



Massachusetts  
Taxpayers Foundation

# A Reality Check on Revenues and Recovery: Presentation to Senate Revenue Working Group

October 13, 21020

# About MTF...

- Founded in 1932, the Massachusetts Taxpayers Foundation (MTF) is a non-profit, non-partisan public policy organization focused on state and local fiscal, tax and economic policies.
- MTF's record of high quality research and non-partisan analysis has earned the organization broad credibility on Beacon Hill and across the Commonwealth.
- Our mission is to provide accurate, unbiased research with balanced, thoughtful recommendations that strengthen the state's finances and economy in order to foster the long-term well being of the Commonwealth.

# Topics:

1. Business Cost Increases
2. Pandemic-Related Impacts
3. Economic Outlook
4. Past Recessions playbook
5. Principles to guide discussion
6. Scenario Planning

# Business Cost Increases – UI

- UI Trust Fund projected to have a \$5 billion deficit by end of 2022
- UI Premiums expected to increase \$319 per employee in 2021; a 60% increase
- If MA borrowing from federal government not paid in full by November 10, 2022, MA employers will be subject to a .030% increase for 2022, increasing the rate from 0.60% to 0.90%.
- For each subsequent year the loan remains outstanding, employers face an additional .030% FUTA increase

# Business Cost Increases – UI

- MA has the most generous program in the country in terms of benefits and duration and eligibility standards.
- UI Trust Fund paid out \$1 billion in benefits despite record low unemployment in 2019.
- A manufacturer with 50 FTEs is looking at an additional UI tax bill of \$15,950 in 2021.

# Business Cost Increases – Health Insurance

- DOI announced average health insurance premium increases of 8% for 2021
- This increase translates into an annual increase of \$648 for individual coverage (\$8,808 annual cost) and \$1,788 for family coverage (\$24,084 annual cost)\*
- Increases tend to be higher in small group market
- A manufacturer with 50 FTEs, half with individual plans and half with family coverage is looking at additional health insurance premium increases of \$48,720 (\$60,900 total x 80% employer share)

\* per CHIA 2018 data (with assumed rate of growth of 4.7% in 2019 and 5.2% in 2020)



# Business Cost Increases - PFMLA

- **Paid Family Leave**

12 weeks for bonding for the birth, adoption, foster care placement care of child caring for a family member (12 weeks)

26 weeks for caring for an active duty member receiving medical treatment

- **Paid Medical Leave**

20 weeks paid medical leave for one's own health condition

**Total allowed time off annually is 20 weeks**

**Maximum benefits is \$850 a week**

**Pandemic is likely to increase usage of benefits**

# Business Cost Increases - PFMLA

- Program's complexity adds a lot of additional indirect costs, i.e. hiring temporarily help or paying overtime during leave, tracking leave, tracking eligibility, etc.
- MA is one of only 5 states (CA, NJ, NY, RI) to have paid FMLA. More generous than any other state and federal govt.
- Only state to require employer contributions, to be adjusted annually. For 2021 00.75% of wages (82.50% for medical leave; 17.50% for family leave.)
- Employers must cover 100% of family leave contributions and at least 60% of medical leave contribution (00.372% of wages) but may deduct up to 40% of it from an employee's wages

# Business Cost Increases – Minimum Wage

- As part of “grand bargain” minimum wage is scheduled to increase by:
  - \$0.75 to \$13.50 from \$12.75 for hourly workers and
  - \$.060 to \$5.55 from \$4.95 for tipped employees effective January 1, 2021.
- Employers will pay an additional \$1,560 per full-time worker making minimum wage come January, 2021 ( $\$0.75 \times 2080$ )

