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MTF Brief

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FY 2024 Revenue Update & FY 2025 Consensus Revenue Hearing

On December 4th, the Massachusetts Taxpayers Foundation (MTF), along with the Department of Revenue (DOR) and other economic experts participated in the annual Consensus Revenue Hearing. The hearing offers administration and legislative budget leaders an opportunity to reassess revenue assumptions for Fiscal Year (FY) 2024 and evaluate the resources that will be available to support budgeted spending in FY 2025. This brief uses the Consensus Revenue Hearing as the backdrop to examine both of these issues.

To place the testimony provided at the Consensus Revenue Hearing in context, this brief begins with a review of FY 2024 tax revenue trends to date. It then provides an overview of the testimony offered at the hearing for FY 2024 and FY 2025; highlighting key themes, commonalities, and differences. The brief concludes with an assessment of the challenges and opportunities facing administrative and legislative budget writers heading into the second half of FY 2024 and the FY 2025 budget development process.

Understanding FY 2024 Revenue Collections

FY 2024 Revenue Collections to Date

State tax revenue collections for FY 2024 total \$14.097 billion through November, \$627 million (4.3 percent) below the year-to-date benchmark and \$146 million (1 percent) ahead of FY 2023 collections.

FY 2024 Revenue Collections v. FY 2023 Actuals and FY 2024 Benchmarks

	FY 2023 YTD Actuals	FY 2024 YTD Actuals	FY 2024 YTD Benchmark	FY 2024 v. FY 2023	FY 2024 vs. Benchmark
Income - Withholding	\$6,434	\$6,767	\$6,823	\$333	-\$56
Non Withholding	\$1,016	\$1,087	\$1,257	\$71	-\$170
Sales	\$3,925	\$3,907	\$4,052	-\$18	-\$145
Corporate/Business	\$1,322	\$1,225	\$1,345	-\$97	-\$120
Other	\$1,254	\$1,112	\$1,248	-\$142	-\$136
Total	\$13,951	\$14,098	\$14,725	\$146	-\$627

\$ in millions

For the first time this fiscal year, monthly revenues fell short of both FY 2023 collections and expectations for FY 2024; with monthly collections in November coming in \$131 million (5.5 percent) behind FY 2023 and \$274 million (10.9 percent) below benchmark. The decline in November revenues is driven by substantially higher income tax refunds than expected; but sales, corporate, and other taxes fell short of last year’s monthly mark as well.

While revenue collections to date are concerning, analyzing what those collection trends mean for the remainder of FY 2024 is made more challenging by a lack of information on how much surtax revenue is included in total collections. As policymakers try to make sense of the strength of withholding and non-withheld income taxes to date, and what they imply for future months, they do not know if a large part of the apparent growth in those two revenue categories is in fact surtax collections, which are not available to support the vast majority of budget spending.

FY 2024 Revenue Collections in Context

In January 2023, administration and legislative budget leaders agreed to an FY 2024 consensus tax revenue figure of \$40.41 billion (excluding surtax revenues). At the time, this represented a 1.6 percent increase over expected FY 2023 revenue collections of \$39.77 billion; a modest rate of growth that reflected the general feeling that high inflation, interest rate hikes, and other risk factors would contribute to a slowing down of the economy. However, expectations for FY 2023 revenue collections shifted dramatically when April revenues fell \$1.6 billion below benchmark. While revenues rebounded slightly in May and June, collections ultimately came in \$846 million below benchmark for the fiscal year, excluding surtax revenue.

For FY 2024, the FY 2023 shortfall meant that a significantly higher rate of growth would be necessary to meet the benchmark set in January. Instead of 1.6 percent growth, FY 2024 non-surtax revenues would need to grow by 3.8 percent to meet expectations. Through November, revenues in FY 2024 have only grown by 1 percent; falling well behind the pace necessary to meet benchmark for the fiscal year. Furthermore, a portion of revenues collected to date are attributable to the income surtax and therefore widen the gap between revenue actuals and the benchmark. Additional details on surtax revenue in FY 2024 are in the sections that follow.

