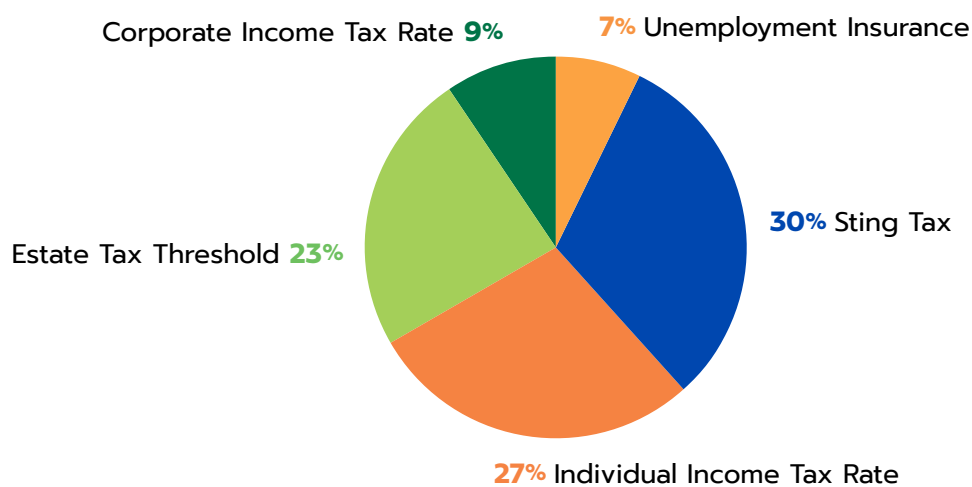
Business Migration Trends: Florida and New Hampshire stand out for their tax advantages and lifestyle benefits, while Texas, North Carolina, and South Carolina attract businesses with economic growth and regulatory flexibility.

Competitiveness and Barriers to Growth

Nearly half (49%) of survey participants indicated that their business clients view Massachusetts as becoming less competitive compared to other states, while only 6% believe the Commonwealth is significantly more competitive. This growing concern influences decisions related to investment, expansion and overall confidence in the state’s economic climate.

When assessing business competitiveness, respondents identified several key barriers to growth. The state’s sting tax was the most frequently cited concern (30%), followed by the individual income tax rate (27%) and the estate tax threshold (23%). Additionally, the corporate income tax rate (9%) and unemployment insurance taxes (7%) were noted as challenges that contribute to a less attractive business environment.

Barriers to Growth in Massachusetts



Addressing these issues is essential to strengthening Massachusetts’ economic position. Simplifying tax structures, revisiting corporate tax policies and reducing burdensome costs could enhance the state’s competitiveness and foster long-term business growth.

Workforce Strategies and Labor Challenges

Businesses in the Commonwealth are continuously adjusting their workforce strategies in response to evolving economic conditions statewide and federally. Many respondents (21%) have embraced remote work as part of a broader trend towards workplace flexibility, allowing employees greater autonomy while optimizing operational efficiency. Additionally, talent retention has become a key focus. Members responded that 42% of their clients have increased their focus on retention of talent as organizations seek to maintain a competitive edge in a tight labor market. Twenty-one percent of those surveyed are also turning to contractors and gig workers, reflecting a growing preference for flexible staffing models. However, economic uncertainty has led only 5% to implement hiring freezes or layoffs as they navigate financial pressures.

The availability of skilled labor has played a varying role in clients' decisions about staying in or leaving Massachusetts. Of the participants, 49% said their clients reported a minor influence, indicating that while labor availability is a consideration, it is not a primary factor in their relocation decisions. In contrast, participants reported 22% of clients cite it as a major influence, suggesting that workforce challenges are a significant driver for their potential departure from the state.

Economic Outlook

Survey results reflect a cautious economic sentiment among respondents. While 33% maintain a neutral or slightly optimistic perspective, 18% hold a pessimistic outlook due to concerns over inflation, interest rates, and market uncertainty.

Regarding state competitiveness, 49% of participants believe Massachusetts is falling behind compared to its peers, while only 23% see it as holding steady. High costs of living, regulatory burdens and tax policies are major concerns, contributing to the perception that the state is losing ground. Addressing these challenges through strategic reforms—such as improving affordability, streamlining regulations and fostering a more business-friendly environment—could help Massachusetts maintain and enhance its economic position.

MassCPAs' survey asked what could be changed in Massachusetts and what would benefit clients and improve the Massachusetts business environment. Some of those major key business concerns were reflected in the responses and are highlighted below:

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- ◆ **High-Income Relocation Trends:** Many believe the tax is driving businesses and top talent out of the state. A capital gains safe harbor for one-time gains (e.g., from business or home sales) has been suggested.
 - ◆ **Estate Tax and Business Continuity:** Raising the estate tax threshold or offering exemptions for family-owned businesses could help retain high-net-worth individuals.
 - ◆ **Property and Sales Taxes:** High local property taxes and sales tax burdens on startups remain key concerns. Some advocate for small business exemptions or alternative tax structures.
 - ◆ **Regulatory Burdens:** Excessive employment, environmental and nonprofit compliance regulations are seen as costly and complex. A targeted regulatory safe harbor for small businesses could ease the strain.
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While Massachusetts still has advantages, the data suggests a growing need for strategic reforms to ensure long-term economic competitiveness.

