A HAIR TRIGGER FOR AUTOMATIC TAX REFUNDS

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EXECUTIVE SUMMARY

State tax revenues bounce around a lot. When the economy is strong, receipts can spike; in a downturn, they can collapse.

Massachusetts has a variety of strategies to deal with these fluctuations, including a provision that automatically sends money back to taxpayers when collections surge.

This automatic-refund rule, named Chapter 62F after its place in the state's legal code, was passed via a 1986 ballot initiative. But in its 40-year history, it has only been triggered twice, once at the outset and then again during the Covid-era bull market.

A proposed 2026 ballot question would adjust the rules for 62F, greatly increasing the regularity of automatic tax refunds but also adding a new source of instability to the state tax system.

We at the Center for State Policy Analysis are committed to helping voters understand the likely impact of this and all state ballot questions.

In this report, we show how the proposed adjustments to 62F would have worked in the past, how they're likely to operate in future, the risky staccato effect of the new rules, and their potential interaction with another ballot question that would cut the income tax.

We find that:

- This ballot question would dramatically increase the frequency and scale of 62F refunds, triggering 3–5 times as many refunds and returning 5–15 times as much money to taxpayers.

- One reason refunds have been rare under current law is because the state has cut its tax rates over time, effectively swapping policy-driven refunds for automatic ones.

- By increasing the size and frequency of 62F refunds, this ballot question reduces revenue as much as an income tax cut of roughly 0.4 percentage points. This downward pressure on revenues stems from the asymmetry of 62F, which provides refunds in good times but doesn't require additional payments in bad times.

- The ballot question has a timing problem that creates a risky feedback loop in the tax system, encouraging refunds every other year and triggering 62F in periods of weak revenue growth.

- Under the ballot question, millionaires tax revenue would newly count towards 62F, but this would have a negligible effect on actual refunds.

In the sections that follow, we discuss each of these findings in greater depth, starting with

background on the current setup of 62F and the changes proposed by the ballot question.

UNDERSTANDING 62F AND THE PROPOSED CHANGES

The motivating idea behind 62F is to return money to taxpayers when revenue growth is unusually high. The trick, however, is figuring out how to operationalize this idea. What counts as unusually high? How much gets returned? And to whom?

The current approach has this basic logic:

1. The state should set an annual revenue cap and refund any tax receipts above that cap.

2. Year by year, total state tax revenue should grow about as fast as people's wages and salaries.

3. Therefore, the right way to set this year's cap is by *looking at last year's cap* — and adding the adjustment for wage and salary growth.

4. Refunds are returned in a progressive way, by making equal payments to all tax filers (this is a relatively new provision, introduced in 2023)

There are many ways to question this setup: maybe wage growth isn't the right adjustment; or maybe it is, but we're measuring it wrong; or maybe it's unfair that the cap is triggered by an excess of *total tax revenue* — including payments from corporations — while refunds flow exclusively to households.

But the ballot question is primarily focused on pillar number 3, the fact that this year's cap depends on last year's cap. Instead, it would

set the revenue cap *based on the amount of revenue actually collected last year*.

This tweak turns out to be extremely consequential. Consider a recent example:

- In 2020, the officially calculated 62F cap was $35.5b. But the state only collected $30.2b.
- Under current law, the cap for 2021 was therefore set at $36.8b, which is $35.5b multiplied by the growth in wages and salaries.
- But under the ballot question, the cap for 2021 would have been based on actual collections, meaning $30.2b times wage growth, or $31.2b.
- That's a $5 billion difference between the two caps.
- When the books closed on 2021, the state had collected $34.6b — too little to provide refunds under the current rules but enough to trigger over $3 billion in refunds under the new rules, nearly 10% of total tax revenues.

This is not the only change included in this ballot question. The current 62F formula exempts revenue from the 2022 millionaires tax, whereas the ballot question would count those dollars. But the impact here would be quite small. Yes, counting millionaires tax collections boosts revenues, but it also increases the 62F caps — and in a nearly identical way — since the caps are based on prior-year revenue, which would now include the millionaires tax.

