



# News Release

333 WASHINGTON STREET  
BOSTON, MA 02108-5170  
617-720-1000  
FAX 617-720-0799

For Immediate Release

December 13, 2007

## **MTF Revenue Forecast: Reasonable Growth in 2008 but Small Rise in 2009**

Tax revenues will grow somewhat better than expected in fiscal 2008 but increase only marginally in 2009, according to a forecast released today by the Massachusetts Taxpayers Foundation.

MTF President Michael J. Widmer presented the Foundation's economic and revenue forecast to members of the House and Senate Ways and Means Committees and the Secretary of Administration and Finance at their annual consensus revenue hearing at the State House today.

The Foundation estimates that fiscal 2008 tax revenues will total \$20.620 billion, an increase of 4.5 percent over 2007 and about \$400 million higher than the forecast released by the Patrick administration in October. However, tax revenues will grow by only 2.4 percent or \$500 million in fiscal 2009 to a total of \$21.12 billion, according to the forecast.

The Foundation's projections are based on a weakening national economy, though not a recession, caused by the housing and credit crunch and record high oil prices. If a national recession were to occur in the first half of calendar 2008, tax revenues would show no growth in fiscal 2009, according to an alternate forecast prepared by the Foundation.

"Closing the budget gap in fiscal 2009 will be even more difficult than in 2008," said Mr. Widmer. "The state's sluggish economy is not creating the jobs and revenues needed to address the state's fiscal difficulties."

Driven by large increases in corporate taxes and capital gains, tax revenues grew by an average of 7.2 percent a year between 2003 and 2007, despite the underlying weak Massachusetts economy. The Foundation forecasts that corporate taxes will decline slightly in both fiscal 2008 and 2009 while capital gains will rise another 10 percent in 2008 but drop about 5 percent in 2009.

Personal income taxes are projected to rise by \$713 million, or 6.3 percent, in fiscal 2008 but only \$281 million, or 2.3 percent, in 2009. This compares with growth averaging 9.2 percent between 2003 and 2007, resulting from the large jump in capital gains taxes which rose more than a billion dollars during that four-year period.

Massachusetts added jobs at a somewhat greater pace through much of 2007, which is part of the explanation for the Foundation's more positive forecast for 2008. However, the state's job total is still approximately 100,000 below the high point in early 2001, and the Foundation forecasts limited job growth for Massachusetts over the next 18 months.

The Foundation's Massachusetts projections are based on the most recent national economic forecast from Global Insight, an economic forecasting firm located in Waltham. That forecast expects growth to stall in the fourth quarter of calendar 2007, followed by weak growth in the first quarter of 2008 and then gradually improving over the rest of 2008. At the same time, Global Insight has raised to 40 percent the probability that the U.S. economy will slip into a recession, caused by a combination of the housing and credit crunch and oil selling close to \$100 a barrel.

The Massachusetts Taxpayers Foundation is an independent, nonprofit organization that conducts research on state and local taxes, government spending, and the economy. Founded in 1932, the Foundation has won numerous prestigious national awards over the last decade for its work on business costs, capital spending, state finances, MBTA restructuring, state government reform, and health care.

\*\*\*\*\*

MASSACHUSETTS TAXPAYERS FOUNDATION  
FISCAL YEAR FORECAST SUMMARY

GLOBAL INSIGHT NATIONAL FORECAST				<<< History		Forecast >>>		
December 2007	2003	2004	2005	2006	2007	2008	2009	2010
Personal Income (billions of 2000 \$)	8,439	8,636	8,918	9,167	9,478	9,848	10,142	10,476
% change	0.2	2.3	3.3	2.8	3.4	3.9	3.0	3.3
Employment (millions)	130.1	130.5	132.5	135.0	137.2	138.6	140.0	141.8
% change	-0.6	0.3	1.5	1.9	1.6	1.0	1.0	1.3
Unemployment Rate	5.9	5.8	5.3	4.8	4.5	4.8	5.0	4.9
CPI (% change)	2.2	2.2	3.0	3.8	2.6	2.9	1.4	1.9
PPI (% change)	3.3	4.8	6.9	7.7	2.9	5.3	0.9	1.9
Federal Discount Rate	1.6	2.0	3.2	5.2	6.3	5.3	5.3	5.7
Prime Commercial Rate	4.4	4.0	5.2	7.2	8.3	7.6	7.3	7.7
Standard & Poor's 500 Index (% change*)	-16.5	-3.2	17.3	6.8	8.6	12.8	1.7	5.6

  

MTF MASS. ECONOMIC FORECAST				<<< History		Forecast >>>		
	2003	2004	2005	2006	2007	2008	2009	2010
Personal Income (billions of current \$)	250.4	260.8	273.4	288.1	306.9	325.7	340.4	357.2
% change	0.5	4.1	4.8	5.4	6.5	6.1	4.5	4.9
Personal Income (billions of 2000 \$)	235.3	239.2	243.2	248.0	256.7	267.3	274.9	283.1
% change	-1.3	1.7	1.7	2.0	3.5	4.1	2.8	3.0
Total Employment (000s)	3,214	3,176	3,188	3,219	3,255	3,300	3,320	3,345
% change	-2.0	-1.2	0.4	1.0	1.1	1.4	0.6	0.7
Unemployment Rate	5.6	5.6	4.9	4.8	5.0	4.8	4.7	4.8

  

MTF MASS. TAX FORECAST				<<< History		Forecast >>>		
	2003	2004	2005	2006	2007	2008	2009	2010
Income Tax (millions \$)	8,026	8,830	9,690	10,483	11,391	12,104	12,385	12,849
% change	1.4	10.0	9.7	8.2	8.7	6.3	2.3	3.7
Sales Tax	3,708	3,749	3,886	4,004	4,066	4,172	4,305	4,467
% change	0.3	1.1	3.7	3.0	1.5	2.6	3.2	3.8
Corporations Tax	799	998	1,063	1,391	1,585	1,506	1,467	1,419
% change	36.3	24.8	6.5	30.9	14.0	-5.0	-2.6	-3.3
TOTAL TAXES**	14,964	15,953	17,087	18,487	19,732	20,620	21,118	21,842
% change	4.7	6.6	7.1	8.2	6.7	4.5	2.4	3.4
TOTAL TAXES FOR BUDGET***	14,279	13,867	14,368	16,011	17,105	17,699	18,015	18,545
% change	4.8	-2.9	3.6	11.4	6.8	3.5	1.8	2.9

\* Percent change in index for prior calendar year.

\*\* Includes collections from other tax sources not detailed above.

\*\*\* Tax revenues available for appropriation in the budget exclude a portion of sales tax receipts dedicated to the MBTA and school building construction, tax revenues dedicated to pension funding, and net revenues in excess of permissible tax revenues.