



333 Washington Street | Suite 853 | Boston, MA 02108 | 617.720.1000
www.masstaxpayers.com

MTF Bulletin

December 16, 2025

FY 2026 & FY 2027 Tax Revenue Forecast – Growth Stalls; Budget Pressures Mount

The Massachusetts Taxpayers Foundation (MTF) projects Fiscal Year (FY) 2026 non-surtax revenues to fall \$73 million below the FY 2026 benchmark, ending the year at \$41.14 billion. FY 2027 non-surtax revenues are projected to grow \$884 million or 2.2 percent to \$42.03 billion, providing minimal cushion for either budget.

Slower growth in FY 2026 and FY 2027 tax revenues is largely due to a slowing economy, flat employment, and financial strains on budgets that limit growth in personal expenditures. While MTF's forecast adjusts for the impacts of federal tax law changes included in the "One Big Beautiful Bill Act" (OBBBA), it is the risks and uncertainties to the broader economy and the potential loss of federal funds that could make this one of the most challenging budgets since the 2009 fiscal crisis.

Following \$2.99 billion in FY 2025 income surtax collections, MTF projects surtax revenues of \$2.66 billion in FY 2026, which would be \$325 million less than FY 2025 but \$260 million higher than the FY 2026 benchmark. MTF expects surtax revenues will grow to \$2.8 billion in FY 2027.

Table 1 - Tax Revenue Forecast

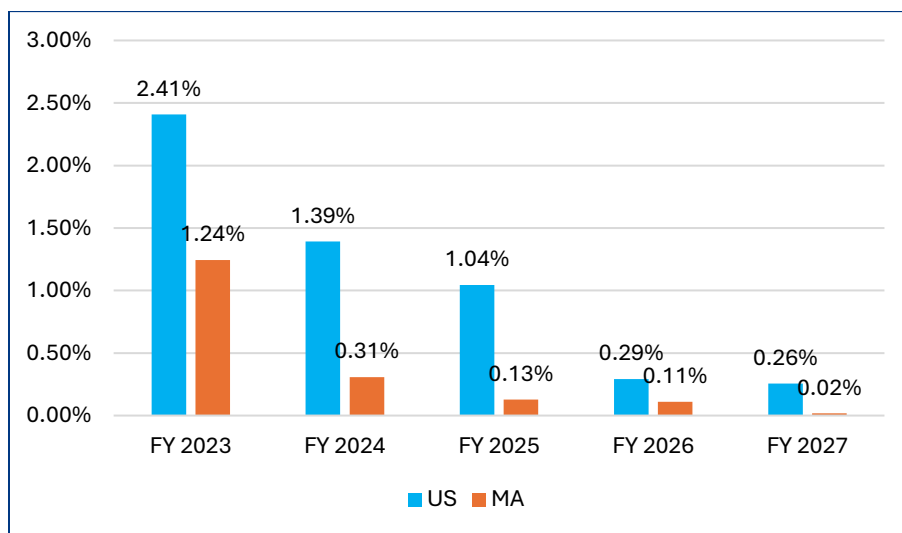
					FY 2026 Forecast v. FY 2026 Benchmark		FY 2027 v. FY 2026	
Non-Surtax	FY 25	FY 26 Benchmark	FY 26	FY 27	\$	%	\$	%
Income	23,725	24,200	24,337	25,031	137	0.56%	694	2.85%
Withholding	18,614	19,325	19,109	19,644	-216	-1.13%	535	2.80%
Capital Gains	2,696	2,327	2,554	2,593	227	8.90%	38	1.50%
Non-withholding	2,670	2,588	2,673	2,795	85	3.20%	121	4.53%
Sales	9,613	9,633	9,620	9,692	-13	-0.13%	72	0.75%
Corporate	4,662	4,750	4,520	4,606	-230	-5.09%	86	1.90%
Other	2,726	2,591	2,664	2,696	73	2.76%	32	1.20%
Total	40,726	41,214	41,141	42,026	-73	-0.18%	884	2.15%
Surtax	2,987	2,400	2,661	2,796				

WITHHOLDING INCOME TAX REVENUE GROWTH MODERATES

Non-surtax withholding income tax revenues are expected to increase over FY 2025 by \$495 million in FY 2026 and by a further \$535 million in FY 2027, reaching a total of \$19.64 billion (Table 1). These increases are modest – 2.6 percent and 2.8 percent respectively – and substantially lower than the FY 2019 – FY 2025 annual average of 6.8 percent growth (excludes withholding surtax revenues).

