

## Consensus Revenue Hearing, December 16, 2025

Good morning, Secretary Gorzkowicz, 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 are Kazim Ozyurt, Chief Economist and Director of the Office of Tax Analysis; Tim Rooney, DOR's Chief Financial Officer; and Rebecca Forter, Deputy Commissioner for Tax Policy. Thank you for inviting us here today.

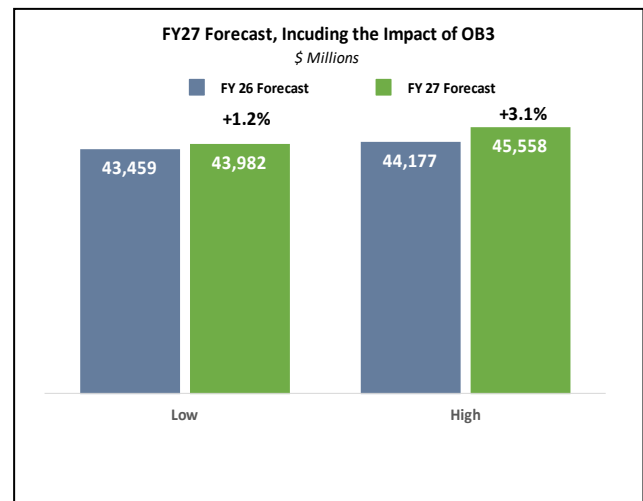
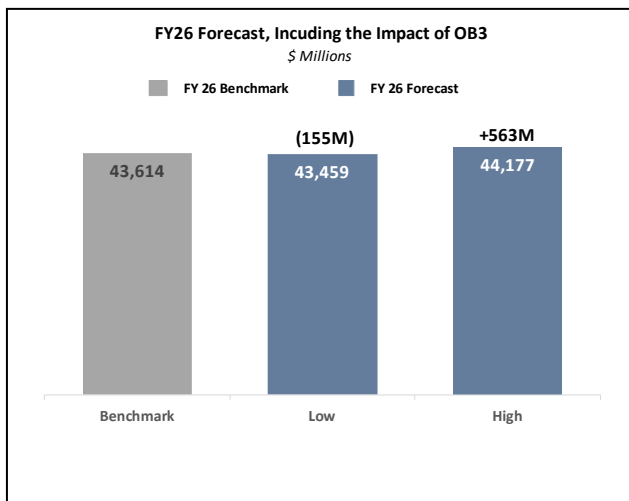
We are pleased to present the Department's outlook for Massachusetts state tax revenues for FY26 and FY27. In our testimony today we will include a discussion on five topics that have a material impact on our forecasts:

1. The One Big Beautiful Bill Act's (OB3) impact on Massachusetts tax revenue.
2. Surtax collections.
3. Massachusetts' labor market conditions and their impact on income withholding.
4. Capital gains tax and its impact on non-withholding income.
5. Corporate and Business excise collections.

Our forecasts incorporate economic projections provided by our vendors, Moody's Analytics and S&P Global. We have also provided a more detailed view of our FY26 and FY27 forecast as well as FY26 November year-to-date revenue collections in the appendix section of the testimony.

### **FY26 and FY27 Revenue Forecasts Including Surtax and the Impact of OB3**

DOR forecasts FY26 revenue to be in the range of \$43.459 billion and \$44.177 billion. This range is between \$155 million below and \$563 million above the current FY26 benchmark. We forecast FY27 revenue to be between 1.2% and 3.1% higher than our FY26 forecast. These forecasts reflect the impact of OB3 on state tax collections, surtax revenue, and a Massachusetts economy that is in a period of slow growth, characterized by modest gains in real gross state product. According to the Bureau of Economic Analysis, Massachusetts' real gross state product increased at an annual rate of 2.1% in the second quarter of 2025 compared with the second quarter of 2024. In their baseline scenario our vendors project the Commonwealth's real gross state product to grow by 2.3% in FY26 and 1.8% in FY27.



