

MTF Bulletin

December 22, 2025

FY 2026 Fiscal Update & FY 2027 Consensus Revenue Hearing

On December 16th, the Massachusetts Taxpayers Foundation (MTF), along with the Department of Revenue (DOR) and other economic experts participated in the annual Consensus Revenue Hearing. The hearing offers administration and legislative budget leaders an opportunity to assess current revenue assumptions for Fiscal Year (FY) 2026 and evaluate the resources that will be available to support budgeted spending in FY 2027.

To provide greater context for the testimony provided at the hearing, this brief first reviews FY 2026 revenue collection trends to date. It then provides an overview of the projections offered for FY 2026 and FY 2027 by experts; summarizing key themes, commonalities, and differences. In particular, the brief highlights the unique challenges facing policymakers over the next two fiscal years related to the economic uncertainties driven by federal action.

The brief includes MTF's recommendations for policymakers to consider as they manage FY 2026 assumptions, prepare for FY 2027, and contemplate a state-level response to federal tax policy changes. In summary, the recommendations are as follows:

- **The FY 2026 state tax revenue benchmark of \$41.214 billion does not require a downward adjustment at this time.** Even after accounting for the potential revenue impacts of federal tax policy changes, current economic projections suggest that non-surtax revenue collections will fall only slightly below benchmark, with the average FY 2026 estimate falling below expectations by less than \$100 million.
- **The FY 2027 consensus revenue estimate should reflect modest growth in non-surtax revenues, in the range of 2 to 3 percent.** Positive growth in personal income taxes – paired with stable sales, corporate, and other tax collections – will allow budget writers to build a sustainable FY 2027 budget, while still necessitating spending control measures for known pressures, particularly health care cost growth.
- **The impacts of federal tax policy changes remain challenging to predict, and policymakers must balance near-term revenue goals with the state's long-term economic development strategy.** While the current estimates of federal tax policy changes are based on the best information available from the federal government, there are significant unknowns regarding taxpayer behavior and actual revenue trends. To limit premature action and avoid unintended consequences, policymakers should prioritize maintaining long-term corporate conformity when considering strategies to mitigate revenue impacts of federal tax changes.

Understanding FY 2026 Revenue Collections

Reviewing the FY 2026 Revenue Benchmark

In January 2025, budget leaders from the Healey administration, House, and Senate announced a \$43.614 billion consensus tax revenue figure for FY 2026, including \$41.214 billion in non-surtax revenue and \$2.4 billion related to the income surtax.

The agreement also established a \$1.95 billion surtax spending cap for the FY 2026 state budget, reducing the consensus tax revenues available to support the FY 2026 General Appropriations act (GAA) to \$43.164 billion. At the time, this represented a \$907 million (2.25 percent) increase over expected FY 2025 revenue collections.

Through the FY 2026 Conference Committee Report, House and Senate lawmakers increased the surtax spending cap from \$1.95 billion to \$2.4 billion; equal to the total surtax revenue projection for the fiscal year.

As MTF reported at the time, this decision was likely informed by surtax revenue trends in FY 2025, which suggested that collections could exceed \$3 billion by the end of the fiscal year, as well as the need to cover certain operating budget costs with surtax resources instead of General Fund dollars to balance the budget. However, it was also noted that an increasing reliance on surtax revenues in the operating budget creates new exposures that policymakers must manage and reduces surtax resources available for capital and innovative investments. Because the majority of surtax revenues are collected through non-withheld income taxes, which are closely tied to stock market performance, they may experience more pronounced declines if the economy falters.

FY 2026 Revenue Benchmark Build-Up

	FY 2026 CR Agreement	FY 2026 GAA
Non-Surtax Revenue Benchmark	\$41,214	\$41,214
Surtax Spending Cap	\$1,950	\$2,400
FY 2026 CR Taxes Available for the Budget	\$43,164	\$43,614

\$ in millions

The monthly and year-to-date revenue benchmarks established by DOR for FY 2026 are based on the updated revenue figure of \$43.614 billion.

