



# News Release

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## Updated FY 2021 Tax Revenue Forecast: \$6 Billion Loss

FY 2021 tax revenues are projected to fall by \$6 billion or 19.3 percent from the January 2020 benchmark. Massive layoffs push the unemployment rate to nearly 22 percent in Q4 FY 2020, causing withholding taxes to decline by \$1.9 billion. Shutting down economic activities and the loss of personal income will cost the state \$2.0 billion in sales tax revenues. Non-withholding income taxes and corporate payments are expected to fall by \$967 million and \$905 million, respectively (Table 1).

**Table 1 – State Tax Revenues by Category (\$ Millions)**

|                    | <b>Consensus</b> | <b>May 14</b> | <b>\$</b>     | <b>%</b>      |
|--------------------|------------------|---------------|---------------|---------------|
| Income             | 17,909           | 15,016        | -2,893        | -16.2%        |
| Withholding        | 14,423           | 12,497        | -1,926        | -13.4%        |
| Non-withholding    |                  |               |               |               |
| Capital Gains      | 1,590            | 1,000         | -590          | -37.1%        |
| Other Non-withhold | 1,896            | 1,519         | -377          | -19.9%        |
| Sales              | 7,425            | 5,388         | -2,037        | -27.4%        |
| Corporate          | 3,404            | 2,499         | -905          | -26.6%        |
| Other Tax Revenues | 2,413            | 2,246         | -167          | -6.9%         |
| <b>Total</b>       | <b>31,151</b>    | <b>25,149</b> | <b>-6,002</b> | <b>-19.3%</b> |

MTF’s President Eileen McAnneny said, “the economic and fiscal fall-out from the pandemic continues. The skyrocketing unemployment numbers and the plummeting tax revenues are shaping up to be even worse than data indicated just a month ago.”

McAnneny noted, “Assumptions in MTF’s April revenue forecast are proving overly optimistic. More current data indicate that the economy is unlikely to ramp up quickly and the job loss will be far greater than originally expected. As the size, scope, and duration of this public health crisis grow, we have revised our forecast to reflect the deteriorating economic outlook. With rapidly-changing economic and fiscal conditions this may not be the last time a revised forecast becomes necessary.”

MTF updated its April 14 tax revenue forecast due to several material changes in the past 30 days:

- The U.S. unemployment rate hit 14.7 percent in April according to the U.S. Bureau of Labor Statistics as the nation lost 20.5 million jobs. That is approximately 5 million more jobs than was assumed in MTF's econometric model. May and June unemployment numbers are now expected to climb even higher.<sup>1</sup>
- Massachusetts unemployment insurance claims increased by 355,000 since the state's April 9 report and another 630,000 people who are ineligible for UI applied for the federal government's [pandemic unemployment assistance program](#) (PUA)
- Three issues cited by MTF in the April 14 forecast have deteriorated:
  - The pandemic is lasting longer both in Massachusetts and across the country than anticipated and a 2<sup>nd</sup> wave looks increasingly likely according to medical experts.
  - The \$2.9 trillion in federal relief legislation passed to date provides less than what may be required to mitigate the economic impacts of the pandemic. Without further federal relief, states and municipalities will be challenged to balance their budgets and recovery will take longer than previous estimates.
  - It is less clear now than in April that additional federal funds to stimulate economic growth is feasible this fall.

#### **WITHHOLDING INCOME TAXES PLUNGE FROM MASS LAYOFFS AND LOST WAGES**

Economic re-engagement will be slow and uneven as different economic sectors face unique challenges. While MTF assumes that economic activities re-start this summer, employers may delay hiring decisions and many will continue to support remote working. Consumers will hesitate to engage out of fear of contracting the virus and diminished purchasing power will further limit total sales. If colleges and universities see a significant reduction in on campus students, the loss of consumption in local municipalities will further slow the recovery. Transportation will remain a significant barrier. Although the MBTA plans to re-open full service by September, to safely move passengers, the T estimates its daily capacity will fall by 75 percent of pre-pandemic levels.

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<sup>1</sup> The unemployment rate in the United States will peak at 25%, rivaling the worst period of the Great Depression, Goldman Sachs warned on Wednesday, [This new unemployment forecast rivals the depths of the Great Depression](#), Matt Egan, CNN, May 13, 2020.