AMENDING 62F WOULD CHANGE TAX HISTORY

There are two ways to assess the impact of this proposed ballot question. One is to see how it would have altered past revenue col-

lections; another is to simulate its likely impact on future revenues. Both approaches show similar impacts.

The past

Under current rules, 62F is rarely triggered — just twice since 1986. The chief reason is that nothing in the law anchors the cap to actual tax collections. Over time, the two can diverge, so that even when collections spike they rarely reach a level that triggers refunds.

FIGURE 1

**Revenues vs. 62F cap, current law**
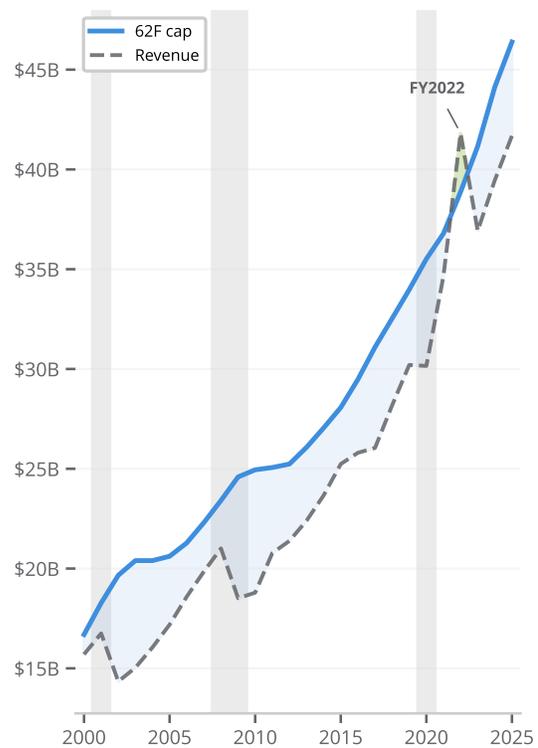
Source: Massachusetts Auditor

Under the proposed ballot question, this kind of sustained divergence is impossible, because the cap adjusts each year to align with actual revenue. 62F refunds become vastly more common.

In this alternate history, 62F would have been triggered 22 times over the last 39 years, providing a total of over $30b in refunds to taxpayers — compared to the $3b in cumulative refunds under current law.

Revenues vs. 62F cap, ballot question
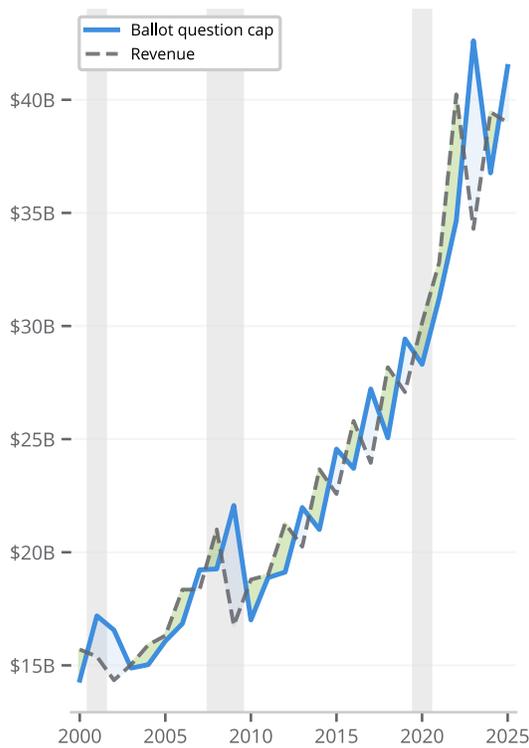
Source: Massachusetts Auditor

Automatic refunds vs. state tax cuts

Before we turn to the future, it's important to know why revenue has diverged from the 62F cap in recent decades. If it's a historical accident, we shouldn't necessarily expect it to repeat in future. But if it's structural, we should.

