

Commonwealth of Massachusetts

**Testimony of
Geoffrey E. Snyder
Commissioner, Department of Revenue
Consensus Revenue Hearing
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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 Policy Analysis; Kevin Brown, DOR's 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 FY21 and FY22.

On December 11th, 2020, the Secretary of Administration and Finance announced a revised FY21 tax revenue estimate of \$28.390 billion. The revised estimate includes the incremental impact of sales tax acceleration which generates a one-time increase in revenue of \$267 million. For comparison purposes, we have excluded the one-time impact of sales tax acceleration from our testimony.

The revised FY21 estimate excluding the impact of sales tax acceleration is \$28.123 billion (\$28.390 billion less \$267 million), which represents a decline of \$1.486 billion or 5.0% from FY20 tax revenue total of \$29.609 billion.

DOR's current forecast of FY21 tax revenue ranges from \$26.967 billion to \$28.667 billion, which represents a decline of \$2.643 billion to \$942 million, or 8.9% to 3.2% from FY20 tax revenue.

The December 11th revised FY21 tax revenue estimate is within DOR's current FY21 tax revenue forecast range and DOR believes it is appropriate to use the December 11th revised estimate for FY21 budgeting purposes.

Please note, both DOR's FY21 tax revenue forecasts and the revised FY21 tax revenue estimate do not include estimated settlement and judgements of \$50 million.

Turning to FY22, DOR is forecasting tax revenue of between \$27.828 billion and \$30.610 billion, which is between \$295 million, or 1.0%, below, and \$2.486 billion, or 8.8%, above the December 11th revised FY21 tax revenue estimate excluding the one-time impact of sales tax acceleration.

While most financial market indices and economic indicators have improved significantly since April 2020, the COVID-19 pandemic continues to impact both the national and Massachusetts economies. More specifically, we believe the following factors influence the current economic uncertainty: 1) the availability and success of a COVID-19 vaccine; 2) business investment decisions based on short and long term assessment of business operations in the post-recession era; 3) federal monetary and fiscal stimulus; 4) state fiscal balances; 5) political and economic tensions across the globe; and 6) world-wide economic recovery efforts.

As I mentioned in my October 7th Economic Round table testimony, there were several significant events that occurred in fiscal year 2020 that provide important context in understanding the revenue outlook for FY21 and FY22. These events include the outbreak of COVID-19; Fiscal and monetary policies adopted by the federal government in response to the COVID-19 crisis; and the extension of

various tax return and payment deadlines. Details regarding each of these events is included in the supporting documents we distributed with our testimony.

Since May 2020, the national and Massachusetts economies have recovered rapidly, with the US real GDP growing 33.1% in the third quarter of 2020 compared with the prior quarter. This is still 3.5% below the previous peak attained in the fourth quarter of 2019. Through November, the country has recovered 56% of the 22.2 million jobs lost in March and April. Through October, Massachusetts has recovered 48% of the 690,500 jobs lost during March and April.

However, with the rapid increase of new COVID-19 infections, the pace of economic recovery has somewhat decelerated. In November, 245,000 new non-farm jobs were added, much smaller than the 610,000 jobs created in the prior month. In fact, the growth in non-farm employment has declined every month since June. Initial claims for unemployment benefits have also increased recently, totaling 853,000 for the week ending December 5th, 137,000 more than the 716,000 claims for the prior week.

We are still facing an array of unknowns in FY21 and FY22. Tax collections will vary depending on many factors, including:

- The on-going pandemic and vaccine and therapeutic developments to combat the COVID-19 virus;
- The status of public health measures enacted at the federal, state, and local level to mitigate the impact and breadth of COVID-19, including safer-at-home advisories and the restrictions on businesses;
- The potential for additional monetary and fiscal stimulus; and
- other global political and economic factors.

Different assumptions as to the impact of these factors and others will generate varying scenarios on which tax revenue forecasts are based.

Our FY21 and FY22 tax revenue forecasts are based in part on the economic projections provided by our economic vendors, Moody's Analytics and IHS Markit. Both vendors have produced various economic scenarios and we have incorporated these inputs into our forecasts.

In addition to vendors' economic projections, our FY21 and FY22 tax revenue forecasts also reflect preliminary tax collections for the five months of FY21 through November 2020.

