Massachusetts Taxpayers Foundation

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Brief Analysis: Tax Revenue Roller Coaster

Are Tax Revenues As Volatile As They Appear?

Key Takeaways

- Fiscal 2019 tax revenue collections have been a roller coaster ride, careening between $323 million *over* benchmarks to $403 million *below* benchmarks over the past nine months
- Fiscal 2019 tax collection benchmarks were likely skewed by the anomalous fiscal 2018 tax revenue experience
- Compared to a more typical collection pattern, tax revenue has been either on target or slightly better than expected for virtually the entire fiscal year
- There is no way to know if the tax revenue roller coaster ride is over

Background

Tax revenue collections have been a roller coaster ride during fiscal 2019. Through the first five months of the year, tax collections were strong, ending November $323 million over estimates. In December and January, however, collections fell far short, ending January with a year-to-date variance of $403 million below benchmarks.[1]

According to preliminary actual tax collections through March released April 3, 2019 by the Department of Revenue, the situation seems to have improved and now appears to be $19 million *over* benchmarks nine months into fiscal 2019, as depicted in Figure 1.

[1] On December 31, 2018, in conjunction with the announcement of the Consensus Tax Revenue agreement between the Secretary of Administration and Finance and the House and Senate Ways and Means committees, the fiscal 2019 tax benchmarks were increased by $200 million to $28.592 billion. This analysis uses the revised benchmarks as the point of comparison.

Benchmark Analysis

In fiscal 2018, total tax revenue grew 8.5% over the previous year, the largest growth rate since fiscal 2011, and exceeded initial projections by nearly $1.2 billion.[2] As noted by both DOR and MTF during the December 2018 Consensus Revenue hearing, key drivers of fiscal 2018 results were strong stock market performance in calendar year 2017 and the impacts of federal tax reform which were seen as largely one-time in nature and caused unusually strong fiscal 2018 tax collections.[3]

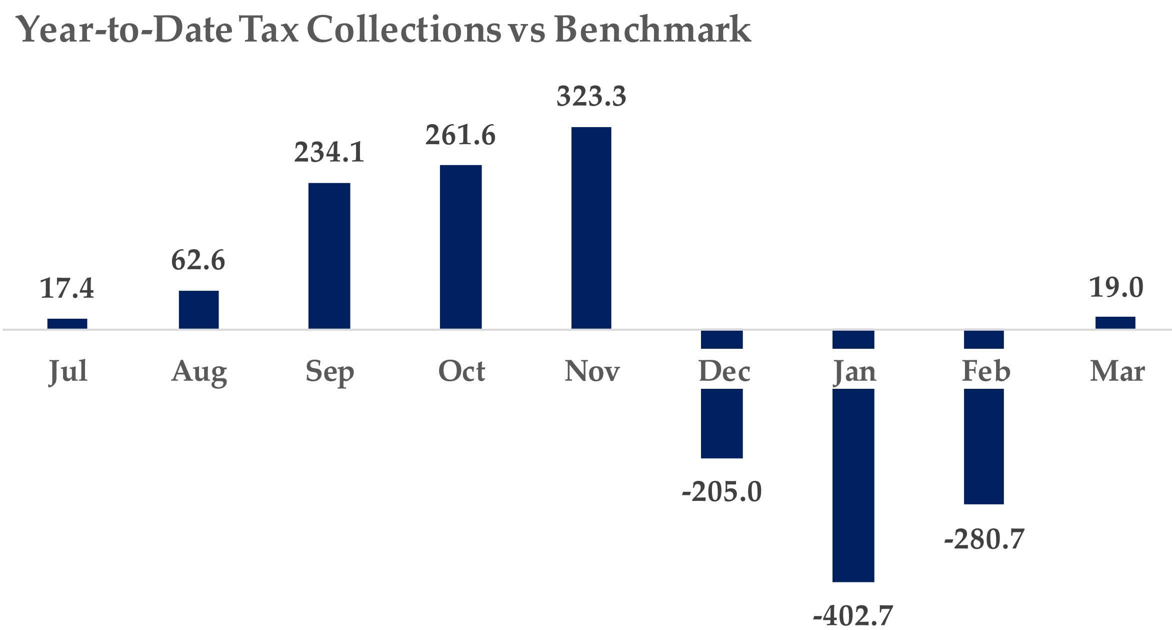

Figure 1: Tax revenue collections vs revised tax benchmarks through March 2019

Analysis suggests the fiscal 2019 revised monthly tax revenue benchmarks may be skewed by the anomalous fiscal 2018 experience. Figure 2 depicts the share of tax revenue collected in a given month as a range of FY02-FY18 actual performance in the gray shaded region. The median experience of the FY02-FY18 period is shown in orange, and the fiscal 2019 revised tax benchmarks are shown in red. Most notably, the benchmarks anticipated the Commonwealth would collect 10.8% of total tax revenue in

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[2] Initial projections defined as FY18 Total Budgeted Operating Tax Revenue as of September 2017 per Commonwealth Information Statement Dated September 27, 2017 page A-30.

[3] See Testimony of Christopher C. Harding, Commissioner of the Massachusetts Department of Revenue at the Consensus Revenue Hearing on December 5, 2018 and "Are The Good Times Already Over?" news release from MTF, December 5, 2018

December as occurred in fiscal 2018, rather than the median experience from FY02-FY18 of 9.3%.

The difference is significant. Had the monthly tax benchmarks for the entire fiscal year been set equal to the median experience from FY02-FY18, collections to-date would appear to be $150 million over that alternate benchmark.

