

# **Trend of Tax Revenue Collections in Recent Years**

January 20, 2012

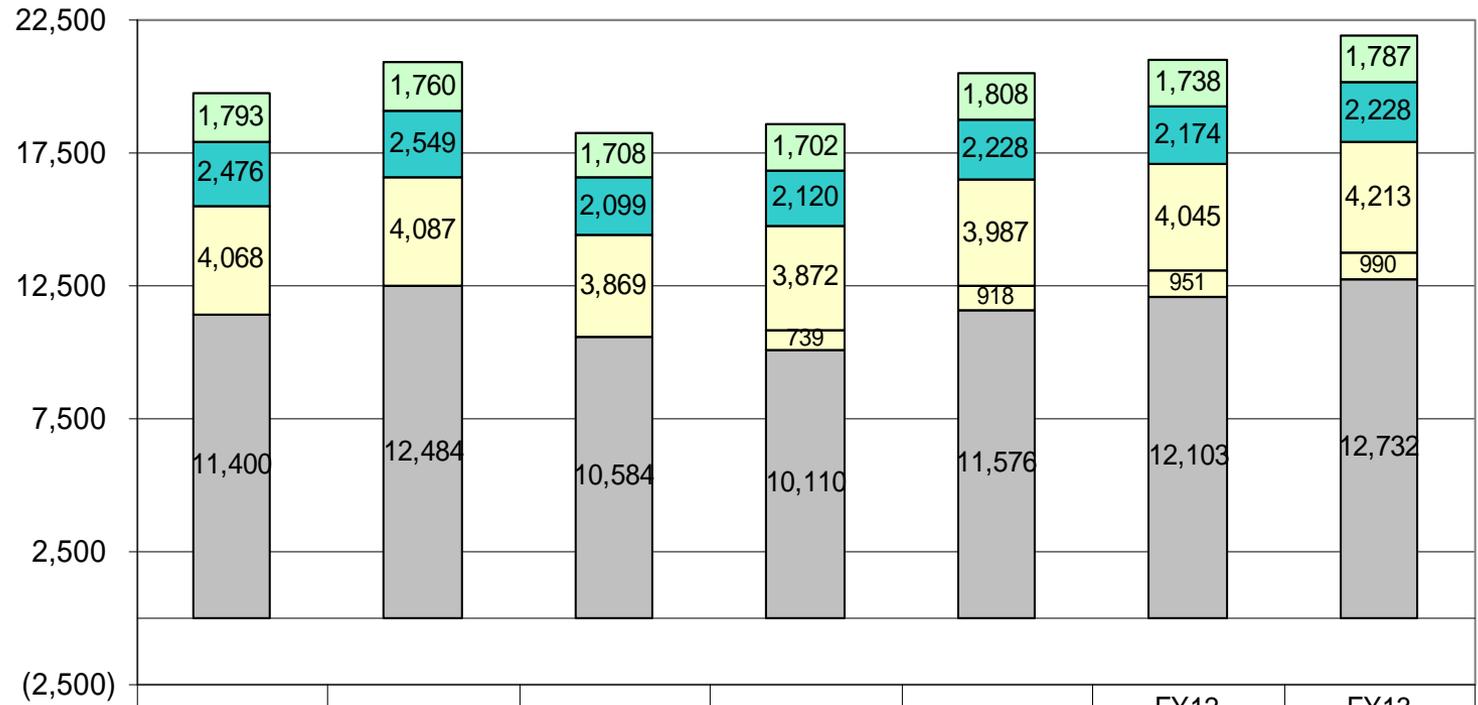
Presented by:

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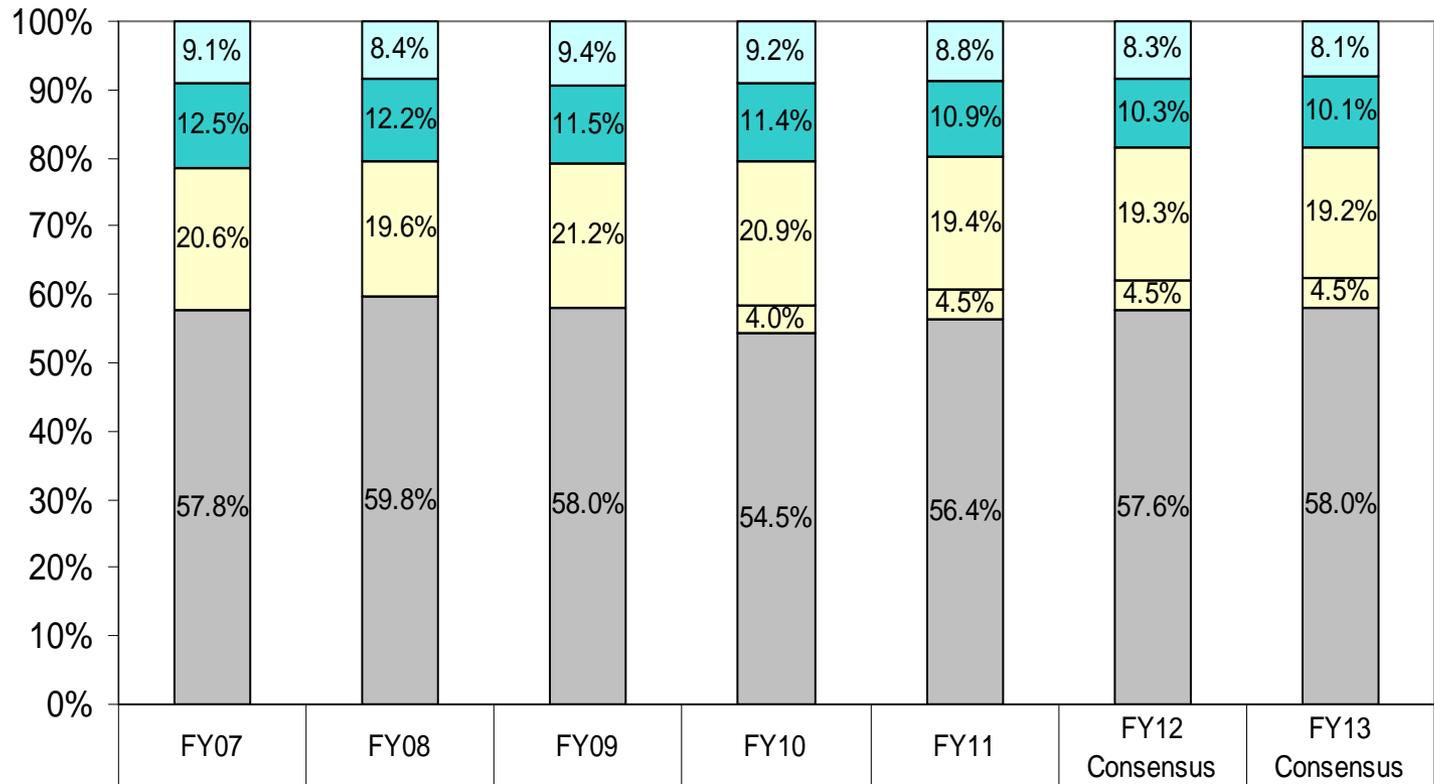
## Tax revenue collections by fiscal year and by categories (\$ millions)



	FY07	FY08	FY09	FY10	FY11	FY12 Consensus	FY13 Consensus
■ All Other	1,793	1,760	1,708	1,702	1,808	1,738	1,787
■ Corporate & Business	2,476	2,549	2,099	2,120	2,228	2,174	2,228
■ Sales Tax at rate of 5%	4,068	4,087	3,869	3,872	3,987	4,045	4,213
■ Impact of Sales Tax Rate Increase				739	918	951	990
■ Total Income	11,400	12,484	10,584	10,110	11,576	12,103	12,732

**Total Revenue Collections**      19,736      20,879      18,259      18,544      20,517      21,010      21,950

## Tax revenue collections by fiscal year and by categories (% of total)



□ All Other	9.1%	8.4%	9.4%	9.2%	8.8%	8.3%	8.1%
■ Corporate & Business	12.5%	12.2%	11.5%	11.4%	10.9%	10.3%	10.1%
□ Sales Tax at rate of 5%	20.6%	19.6%	21.2%	20.9%	19.4%	19.3%	19.2%
□ Impact of Sales Tax Rate Increase	0.0%	0.0%	0.0%	4.0%	4.5%	4.5%	4.5%
■ Total Income	57.8%	59.8%	58.0%	54.5%	56.4%	57.6%	58.0%