FY21 Year-to-Date Tax Collections

- After adjusting for income tax payments attributable to 2019 returns, which were required to be recorded as FY20 revenue, FY21 year-to-date collections totaled \$11.464 billion, which is \$142 million, or 1.3%, more than collections in the same period in FY20.
- This reflects increases in income tax withholding (mostly due to withholding on unemployment benefits), regular and motor vehicle sales tax, and corporate and business tax, offset by decreases in meals tax, non-withheld income tax and "other tax".
- If we adjust FY21 for withholding on unemployment benefits, one-time events affecting withholding (triggered, for example, by merger and acquisition activity), and corporate and business return payments due in FY20 but received in July 2020, FY21 year-to-date tax collections through November 2020 would have declined \$219 million, or 1.9%, compared with the same period of FY20.

Based on current economic conditions, our vendors' most recent economic projections, and tax collections so far during this fiscal year, **DOR's current forecast for FY21 tax revenue ranges from \$26.967 billion to \$28.667 billion.**

As previously mentioned, our current FY21 forecast range is consistent with the December 11th revised tax revenue estimate. However, FY21 is less than half over, and in most years, nearly two-thirds of the fiscal year's revenue is received between December and June. Therefore, I urge caution in using these numbers. DOR will continue to closely monitor actual tax collections in the coming months.

As for FY22, based on our vendors' most recent economic projections, the Department of Revenue forecasts tax revenue in the range of **\$27.828 billion to \$30.610 billion**, which is between \$295 million, or 1.0% below, and \$2.486 billion, or 8.8%, above the December 11th revised FY21 tax revenue estimate excluding incremental impact of sales tax acceleration.

[FY21 and FY22 tax revenue forecasts.]

- DOR's FY21 and FY22 tax revenue forecasts reflect national economic conditions. The national economy grew 33.1% in the third quarter of 2020 after a decline of 31.4% in the second quarter of 2020. The growth is forecasted to decelerate sharply for the remainder of FY21, with real GDP growing by -0.2% to +2.0% in the last three quarters of FY21 compared with the same period of FY20. In FY22, the national economy is expected to grow by -0.2% to +6.4%.
- Massachusetts state tax revenues consist of income tax (approximately 58.6% of FY20 revenues); sales tax (approximately 23.0%); corporate and business tax (approximately 9.9%); and "other taxes", which includes tax types such as room occupancy, motor vehicle excise and estate tax

(approximately 8.5%). I would like to provide some detail around our forecasts of each category.

Beginning with income tax:

- Income tax revenues are driven by employment, wages and salaries, capital gains, and income from dividends, interest, and pass-through entities.
- According to the U.S. Bureau of Labor Statistics (BLS), U.S. non-farm payroll employment declined by about 22.2 million jobs in March and April 2020 combined. Since then and through November 2020, about 56% or 12.3 million lost jobs have been recovered. The U.S. unemployment rate increased from 3.5% in February 2020 to 4.4% in March 2020 and then to 14.7% in April 2020. Since then the unemployment rate has gradually declined to 6.7% in November 2020 as states gradually reopened their economies. The U.S. unemployment rate is projected to be 6.9% to 8.5% in FY21, and 4.4% to 10.0% in FY22 under our vendors' scenarios.
- Massachusetts employment has followed a pattern similar to that of US employment. According to the most recent BLS data, total non-farm payroll employment declined by about 690,500 in March 2020 and April 2020 combined. Since then through October 2020, about 48%, or 330,800 lost jobs have been recovered, reflecting a pace generally slower than the recovery of employment in the U.S.. Our vendors project Massachusetts employment in FY21 to be 4.5% to 6.5% lower than FY20. Our vendors project Massachusetts employment in FY22 to be 0.7% to 6.0% higher than FY21.
- The Massachusetts unemployment rate increased from 2.8% in February 2020 to 16.2% in April 2020. Since then the unemployment rate has declined to 7.4% in October 2020 as the Commonwealth has gradually reopened the economy. Under our vendors' economic scenarios, the

Massachusetts unemployment rate is projected to be 9.1% to 10.7% in FY21, and 5.0% to 9.2% in FY22.

- According to the U.S. Bureau of Economic Analysis, Massachusetts wage and salary disbursements grew by 1.5% in FY20 compared to FY19. Our vendors project FY21 growth of the Massachusetts wage and salary disbursements to be -0.9% to +3.3% from FY20, and FY22 growth to be -2.2% to +6.7% from FY21.

Total income taxes: Based on economic projections from our vendors, income taxes in FY21 are forecasted to decline by 5.8% to 8.0% from the FY20 income tax total. In FY22, they are forecasted to increase by 0.8% to 7.7% from DOR's FY21 income tax forecasts.

Withholding: In FY21, withholding tax collections, a sub-category of income tax, are forecasted to decline by 2.8% to 3.9% from the FY20 withholding. In FY22, they are forecasted to increase by 0.6% to 6.7% from DOR's FY21 withholding forecasts.

