



Commonwealth of Massachusetts

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ANDREW W. MAYLOR
COMPTROLLER

July 31, 2019

Secretary Michael Heffernan
Executive Office of Administration and Finance

The Honorable Aaron Michlewitz, Chair
House Committee on Ways and Means

The Honorable Michael J. Rodrigues, Chair
Senate Committee on Ways and Means

RE: FY2019 Capital Gains Tax Revenue/Transfer to Stabilization Fund

Dear Secretary Heffernan, Chair Michlewitz and Chair Rodrigues:

On July 29, 2019, the Department of Revenue certified to the State Comptroller that, through June 2019, Fiscal Year 2019 capital gains tax revenue totaled \$2,059,911,278.12. Section 5G of Chapter 29 of the Massachusetts General Laws requires capital gains tax revenue in excess of the fiscal year capital gains tax threshold be transferred to the Commonwealth Stabilization Fund from the General Fund. In addition, Section 5G requires that a total of 10% of the amount so transferred to the Stabilization Fund be transferred from the Stabilization Fund to the State Retiree Benefits Trust Fund (SRBTF) and the Commonwealth's Pension Liability Fund (PRIT), in equal 5% increments. As the Fiscal Year 2019 capital gains tax threshold is \$1,211,511,829.94, in addition to previous capital gains tax transfers made in June 2019, I have processed the following transfers:

1. An incremental transfer in the amount of \$212,011,278.18 from the General Fund to the Commonwealth Stabilization Fund;
2. An incremental transfer in the amount of \$10,600,563.91, equal to 5% of the capital gains tax revenues transferred to the Stabilization Fund, from the Stabilization Fund to the State Retiree Benefits Trust Fund (SRBTF);
3. An incremental transfer in the amount of \$10,600,563.91, equal to 5% of the capital gains tax revenues transferred to the Stabilization Fund, from the Stabilization Fund to the Commonwealth's Pension Liability Fund (PRIT).

Together with capital gains tax revenues transferred in June 2019, the total amounts transferred in Fiscal Year 2019 are \$848,399,448.18 from the General Fund to the Stabilization Fund, \$42,419,972.41 transferred from the Stabilization Fund to the Commonwealth's Pension Liability Fund, and \$42,419,972.41 transferred from the Stabilization Fund to the State Retiree Benefits Trust Fund (SRBTF).

If you have any questions regarding this letter, please contact Howard Merkowitz, Deputy Comptroller, at (617) 973-2602.

Sincerely,

Andrew W. Maylor
Comptroller of the Commonwealth

Enc. Attachment #1: M.G.L. Chapter 29, Section 5G
Attachment #2: Capital Gains Tax Certification Letter from Commissioner of Revenue
Attachment #3: FY19 Capital Gains Tax Threshold Certification from Department of Revenue

Cc: Catharine Hornby, Assistant Secretary for the Budget, ANF
Bran Shim, Finance Director, ANF
David Bunker, Budget Director, HWM
Christopher Marino, Budget Director, SWM
Christopher C. Harding, Commissioner, DOR
Kazim Ozyurt, Director, Office of Tax Policy Analysis, DOR
James MacDonald, First Deputy Treasurer, TRE
Howard Merkowitz, Deputy Comptroller, CTR

Attachment #1

Chapter 29, Section 5G. After each quarter, the department of revenue shall certify to the state comptroller the amount of tax revenues estimated to have been collected during the preceding quarter from capital gains income. If the department of revenue certifies that the amount of tax revenues estimated to have been collected from capital gains income exceeds \$1,000,000,000 in a fiscal year, the comptroller shall transfer quarterly any such amount that exceeds \$1,000,000,000 collected during that fiscal year to the Commonwealth Stabilization Fund established in section 2H. The \$1,000,000,000 threshold established in the preceding sentence shall be adjusted annually to reflect the average annual rate of growth in United States gross domestic product over the preceding 5 years based on the most recently available data published by the Bureau of Economic Analysis in the United States Department of Commerce.

This transfer shall be made before the certification of the consolidated net surplus for the previous fiscal year under section 5C. The department of revenue shall report by November 30 to the state comptroller, the executive office for administration and finance and the house and senate committees on ways and means tax revenues estimated to have been collected during the preceding fiscal year from capital gains income. The comptroller shall not make adjustment to amounts previously transferred if the capital gains revenue reported on November 30 differs from the amounts estimated during the preceding fiscal year.

