



FY 2025 Consensus Tax Revenue Agreement

On January 8th, budget leaders from the House, Senate, and Administration announced a \$40.202 billion consensus tax revenue figure for the Fiscal Year (FY) 2025 budget, excluding surtax revenue. Budget writers expect tax revenues to grow by \$792 million (2 percent) over estimated FY 2024 collections of \$39.410 billion (Figure 1). The consensus tax revenue agreement also establishes a \$1.3 billion cap on the use of income surtax revenues in the FY 2025 budget, a \$300 million increase over the amount of surtax-supported spending in FY 2024.

Figure 1. FY 2025 Consensus Tax Revenue Agreement Summary

	Original FY 2024 Benchmark	Revised FY 2024 Benchmark	FY 2025 CR Agreement	\$ Increase over Revised BM	% Increase over Revised BM
Baseline Revenues	\$40,410	\$39,410	\$40,202	\$792	2.0%
Surtax Revenue	\$1,000	\$1,000	\$1,300	\$300	30%

\$ in millions

On the same day, the administration announced a \$1 billion reduction to the FY 2024 revenue benchmark from \$40.410 billion to \$39.410 billion. To make up the revenue shortfall, they have identified \$625 million in unanticipated non-tax revenues and will institute \$375 million in net budget cuts. The mid-year spending reductions impact 66 line-items, with the largest cuts directed towards the MassHealth program. MTF will be releasing its complete analysis of the FY 2024 revenue downgrade and mid-year spending cuts in the coming days. A table detailing the administration’s proposed plan can be found [here](#).

In addition to the \$1 billion downgrade, which reflects sluggish revenue collections to date, the FY 2024 benchmark must also be adjusted to account for the \$577 million cost of tax relief legislation signed into law last September. The tax relief package was fully paid for in the FY 2024 GAA; however, the revenue benchmark has not been amended to account for its impact. Once the downgrade and tax relief adjustment are applied, FY 2024 revenue collections are anticipated to total \$38.833 billion.

In the sections that follow, this brief describes FY 2024 revenue collections to date and the factors that contribute to the need for an FY 2024 revenue downgrade. Then, it summarizes the FY 2025 consensus revenue agreement, including its implications for income surtax spending and other statutorily required pre-budget transfers. Finally, the brief concludes with a look ahead to the FY 2025 budget development process.

FY 2024 Tax Revenue Collections to Date

State tax revenue collections total \$17.869 billion through December, \$769 million (4.1 percent) below the year-to-date benchmark and \$60 million (0.3 percent) ahead of FY 2023 collections (Figure 2). For the



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month of December, revenues fell short of last year’s collections by \$82 million (2.1 percent) and of the monthly benchmark by \$138 million (3.5 percent).

Figure 2. FY 2024 Tax Revenue Collections Year to Date

	FY 2023 YTD Actuals	FY 2024 YTD Actuals	FY 2024 v. FY 2023 YTD	FY 2024 YTD Benchmark	Year to Date v. BM
Withholding	\$8,017	\$8,524	\$507	\$8,506	\$18
Non-Withholding	\$1,662	\$1,562	-\$100	\$1,846	-\$284
Sales	\$4,719	\$4,662	-\$57	\$4,844	-\$182
Corporate/Business	\$1,947	\$1,845	-\$102	\$1,984	-\$139
Other	\$1,464	\$1,277	-\$187	\$1,460	-\$183
Total	\$17,809	\$17,869	\$60	\$18,640	-\$769

\$ in millions

As MTF noted in an earlier [brief](#), tax revenue collections year-to-date are running well-behind the pace necessary to reach the original FY 2024 benchmark of \$40.41 billion (excluding surtax). Slow revenue growth to date is compounded by below benchmark revenue collections in FY 2023, which ultimately ended the fiscal year \$846 million below benchmark (excluding surtax). Combined, these factors provide ample justification for a downgrade to the FY 2024 revenue benchmark. At \$39.410 billion, the revised benchmark represents a 0.6 percent increase over FY 2023 collections and a 2.5 percent reduction compared to the original benchmark.

Additionally, as mentioned above, the benchmark used to build the FY 2024 budget did not account for the costs of the tax relief package signed into law by Governor Healey in September. In FY 2024, the provisions of that package are estimated to cost approximately \$577 million. After accounting for the \$1 billion downgrade and tax relief, actual revenue collections of \$38.833 billion are anticipated in FY 2024.

FY 2025 Consensus Tax Revenue Agreement

The House, Senate, and Administration have agreed to a \$40.202 billion consensus tax revenue figure for the FY 2025 budget and a \$1.3 billion cap on income surtax supported spending. This figure represents a \$792 million (2 percent) increase over the revised FY 2024 benchmark, and a \$1.369 billion (3.5 percent) increase over FY 2024 collections after accounting for the costs of tax relief.