We face several areas of uncertainty in FY26 and FY27 and tax collections will be dependent on many factors including:

- The resiliency of the Massachusetts' economy and whether the economy maintains its current rate of slow but steady growth?
- The impact of cuts in federal research and development grants on employment in the education, healthcare, pharmaceutical, and biotechnology sectors.
- Unexpected changes to tariff policies including potential retaliatory measures and their impact on inflation, interest rates, and the economy in general.
- Federal reserve monetary policy and interest rates, including long maturity treasuries and their impact on real estate activity and overall investments.

### **OB3's Impact on Massachusetts' Tax Revenue**

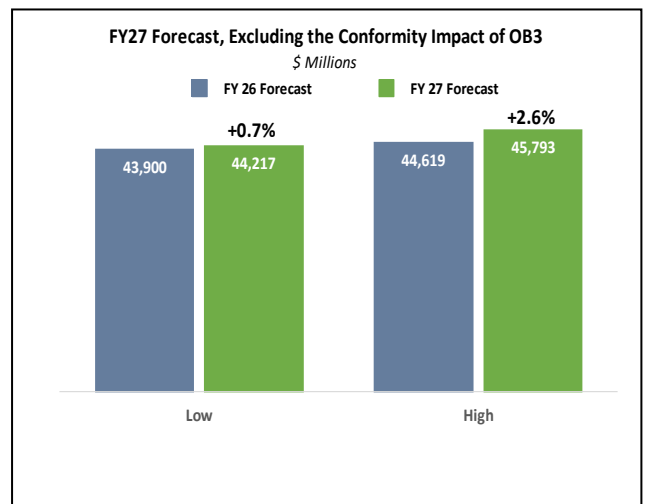
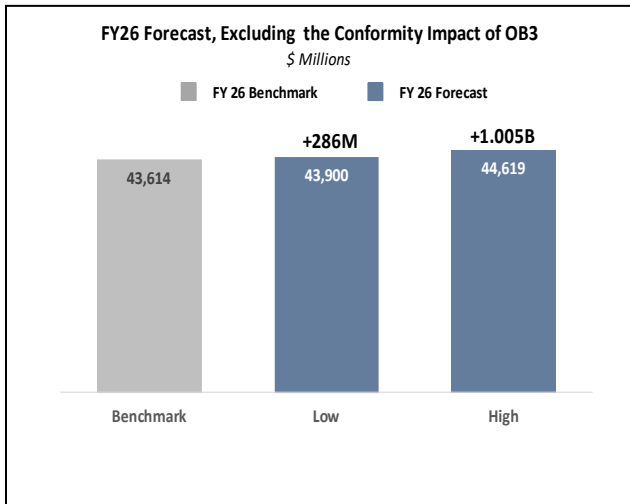
DOR estimates that about thirty of the provisions included in OB3 will trigger a net negative impact on Massachusetts tax revenue. Of the thirty, approximately twenty-nine trigger an impact because Massachusetts' currently conforms automatically to the relevant section of the Federal tax code. The remaining provision, the increase in the cap on Federal deductions for state and local taxes (SALT) from \$10k to \$40k, is not a matter of conformity. It is a reflection of some taxpayers choosing to no longer participate in the state's pass-through entity (PTE) workaround due to the increase in the cap. As shown in the table below, we estimate that OB3 will result in a \$664 million revenue loss in FY26, \$442 million from the provisions triggered by conformity and \$222 million from the increase in the SALT cap. The \$664 million revenue loss was not included in the FY26 benchmark as OB3 was enacted after the establishment of the FY26 benchmark.

In FY27, we estimate that OB3 will result in a \$282 million revenue loss. The revenue loss in FY27 is significantly smaller than the loss in FY26 because some of the provisions in the bill are retroactive and because of timing factors inherent in the PTE workaround.

OB3's impact on MA tax revenue  
\$ Millions

<b>OB3 Provisions Type</b>	<b>Fiscal Year</b>		
	2026 Benchmark	2026 Estimate	2027 Estimate
Conformity Impact	-	(\$442)	(\$234)
SALT/PTE Impact	-	(\$222)	(\$48)
Total	-	(\$664)	(\$282)