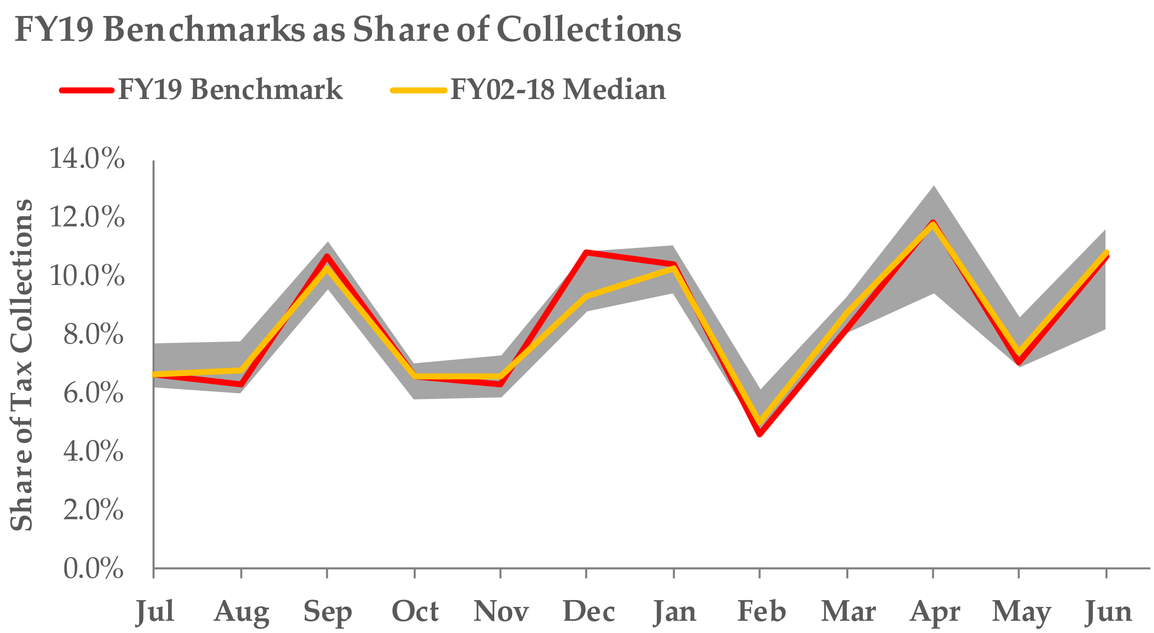

Figure 2: Share of tax collections by month, FY02-FY18 with FY19 benchmark

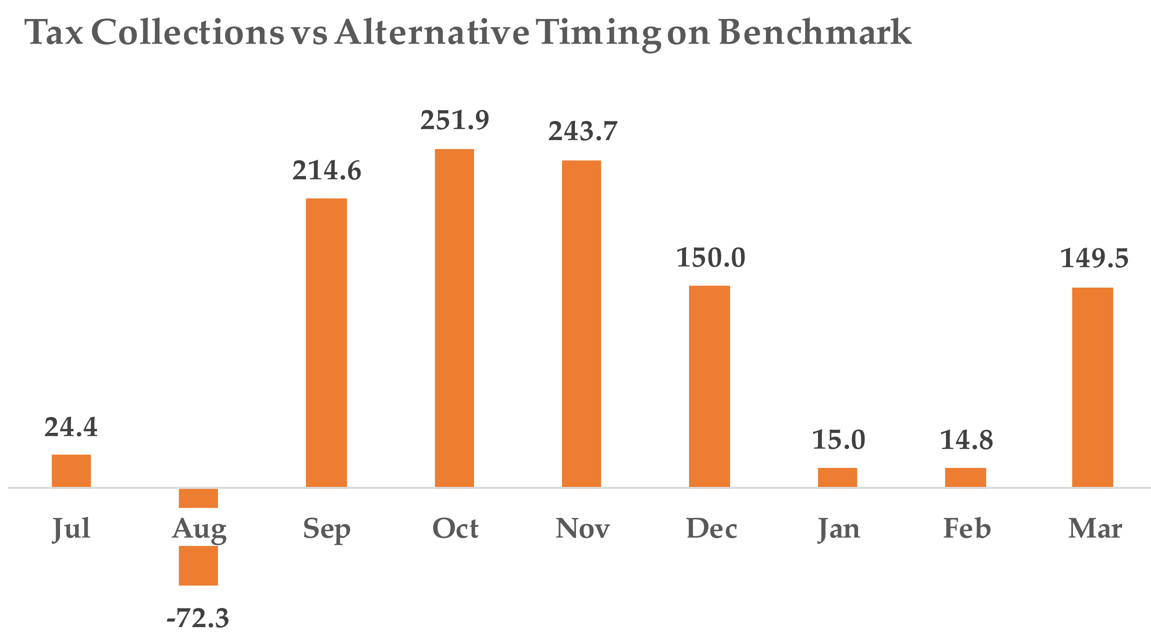

Figure 3: Year-to-Date Tax Collections compared to FY02-FY18 historical median experience

Note that this analysis does not capture tax collection timing changes caused by revised filing due dates, improvements to DOR tax collection systems and procedures in recent years like MassTaxConnect, or other factors that may affect the timing of tax collections in any fiscal year.

Conclusion

The above analysis suggests that the total tax revenue projection of $28.592 billion for the full fiscal year appears to be reasonable when compared to historical performance. Moreover, neither the comparisons to the DOR monthly benchmark nor the alternate benchmark depicted in Figure 3 are predictive of actual tax revenue collections for the remaining months of the fiscal year. April, May, and June represent a significant share of collections and can vary from year to year.

Thus, there is no way to know if the tax revenue roller coaster ride is over.