Agreement in Context

On December 4th, MTF, along with the Department of Revenue (DOR) and other economic experts participated in the annual Consensus Revenue Hearing; at which, tax projections and economic analyses were presented for the current and upcoming fiscal years. As detailed in an earlier [brief](#), there was unanimous agreement among testifiers that revenue collections in FY 2024 would fall short of expectations, but that the state would experience moderate revenue growth in FY 2025.

Excluding surtax revenue, the median projection for FY 2024 revenue collections was \$30.571 billion and the median projection for FY 2025 was \$40.684 billion. The agreement announced today for FY 2025 is slightly lower than the estimates provided for FY 2025 at the hearing; however, as MTF noted at the time, continued revenue declines through FY 2024 could validate a more cautious approach to revenue growth expectations in the upcoming fiscal year.

Figure 3. Consensus Tax Revenue Agreement in Context (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%
ACM ¹		\$39,683	\$41,466	\$1,056	\$1,783	4.49%
Median		\$39,571	\$40,684	\$274	\$1,113	2.8%
CR Agreement		\$39,410	\$40,202	-\$208	\$792	2.0%
Tax Relief Adj.		\$38,833²	\$40,202	-\$208	\$1,369	3.5%

\$ in millions

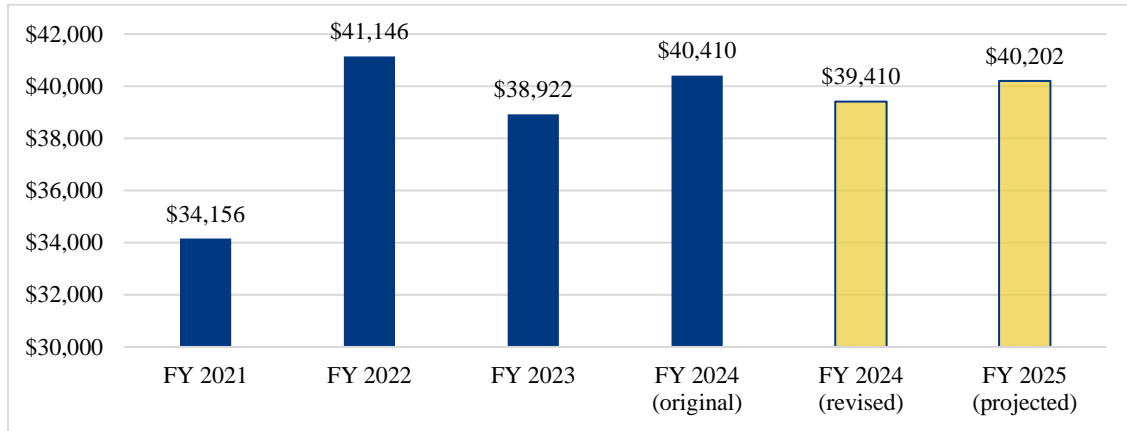
Revenues in FY 2025 are expected to be bolstered by steady growth in withholding income tax collections, which account for approximately 45 percent of the state’s total tax collections. While MTF’s economic modelling projected 3.8 percent growth in this category for FY 2025, the consensus tax revenue agreement reflects 3.3 percent growth. This is consistent with the 10-year average growth rate in withholding income tax revenue of 4 percent.

Notably, the consensus tax revenue figure represents a \$208 million (0.5 percent) decrease compared to the \$40.41 billion revenue foundation used to build the FY 2024 budget. This means that policymakers will be forced to develop an FY 2025 budget proposal using a basically flat revenue assumption. With known spending obligations such as payments to the state’s Pension Fund, continued implementation of the Student Opportunity Act, and increased Emergency Assistance shelter costs; budget writers will need to make difficult decisions regarding new or expanded spending initiatives.

¹ 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 reflect the updated projections.

² The analysis of the FY 2025 consensus revenue agreement included in this brief is based on the revised FY 2024 revenue benchmark of \$39.410 billion. However, after accounting for the fiscal impacts of tax relief, the FY 2025 consensus revenue agreement represents \$1.369 billion (3.5 percent) growth over estimated FY 2024 collections of \$38.833 billion.

Figure 4. Revenue Projections & Actuals, FY 2021 – FY 2025



\$ in millions

Fortunately, new and increasing income surtax revenue collections will continue to be a source of support for new investment in FY 2025.

Income Surtax Revenue

As part of the FY 2025 consensus tax revenue agreement, budget writers also established a \$1.3 billion cap for income surtax supported spending in the upcoming fiscal year. This spending cap falls slightly short of the median projection for surtax revenues in FY 2025 of \$1.5 billion; however, while definitive data on income surtax revenue collections remains difficult to track, MTF supports this conservative approach (Figure 5).

