



Massachusetts Taxpayers Foundation

MTF

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June 21, 2019

Sent via e-mail

The Honorable Michael Rodrigues, Chair
Senate Ways and Means Committee
State House, Room 212
Boston, MA 02133

The Honorable Aaron Michlewitz, Chair
House Ways and Means Committee
State House, Room 243
Boston, MA 02133

The Honorable Cindy Friedman
Senate Ways and Means Committee
State House, Room 212
Boston, MA 02133

The Honorable Denise Garlick
House Ways and Means Committee
State House, Room 243
Boston, MA 02133

The Honorable Viriato deMacedo
Senate Ways and Means Committee
State House, Room 212
Boston, MA 02133

The Honorable Todd Smola
House Ways and Means Committee
State House, Room 243
Boston, MA 02133

Dear FY20 Budget Conference Committee Members,

The mission of the Massachusetts Taxpayers Foundation is to provide accurate, unbiased research with balanced, thoughtful recommendations that strengthen the state's finances and economy in order to foster the long-term well-being of the Commonwealth. Over the course of nearly ninety years, MTF has played an instrumental role in achieving major reforms and promoting sound public policy in state government.

In furtherance of this mission, I write today regarding possible revisions to the tax revenue estimate for fiscal 2020.



As you know, tax revenue collections through May 2019 exceeded expectations by \$952 million. If this strength continues through June, budgeted tax revenue will grow nearly seven percent over the strong fiscal 2018 collections.

Like last year, it is reasonable to re-evaluate the tax assumptions that underpin the budget development process, which increased the estimate of tax revenue available for the budget by approximately \$341 million.¹ Unlike last year when the assumption changes mostly supported a higher revenue estimate, this year the changes tend to be mostly offsetting.

MTF recommends several revisions that would add about \$113 million to available tax revenue in fiscal 2020. These include:

- Revise the baseline tax growth assumption (before the inclusion of tax law changes) to 2.7 percent from 3.8 percent as implied by the consensus tax revenue agreement and re-allocate to major tax revenue categories as illustrated in the attachments (Attachment A and Attachment B).²
- Revise the assumed value of the repatriation of corporate dividends from \$65 million to approximately \$240 million, which reduces the amount of tax revenue available in fiscal 2020.
- Revise the assumed value of tax revenue associated with the sale of recreational marijuana from \$132.5 million to \$66 million.
- Revise the assumed amount of capital gains tax revenue to \$1.716 billion from \$1.481 billion, requiring a revised Stabilization Fund transfer of \$455 million.
- Revise the assumption tax-related settlements and judgments exceeding \$10 million each are credited to budgeted revenue, reducing tax revenue available to budget by \$100 million compared to the House and Senate proposals.

These revisions reflect MTF's assessment that federal tax law changes are largely non-recurring in nature and strength in financial markets produces highly volatile capital gains tax revenue that is difficult to predict or rely on to balance the budget.

¹ [FY2019 Budget: Initial Analysis of the Conference Report](#) dated July 18, 2018

² For additional analysis on the Consensus Tax Revenue agreement, see [Further Analysis of Governor Baker's FY2020 Budget](#), Appendix I



Please note that unlike MTF's Consensus Tax Revenue analysis from December, the suggested revisions do not reflect a re-forecast using MTF's econometric model. These revisions are based only on adjustments to the assumptions included in the consensus tax revenue agreement of December 31, 2018.

We recognize how challenging it is to produce a balanced budget. On behalf of our members and all Massachusetts residents, thank you for your service and dedication.

Please do not hesitate to contact us if we can be of further assistance.

Sincerely,



Eileen McAnney
President, Massachusetts Taxpayers Foundation

Attachments:

Attachment A: Revised Fiscal 2020 Tax Revenue Estimate

Attachment B: Commonwealth Tax Revenue Estimates

Attachment C: FY20 Tax Revenue Estimate Ranges

CC:

Michael J. Heffernan, Secretary for Administration and Finance

Catharine Hornby, Assistant Secretary for Budget

David Bunker, House Committee on Ways and Means Budget Director

Chris Marino, Senate Committee on Ways and Means Budget Director



Revised Fiscal 2020 Tax Revenue Estimate					
Estimated Tax Growth	FY19	FY20	\$ Change	% Change	Notes
<u>Current FY19 Estimate vs FY20 CTR</u>	29,544.0	29,299.0	-245.0	-0.8%	
Back out Marijuana in FY19	-21.0	0.0	21.0	-100.0%	Approximate full-year estimate
Apples-to-Apples FY19 vs FY20	29,523.1	29,299.0	-224.1	-0.8%	
<u>Baseline Growth Assumption</u>				2.7%	
<u>Revised FY20 with Baseline Growth</u>	29,523.1	30,320.2	797.1	2.7%	
Tax Law Changes	0.0	-171.1	-171.1	0.0%	Part B (5.1 to 5.05) and EITC, and other
Assume Part B from 5.05% to 5.0%	0.0	-88.3	-88.3	0.0%	Assumes Part B will trigger in Jan 2020
Original Value of Repatriation	0.0	-65.0	-65.0	0.0%	
Revision to Value of Repatriation	0.0	-175.4	-175.4	0.0%	Revise to \$240.4 M
Original Recreational Marijuana	0.0	132.5	132.5	0.0%	
Revision to Recreational Marijuana	0.0	-66.2	-66.2	0.0%	Reduce total value to \$66.2 M
Add Room Occupancy Tax Reform	0.0	27.5	27.5	0.0%	
Life Science Tax Credit	0.0	5.0	5.0	0.0%	
Add Sales Tax Marketplace	0.0	42.8	42.8	0.0%	
<u>Revised FY20 with Adjustments</u>	29,523.1	29,961.9	438.9	1.5%	
Add back Marijuana in FY19	21.0	0.0	-21.0	-100.0%	
<u>FY20 Tax Estimate with Revisions</u>	29,544.0	29,961.9	417.9	1.4%	

Figures in \$ millions.

FY19 current estimate is FY19 actuals through May plus benchmarks for June

CTR baseline growth was 3.8%

Commonwealth Tax Revenue Estimates	2018		2019		vs FY18		vs FY19BM		2020		vs FY19EST		vs FY20CTR+	
Tax Revenue Summary	Actual	Benchmark	Estimate	\$ Change	% Change	\$ Change	% Change	CTR+	Proposed	\$ Change	% Change	\$ Change	% Change	
Income														
<i>Withholding</i>	12,731.6	13,228.7	13,194.2	462.6	3.6%	-34.5	-0.3%	13,690.0	13,701.3	507.1	3.8%	11.3	0.1%	
<i>Non-Withheld</i>	3,507.9	3,503.7	3,814.7	306.8	8.7%	311.0	8.9%	3,450.0	3,559.0	-255.7	-6.7%	109.0	3.2%	
<i>Subtotal, Income</i>	<u>16,239.6</u>	<u>16,732.4</u>	<u>17,008.9</u>	<u>769.3</u>	<u>4.7%</u>	<u>276.5</u>	<u>1.7%</u>	<u>17,140.0</u>	<u>17,260.3</u>	<u>251.4</u>	<u>1.5%</u>	<u>120.3</u>	<u>0.7%</u>	
Sales & Use														
<i>Regular</i>	4,433.1	4,635.0	4,690.8	257.7	5.8%	55.8	1.2%	4,928.4	4,918.2	227.4	4.8%	-10.2	-0.2%	