**Table 2 – Massachusetts Employment Projections**

|                      | Dec. 2019 | 20:Q2 | FY 2021 |       |       |       |       |       |
|----------------------|-----------|-------|---------|-------|-------|-------|-------|-------|
|                      |           |       | 20:Q3   | 20:Q4 | 21:Q1 | 21:Q2 | 21:Q3 | 21:Q4 |
| Employed             | 3,697     | 2,972 | 3,110   | 3,140 | 3,195 | 3,296 | 3,396 | 3,486 |
| Job Losses/Recovered | 0         | (725) | 138     | 29    | 56    | 100   | 100   | 90    |
| Unemployed           | 107       | 832   | 694     | 664   | 609   | 508   | 408   | 317   |
| Unemployment Rate    | 2.8%      | 21.9% | 18.2%   | 17.5% | 16.0% | 13.4% | 10.7% | 8.3%  |

Based on these changes, MTF projects that the state will lose 725,000 jobs in Q2 2020 pushing the total number of unemployed to 832,000 from 107,000 and raising the unemployment rate to 22 percent. These job losses are estimated to reduce annualized wages by \$42 billion or 20 percent of the \$246 billion baseline (see Table 3 below).

Massachusetts is projected to recover 323,000 jobs during FY 2021 lowering the unemployment rate to 13.4 percent in Q4 FY 2021. Despite this recovery, it should be noted that employment is unlikely to return to pre-pandemic levels before 2024.

**SALES TAXES SUCCUMB TO SUPPLY AND DEMAND SHOCKS**

Following the two month closing of restaurants, bars, and curtailed retail hours, the opportunity to buy taxable goods, meals, and vehicles has been reduced mainly to online shopping. Further, many of these establishments may not re-open, thus reducing shopping choices when economic activity commences.

As we indicated in our April testimony, the loss of work, furloughs or reduced hours creates financial difficulties that will further limit discretionary spending as people try to pay rents, mortgages, health care costs, student loans, food, utilities, and other basic needs. When stores, bars, and restaurants re-open, and when people are comfortable returning to crowded spaces, consumers will focus on their financial condition – income and savings – to decide what they can afford. Pent up demand should lead to a spurt in consumption, but after that initial response, purchases will almost certainly be limited by people’s confidence in their financial well-being – a task that could take years depending on the length and severity of the pandemic.

**Table 3 – Estimated Loss of Massachusetts Employment and Wages**

Percentages of job cuts by industry sector and sub-sector in Column ‘B’ are based on MA initial claims filed by industry and will be updated with state BLS data when released on May 22.

