



Testimony of Eileen McAnneny regarding MTF's Revised FY2021 Revenue Forecast

October 7, 2020

Secretary Heffernan, Chairman Rodrigues, Chairman Michlewitz, members of the Ways and Means Committee and members of the general public, good morning.

I am Eileen McAnneny, President of the Massachusetts Taxpayers Foundation and I appreciate the opportunity to provide MTF's revised revenue forecast for FY2021. MTF is a non-partisan research organization whose 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 and economic opportunity for all.

Many things have changed since the last Roundtable took place in April; I am pleased to report that principal among them is the size of the tax revenue shortfall.

Topline Projections:

FY 2021 tax revenues are projected to fall by \$3.9 billion or 12.5 percent from the FY 2021 January benchmark of \$31.15 billion upon which Governor Baker's budget was based. \$27.27 billion is what MTF is projecting for tax revenues in FY2021. While still sizeable, it is less than the \$6 billion MTF had estimated in June.

- MTF projects withholding income tax to decline by \$1.27 billion or 8.8%;
- Sales tax revenues to decline by \$940 million or 12.7 %,
- Corporate taxes are projected to decrease by \$215 million

For the first quarter of FY21, the Massachusetts' economy has been propped up by various forms of federal financial assistance. As these sources of income are exhausted amidst growing uncertainty, the state's fiscal situation is expected to deteriorate.

Q1 Snapshot

As DOR testified, total tax revenues through Q1 are running \$69 million, or one percent, ahead of Q1 FY 2020,

The three largest sources of tax revenue for the state - withholding income (\$142 million), corporate taxes (\$102 million), and sales taxes (\$29 million) – exceeded projections by \$273 million for the first three months.

While these are indicators that the impacts of the pandemic so far have been less severe than originally estimated, this is largely due to extraordinary amounts of federal assistance totaling \$15.8 billion in MTF's estimate.

What can we expect for the remainder of FY 2021?

The level of uncertainty facing our nation cannot be overstated. In addition to an unpredictable course for the pandemic, political uncertainty and social unrest also contribute to people's unease about the future. Many are withdrawing from the workforce to minimize chances of contracting Covid19; while others are banking their disposable income to cushion against another financial blow, or make rent and mortgage payments that may have suspended due to the moratorium on evictions. Many companies are postponing hiring decisions until they have a clearer understanding of what the future holds while also contemplating what the future of work looks like. Collectively, these actions will affect the trajectory of our economic recovery.

In addition to this palpable angst, there are several other more concrete warning signals:

- Federal relief funds that helped keep hundreds of thousands of MA residents afloat have ended. This includes enhanced UI payments of \$5.5 billion in Q1 FY 2021 that account for \$214.5 million of withholding taxes or 3% or in Q1 and the \$1,200 IRS checks to tax filers.
- Massachusetts was hard hit by the economic shutdown with respect to job losses, experiencing the highest unemployment in the nation. After rebounding in the period from May through August, job growth has stalled. There are 420,000 fewer people working today than before the pandemic and it will take some time to get them back to work. In fact, Moody's Analytics projects that at the start of FY 2023, there will be 300,000 fewer employed in Massachusetts than in February 2020. Reduced employment will reduce withholding and sales tax collections.
- The much anticipated federal relief package of at least \$1.5 trillion has not yet materialized and will not before the November election. Moody's Analytics data, which MTF used in its forecast, assumes a fifth relief package in its baseline projections of \$1.5 trillion. Should federal aid not materialize, or be significantly reduced, the revenue shortfall would grow commensurately.
- Even with a fifth federal relief package, the proposed funding amount may be insufficient if not properly targeted to sustain the economy for the time necessary until the virus is controlled.

As Jerome Powell, Chairman of the Federal Reserve stated yesterday "Too little support would lead to a weak recovery, creating unnecessary hardship for households and businesses...over time, household insolvencies and business bankruptcies would rise harming the productive capacity of the economy and holding back wage growth."

- An efficacious vaccine may not be widely available until next summer and even then folks may be reluctant to get vaccinated initially.
- The post-Labor Day spike in coronavirus infections could lead to more economic slowdowns and further erode people's confidence. This erosion could be a further drag on the recovery since consumer spending accounts for 70% of economic activity and is critical to our nation's overall economic health.
- Come January, health insurance and UI premiums will rise, along with the minimum wage. In addition, the paid and family medical leave program goes into effect and there will be additional costs for employers as a result. Together these will considerably add to the cost of hiring, further suppressing job growth.

In summation, while the Commonwealth's revenue projections have improved since April, economic growth could stall or deteriorate further putting downward pressures on tax revenues. This improvement could be temporary as it is due largely to unprecedented levels of federal financial assistance. At its core, this current crisis is a public health one that is causing an economic crisis. When the pandemic is controlled, economic recovery should follow. Because of the continued uncertainty about the pandemic's path, and the sheer number of potential headwinds associated with that, the pace of economic recovery requires careful monitoring of the fiscal situation and a cautionary approach to budgeting.