# Business Cost Increases – Transportation Financing

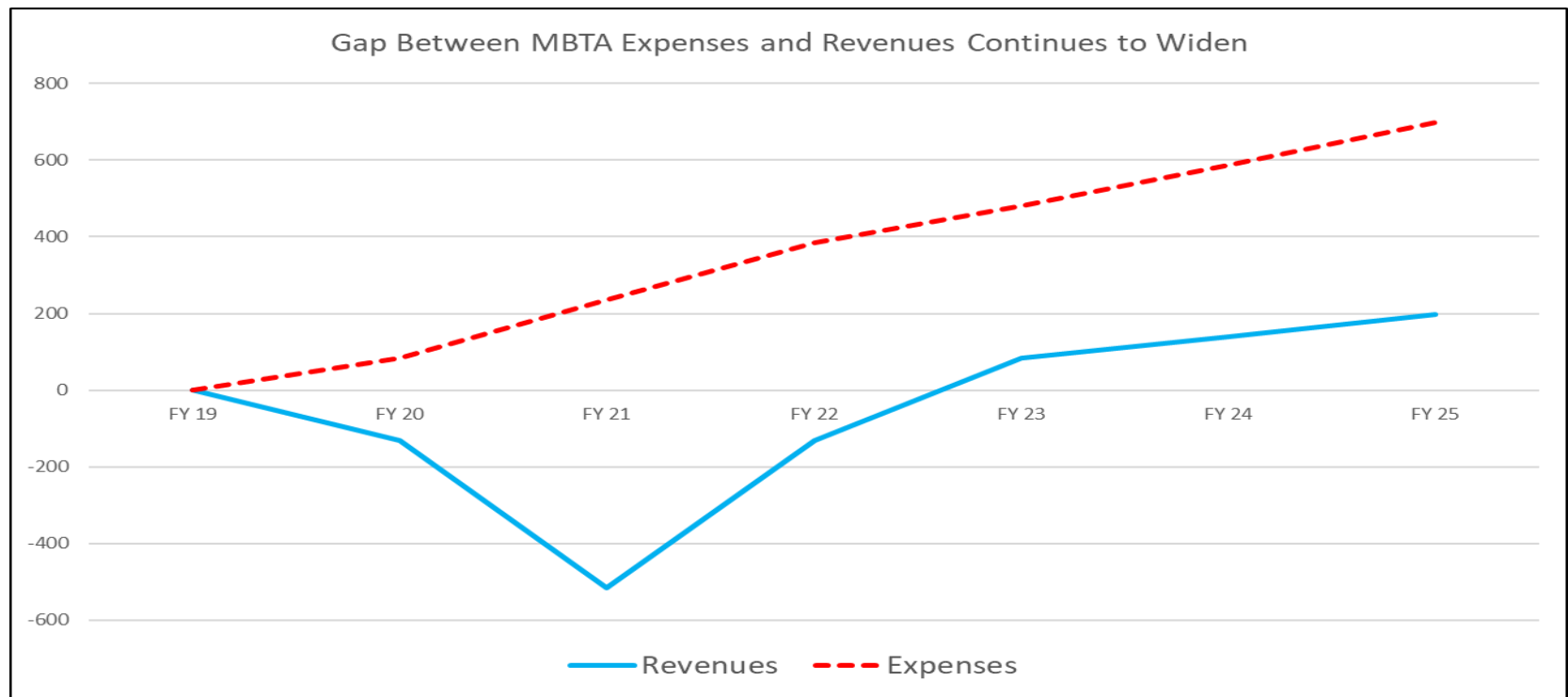
- The House Transportation Finance Bill would raise between \$520 million and \$610 million annually;
- Corporations as consumers would pay portion of sales tax and fee increases
- Increases in the minimum corporate excise are projected to increase between \$100 to \$150 million

	Range	
Fuel Tax		
Gas	140	150
Diesel	37	37
Corporate	100	150
TNC Fees	130	145
Rental Car Sales Tax	110	120
TNC Excise Tax	5	10
<b>Estimated Total</b>	<b>522</b>	<b>612</b>

If total sales during taxable year are:	Minimum tax shall be:
< \$1 M	\$456
\$1 M - \$5 M	\$1,500
\$5 M - \$10 M	\$2,500
\$10 M - \$25 M	\$3,500
\$25 M - \$50 M	\$5,000
\$50 M - \$100 M	\$10,000
\$100 M - \$500 M	\$25,000
\$500 M - \$1 B	\$75,000
> \$1 B	\$150,000

# Business Cost Increases – Transportation Financing

- The MBTA Is Projected To Have An Annual Operating Deficit Of \$400 Million Starting In FY 22



# Business Cost Increases – Income Surtax

- Constitutional amendment to impose a 4% surtax on income over \$1 million, representing an 80% increase in tax rate.
- Projected to raise \$2 billion per year from approximately 19,600 taxpayers.
- Tax applies to pass-through businesses such as corporations, partnerships and sole proprietors.
- MA will be one of a small number of states with a tax targeting the wealthy (CA, NY NJ,) pending in IL.