FY 2026 Revenue Collections to Date

Through November, state tax revenue collections for FY 2026 total \$15.572 billion, \$188 million (1.2 percent) above the year-to-date benchmark and \$657 million (4.4 percent) ahead of FY 2025 collections at the same point during the last fiscal year.

FY 2026 Revenue Collections v. FY 2025 Actuals & FY 2026 Benchmarks

	FY 2025 YTD	FY 2026 YTD	FY 2025 v. FY 2026	FY 2026 YTD BM	FY 2026 YTD v. BM	% Growth to Date v. BM
Withholding	\$7,309	\$7,748	\$439	\$7,768	-\$20	-0.3%
Non-Withholding	\$1,427	\$1,641	\$214	\$1,435	\$206	14.4%
Sales	\$3,975	\$4,033	\$58	\$3,989	\$44	1.1%
Corporate/Business	\$1,110	\$953	-\$157	\$1,080	-\$127	-11.8%
Other	\$1,093	\$1,196	\$103	\$1,111	\$85	7.6%
Total	\$14,914	\$15,572	\$657	\$15,383	\$188	1.2%

\$ in millions

Compared to state tax collections through November 2024, the state recorded gains across withholding, non-withheld income, sales and use, and “all other” taxes, while corporate and business tax collections are \$157 million (14 percent) below FY 2025 levels and \$127 million (11.8 percent) below benchmark.

Revenue growth in FY 2026 continues to be driven by income tax collections, which are up 7.5 percent year-to-date, buoyed by strong non-withheld income collections and continued stability in withholding.

However, the inability to distinguish surtax from non-surtax income tax collections complicates assessing what these trends mean for the resources available to support the budget. Overall, trends suggest that revenue performance remains generally consistent with expectations, though the composition of the growth remains unknown. If a large portion of above-benchmark collections to date are related to the surtax, those revenues will not be available to support general budgeted spending or to balance the budget at the end of the fiscal year.

FY 2026 Revenue Collections in Context

Last January, the FY 2026 non-surtax revenue benchmark of \$41.214 billion represented 2.25 percent (\$907 million) growth over the FY 2025 benchmark of \$40.307 billion. This expectation was conservative given larger economic concerns, but generally in line with long-term historic trends for revenue growth, which have been in the range of three to four percent over the last ten years.

Actual non-surtax collections in FY 2025 totaled \$40.718 billion, \$2.377 billion (6.2 percent) above FY 2024 and \$411 million (1 percent) above expectations.

To meet the FY 2026 non-surtax benchmark, revenues must now grow by 1.2 percent over FY 2025 actuals, meaning non-surtax monthly collections need to outperform last year by roughly that rate through June.

FY 2026 Estimated & Required Rates of Non-Surtax Revenue Growth

FY 2025 Revenue Benchmark	FY 2026 Revenue Benchmark	FY26 v. FY25 Estimated Growth
\$40,307	\$41,214	2.25%
FY 2025 Revenue Actuals	FY 2026 Revenue Benchmark	FY26 v. FY25 Required Growth
\$40,718	\$41,214	1.2%

\$ in millions

Year-to-date, total collections are up 4.4 percent over FY 2025, primarily driven by non-withheld income tax collections. While this higher growth rate is positive, without the ability to differentiate between surtax and non-surtax revenue collections, it is not possible to offer a direct comparison to the 1.2 percent rate required to meet benchmark.

As further detailed below, the testimony provided by economic experts at the Consensus Revenue Hearing offers greater insight into what state budget writers can expect for the remainder of FY 2026 and FY 2027.

FY 2026 Consensus Revenue Projections (no surtax)

Excluding surtax revenue, testifiers at the Consensus Revenue Hearing projected that collections in FY 2026 will exceed FY 2025 collections by an average of \$408 million (1 percent) but fall below benchmark by an average of \$88 million (0.2 percent).