Five per cent of any amount transferred to the Commonwealth Stabilization Fund under this section shall then be transferred from the Commonwealth Stabilization Fund to the State Retiree Benefits Trust Fund established in section 24 of chapter 32A and 5 per cent of any amount transferred to the Commonwealth Stabilization Fund under this section shall then be transferred from the Commonwealth Stabilization Fund to the Commonwealth's Pension Liability Fund established in section 22 of chapter 32.



Christopher C. Harding
Commissioner

The Commonwealth of Massachusetts
Department of Revenue
Office of the Commissioner
P.O. Box 9550
Boston, MA 02114-9550

July 29, 2019

Mr. Andrew W. Maylor
Comptroller
Commonwealth of Massachusetts
1 Ashburton Place, 9th Floor
Boston, MA 02108

Dear Mr. Maylor:

Pursuant to Section 5G of Chapter 29 of the General Laws¹, the Department of Revenue (DOR) is required to certify to the State Comptroller, after each quarter during the fiscal year, the amount of tax revenues estimated to have been collected during the preceding quarter from capital gains income.

Because capital gains tax payments are remitted unevenly throughout the fiscal year according to tax filing deadlines, it was determined that DOR would follow the following schedule for reported quarters²:

- 1) Period 1 (July 1 through September 30)
- 2) Period 2 (October 1 through January 31)
- 3) Period 3 (February 1 through May 31)
- 4) Period 4 (June 1 through June 30)

The table below shows capital gains tax revenue estimates for each of the certification periods, and also for the full Fiscal Year 2019 (FY19).

Capital Gains Tax Collections

	Period	Year to Date
	(\$ millions)	(\$ millions)
Period 1 (July 1, 2018 to September 30, 2018)	\$290.6	\$290.6
Period 2 (October 1, 2018 to January 31, 2019)	\$549.2	\$839.8
Period 3 (February 1, 2019 to May 31, 2019)	\$1,004.7	\$1,844.5
Period 4 (June 1, 2019 to June 30, 2019)	\$215.4	\$2,059.9

¹ <http://www.malegislature.gov/Laws/GeneralLaws/PartI/TitleIII/Chapter29/Section5G>.

² The statute does not specify the quarters. For the purposes of accurate reporting, DOR interpreted “quarters” as “periods.”

Based on currently available data, DOR hereby certifies that tax revenues estimated to have been collected from capital gains income was \$215.4 million during the FY19 Period 4 (June 1, 2019 through June 30, 2019). The FY19 full year tax revenues estimated to have been collected from capital gains income were \$2,059.9 million.

Under Section 5G of Chapter 29 of the General Laws, the amount of certified capital gains tax revenue collections over a defined threshold, which was previously set at \$1,211.5 million for FY19, shall be transferred into the Commonwealth Stabilization Fund.

Therefore, this capital gains tax certification shall generate a total transfer of approximately \$848.4 million to the Commonwealth Stabilization Fund, which will be distributed as follows under Section 5G of Chapter 29 of the General Laws:

- 90% of the above transfer (~\$763.6 million) shall remain in the Commonwealth Stabilization Fund
- 5% of the above transfer (~\$42.4 million) shall then be transferred from the Stabilization Fund into the State Retiree Benefits Trust Fund
- 5% of the above transfer (~\$42.4 million) shall then be transferred from the Stabilization Fund into the Commonwealth's Pension Liability Fund

Based on the Period 3 certification letter issued by DOR on June 18, 2019, the Comptroller has already transferred \$636.4 million to the Commonwealth Stabilization Fund. Therefore, this certification letter requires an additional transfer of approximately \$212 million.

Please note that the estimates reflected in each of the four certifications are based in part on tax year 2018 tax return data received to date. Tax year 2018 filings are incomplete, especially with respect to capital gains, because many of the taxpayers with significant capital gains file for extensions, making October 15th the due date for returns. The estimates for FY19 capital gains tax could change significantly when all returns are received and analyzed. However, Chapter 29 requires that a certification must be issued after each quarter (period). Therefore we are submitting this letter as our FY19 Period 4 certification using the best information available to us at this time.