# Business Cost Increases – Summary

- Example – small business owner with 50 full-time employees with average annual salaries of \$25,625 (minimum wage)

- Employer specific costs:
  - UI = \$15,950
  - Health = \$48,720
  - Minimum Wage = \$78,000

**Total: \$142,670**

- Some portion of:
  - PFMLA = \$1.43b
  - Transportation = \$150m
  - Income Surtax = \$2.0b

**Total: = \$3.58b**

# Pandemic-Related Costs

- Forfeiture of business income due to government shutdowns;
- Enormous uncertainty about the future
- Cost of PPE for frontline workers
- Cost of technology for remote workers
- Lack of business development means no work in pipeline

# Economic Outlook Overview

- Fragility of economy requires a go-slow approach to new taxes on business
- Prolonged uncertainty until after vaccine developed
- Record high unemployment; the cost of a job increases come January
- Increased opportunities to relocate
- Record closure of businesses in retail, hospitality and retail sectors
- Opportunity gaps likely to grow

# Economic Outlook – Uncertain Outlook

- Per MBR...Unprecedented Uncertainty

## 2020 Summer Meetings

“Rather than bringing talent to the opportunity, we are now able to bring opportunity to the talent.”

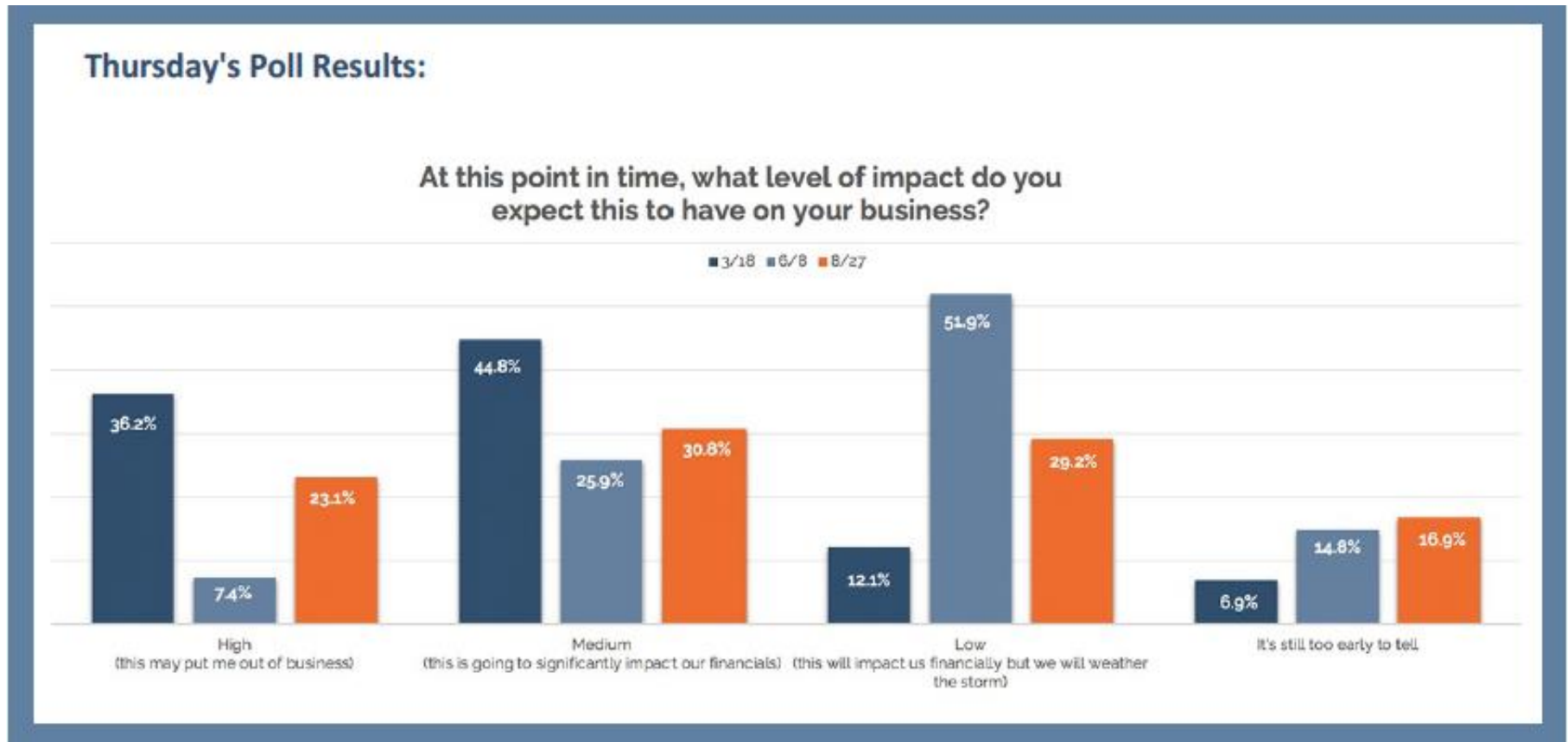
No Consensus  
on Economy

### Contradictions:

- Pent up Demand – Fast Recovery
- Deep Damage with “Long Tail” – Slow Recovery
- Strong Stock Market
- High Unemployment
- Some Industries Hurt, Others Thriving
- Economy Near Recession, Strong Housing Market

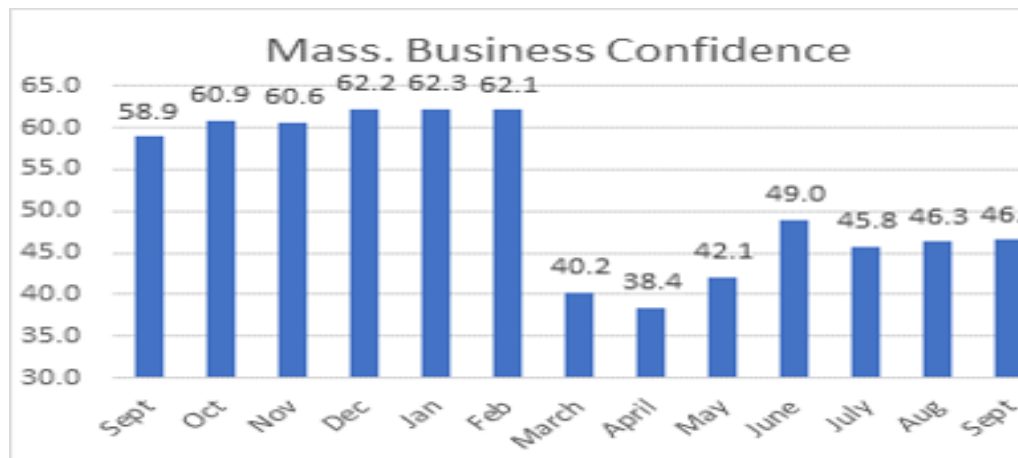
# Economic Outlook – Troubling Indicators

- Per the Springfield Chamber of Commerce, almost 25% of businesses could go out of business....



