



333 Washington Street | Suite 853 | Boston, MA 02108 | 617.720.1000
www.masstaxpayers.com

News Release

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FY 2021 Tax Revenue Forecast – October Update

FY 2021 tax revenues are projected to fall by \$3.9 billion or 12.5 percent from the FY 2021 January benchmark of \$31.15 billion upon which the governor’s budget was based. \$27.27 billion is what MTF is projecting for tax revenues in FY2021. The Massachusetts Taxpayers Foundation (MTF) projects withholding income tax and sales tax revenues to decline by \$1.27 billion (8.8 percent) and \$940 million (12.7 percent), respectively due principally to stalled employment growth for the remainder of the fiscal year. MTF estimates that corporate taxes will decrease by \$215 million (Table 1).

Table 1 – State Tax Revenues by Category
(\$ Millions)

	Consensus	Oct 7, 20	\$	%
Income	17,909	15,695	-2,214	-12.4%
Withholding	14,423	13,155	-1,268	-8.8%
Non-withholding				
Capital Gains	1,590	1,000	-590	-37.1%
Other Non-withholc	1,896	1,541	-356	-18.8%
Sales	7,425	6,482	-943	-12.7%
Corporate	3,404	3,188	-216	-6.3%
Other Tax Revenues	2,413	1,907	-506	-21.0%
Total	31,151	27,272	-3,879	-12.5%

MTF’s President Eileen McAnney said, “while our revised tax revenue forecast has improved since MTF’s April projection, the improvement is due largely to unprecedented levels of federal financial assistance. Numerous headwinds could slow the pace of economic recovery.”



McAnneny noted, “The Massachusetts’ economy has been propped up by various forms of federal financial assistance - \$1,200 individual payments, PPP loans, and enhanced and extended unemployment benefits. These funds buoyed withholding, sales and corporate tax collections to date, but as they are exhausted amidst growing uncertainty about the pandemic’s course, the state’s fiscal situation could further deteriorate.”

Withholding

Total tax revenues through Q1 of FY 2021 are running \$69 million, or one percent, ahead of Q1 FY 2020 – a sign that the impacts of the pandemic have been less severe than originally estimated. The three largest sources of tax revenue for the state - withholding income (\$142 million), corporate taxes (\$102 million), and sales taxes (\$29 million) – exceeded projections by \$273 million for the first three months.

Revenue collections for FY21 to date mask several warning signs, however.

According to the MA Department of Revenue (DOR), \$214.5 million in withholding income taxes in Q1 derive from state and federal unemployment insurance payments. This represents three percent of total tax payments for the quarter. For the period from April through September, DOR estimates that withholding income taxes from UI claims accounted for \$456 million, or nearly seven percent, of the \$6.6 billion withholding taxes collected.

Sales Tax

Sales tax revenues increased by 1.6 percent, or \$29 million, in Q1 FY 2021 over Q1 FY 2020 as revenues from the sale of goods grew \$114 million (9.3 percent) and motor vehicles increased by \$32 million (14.6 percent). These strong actual collections offset the \$117 million decline in meals tax collections that were a third less than the first quarter of FY 2020.

Taxes from other sources fell by \$119 million (16.7 percent) as purchases of motor fuels (\$32 million), cigarettes (\$29 million) and room occupancy (\$25 million) all declined due to the slowed economy.

Corporate, Financial Institutions, and Insurance

Estimated payments for corporations, financial institutions and insurance increased by \$39 million for Q1 FY 2021 over Q1 FY 2020 while payments jumped \$81 million for a total increase of \$120 million. Refunds also increased by \$18 million, partially offsetting these payments for a net increase of \$102 million in the first quarter.

Turning to the remainder of FY2021, MTF projects that with the end of summer and many forms of federal relief, it’s likely that the major revenue sources will falter in Q2.



