KEY FINDINGS

- In recent years, Massachusetts has become increasingly reliant on capital gains. In 2006, Massachusetts ranked 3rd in the nation in the relative importance of capital gains, up from 7th place in 1999. The overall importance of capital gains in Massachusetts is 47 percent greater than the national average.

- From 2002 to 2006, capital gains tax revenues accounted for 54 percent of the state's growth in tax revenues. The state relies on capital gains receipts to fund ongoing programs including new expenditures. This year's budget relied on capital gains to fund approximately $1.5 billion of state programs.

- At the same time the state has become more dependent on capital gains tax revenues, the state's rainy day reserve is almost $400 million lower today than it was in 2002, after adjusting for inflation. The reserve's share of the budget has declined from about 10 percent to 6 percent.

- Capital gains — and capital gains taxes — are volatile and tied to a large degree to the boom and bust cycles of the stock market. In addition, unlike other major sources of income, capital gains are by their nature a series of one-time events.

- The vast majority of capital gains taxes are paid by a very small percentage of taxpayers. In 2006, 9,521 Massachusetts taxpayers — less than 0.4 percent of the state's 2.7 million filers — paid nearly two-thirds of all capital gains taxes. These taxpayers all had incomes of $1 million or more. The Commonwealth's state budget depends on the choices of a handful of taxpayers about when and how they will realize their gains.

- Capital gains have a ripple effect on a state's economy, especially in Massachusetts because of the high concentration of financial services. The success of these companies is linked to the same activities that generate capital gains. For instance, in 2002, the decline in bonuses led to a drop of $300 million in income taxes, which came on top of the $1 billion drop in capital gains revenues.