Figure 5. Income Surtax Revenue Projections & Spending Cap (w/s = with surtax)

	FY 2024 Surtax Est.	FY 2024 Projection (w/s)	FY 2025 Surtax Est.	FY 2025 Proj. (w/s)	v. Surtax Est.	v. FY 2024 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	\$42,693	\$227	\$1,283
Median			\$1,514	\$42,000	\$514	\$590
CR Agreement			\$1,300	\$41,502	\$300	\$92

\$ in millions

On December 15th, DOR submitted the first annual certification of surtax revenue collections for FY 2023, which they estimated at \$242 million. It's important to note that this is not a concrete tabulation of surtax collections in 2023, but the continuation of an estimate that DOR first offered in January, because the lack

of data prevents the calculation of a more precise figure. While this estimate remains valid, it should not be weighted too much when projecting future collections. This poses challenges for policymakers attempting to assess tax revenue trends to date, because surtax revenues are unavailable to support the vast majority of budget spending.³

Capital Gains Revenue

A critical component of the FY 2025 consensus tax revenue figure is the amount of revenue expected to be collected from capital gains. Capital gains are an extremely volatile source of state tax revenue, and to limit the reliance of the state budget on this revenue source, all capital gains collections above a statutorily set threshold are automatically deposited into the state’s Stabilization Fund. This automatic deposit mechanism bolsters the balance of the Stabilization Fund and decreases the budget’s exposure to economic volatility.

In FY 2024, the capital gains threshold is set at \$1.48 billion and state budget writers anticipate capital gains collections of \$2.06 billion; resulting in a Stabilization Fund deposit of \$583 million. According to the FY 2025 consensus tax revenue agreement, capital gains revenue collections will remain stable at \$2.08 billion; however, because the capital gains threshold is expected to increase to \$1.56 billion, the deposit to the Stabilization Fund is slightly lower at \$513 million.

Figure 6. FY 2025 Capital Gains Tax Collections

	Capital Gains Threshold	Capital Gains Estimate	Above Threshold Capital Gains
FY 2024	\$1,480	\$2,063	\$583
FY 2025	\$1,564	\$2,077	\$513

\$ in millions

Pre-Budget Transfers

In addition to the deposit of above-threshold capital gains revenue to the Stabilization Fund and other reserves, the FY 2025 consensus tax revenue agreement includes four other “pre-budget transfers” that take place outside 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 SBA and MBTA receive funds based on the expected sales tax revenue for the upcoming fiscal year. This consistent revenue stream improves the credit-worthiness of the SBA and MBTA, allowing them to save on borrowing costs when bonds are used for capital expenditures. Reflective of the flat revenue

³ According to the process established in the FY 2024 GAA to collect, track, and spend income surtax revenue; all revenues related to the income surtax are automatically deposited into a new Education and Transportation Trust Fund. These resources are constitutionally obligated to be spent on education and transportation investments and are therefore excluded from the revenues available to support general budget spending.



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assumptions for the upcoming fiscal year, FY 2025 planned transfers to the SBA and MBTA are essentially equal to FY 2024.

Lastly, the final pre-budget transfer 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 2025 is the second year of a new schedule that began in FY 2024, which will increase contributions to the pension fund by 9.6 percent annually until FY 2028.

Figure 7. FY 2025 Pre-Budget Transfers

	FY 2024 Transfer	FY 2025 Guaranteed	FY 2025 Transfer in CR Agreement	Increase over FY 2024
Workforce Trust Fund	\$27	\$0	\$27	\$0
School Building Authority	\$1,303	\$0	\$1,305	\$2
MBTA	\$1,463	\$160	\$1,465	\$2
Pension fund	\$4,105	\$4,500	\$4,500	\$395
Total pre-budget transfers			\$7,297	\$399

\$ in millions

Next Steps

Governor Healey will likely submit her administration’s budget proposal for FY 2025 during the third week of January, and it will use the consensus tax revenue figure as its foundation. The starting point for the Governor’s budget is the amount of tax revenue that remains following pre-budget transfers and adjustments (Figure 6).

Figure 6. FY 2025 Tax Revenues Available for Budget

Consensus revenue	\$40,202
<i>Cap. Gains transfer</i>	-\$513
<i>Workforce Training</i>	-\$27
<i>SBA</i>	-\$1,305
<i>MBA</i>	-\$1,465
<i>Pension</i>	-\$4,500
Taxes remaining for budget	\$32,391

\$ in millions

While this figure represents the revenue foundation for the FY 2025 budget, it is not the final word on available resources. As the downgrade to FY 2024 demonstrates, unforeseen revenue changes throughout the year may necessitate adjustments to the revenue benchmark to ensure that the state maintains a balanced budget. Conversely, in the five years prior to FY 2024, revenue increases resulted in upgrades to the consensus revenue figure during the budget development process.