FY 2021 headwinds

The level of uncertainty impacting future economic performance cannot be overstated. In addition to an unpredictable course for the pandemic, political uncertainty and social unrest also contribute to people's unease about the future. Many are withdrawing from the workforce to minimize chances of contracting Covid19, while others are banking their disposable income to cushion another financial blow or make rent and mortgage payments that may have suspended due to the moratorium on evictions. Many companies are postponing hiring decisions until they have a clearer understanding of what the future holds. Collectively, these actions will affect the trajectory of our economic recovery.

In addition to this palpable angst, there are several other more concrete warning signals:

- Federal relief funds that helped keep hundreds of thousands of MA residents above water ended in August.
- Massachusetts job growth has stalled. After rebounding in the period from May through August, there are 420,000 fewer people working today than before the pandemic and Moody's Analytics projects that at the start of FY 2023, there will still be significantly fewer employed in Massachusetts than in February 2020.
- The much anticipated federal relief package of at least \$1.5 trillion has not yet materialized. Moody's Analytics data, which MTF used in its forecast, assumes a fifth relief package in its baseline projections. Should federal aid not materialize, or be significantly reduced, that would impact this forecast.
- Even with a fifth federal relief package, the proposed funding amount may be insufficient to sustain the economy for the time necessary until the virus is controlled.
- An efficacious vaccine may not be widely available until next summer.
- The post-Labor Day spike in coronavirus infections could lead to more economic slowdowns and further lower people's confidence.
- Come January, health insurance and UI premiums will rise, along with the minimum wage and costs associated with the paid and family medical leave program will add considerably to the cost of hiring.

Federal Funds Have Kept the Economy Afloat

MTF estimates that Massachusetts individuals have received approximately \$15.8 billion in federal relief payments since March to moderate the economic shocks of the pandemic (Table 2). Without these payments, Massachusetts' fiscal situation would be far worse.



Federal relief packages totaling \$3 trillion (together with \$2.3 trillion in Federal Reserve lending programs) were designed to help mitigate the temporary economic damage caused by the pandemic. The expectation in April was that federal funds would bridge a four to five-month economic crisis, and that a recovery would start in earnest this fall as the pandemic abated.

Several of these federal initiatives provided funds through state-run unemployment programs to pay people who lost jobs and income. These programs, that include the Pandemic Unemployment Compensation (PUC), the Pandemic Emergency Unemployment Compensation (PEUC), the Pandemic Unemployment Assistance (PUA), Extended Benefits (EB), and the Lost Wages Assistance initiative (LWA), are described in Appendix B with links for further details.

The federal relief package also included an IRS payment of \$1,200 to each individual tax filer with income below \$75,000 or \$150,000 for joint filers.¹ An additional \$500 check for each dependent child under the age of 17 was also provided. Through August, the IRS issued over 150 million checks with a value in excess of \$260 billion. MTF estimates that approximately 3.3 million Massachusetts tax filers qualified for a \$1,200 IRS relief check for a total of almost \$4 billion.²

As depicted in Table 2, the cash infusion of approximately \$15.8 billion in federal payments from various UI programs and IRS checks that MTF estimates Massachusetts individuals have received since March to moderate the economic shocks of the pandemic has helped offset about two-thirds of the estimated \$24 billion in lost wages from job losses (Appendix A, Column F).

Table 2 – Federal Relief Funds to Massachusetts Individuals (\$ thousands)

Month	Continuing UI Claims			\$1,200 Check	Total	Benefit Payment	Total Benefits
	PUC	PUA	LWA				
Mar				3,300	3,300	1,200	3,959,971
Apr	1,799	665			2,463	600	1,478,096
May	2,607	5,391			7,998	600	4,798,982
Jun	1,995	1,756			3,751	600	2,250,365
July	1,844	1,818			3,662	600	2,197,476
Aug-Sep			3,619		3,619	300	1,085,569
Total	8,245	9,630	3,619	3,300			15,770,459

¹ Eligibility extends to \$99,000 for single filers and \$198,000 for joint filers but the payment amount is reduced by \$5 for each \$100 above the \$75,000/\$150,000 thresholds.

² Personal Income Tax Filers and Liability by Income Level, [Comprehensive Annual Finance Report](#), 2019, p. 200.