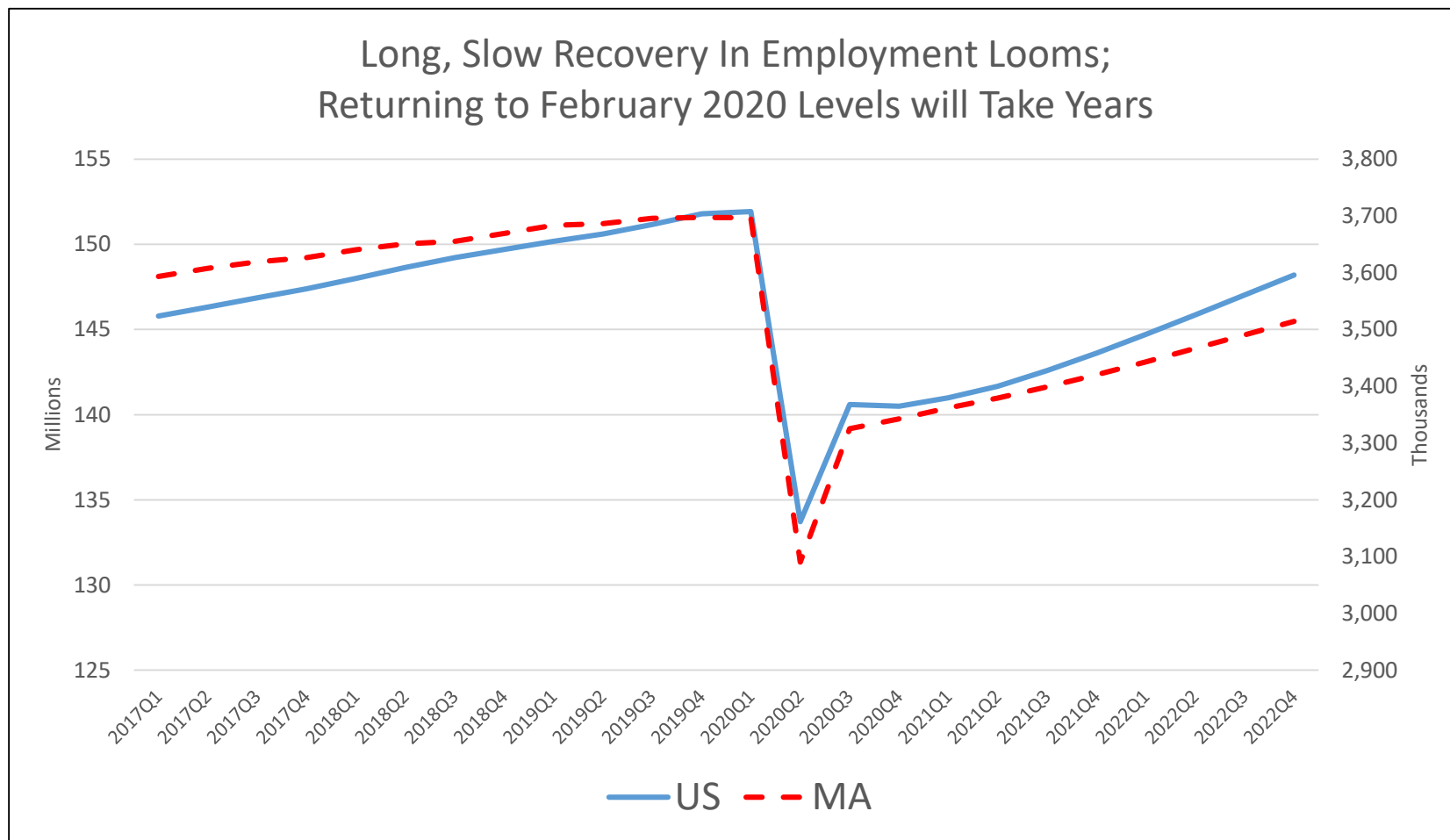
# Economic Outlook

Per AIM's September Survey...Less Business Confidence



Index	Sept 20	Aug 20	Monthly Change	Aug 19	Yearly Change
Business Confidence	46.6	46.3	0.3	58.9	-12.3
Company Index	48.7	49.0	-0.3	58.2	-9.5
Massachusetts Index	44.1	46.1	-2.0	63.3	-19.2
U. S. Index	42.6	38.4	4.2	56.5	-13.9
Current Index	43.9	44.9	-1.0	61.3	-17.4
Future Index	49.2	47.7	1.5	56.4	-7.2
Employment Index	48.6	47.9	0.7	54.2	-5.6
Manufacturing Index	44.9	46.8	-1.9	55.4	-10.5

# Economic Outlook: Slow Jobs Recovery



# Economic Outlook – Remote Working

Per the MACP survey... Remote working could lead to greater job loss, and a slower recovery with implications for MA future competitiveness.

