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# MTF Bulletin

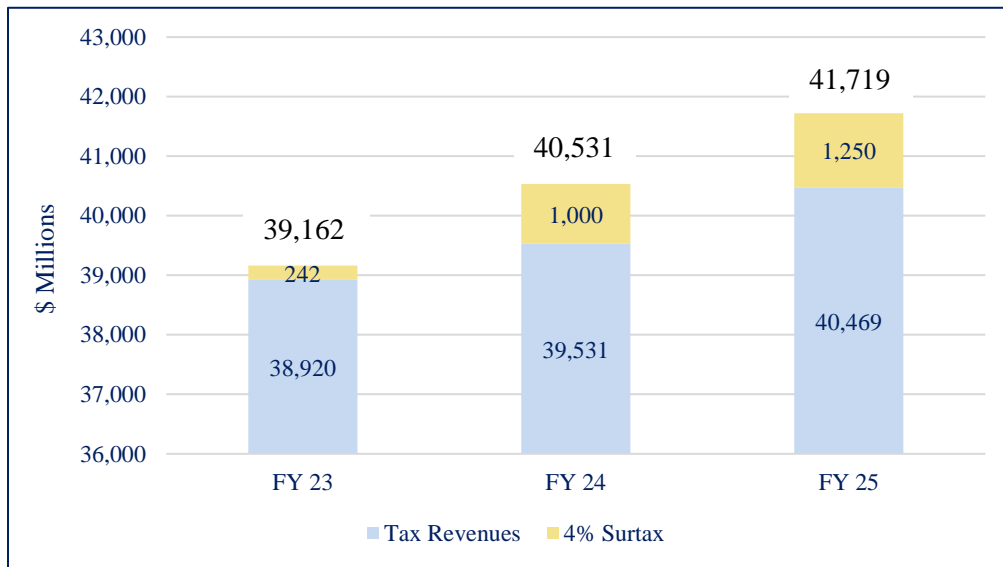
December 4, 2023

## FY 2024 AND FY 2025 TAX REVENUE FORECAST – THE SLOWDOWN CONTINUES

Tax revenues for Fiscal Year (FY) 2024 and FY 2025 settle into a post-COVID pattern of lower growth as the economy slows, impacts from migration and an aging population emerge (Appendix A), and tax reforms take effect. Excluding revenues related to the four percent surtax on income over \$1 million, MTF projects FY 2024 tax revenues of \$39.53 billion or 1.6 percent above FY 2023; resulting in an \$880 million shortfall to the \$40.41 billion benchmark set by administrative and legislative budget leaders for FY 2024.

FY 2025 tax revenues (excluding surtax) are projected to reach \$40.5 billion<sup>1</sup>, an increase of 2.4 percent over the MTF projection for FY 2024, predicated on the U.S. avoiding a recession as several economic models currently indicate (Figure 1).

**Figure 1 - Tax Revenues and Surtax, FY 2023 - FY 2025**



As shown in Figure 1, our forecast assumes a cap on surtax revenue in the FY 2025 budget of no more than \$1.25 billion. This upper bound may need to be adjusted pending the Department of Revenue’s initial annual certification of surtax revenue on December 15<sup>th</sup>.

<sup>1</sup> Projections account for a decline in incremental revenues of \$577 million in FY 2024 and \$299 million in FY 2025 from the 2023 Tax Bill (chapter 50 of 2023 Acts).

## WITHHOLDING INCOME TAX REVENUE GROWTH MODERATES

Withholding income tax revenues are projected to increase by \$445 million in FY 2024 and a further \$650 million in FY 2025, reaching a total of \$17.72 billion by the end of the fiscal year (Table 1). These increases represent approximately 2.7 percent and 3.8 percent growth respectively, which is down from the 7.6 percent growth experienced in FY 2021 and FY 2022 and lower than the 4 percent 10-year average growth rate from FY 2011 – FY 2020.

Employment and wages drive withholding tax revenues, which account for approximately 43 percent of the state’s total tax collections. Employment gains that averaged 150,000 per year in FY 2022 and FY 2023 are projected to slip to 50,000 in FY 2024 and less than 25,000 in FY 2025. Similarly, annual wage and salary growth is expected to stabilize at 4.4 percent in FY 2024 and then slip to approximately 3.9 percent in FY 2025.

The state is currently averaging 2.4 job openings per unemployed resident suggesting that if there were an economic slowdown, eliminating open positions before turning to layoffs may provide some buffer before significant job losses.

## SALES TAXES

Sales tax revenues, which accounted for approximately 24 percent of the total in FY 2022 and FY 2023, are negative year-to-date in the first several months of FY 2024. It appears that purchases of durable goods have cooled considerably in Massachusetts and nationally. MTF projects modest sales tax revenue growth of 0.5 percent in FY 2024 and 1.5 percent in FY 2025, reaching \$9.44 billion in the current year and \$9.59 billion in FY 2025. These growth rates are down considerably from the nearly 13 percent average annual increase over the three previous fiscal years.