## Revenue Collections in Recent Years

- Tax collections grew 6.8% actual and 7.2% baseline in FY07, and 5.8% actual and 6.4% baseline in FY08. Just remember this was just before the beginning of so called “Great Recession”. The strong growth in tax collections was primarily due to the strength in withholding collections, taxes on interest and dividends, and corporate and business taxes, as well as capital gains taxes, reflecting the strong labor market and stock market. Sales tax collections were relatively weak.
- FY09 saw a steep decline in revenue collections due to the recent Great Recession, with tax collections falling 12.5% actual and 13.2% baseline. Sales taxes, corporate and business taxes, income tax paid on capital gains, dividends and interest, and withholding tax collections – all fell dramatically.

## Revenue Collections in Recent Years (continued)

- Tax revenues began to recover in FY10, especially in the last quarter of the fiscal year, reflecting an improvement in economic conditions in Massachusetts. But the recovery was weak and income tax paid on capital gains, dividends and interest, and withholding tax collections were all lower compared to FY09. Total tax collections increased by 1.6% actual but declined by 3.2% baseline.
- The FY11 performance drew on an underlying sound economy that generated year to year increases in withholding, sales and corporate taxes, as well as an infusion of revenue from income tax on investment income. The increase of collections (10.6% actual and 9.3% baseline) reflects a Massachusetts economy that grew noticeably stronger during the fiscal year, as well as a strong recovery of the stock market.
- Note: Contribution of sales tax rate change (took effect in August 2009) to total collections was significant (See the second chart above: accounted for 4% of total collection in FY09 and 4.5% in FY10 and thereafter)

# Revenue Collections in FY12 Year to Date

- **Withholding:** Withholding has increased moderately so far in FY12, with baseline collections up 3.7% through December 2011, after having increased by 6.0% baseline in FY11.
- **Income Tax Estimated Payments (Cash):** Income tax estimated payments (Cash) have declined by 0.4% baseline so far in FY12, after having increased by 20.9% baseline in FY11.
- **Sales Tax:** As consumers increased their spending, sales tax collections have increased in FY12. After having increased by 3.7% baseline in FY11, sales tax collections are up 4.3% baseline FY12 year-to-date. Regular sales tax is up by 3.6% baseline. Meals tax is up 5.4% baseline. Motor vehicle sales tax has increased by 6.8% baseline.
- **Corporate and Business Excise:** With slow economic recovery and moderate corporate profits growth, the corporate and business tax collections have posted a moderate decline in the first six months of FY12, with a baseline decrease of 6.7% through December compared with an increase of 4.5% baseline in FY11. Note: YTD corporate and business estimated payments (cash), which reflect current economic activity, are down 7.5% actual and baseline.

# Revenue Forecasts in FY12 and FY13

- While the national and state economies continued to grow, the growth has slowed down in 2011, and is expected to remain slow during 2012 and 2013. Therefore tax revenues are expected to grow moderately in FY12 and FY13.
- The FY12 consensus revenue estimate assumed FY12 revenue collections of \$20.525 billion. After adjusting for revenue initiatives enacted as part of the FY12 budget, and the sales tax holiday, the FY12 tax forecast was \$20.615 billion, reflecting actual growth of 0.48% and baseline growth of 1.2% from FY11 collections.
- On October 17, 2011 the Executive Office for Administration and Finance (A&F) increased the FY12 revenue estimate by \$395 million, to \$21.010 billion. The revised estimate reflects projected revenue increase of 2.4% actual and 3.1% baseline from FY11 collections.
- On January 12, 2012, the FY12 estimate was kept at \$21.010 and a fiscal 2013 consensus tax revenue estimate of \$21.950 billion was agreed upon by the Secretary of Administration and Finance and the chairs of the House and Senate Committees on Ways and Means. The fiscal 2013 consensus tax revenue estimate of \$21.950 billion represents revenue growth of 4.5% actual and 5.4% baseline from the revised fiscal 2012 estimate of \$21.010 billion.