- *60 percent are considering moving or allowing for more work to be done remotely out-of-state.*
- *Two-thirds of local companies that responded to the poll say at least 90 percent of their employees are still working remotely now.*
- *Of those employees who can work remotely, only 2 percent are choosing to come into the office.*
- *54 percent of respondents said they are considering reducing their overall office footprint in Massachusetts*

# Economic Outlook –Commercial Real Estate

Per NAIOP:

“It’s going to be very difficult for MA to fully recover until Boston fully recovers” states Eric Rosengren.

- Current Boston occupancy rate is 10%; vacancy rate is 12.6%; and available sublease space is at record high (2.7m SF).
- WeWorks is second largest tenant in Boston. If remote working replaces co-working, vacant rates could skyrocket
- Aggregate CRE sales are down 68% year-over-year
- This is not a bump, but a significant shift that will be felt for years to come.

# Economic Outlook – Business Closures

Business closures on the rise since pandemic...

- 25% decline in number of small businesses and 35% decline in revenue for small businesses since January 2020
- Boston hotel market experienced sharpest decline in continental US, second only to Oahu.
- MA hotel industry has lost 15,454 or 38% of its 40,562 hotel jobs per the American Hotel and Lodging Assn.
- 20% closure rate for restaurants (>3,000) and 38% reduction in employment count per MRA

# Economic Outlook – Widening Opportunity Gaps

Per the Greater Boston Chamber of Commerce ...  
opportunity gaps are widening...

- Low wage earners are most impacted by pandemic:
  - Employment decreased by 21% for those making <\$27k
  - Employment decreased by 71% for those making <\$60k
  - Employment decreased by 2% for those making >\$60k
- 12% of Boston area businesses are fully minority-owned
- Blacks hold 5% of management positions in Boston
- Achievement gaps in education remain with <30% of Black and Latino students in grades 3-8 proficient in math



# Summary – Do No Harm

Economic circumstances are more fragile than the fiscal situation, with potential long-term negative repercussions. Enormous uncertainty about the recovery

- Fragility of MA economy across all major sectors
- Contraction of workforce due to demographic trends and business closures
- Ability of employers and employees to locate anywhere makes them more sensitive to costs of living and doing business

# Past Recession Playbook – FY2002-04

- Recession due to dot.com bubble and 9/11 attacks
- Solutions included a combination of budget cuts (\$1.2b), use of Stabilization Fund (\$1b) and tax increases (\$1.4b) over a three-year period;
- Taxes increased by delaying the income tax rate reduction from 5.3% to 5% following 200 ballot question;
- Spending cuts (\$1.2b) were comparable to tax increases (\$1.4b)

# Past Recession Playbook - FY2009-11

- Recession due primarily to the credit crunch and sub-prime mortgages;
- Solutions included a combination of budget cuts (\$1.3b), use of Stabilization Fund (\$1.4b), tax increases (\$1b) and substantial federal assistance (\$4.2b) over a three-year period;
- Sales tax rate was increased to 6.25% from 5%;
- Spending cuts (\$1.3b) on par with tax increases (\$1.6b)

