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M E M O R A N D U M

TO: Governor Janet T. Mills
Members, Legislative Council
Members, Joint Standing Committee on Appropriations and Financial Affairs
Members, Joint Standing Committee on Taxation

FROM: Commissioner Kirsten LC Figueroa
Department of Administrative and Financial Services

DATE: January 31, 2019

SUBJECT: Revenues – December 2018

December General Fund revenues were over budget by \$9.9 million or 3.3 percent. For the first half of fiscal year 2019, General Fund revenues are \$13 million over budget (+0.7 percent). Compared to the same six-month period of last fiscal year, fiscal year 2019 General Fund revenues are up by 6.7 percent (+\$119.3 million). Note, monthly and annual budget figures in this report have been updated to reflect the Revenue Forecasting Committee's (RFC) December 1, 2018 forecast.

November taxable sales (December revenue) increased 3.2 percent over last year. For the month, sales and use and service provider taxes, combined, were \$2.7 million over budget. While the monthly year-over-year growth is lower than in previous months, it is being compared to a relatively strong month a year ago. Taxable sales growth in November 2017 was aided by sales related to the wind storm at the end of last October. For example, building supply sales, down 2.9 percent, look worse than they really are because of the comparison to unusually high growth last year (+12.7 percent). Business sectors traditionally associated with holiday shopping such as other retail and general merchandise sales were up 22.6 and down 3.0 percent, respectively. Unseasonably chilly weather may have dampened November sales as well. A full understanding of the holiday shopping season will require an analysis of November and December sales combined.

Individual income tax revenues were under budget in December by \$4.1 million. Estimated payments were the primary source of the monthly variance, under budget by \$11.7 million; this is a 71% decrease over last December's estimated payment. Other income tax states are reporting a reduction of approximately 70 percent as well. The final estimated payment was due January 15, 2019, but many

taxpayers traditionally would pre-pay their state estimated payment in December to get the itemized deduction on their federal tax return. With passage of the federal “Tax Cuts and Jobs Act” the limitation on the state and local tax (SALT) deduction caused many taxpayers last year to shift payments into December 2017. With the loss of the incentive to pay the state estimated payment early, the RFC budgeted a 42 percent reduction in December estimated payments. It’s unclear how much of these payments are based on weaker than projected 2018 taxable income, or a timing in payments that may be corrected in January’s estimated payment and/or final payments in April. Withholding payments offset much of the deficit in estimated payments, coming in \$11.1 million over budget. Some of the December surplus in withholding may be a timing issue as well.

Once again corporate income tax receipts exceeded budget by \$17.6 million. Most of that monthly surplus was from the final estimated payment for calendar year filers being over budget by \$19.2 million; this is up 52.5 percent over last year. It’s still unclear why corporate estimated payments have been so strong over the last 12 months. The RFC was very conservative in their corporate income tax forecast because of the uncertainty surrounding the reason(s) for the unusually robust growth in 2018 estimated payments.

Sales and Use Taxes

Revenue was \$2.4 million over budget for the month and for the fiscal year. Revenue was \$47.3 million or 6.1 percent over prior fiscal year-to-date collections.

Taxable Sales

Total taxable sales for the month of November (December revenue) were 3.2 percent over November 2017. The annual rate of change, excluding utilities, was 5.5 percent. Building supply sales were down 2.9 percent for the month and up 7.1 percent for the year ending in November. Sales of taxable items in food stores were up 2.3 percent for the month and up 4.0 percent for the year. General merchandise sales (primarily sales of goods sold in large department and discount stores) were down 3.0 percent for the month and 0.6 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 22.6 percent for the month and up 13.0 percent for the year. Auto/transportation sector sales were up 2.3 percent for the month and 4.9 percent for the year. Sales of meals and other prepared foods were down 1.1 percent for the month and up 4.3 percent for the year. Lodging sales were up 4.1 percent for the month and up 6.3 percent for the year. Business operating sales (primarily use tax paid by businesses) increased 8.5 percent for the month and up 8.6 percent for the year.