<i>Meals</i>	1,154.4	1,207.0	1,215.8	61.4	5.3%	8.8	0.7%	1,254.0	1,272.0	56.2	4.6%	18.0	1.4%	
<i>Motor Vehicles</i>	866.3	878.0	896.6	30.3	3.5%	18.6	2.1%	894.0	926.3	29.6	3.3%	32.3	3.6%	
<i>Subtotal, Sales & Use</i>	<u>6,453.8</u>	<u>6,720.0</u>	<u>6,803.3</u>	<u>349.4</u>	<u>5.4%</u>	<u>83.3</u>	<u>1.2%</u>	<u>7,076.4</u>	<u>7,116.5</u>	<u>313.2</u>	<u>4.6%</u>	<u>40.0</u>	<u>0.6%</u>	
Corporate	2,381.1	2,338.6	2,800.0	418.8	17.6%	461.4	19.7%	2,378.7	2,577.3	-222.6	-8.0%	198.7	8.4%	
All Other	2,701.7	2,801.3	2,931.9	230.2	8.5%	130.6	4.7%	2,911.6	3,007.8	75.9	2.6%	96.2	3.3%	
Total, Tax Revenue	<u>27,776.2</u>	<u>28,592.3</u>	<u>29,544.0</u>	<u>1,767.8</u>	<u>6.4%</u>	<u>951.7</u>	<u>3.3%</u>	<u>29,506.7</u>	<u>29,961.9</u>	<u>417.9</u>	<u>1.4%</u>	<u>455.1</u>	<u>1.5%</u>	
Tax Transfers														
MBTA Transfer	1,007.9	1,042.1	1,054.0	46.1	4.6%	11.9	1.1%	1,091.4	1,095.1	41.1	3.9%	3.7	0.3%	
MSBA Transfer	847.9	882.1	894.0	46.1	5.4%	11.9	1.3%	931.4	935.1	41.1	4.6%	3.7	0.4%	
Workforce Training Trust Fund	24.7	24.0	24.0	-0.7	-2.8%	0.0	0.0%	24.5	24.5	0.5	2.1%	0.0	-0.1%	
Subtotal, Tax Transfers	<u>1,880.5</u>	<u>1,948.2</u>	<u>1,972.0</u>	<u>91.5</u>	<u>4.9%</u>	<u>23.8</u>	<u>1.2%</u>	<u>2,047.4</u>	<u>2,054.7</u>	<u>82.7</u>	<u>4.2%</u>	<u>7.4</u>	<u>0.4%</u>	
Other Tax Revenue														
Tax-Related Settlements & Judgments	11.0	48.8	48.8	37.8	342.8%	0.0	0.0%	100.0	0.0	-48.8	-100.0%	-100.0	-100.0%	
Total Budgeted Operating Tax Revenues	<u>25,906.7</u>	<u>26,692.9</u>	<u>27,620.9</u>	<u>1,714.1</u>	<u>6.6%</u>	<u>928.0</u>	<u>3.5%</u>	<u>27,559.4</u>	<u>27,907.2</u>	<u>286.3</u>	<u>1.0%</u>	<u>347.8</u>	<u>1.3%</u>	
Capital Gains Tax Revenue														
Capital Gains Collections	1,682.7	1,700.7	2,123.1	440.4	26.2%	422.4	24.8%	1,481.0	1,715.5	-407.6	-19.2%	234.5	15.8%	
Statutory Threshold	1,168.8	1,211.5	1,211.5	42.7	3.7%	0.0	0.0%	1,260.4	1,260.4	48.9	4.0%	0.0	0.0%	
Transfer to Stabilization Fund	<u>513.9</u>	<u>489.2</u>	<u>911.6</u>	<u>397.7</u>	<u>77.4%</u>	<u>422.4</u>	<u>86.3%</u>	<u>220.6</u>	<u>455.1</u>	<u>-456.5</u>	<u>-50.1%</u>	<u>234.5</u>	<u>106.3%</u>	
Taxes Available to Budget	<u>25,392.8</u>	<u>26,203.7</u>	<u>26,709.3</u>	<u>1,316.4</u>	<u>5.2%</u>	<u>505.6</u>	<u>1.9%</u>	<u>27,338.8</u>	<u>27,452.1</u>	<u>742.8</u>	<u>2.8%</u>	<u>113.3</u>	<u>0.4%</u>	