Policy Recommendations

To address these concerns and foster economic resilience, respondents identified key policy changes that could enhance business confidence and competitiveness:

Reform the Sting Tax

For years, MassCPAs has strongly advocated for eliminating the sting tax—an additional entity-level tax imposed on certain larger S-corporations. Originally enacted in the 1980s, the sting tax was designed to protect tax benefits for small businesses while ensuring a level playing field between large S-corporations and C-corporations. However, the income thresholds triggering the additional excise tax—\$6 million and \$9 million—have remained unchanged since its inception. As a result, an increasing number of small businesses now find themselves unfairly subject to this outdated tax. The recent addition of a 4% surtax has further compounded the issue, pushing many S-corporation shareholders into a tax burden that exceeds Massachusetts' corporate tax rate of 8%, directly contradicting the law's original intent.

This additional tax on S-corporations acts as a significant deterrent to business growth and investment in the Commonwealth. When combined with the surtax, Massachusetts' tax structure places the state at a competitive disadvantage compared to others with more business-friendly policies. To address this issue, MassCPAs worked with Senator Michael Moore to introduce S.2043, An Act Relative to the Taxation of Small Business in the Commonwealth, which seeks to reform the sting tax and provide much-needed relief to affected businesses. We strongly support this legislation as a critical step toward maintaining a fair and competitive tax environment in Massachusetts.

Policy Recommendations (continued)

Decouple from 163(j)

Massachusetts should decouple from Section 163(j) business interest expense limitation to support economic growth and maintain its competitive edge. By decoupling from this federal restriction, the Commonwealth can provide much-needed relief to businesses that have already invested in the state, ensuring they remain financially strong and well-positioned for future growth. Removing this limitation would allow Massachusetts-based companies to deduct more interest from borrowing, encouraging further infrastructure investments and strengthening the local economy. Additionally, Massachusetts would align itself with 21 other states that have chosen not to impose the full federal interest expense limitation, reinforcing its commitment to fostering a pro-business environment. MassCPAs supports legislation filed in the legislature, H.3155/S.2091, An Act Allowing for the Deduction of Business Interest, which would decouple Section 163(j) and align with this priority.

Raise the Estate Tax Threshold

After years of advocacy, the tax reform legislation signed into law in 2023 brought a much-needed increase in the estate tax exemption to \$2 million. While this represents meaningful progress, further improvements are necessary to enhance Massachusetts' competitiveness. Our findings indicate that increasing the exemption to \$5 million would align the Commonwealth with regional and national trends. Despite this reform, Massachusetts now ranks third lowest in the nation for estate tax exemptions. In contrast, neighboring states offer significantly higher thresholds: New York at \$6.9 million, Vermont at \$5 million and Connecticut aligning with the federal threshold of \$12.92 million. Meanwhile, New Jersey repealed its estate tax entirely in 2018. To prevent continued outmigration of wealth and investment, Massachusetts must remain proactive in modernizing its estate tax policies. Raising the exemption further and indexing it for inflation would make the state a more attractive place to live, retire and pass down generational wealth, ensuring long-term economic stability and competitiveness.

Conclusion

Massachusetts stands at a critical juncture in shaping its economic future. The findings from **Massachusetts' 2025 Public Policy and State Competitiveness Survey** highlight the urgent need for policy reforms to address outmigration, enhance business competitiveness and strengthen workforce development. While the state has made progress, data continues to show that high-income individuals and businesses are relocating, primarily due to tax policy and cost of living concerns.

In addition to state-level reforms, Massachusetts must also prepare for impending policy changes at the federal level. With key provisions of the Tax Cuts and Jobs Act (TCJA) set to expire and potential shifts in federal tax policy on the horizon, the Commonwealth must be ready to react in a way that minimizes the impact on taxpayers and businesses. Failure to do so could exacerbate an already delicate economic situation, further accelerating outmigration and making Massachusetts less competitive. By responding thoughtfully to these changes, the state can provide stability for residents and businesses, ensuring a more predictable and competitive economic environment.

To maintain its position as a thriving economic hub, Massachusetts must modernize its tax structure, create a more business-friendly environment and strengthen workforce development initiatives. Key policy changes, including reforming the sting tax, decoupling from Section 163(j) and further raising the estate tax threshold, would make Massachusetts more competitive while encouraging businesses and individuals to remain in the state.

By taking decisive action on these issues, Massachusetts policymakers have an opportunity to reverse the trend of outmigration, foster economic resilience and solidify the state's reputation as a premier place to live and do business. We are grateful to the Legislature, Governor Healey and her administration for their leadership and commitment to strengthening the Commonwealth's economy, and we look forward to continuing our work together to advance policies that promote growth, opportunity and long-term competitiveness in Massachusetts.

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