

## **Commonwealth of Massachusetts**

**Testimony of  
Geoffrey E. Snyder  
Commissioner, Department of Revenue  
Consensus Revenue Hearing  
December 21, 2021**

**Good morning, Secretary Heffernan, Chair Rodrigues, Chair Michlewitz, and members of the House and Senate.** My name is Geoffrey Snyder and I am the Commissioner of the Department of Revenue. With me today is Kazim Ozyurt, Chief Economist and Director of the Office of Tax Analysis; Michael Fatale, DOR's Acting General Counsel; and Rebecca Forter, Deputy Commissioner for Tax Policy. Thank you for inviting us here today.

We are pleased to present the Department's updated outlook for Massachusetts state tax revenues for FY22 and FY23.

**Our Focus today is on FY22 and FY23, but a brief recap of FY21 will provide helpful context.**

Revenue collections for FY21 totaled \$34.137 billion, \$5.047 billion above the FY21 benchmark and \$4.528 billion more than the amount collected in FY20. The positive results reflect the Commonwealth's on-going economic recovery, federal fiscal and monetary policies, financial market performance, and the easing of COVID-19 restrictions. FY21's positive results were broad-based, with each major revenue category exceeding both benchmark and prior year results. Meals tax, a component of sales tax, did decline by \$130 million from FY20, but collections improved towards the end of the fiscal year.

## **[DOR's FY22 and FY23 Forecasts.]**

We face a number of areas of uncertainty in FY22 and FY23. Tax collections will vary depending on many factors including:

- The trajectory of the pandemic with new COVID-19 variants like Delta and Omicron and the status of public health measures;
- The persistence of global supply chain issues and labor shortages and their impact on production and product availability;
- The rate of inflation and its impact on consumer spending and economic growth;
- The impact of the Federal Reserve's recently announced phasing out of its large scale bond buying programs and the likely increase in interest rates on inflation, financial and real estate markets, business investment, and consumer spending; and
- Other global and political economic factors.

The assumptions used to project the impact of these, and other factors will generate varying economic scenarios and tax revenue forecasts.

Our FY22 and FY23 forecasts are based in part on the projections provided by our economic vendors, Moody's Analytics and IHS Markit. Both vendors have produced various economic scenarios and we have incorporated these into our forecasts.

In addition to the vendors' economic projections, our FY22 and FY23 forecasts reflect FY22 year-to-date preliminary tax collections as of November 2021.

FY22 year-to-date collections through November 2021 totaled \$13.612 billion, \$914 million above the year-to-date benchmark and \$2.145 billion more than

collections in the same period in FY21. Year-to-date collections for each major tax type were above the year-to-date benchmark and exceeded prior year collections. Similar to FY21, these positive results reflect improved labor market conditions, financial market performance, strong retail sales, and continued easing of COVID-19 restrictions.

On August 27, 2021, the Secretary of Administration and Finance established the FY22 tax revenue benchmark estimate of \$34.401 billion.

Based on our vendors' most recent economic projections and FY22 year-to-date tax collections, DOR forecasts FY22 revenue to be in the in the range of \$35.726 billion to \$36.623 billion, an increase of \$1.325 billion to \$2.222 billion from the FY22 tax revenue benchmark estimate.

For FY23, DOR forecasts revenue to be in the range of \$36.484 billion to \$37.684 billion, which is between 2.1% and 2.9% higher than our revised FY22 forecast.

Now I would like to provide some detail around our forecasts of each category.

I would like to remind you that Massachusetts state tax revenues consist of the following major tax types: income tax, which in FY21 accounted for 57.4% of state tax revenue, followed by sales tax at 22.9%, corporate and business tax at 12.1% and "all other" taxes at 7.6%.

Beginning with income tax:

- Income tax revenues are driven by employment, wages and salaries, capital gains, income from dividends and interest, and non-corporate business income.

- According to the U.S. Bureau of Labor Statistics, U.S. total nonfarm payroll employment rose by about 5.8 million over the twelve months ending November 2021 and by 18.5 million since April 2020. However, it is still down 2.6% from its pre-pandemic level in February 2020. As of November 2021, the U.S. unemployment rate is 4.2%, a significant decline from its high of 14.8% at the end of the recession in April 2020, but still higher than its February 2020 pre-pandemic level of 3.5%.
- Massachusetts employment followed a similar pattern to that of US employment. According to the U.S. Bureau of Labor Statistics, Massachusetts total nonfarm payroll employment increased by 197,000 over the twelve months ending in October 2021 and by 501,000 since April 2020. However, it is still down 5.1% from its pre-pandemic level in February 2020.