Stalled employment growth (Figure 1), dropping from 1.24 percent in FY 2023 to 0.02 percent in FY 2027, combined with a steep decline in real personal income growth (Figure 2 below) from 3.3 percent in FY 2023 to 1.5 percent in FY 2027 support the prediction of slower growth in personal income taxes through June 2027.¹

Figure 1 - Y-o-Y Employment Growth, FY 2023 - FY 2027, U.S. v MA



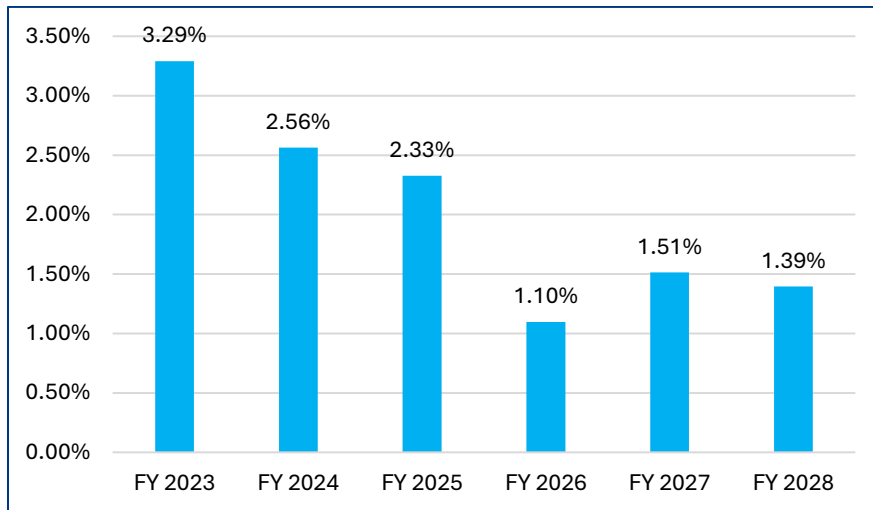
NON-WITHHOLDING TAX COLLECTIONS ALSO SHOW LIMITED GROWTH

Non-withholding tax revenues combine short and long-term capital gains tax revenues with other non-withholding revenues such as interest, dividends, and Schedule E earnings. MTF estimates non-withholding tax revenues at \$5.23 billion in FY 2026, or \$140 million below FY 2025, and \$5.3 billion in FY 2027 equal to FY 2025.

Capital gains tax revenues are expected to fall \$140 million to \$2.55 billion in FY 2026 compared to the recently certified figure of \$2.7 billion in FY 2025, and then increase by 1.4 percent in FY 2027 to \$2.6 billion.

¹ Moody's Analytics data for Q4 2025, FY 2026, FY 2027, and FY 2028 are forecasts.

Figure 2 - MA Real Personal Income Growth, FY 2023 – FY 2028

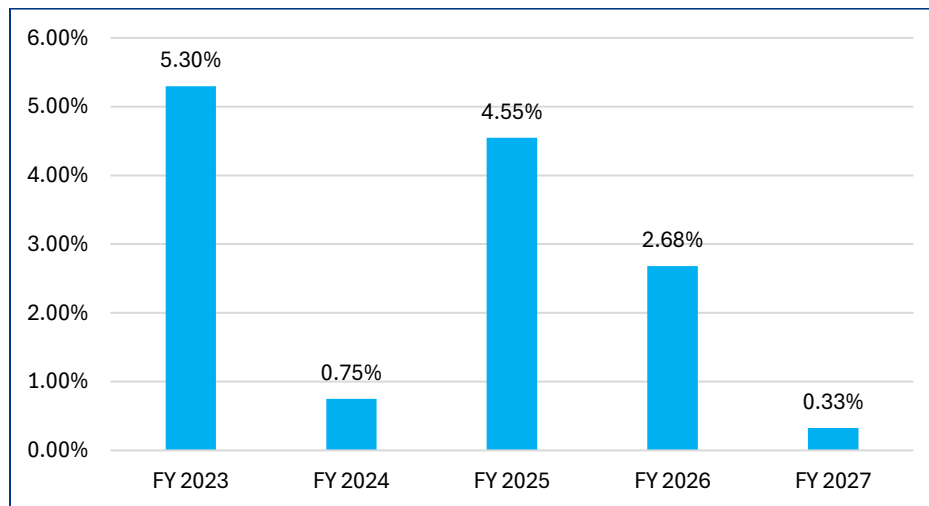


SALES TAX REVENUE GROWTH STALLS

MTF expects sales tax revenues of \$9.6 billion in FY 2026, below the FY 2026 benchmark but slightly above FY 2025. FY 2027 sales tax revenues increase to \$9.7 billion, growing less than 1 percent.

