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M E M O R A N D U M

TO: Governor Paul R. LePage
Members, Legislative Council
Members, Joint Standing Committee on Appropriations and Financial Affairs
Members, Joint Standing Committee on Taxation

FROM: H. Sawin Millett Jr., Commissioner
Department of Administrative & Financial Services

DATE: February 15, 2012

SUBJ: Revenues – January

January General Fund revenues were under budget by \$38.7 million or -13.8%. For the first seven months of the fiscal year General Fund revenues are \$29.8 million under budget (-1.9%). Compared to the same seven month period last fiscal year, General Fund revenues are up \$5.1 million (+0.3%).

January revenues were below budget on all three of the major tax lines; sales & use and service provider (-\$6.2 million), individual income tax (-\$23.1 million), and corporate income tax (-\$7.1 million). Sales & use tax receipts represented \$4.1 million of the monthly variance; 4.2% below budget and 0.5% below the same month last year. January sales & use tax receipts reflect December sales, which means the holiday shopping season was much weaker than anticipated.

Most of the underage on the individual income tax came from the final estimated payment being down 8.5% (-\$10.3 million) and refunds being well over budget (\$9.4 million). An increase in electronic filing of income tax returns has resulted in returns being processed much faster than in previous years; through mid-February Maine Revenue Services has processed 30% more returns than at the same time last year. Most returns filed in January and February are issued a refund. The average refund amount is very close to last year, which implies that the overage on refunds in January is a timing issue. While final quarterly estimated payment was disappointing, estimated payments for the tax year are still up over 4%. Historically, positive growth for total

estimated payments are correlated with growth in April final payments. Many other states reported that their final estimated payment was below budget as well.

Taxable Sales

Total taxable sales for the month of December (January revenue) were up 3.7% from December 2010. The annual rate of change was 3.6%. Building supply sales were up 13.8% for the month and 6.4% for the year ending in December. Sales of taxable items in food stores were up 0.9% for the month and 1.5% for the year. General merchandise sales (primarily sales of goods sold in large department and discount stores) were flat for the month and down 0.4% for the year. Sales in other retail stores such as jewelry, drug, sporting goods, book, antique, pet, photo, toy, and craft stores were up 3.0% for the month and 3.4% for the year. Auto/transportation sector sales were up 3.4% for the month and 5.2% for the year. Sales of meals and other prepared foods were up 6.8% for the month and 2.8% for the year. Lodging sales were down 4.4% for the month and up 3.4% for the year. Business operating sales (primarily use tax paid by businesses) were up 3.8% for the month and 6.8% for the year.

Service Provider Tax

Revenue was \$2.2 million under budget for the month and \$2.1 million (-7.9%) under budget fiscal year-to-date.

Individual Income Tax

Revenue was \$23.1 million under budget for the month and \$22.9 million (-2.7%) under budget fiscal year-to-date. Fiscal year-to-date withholding payments were 2.8% over fiscal year 2011. Estimated payments were up 0.5% and final payments were up 10.6% fiscal year-to-date. Fiscal year-to-date revenue was \$7.9 million (+1.0%) over fiscal year 2011.

Corporate Income Tax

Revenue was \$7.1 million under budget for the month and \$1.5 million (-1.3%) under budget fiscal year-to-date. Estimated payments were up 0.3% and final payments were up 21.4% fiscal year-to-date. Fiscal year-to-date revenue was \$6.5 million (+6.0%) over fiscal year 2011.

Cigarette & Tobacco Taxes

Cigarette and tobacco products tax revenue was \$1.5 million over budget for the month and \$411,491 (-0.5%) under budget fiscal year-to-date.

Insurance Companies Taxes

The Insurance Companies Taxes were \$60,278 over budget for the month and \$2.4 million over budget fiscal year-to-date.

Estate Tax

The estate tax was \$463,718 over budget for the month and \$824,653 over budget fiscal year-to-date.

Transfers for Tax Relief Programs

Refunds for the tax & rent, Business Equipment Tax Reimbursement (BETR) and Business Equipment Tax Exemption (BETE) were over budget in January by \$3.1 million. Fiscal year-to-date the tax relief programs are over budget by \$3.7 million (+3.7%).

Municipal Revenue Sharing

Revenue sharing is over budget for the month and fiscal year by \$337,818.

Lottery

Lottery Revenues were very close to budget in January. Year-to-date this line remains over budget by \$0.9 million.

Other Revenues

Other Revenues are over budget for the month by \$0.3 million and for the fiscal year by \$2.2 million.

Highway Fund

Motor fuel tax receipts were over budget in January by \$0.3 million. The Highway Fund as a whole was \$0.6 million over budget for the month. For the fiscal year motor fuel excise taxes are under budget by \$0.4 million (-0.4%). The Highway Fund is over budget year-to-date by \$1.6 million (+0.9%).

National Economy

Once again the US economy enters a new year with momentum, but continues to face a number of threats that could derail a self-sustaining recovery. The best news over the final quarter of 2011 and early stages of 2012 is the improvement in the labor market. The unemployment rate has fallen to 8.3% and monthly job gains have been consistently in the 200,000 plus range. Similar to last year, rising energy prices, continuing problems in Europe and uncertainty about the future of US fiscal policy all have the potential to stall the recovery.

Maine Economy

The taxable sales report on holiday sales suggests a much stronger holiday shopping season than actual tax receipts would support. The taxable sales report shows an increase of 3.7%, while actual receipts fell 2.5%. The taxable sales data will likely be revised over the coming months and will eventually be more in line with actual revenues recorded in January (December sales).

The Revenue Forecasting Committee meets next week to review revenue performance through mid-February and determine if the December 1st revenue forecast needs to be revised for the current biennium.

HSM:mja

Attachments

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