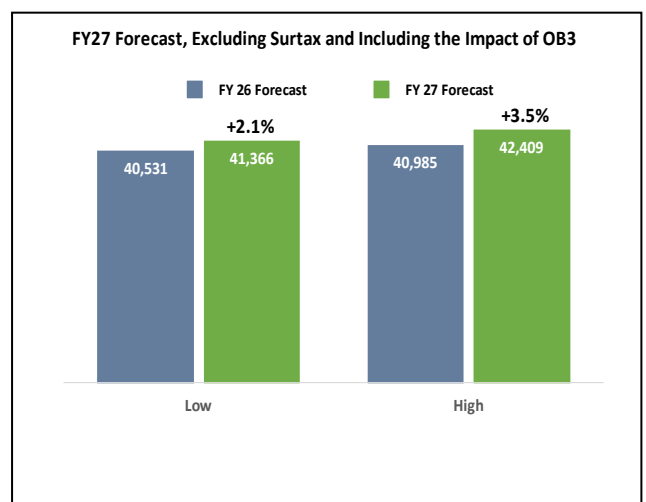
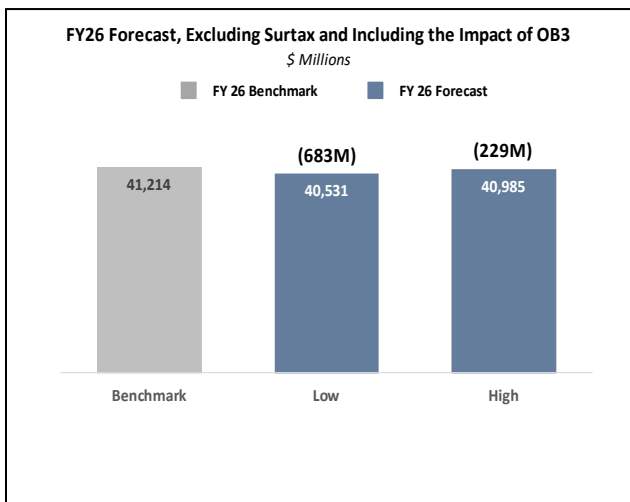
If you exclude the conformity impact of OB3, DOR's FY26 forecast is between \$286 million and \$1.005 billion above the FY26 benchmark and our FY27 forecast is between 0.7% to 2.6% higher than the FY26 forecast.



### **Surtax Forecast- Better than the Benchmark in FY26 but Decreases in FY27.**

For FY26, we forecast that surtax collections will exceed the FY26 benchmark of \$2.400 billion by between \$528 million and \$793 million. However, based upon our vendor's economic and financial market projections and their effects on high income taxpayers, we forecast FY27 surtax collections will be between 10.6% and 1.3% lower than our FY26 forecast.

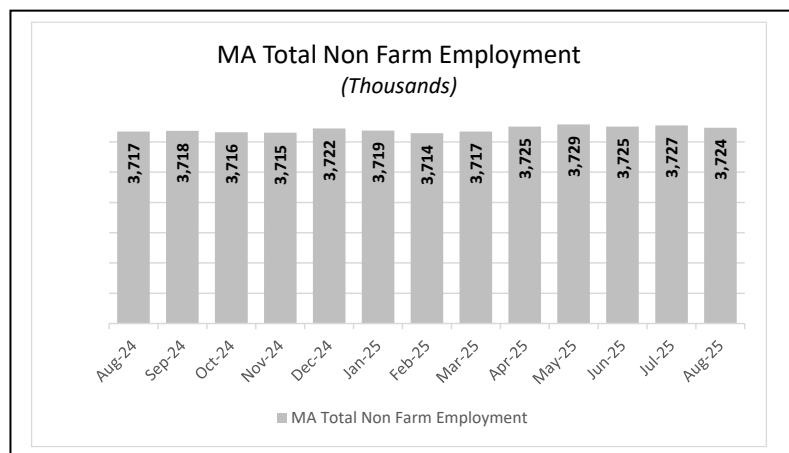
If we were to exclude surtax revenue and include the estimated impact of OB3, our FY26 forecast is between \$683 million and \$229 million below the FY26 benchmark and our FY27 ex-surtax revenue forecast is between 2.1% and 3.5% higher than our FY26 ex-surtax forecast.



## **Withholding Excluding Surtax-Slightly Below the FY26 Benchmark and a Modest Increases in FY27**

We forecast income withholding excluding the surtax to be between \$16 million below and \$37 million above the FY26 benchmark. In FY27, we forecast moderate growth of between 3.3% and 4.0% compared to our FY26 forecast.

