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MTF Bulletin

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FY 2026 Consensus Tax Revenue Agreement

On January 9th, budget leaders from the House, Senate, and Healey administration announced a \$43.614 billion consensus tax revenue figure for Fiscal Year (FY) 2026, including \$41.214 billion in non-surtax revenue and \$2.4 billion related to the income surtax. Non-surtax revenues are expected to grow by \$907 million (2.25 percent) over estimated FY 2025 collections.

The consensus revenue agreement also establishes a \$1.95 billion cap on the use of surtax revenues in the FY 2026 operating budget, a \$650 million (50 percent) increase over the \$1.3 billion cap incorporated into the FY 2025 General Appropriations Act (GAA).

After accounting for above-cap surtax collections, the consensus tax revenues available to support the FY 2026 budget total \$43.164 billion.

FY 2026 Consensus Tax Revenue Agreement Summary

| | FY 2025 Benchmark | FY 2026 CR Agreement | \$ Increase over FY 2025 | % Increase over FY 2025 |
|---|--------------------------|-----------------------------|---------------------------------|--------------------------------|
| Non-Surtax Revenue | \$40,307 | \$41,214 | \$907 | 2.25% |
| Surtax Spending Cap | \$1,300 | \$1,950 | \$650 | 50.00% |
| Revenues Available for Budgeted Spending | \$41,607 | \$43,164 | \$1,557 | 3.7% |

\$ in millions

At the FY 2026 Consensus Revenue Hearing, which took place on December 2nd, the Massachusetts Taxpayers Foundation (MTF) and other economic experts presented their projections for revenue trends in FY 2025 and FY 2026. While there was broad consensus that revenues in FY 2025 may fall short of benchmark, experts anticipate moderate revenue growth in FY 2026. The median non-surtax revenue growth projection for FY 2026 provided at the hearing was approximately 3 percent, higher than the 2.2 percent growth rate reflected in yesterday's agreement.

FY 2025 Tax Revenue Collections to Date

State tax revenue collections total \$19.260 billion through December; \$159 million (0.8 percent) above the year-to-date benchmark, but \$1.394 billion (7.8 percent) greater than FY 2024 collections. For the month of December, revenues exceeded FY 2024 collections by \$573 million (15.2 percent) and the monthly benchmark by \$267 million (6.5 percent).

FY 2025 Tax Revenue Collections through December

| | FY 2024 YTD | FY 2025 YTD | FY 2024 v. FY 2025 | FY 2025 YTD BM | FY 2025 YTD v. BM | Growth to Date v. BM |
|------------------------|------------------------|------------------------|-------------------------------|---------------------------|------------------------------|---------------------------------|
| Withholding | \$8,523 | \$9,060 | \$537 | \$9,123 | -\$63 | -0.7% |
| Non-Withholding | \$1,562 | \$2,168 | \$606 | \$1,774 | \$394 | 22.2% |
| Sales | \$4,658 | \$4,839 | \$181 | \$4,963 | -\$124 | -2.5% |
| Corporate/Business | \$1,844 | \$1,778 | -\$66 | \$1,989 | -\$211 | -10.6% |
| Other | \$1,278 | \$1,414 | \$136 | \$1,250 | \$164 | 13.1% |
| Total | \$17,865 | \$19,260 | \$1,394 | \$19,099 | \$159 | 0.8% |

\$ in millions

For the first time this fiscal year, year to date revenue collections have exceeded both prior year collections and benchmark. As the Department of Revenue (DOR) noted in their release of December revenues, revenue trends last month were likely impacted by several one-time factors, including the the tax amnesty program which ran from November 1 to December 30, 2024. Positive revenue growth was also driven by increased non-withholding income taxes likely related to the surtax and the pass-through entity excise, as well as the other tax category due to an increase in estate tax collections.

Regardless of these factors, the year to date revenue growth rate of 7.8 percent is notable. While data limitations make it challenging to assess how much of this positive growth is attributable to the surtax, it's important to note that we are now comparing revenue trends between two fiscal years in which the surtax has been in place. This is in contrast to FY 2024, when monthly and year-to-date collections with the surtax were being compared against months in which the new tax was not in effect.

If revenues during the second half of the fiscal year meet benchmark, total collections are projected to exceed the current benchmark of \$41.607 billion by \$156 million (0.37 percent). While many unknowns remain for the fiscal year, including the impact of income surtax collections, policymakers should view this as a positive sign heading into the latter half of the year.