**Total Income Taxes:** Using the most current economic projections from our vendors, FY22 income taxes are forecasted to be between \$348 million and \$753 million higher than the FY22 benchmark of \$19.941 billion. In FY23, they are forecasted to increase by between 2.3% and 3.1% from our revised FY22 income tax forecast.

**Withholding:** In FY22, withholding tax collections are forecasted to be between \$166 million and \$251 million higher than the FY22 benchmark of \$15.310 billion. In FY23, they are forecasted to increase by between 3.2% and 5.4% from the revised FY22 forecast.

**Capital Gains:** Capital gains taxes are a volatile revenue source. With years of rising capital markets, we recognize the potential for growing reserves of unrealized gains. However, capital gains revenue collections have been very strong

over the past several years, hitting an all-time high in FY21, which leads to uncertainty about how much more unrealized gains remain.

We forecast capital gains to be between \$2.409 billion and \$2.713 billion, which compares to the FY22 capital gains benchmark of \$2.615 billion. In FY23, we forecast capital gains to be between \$2.198 billion and \$2.356 billion.

**Sales Tax:** Total sales tax receipts through the first five months of FY22 have increased by 19.1% from the same period in FY21, with regular sales tax increasing by 15.2%, meals tax increasing by 52.1%, and motor vehicle tax increasing by 8.7%.

Sales tax receipts in FY22 are forecasted to be \$490 million to \$613 million higher than the FY22 total sales tax benchmark of \$7.864 billion. In FY23, they are forecasted to increase by 1.8% to 3.0% from our FY22 revised sales tax forecast.

**Corporate and Business Taxes:** FY22 year-to-date corporate and business tax collections, another of the more volatile revenue categories, are up 39.1% over the same period in FY21.

Excluding large one-time tax settlement and judgment payments,<sup>1</sup> FY22 corporate and business tax revenue collections are forecasted to exceed the FY22 benchmark of \$3.979 billion by between \$264 million and \$615 million. For FY23, corporate and business tax receipts are forecasted to increase by 2.4% to 2.9% from our revised FY22 corporate and business tax forecasts.

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<sup>1</sup> DOR does not attempt to forecast settlement and judgment payments.

**Other Taxes:** Collections in the “all other” category through the first five months of FY22 have increased by 30.1% as compared to the same period in FY21, reflecting mostly increases from Estate, Room Occupancy, Deeds, and Motor Fuels taxes.

In FY22, the “All Other” tax category is forecasted to exceed the FY22 benchmark of \$2.617 billion by between \$224 million and \$242 million. In FY23, the All Other Tax category is forecasted to increase by 0.5% to 1.5% from our FY22 All Other tax forecasts.

**To recap:**

- The Department of Revenue forecasts FY22 tax revenue in the range of \$35.726 billion to \$36.623 billion. This range is 3.9% to 6.5% more than the FY22 total tax revenue benchmark of \$34.401 billion.
- The Department of Revenue forecasts FY23 tax revenue in the range of \$36.484 billion to \$37.684 billion, which is between 2.1% to 2.9% above DOR’s revised FY22 tax revenue forecast.
- FY22 year-to-date tax revenues are \$914 million above the year-to-date benchmark and \$2.145 billion more than collections in the same period of FY21.
- Like the national economy, the Massachusetts economy is recovering from the pandemic-induced recession as evidenced by labor and financial market performance, strong retail sales, and wage and income growth. However, there is uncertainty regarding the sustainability of these positive economic trends going forward. Accordingly, we will continue to closely monitor them and the impact they may have on state tax revenue collections.

- There is a significant degree of uncertainty in these forecasts. The trajectory of the pandemic with the new COVID-19 variants inflation, labor and supply chain constraints, potential tightening in financial markets, and global economic uncertainty have combined to create challenges in revenue forecasting for the Commonwealth.

Please note that we have distributed copies of our supporting documents. We are available to respond to any questions.

Thank you for your time.