

# *News Release*

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## **MTF Forecast: Modest Growth in Tax Revenues in 2014 and 2015**

Tax revenues will grow by \$1.1 billion, or 4.7 percent, to \$24.37 billion in fiscal 2015, continuing the trend of modest growth yet still below that of previous economic recoveries, according to a new forecast released today by the Massachusetts Taxpayers Foundation.

The Foundation projects tax collections of \$23.27 billion for fiscal 2014, \$470 million above the current consensus forecast and \$1.14 billion, or 5.2 percent, greater than the \$22.12 billion in taxes collected in fiscal 2013. The growth in fiscal 2014 revenues comes despite a projected loss of \$145 million from the repeal of the computer services tax in September and \$65 million from the reduction in the income tax rate from 5.25 percent to 5.2 percent on January 1, 2014.

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

"Despite an improving economic picture, the 2015 budget will challenge lawmakers once again," Widmer said. "Increases in largely non-discretionary spending for pensions, debt service, Medicaid and other areas, along with expanded commitments to transportation, will consume most of the \$1.1 billion in new tax revenues. And this modest rebound is not likely to turn into the kind of robust economic recovery that we have experienced in the past."

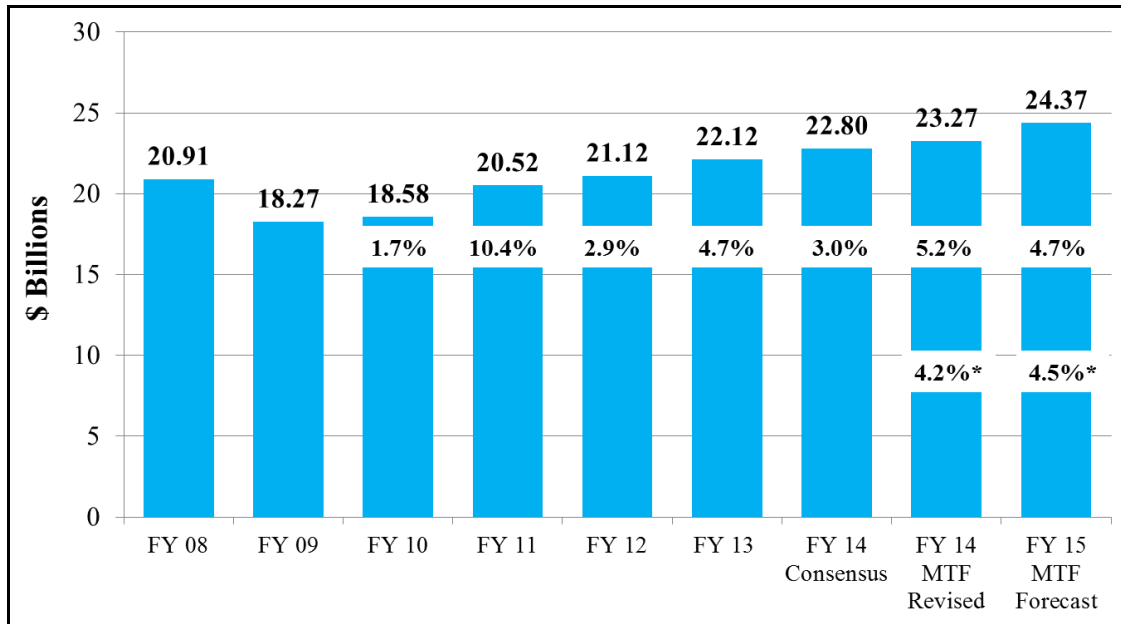
After adjusting for tax law changes in fiscal 2014, the Foundation forecasts baseline revenue growth of 4.2 percent in 2014 and 4.5 percent in 2015 (Figure 1). The 2013 transportation finance bill raised revenues by an estimated \$235 million in 2014 and \$300 million in 2015.

The strong growth in personal income tax revenues in fiscal 2015 will account for \$917 million, or roughly 80 percent, of total revenue gains. Sales and corporate tax revenues will be relatively flat.

