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Inching toward tax cuts

I have written about tax cuts; Governor Cellucci has included tax cuts in his budget; Senate President Birmingham has proposed tax cuts. Now it is the turn of the House of Representatives. Last week Speaker Finneran and Representative Peter Larkin, chairman of the taxation committee, announced yet another tax cut proposal.

Events tend to move quickly in our legislature, and the house tax package is probably passed and sent to the senate by the Longmeadow News publication date, but at my deadline it has not yet been addressed. This is how it stands at the beginning of the week.

Here are the highlights of the house bill:

An immediate reduction in the income tax rate to 5.7 percent effective January 1999.

An increase in the long term capital gains tax to 5.7 percent, exempting $500,000 capital gains (on a joint return) for sale of a primary residence.

Increasing the dependent exemption from $1,000 to $1,500. Increasing the deduction for dependents under 12 from $1,200 to 2,400 and expanding it to age 18.

I was tremendously excited to read these provisions in the bill. It does not completely restore the 5 percent tax rate like the governor's bill, but it makes a good start. It equalizes the tax rate on investment and wage income. It helps families by liberalizing the tax deductions for children and some dependent relatives.

One provision, however, is a regressive step for the legislature to consider. I debated against that provision in the taxation committee and will continue my fight to remove that part of the tax bill. Capital gains taxes are summarily increased, with the increase dating back to January of this year.

At first glance that may not seem to be important. After all, taxpayers will see a substantial reduction in income tax. Investment income taxes will be cut in half. Why worry about capital gains? We should all be concerned because of the reversal of policy that the change sends to entrepreneurs, businesses and investors who are considering economic ventures in Massachusetts.

During my time in the legislature the state has taken steps to provide stable, reliable policies that encourage economic activity in our state. One such measure was the enactment two years ago of a law to phase out our capital gains tax. This year the tax drops to 4 percent. If we reverse that action, raising the tax retroactively on gains that may have been registered this year, we send the message that Taxachusetts is returning.

There are positive and negative aspects to each bill, and the legislature is now challenged to provide the best combination of benefits.

The governor, the senate and the house have all painted their pictures of tax cuts for the people of Massachusetts. In this year of revenue surplus and a strong economy the pictures are likely to come together soon. Keep watching as the pictures are adjusted, blended and refined to present a finished landscape.