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MTF Bulletin

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FY 2027 Consensus Tax Revenue Agreement

On January 14th, budget leaders from the House, Senate, and Healey administration announced a \$44.9 billion consensus tax revenue figure for Fiscal Year (FY) 2027, including \$42.2 billion in non-surtax revenue and \$2.7 billion related to the income surtax. Non-surtax revenues are expected to grow by \$986 million (2.4 percent) over estimated FY 2026 collections.

The consensus revenue agreement does not establish a separate surtax spending cap for the operating budget, instead making the full estimate of \$2.7 billion available for appropriations.

FY 2027 Consensus Tax Revenue Agreement Summary

	FY 2026 Benchmark	FY 2027 CR Agreement	\$ Increase over FY 2026	% Increase over FY 2026
Non-Surtax Revenue	\$41,214	\$42,200	\$986	2.4%
Surtax Revenue	\$2,400	\$2,700	\$300	12.5%
Revenues Available for Budgeted Spending	\$43,614	\$44,900	\$1,286	2.9%

\$ in millions

The agreement assumes no adjustment to the revenue benchmark for FY 2026, meaning that the administration is maintaining current expectations of \$41.214 billion in non-surtax revenue and \$2.4 billion in surtax collections. The current FY 2026 benchmark and the FY 2027 consensus revenue number assume no change to the state's federal tax conformity status.

At the Consensus Revenue Hearing, the median projection for revenue growth in FY 2027 was 3.5 percent, or \$1.4 billion over FY 2026 projections. This median is impacted by two projections that anticipate revenue growth to be bolstered by inflation and strong capital gains collections. The more conservative estimate of 2.4 percent growth reflected in the agreement announced today likely discounts those factors, in addition to continued uncertainty surrounding broader economic trends.

To put the agreement announced today into greater context, this brief first provides an update on state tax revenue collection trends in FY 2026. It then provides additional details on the component parts of the agreement and ends with an explanation of what it means for the FY 2027 budget development process moving forward.

FY 2026 Tax Revenue Collections to Date

State tax revenue collections total \$19.636 billion through December; \$375 million (1.9 percent) ahead of FY 2025 and \$23 million (0.1 percent) greater than the year-to-date benchmark. For the month of December, revenues fell short of FY 2025 collections by \$285 million (6.6 percent) and the monthly benchmark by \$167 million (4.0 percent).

FY 2026 Tax Revenue Collections through December

	FY 2025 YTD	FY 2026 YTD	FY 2025 v. FY 2026	FY 2026 YTD BM	FY 2026 YTD v. BM	Growth to Date v. BM
Withholding	\$9,060	\$9,568	\$508	\$9,577	-\$9	-0.1%
Non-Withholding	\$2,169	\$2,288	\$119	\$2,117	\$171	8.1%
Sales	\$4,839	\$4,908	\$69	\$4,838	\$70	1.5%
Corporate/Business	\$1,779	\$1,484	-\$295	\$1,772	-\$288	-16.2%
Other	\$1,415	\$1,388	-\$27	\$1,309	\$79	6.0%
Total	\$19,262	\$19,636	\$375	\$19,613	\$23	0.1%

\$ in millions

Following relatively weak December collections, revenues are now just 0.1 percent above the FY 2026 benchmark (\$375 million ahead of last year's pace), leaving little above benchmark cushion entering the second half of FY 2026. Revenue collections continue to be supported by strong performance in non-withheld income taxes, likely due to the surtax and capital gains. Withholding collections are essentially on target, while corporate and business tax collections remain well below both prior-year levels and benchmark expectations.

FY 2027 Consensus Tax Revenue Agreement

The House, Senate, and Healey administration have agreed to a \$42.2 billion non-surtax revenue figure for the FY 2027 budget and a \$2.7 billion cap on income surtax-supported spending. The non-surtax revenue figure represents a \$986 million (2.4 percent) increase over the FY 2026 revenue benchmark.

Agreement in Context

On December 16th, the Massachusetts Taxpayers Foundation (MTF), along with the Department of Revenue (DOR) and other economic experts participated in the annual Consensus Revenue Hearing; at which, tax projections and economic analyses were presented for the current and upcoming fiscal years. As detailed in an earlier [brief](#), there was agreement among the testifiers that while revenue collections in FY 2026 may fall slightly below benchmark, they would rebound and grow modestly in FY 2027.

The median projection for FY 2026 non-surtax revenues was \$40.985 billion, \$229 million (0.6 percent) below benchmark and \$267 million (0.7 percent) above FY 2025 collections. In FY 2027, revenue growth expectations ranged from 2.1 to 7.1 percent, with the median projection being 3.5 percent. It's important to note that all of the economic projections offered at the hearing incorporated the impacts of federal tax policy changes. Even with those adjustments, revenues in FY 2026 were expected to fall only slightly below benchmark, followed by moderate growth in FY 2027.