These forecasts reflect the sluggish state of Massachusetts' labor market. Since August 2024, Massachusetts' non-farm employment grew by less than seven thousand jobs, or 0.2%, and year-over-year growth in monthly earnings has decreased from 3.2% in January 2025 to 2.0% in August 2025. For FY27, our vendors project employment growth of 0.2% and wage growth of 4.4% in their baseline scenario.



Source: U.S. Bureau of Labor Statistics

## **Non-Withholding Income Excluding Surtax and OB3- Driven Mostly by Capital Gains.**

Before including the estimated impact of OB3, we forecast FY26 non-withholding income excluding the surtax to exceed the FY26 benchmark by between \$773 million and \$944 million. In FY27, we forecast non-withholding income tax to be between 5.9% and 1.1% lower than our FY26 forecast. Much of the change in both our FY26 and FY27 forecasts is driven by our non-surtax capital gains tax forecasts.

Our FY26 non-surtax capital gains forecast is between \$2.858 billion and \$3.003 billion, which compares to the FY26 benchmark of \$2.327 billion. The forecast is based on our estimate of capital gains tax collected through September 30, 2025 and financial market performance over the past year. However, in FY27 based upon our vendors' projections our FY27 non-surtax capital gains forecast is between 16.4% and 10.7% lower than the FY26 forecast.

## **Corporate and Business Forecast- Collections Continue to Decline in FY26 and Level Off in FY27**

FY26 November year-to-date corporate and business excise collections are 11.8% below the year-to-date benchmark and 14.1% below actual collections in the same period of FY25. This represents a trend of declining collections that is likely driven, in part, by economic uncertainty and decline in business and consumer confidence. Based on this trend and our vendors projections of corporate profits and excluding the estimated impact of OB3, we forecast FY26 corporate and business excise to be \$894 million to \$819 million below the FY26 benchmark. We expect the trend of declining collections to level off in FY27. As a result, our FY27 forecast is between 1.4% below and 0.2% above our FY26 forecast.

### **Recap**

To recap:

- DOR forecasts FY26 revenue including the impact of OB3 and surtax revenue to be between \$155 million below and \$563 million above the FY26 benchmark. Our FY27 revenue forecast is 1.2% to 3.1% higher than our FY26 forecast.
- These forecasts reflect a slow-growth Massachusetts' economy and a sluggish labor market.
- OB3 will result in a \$664 million revenue loss in FY26 and \$282 million revenue loss in FY27. Of the \$664 million revenue loss in FY26, \$442 million is triggered by conformity and \$222 million by the increase in the SALT cap. In FY27, \$234 million of the total OB3 impact is triggered by conformity and \$48 million by the increase in the SALT cap.
- We forecast FY26 surtax collections will exceed the FY26 benchmark by between \$528 million and \$793 million. However, in FY27, we forecast surtax revenue will be between 10.6% and 1.3% lower than our FY26 forecast.
- Based on estimated collections through September 30, 2025 and year-to-date financial market performance, we forecast FY26 capital gains tax to be between \$531 million and \$676 million above the FY26 capital gains tax benchmark of \$2.327 billion. In FY27 however, we forecast capital gains tax to be between 16.4% and 10.7% lower than our FY26 forecast.
- We forecast FY26 corporate and business excise to be \$894 million to \$819 million below the FY26 benchmark, continuing a trend of declining corporate and business excise collections. In FY27, we expect the trend of declining collections to level out and forecast corporate and business excise to be between 1.4% below and 0.2% above our FY26 forecast.
- We face several areas of risk in FY26 and FY27 including the resiliency of the Massachusetts' economy; the impact of cuts in federal research and development grants on employment in key sectors of the Massachusetts labor market; unexpected changes to tariff policies and potential retaliatory measures and; federal reserve monetary policy and interest rates including long maturity treasuries and their impact on real estate activity and overall investments. We will continue to closely monitor these risk factors and the impact they may have on the state economy and tax revenue collections.

Thank you for your time. We are available to respond to any questions and have distributed copies of our supporting documents for your reference.