### **Personal Income Taxes**

Higher employment, strong gains in personal income, and a jump in capital gains tax revenues will generate \$917 million, or 6.9 percent, growth in personal income taxes in fiscal 2015, according to the Foundation's forecast. This growth is roughly twice the rate of fiscal 2014, when personal income taxes are projected to increase by \$420 million, or 3.3 percent (Table 1).

**Figure 1 – State Tax Revenues, 2008 - 2015**



\* Baseline growth over previous fiscal year

The Foundation forecasts that the state will add 53,000 jobs in fiscal 2015, a 1.6 percent increase and the largest annual jump in employment since 2000. The fiscal 2015 job estimate reflects the slow but steady growth of the state’s economy that has recovered all of the jobs lost from the recent recession. The gains in 2015 will see the unemployment rate fall from its current 7.2 percent to 5.8 percent, the lowest point since the onset of the 2008 fiscal crisis.

Personal incomes are expected to increase by 5.8 percent in 2015, up from 3.8 percent in 2014, due in part to a 4.5 percent jump in average wages and salaries in 2015 compared to 2.4 percent in 2014. The gains in employment and personal income, together with a strong recovery in the housing market, will produce 4.4 percent growth above inflation in gross state product in fiscal 2015.

The Foundation projects capital gains tax revenues to fall from \$1.47 billion in fiscal 2013 to \$1.29 billion in 2014 and then grow to \$1.4 billion in 2015 (Table 1). In 2011, the state established a \$1 billion cap on the amount of capital gains tax revenues that could be used to support the budget and in 2012 adjusted the threshold by the average annual rate of growth of the U.S. gross domestic product over the previous five-year period. The cap for fiscal 2014 is \$1.023 billion and for 2015 an estimated \$1.07 billion.

Capital gains tax revenues in excess of the established cap for a fiscal year must be deposited into the state’s stabilization fund.<sup>1</sup> The Foundation estimates that the state will have to deposit \$220 million into the stabilization fund in fiscal 2014 and \$330 million in 2015 from capital gains tax revenues above the established caps.

<sup>1</sup> Ninety percent of the transferred funds remain in the stabilization fund and 10 percent are divided equally and transferred to the State Retiree Benefits Trust Fund and the Commonwealth’s Pension Liability Fund.

**Table 1 – State Tax Revenues by Category**

(\$ millions)

	FY 13 Actual	MTF FY 14 Forecast	\$ Change 14 vs 13	% Change 14 vs 13	MTF FY 15 Forecast	\$ Change 15 vs 14	% Change 15 vs 14
Income Tax	12,831	13,252	421	3.3%	14,169	917	6.9%
Capital Gains	1,468	1,287	-181	-12.3%	1,398	111	8.6%
Sales	5,164	5,474	310	6.0%	5,584	110	2.0%
Corporate and Business	2,262	2,436	174	7.7%	2,420	-16	-0.7%
All Other	1,867	2,107	240	12.9%	2,201	94	4.5%
<b>Total</b>	<b>22,124</b>	<b>23,269</b>	<b>1,145</b>	<b>5.2%</b>	<b>24,374</b>	<b>1,105</b>	<b>4.7%</b>

The state's growth in employment and personal income tracks the national economic recovery. Private sector job creation in the U.S. is expected to increase by 2.1 million or 1.9 percent in 2013 and by 2.5 million or 2.2 percent in 2014, according to Moody's Analytics' November forecast.

National exports of \$192.7 billion in October were the highest ever recorded, signaling a strengthening global economy that is projected to grow by 3.6 percent in 2014, according to a November 2013 forecast by the Organization for Economic Cooperation and Development (OECD).

### **Sales Taxes**

The Foundation projects that sales taxes will grow by 2.0 percent to \$5.58 billion in fiscal 2015. Sales tax revenues are projected to increase by 5.3 percent in 2014, the greatest growth since 2001, due in part to an improving housing market, a 10 percent surge in sales tax revenues for motor vehicles, and pent up demand. Despite the repeal of the tax on computer and software services, sales tax revenues should come close to the 2014 benchmark.

### **Corporate and Business Taxes**

Fiscal 2015 corporate and business taxes are projected to fall by \$16 million to \$2.42 billion, a 0.7 percent decline from 2014. Fiscal 2014 corporate and business tax revenues are expected to reach \$2.44 billion, a 7.7 percent gain over fiscal 2013.