Capital gains tax: Capital gains taxes are a volatile revenue source and therefore difficult to predict. With years of rising financial markets, we recognize the potential for growing reserves of gains. However, the past two years have seen strong capital gains numbers, creating uncertainty as to how much more unrealized gain exists. Therefore, the range of potential outcomes is likely even larger than it would be in an average year.

- We project capital gains taxes to be approximately \$1.213 to \$1.384 billion in FY21, reflecting \$275 million to \$446 million or 16.6% to 26.9% decrease from the FY20 capital gains tax total of \$1.659 billion. In FY22, we project capital gains taxes to be approximately \$1.210 to \$1.644 billion,

reflecting a change of -\$3 million to +\$260 million or -0.3% to +18.8% from DOR's FY21 capital gains tax forecasts.

Sales tax: Total sales tax receipts through the first five months of FY21 have increased by 1.1% from the same period in FY20, with regular sales tax collections increasing 8.4% and motor vehicle sales tax increasing 10.0%, offset by a decrease of 31.2% in meals tax collections.

- In FY21, Massachusetts retail sales are projected by our economic vendors to change by -1.4% to +7.7% from FY20. In FY22, Massachusetts retail sales are projected to change by -1.6% to +7.4% from FY21. Sales tax receipts in FY21 are forecasted to change by -6.3% to +5.0% from FY20 sales tax total. In FY22, they are forecasted to increase by 5.7% to 6.2% from DOR's FY21 sales tax forecasts.
- Note these numbers and comparisons exclude one-time sales tax acceleration in FY21.

Corporate and business taxes: FY21 year-to-date corporate and business tax collections, one of the more volatile revenue categories, are up 13.1% over the same period in FY20. Contributing to this increase is approximately \$50 million in payments from corporate and business tax filers, which were attributable to returns originally due in April but paid in FY21 following the waiver of late filing and payment penalties.

- Nationally, the growth in corporate profits before tax in FY21 by our economic vendors is projected to range between -10.4% and +3.9% as compared to FY20. The corporate profits growth in FY22 is projected to range between -12.3% and +22.2% as compared to FY21.

- Excluding large one-time tax settlement and judgment payments,¹ growth in corporate and business tax revenue for FY21 is forecasted to range from -10.7% to +4.4% as compared to FY20 corporate and business tax total. For FY22, growth in corporate and business tax receipts is forecasted to increase by 3.4% to 11.9% from DOR's FY21 corporate and business tax forecasts.

Other taxes:

- Collections in the "All Other" category through the first five months of FY21 have decreased by 16.4% as compared to the same period in FY20, reflecting mostly decrease in revenues from Motor Fuels, Tobacco, Estate, and Room Occupancy. In FY21, the change in All Other tax category is forecasted to decline by 20.3% to 16.3% from FY20 All Other tax total. In FY22, the change in the All Other tax category is forecasted to increase by 2.8% to 6.6% from DOR's FY21 All Other tax forecasts.

To recap:

- The Department of Revenue forecasts FY21 tax revenue in the range of \$26.967 billion to \$28.667 billion. This range is \$2.643 billion, or 8.9% to \$942 million or 3.2% less than the FY20 tax revenue total of \$29.609 billion.
- The December 11th revised FY21 tax revenue estimate is consistent with DOR's FY21 tax revenue forecasts and appropriate for budgeting purposes in FY21.

¹ DOR does not attempt to forecast settlement and judgment payments.

- FY21 year-to-date tax revenues are \$142 million, or 1.3% higher than tax revenues in the same period in FY20. However, after adjusting for withholding on unemployment benefits, one-time events, and corporate and business returns due in FY20 but received in July 2020, year-to-date tax revenues through November declined by \$219 million, or 1.9%. We expect that revenue volatility may increase during the remainder of this fiscal year.
- Similar to the national economy, the Massachusetts economy continues to be impacted by the pandemic. Levels of uncertainty in the economic activity and financial markets are still high. Despite a strong recovery in the third quarter of Calendar Year 2020, it may take time for the U.S. and Massachusetts economies to return to pre-pandemic levels. Accordingly, state tax revenue may perform below the normal trend for some time.
- The Department of Revenue forecasts FY22 tax revenue in the range of \$27.828 billion to \$30.610 billion, which is \$295 million, or 1.0% below to \$2.486 billion, or 8.8% above the December 11th revised FY21 tax revenue estimate.
- There is considerable uncertainty in these forecasts. The trajectory of the pandemic, the timing of the development and effective distribution of vaccines both in the U.S. and around the globe, the measures that governments have taken to control the pandemic and to mitigate its impact, and potential action at the federal level have combined to create unprecedented challenges in revenue forecasting for the Commonwealth.

Thank you for your time.

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