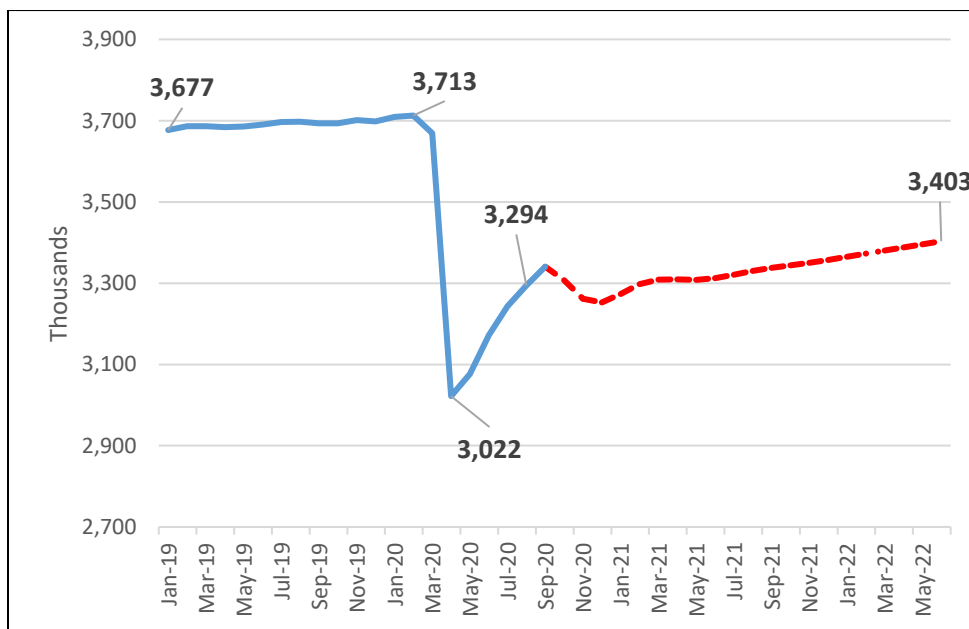
Note: This forecast includes several updates to quantify economic activity and the impacts on tax revenues. Initial UI claims data were replaced with August jobs data from U.S. Bureau of Labor Statistics. Average weekly salary information (sector and subsectors) use the state's most recent release of the [Employment and Wage database](#) (see Appendix A).

Massachusetts Employment Growth Stalls

As MTF predicted in its April revenue estimate, Massachusetts experienced greater job loss from the pandemic than most other states and experienced the highest level of unemployment in the nation. In February, just prior to the pandemic, 3.7 million people were employed in the Commonwealth. Employment plummeted by 690,000 jobs in March and April. The employment data through August, as shown in Figure 1, indicate 272,000 jobs have been recovered, a 7.3 percent jump in job growth. While that may feel like a quick recovery, there are 418,000 fewer people working today than in February.

This is not the ‘V’ shaped recovery some anticipated. Instead, there are several indications that employment growth will soon stall after the Q2 bump. In fact, Moody’s Analytics projects that at the beginning of FY 2023 Massachusetts will have 3.4 million jobs, 300,000 fewer people employed than this past February (Figure 1, red-dotted line).

Figure 1 – Massachusetts Employment: January 2019 – June 2022



One potential drag on job growth could come from the U.S. SBA Paycheck Protection Program (PPP) that was designed to prevent layoffs by guaranteeing organizations low-cost loans to cover payroll costs for up to eight weeks.