Figures in \$ millions.

CTR+ includes recreational marijuana, room occupancy tax, life science and sales tax marketplace (tax changes included in both HOU and SEN budgets)

CTR+ includes \$100 M in tax-related settlements and judgments like HOU and SEN

Assumes 2.7% baseline growth, value of repatriation at \$240 M, reduces total value of recreational marijuana to \$66 M, revises capital gains share of NWI to 48%

FY20 Tax Revenue Estimate Ranges	3.3% Baseline Growth						2.7% Baseline Growth						2.2% Baseline Growth					
	2020		vs FY19EST		vs FY20CTR+		2020		vs FY19EST		vs FY20CTR+		2020		vs FY19EST		vs FY20CTR+	
Tax Revenue Summary	CTR+	Alt 1	\$ Change	% Change	\$ Change	% Change	CTR+	MTF Proposed	\$ Change	% Change	\$ Change	% Change	CTR+	Alt 2	\$ Change	% Change	\$ Change	% Change
Income																		
Withholding	13,690.0	13,814.2	620.0	4.7%	124.2	0.9%	13,690.0	13,701.3	507.1	3.8%	11.3	0.1%	13,690.0	13,588.5	394.3	3.0%	-101.5	-0.7%
Non-Withheld	3,450.0	3,559.0	-255.7	-6.7%	109.0	3.2%	3,450.0	3,559.0	-255.7	-6.7%	109.0	3.2%	3,450.0	3,559.0	-255.7	-6.7%	109.0	3.2%
Subtotal, Income	17,140.0	17,373.1	364.3	2.1%	233.1	1.4%	17,140.0	17,260.3	251.4	1.5%	120.3	0.7%	17,140.0	17,147.4	138.5	0.8%	7.4	0.0%
Sales & Use																		
Regular	4,928.4	4,945.8	255.0	5.4%	17.4	0.4%	4,928.4	4,918.2	227.4	4.8%	-10.2	-0.2%	4,928.4	4,890.6	199.8	4.3%	-37.9	-0.8%
Meals	1,254.0	1,282.6	66.8	5.5%	28.6	2.3%	1,254.0	1,272.0	56.2	4.6%	18.0	1.4%	1,254.0	1,261.5	45.7	3.8%	7.5	0.6%
Motor Vehicles	894.0	931.1	34.5	3.8%	37.1	4.2%	894.0	926.3	29.6	3.3%	32.3	3.6%	894.0	921.4	24.8	2.8%	27.4	3.1%
Subtotal, Sales & Use	7,076.4	7,159.5	356.2	5.2%	83.1	1.2%	7,076.4	7,116.5	313.2	4.6%	40.0	0.6%	7,076.4	7,073.5	270.2	4.0%	-3.0	0.0%
Corporate	2,378.7	2,580.6	-219.4	-7.8%	201.9	8.5%	2,378.7	2,577.3	-222.6	-8.0%	198.7	8.4%	2,378.7	2,574.1	-225.9	-8.1%	195.4	8.2%
All Other	2,911.6	3,011.0	79.1	2.7%	99.4	3.4%	2,911.6	3,007.8	75.9	2.6%	96.2	3.3%	2,911.6	3,004.5	72.6	2.5%	92.9	3.2%
Total, Tax Revenue	29,506.7	30,124.3	580.2	2.0%	617.5	2.1%	29,506.7	29,961.9	417.9	1.4%	455.1	1.5%	29,506.7	29,799.5	255.5	0.9%	292.8	1.0%
Tax Transfers																		
MBTA Transfer	1,091.4	1,100.3	46.3	4.4%	8.9	0.8%	1,091.4	1,095.1	41.1	3.9%	3.7	0.3%	1,091.4	1,089.9	35.9	3.4%	-1.5	-0.1%
MSBA Transfer	931.4	940.3	46.3	5.2%	8.9	1.0%	931.4	935.1	41.1	4.6%	3.7	0.4%	931.4	929.9	35.9	4.0%	-1.5	-0.2%
Workforce Training Trust Fund	24.5	24.5	0.5	2.1%	0.0	-0.1%	24.5	24.5	0.5	2.1%	0.0	-0.1%	24.5	24.5	0.5	2.1%	0.0	-0.1%
Subtotal, Tax Transfers	2,047.4	2,065.1	93.1	4.7%	17.7	0.9%	2,047.4	2,054.7	82.7	4.2%	7.4	0.4%	2,047.4	2,044.3	72.4	3.7%	-3.0	-0.1%
Other Tax Revenue																		
Tax-Related Settlements & Judgments	100.0	0.0	-48.8	-100.0%	-100.0	-100.0%	100.0	0.0	-48.8	-100.0%	-100.0	-100.0%	100.0	0.0	-48.8	-100.0%	-100.0	-100.0%
Total Budgeted Operating Tax Revenues	27,559.4	28,059.2	438.3	1.6%	499.8	1.8%	27,559.4	27,907.2	286.3	1.0%	347.8	1.3%	27,559.4	27,755.2	134.3	0.5%	195.8	0.7%
Capital Gains Tax Revenue																		
Capital Gains Collections	1,481.0	1,715.5	-407.6	-19.2%	234.5	15.8%	1,481.0	1,715.5	-407.6	-19.2%	234.5	15.8%	1,481.0	1,715.5	-407.6	-19.2%	234.5	15.8%
Statutory Threshold	1,260.4	1,260.4	48.9	4.0%	0.0	0.0%	1,260.4	1,260.4	48.9	4.0%	0.0	0.0%	1,260.4	1,260.4	48.9	4.0%	0.0	0.0%
Transfer to Stabilization Fund	220.6	455.1	-456.5	-50.1%	234.5	106.3%	220.6	455.1	-456.5	-50.1%	234.5	106.3%	220.6	455.1	-456.5	-50.1%	234.5	106.3%
Taxes Available to Budget	27,338.8	27,604.1	894.8	3.4%	265.3	1.0%	27,338.8	27,452.1	742.8	2.8%	113.3	0.4%	27,338.8	27,300.1	590.8	2.2%	-38.7	-0.1%

Figures in \$ millions.

CTR+ includes recreational marijuana, room occupancy tax, life science and sales tax marketplace (tax changes included in both HOU and SEN budgets)

CTR+ includes \$100 M in tax-related settlements and judgments like HOU and SEN

Assumes value of deemed repatriation at \$240 M, reduces total value of recreational marijuana to \$66 M, revises capital gains share of NWI to 48%