MTF’s modeling was consistent with these averages, estimating that non-surtax revenues in FY 2026 will come in above FY 2025 actuals by \$423 million (1 percent) but \$73 million (0.2 percent) less than benchmark.

Summary of Consensus Revenue Testimony for FY 2026 (n/s = non surtax)

	FY 2025 Collections (n/s)	FY 2026 Benchmark (n/s)	FY 2026 Projection (n/s)	\$ v. FY 2025 (n/s)	% v. FY 2025 (n/s)	\$ v. FY 2026 BM (n/s)	% v. FY 2026 BM (n/s)
DOR Upper	\$40,718	\$41,214	\$40,985	\$267	0.7%	-\$229	-0.56%
DOR Lower			\$40,531	-\$187	-0.5%	-\$683	-1.66%
MTF			\$41,141	\$423	1.0%	-\$73	-0.18%
cSPA			\$42,100	\$1,382	3.4%	\$886	2.15%
ACM			\$40,874	\$156	0.4%	-\$340	-0.82%
Median			\$40,985	\$267	0.7%	-\$229	-0.6%
Average			\$41,126	\$408	1.0%	-\$88	-0.2%

\$ in millions

While there was broad agreement amongst economic experts that revenues in FY 2026 would remain essentially in line with benchmark, there was a range in projections:

- DOR offered the most conservative estimate of FY 2026 revenue growth, in the range of -0.5 to 0.7 percent growth over FY 2025. Their model reflects a significant decrease in corporate tax collections, and assumes a \$664 million revenue loss associated with federal tax policy changes.
- The most optimistic projection was provided by Evan Horowitz from the Center for State Policy Analysis at Tufts University; his model suggests revenue growth in FY 2026 of 3.4 percent over FY 2025, and collections above benchmark of \$886 million (2.15 percent). While this model also includes an adjustment related to federal tax policy changes, those losses are offset by upward pressure from inflation.

In FY 2026, MTF expects revenues to total \$41.14 billion, after accounting for the fiscal impacts of federal tax policy changes. Similarly to DOR's projections, these impacts are predominantly seen in corporate tax collections. However, as highlighted at the hearing, there is limited information available to accurately estimate the impacts of these policy changes at the state level. Combined with the unpredictability of individual and corporate taxpayer behavior, this makes developing a state policy response extremely difficult. MTF recommends that policymakers exercise caution when considering changes to the state's conformity with the federal tax code, to avoid premature action or unintended consequences.

FY 2026 Surtax Revenue Projections

In FY 2026, economic experts anticipate that surtax revenues will likely exceed the current benchmark of \$2.4 billion and be level with FY 2025 collections of approximately \$2.9 billion.

Summary of Surtax Revenue Projections in FY 2026 (w/s = with surtax)

	FY 2025 Surtax Collections	FY 2026 Surtax Benchmark	FY 2026 Surtax Projection	Surtax Projection v. FY 2025 Actuals	Surtax Projection v. FY 2026 Benchmark
DOR Upper	\$2,987	\$2,400	\$3,193	\$206	\$793
DOR Lower			\$2,928	-\$59	\$528
MTF			\$2,661	-\$326	\$261
cSPA			\$3,000	\$13	\$600
ACM			\$2,700	-\$287	\$300
Median			\$2,928	-\$59	\$528
Average			\$2,896	-\$91	\$496

\$ in millions

If surtax collections in FY 2026 near \$3 billion, above-cap surtax revenues of roughly \$600 million would be deposited into the Education and Transportation Innovation and Capital Fund (approximately \$510 million) and the Education and Transportation Reserve Fund (approximately \$90 million). This would represent a significantly lower balance for the Innovation and Capital Fund compared to FY 2024 and FY 2025, when deposits into the fund exceeded \$1 billion.