# Solutions from Past Recessions

		<i>FY 2002</i>	<i>FY 2003</i>	<i>FY 2004</i>		<i>FY 2009</i>	<i>FY 2010</i>	<i>FY 2011</i>	
<i>Type</i>		<i>Recession 1</i>	<i>Recession 1</i>	<i>Recession 1</i>	<i>Total</i>	<i>Recession 2</i>	<i>Recession 2</i>	<i>Recession 2</i>	<i>Total</i>
Revenues									
Stabilization Fund	State One Time	\$833	\$241		\$1,074	\$1,278	\$171		\$1,449
Tax increases	Tax/Fee Increase		\$1,241	\$174	\$1,415	\$865	\$150		\$1,015
Tax amnesty	State One Time		\$63		\$63		\$33		\$33
Fee increase	Tax/Fee Increase		\$80	\$260	\$340				\$0
Trust funds	State One Time	\$429	\$152		\$581	\$95	\$198	\$85	\$378
Diversion of off-budget funds	Other	\$60	\$145		\$205				\$0
Federal assistance	Federal One Time			\$300	\$300	\$1,281	\$1,454	\$1,521	\$4,256
Revenues Subtotal		\$1,322	\$1,922	\$734	\$3,978	\$3,519	\$2,006	\$1,606	\$7,131
Spending									
Local aid cuts	Spending Cut		\$114	\$289	\$403	\$128	\$250		\$378
Non-local aid 9C	Spending Cut	\$114	\$306		\$420	\$503	\$215		\$718
Chapter 70 cuts	Spending Cut			\$150	\$150				\$0
Pushing pension obligations	Push payment	\$134			\$134	\$140			\$140
Debt restructuring/reforms	Other	\$40	\$60		\$100			\$100	\$100
Spending Subtotal		\$288	\$480	\$439	\$1,207	\$771	\$465	\$100	\$1,336
TOTAL		\$1,610	\$2,402	\$1,173	\$5,185	\$4,290	\$2,471	\$1,706	\$8,467

# Unique Nature of This Recession

- Recession due to **global pandemic**. It is a health crisis that has caused an economic crisis.
- This economic shutdown was sudden, steep and affected all sectors of the economy, including the historical stalwarts “eds and meds”
- Fundamental shifts to economy resulting from pandemic:
  - Remote working, learning and telehealth
  - People moving out of densely populated cities
  - Fear of taking public transportation
  - New ways of accessing Healthcare and Education

# Solutions for This Recession

- Budget-makers should consider all available tools for addressing the current fiscal shortfall, including:
  - Federal assistance for individuals and businesses
  - Stabilization Fund withdrawal
  - Borrowing
  - Spending Cuts
  - New Revenue Sources

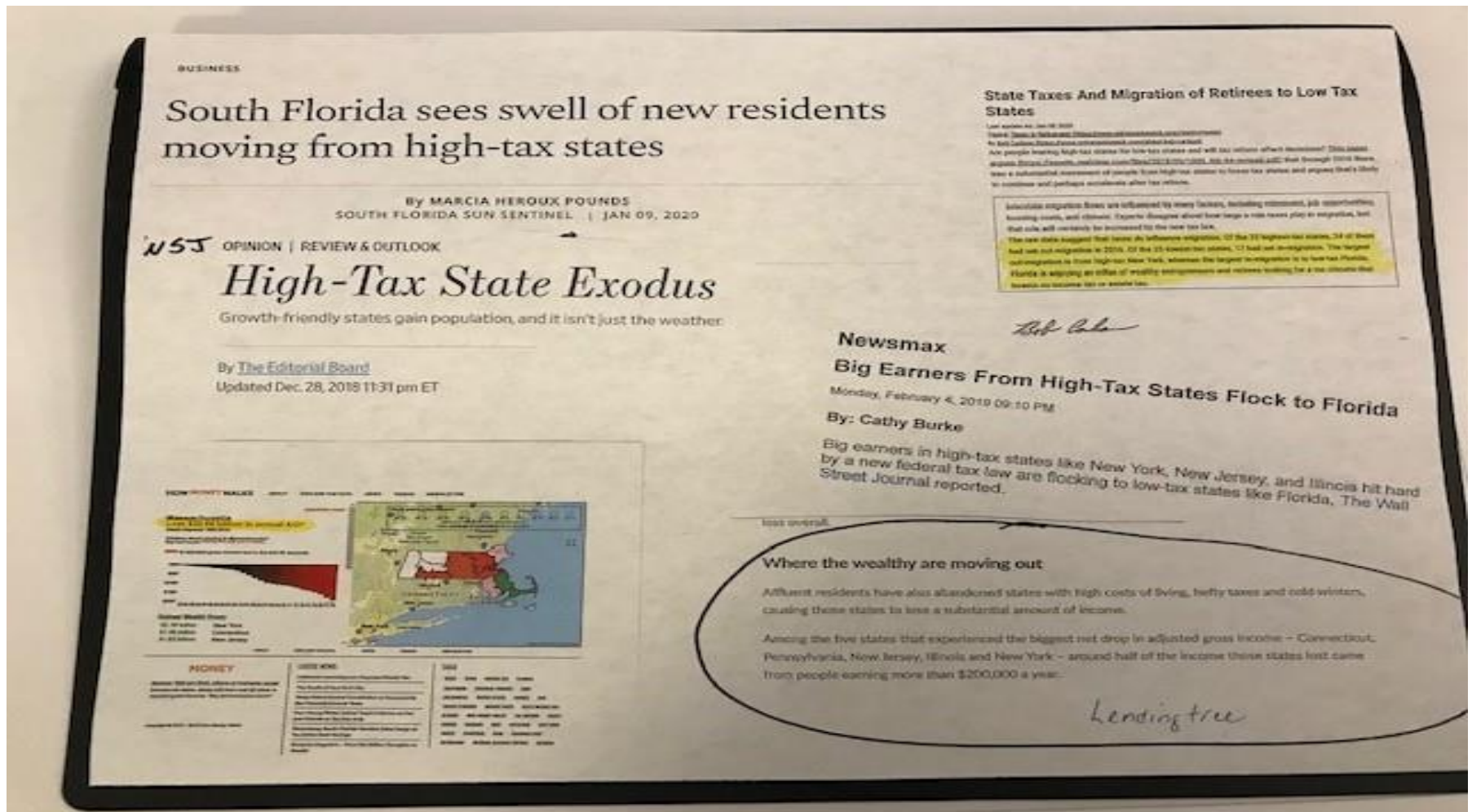
# Taxes Not Needed Now And Not A Good Idea