One factor to consider when assessing projected sales tax collections is the decline in residents' personal consumption expenditures on durable (taxable) goods. As shown in Figure 3, the drop in the growth of personal consumption expenditures (PCE) of durable goods from 5.3 percent in FY 2023 to 2.7 percent in FY 2026 is a worrisome trend. The projected drop to 0.3 percent in FY 2027 implies a sharp limit on personal spending and a softening in sales tax collections.

Figure 3 - MA PCE of Durable Goods, FY 2023 – FY 2027



CORPORATE TAXES RECOVER MODESTLY

Corporate taxes reach \$4.5 billion in FY 2026 or \$230 million below the benchmark due in part to OBBBA tax law changes, and \$4.6 billion in FY 2027, displaying modest growth of 1.8 percent.

OTHER TAXES STALL AS WELL

Revenues from other taxes are expected to reach \$2.66 billion in FY 2026, \$75 million above benchmark but \$60 million less than FY 2025. MTF estimates that other taxes will be \$2.7 billion in FY 2027, a 1.2 percent increase over FY 2026.

THE MASSACHUSETTS ECONOMY – A GROWING CONCERN

Personal income and sales tax revenues provide critical indicators of the strength of the state's economy. They also account for approximately 80 percent of tax revenue collections. Moody's Analytics most recent forecast of several key metrics that impact income and sales tax revenues indicate a decelerating economy at risk of recessions due to weak employment growth and a slowdown in real personal income and personal consumption of durable goods through FY 2027.

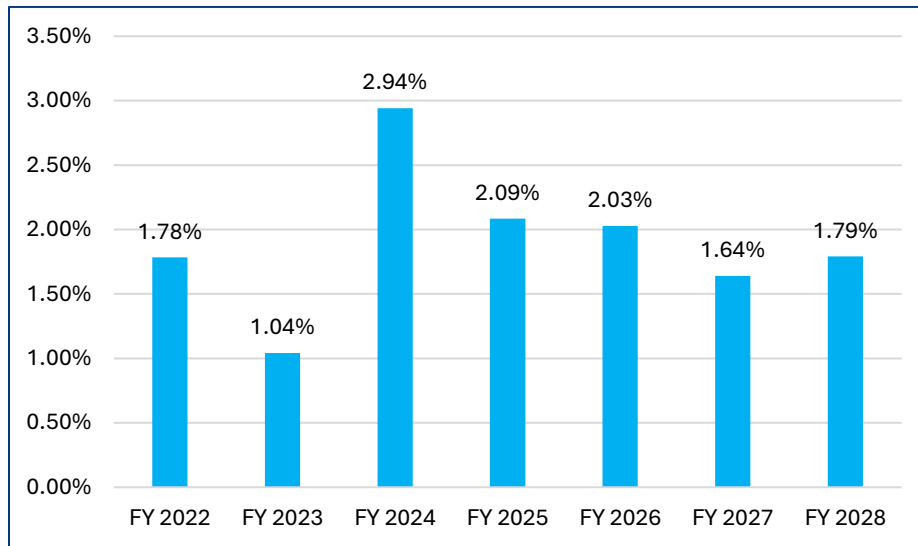
In October, Moody's Analytics chief economist Mark Zandi updated his August warning that 22 states are either in recession or at high risk of entering one.² Massachusetts is among these states. Zandi notes that the most important data in this analysis includes payroll, household employment, unemployment, industrial production, personal income, and retail sales.

Moody's Analytics' projections, released in November, show several concerns.³ Starting with the state's gross state product (GSP), Massachusetts' productivity growth remains positive but falling from 2.9 percent in FY 2024 to 1.6 percent in FY 2027 which is the second lowest figure since FY 2022.

² [*23 States in Recession Reveal the Fragility of the U.S. Economy*](#), Mark Zandi, October 22, 2025.

