

**DEPARTMENT OF ADMINISTRATIVE & FINANCIAL SERVICES
78 STATE HOUSE STATION
AUGUSTA, ME 04333-0078**

**PHONE: 207-624-7800
FAX: 207-624-7804
TDD: 207-287-4537**

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: October 25, 2018

SUBJECT: Revenues – September

September General Fund revenues exceeded projections by \$19.3 million, or 5.1 percent. Through the first quarter of fiscal year 2019, General Fund revenues are over budget by \$47.5 million, or 5 percent. Compared to the first quarter of the prior fiscal year, General Fund revenues increased by 8.2 percent (+\$76.2 million).

August taxable sales (September revenue) increased 7.9 percent over last year. For the month, sales and use and service provider taxes, combined, were above forecasted projections by \$6.6 million, or 4.3 percent. Tourism-related sales, specifically those tied to restaurants and lodging, increased in August—increasing by 6.1 percent and 4.6 percent, respectively. Building supply sales (+7.8 percent) remain strong, and the other retail sales category (+13.1 percent) continues to experience robust year-over-year results. Auto/Transportation sales were strong for a second straight month, increasing 11 percent over last August. Business operating sales grew 11.7 percent year-over-year. The growth of the business operating line in recent months appears to be the result of increased investment by businesses in response to the federal Tax Cuts and Jobs Act (TCJA).

Individual income tax revenues were over budget in September by \$4.5 million, with significant positive variances to the forecast in payments from fiduciary returns (+\$3.6 million) and refunds (+\$2.7 million) more than offsetting negative variances for withholding (-\$0.7 million) and estimated payments (-\$2 million). Despite being slightly under budget, withholding receipts increased 6.2 percent compared to last September and are up 8 percent over the first quarter of

fiscal year 2018. Through the first three-quarters of calendar year 2018 withholding has increased by 6 percent.

The third estimated payment of the calendar year was due September 15 and may have been affected by the recent passage of the tax conformity bill (L.D. 1655). The final estimated payment for tax year 2018 is due January 15, 2019 and is usually the best indicator of the strength of non-wage income for the calendar year. Extension returns for the 2017 tax year were due October 15. We are watching those returns to get a final read on tax year 2017, which will be the jumping off point for the revenue forecast due on December 1.

Corporate income taxes exceeded budget in September by \$7.3 million. Most of the positive variance is attributable to estimated payments being over budget by \$6.3 million and final payments being over budget by \$1.9 million. Similar to the individual income tax, the third estimated payment for corporate calendar year filers was due on September 15. Final enactment of tax conformity may have affected the third estimated payment, which was over budget by 19 percent. Also, enactment could have a large impact on payments made with tax year 2017 extension returns due in mid-October because of the deemed repatriation provision of the TCJA being effective for tax year 2017. 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.

Sales & Use Taxes

Revenue was \$6.7 million over budget for the month and \$15 million over budget for the fiscal year (+3.5 percent). Revenue is \$27.8 million, or 6.6 percent, greater than prior fiscal year-to-date collections.

Taxable Sales

Total taxable sales for the month of August (September revenue) were 7.9 percent over August 2017. Building supply sales were up 7.8 percent for the month and 8.2 percent for the year ending in August. Sales of taxable items in food stores were up 3.8 percent for the month and 3.7 percent for the year. General merchandise sales (primarily sales of goods sold in large department and discount stores) were down 1.1 percent for the month and up 1.8 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 13.1 percent for the month and 8.7 percent for the year. Auto/transportation sector sales were up 11 percent for the month and up 4.2 percent for the year. Sales of meals and other prepared foods were up 6.1 percent for the month and 4.6 percent for the year. Lodging sales were up 4.6 percent for the month and 5.6 percent for the year. Business operating sales (primarily use tax paid by businesses) were up 11.7 percent for the month and 6.2 percent for the year.

Service Provider Tax

Revenue was \$0.1 million under budget for the month and over budget fiscal year-to-date by \$0.15 million. Revenue was \$0.6 million or 4.1 percent over prior fiscal year-to-date collections.