| <b>Employment in Thousands</b>                     | <b>A</b>              | <b>B</b>                  | <b>C</b>            | <b>D</b>                    | <b>E</b>                                       | <b>F</b>   |
|--|-----------------------|---------------------------|---------------------|-----------------------------|--|------------|
|  | <b>Empl<br/>000's</b> | <b>Assume<br/>Pct Cut</b> | <b>Empl<br/>Cut</b> | <b>Avg Weekly<br/>Wages</b> | <b>Tot Annual Payroll - \$bns<br/>Baseline</b> | <b>Cut</b> |
| <b>Construction</b>                                |                       |                           |                     |                             |  |            |
| Construction of buildings                          | 34                    | 42%                       | 14.3                | 1,080                       | 1.9  | 0.8        |
| Heavy and Civil Engineering                        | 14                    | 43%                       | 5.8                 | 1,080                       | 0.8  | 0.3        |
| Specialty Trade Contractors                        | 113                   | 42%                       | 46.8                | 1,080                       | 6.3  | 2.6        |
| <b>Manufacturing</b>                               | <b>243</b>            | <b>18%</b>                | <b>43.7</b>         | <b>1,370</b>                | <b>17.3</b>                                    | <b>3.1</b> |
| <b>Wholesale Trade</b>                             | <b>125</b>            | <b>23%</b>                | <b>28.1</b>         | <b>1,285</b>                | <b>8.3</b>                                     | <b>1.9</b> |
| <b>Retail Trade</b>                                |                       |                           |                     |                             |  |            |
| Food and beverage                                  | 99                    | 30%                       | 29.7                | 805                         | 4.1  | 1.2        |
| General Merchandise Stores                         | 56                    | 35%                       | 19.6                | 805                         | 2.3  | 0.8        |
| Clothing and Clothing Accessories Stores           | 33                    | 35%                       | 11.5                | 805                         | 1.4  | 0.5        |
| Furniture and Home Furnishings Stores              | 10                    | 35%                       | 3.6                 | 805                         | 0.4  | 0.2        |
| Electronics and Appliance Stores                   | 8                     | 35%                       | 2.7                 | 805                         | 0.3  | 0.1        |
| Building Material and Garden Equipment             | 25                    | 35%                       | 8.6                 | 805                         | 1.0  | 0.4        |
| Sporting Goods, Hobby, Musical                     | 14                    | 35%                       | 4.9                 | 805                         | 0.6  | 0.2        |
| Health and Personal Care Stores                    | 27                    | 30%                       | 8.1                 | 805                         | 1.1  | 0.3        |
| Motor Vehicle and Parts Dealers                    | 39                    | 30%                       | 11.6                | 805                         | 1.6  | 0.5        |
| Other  | 40                    | 30%                       | 12.0                | 805                         | 1.7  | 0.5        |
| <b>Transportation, Warehousing &amp; Utilities</b> | <b>105</b>            | <b>32%</b>                | <b>33.6</b>         | <b>749</b>                  | <b>4.1</b>                                     | <b>1.3</b> |
| <b>Information</b>                                 | <b>94</b>             | <b>12%</b>                | <b>10.8</b>         | <b>2,022</b>                | <b>9.9</b>                                     | <b>1.1</b> |
| <b>Financial Activities</b>                        |                       |                           |                     |                             |  |            |
| Real Estate and Rental and Leasing                 | 49                    | 23%                       | 11.3                | 941                         | 2.4  | 0.6        |
| Banking & Insurance                                | 174                   | 3%                        | 5.7                 | 2,277                       | 20.6   | 0.7        |
| <b>Professional and Business Services</b>          |                       |                           |                     |                             |  |            |
| Professional and Technical                         | 349                   | 12%                       | 41.9                | 1,622                       | 29.5   | 3.5        |
| Management of Companies                            | 74                    | 8%                        | 5.9                 | 1,901                       | 7.3  | 0.6        |
| Administrative and Waste Services                  | 179                   | 25%                       | 44.7                | 734                         | 6.8  | 1.7        |
| <b>Education</b>                                   |                       |                           |                     |                             |  |            |
| Elementary and secondary                           | 34                    | 10%                       | 3.4                 | 1,305                       | 2.3  | 0.2        |
| Colleges, Universities, and Professional Schools   | 117                   | 13%                       | 14.6                | 1,305                       | 7.9  | 1.0        |
| Other education                                    | 22                    | 6%                        | 1.3                 | 1,305                       | 1.5  | 0.1        |
| <b>Health Care</b>                                 |                       |                           |                     |                             |  |            |
| Hospitals  | 200                   | 12%                       | 24.0                | 1,467                       | 15.2   | 1.8        |
| Nursing and Residential Care                       | 105                   | 18%                       | 18.9                | 745                         | 4.1  | 0.7        |
| Social Assistance                                  | 151                   | 18%                       | 27.1                | 908                         | 7.1  | 1.3        |
| Ambulatory   | 191                   | 18%                       | 34.5                | 1,288                       | 12.8   | 2.3        |
| <b>Leisure and Hospitality</b>                     |                       |                           |                     |                             |  |            |
| Food Services and Drinking Places                  | 269                   | 52%                       | 139.7               | 664                         | 9.3  | 4.8        |
| Arts, Entertainment, and Recreation                | 25                    | 90%                       | 22.4                | 571                         | 0.7  | 0.7        |
| Amusement, Gambling, and Recreation                | 38                    | 50%                       | 19.2                | 571                         | 1.1  | 0.6        |
| Accommodations                                     | 38                    | 50%                       | 19.1                | 664                         | 1.3  | 0.7        |
| Other  | 10                    | 45%                       | 4.5                 | 571                         | 0.3  | 0.1        |
| <b>Government</b>                                  |                       |                           |                     |                             |  |            |
| Federal  | 46                    | 0%                        | 0.0                 | 1,586                       | 0.0  | 0.0        |
| State  | 130                   | 5%                        | 2.3                 | 1,586                       | 3.8  | 0.2        |
| Local  | 281                   | 8%                        | 9.8                 | 1,586                       | 10.7   | 0.8        |
| <b>Other Services</b>                              | <b>138</b>            | <b>66%</b>                | <b>91.3</b>         | <b>733</b>                  | <b>5.3</b>                                     | <b>3.5</b> |
| <b>Total</b>                                       | <b>3,697</b>          | <b>20%</b>                | <b>725</b>          | <b>1,110</b>                | <b>213</b>                                     | <b>42</b>  |

## FISCAL 2020 TAX REVENUE OUTLOOK

The top line numbers for April 2020 revenues are alarming – down \$2.34 billion or 54 percent from the previous April. The underlying picture may be less troubling due to several changes that affect sales, personal income, and corporate tax filings.

A large portion of the shortfall may be due to timing issues. For vendors with a cumulative liability of less than \$150,000 for the preceding year, sales tax returns due between March 20 and May 31 have been extended until June 20. Personal income, estate and trust income tax filings due April 15 are now due on July 15. Further, the Commissioner of DOR will waive late-file and late-pay penalties for corporate excise returns and payments due on April 15 but filed and paid by July 15, 2020.

Needless to say, tax revenue data for the months of April, May and June provide incomplete information making predictions more uncertain than usual; however, some points are clear. The decline in non-withholding tax revenues from April 2019 was \$2.08 billion representing nearly 90 percent of the \$2.34 billion shortfall. It is reasonable to anticipate that a majority of these revenues will be paid by the July 15 extended date.