PPP loans can be forgiven in their entirety if at least 60 percent of the funds are used for payroll costs to maintain or rehire employees. If organizations use more than 40 percent of the funds

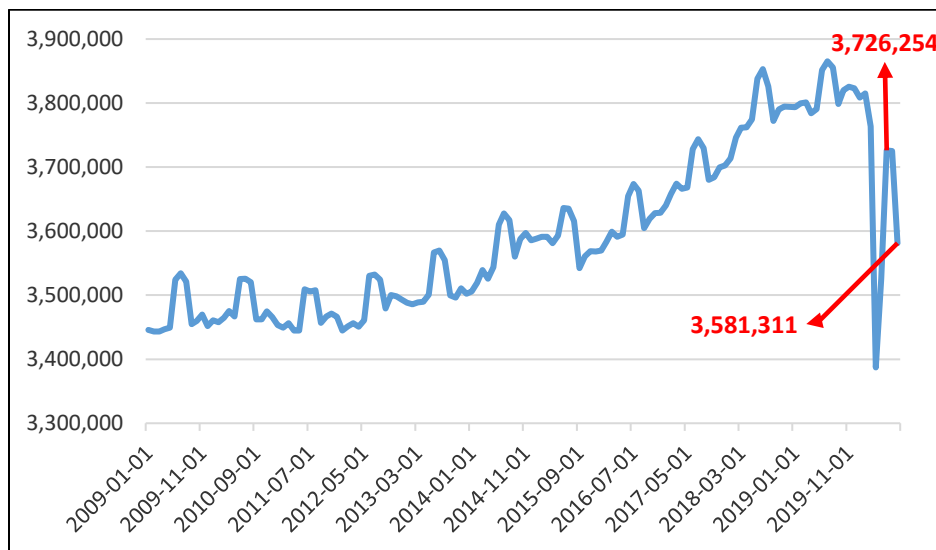
for non-payroll costs, than a portion of the loan may be forgiven with the remainder requiring repayment with a one percent interest rate.

According to the SBA, 118,392 Massachusetts organizations borrowed \$14.3 billion in PPP loans to help prevent layoffs of at least 750,000 workers.³ While it is unknown how much of these funds were used to cover payroll costs, many organizations saved the low-cost funds for reserves and may be reluctant to rehire putting downward pressure on employment growth.

It is also noteworthy that the state’s labor force, measured by those age 16 and older who are working or looking for work, dropped by 427,000 in April as the economy shuttered. Following two months of rapid recovery, the labor force in August has 143,840 fewer workers than prior to the pandemic (from 3.73 million in July to 3.58 million).⁴ This 3.9 percent decline is a troubling indicator as the labor force typically peaks every August before dropping in September.

Although the reasons for this drop in Massachusetts are not yet clear, national data for September indicate that nearly 880,000 employees, or 80 percent of the 1.1 million individuals leaving the labor force, were women. This suggests that the growing child care crisis is forcing mothers to stop working or seek employment.

Figure 2 – Massachusetts Labor Force 2009 – 2020



³ [Paycheck Protection Program Report through August 8, 2020](#), U.S. Small Business Administration.

⁴ [Federal Reserve Economic Data](#) (FRED), Federal Reserve Bank of St. Louis, September 27, 2020.



Although the August data may prove to be an anomaly, the state’s labor force was already falling. There are 47,000 fewer work-aged people (20 – 64) today than there were at the end of 2017. That trend is expected to continue as the labor force is projected to fall another 50,000 by the end of 2022⁵ placing even greater constraint on employment and economic growth.

When Will the World Get Control of COVID-19?

In MTF’s April forecast, we assumed new virus cases would peak in April, subside by June, and economic activities re-open in July. That schedule was relatively on point for Massachusetts but differed from what transpired across the country this summer. Recent events have upended the timetable for a full recovery.