The answer appears to include elements of both. Some divergence is hard to avoid, given that revenue can fall dramatically when reces-

sions hit while the rules of 62F prevent the cap from ever going down.

But there's also a political dynamic at work, where every tax cut creates breathing room below the cap. And in the four decades since 62F took effect, overall tax rates have indeed gone down. Whereas state tax collections approached 7 percent of people's incomes in the 1990s, by the 2010s, that had fallen to 6 percent. And the key thing for 62F is that while these tax cuts reduced revenue collections, they had no impact on the cap. Hence the divergence.

So the dearth of 62F activity over the last 40 years isn't necessarily a sign that the rule is badly designed or failing. Rather, it shows that tax relief was happening through other channels, reducing tax bills and making 62F largely moot.

The future

Figuring out exactly how this ballot question would affect future 62F refunds is trickier than surveying the past, because it requires knowledge about future revenue collections, future income growth, and future stock market performance, among other things.

But one approach to problems of this sort is to run thousands of simulations, each incorporating a reasonable but different set of assumptions about the future, to see if there are clear and stable patterns that speak to likely impact. And in this case there are.

First, consider what happens under current 62F rules. In our simulations, refunds will remain rare, though perhaps slightly more common than in previous decades. Over the next twenty years, we expect to see roughly 2–4 refunds triggered by 62F.

Unless the ballot question passes, in which case the situation changes dramatically. Then we expect 10–11 refunds over the next two decades, channeling 5–15 times as much money to taxpayers.

RISKY FEEDBACK LOOP

There's a complicated but consequential problem with the ballot question, which may need some special attention from the legislature.

Look back at the choppiness of Figure 2, which shows the staccato way that 62F would be triggered under the ballot question. This is the visual sign of a weird feedback loop in the proposed new rules, and it risks introducing some dangerous instability into the state tax system.

To understand what's going on, let's revisit our earlier example.

In FY 2021, the state collected $34.6b, which was $3.4b above the cap defined by the ballot question. The next step is to send that $3.4b back to taxpayers — but not in 2021. You need time to close out the year, run the calculations, and send the checks. These refunds won't hit the books until FY 2022.

So what? Well, the refunds are technically tax payments, which means they count against actual revenue for 2022, effectively reducing 2022 collections by $3.4b. Two things follow from this adjustment:

1. It'll be harder to trigger 62F refunds in 2022, because regular tax collections won't just have to exceed the cap; they'll have to exceed it by more than $3.4b. Otherwise, the refunds will push us back below the cap.

2. The cap for 2023 will be weirdly low, because it's based on a revenue figure for 2022 that includes $3.4b in refunds. After a year when we're unlikely to trigger 62F, we get a year when we're extremely likely to trigger it.

And from there, the cycle continues. Likely refunds in 2023 get distributed in 2024, reducing the odds of a 2024 trigger but creating an artificially low cap for 2025. And so on.

Under ballot question, refunds largely depend on timing

Odds of a refund...	%
after a refund year	24%
after a non-refund year	83%

Source: cSPA simulations

Fortunately, this issue isn't difficult to fix, although it would require legislative action. The cleanest approach is to exclude refunds from the 62F calculation, setting the cap based on an adjusted measure of prior year revenue that explicitly leaves out 62F tax payments. That would maintain the full force of the ballot question without the jumpy mechanics.

CONSIDERING OTHER TRADE-OFFS

The fact that 62F has only returned money to taxpayers twice in 40 years — despite many up and down revenue collections — does at least raise questions about the current setup. Whether that means voters should support the ballot initiative, however, is a different issue.

On the one hand:

- It clearly provides a more vigorous check on revenue collection, regularly returning money to taxpayers when revenues are strong (also when they're not particularly strong).
- It would eliminate drift over time, ensuring that the 62F cap stays pinned to actual revenue.