FY 2024 Estimated & Required Rates of Revenue Growth

FY 2023 Revenue Benchmark	FY 2024 Revenue Benchmark	FY23 v. FY24 Estimated Growth
\$39,769	\$40,411	1.6%
FY 2023 Revenue Actuals¹	FY 2024 Revenue Benchmark	FY23 v. FY24 Required Growth
\$38,922	\$40,411	3.8%

\$ in millions

Additionally, the FY 2024 revenue benchmark of \$40.41 billion does not account for the tax relief package signed into law by Governor Healey in September. In FY 2024, the provisions of the tax bill are estimated to carry a fiscal impact of approximately \$570 million. While the cost of this package was paid for in the FY 2024 budget, the revenue benchmark has not been downgraded to reflect the loss of revenue.

At the Consensus Revenue Hearing, economic experts differed in their approaches to projecting FY 2024 revenues, but there was unanimous agreement that revenue collections this fiscal year would fall short of expectations. Each of the forecasts cited slow tax revenue trends to date and the fiscal impact of the tax relief bill as key factors contributing to the need for a revenue downgrade.

FY 2024 Consensus Revenue Projections (no surtax)

¹ FY 2023 revenue collections totaled \$39.164 billion, of which \$242 million was attributable to the income surtax and transferred to the Education and Transportation Trust Fund, established in the FY 2024 GAA (Chapter 28 of the Acts of 2023).

Excluding surtax revenue, testifiers at the Consensus Revenue Hearing projected that collections in FY 2024 were going to fall below benchmark by an average of \$857 million. MTF’s modeling suggests that tax revenues in FY 2024 will fall below benchmark by at least \$880 million, but as our testimony emphasized, there are continued downside risks that may cause that figure to increase. For example, MTF’s projections did not encompass continued revenue declines through November.

Summary of Consensus Revenue Testimony for FY 2024 (n/s = no surtax)

	FY 2023 Collections (n/s)	FY 2024 Benchmark (n/s)	FY 2024 Est. (n/s)	\$ v. FY 2023 Collections	\$ v. FY 2024 Benchmark (n/s)
DOR Upper	\$38,922	\$40,410	\$39,611	\$689	-\$799
DOR Lower			\$38,827	-\$95	-\$1,583
MTF			\$39,531	\$609	-\$879
cSPA			--	--	--
ACM ²			\$40,243	\$1,321	-\$167
Median			\$39,571	\$649	-\$839
Average			\$39,553	\$631	-\$857

\$ in millions

FY 2024 Consensus Surtax Revenue

In assessing revenue collections and forecasts for FY 2024, it is important to pay special attention to income surtax projections. According to the process created in the FY 2024 General Appropriations Act (GAA) to collect, track, and spend surtax revenue; these resources may only be used to support education and transportation investments and are therefore set aside from any assessment of tax revenue available to support general budgeted spending.

In FY 2024, DOR projects income surtax collections between \$1.6 and \$2.1 billion, significantly higher than the \$1 billion spending threshold for surtax revenue reflected in the FY 2024 benchmark. While testifiers varied in their approaches to projecting surtax revenue, on average they are expected to exceed the threshold by \$473 million.

Summary of Surtax Revenue Estimates in FY 2024 (w/s = with surtax)

	FY 2024 Surtax Threshold	FY 2024 Benchmark (w/s)	FY 2024 Surtax Estimate	FY 2024 Projection (w/s)	v. Surtax Threshold	v. FY 2024 Benchmark (w/s)
DOR Upper	\$1,000	\$41,410	\$2,060	\$41,671	\$1,060	\$261
DOR Lower			\$1,578	\$40,405	\$578	-\$1,005
MTF			\$1,000	\$40,531	\$0	-\$879
cSPA			--	\$40,700	--	-\$710
ACM			\$1,252	\$41,495	\$252	\$85
Median			\$1,415	\$40,700	\$415	-\$710
Average			\$1,473	\$40,960	\$473	-\$450

\$ in millions

² Following the Consensus Revenue Hearing, Professor Alan Clayton Matthews revised his revenue projections for FY 2024 and FY 2025 downward to account for real interest rates. The projections included in this table and throughout the brief reflect the testimony that was publicly given on December 4th.