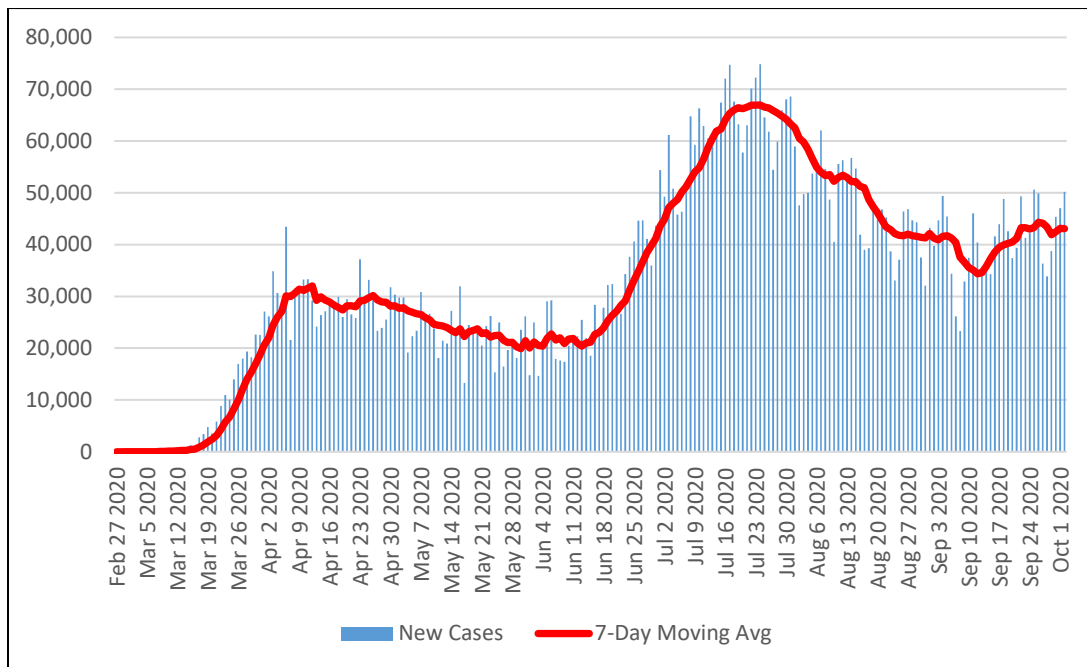
It is evident from daily pandemic infection updates that cases are on the rise. After new U.S. coronavirus cases dropped from 30,000 in April to 20,000 in June, they spiked to 70,000 in July, and began to rise again after Labor Day. Diverse regions in the country that did not have high infection rates during the spring and summer are now experiencing an uptick.

New cases are also emerging in cities and towns that were thought to have successfully controlled coronavirus’ spread, Boston among them. As people begin moving indoors this fall and winter, there is growing alarm that another spike could lead to more economic closings, particularly for restaurants, hospitality and entertainment sectors that depend on in-person activity.

Recent headlines about massive layoffs at Disneyworld and United and American Airlines may portend a wave of additional layoffs in the coming months and shatter whatever confidence people may have gained to leave their homes for crowded spaces. A bad flu season would compound this further.

⁵ Source: Moody’s Analytics, September 27, 2020.

Figure 1 - Trends in U.S. New Cases of COVID-19 Reported to CDC



Can Governments Support the Economy until a Full Recovery Begins?

If the U.S. and the world must await an effective vaccine or vaccines, it is likely that 2021 will face fits and starts of economic activity, further postponing the beginning of a sustained recovery. The current debate focuses on whether Congress will provide another federal assistance package. The real question is whether \$1+ trillion would be sufficient to sustain economic activity until a vaccine is developed. Finding the additional resources and the political will to keep the economy functioning for state and municipal governments, businesses, workers, families, and children until people feel confident to reengage requires a careful balance between public and private spending and poses the greatest public policy challenges in generations.



Appendix A – Estimated Loss of Massachusetts Employment and Wages

Percentages of job cuts by industry sector and sub-sector in Column ‘B’ are actuals from the Bureau of Labor Statistics August 2020. Average weekly wage data updated by sector and sub-sector from most recent MA Labor Market Information.

