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## *MTF Bulletin*

*January 30, 2023*

### **FY 2024 Consensus Tax Revenue Agreement**

Budget leaders from the House, Senate, and Administration have agreed on a \$40.410 billion consensus tax revenue figure for the fiscal year 2024 budget. Budget makers expect tax revenues to grow by \$642 million (1.6 percent) over estimated FY 2023 collections of \$39.768 billion (Figure 1). Notably, the consensus tax revenue agreement caps the use of income surtax revenues at \$1 billion in the FY 2024 budget. That revenue is not included in the figures noted above. The FY 2023 tax revenue figure has also been revised upward by \$151 million over the current benchmark of \$39.618 billion.

*Figure 1. FY 2024 Consensus Tax Revenue Agreement Summary*

<b>Original FY 2023 Revenue Benchmark</b>	<b>Revised FY 2023 Revenue Benchmark</b>	<b>FY 2024 Consensus Revenue</b>	<b>\$ increase</b>	<b>% increase</b>
\$39,618	\$39,768	\$40,410	\$642	1.6%

*\$ in millions*

#### *FY 2023 Revenue Upgrade*

The FY 2023 revenue upgrade of \$151 million over the current year benchmark of \$39.618 billion is largely attributable to increased sales tax collections. As a result, statutorily required transfers to the MBTA and School Building Authority (SBA) will increase by a total of approximately \$95 million, limiting the impact that the upgrade will have on available resources for FY 2023.

Additionally, the agreement announced today includes a commitment to utilize \$100 million in FY 2023 to pay down the unfunded pension liability associated with the Early Retirement Incentive Program (ERIP) instituted by the Baker Administration in 2015. Without this investment, the additional liabilities associated with the ERIP program would have been fully amortized in FY 2027.

#### *FY 2024 Agreement in Context*

On January 24th, MTF, along with the Department of Revenue and other experts participated in the annual Consensus Revenue Hearing, at which the various presenters provided tax projections

and economic analysis to the Ways and Means Committees and the Executive Office of Administration and Finance. Revenue projections varied, as did the inclusion of income surtax revenue in estimated collection totals for FY 2023 and FY 2024. As detailed in a [report published last week](#), MTF excluded income surtax collections from its revenue projections and instead offered an approach for the use of those resources in FY 2024 and beyond.

However, in assessing projections – excluding income surtax revenue – several commonalities emerge. Testifiers agreed that in the second half of FY 2023, revenue collections will likely slowdown and the current year-to-date surplus of \$1.1 billion will be diminished. In large part, this can be attributed to unclaimed pass-through entity (PTE) excise credits generated in FY 2022 and the first half of FY 2023 being refunded to taxpayers. Currently, the Department of Revenue estimates \$1.5 billion in unclaimed PTE credits, a large exposure for the Commonwealth.

In FY 2024, testifiers also agreed that year over year revenue growth will return to earth, with a median growth rate over estimated FY 2023 revenues of 1.3 percent. This is markedly lower than the \$11.5 billion surge in revenues the state experienced in FY 2021 and FY 2022. But notably, revenues are anticipated to remain at elevated levels throughout the fiscal year and budget writers will still have ample new resources to support increased investments and initiatives.

The consensus revenue agreement announced today reflects these themes, as well as the general acknowledgement that factors outside the state’s control may contribute to an economic “slowcession.” These factors include persistent high inflation, the continuation of the Federal Reserve’s aggressive monetary policy and interest rate hikes, and the threat that escalating conflict between Ukraine and Russia poses to energy prices.

*Figure 2. FY 2024 Consensus Revenue Hearing Summary*

	Current Benchmark	FY 2023 Est.	v. Current BM	FY 2024 Est.	v. Current BM	v. FY 2023 projection	FY 2024 % v. FY 2023 estimate
DOR Upper	\$39,618	\$40,471	\$853	\$41,017	\$1,399	\$546	1.3%
DOR Lower		\$39,767	\$149	\$39,838	\$220	\$71	0.2%
MTF		\$39,693	\$75	\$40,059	\$441	\$366	0.9%
cSPA		\$38,500	-\$1,118	\$39,200	-\$418	\$700	1.8%
ACM		\$38,680	-\$938	\$41,108	\$1,490	\$2,428	6.3%
<i>Median</i>		\$39,693	\$75	\$40,059	\$441	\$546	1.3%
<b><i>FY 2024 CR Agreement</i></b>		<b>\$39,768</b>	<b>\$150</b>	<b>\$40,410</b>	<b>\$792</b>	<b>\$642</b>	<b>1.6%</b>

*\$ in millions*

*Income Surtax Revenue*

The consensus revenue agreement limits the use of income surtax revenues available in the FY 2024 budget development process to \$1 billion, regardless of actual collections. However, the agreement does not include parameters regarding how the new revenue will be reported upon or tracked within the budget. The agreement acknowledges that the funds will be available to support investments related to transportation and education, as constitutionally required.

Massachusetts voters approved the 4 percent surtax on taxpayer income above \$1 million during the November 2022 election. The surtax went into effect on January 1<sup>st</sup>, 2023. While the effects of the surtax will not be fully felt in FY 2023, projections for collections during this fiscal year and FY 2024 were offered at the Consensus Revenue Hearing, reflected in Figure 3 below.