**Table 1 – Massachusetts Tax Revenues – FY 2023, FY 2024 vs. FY 2025**  
(\$ Millions)

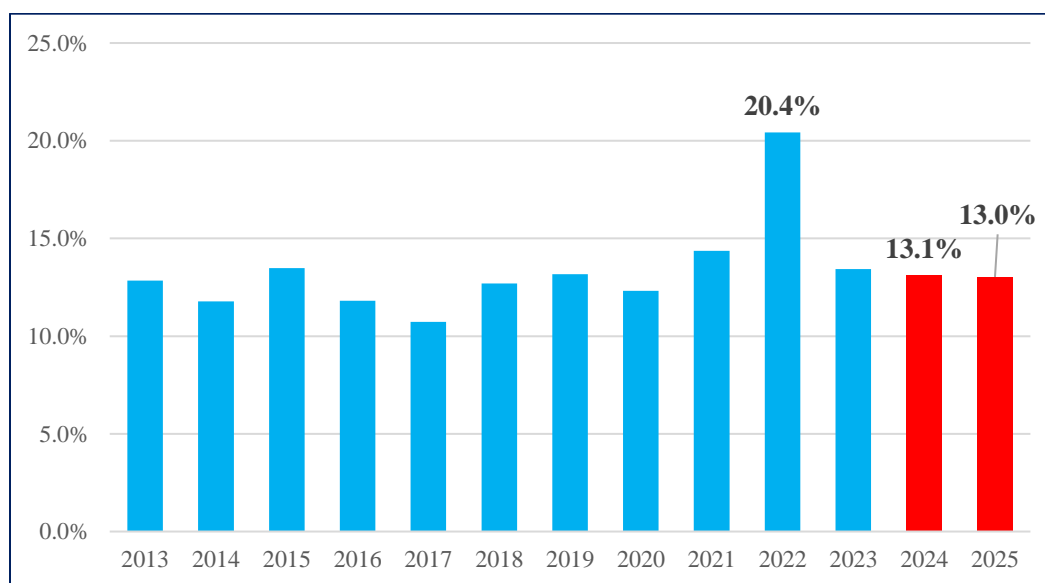
	FY 2023	FY 2024	FY 2025	2024 v 2025	
				\$	%
Income	21,750	22,245	22,984	738	3.3%
Withholding	16,627	17,071	17,718	647	3.8%
Capital Gains	2,237	2,260	2,300	40	1.8%
Other non-withholding	2,886	2,914	2,966	52	1.8%
Sales	9,396	9,443	9,585	142	1.5%
Corporate	5,065	5,128	5,133	5	0.1%
Other	2,708	2,715	2,768	53	2.0%
<b>Subtotal</b>	<b>38,920</b>	<b>39,531</b>	<b>40,469</b>	<b>939</b>	<b>2.4%</b>
<b>4% Surtax</b>	<b>242</b>	<b>1,000</b>	<b>1,250</b>	<b>250</b>	
<b>Total</b>	<b>39,162</b>	<b>40,531</b>	<b>41,719</b>	<b>1,189</b>	<b>2.9%</b>

## AFTER SOARING IN FY 2022, NON-WITHHOLDING TAX COLLECTIONS RETURN TO TREND

Capital Gains Tax Revenues plummeted by \$2 billion or nearly 50 percent in FY 2023 but are projected to stabilize in FY 2024 and FY 2025; growing by a modest \$23 million in FY 2024 and a further \$40 million in FY 2025.

Other Non-withholding Tax Revenues, which fell by \$1.1 billion (25 percent) from FY 2022 to FY 2023 are expected to plateau at \$2.92 billion in FY 2024 and \$2.97 billion in FY 2025. Taken together, non-withholding tax revenues are projected to account for 13 percent of tax revenues in FY 2024 and FY 2025, a drop from 20 percent in FY 2022 to a rate that is in line with historic data (Figure 2).

**Figure 2 – Non-withholding Tax Revenues as a Percent of Total Tax Revenues, FY 2013 – FY 2025 (red bars are MTF projections)**



## CORPORATE AND OTHER TAXES GROW MODESTLY

Corporate taxes are projected to increase by approximately \$63 million in FY 2024, or 1.2 percent. In FY 2025, corporate tax collections plateau, with virtually no growth due to forecasts of falling corporate profits nationally and in Massachusetts.

## OTHER TAXES KEEP PACE

Other tax revenues<sup>2</sup> are projected to plateau in FY 2024 and increase by \$55 million in FY 2025. In FY 2023, motor fuel, cigarettes, and deeds contracted by \$130 million from FY 2022, while estate and room occupancy revenues climbed by \$155 million. Separately, estate tax revenues have increased by \$370 million or 62 percent since 2019 as the state's population ages. Although the timing of estate tax payments is difficult to forecast, the trend from an aging population suggests that these taxes are likely to continue to experience positive growth.

<sup>2</sup> Other tax revenues consist of motor fuels, room occupancy, estates, cigarettes, alcohol, and deeds among others.

## HEADWINDS ARE UNNERVING AND PLENTIFUL

### International – geopolitical risks

- Israel-Hamas war expands in the Middle East
- Russia-Ukraine war disrupts trade and the global economy
- China expands its geographic reach as its economy cools
- Iran & North Korea respond to threats with force

### Domestic

- Fiscal and monetary policy lead to recession in CY 2024
- Prolonged U.S. government shutdown
- U.S. election chaos in 2024
- Massachusetts – extreme weather event
- Massachusetts – domestic outmigration trends persist

## APPENDIX A

### UPDATE: MASSACHUSETTS' DEMOGRAPHIC TRENDS THREATEN OUR TALENT PIPELINE AND ECONOMIC STRENGTH (full report [here](#))

Some of the major findings from MTF's demographics report include:

- Workforce Changes Since 2019:
  - The civilian labor force fell by ~130,000
  - 120,000 residents turned 65
  - 150,000 left the workforce due to retirement
  - In sum - in September 2023, there were 150,000 more job openings than unemployed people in the state
- Migration:
  - Highest net domestic outmigration in 30 years
  - Largest outmigration group are those aged 26 – 35
  - Some good news - international immigration rebounded in 2022, 55% have a bachelor's or graduate degree