

News Release

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For Immediate Release

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MTF Forecast: Weakening Jobs Picture Slows Revenue Growth in Fiscal 2012 and 2013

Fiscal 2013 tax revenues will grow by \$822 million, or 3.9 percent, to \$22 billion, less than half the rate of expansion in fiscal 2011, according to a new forecast released today by the Massachusetts Taxpayers Foundation.

The Foundation projects tax collections of \$21.2 billion for fiscal 2012, \$160 million above the current consensus forecast and approximately \$660 million, or 3.2 percent, greater than the \$20.5 billion in state taxes generated in fiscal 2011.

MTF President Michael J. Widmer presented the Foundation's economic and revenue forecast to members of the House and Senate Ways and Means Committees and the Secretary of Administration and Finance at their annual consensus revenue hearing at the State House today.

"The small growth in tax revenues will put great strains on the fiscal 2013 budget with increases in nondiscretionary spending outpacing the additional revenues available," Widmer said.

The state's tepid revenue outlook stems from a sluggish forecast for the national economy and a weakening employment picture for both the nation and Massachusetts. The state has lost approximately 5,000 jobs since July, and the Foundation projects there will be minimal job growth through 2013. The combination of 30,000 net new jobs and a \$500 million surge in capital gains collections drove a 10.6 percent increase in tax revenues in fiscal 2011.

Table 1 – State Tax Revenues, 2008 – 2013
(\$ millions)

Summary	Baseline Revenues	Sales Tax Increase	Income Tax Rate Cut	Total Taxes	% Change over Previous Year
2008 Actual	20,888			20,888	
2009 Actual	18,259			18,259	-12.6%
2010 Actual	17,654	890		18,544	1.6%
2011 Actual	19,467	1,040		20,507	10.6%
2012 MTF Forecast	20,182	1,040	-54	21,168	3.2%
2013 MTF Forecast	21,064	1,040	-114	21,990	3.9%

According to the Foundation's forecast, three quarters of the state's 2013 revenue growth will come from personal income taxes, which are projected to rise by 6.1 percent, or \$728 million, based on an anticipated 4.7 percent expansion in wages and salaries. Those figures include capital gains collections, which are expected to increase by 12 percent, or \$115 million.

The forecast anticipates the state's income tax rate will drop from 5.3 percent to 5.25 percent on January 1, 2012, reducing revenues by \$54 million in fiscal 2012 and \$114 million in fiscal 2013.

Sales tax revenues are projected to grow by \$35 million, or less than 1 percent, to \$5.1 billion in fiscal 2013 due to ongoing weakness in employment and depressed consumer confidence. Sales tax receipts are expected to grow by 3 percent in fiscal 2012, primarily driven by a 5 percent increase in meals and motor vehicle taxes.

Table 2 – State Tax Revenues by Category
(\$ millions)

	FY 10	FY 11	FY 12 Forecast	\$ Change 12 vs 11	% Change 12 vs 11	FY 13 Forecast	\$ Change 13 vs 12	% Change 13 vs 12
Income - Non-Capital Gains	9,613	10,576	11,086	510	4.8%	11,700	614	5.5%
Capital Gains	497	1,000	956	-44	-4.4%	1,071	115	12.0%
Sales	4,612	4,905	5,050	145	3.0%	5,085	35	0.7%
Corporate and Business	2,119	2,222	2,219	-3	-0.1%	2,240	21	0.9%
All Other	1,697	1,804	1,857	53	2.9%	1,894	37	2.0%
Total	18,538	20,507	21,168	661	3.2%	21,990	822	3.9%

Employment

The Foundation forecasts Massachusetts will add only 9,000 jobs in fiscal 2012 with a contraction of 5,000 jobs in 2013 due to continued weakness in the U.S. and global economies. The jobs outlook will likely worsen if a projected \$2.1 trillion cut in federal defense and discretionary domestic spending takes effect over the next decade. Since Massachusetts receives more than \$20 billion in federal grants and \$18 billion in defense procurement annually,¹ the state stands to lose thousands, if not tens of thousands, of jobs as a result of these cuts.

While Massachusetts has fared better than most of its peers since the recent downturn, it is important to note that the Commonwealth's employment base is still down 4.1 percent, or 140,000 jobs, since January 2001, ranking it among the bottom 10 states in job growth over the past decade.

Personal Income

The Foundation projects personal income growth to slow from 5 percent in fiscal 2011 to 4.7 percent in fiscal 2012 to 4.4 percent in 2013. This three-year average of 4.5 percent is significantly below the 6.3 percent annual average from 2005 to 2008.

Capital Gains

Fiscal 2013's capital gains tax revenues are forecasted to reach \$1.07 billion, slightly above the \$1 billion cap that can be allocated to the state's annual operating budget and \$115 million more than fiscal 2012 but less than half of the state's most recent high of \$2.3 billion in 2008.

