

**DEPARTMENT OF ADMINISTRATIVE AND 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 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: February 27, 2019

SUBJECT: Revenues – January 2019

January General Fund revenues were under budget by \$4.9 million or 1.3 percent. For the first seven months of fiscal year 2019, General Fund revenues are \$8.1 million over budget (+0.4 percent). Compared to the same seven-month period of last fiscal year, fiscal year 2019 General Fund revenues are up by 6.1 percent (+\$130.5 million).

December taxable sales (January revenue) increased 4.3 percent over last year. For the month, sales and use and service provider taxes, combined, were \$1.9 million under budget. While the monthly year-over-year growth shows moderate growth, December holiday shopping sales fell short of expectations. National data released last week showed retail sales in December plunged compared to November, and experienced the worst year-over-year performance of the calendar year. In Maine, taxable sales growth for the combined Nov./Dec. period increased 3.8 percent.

Individual income tax revenues were under budget in January by \$14.7 million. Estimated payments were the primary source of the monthly variance, under budget by \$10.2 million; this is a 2.4% decrease over last January's estimated payment. Other income tax states are reporting a larger reduction in January's final estimated payment. 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 accelerate payments into December and early January. With the loss of the incentive to pay the state estimated payment early, the Revenue Forecasting Committee (RFC) budgeted a 10 percent reduction in this year's final estimated payment, but actual payments fell by a much larger 26 percent. Based on discussions with tax practitioners across the state and federal non-withheld payments in January, we believe the \$22 million year-to-date shortfall in

estimated payments will be recovered through final payments in April. Withholding payments were under budget by \$10.5 million in January, essentially reversing the \$11 million surplus in December. Year to date withholding is slightly over budget. The delay in the start of the 2018 tax year filing season resulted in refunds being under budget by \$8.8 million.

Sales and Use Taxes

Revenue was \$2.2 million under budget for the month and on budget for the fiscal year. Revenue was \$55 million or 6.1 percent over prior fiscal year-to-date collections.

Taxable Sales

Total taxable sales for the month of December (January revenue) were 4.3 percent over December 2017. The annual rate of change, excluding utilities, was 5.7 percent. Building supply sales were up 3.3 percent for the month and up 6.6 percent for the calendar year. Sales of taxable items in food stores were up 1.9 percent for the month and up 3.8 percent for the year. General merchandise sales (primarily sales of goods sold in large department and discount stores) were down 5.5 percent for the month and 2.3 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 16.1 percent for the month and up 15.8 percent for the year. Auto/transportation sector sales were up 5.2 percent for the month and 5.4 percent for the year. Sales of meals and other prepared foods were up 8.3 percent for the month and up 4.6 percent for the year. Lodging sales were up 10.7 percent for the month and up 6.9 percent for the year. Business operating sales (primarily use tax paid by businesses) increased 3.7 percent for the month and up 8.9 percent for the year.

Service Provider Tax

Revenue was over budget for the month by \$0.345 million and is now \$0.7 million over budget for the fiscal year. Revenue is \$0.7 million or 1.8 percent over prior fiscal year-to-date collections.

Individual Income Tax

Revenue was \$14.7 million or 6.6 percent under budget for the month and \$18.8 million or 1.8 percent under budget fiscal year-to-date. Fiscal year-to-date withholding payments were 8.8 percent over fiscal year 2018. Estimated payments were down 14 percent and final payments were up 5.1 percent fiscal year-to-date.

Corporate Income Tax

Revenue was over budget for the month by \$1.4 million and for the fiscal year-to-date by \$19.1 million. Estimated payments and final payments were up 40.2 percent and 68.5 percent fiscal year-to-date, respectively. Revenue was \$52.2 million or 64.2 percent over prior fiscal year-to-date collections.

Cigarette and Tobacco Taxes

Cigarette and tobacco products tax revenue was \$0.7 million over budget for the month and \$0.2 million or 0.2 percent under budget fiscal year-to-date. Fiscal year-to-date revenue was \$3.7 million or 4.8 percent over prior fiscal year-to-date collections.

Insurance Companies Taxes

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

Estate Tax

The estate tax was \$0.055 million over budget for the month and \$1.5 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 under budget in January by \$8.9 million and are now \$2.3 million under budget year-to-date.

Municipal Revenue Sharing

Revenue sharing was over budget in January by \$0.4 million and for the first seven months of the fiscal year.

Lottery

Lottery revenues were under budget for the month by \$0.7 million and are now over budget for the fiscal year by \$2.5 million.

Other Revenues

Other Revenues were over budget for the month by \$0.2 million. For the fiscal year, other revenues are over budget by \$2.1 million or 16.3 percent.

Highway Fund

Motor fuel excise tax receipts were over budget in January by \$0.6 million. The Highway Fund, in total, was over budget for the month by \$2.3 million. For the first seven months of the fiscal year, motor fuel excise tax revenues are under budget by \$0.8 million and total Highway Fund receipts are over budget by \$2.0 million.

National Economy

Economic data since the beginning of the year have provided mixed signals about the direction of the U.S. economy. Weak retail sales during the holiday shopping conflicted with reports that employment growth is still strong, and rising wages and relatively low energy prices are providing households with increasing disposable income. A decline in industrial production was released at the same time other reports showed the manufacturing sector expanding. It's possible that factors such as the federal government shutdown, widespread freezing weather, and the stock market decline at the end of 2018 temporarily slowed economic activity and now that a second shutdown has been averted and the stock market has recovered the economy is on a firmer footing going forward.

Maine Economy

In their December 1, 2018 report, the RFC re-projected FY19 revenue up by \$99.2 million. After two months, General Fund revenues are \$8.1 million over budget. Apart from individual income tax refunds, February and March are slow months for the top General Fund revenue lines, which means the General Fund should remain close to budget over the next two months. April is the next key revenue month, with individual and corporate income tax returns both due.

Sales tax receipts will begin picking up again during the final quarter of FY19. While the 3.8 percent year-over-year taxable sales growth for the Nov./Dec. holiday shopping season appears weak compared to the rest of the calendar year, it is consistent with the December revenue forecast. Additionally, taxable sales growth in November 2017 was artificially high because of the wind storm during the final days of October. Adjusting for the spike in sales in the aftermath of the wind storm, the 2018 holiday shopping season is more consistent with the rest of calendar year 2018 taxable sales growth. The continuation of Maine's strong labor market, wage growth, and relatively stable and low energy prices should support taxable sales growth consistent with the latest revenue forecast.

KF: mja

Attachments

cc: Jeremy Kennedy
Mary Anne Turowski
Grant Pennoyer
Chris Nolan
Marc Cyr
Amanda Rector
Jim Breece
Jerome Gerard
Jenny Boyden