FY 2026 Consensus Tax Revenue Agreement

The House, Senate, and Healey administration have agreed to a \$41.214 billion non-surtax revenue figure for the FY 2026 budget and a \$1.95 billion cap on income surtax supported spending. The non-surtax revenue figure represents a \$907 million (2.25 percent) increase over the FY 2025 revenue benchmark.

Agreement in Context

On December 2nd, 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 general agreement among testifiers that while non-surtax revenue collections in FY 2025 would fall short of benchmark, they would significantly outperform FY 2024.

The median projection for FY 2025 non-surtax revenues was \$40 billion, \$307 million (-0.8 percent) below benchmark and \$1.6 billion greater than FY 2024 collections. In FY 2026, experts predict that revenues will grow moderately compared to FY 2025 projections; the median growth rate anticipated by testifiers for non-surtax revenue was 3.11 percent.

As MTF stated in testimony provided at the hearing, assumed revenue growth in the range of 3 percent for FY 2026 would have been reasonable and in line with long-term historic trends for revenue growth.

FY 2026 Consensus Revenue Agreement in Context (n/s = no surtax)

| | Current BM (n/s) | FY 2025 Projection (n/s) | FY 2026 Projection (n/s) | \$ v. FY 2025 Projection | % v. FY 2025 Projection |
|---------------------|---------------------|-----------------------------|-----------------------------|-----------------------------|----------------------------|
| DOR Upper | \$40,307 | \$40,063 | \$41,286 | \$1,223 | 3.05% |
| DOR Lower | | \$39,447 | \$40,206 | \$759 | 1.92% |
| MTF | | \$39,670 | \$40,905 | \$1,235 | 3.11% |
| cSPA | | \$40,000 | \$42,100 | \$2,100 | 5.25% |
| ACM | | \$41,035 | \$43,708 | \$2,673 | 6.51% |
| Median | | \$40,000 | \$41,286 | \$1,286 | 3.11% |
| CR Agreement | | \$40,307 | \$41,214 | \$907 | 2.25% |

\$ in millions

The agreement announced today reflects 2.25 percent growth over FY 2025. The revenue estimate is predominantly supported by moderate growth in income tax collections, with yesterday’s agreement reflective of 5.5 percent growth in withheld income and 12 percent growth in capital gains. That positive trend, however, is offset by expected decreases in sales and corporate tax collections.

The consensus tax revenue figure of \$41.214 billion represents an increase of \$1 billion (2.5 percent) compared to the \$40.202 billion tax revenue base used to build the FY 2025 GAA.¹ 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 (further detailed below), budget writers will have access to only \$131 million in new non-surtax consensus revenues in FY 2026, an increase of less than 1 percent.

Comparison of Consensus Revenues Available for Budgeted Spending

| | FY 2025 GAA Estimate | FY 2026 CR Estimate | FY 2025 v. FY 2026 |
|--------------------------------------|-------------------------|------------------------|-----------------------|
| Consensus Revenue | \$40,202 | \$41,214 | \$1,012 |
| <i>Workforce Training Trust Fund</i> | -\$27 | -\$27 | \$0 |
| <i>School Building Authority</i> | -\$1,305 | -\$1,265 | \$40 |
| <i>MBTA</i> | -\$1,465 | -\$1,426 | \$39 |
| <i>Pension Fund</i> | -\$4,500 | -\$4,933 | -\$433 |
| <i>Capital Gains Transfer</i> | -\$138 | -\$666 | -\$528 |
| Taxes Remaining for Budget | \$32,767 | \$32,896 | \$131 |

\$ in millions

¹ The FY 2025 GAA and the 2024 Housing Bond Bill included several revenue-generating initiatives and tax credit programs that are anticipated to impact tax revenue collections in FY 2025. As a result, tax revenues in FY 2025 are expected to total \$40.307 billion, \$105 million higher than the original \$40.202 billion revenue estimate used to build the FY 2025 GAA.

However, a significant increase to the budgeted surtax spending cap, reflective of certified full-year collections for FY 2024 which exceeded DOR projections, will continue to be a source of support for new investment in FY 2026.

Income Surtax Revenue

As part of the FY 2026 consensus tax revenue agreement, budget writers established a \$1.95 billion cap for income surtax spending in the operating budget. This represents a \$650 million (50 percent) increase over the \$1.3 billion surtax spending cap incorporated into the FY 2025 GAA.

