



# News Release

For Immediate Release

March 6, 2002



## MTF Forecast: Flat Revenues in 2003 Following \$1.8 Billion Decline in 2002

After plummeting more than \$1.8 billion in fiscal 2002, state tax revenues will remain flat in 2003 as gains from a projected mild economic recovery are offset by the impact of tax cuts, according to a forecast released today by the Massachusetts Taxpayers Foundation.

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

The Foundation estimates that budgetary tax revenues will total \$14.25 billion in fiscal 2003, almost equal to 2002. According to the forecast, underlying tax growth of about \$560 million, or 3.5 percent, in 2003 will be offset by the impacts of Question 4 and other tax cuts that are being phased in.

### MTF Forecast Summary

(\$, billions)

	Fiscal 2001	Fiscal 2002	Fiscal 2003
State tax receipts <sup>1</sup>	\$16.08	\$14.26	\$14.25
Personal income	\$247.6	\$248.7	\$254.2
Employment (000)	3,350	3,299	3,309
Unemployment rate (%)	2.9	4.3	5.0

<sup>1</sup> Excluding 1 cent of sales tax dedicated to the MBTA.

MTF's forecast for 2003, which is based on current law, is \$675 million lower than the \$14.93 billion tax estimate in the administration's House 1 budget. The Foundation's forecast for fiscal 2002 is \$300 million lower than the administration's revised House 1 estimate.

"The precipitous drop in underlying tax revenues combined with the major cut in the income tax rate have propelled the state into a fiscal crisis rivaling that of the late 1980s," said Widmer.

The Foundation's forecast reflects a modestly paced national recovery beginning in the first quarter of calendar 2002, with the economic picture improving more slowly for the state than for the U.S. as a whole. MTF projects that Massachusetts will lose 51,600 jobs in fiscal 2002 and gain back 9,700 of those jobs in 2003. The state's unemployment rate is expected to continue to move upward from 4.3 percent in 2002 to 5.0 percent in 2003, compared to a forecasted national unemployment rate of 5.6 percent in 2002 and 6.2 percent in 2003.

The Foundation identified three critical factors that have shaped the revenue outlook for fiscal 2003:

- The disproportionate impact of declining capital markets on the state's revenue base in fiscal 2002, including a \$500 million, or almost 50 percent, drop in capital gains taxes, and the loss of up to \$400 million in taxes on stock options and bonuses, which will not be replaced in fiscal 2003.
- Revenue losses due to the Question 4 income tax cut -- an estimated \$425 million in fiscal 2002 and an additional \$450 million in 2003 -- as well as other cuts that are being phased in, including an almost \$40 million reduction due to the impact of federal estate tax changes.
- A modest economic recovery that is projected to begin in the first quarter of calendar 2002 for the nation as a whole, and in the second or third quarter for Massachusetts.

According to the Foundation's forecast, personal income taxes will fall \$305 million or 3.6 percent in 2003, a reduction that incorporates the \$490 million impact of Question 4 and other tax cuts. Adjusting for these cuts, the baseline growth in personal income taxes is 1.9 percent, compared to a 4.7 percent decrease in 2002. The modest increase in underlying income taxes reflects slow job growth (0.3 percent versus 0.4 percent for the nation), sluggish wage gains, and an unemployment rate that will rise to 5.0 percent in 2003. MTF projects essentially flat capital gains receipts in 2003.

Sales taxes are projected to grow 4.9 percent in 2003, up significantly from the projected decrease of 2.0 percent in 2002, which reflects in part the largely one-time disruptions in retail activity following the September 11 attacks. The increase in 2003 is explained by the combination of modest strengthening of consumer confidence and a gradual resumption of growth in personal income.

Corporate profit taxes are expected to rebound 16 percent in 2003 after dropping 40 percent over the previous two years. Even with the predicted return to profitability, the estimated corporate tax receipts of \$789 million in 2003 will still be \$340 million less than the 2000 peak.

