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News Release

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MTF

MTF Forecast: Sharp Slowdown in Growth of Tax Revenues

The growth in state tax revenues will slow markedly in 2007 and 2008 – to less than half the rate of 2006, according to a forecast released today by the Massachusetts Taxpayers Foundation.

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 revenue hearing at the State House today.

The Foundation estimates that fiscal 2007 tax revenues will total \$19.27 billion, an increase of 4.2 percent over 2006 and \$135 million higher than the forecast released by Romney administration in October. In fiscal 2006 tax revenues increased by 8.2 percent.

According to the Foundation's forecast, the growth in tax revenues will slow further – to 3.0 percent – in fiscal 2008. Tax revenues will rise to \$19.85 billion, an increase of only \$580 million over 2007.

"State fiscal leaders face an enormous challenge in producing a balanced budget for fiscal 2008 without relying on gimmicks or drawing on reserves," said Mr. Widmer. "The difference in growth rates between 2006 and 2008 translates into \$1 billion in reduced revenues."

The Foundation's forecast is predicated on anemic job growth and a leveling off of corporate profits and capital gains which fueled the large increase in tax revenues in fiscal 2005 and 2006. MTF projects that Massachusetts will add only 13,000 jobs in fiscal 2007 and another 21,000 in 2008.

Personal income taxes are projected to rise \$566 million, or 5.4 percent, in 2007 and only \$375 million, or 3.4 percent, in 2008. This compares to growth of 10.0 percent, 9.7 percent, and 8.2 percent in 2004, 2005 and 2006, respectively.

Capital gains revenues, which more than tripled between 2003 and 2006, a gain of some \$900 million, are projected to rise by another \$150 million, or 11.4 percent, in 2007, but then be flat in 2008. Historically, capital gains has proven to be one of the most volatile tax sources; plummeting capital gains receipts were a major contributor to the almost 15 percent decline in tax revenues in 2002.

Sales tax revenues continue to be sluggish, growing a projected 3.3 percent in 2007 and 2.8 percent in 2008. Corporate profits taxes, which almost doubled between 2003 and 2006, are projected to be flat in 2007 and decline slightly in 2008.

The Foundation's Massachusetts projections are based on the most recent national economic forecast from Global Insight, Inc., an economic forecasting firm located in Waltham. That forecast expects a continuation of relatively slow growth in real (inflation-adjusted) GDP in the first half of calendar 2007, with growth rates recovering in the second half of the year. The slowdown is driven by the recent drop in home prices and the accompanying decline in housing construction. This affects the broader economy directly through lost construction jobs and indirectly in lower sales of goods such as carpets and refrigerators tied to new home construction, as well as in the reduced ability of consumers to tap the equity in their homes to finance ongoing spending.

The predicted slowdown in GDP growth translates into a period of slow growth in the stock market and no growth in corporate profits. These, in turn, mean no increase in the two most volatile components of the Massachusetts income tax base. Similarly, the decline in major utility purchases associated with home construction results in a slowdown in sales tax receipts.

The Massachusetts Taxpayers Foundation is an independent, nonprofit organization that conducts research on state and local taxes, government spending, and the economy. Founded in 1932, the Foundation has won numerous prestigious national awards over the last decade for its work on business costs, capital spending, state finances, MBTA restructuring, state government reform, and health care.

MASSACHUSETTS TAXPAYERS FOUNDATION
FISCAL YEAR FORECAST SUMMARY

GLOBAL INSIGHT NATIONAL FORECAST

			<<< History		Forecast >>>	
December 2006	2003	2004	2005	2006	2007	2008
Personal Income (billions of 2000 \$)	8,439	8,642	8,906	9,127	9,426	9,734
% change	0.2	2.4	3.1	2.5	3.3	3.3
Employment (millions)	130.1	130.5	132.4	134.4	136.1	137.8
% change	-0.6	0.3	1.5	1.5	1.2	1.3
Unemployment Rate	5.9	5.8	5.3	4.8	4.7	5.0
CPI (% change)	2.2	2.2	3.0	3.8	2.2	1.9
PPI (% change)	3.3	4.8	6.9	7.7	2.1	2.3
Federal Discount Rate	1.6	2.0	3.2	5.2	6.2	5.5
Prime Commercial Rate	4.4	4.0	5.2	7.2	8.2	7.5
Standard & Poor's 500 Index (% change*)	-16.5	-3.2	17.3	6.8	8.4	3.2

			<<< History		Forecast >>>	
MTF MASS. ECONOMIC FORECAST	2003	2004	2005	2006	2007	2008
Personal Income (billions of current \$)	250.4	260.8	273.4	288.1	302.8	316.5
% change	0.5	4.1	4.8	5.4	5.1	4.5
Personal Income (billions of 2000 \$)	235.3	239.2	243.5	248.8	255.6	263.0
% change	-1.3	1.7	1.8	2.2	2.7	2.9
Total Employment (000s)	3,214	3,176	3,188	3,209	3,222	3,243
% change	-2.0	-1.2	0.4	0.7	0.4	0.6
Unemployment Rate	5.6	5.6	4.9	4.8	4.5	4.5

			<<< History		Forecast >>>	
MTF MASS. TAX FORECAST	2003	2004	2005	2006	2007	2008
Income Tax (millions \$)	8,026	8,830	9,690	10,483	11,049	11,424
% change	1.4	10.0	9.7	8.2	5.4	3.4
Sales Tax	3,708	3,749	3,886	4,004	4,135	4,251
% change	0.3	1.1	3.7	3.0	3.3	2.8
Corporations Tax	799	998	1,063	1,391	1,391	1,349
% change	36.3	24.8	6.5	30.9	0.0	-3.0
TOTAL TAXES**	14,964	15,953	17,087	18,487	19,267	19,846
% change	4.7	6.6	7.1	8.2	4.2	3.0
TOTAL TAXES FOR BUDGET***	14,279	13,867	14,368	16,011	16,641	16,925
% change	4.8	-2.9	3.6	11.4	3.9	1.7

* 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 and school building construction, tax revenues dedicated to pension funding, and net revenues in excess of permissible tax revenues.