*Figure 3. FY 2024 Surtax Collections*

	Current Benchmark	FY 2023 Est.	FY 2023 Surtax Collections	FY 2023 Est. + Surtax	FY 2024 Est.	FY 2024 Surtax Collections	FY 2024 Est. + Surtax
DOR Upper	\$39,618	\$40,471	\$265	\$40,736	\$41,017	\$1,766	\$42,783
DOR Lower		\$39,767	\$229	\$39,996	\$39,838	\$1,445	\$41,283
MTF		\$39,693	\$0	\$39,693	\$40,059	\$0	\$40,059
cSPA		\$38,500	\$0	\$38,500	\$39,200	\$1,000	\$40,200
ACM		\$38,680	\$528	\$39,208	\$41,108	\$1,116	\$42,224
<i>Median</i>		\$39,693	\$229	\$39,693	\$40,059	\$1,116	\$41,283
<b><i>FY 2024 CR Agreement</i></b>		<b><i>\$39,768</i></b>	<b><i>\$0</i></b>	<b><i>\$39,768</i></b>	<b><i>\$40,410</i></b>	<b><i>\$1,000</i></b>	<b><i>\$41,410</i></b>

*\$ in millions*

As recommended by MTF, the consensus revenue agreement does not include income surtax collections in FY 2023 and caps the total use of surtax revenues in the FY 2024 budget at a level well below the median projection offered at the hearing of \$1.3 billion. Instituting a cap on available resources for FY 2024 is an approach that MTF supports, and was one of the recommendations offered in a [recently published report](#). Moving through the budget process, MTF will continue to advocate for processes and practices to be put in place that improve transparency and prioritize fiscal stability regarding the use of income surtax revenue.

*Pre-Budget Transfers and the Consensus Revenue Agreement*

The consensus revenue agreement also includes four “pre-budget transfers,” that are separate from the appropriations process. These pre-budget transfers are primarily related to the specific debt and pension obligations of the commonwealth. The first pre-budget transfer is to the Workforce Training Trust Fund, which receives its funding from a surcharge imposed on unemployment insurance.

The School Building Authority and MBTA receive funds based on the expected sales tax revenues for the upcoming fiscal year. This consistent revenue stream improves the creditworthiness of the SBA and the MBTA, allowing them to save on borrowing costs when bonds are used for capital expenditures.

The final pre-budget transfer in the revenue agreement is the state’s annual contribution to the pension fund. This contribution is defined by the Executive Office for Administration and Finance and is based on a three-year funding schedule. FY 2024 is the first year of a new schedule, which will increase contributions to the pension fund by 9.6 percent annually until FY 2028. Beginning in FY 2029, annual increases to the pension fund appropriation will decrease from 5.1 percent to 4 percent until FY 2036.

Figure 4. FY 2024 Pre-Budget Transfers

	FY 2023 Total Transfer	FY 2024 Guaranteed Amount	FY 2024 Transfer in CR Agreement	FY 2024 Total Transfer	Increase over FY 2023
Workforce Trust Fund	\$25	\$0	\$27	\$27	\$2
School Building Authority	\$1,165	\$0	\$1,303	\$1,303	\$138
MBTA	\$1,325	\$160	\$1,303	\$1,463	\$138
Pension fund	\$3,744	\$4,105	\$0	\$4,105	\$361
<b>Total Pre-Budget Transfers</b>				<b>\$6,898</b>	<b>\$639</b>

*\$ in millions*

### *Estimated Capital Gains Revenue*

Capital gains tax collections are an extremely volatile source of revenue. With this in mind, lawmakers put in place a law establishing an annual threshold. Once collections exceed the threshold, funds are automatically deposited into the state’s Stabilization Fund and applied to other liabilities. This safeguard is in place to limit the reliance of the state budget on revenue from capital gains and decrease its exposure to economic volatility.

Projections put forth by MTF and DOR at the consensus revenue hearing show significant reductions in capital gains collections in FY 2023 and FY 2024. MTF projects capital gains collections to decrease from \$3.008 to \$2.298 billion in FY 2024. The consensus revenue agreement assumes an even greater reduction in capital gains collections, anticipating \$2.063 in collections for FY 2024. The capital gains threshold for the next fiscal year is set at \$1.48 billion, meaning that \$583 million of FY 2024 capital gains collections will be automatically set aside for deposits and not available for the budget.

### *Next Steps*

Governor Healey must submit her first budget proposal by March 1<sup>st</sup>, which will use the consensus tax figure as its foundation. The starting point for the Governor’s budget is the total tax revenue that remains following pre-budget transfers and adjustments (Figure 5).

Figure 5. FY 2024 Tax Revenues Available for Budget

<b>Consensus revenue</b>	<b>\$40,410</b>
<i>Cap. Gains transfer</i>	-\$583
<i>Workforce Training</i>	-\$27
<i>SBA</i>	-\$1,303
<i>MBA</i>	-\$1,463
<i>Pension</i>	-\$4,105
<b>Taxes remaining for budget</b>	<b>\$32,928</b>

\$ in millions

While this figure represents the starting line for the budget development process, recent history has demonstrated that it is not always the final word on available resources. For the last 5 fiscal years, unforeseen revenue changes have resulted in upgrades to the consensus revenue figure during the budget process. The addition of income surtax revenue adds a layer of uncertainty to the overall fiscal picture, and budget writers should remain ready to respond to changing economic circumstances.

*Bottom Line*

The agreement reached today assumes moderate revenue growth in FY 2024, avoids the use of surtax revenues in the current fiscal year and caps the use of surtax revenues in the FY 2024 budget. Each of these elements is consistent with the recommendations MTF provided at the hearing last week and represents a positive first step, but more must be done. Creating a process to certify and track revenues and protect against budget volatility and beyond will be critical components of the FY 2024 budget.