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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: Commissioner Alexander E. Porteous
Department of Administrative & Financial Services

DATE: November 19, 2018

SUBJECT: Revenues – October

October General Fund revenues exceeded projections by \$26.6 million, or 8.6 percent. Through the first third of fiscal year 2019, General Fund revenues are over budget by \$74.2 million, or 5.9 percent. Compared to the first four months of the prior fiscal year, General Fund revenues increased by 8.8 percent (+\$107.9 million).

September taxable sales (October revenue) increased 6.9 percent over last year. For the month, sales and use and service provider taxes, combined, were above forecasted projections by \$1.9 million, or 1.3 percent. Tourism-related sales, specifically those tied to restaurants and lodging, increased in September by 8.1 percent and 7.1 percent, respectively. Building supply sales (+5.8 percent) remain strong, and the other retail sales category (+16.3 percent) continues to experience robust year-over-year results. Auto/transportation sales were strong for a third consecutive month, increasing 6 percent over last September. Business operating sales grew 12.6 percent year-over-year, indicating increased investment by businesses.

Individual income tax revenues were over budget in October by \$11.9 million, with significant positive variances to the forecast in payments from fiduciary returns (+\$1.4 million), refunds (+\$4.4 million), final payments (+6.5 million), and estimated payments (+\$1.9 million) offsetting a negative variance for withholding (-\$2.3 million). Despite being slightly under budget, withholding receipts increased 3.4 percent compared to last October and are up 5.8 percent during calendar year 2018. With the quarterly withholding payment due on October 31 it is possible that the negative

variance in October is a timing issue that will be corrected in November. Extension returns for the 2017 tax year were due on October 15, and the positive variance on final payments and refunds (\$10.9 million combined) demonstrates that 2017 tax liability was clearly stronger than projected by the Revenue Forecasting Committee (RFC) last February. The 2017 tax year will be the jumping off point for the new revenue forecast due December 1.

Corporate income taxes exceeded budget in October by \$11.4 million. Most of the positive variance is attributable to estimated payments being over budget by \$7 million and final payments being over budget by \$4.4 million. Similar to the individual income tax, extension returns for corporate calendar year filers were due on October 15. The large variance on final payments may be the result of conformity with the deemed repatriation provision of the TCJA. The provision mandated businesses to recognize, as one-time income, post-1986 accumulated cash and non-cash assets held overseas. With Maine's adoption of conformity, Maine Revenue Services estimates that our state will receive \$31.2 million in corporate income tax revenue due to this one provision of the law, \$22.9 million of which is projected for the current fiscal year. Corporate estimated payments were 87 percent above estimates last October, and are now 29.5 percent higher than the same four-month period last fiscal year.

Sales & Use Taxes

Revenue was \$2.1 million over budget for the month and \$17.2 million over budget for the fiscal year (+3 percent). Revenue is \$33.3 million, or 6 percent, greater than prior fiscal year-to-date collections.

Taxable Sales

Total taxable sales for the month of September (October revenue) were 6.9 percent over September 2017. Building supply sales were up 5.8 percent for the month and 8.3 percent for the year ending in September. Sales of taxable items in food stores were up 6.2 percent for the month and 4.3 percent for the year. General merchandise sales (primarily sales of goods sold in large department and discount stores) were down 1.8 percent for the month and up 1.4 percent for the year. Sales in other retail stores such as jewelry, drug, sporting goods, book, antique, pet, photo, toy, and craft stores were up 16.3 percent for the month and 10.1 percent for the year. Auto/transportation sector sales were up 6 percent for the month and up 4.7 percent for the year. Sales of meals and other prepared foods were up 8.1 percent for the month and 5.2 percent for the year. Lodging sales were up 7.1 percent for the month and 6.4 percent for the year. Business operating sales (primarily use tax paid by businesses) were up 12.6 percent for the month and 7.8 percent for the year.

Service Provider Tax

Revenue was \$0.2 million under budget for the month and under budget fiscal year-to-date by \$0.1 million. Revenue was \$0.6 million or 2.8 percent over prior fiscal year-to-date collections.