³ Moody's Analytics forecast data for Massachusetts GSP, employment, real personal income, personal consumption expenditures of durable goods, and aging demographics are from November 2025. It is worth noting that these data may not have been updated since August due to the federal government shutdown.

Figure 4 - MA GSP, FY 2022 - FY 2028



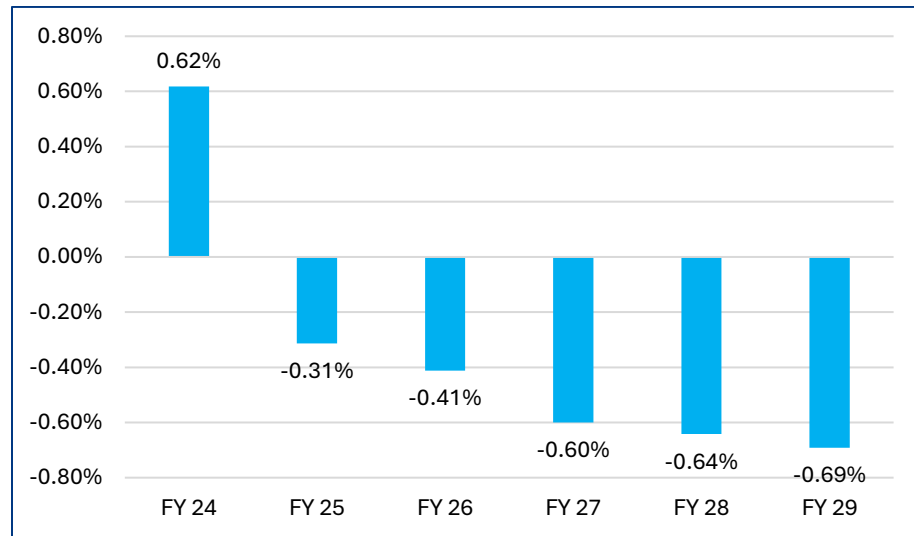
Of greater concern is the lack of employment growth, and here the Massachusetts economy looks increasingly vulnerable. As shown in Figure 1 above, employment grew 1.25 percent in FY 2023 displaying healthy growth that was fueled by a surge in international immigration. Since then, employment growth drops precipitously to 0.11 percent in FY 2026 and continues to fall to 0.02 percent in FY 2027, meaning virtually no growth in jobs over the next 18 months. That means only 20,000 additional people are employed from January 2023 to June 2027, representing 0.6 percent total growth.

Although Moody's forecast of U.S. employment also falls in FY 2026 and FY 2027, the contrast helps explain why analysts conclude that Massachusetts is at higher risk of recession than most other states.

Reigniting job growth faces several challenges as high-growth sectors of the past decade including finance, tech, and life sciences, struggle.

Making matters more difficult, with the downturn in international immigration and an aging population, Massachusetts' working-age population is projected to decline through the rest of the decade handicapping the state's ability to retain talent to remain competitive with other states, regions, and global enterprises.

Figure 5 – MA Population Aged 20 – 64, Year-over-year Change, FY 2024 – FY 2029



For more information on how Massachusetts compares with other states on such issues as GSP per capita, private employment, unemployment, average weekly wages, migration trends, labor force size, business formations, and costs of living, see MTF's [*Massachusetts Competitive Index – 2025*](#).

EXTERNAL HEADWINDS ARE PERVASIVE

Massachusetts' residents and businesses, just as in many other states, confront a wide assortment of economic challenges. And although they are widely covered in the media, they are nearly impossible to quantify given the uncertainty, volatility, and lack of published data. The list below is incomplete, but for starters:

- ESCALATING INTERNATIONAL CONFLICTS
- MERCURIAL TARIFFS
- VOLATILE MARKETS DOMINATED BY A SELECT FEW TECH COMPANIES
- AI GUARDRAILS, IMPLEMENTATION, EMPLOYMENT IMPACTS, AND CYBER SECURITY
- COSTS OF LIVING AND PUBLIC SENTIMENT
- IMMIGRATION ENFORCEMENT AND LABOR ISSUES
- CUTS IN NIH AND NSF GRANTS FOR EDUCATION AND MEDICAL RESEARCH
- CUTS IN FEDERAL FUNDS TO STATE OPERATING BUDGETS – ESPECIALLY MEDICAID
- LOSS OF FEDERAL FUNDS FOR ENERGY AND TRANSPORTATION INFRASTRUCTURE PROJECTS