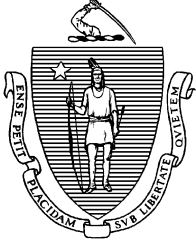
If you have any questions concerning this letter, please contact me (at 617-626-2201), or Kazim P. Ozyurt, Director of the Office of Tax Policy Analysis (at 617-626-2100).

Sincerely,



Christopher C. Harding
Commissioner

cc: Secretary Michael J. Heffernan, Executive Office for Administration and Finance
The Honorable Michael J. Rodrigues, Chair, Senate Committee on Ways and Means
The Honorable Aaron Michlewitz, Chair, House Committee on Ways and Means



The Commonwealth of Massachusetts

Department of Revenue

Office of the Commissioner

P.O. Box 9550

Boston, MA 02114-9550

CHRISTOPHER C. HARDING
COMMISSIONER

December 22, 2017

Mr. Thomas Shack
Comptroller
Commonwealth of Massachusetts
1 Ashburton Place, 9th Floor
Boston, MA 02108

Dear Mr. Shack:

Pursuant to Section 5G of Chapter 29 of the Massachusetts General Laws¹, and based on the procedure agreed upon by the Secretary of Administration and Finance and the Chairs of the House and Senate Committees on Ways and Means², the Department of Revenue (DOR) hereby certifies that for the purpose of determining the amount of capital gains that will be transferred to the Commonwealth Stabilization Fund, the fiscal year 2019 capital gains tax collections threshold is \$1,211,511,830. Any fiscal year 2019 capital gains tax collections above that threshold, as certified by the Commissioner of Revenue, will be transferred to the Commonwealth Stabilization Fund. Please see attached table for our calculations.

If you have any questions concerning this letter, please contact me (at 617-626-2201), or Kazim P. Ozyurt, Director of the Office of Tax Policy Analysis (at 617-626-2121).

Sincerely,

A handwritten signature in black ink, appearing to read "C. Harding", written in a cursive style.

Christopher C. Harding
Commissioner

cc: Secretary Michael J. Heffernan, Executive Office for Administration and Finance
The Honorable Karen E. Spilka, Chair, Senate Committee on Ways and Means
The Honorable Jeffrey Sánchez, Chair, House Committee on Ways and Means

¹ <http://www.malegislature.gov/Laws/GeneralLaws/PartI/TitleIII/Chapter29/Section5G>

² <http://www.mass.gov/osc/docs/policies-procedures/budgets/po-budget-capital-gains-transfer.doc>

Calculation of Fiscal Year 2019 Capital Gains Tax Threshold:

Nominal U.S. GDP - Five Years Ago: U.S. **Gross Domestic Product** (*) figures for the four quarters ending in third quarter of 2012 (**)

2011: Quarter 4	15,785
2012: Quarter 1	15,974
2012: Quarter 2	16,122
2012: Quarter 3	16,228
Average GDP five years ago:	16,027 A

Nominal U.S. GDP - Current: Most recently available U.S. **Gross Domestic Product** (*) figures for the four quarters ending in third quarter of 2017 (**)

2016: Quarter 4	18,906
2017: Quarter 1	19,058
2017: Quarter 2	19,250
2017: Quarter 3	19,501
Average current GDP:	19,178 B

Compound annual growth rate (CAGR)(***):	3.6551534%	$C = [(B / A)^{(1/5)}] - 1$
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Fiscal Year 2018 Capital Gains Tax Threshold: \$1,168,790,736 D

1+ Compound annual growth rate (CAGR):	103.6551534%	$E=(1+C)$
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Fiscal Year 2019 Capital Gains Tax Threshold: \$1,211,511,830 $F=D * E$

(*) U.S. Gross Domestic Product figures are seasonally adjusted at annual rates and in billions of current dollars.
www.bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm

(**) The 4th quarter of 2017 GDP figure is not available at the time when these calculations are conducted. The 3rd quarter of 2017 U.S. GDP figure ("third" estimate) was released by the Bureau of Economic Analysis on December 21, 2017.

(***) $Compound\ annual\ growth\ rate\ (CAGR) = [(Average\ current\ GDP / Average\ GDP\ five\ years\ ago)\ to\ the\ power\ (1/5)] - 1$