As MTF wrote in the earlier brief, revenue growth in the range of two to three percent is reasonable for FY 2027; allowing budget writers to build a sustainable FY 2027 state budget, while still necessitating spending control measures for known pressures, particularly health care cost growth.

FY 2027 Consensus Revenue Agreement in Context (n/s = no surtax)

	Current BM (n/s)	FY 2026 Projection (n/s)	FY 2027 Projection (n/s)	\$ v. FY 2026 Projection	% v. FY 2026 Projection
DOR Upper	\$41,214	\$40,985	\$42,409	\$1,424	3.5%
DOR Lower		\$40,531	\$41,366	\$835	2.1%
MTF		\$41,141	\$42,026	\$885	2.2%
cSPA		\$42,100	\$44,100	\$2,000	4.8%
ACM		\$40,874	\$43,756	\$2,882	7.1%
Median		\$40,985	\$42,409	\$1,424	3.5%
CR Agreement		\$41,214	\$42,200	\$986	2.4%

\$ in millions

The agreement announced today reflects 2.4 percent growth over FY 2026. The revenue estimate is driven by growth in income tax collections, including 4.5 percent growth in withheld income taxes, 7.7 percent growth in capital gains, and 12.5 percent on other non-withheld income taxes. That strong growth is offset by 1.5 percent growth in sales tax collections and a projected drop of nearly 15 percent in corporate tax collections.

A consensus tax revenue figure of \$42.2 billion represents an increase of nearly \$1 billion compared to the \$41.214 billion used to build the FY 2026 GAA. However, after taking into account pre-budget transfers to the state's Pension Fund, the MBTA, School Building Authority (SBA), and Workforce Training Trust Fund, budget writers will have access to only \$692 million in new non-surtax revenue in FY 2027.

Comparison of Consensus Revenues Available for Budgeted Spending

	FY 2026 GAA Estimate	FY 2027 CR Estimate	FY 2026 v. FY 2027
Consensus Revenue	\$41,214	\$42,200	\$986
<i>Workforce Training Trust Fund</i>	-\$27	-\$27	\$0
<i>School Building Authority</i>	-\$1,265	-\$1,284	-\$19
<i>MBTA</i>	-\$1,425	-\$1,445	-\$20
<i>Pension Fund</i>	-\$4,933	-\$5,131	-\$198
<i>Capital Gains Transfer</i>	-\$666	-\$724	-\$58
Taxes Remaining for Budget	\$32,897	\$33,589	\$692

\$ in millions

Income Surtax Revenue

As part of the FY 2027 consensus tax revenue agreement, budget writers established a \$2.7 billion estimate for income surtax revenue collections. This represents a \$300 million (12.5 percent) increase over the \$2.4 billion surtax spending cap incorporated into the FY 2026 GAA.

FY 2027 Income Surtax Revenue Projections & Spending Cap

	FY 2026 CR Agreement	FY 2026 GAA	FY 2027 CR Agreement
Surtax Revenue Projection	\$2,400	\$2,400	\$2,700
Surtax Spending Cap	\$1,950	\$2,400	\$2,700
Projected Above Cap Surtax	\$450	\$0	\$0

\$ in millions

For the second year in a row, budget writers have agreed to spend the entirety of the surtax revenue projection for the fiscal year in the operating budget. This creates two primary challenges:

1. *Surtax revenue collections are subject to volatility and incorporating them too quickly into the operating budget creates new exposures that threaten the long-term stability of the state budget.*

The majority of surtax revenues are collected through non-withheld income taxes, which are closely tied to stock market performance and may experience more pronounced declines if the economy falters. While surtax revenue collections to date have performed better than expectations—exceeding \$3 billion in FY 2025—there is very little data available to accurately predict if those trends will continue, plateau, or drop off. By so quickly shifting the costs of major programs onto the surtax, particularly in the education sector, the structural stability of the state budget is weakened in the event of an economic downturn.

2. *The surtax spending cap was purposefully intended to be set at a lower level than actual collections to ensure a sizeable deposit into the Innovation and Capital Fund that could be used to support critical transportation, infrastructure, and capital projects.*

In FY 2024 and FY 2025, the surtax spending cap for the operating budget was set at \$1 billion and \$1.3 billion, respectively. With total surtax revenue collections nearing and exceeding \$3 billion, that resulted in deposits greater than \$1 billion into the Innovation and Capital Fund. Those resources have proved crucial to stabilizing the MBTA, fully funding the Special Education Circuit Breaker, and financing higher education capital improvement projects. In FY 2026 and FY 2027, potential deposits into the fund are likely to drop precipitously. Not only will this reduce the resources available for the purposes listed above, it will also make it harder to achieve a primary goal of the surtax—to divide the revenues equally between education and transportation.