FY 2026 Income Surtax Revenue Projections & Spending Cap

| | FY 2026 |
|----------------------------------|----------------|
| Surtax Revenue Projection | \$2,400 |
| Surtax Spending Cap | \$1,950 |
| Above Cap Surtax | \$450 |
| 85% to Innovation & Capital Fund | \$383 |
| 15% to Surtax Reserve Fund | \$68 |

\$ in millions

In total, budget writers anticipate that the income surtax will generate \$2.4 billion in revenue during FY 2026. Importantly, this total revenue projection will be reflected in the tax revenue benchmarks established for the new fiscal year; a recommendation included by MTF in their testimony. Based on the surtax spending cap of \$1.95 billion, approximately \$450 million in above cap surtax revenues would be deposited into the Education and Transportation Innovation & Capital Fund (\$383 million, 85 percent) and the Education and Transportation Reserve Fund (\$68 million, 15 percent).

Capital Gains Revenue

A critical component of the FY 2026 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. This automatic deposit mechanism bolsters the balance of the Stabilization Fund and decreases the budget’s exposure to economic volatility.

In FY 2025, the capital gains threshold was set at \$1.56 billion and state budget writers expected capital gains collections of \$2.077 billion. While this would have resulted in a Stabilization Fund deposit of \$513 million, budget writers agreed to divert \$375 million in above-threshold capital gains onto the operating budget in FY 2025, resulting in \$138 million directed to the Rainy Day Fund.

According to the FY 2026 consensus revenue agreement, capital gains collections are anticipated at \$2.327 billion. The capital gains threshold is expected to increase to \$1.66 billion, and the projected Stabilization Fund deposit is \$666 million.

FY 2026 Capital Gains Tax Collections

| Fiscal Year | Capital Gains Threshold | Capital Gains Estimate | Above Threshold CGs | Operating Budget Diversion | Estimated Stab Fund Deposit |
|-------------|-------------------------|------------------------|---------------------|----------------------------|-----------------------------|
| FY 2025 | \$1,564 | \$2,077 | \$513 | (\$375) | \$138 |
| FY 2026 | \$1,661 | \$2,327 | \$666 | -- | \$666 |

\$ 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 2026 consensus tax revenue agreement includes four other “pre-budget transfers” that take place outside the 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.² 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 defined by the Executive Office for Administration and Finance and is based on a triennial funding schedule. FY 2026 is the final year of the current schedule, and the pension transfer is expected to increase by 9.6 percent.

FY 2026 Pre-Budget Transfers

| | FY 2025 Transfer | FY 2025 Guaranteed | FY 2025 Transfer in CR Agreement | Increase over FY 2024 |
|-----------------------------------|------------------|--------------------|----------------------------------|-----------------------|
| Workforce Trust Fund | \$27 | \$0 | \$27 | \$0 |
| School Building Authority | \$1,312 | \$0 | \$1,265 | -\$47 |
| MBTA | \$1,472 | \$160 | \$1,426 | -\$46 |
| Pension fund | \$4,500 | \$4,933 | \$4,933 | \$433 |
| Total pre-budget transfers | | | \$7,651 | \$340 |

\$ in millions

In FY 2026, the combined total of these pre-budget transfers is \$7.6 billion, an increase of \$340 million over FY 2025.

² The MBTA transfers shown in the table for FY 2025 and FY 2026 are estimates calculated based on current benchmarks and will be adjusted based on actual revenue collections. Under state law, the annual MBTA transfer must be at least equal to the transfer from the prior year.

Next Steps

Governor Healey is expected to submit her administration’s budget proposal for FY 2026 during the third week of 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 2026 Tax Revenues Available for Budget

| Consensus revenue | \$41,214 |
|-----------------------------------|-----------------|
| <i>Cap. Gains transfer</i> | -\$666 |
| <i>Workforce Training</i> | -\$27 |
| <i>SBA</i> | -\$1,265 |
| <i>MBA</i> | -\$1,426 |
| <i>Pension</i> | -\$4,933 |
| Taxes remaining for budget | \$32,896 |

\$ in millions

While this figure represents the revenue foundation for the FY 2026 budget, it is not the final word on available resources. As in FY 2025, it is very likely that the Governor’s budget proposal will reflect a range of one-time and ongoing revenue generating initiatives to increase the resources available to support new and existing state costs.

Spending in the FY 2025 GAA was supported, in part, by approximately \$1.2 billion in new revenue-generating initiatives, including the creation of an online lottery, the use of debit cards for lottery sales, and the utilization of \$400 million in trust fund resources and \$375 million in above-threshold capital gains collections.