Individual Income Tax

Revenue was \$4.5 million, or 2.7 percent, over budget for the month. For the first quarter of the fiscal year, individual income tax receipts are over budget by \$21.2 million (+5.4 percent). Revenue was \$32.1 million, or 8.4 percent, over prior fiscal year-to-date collections. Withholding receipts increased 6.2 percent compared to last September and are up 8 percent over the first quarter of fiscal year 2018.

Corporate Income Tax

Revenue was \$7.3 million, or 19 percent, over budget for the month. For the fiscal year, corporate receipts are now \$6.6 million over budget, or +11.4 percent. Estimated payments were up 19.3 percent, and final payments were up 24.7 percent compared to last September. Revenue is \$14 million, or 27.4 percent, over collections for the same three-month period last fiscal year.

Cigarette & Tobacco Taxes

Cigarette and tobacco products tax revenue was \$1.7 million under budget for the month and \$3.4 million over budget fiscal year-to-date. Revenue is \$3.7 million or 11.8 percent higher than the first three months of fiscal year 2018.

Insurance Companies Taxes

The Insurance Companies Taxes were under budget for the month by \$0.5 million, bringing the year-to-date negative variance to \$0.1 million, or -7.3 percent.

Estate Tax

The estate tax was \$0.4 million under budget for the month, and is now \$1.9 million under budget for the fiscal year.

Municipal Revenue Sharing

Revenue sharing was over budget in September by \$0.4 million. For the fiscal year revenue sharing is \$0.5 million over budget, or 3 percent.

Lottery

Lottery revenues were over budget for the month by \$1.4 million and are now \$0.3 million over budget year-to-date.

Other Revenues

Other Revenues were under budget for the month by \$1.3 million. Through the first quarter of the fiscal year other revenues are \$4.1 million under budget.

Highway Fund

Motor fuel excise tax receipts were under budget in September by \$0.3 million. Total Highway Fund revenue was under budget for the month by \$0.5 million (-1.7 percent). Year-to-date motor fuel excise taxes are over budget by \$0.2 million, and total Highway Fund revenue exceeds budget by \$1.7 million, or 2 percent. Year-over year growth for the motor fuel taxes and the total fund are 6.3 percent and 5.3 percent, respectively.

National Economy

In its September forecast update, the Federal Reserve Board increased its real GDP forecast for 2018 from 2.8 percent in June to 3.1 percent. The Fed's latest 2018 GDP projection is consistent with other major forecasters who are expecting GDP growth to exceed 3 percent for the first time since the 2007-09 recession. First quarter GDP only grew 2.2 percent, but increased to 4.2 percent in the second quarter. The Atlanta Federal Reserve Bank's "GDPNow" forecasting model is projecting third quarter growth will also be in the 4 percent range. Household spending and business fixed investment are expected to grow strongly over the remainder of the calendar year.

Maine Economy

On September 25, the U.S. Bureau of Economic Analysis released preliminary estimates of state personal income for the second quarter of 2018 along with the comprehensive update of state personal income. The preliminary estimate of total personal income growth for Maine was 4.2% in the second quarter of 2018, which ranks our state 25th in the nation for growth and second in New England. Nationally, personal income increased 4.2%, as well. All of the major components of personal income in Maine increased in the second quarter of 2018. Net earnings increased 5.1%, which was the largest increase in New England and higher than the national increase of 4.5%.

Annual growth rates in the most recent years were revised from 3.9% to 4.4% (2014), 4.0% to 4.2% (2015), and 3.0% to 2.8% (2016). The annual growth rate for 2017 was revised upward from 2.7% to 4.2%, which improved Maine's ranking nationally from 31st to 21st and means that Maine's personal income grew by more than 4% in three of the past four years. Maine's 2017 per capita personal income was revised up from \$45,072 to \$46,455. This revision moved Maine from 31st nationally to 30th (passing Michigan) and improved the state's per capita personal income as a percent of the U.S. from 89% to 90%.

Average earnings per job in Maine grew 3.2% in 2017 to \$48,622 (from \$47,107 in 2016). This growth rate was third in New England (behind New Hampshire at 3.8% and Massachusetts at 3.6%) and equal to the national average.

AP: mja

Attachments

cc: Holly Lusk
Nick Adolphsen
Grant Pennoyer

Chris Nolan
Marc Cyr
Amanda Rector

Jim Breece
Jerome Gerard
Melissa Gott