Capital Gains Revenue

A key component of the FY 2027 consensus tax revenue figure is the amount of revenue expected to be collected from capital gains. Capital gains are an extremely volatile source of state tax revenue, and to limit the reliance of the state budget on this revenue source, all capital gains collections above a statutorily set threshold are automatically deposited into the state's Stabilization Fund.

In FY 2026, the capital gains threshold was set at \$1.661 billion and state budget writers expected capital gains collections of \$2.327 billion. As part of the FY 2026 GAA, policymakers agreed to adjust the standard disposition of excess capital gains revenues, directing 90 percent (\$599 million) to the Pension Fund, five percent (\$33 million) to the Stabilization Fund, and five percent (\$33 million) to other post-retiree benefits.

According to the FY 2027 consensus revenue agreement, capital gains collections are anticipated at \$2.5 billion. The capital gains threshold is expected to increase to \$1.783 billion, and the projected Stabilization Fund deposit is \$651 million.

FY 2027 Capital Gains Tax Collections

Fiscal Year	Capital Gains Threshold	Capital Gains Estimate	Above Threshold CGs	Estimated Stab Fund Deposit
FY 2026	\$1,661	\$2,327	\$666	\$33
FY 2027	\$1,782	\$2,506	\$724	\$651 ¹

\$ in millions

Pre-Budget Transfers

In addition to the deposit of above-threshold capital gains revenue to the Stabilization Fund and other reserves, the FY 2027 consensus tax revenue agreement includes four other “pre-budget” transfers that take place outside the typical appropriations process. These pre-budget transfers are primarily related to the specific debt and pension obligations of the Commonwealth.

The first pre-budget transfer is to the Workforce Training Trust Fund, which receives its funding from a surcharge imposed on unemployment insurance. The School Building Authority (SBA) and MBTA receive funds based on the expected sales tax revenue for the upcoming fiscal year. This consistent revenue stream improves the credit-worthiness of the SBA and MBTA, allowing them to save on borrowing costs when bonds are used for capital expenditures.

Lastly, the final pre-budget transfer is the state’s annual contribution to the Pension Fund. This contribution is determined by the Executive Office for Administration and Finance on a triennial funding schedule and FY 2027 marks the first year in the next schedule. Between FY 2024 and FY 2026, the pension funding schedule dictated annual increases of 9.6 percent. The Pension Fund transfer reflected in the FY 2027 agreement is consistent with a 4 percent increase over the prior year. According to the administration, this adjustment to the schedule keeps the Commonwealth ahead of its statutory obligation to fully fund its pension liability by 2040, but it is unclear if the new schedule will retain the prior full funding goal of 2036.

FY 2027 Pre-Budget Transfers

	FY 2026 Est. Transfer	FY 2027 Guaranteed	FY 2027 Transfer in CR Agreement	Increase over FY 2026
Workforce Trust Fund	\$27	\$0	\$27	\$0
School Building Authority	\$1,265	\$0	\$1,284	\$19
MBTA	\$1,425	\$160	\$1,445	\$20
Pension fund	\$4,933	\$0	\$5,131	\$198
Total pre-budget transfers			\$7,887	\$237

\$ in millions

¹ Estimate assumes a 90 percent deposit into the Stabilization Fund, consistent with current statute.

In FY 2027, the combined total of these pre-budget transfers is \$7.887 billion, an increase of \$237 million over estimated FY 2026 transfers.

Next Steps

Governor Healey is expected to submit her administration's budget proposal for FY 2027 on the fourth Wednesday in January, and it will use the consensus tax revenue figure as its foundation. The starting point for the Governor's budget is the amount of tax revenue that remains following pre-budget transfers and adjustments.

FY 2027 Non-Surtax Revenues Available for Budget

Consensus revenue	\$42,200
<i>Cap. Gains transfer</i>	-\$724
<i>Workforce Training</i>	-\$27
<i>SBA</i>	-\$1,284
<i>MBA</i>	-\$1,445
<i>Pension</i>	-\$5,131
Taxes remaining for budget	\$33,589

\$ in millions

While this figure represents the revenue foundation for the FY 2027 budget, it is not the final word on available resources. As in FY 2026, it is very likely that the Governor's budget proposal will reflect a range of revenue, resource, and spending proposals to close a projected budget gap in FY 2027.