¹ Consolidated Federal Funds Report for Fiscal 2009, US Census Bureau, October 2010.

Sales Taxes

The anemic sales tax growth projected for fiscal 2012 and 2013 reflects a decade-long trend in which sales taxes in Massachusetts have grown at less than the rate of inflation.

Corporate and Business Taxes

MTF projects \$2.24 billion in corporate and business taxes in 2013, a tiny \$21 million increase over fiscal 2012. Corporate taxes have grown slightly from \$2.1 billion in 2009.

National and Global Risks

The Foundation's forecast assumes that Congress will pass an extension of the 2 percent payroll tax cut scheduled to expire December 31, 2011, as well as an extension of unemployment insurance benefits in 2012. Failure to extend these two stimulus initiatives would reduce gross domestic product by 1 percent or more, causing a potentially significant reduction in the Foundation's revenue forecasts for fiscal 2012 and 2013.

While it is growing increasingly likely that Europe will slip into a recession in 2012, the impact on the U.S. economy would be modest, although there will be some effect on Massachusetts exports. However, an unresolved financial crisis with one or more nations defaulting on their debt could lead to a global recession.

The Massachusetts Taxpayers Foundation is an independent, nonprofit organization that conducts research on state and local taxes, government spending, and the economy. Founded in 1932, the Foundation has won a series of prestigious national awards over the last decade for its work on business costs, capital spending, state finances, MBTA restructuring, government reform, and health care.

MASSACHUSETTS TAXPAYERS FOUNDATION
FISCAL YEAR FORECAST SUMMARY

MOODY'S ANALYTICS NATIONAL FORECAST

			<<< History		Forecast >>>	
December 2011	2008	2009	2010	2011	2012	2013
Personal Income (billions of 2000 \$)	10,026	9,768	9,605	9,951	10,326	10,574
% change	3.4	-2.6	-1.7	3.6	3.8	2.4
Employment (millions)	137.7	133.9	129.7	130.4	131.4	131.7
% change	0.6	-2.8	-3.1	0.6	0.7	0.2
Unemployment Rate	4.9	7.6	9.7	9.3	9.2	9.6
CPI (% change)	3.7	1.0	-0.8	2.0	2.9	2.0
PPI (% change)	9.0	-2.2	-7.9	6.2	5.3	3.2
Federal Discount Rate	4.3	1.2	0.5	0.8	0.9	0.9
Prime Commercial Rate	6.7	3.9	3.3	3.3	3.1	3.1
Standard & Poor's 500 Index (% change*)	12.7	-17.3	-36.5	20.3	3.0	2.4

			<<< History		Forecast >>>	
MTF MASS. ECONOMIC FORECAST	2008	2009	2010	2011	2012	2013
Personal Income (billions of current \$)	331.0	330.0	328.6	344.9	361.0	376.8
% change	5.3	-0.3	-0.4	5.0	4.7	4.4
Personal Income (billions of 2000 \$)	270.4	264.5	261.5	269.9	278.5	284.0
% change	2.9	-2.2	-1.1	3.2	3.2	2.0
Total Employment (000s)	3,294	3,239	3,174	3,203	3,212	3,207
% change	0.9	-1.7	-2.0	0.9	0.3	-0.2
Unemployment Rate	4.6	6.8	8.7	8.1	8.0	8.4

			<<< History		Forecast >>>	
MTF MASS. TAX FORECAST	2008	2009	2010	2011	2012	2013
Income Tax (millions \$)**	12,498	10,593	10,128	11,576	12,042	12,770
% change	9.7	-15.2	-4.4	14.3	4.0	6.1
Sales Tax	4,088	3,870	4,626	4,909	5,050	5,085
% change	0.5	-5.3	19.5	6.1	2.9	0.7
Corporations Tax	2,547	2,100	2,120	2,222	2,219	2,240
% change	3.0	-17.6	1.0	4.8	-0.1	1.0
TOTAL TAXES***	20,908	18,272	18,576	20,507	21,168	21,990
% change	6.0	-12.6	1.7	10.4	3.2	3.9
TOTAL TAXES FOR BUDGET****	17,986	15,409	15,841	17,664	18,212	18,970
% change	5.2	-14.3	2.8	11.5	3.1	4.2

* Percent change in index for prior calendar year.

** Assumes MA income tax rate declines from 5.3% to 5.25% beginning January 1, 2012.

*** Includes collections from other tax sources not detailed above.

**** Tax revenues available for appropriation in the budget exclude a portion of sales tax receipts dedicated to the MBTA, school building construction, pension funding, and workforce training, and net revenues in excess of permissible tax revenues.