Employment in Thousands	A	B	C	D	E	F
	Empl Dec 2019	Pct Cut	Empl Cut	Avg Weekly Wages	Tot Annual Payroll - \$bns Baseline	Cut
Construction						
Construction of buildings	34	9.7%	3.3	1,562	2.8	0.3
Heavy and Civil Engineering	14	5.2%	0.7	1,658	1.2	0.1
Specialty Trade Contractors	113	3.5%	4.0	1,531	9.0	0.3
Manufacturing	243	4.0%	9.7	1,613	20.3	0.8
Wholesale Trade	125	9.1%	11.3	1,842	12.0	1.1
Retail Trade						
Food and beverage	99	2.0%	2.0	510	2.6	0.1
General Merchandise Stores	56	17.0%	9.5	465	1.4	0.2
Clothing and Clothing Accessories Stores	33	45.3%	14.9	514	0.9	0.4
Furniture and Home Furnishings Stores	10	7.7%	0.8	778	0.4	0.0
Electronics and Appliance Stores	8	5.2%	0.4	865	0.3	0.0
Building Material and Garden Equipment	25	0.8%	0.2	819	1.0	0.0
Sporting Goods, Hobby, Musical	14	19.3%	2.7	506	0.4	0.1
Health and Personal Care Stores	27	8.1%	2.2	829	1.2	0.1
Motor Vehicle and Parts Dealers	39	19.8%	7.7	1,171	2.4	0.5
Other	41	50.7%	20.8	674	1.4	0.7
Transportation, Warehousing & Utilities	105	22.3%	23.4	1,071	5.8	1.3
Information	94	4.0%	3.8	2,237	11.0	0.4
Financial Activities						
Real Estate and Rental and Leasing	49	6.7%	3.3	1,513	3.9	0.3
Banking & Insurance	174	0.6%	1.1	2,431	22.0	0.1
Professional and Business Services						
Professional and Technical	349	3.3%	11.4	2,448	44.5	1.5
Management of Companies	74	3.8%	2.8	2,511	9.7	0.4
Administrative and Waste Services	179	9.6%	17.2	1,341	12.5	1.2
Education						
Elementary and secondary	34	13.7%	4.6	1,109	1.9	0.3
Colleges, Universities, and Professional Schools	117	27.8%	32.6	1,646	10.0	2.8
Other education	22	45.5%	10.0	513	0.6	0.3
Health Care						
Hospitals	200	0.9%	1.7	1,450	15.0	0.1
Nursing and Residential Care	105	9.5%	10.0	745	4.1	0.4
Social Assistance	151	12.8%	19.3	566	4.4	0.6
Ambulatory	191	7.9%	15.1	1,322	13.2	1.0
Leisure and Hospitality						
Food Services and Drinking Places	269	23.8%	63.9	486	6.8	1.6
Arts, Entertainment, and Recreation	25	-30.9%	-7.7	752	1.0	-0.3
Amusement, Gambling, and Recreation	38	40.1%	15.4	472	0.9	0.4
Accommodations	38	44.2%	16.9	781	1.6	0.7
Other	10	100.0%	10.0	571	0.3	0.3
Government						
Federal	46	-13.2%	-6.0	1,510	0.0	0.0
State	130	1.6%	2.1	1,510	3.6	0.1
Local	281	10.3%	28.9	1,510	10.2	1.0
Other Services	138	24.3%	33.7	775	5.6	1.4
Total	3,698	10.9%	404	1,277	287	24

Source: U.S. Bureau of Labor Statistics. Baseline data - September 22, 2020

[Wage data - 2019 Q3 MA Labor Market Information](#)



Appendix B – Unemployment Insurance Programs

- **Pandemic Unemployment Compensation** (PUC) – provides \$600/week to those receiving state UI benefits
- **Pandemic Emergency Unemployment Compensation** (PEUC) - adds 13 weeks of UI benefits funded by federal government. 7 additional weeks added bringing total to 20 weeks
- **Pandemic Unemployment Assistance** (PUA) – \$600/week for claimants not eligible for PUC
- **Extended Benefits** (EB) – Federal/state program that “triggers on” during periods of high unemployment. Provides an additional 7 weeks for Pandemic Unemployment Assistance (PUA) claimants, and up to 13 weeks for eligible unemployment (UI) claimants paid by the federal government.
- **Lost Wages Assistance** (LWA) - Provides additional \$300/week through FEMA to anyone unemployed since 8/1/2020 who is getting at least \$100 in state unemployment insurance.