It is important to note that the Foundation's projections for fiscal 2014 include \$109 million in one-time corporate settlements in excess of \$10 million through November. The forecast does not include any projections of one-time tax settlements for the remainder of fiscal 2014 or fiscal 2015. If the \$109 million in one-time settlements in 2014 were excluded from the comparison, fiscal 2015 corporate and business revenues would increase by 4.0 percent.

# MASSACHUSETTS TAXPAYERS FOUNDATION

## FISCAL YEAR FORECAST SUMMARY

### MOODY'S ANALYTICS NATIONAL FORECAST

December 2013	2008	2009	2010	2011	<<< History		Forecast >>>	
					2012	2013	2014	2015
Personal Income (billions of 2000 \$)	10,026	9,747	9,795	10,154	10,357	10,554	10,955	11,448
% change	3.4	-2.8	0.5	3.7	2.0	1.9	3.8	4.5
Employment (millions)	137.8	134.0	129.7	130.6	132.6	134.8	136.9	139.9
% change	0.6	-2.8	-3.2	0.6	1.6	1.6	1.6	2.1
Unemployment Rate	5.0	7.6	9.8	9.3	8.5	7.8	7.2	6.7
CPI (% change)	3.7	1.0	-0.9	1.8	1.9	1.5	1.4	1.9
PPI (% change)	9.0	-2.2	-12.6	7.5	10.6	-0.9	1.1	1.6
Federal Discount Rate	4.3	1.2	0.5	0.6	0.8	0.8	0.8	0.8
Prime Commercial Rate	6.7	3.9	3.3	3.3	3.3	3.3	3.3	3.3
Standard & Poor's 500 Index (% change*)	7.5	-39.1	19.7	10.6	1.8	15.7	19.9	4.4

MTF MASS. ECONOMIC FORECAST	2008	2009	2010	2011	<<< History		Forecast >>>	
					2012	2013	2014	2015
Personal Income (billions of current \$)	329.2	330.1	330.7	350.2	363.9	376.4	390.7	413.4
% change	4.5	0.3	0.2	5.9	3.9	3.4	3.8	5.8
Personal Income (billions of 2000 \$)	270.4	264.3	260.6	270.2	274.0	275.8	282.8	294.4
% change	2.9	-2.3	-1.4	3.7	1.4	0.6	2.5	4.1
Total Employment (000s)	3,294	3,240	3,183	3,192	3,253	3,297	3,343	3,396
% change	1.0	-1.6	-1.7	0.3	1.9	1.3	1.4	1.6
Unemployment Rate	4.6	6.8	8.5	7.8	6.9	6.7	6.2	5.8

MTF MASS. TAX FORECAST	2008	2009	2010	2011	<<< History		Forecast >>>	
					2012	2013	2014	2015
Income Tax (millions \$)	12,498	10,593	10,128	11,570	11,911	12,831	13,252	14,169
% change	9.7	-15.2	-4.4	14.2	3.0	7.7	3.3	6.9
Sales Tax	4,088	3,870	4,626	4,909	5,059	5,164	5,474	5,584
% change	0.5	-5.3	19.5	6.1	3.1	2.1	6.0	2.0
Corporations Tax	2,285	1,916	1,936	2,051	2,344	2,262	2,436	2,420
% change	-3.4	-16.2	1.1	5.9	14.3	-3.5	7.7	-0.7
TOTAL TAXES**	20,645	18,088	18,392	20,346	21,114	22,123	23,269	24,374
% change	5.2	-12.4	1.7	10.6	3.8	4.8	5.2	4.7
TOTAL TAXES FOR BUDGET***	17,724	15,225	15,657	17,493	18,158	19,105	20,087	21,074
% change	4.3	-14.1	2.8	11.7	3.8	5.2	5.1	4.9

\* Percent change in index for prior calendar year.

\*\* Includes collections from other tax sources not detailed above.

\*\*\* Tax revenues available for appropriation in the budget exclude a portion of sales tax receipts dedicated to the MBTA, the Massachusetts School Building Authority, tax revenues dedicated to pension funding, and employer contributions to the Workforce Training Fund.

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