The Foundation's Massachusetts forecast is based upon the January 2002 national economic forecast from DRI-WEFA, Inc., an economic forecasting firm. DRI-WEFA predicts that national employment growth will inch up 0.4 percent in fiscal 2003 after declining by the same percentage in 2002. After peaking at 3.4 percent in 2001, inflation is expected to remain a low 2.1 percent in 2002, rising slightly to 2.4 percent in 2003. According to DRI-WEFA, the national unemployment rate will continue to rise from a projected 5.6 percent in 2002 to 6.2 percent in 2003. After falling 14.4 percent in 2002, stock market prices are projected to rise 5.2 percent in 2003.

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, MTF ranks among the largest and most effective organizations of its kind in the country. The Foundation has won six prestigious national awards in as many years for its work on capital spending and the Central Artery, business costs, management of state budget surpluses, reform of the MBTA, and, most recently, the cost impact of Question 5, the universal health care ballot proposal rejected by voters in 2000.

\*\*\*\*\*

MASSACHUSETTS TAXPAYERS FOUNDATION  
FISCAL YEAR FORECAST SUMMARY

DRI-WEFA NATIONAL FORECAST:

			<<< History   Forecast >>>			
JANUARY 2002	1998	1999	2000	2001	2002	2003
Personal Income (billions of 1996 \$)	6,931.0	7,249.9	7,523.5	7,837.5	7,898.3	8,067.7
% change	4.9	4.6	3.8	4.2	0.8	2.1
Employment (millions)	124.3	127.4	130.5	132.3	131.8	132.3
% change	2.6	2.5	2.5	1.4	(0.4)	0.4
Unemployment Rate	4.7	4.4	4.1	4.2	5.6	6.2
CPI (% change)	1.8	1.7	2.9	3.4	2.1	2.4
PPI (% change)	(1.5)	(1.9)	4.4	5.2	(3.0)	0.2
Federal Discount Rate	5.0	4.7	5.1	5.2	1.8	2.5
Prime Comm Rate	8.5	8.0	8.6	8.7	5.3	6.0
Standard & Poor's 500 Index (% change)	33.8	19.5	16.4	(4.2)	(14.4)	5.2

			<<< History   Forecast >>>			
MTF MASS. ECONOMIC FORECAST	1998	1999	2000	2001	2002	2003
Personal Income (billions of current \$)	198.0	211.0	228.5	247.6	248.7	254.2
% change	6.4	6.6	8.3	8.3	0.4	2.2
Personal Income (billions of 1996 \$)	191.1	201.2	214.0	226.6	223.4	224.9
% change	4.7	5.2	6.4	5.9	(1.4)	0.7
Total Employment (000s)	3,143.2	3,205.2	3,277.8	3,350.4	3,298.8	3,308.5
% change	2.2	2.0	2.3	2.2	(1.5)	0.3
Unemployment Rate	3.7	3.2	2.9	2.9	4.3	5.0

MTF MASS. TAX FORECAST

Income Tax (millions \$)	8,031.9	8,036.6	9,041.9	9,902.7	8,554.1	8,247.6
% change	11.8	0.1	12.5	9.5	(13.6)	(3.6)
Sales Tax	2,962.5	3,269.8	3,565.3	3,755.8	3,679.4	3,857.9
% change	3.0	10.4	9.0	5.3	(2.0)	4.9
Corporations Tax	1,066.9	1,008.7	1,130.5	945.3	678.7	788.8
% change	10.7	(5.5)	12.1	(16.4)	(28.2)	16.2
<b>TOTAL TAXES</b>	<b>14,026.3</b>	<b>14,291.5</b>	<b>15,688.6</b>	<b>16,730.0</b>	<b>14,920.5</b>	<b>14,938.2</b>
% change	9.1	1.9	9.8	6.6	(10.8)	0.1
<b>TOTAL TAXES FOR BUDGET*</b>	<b>14,026.3</b>	<b>14,291.5</b>	<b>15,688.6</b>	<b>16,075.4</b>	<b>14,256.1</b>	<b>14,253.9</b>
% change	9.1	1.9	9.8	2.5	(11.3)	(0.0)

\* Fiscal 2001-2003 adjusted to reflect shift of one cent of the regular sales tax off budget to support MBTA.