Summing Up FY 2024

Heading into the latter half of FY 2024, the testimony provided at the Consensus Revenue Hearing made clear that the impact of below benchmark revenues to date, the costs of tax relief, and the income surtax support a significant downgrade to the revenue benchmark. Absent such a reduction to revenue expectations, the ability to maintain a balanced budget becomes increasingly challenging.

Looking Ahead to FY 2025

The Consensus Revenue Hearing also offers a first glimpse at the resources that will be available to support the FY 2025 budget. While the final consensus revenue agreement may not be announced for several weeks, looking at economic forecasts for both non-surtax and surtax revenues provides some important context to upcoming budget challenges.

FY 2025 Consensus Revenue Projections (no surtax)

Despite recommendations to lower expectations for FY 2024, testifiers at the hearing expressed cautious optimism that revenues would grow modestly in FY 2025. Excluding surtax revenue, the median growth rate predicted for FY 2025 is 2.8 percent above projected FY 2024 revenues.

Summary of FY 2025 Consensus Revenue Testimony (n/s = no surtax)

	Current Benchmark	FY 2024 Projection	FY 2025 Est. (n/s)	v. Current BM (n/s)	\$ v. FY 2024 Proj. (n/s)	% v. FY 2024 Proj. (n/s)
DOR Upper	\$40,410	\$39,611	\$40,898	\$488	\$1,287	3.25%
DOR Lower		\$38,827	\$39,504	-\$906	\$677	1.74%
MTF		\$39,531	\$40,469	\$59	\$938	2.37%
cSPA		--	--	--	--	--
ACM		\$40,243	\$42,729	\$2,319	\$2,486	6.18%
Median			\$39,571	\$40,684	\$274	\$1,113
Average		\$39,553	\$40,900	\$490	\$1,347	3.39%

\$ in millions

Revenue collections in FY 2025 are anticipated to be supported by steady growth in withholding income tax revenues, which account for approximately 43 percent of the state’s total tax collections. MTF projects 3.8 percent growth in this tax category for FY 2025, which is consistent with the pre-pandemic 10-year average growth rate of 4 percent (FY 2011 – FY 2020). DOR estimates similar levels of withholding income tax growth over FY 2024, of between 4.5 to 5.1 percent.

Moderate growth in the income tax category offsets slow growth anticipated for sales and use taxes, as well as flat or potentially declining corporate and business tax collections.

As in FY 2024, revenue projections for FY 2025 may be impacted by factors outside of the state’s control; including high inflation and interest rates, a prolonged U.S. government shutdown, or the worsening of geopolitical conflicts.

FY 2025 Consensus Surtax Revenue

For FY 2025, testifiers again varied in their approaches to surtax revenue projections. DOR estimated a range of \$1.8 to \$2.1 billion, while Professor Alan Clayton-Matthews projected \$1.2 billion.

As in FY 2024, MTF did not provide a specific estimate of surtax collections for FY 2025, but instead advised policymakers to exercise caution when incorporating new spending into the FY 2025 budget supported by the surtax. In FY 2025, MTF recommends that budget writers set the cap on surtax supported spending at \$1.25 billion, a \$250 million increase over the \$1 billion cap agreed to for FY 2024. The first annual certification of surtax revenue collections will take place on December 15th, and pending its release, that cap may be adjusted.

Summary of Surtax Revenue Estimates in FY 2025 (w/s = with surtax)

	FY 2024 Surtax Threshold	FY 2024 Benchmark (w/s)	FY 2025 Surtax Estimate	FY 2025 Projection (w/s)	FY 2024 v. FY 2025 Surtax	FY 2024 v. FY 2025 Proj. (w/s)
DOR Upper	1,000	41,410	\$2,127	\$43,025	\$1,127	\$1,615
DOR Lower			\$1,777	\$41,281	\$777	-\$129
MTF			\$1,250	\$41,719	\$250	\$309
cSPA			--	\$42,000	--	\$590
ACM			\$1,227	\$43,956	\$227	\$2,546
Median					\$1,514	\$42,000
Average			\$1,595	\$42,396	\$595	\$986

\$ in millions

Summing Up FY 2025

As policymakers assess the testimony given at the Consensus Revenue Hearing and work to produce a consensus tax revenue agreement to serve as the basis for the FY 2025 budget development process, they should remain mindful that even positive revenue growth projections will provide limited new resources to support budgeted spending. Based on the forecasts presented last week, it is quite possible that budget writers will be required to build an FY 2025 budget with approximately the same level of non-surtax revenues as was used to support the FY 2024 budget signed into law by the Governor.