Summing Up FY 2026

Heading into the second half of FY 2026, the testimony provided at the Consensus Revenue Hearing conveyed several major takeaways for state budget writers:

- First, even after accounting for the impacts of federal tax policy changes, non-surtax revenue collections in FY 2026 are, on average, projected to grow over FY 2025 by approximately 1 percent and fall below benchmark by less than 0.5 percent. As a result, it does not appear necessary to adjust the FY 2026 revenue benchmark at this time.
- Second, the average surtax revenue projection for FY 2026 is \$2.9 billion, nearly equal to FY 2025. However, because the surtax spending cap in the FY 2026 state budget was increased to \$2.4 billion, policymakers should expect reduced deposits into the Innovation and Capital Fund and the Surtax Reserve Fund.
- Lastly, the average projection for capital gains collections in FY 2026 was \$2.9 billion, approximately \$1.2 billion higher than the current capital gains threshold of \$1.7 billion. In the FY 2026 budget, policymakers agreed to divert 90 percent of above-threshold capital gains to cover pension obligation costs, with the remaining 10 percent divided evenly between the Stabilization Fund and the State Retiree Benefits Trust Fund.

Projecting FY 2027 Revenue Collections

The Consensus Revenue Hearing is the first opportunity to assess the resources that will be available to support the FY 2027 budget. While the final consensus revenue agreement may not be announced for several weeks, looking at economic forecasts for both non-surtax and surtax revenues provides important context for the budget challenges that the administration and legislature are likely to face in the upcoming fiscal year.

FY 2027 Consensus Revenue Projections (no surtax)

Excluding surtax revenue, the average growth rate predicted for FY 2027 is 3.9 percent over projected FY 2026 revenues. Despite expectations that revenues will stagnate in FY 2026, testifiers expressed cautious optimism that revenues will stabilize and grow modestly in FY 2027.

Summary of FY 2027 Consensus Revenue Testimony (n/s = no surtax)

	FY 2026 Benchmark	FY 2026 Projection (n/s)	FY 2027 Projection (n/s)	\$ v. FY 2026 BM (n/s)	\$ v. FY 2026 Proj. (n/s)	% v. FY 2026 Proj. (n/s)
DOR Upper	\$41,214	\$40,985	\$42,409	\$1,195	\$1,424	3.5%
DOR Lower		\$40,531	\$41,366	\$152	\$835	2.1%
MTF		\$41,141	\$42,026	\$812	\$885	2.2%
cSPA		\$42,100	\$44,100	\$2,886	\$2,000	4.8%
ACM		\$40,874	\$43,756	\$2,542	\$2,882	7.1%
Median		\$40,985	\$42,409	\$1,195	\$1,424	3.5%
Average		\$41,126	\$42,731	\$1,517	\$1,605	3.9%

\$ in millions

MTF projects FY 2027 non-surtax revenues to grow by \$884 million (2.15 percent) over FY 2026 projections to reach \$42.03 billion. This outlook reflects modest gains in personal income as a result of slowing employment growth, and limited growth in sales and corporate tax revenues. Therefore, while revenues are expected to grow, they are unlikely to provide the flexibility needed to address rising costs, particularly in health care, without continued spending restraint.

A notable outlier amongst testifiers was Professor Alan Clayton-Matthew's projection that non-surtax revenues in FY 2027 would grow by 7.1 percent over FY 2026 collections of \$40.87 billion. This growth is predominantly supported by an expectation of strong capital gains collections of \$3.5 billion. The average capital gains projection offered by other testifiers was \$2.5 billion.

FY 2027 Surtax Revenue Projections

In FY 2027, the average surtax revenue projection is \$2.85 billion. While this is lower than the average projection for FY 2026 of \$2.9 billion, high-end estimates suggest that surtax collections could once again reach \$3 billion.