*“You don’t raise taxes during a recession....The last thing you want to do is raise taxes in the middle of the recession because that would just suck up and take more demand out of the economy and put businesses in a further hole.”*

- *-Barack Obama, 2011*

# Taxes do matter!



# Scenario Planning – FY2021 Tax Revenue Shortfall equals \$2 billion\*

Potential Solves:	
Federal Funds: Coronavirus Relief Fund (public safety salaries) Federal Medical Assistance Percentages (FMAP)	\$1.45 billion \$700 million \$750 million
Excess Capital Gains from FY2020	\$390 million
Stabilization Fund Withdrawal	\$200 million
Total:	\$2.040 billion

\* Assumes no federal assistance available

# Scenario Planning – FY2021 Tax Revenue Shortfall equals \$4 billion\*

Potential Solves:	
Federal Funds:	\$1.45 billion
Coronavirus Relief Fund (public safety salaries)	\$700 million
Federal Medical Assistance Percentages (FMAP)	\$750 million
Excess Capital Gains from FY2020	\$390 million
Stabilization Fund Withdrawal	\$1.1 billion
Trust Fund Sweeps/Tax Fund Settlements	\$100 million
Level spending	\$1 billion
Total:	\$4.040 billion

\* Assumes no federal assistance available

# Scenario Planning – FY2021 Tax Revenue Shortfall equals \$5 billion\*

Potential Solves:	
Federal Funds:	\$1.45 billion
Coronavirus Relief Fund (public safety salaries)	\$700 million
Federal Medical Assistance Percentages (FMAP)	\$750 million
Excess Capital Gains from FY2020	\$390 million
Stabilization Fund Withdrawal	\$1.6 billion
Trust Fund Sweeps/Tax Fund Settlements	\$150 million
Sales Tax Prepayment	\$300 million
Charitable Deduction Delay	\$ 65 million
Sports wagering (\$35m)/Opioid Gross Receipts (\$15m)	\$ 50 million
Level spending	\$1.0 billion
Total:	\$5.005 billion

\* Assumes no federal assistance available



# Guiding Principles for Future Tax Policy Discussions

Any tax increase must be:

- Low and broad-based
- Temporary
- Simple to comply with
- Transparent
- Fair and Equitable
- Certain and stable
- Prospective
- Competitive vis a vis other states

A blue-tinted photograph of a city skyline, likely New York City, reflected in the water. The skyline features several prominent skyscrapers, including the Empire State Building. The water in the foreground shows clear reflections of the buildings. The text "Thank you!" is overlaid in a large, white, sans-serif font in the center of the image.

Thank you!