In the case of the surtax, there remains very little information on actual surtax revenue collections to date. This lack of information makes it difficult to adjust the \$1 billion surtax threshold established in FY 2024 without creating undue budget risk.

Looking Ahead at FY 2024 and FY 2025

FY 2024 Revenue and Spending Trends

At the Consensus Revenue Hearing, economic experts consistently emphasized the need to adjust revenue expectations downward for FY 2024. Excluding surtax revenues, the average projection for FY 2024 collections was \$39.55 billion; \$857 million below the benchmark of \$40.41 billion that was used to build the FY 2024 GAA.

At \$39.55 billion, the average revenue projection for FY 2024 represents only 1.6 percent growth over actual FY 2023 collections of \$38.92 billion (excluding surtax revenue). This low-rate of growth is notable because it stands in stark contrast to the rate of spending growth that was reflected in the FY 2024 GAA.

FY 2024 GAA Spending Growth

Category	FY 2023 GAA	Governor's Budget	FY 2024 Final Budget	Spending v. FY 2023 (\$)	Spending v. FY 2023 (%)
MassHealth	\$19,480	\$19,817	\$19,817	\$337	1.7%
Surtax Spending	\$0	\$1,000	\$1,000	\$1,000	--
All Other Line-Items	\$32,965	\$34,465	\$35,246	\$2,281	6.9%
Total Spending	\$52,445	\$55,282	\$56,063	\$3,618	6.9%

\$ in millions

Total spending in the final FY 2024 state budget grew by \$3.6 billion (6.9 percent) over the FY 2023 budget signed into law by Governor Baker; and exceeds Governor Healey’s original proposal for FY 2024 by nearly \$800 million. In the past, disconnects of this magnitude between expected revenue collections and authorized spending have necessitated mid-year cuts to maintain a balanced budget and such reductions could be necessary in FY 2024 if revenue trends continue. Mid-year budget cuts (9Cs) were last implemented in FY 2017, which was the third consecutive year in which unilateral spending cuts were instituted.

Revenue Collections through November v. 9C Cuts

Fiscal Year	Collections v. BM through November	Total 9Cs
FY 2015	-\$43	\$366
FY 2016	\$73	\$47
FY 2017	-\$21	\$98

\$ in millions

FY 2025 Budget Development

At the same time that policymakers will be working to manage and mitigate the impacts of falling FY 2024 revenues, they will also be building an FY 2025 budget. The good news, as testimony at the hearing indicated, is that revenues are anticipated to grow relative to FY 2024 projections. The more challenging reality is that due to expected decreases in FY 2024, growth in FY 2025 does not translate to significantly more resources being available for budget spending.

The median projection for FY 2025 revenue collections (excluding surtax) is \$40.68 billion, a \$1.1 billion (2.8 percent) increase over the median projection for FY 2024, but only \$274 million (0.7 percent) greater than the \$40.41 billion revenue base used to build the FY 2024 budget. This means that administration and legislative budget writers may be faced with crafting a budget for next fiscal year using a potentially flat revenue assumption.

With known spending obligations such as payments to the state’s Pension Fund, continued implementation of the Student Opportunity Act, and general maintenance cost increases; policymakers should be prepared for a budget with limited room for additional spending initiatives. However, ensuring that spending increases are closely correlated with expected recurring revenue growth is necessary to maintain the fiscal stability of the state and to prevent painful budget cuts later down the road.

Administration and legislative budget leaders must publish a consensus tax revenue agreement by January 15th. The decision on this figure is one of the most important made in the budget process, as it will form the revenue foundation for the budget proposals put forward by the Governor, House, and Senate.