Summary of FY 2027 Consensus Revenue Testimony (w/s = with surtax)

	FY 2025 Surtax Collections	FY 2026 Surtax Benchmark	FY 2026 Surtax Proj.	FY 2027 Surtax Est.	Surtax Est. v. Surtax BM	Surtax Est. v. FY 2026 Proj.
DOR Upper	\$2,987	\$2,400	\$3,193	\$3,150	\$750	-\$43
DOR Lower			\$2,928	\$2,616	\$216	-\$312
MTF			\$2,661	\$2,796	\$396	\$135
cSPA			\$3,000	\$3,000	\$600	\$0
ACM			\$2,700	\$2,700	\$300	\$0
Median			\$2,928	\$2,796	\$396	\$0
Average			\$2,896	\$2,852	\$452	-\$44

\$ in millions

Summing Up FY 2027

As policymakers assess the testimony provided at the Consensus Revenue Hearing and consider crafting a sustainable consensus revenue estimate for FY 2027, there are two clear takeaways:

- First, non-surtax revenues in FY 2027 are anticipated to grow modestly over FY 2026 projections, with estimates ranging from 2.1 to 7.1 percent growth. However, policymakers should be advised that even positive revenue growth may provide limited new resources to support budgeted spending, particularly if growth is predominantly supported by non-withheld collections. The projections offered at the hearing support a consensus revenue figure in the range of 2 to 3 percent, which would still require substantial spending restraint.
- Second, surtax revenues in FY 2027 are projected to plateau at approximately \$3 billion. While this would potentially represent three years of stable surtax collections, it remains important for the surtax spending cap in the operating budget to be set at a level lower than total surtax revenues. A lower surtax spending cap ensures that ongoing costs supported by the surtax remain sustainable, and it allows above-cap collections to be deposited into the Innovation and Capital Fund, as well as the Surtax Reserve Fund. Maintaining a sizeable balance in the Innovation and Capital Fund is critical to supporting the long-term goal of evenly dividing surtax revenues between education and transportation.

Looking Ahead to FY 2026 & FY 2027

FY 2026 Revenue & Spending Trends

At the Consensus Revenue Hearing, the updated projections offered for FY 2026 generally coalesced around the same major takeaway: even after accounting for the fiscal impacts of federal tax policy changes, revenue collections for the fiscal year may fall slightly below expectations, though not by a margin that requires an adjustment to the current benchmark.

Exact estimates of the fiscal impact of federal tax policy changes remain very challenging to predict. There is limited information available from the federal government about state-level impacts, and ultimately the level of revenue impact will be affected by individual and corporate taxpayer behavior and the larger economy.

While policymakers must remain clear-eyed about the potential for revenue loss in FY 2026, it is also important to balance short-term revenue goals with the state's competitiveness goals, while maintaining predictability for taxpayers.

FY 2027 Budget Development Process

At the same time that policymakers will be monitoring FY 2026 revenue collections, they will also be undertaking the FY 2027 budget development process. The average projection for revenue growth in FY 2027 was 3.9 percent, or an increase of \$1.6 billion over FY 2026 projections. It's important to note that this average is impacted by two projections that anticipate revenue growth to be bolstered by inflation, as well as strong capital gains collections.

Given the volatility of capital gains revenues, as well as the unpredictability of larger economic factors, state budget writers should factor in a level of caution when finalizing the consensus revenue figure for FY 2027.

Over the last ten years, excluding the pandemic years of FY 2021 and FY 2022, non-surtax budgeted operating tax revenues have grown by an average of 3 percent. This represents a sustainable level of ongoing revenue growth, that should serve as a ceiling for the consensus revenue figure in FY 2027. This recommendation is backed by the projections offered by DOR and MTF, which estimate revenue growth over FY 2026 in the range of 2.1 to 3.5 percent.

An FY 2027 state budget that is built on a revenue base growing at 3 percent will require substantial spending restraint. Cost pressures related to health care will require a coordinated state approach to keep spending within reasonable levels of growth, and policymakers must avoid temptations to use one-time reserves to backfill ongoing operating expenses.