MTF anticipates a tax revenue shortfall of between \$700 and \$800 million in FY 2020 after accounting for \$235 million of revenues in excess of benchmark through March and a projected loss in capital gains tax revenues scheduled to be deposited into the Stabilization Fund.

**Table 4 – Estimated FY 2020 Tax Revenue Shortfall**

|                                       | Actual Apr 20 vs Apr 19 |             | Actual<br>FY 19 Q4 \$ | Projected<br>FY 20 Q4 \$ | Projected<br>Q4 20 vs Q4 19 | FY 20 Gap      |
|---------------------------------------|-------------------------|-------------|-----------------------|--------------------------|-----------------------------|----------------|
|                                       | \$                      | %           |                       |                          |                             |                |
| Income                                |                         |             |                       |                          |                             |                |
| Withholding                           | 5                       | 0.5%        | 3,176                 | 3,016                    | -5%                         | (160)          |
| Nonwithholding                        | -2,082                  | -96.7%      | 2,870                 | 2,153                    | -25%                        | (718)          |
| Sales                                 |                         |             |                       |                          |                             |                |
| Goods                                 | 11                      | 2.8%        | 1,196                 | 1,076                    | -10%                        | (120)          |
| Meals                                 | -55                     | -55.6%      | 309                   | 155                      | -50%                        | (155)          |
| Vehicles                              | -54                     | -67.5%      | 261                   | 157                      | -40%                        | (104)          |
| Corporate                             | -138                    | -39.8%      | 1,045                 | 836                      | -20%                        | (209)          |
| Other                                 | -28                     | -13.4%      | 653                   | 588                      | -10%                        | (65)           |
| <b>Total</b>                          | <b>-2,341</b>           | <b>-54%</b> | <b>9,510</b>          | <b>7,980</b>             | <b>-16%</b>                 | <b>(1,530)</b> |
| Revenues over benchmark through March |                         |             |                       |                          |                             | 235            |
| FY 20 cap gains above threshold       |                         |             |                       |                          |                             | 555            |
| <b>Projected FY 20 Gap</b>            |                         |             |                       |                          |                             | <b>(740)</b>   |

As expected, other revenue sources have fallen as a result of the pandemic. Sales tax revenues for meals and motor vehicles fell \$55 million and \$54 million respectively. Corporate taxes declined \$138 million from April 19 or 40 percent, in part due to the ability to file later with no penalties. All other taxes dropped 13.4 percent driven by declines in motor fuels (\$12.5 million), cigarettes (\$2.3 million), and room occupancy (\$5.3 million).

In contrast, income withholding taxes increased by 0.5 percent and sales tax revenues for the purchase of goods increased by 2.8 percent conflicting with expectations. May tax revenue data will be helpful in determining whether these higher than expected revenues are due to timing or if the growth is sustainable.

Table 4 provides a current best estimate for the Q4 FY 2020 tax revenue shortfall of \$740 million. The shortfall incorporates \$235 million in revenues above benchmark through March. It also includes a \$555 million reduction in capital gains tax revenues above the \$1.206 billion threshold for FY 2020 that was assumed in the original consensus revenue figure.<sup>2</sup> While the \$555 million does not affect the 2020 operating budget, it does mean that the anticipated deposit to the state's Stabilization Fund may not materialize.

Given these results, the state must figure out how to balance the 2020 budget and make all necessary payments through the end of the fiscal year.

According to the latest [quarterly cash flow statement](#) released April 7 (which does not include any adjustments to state spending or revenues from the impacts of the pandemic), the state expected to receive \$15 billion in FY 2020 Q4 budgeted revenues – \$10 billion from tax revenues – to cover \$11.3 billion in budgetary expenditures.

If a substantial portion of FY 2020 tax revenues are delayed until FY 2021, the state will have to rely on reversions, trust fund sweeps, and revenue anticipation notes (RANs) once a statutory change allowing the state to borrow in one fiscal year and pay it back in another is passed. Should these options fall short, the state may be forced to tap the state's Stabilization Fund even though the \$3.4 billion balance will be needed to close the fiscal years 2021 and 2022 budget gaps.

As of now, federal relief funds appear to be largely unavailable to resolve either the 2020 budget gap or cash flow issues. Restrictions on the [Coronavirus Relief Fund](#) (\$150 billion for states and municipalities; approximately \$2.6 billion to Massachusetts) and the [Families First Coronavirus Response Act](#) (an additional \$1 billion from a 6.2 percent increase in enhanced FMAP – the federal medical assistance program) limit the state's flexibility.

Regardless of the sources, the use of one-time funds to close out the 2020 budget will create a structural gap in the 2021 budget that will be in addition to the projected \$6 billion tax revenue shortfall.

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<sup>2</sup> See MTF's April 14 tax revenue forecast, [FY 2021 Tax Revenue Forecast – COVID-19 Pandemic](#), pp. 7-8.