## Appendix

### FY26 and FY27 Forecasts by Major Revenue Category

FY26 Consensus Revenue Forecast vs FY26 Revenue Benchmark						
\$ Millions						
	FY26 Benchmark	FY26 Forecast		FY26 Forecast vs FY26 Benchmark		
		Low	High	Low		High
				\$	%	\$ %
<b>Revenue excluding the impact of OB3</b>						
PIT excluding surtax						
Withholding	19,445	19,429	19,482	(16)	-0.1%	37 0.2%
Capital gains tax	2,327	2,858	3,003	531	22.8%	676 29.1%
Other	2,468	2,710	2,736	242	9.8%	268 10.9%
Non withholding income excluding surtax	4,795	5,568	5,739	773	16.1%	944 19.7%
Total PIT excluding surtax	24,240	24,997	25,221	757	3.1%	981 4.0%
Surtax	2,400	2,928	3,193	528	22.0%	793 33.0%
Sales	9,633	9,658	9,750	25	0.3%	117 1.2%
Corporate and Business	4,750	3,856	3,931	(894)	-18.8%	(819) -17.2%
Other	2,591	2,685	2,746	94	3.6%	155 6.0%
<b>Total revenue excluding OB3</b>	<b>43,614</b>	<b>44,123</b>	<b>44,841</b>	<b>509</b>	<b>1.2%</b>	<b>1,227</b> 2.8%
<b>OB3</b>						
Conformity	0	(442)	(442)	(442)	na	(442) na
SALT/PTE	0	(222)	(222)	(222)	na	(222) na
<b>Total OB3</b>	<b>0</b>	<b>(664)</b>	<b>(664)</b>	<b>(664)</b>	<b>na</b>	<b>(664)</b> na
<b>Total revenue including OB3</b>	<b>43,614</b>	<b>43,459</b>	<b>44,177</b>	<b>(155)</b>	<b>-0.4%</b>	<b>563</b> 1.3%

FY27 Consensus Revenue Forecast vs FY27 Consensus Revenue Forecast							
\$ Millions							
	FY26 Forecast		FY27 Forecast		FY27 Forecast vs FY26 Forecast		
	Low	High	Low	High	Low		High
					\$	%	\$ %
<b>Revenue excluding the impact of OB3</b>							
PIT excluding surtax							
Withholding	19,429	19,482	20,073	20,267	644	3.3%	785 4.0%
Capital gains tax	2,858	3,003	2,390	2,681	(468)	-16.4%	(322) -10.7%
Other	2,710	2,736	2,850	2,993	140	5.2%	257 9.4%
Non withholding income excluding surtax	5,568	5,739	5,239	5,674	(328)	-5.9%	(65) -1.1%
Total PIT excluding surtax	24,997	25,221	25,312	25,942	315	1.3%	720 2.9%
Surtax	2,928	3,193	2,616	3,150	(311)	-10.6%	(43) -1.3%
Sales	9,658	9,750	9,803	10,001	145	1.5%	251 2.6%
Corporate and Business	3,856	3,931	3,802	3,940	(54)	-1.4%	9 0.2%
Other	2,685	2,746	2,731	2,808	46	1.7%	62 2.2%
<b>Total revenue excluding OB3</b>	<b>44,123</b>	<b>44,841</b>	<b>44,265</b>	<b>45,840</b>	<b>142</b>	<b>0.3%</b>	<b>999</b> 2.2%
<b>OB3</b>							
Conformity	(442)	(442)	(234)	(234)	207	46.9%	207 46.9%
SALT/PTE	(222)	(222)	(48)	(48)	175	78.6%	175 78.6%
<b>Total OB3</b>	<b>(664)</b>	<b>(664)</b>	<b>(282)</b>	<b>(282)</b>	<b>382</b>	<b>57.5%</b>	<b>382</b> 57.5%
<b>Total revenue including OB3</b>	<b>43,459</b>	<b>44,177</b>	<b>43,982</b>	<b>45,558</b>	<b>524</b>	<b>1.2%</b>	<b>1,381</b> 3.1%

Please note that these forecasts exclude one-time tax settlement and judgment payments, which DOR does not attempt to forecast.

## FY26 November Year-to-Date Preliminary Revenue Collections.

*\$ Millions*