Individual Income Tax

Revenue was \$11.9 million, or 9.7 percent, over budget for the month. For the first third of the fiscal year, individual income tax receipts are over budget by \$33.1 million (+6.4 percent). Revenue was \$41.5 million, or 8.2 percent, over prior fiscal year-to-date collections.

Corporate Income Tax

Revenue was \$11.4 million, or 123.8 percent, over budget for the month. For the fiscal year, corporate receipts are now \$18.1 million over budget, or 26.7 percent. Estimated payments were up 87.4 percent, and final payments were up 205.1 percent compared to last October. Revenue is \$27.5 million, or 47.1 percent, over collections for the same four-month period last fiscal year.

Cigarette & Tobacco Taxes

Cigarette and tobacco products tax revenue was \$0.2 million over budget for the month and \$3.3 million over budget fiscal year-to-date. Revenue is \$5.5 million or 13.2 percent higher than the first four months of fiscal year 2018.

Insurance Companies Taxes

The Insurance Companies Taxes were over budget for the month by \$1.6 million, bringing the year-to-date positive variance to \$1.5 million, or 16.4 percent.

Estate Tax

The estate tax was \$0.1 million under budget for the month, and is now \$2 million under budget for the fiscal year.

Property Tax Relief Programs

Business Equipment Tax Reimbursement (BETR) payments were over budget in October by \$1.6 million. For the fiscal year BETR payments are under budget by \$3.2 million. Business Equipment Tax Exemption (BETE) payments will begin in December.

Municipal Revenue Sharing

Revenue sharing was over budget in October by \$0.2 million. For the fiscal year revenue sharing is \$0.750 million over budget, or 3 percent.

Lottery

Lottery revenues were over budget for the month by \$0.3 million and are now \$0.6 million over budget year-to-date.

Other Revenues

Other Revenues were under budget for the month by \$0.6 million. Through the first third of the fiscal year other revenues are \$4.8 million under budget.

Highway Fund

Motor fuel excise tax receipts were under budget in October by \$0.1 million. Total Highway Fund revenue was over budget for the month by \$0.8 million (+2.8 percent). Year-to-date motor fuel excise taxes are over budget by \$0.1 million, and total Highway Fund revenue exceeds budget by \$2.5 million, or 2.2 percent. Year-over year growth for the motor fuel taxes and the total fund are 4.9 percent and 5 percent, respectively.

National Economy

U.S. gross domestic product (GDP) growth increased by 3.5 percent in the third quarter of 2018 after increasing 4.2 percent in the second quarter. The U.S. economy remains on pace for 3 percent growth for the full year. For the third quarter, inventories, consumer spending and government spending contributed to growth, while investment and trade subtracted from growth. Early data points to growth in the final quarter being in the 3 percent range.

The Federal Reserve's Federal Open Market Committee (FOMC) left interest rates steady when they met late last week. The FOMC's assessment remains the same, which likely means they will increase rates by another 25 basis points when they hold their last meeting of the year in December.

Maine Economy

The Consensus Economic Forecasting Commission (CEFC) met on October 26, 2018, to review and revise its February 1, 2018 economic forecast. Based on data showing strong employment growth in 2017, and preliminary data indicating a continuation of that trend as well as considerable positive revisions to personal income, the CEFC increased its 2018 forecast of employment growth from 0.4 percent to 0.8 percent and 2020 from 0 percent to 0.2 percent.

Total personal income growth for 2017 was revised up by the U.S. Bureau of Economic Analysis (BEA) from 2.7 percent to 4.2 percent prior to the CEFC meeting. As a result, the CEFC revised its forecast for total personal income growth up from 4.4 percent to 4.5 percent in 2018, from 4.3 percent to 4.5 percent in 2019, and from 3.9 percent to 4 percent in 2020. Wages and salaries were revised up from 4.3 percent growth in 2018 to 4.5 percent, with 2019 growth revised up from 3.9 percent to 4.2 percent.

The Revenue Forecasting Committee (RFC) will meet on November 26, 2018, to review and revise their March 1, 2018, revenue forecast. The December RFC forecast will be based on the latest economic forecast from the CEFC.

AP: mja

Attachments

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