Service Provider Tax

Revenue was over budget for the month by \$0.4 million and is now \$0.4 million over budget for the fiscal year. Revenue is \$0.7 million or 2.1 percent over prior fiscal year-to-date collections.

Individual Income Tax

Revenue was \$4.1 million or 2.8 percent under budget for the month and \$4.1 million or 0.5 percent under budget fiscal year-to-date. Fiscal year-to-date withholding payments were 7.2 percent over fiscal year 2018. Estimated payments were down 21.0 percent and final payments were up 7.6 percent fiscal year-to-date.

Corporate Income Tax

Revenue was over budget for the month and fiscal year-to-date by \$17.6 million. Estimated payments and final payments were up 38.1 percent and 68.0 percent fiscal year-to-date, respectively. Revenue was \$51.8 million or 70.1 percent over prior fiscal year-to-date collections.

Cigarette and Tobacco Taxes

Cigarette and tobacco products tax revenue was \$1.1 million over budget for the month and \$0.9 million or 1.2 percent under budget fiscal year-to-date. Fiscal year-to-date revenue was \$5.0 million or 8.0 percent over prior fiscal year-to-date collections.

Insurance Companies Taxes

The Insurance Companies Taxes were \$0.1 million under budget for the month and \$0.2 million under budget fiscal year-to-date.

Estate Tax

The estate tax was \$1.6 million under budget for the month and \$1.6 million under budget fiscal year-to-date.

Property Tax Relief Programs

Refunds for the Business Equipment Tax Reimbursement (BETR) and Business Equipment Tax Exemption (BETE) programs were over budget in December by \$6.8 million and are now \$6.6 million over budget year-to-date.

Municipal Revenue Sharing

Revenue sharing was on budget in December and for the first six months of the fiscal year.

Lottery

Lottery revenues were over budget for the month by \$0.4 million and are now over budget for the fiscal year by \$3.2 million.

Other Revenues

Other Revenues were on budget for the month. For the fiscal year, other revenues are over budget by \$1.9 million or 12.4 percent.

Highway Fund

Motor fuel excise tax receipts were under budget in December by \$0.4 million. The Highway Fund, in total, was over budget for the month by \$0.2 million. For the first six months of the fiscal year, motor fuel excise tax revenues are under budget by \$1.4 million and total Highway Fund receipts are under budget by \$0.3 million.

National Economy

Most economists are forecasting 2018 will have the strongest GDP growth since the end of the 2007-09 recession. The debate has now turned to projections for 2019, and they are varied. While most forecasters expect U.S. economic growth to slow in 2019, the degree of moderation is where economists disagree. In general projections are in the 2.2 to 2.5 percent range, down from 2.5 to 3 percent last fall. While some economists remain optimistic that trade and other issues will be settled favorably, most expect the uncertainty in Washington to continue, and a slowdown in Europe and China to drag U.S. economic growth down too. Only a handful of forecasts project a recession in 2019, but many economists are concerned that 2020 may be a year of sluggish growth.

Maine Economy

The January Beige Book report from the Boston Federal Reserve Bank indicates the New England economy is growing at a “modest to moderate pace, amid some signs of slowing growth.” While uncertainty about tariffs and the federal government shutdown were a concern to regional contacts, they remain optimistic about the outlook for the region. Labor market pressures eased for retailers and manufacturers, which they attributed to increasing compensation for workers, but concerns remain for tourism related businesses as they prepare for the 2019 summer season. With consumer confidence high, retailers expect moderate growth to continue, although auto dealers expect unit sales to remain flat. Commercial real estate markets held steady since the last report, with Portland maintaining a “moderate pace”. Residential real estate in Maine continued to be strong at the end of 2018, and while it is expected to moderate in 2019 there is some evidence that volatility in the stock market is helping keep “real estate as a preferred investment choice.”

KF: mja

Attachments

cc: Jeremy Kennedy
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