On the other hand:

- It's likely to **trigger at inappropriate and inopportune times**. During recessions, for instance, it's common for revenue to collapse in one year and rebound the next. But under the ballot proposal, that bounce-back in revenue would be tightly constrained, or perhaps impossible. Not only would the cap reset to the collapsed revenue level of the worst recession year, but the multi-year formula the state uses for wage and salary growth would be weighed down by that same recessionary anvil, making it hard for the state to rebuild.
- This problem of inopportune timing is **exacerbated by the weird feedback effects** discussed above. Instead of being triggered by strong revenue collections, 62F refunds would largely depend on when the last round of refunds took place.
- Functionally, the new rules operate like a **taxpayer dividend or a small basic income**, only with more complex mechanics and without the consistency or deliberate timing you'd want for maximal impact.
- It sets up **an "immortal snail" dynamic**, where the state can never get ahead of the 62F trigger. Under current law, deliberate tax cuts create space below the 62F cap, which actually encourages targeted tax policy. But with the ballot question in place,

the legislature could slash state taxes — even commit to making us the lowest-tax state in the country — and the caps would just ratchet down. Perversely, these stricter rules for automatic refunds could thus discourage thoughtful tax policy, pressing the state to simply raise and spend as much money as the cap allows.

INTERACTION BETWEEN 62F AND AN INCOME TAX CUT

The fact that tax cuts would provide no relief from 62F if the ballot question passes has a particular pertinence right now because of the separate initiative aiming to cut the state income tax from 5 percent to 4 percent.

With 62F in its current form, an income tax cut of this size would dramatically increase the gap between actual revenue collections and the 62F limit, making it extremely unlikely that the state would hit the cap in coming years.

But that changes if both questions pass. Then, the cap will ratchet down to match actual revenues under the 4 percent income tax. Our simulations suggest refunds in roughly 10 of the next 20 years, with a similar risk of feedback loops and whipsawing 2-year dynamics.

The net effect is to make the proposed income tax cut even sharper than anticipated. Although the statutory rate will be 4 percent, regular refunds will reduce state revenue roughly as much as a rate cut to around 3.65 percent.

CONCLUSION

The state has an existing law, called 62F, that is designed to return money to taxpayers when tax revenues grow faster than wages

and salaries. But only twice in the last 40 years have taxpayers received 62F refunds. A proposed ballot question would restructure the law to better align the refund trigger with actual tax revenues.

A yes vote on this ballot question would substantially increase both the frequency and size of taxpayer refunds. The net effect on state revenue is similar to cutting the income tax by roughly 0.4 percentage points, and the approach introduces an unstable feedback loop into the state revenue system.

A no vote would maintain the current law and let legislators — rather than automatic triggers — determine whether to cut taxes and how best to distribute money from any cuts.

In the coming months, cSPA will publish additional research on the proposed ballot questions, including comprehensive voter guides.

METHODOLOGICAL NOTES

Data for historical tax revenues and 62F caps comes from the Massachusetts State Auditor's annual 62F reports. Millionaires tax revenue is from the Department of Revenue.

To model historical collections, we apply the formula in the proposed ballot question to the full historical series.

Future projections draw 10,000 twenty-year paths from the historical record, randomly selecting a past year and using that year's revenue growth, wage adjustment, and stock market performance. The current and proposed rules are evaluated against the same random draws, so all differences reflect the change in formula alone.

To calculate the equivalent income tax cuts, we compute the exact income tax cut required to match the total revenue returned in each simulation and then take the median across all runs. The share of total revenue attributable to the income tax is set at its 15-year, pre-Covid average.

Assessing how the 62F change would interact with the proposed income tax cut requires revenue estimates from a separate cSPA analysis of the income tax cut ballot question.

Anyone interested in a fuller discussion of our methodology and data should reach out directly to cspa@tufts.edu.

Credit to the team at the Massachusetts Taxpayers Foundation for identifying the feedback loop created by distributing refunds after the end of the fiscal year.

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