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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: February 20, 2020

SUBJECT: Revenues – January 2020

January General Fund revenues were over budget by \$22.1 million or 5.6 percent. For the first seven months of the fiscal year General Fund revenues are over budget by \$27.9 million or 1.2 percent. Compared to the first seven months of last fiscal year, fiscal year 2020 General Fund revenues are up by 4.9 percent (\$112.1 million). Adjusted for the increase in revenue sharing, fiscal year 2020 General Fund revenues have increased by 5.9 percent compared to the same period last fiscal year.

December taxable sales (January revenue) increased 7.5 percent over last year. For the month, sales and use and service provider taxes, combined, were \$1.6 million over budget. Consumer sales increased by 8.5 percent over a year ago, with all business categories except building supply (-3.0 percent) and restaurants (-0.7 percent) exhibiting positive year-over-year growth. Other retail sales grew by 37.4 percent buoyed by the marketplace facilitators bill that became effective October 1, 2019. Auto/transportation posted year-over-year growth of 3.1 percent, slower than the 5.4 percent growth recorded for the calendar year. Lodging sales increased by 4.2 percent in December, and 10.1 percent for calendar year 2019. Business operating sales growth continued to be solid in December increasing by 5.7 percent over last December.

Individual income tax receipts were over budget in January by \$12.2 million (5.6 percent). Withholding was over budget for the month by \$6.7 million and is up 6.1 percent fiscal year-to-date. The final estimated payment for 2019 was due January 15th and was \$6.2 million over budget (+8.1 percent).

January's estimated payment increased 8.4 percent over last year, making the combined Dec/Jan estimated payment up 9.25 percent compared the same period a year ago. For tax year 2019 estimated payments increased a very good 11.2 percent. Refunds in January reflecting initial 2019 tax filings were on budget.

Corporate income tax receipts were under budget in January by \$1.2 million. For the fiscal year corporate income tax is under budget by \$0.9 million or -0.8 percent. Total corporate income tax revenue is 12.1 percent (\$16.2 million) below fiscal year 2019 receipts through the first seven months of the fiscal year.

Sales and Use Taxes

Revenue was \$1.7 million over budget for the month (1.2 percent) and is now \$3.0 million over budget year-to-date. Fiscal year 2020 revenue is \$67.4 million or 7.0 percent over fiscal year 2019 collections.

Taxable Sales

Total taxable sales for the month of December (January revenue) were 7.5 percent higher than December 2018. The annual rate of change, excluding utilities, was 6.6 percent. Building supply sales decreased 3.0 percent for the month and were up 1.9 percent for the last 12 months. Sales of taxable items in food stores were up 4.2 percent for the month and up 3.9 percent for the year. General merchandise sales (primarily sales of goods sold in large department and discount stores) were up 2.2 percent for the month and up 3.9 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 37.4 percent for the month and up 18.5 percent for the year. Auto/transportation sector sales were up 3.1 percent for the month and 5.4 percent for the year. Sales of meals and other prepared foods were down 0.7 percent for the month and up 4.6 percent for the year. Lodging sales were up 4.2 percent for the month and up 10.1 percent for the year. Business operating sales (primarily use tax paid by businesses) increased 5.7 percent for the month and were up 7.1 percent for the year.

Service Provider Tax

Revenue was very close to budget for the month and for the fiscal year. Revenue is \$2.0 million or 5.5 percent under prior fiscal year collections.

Individual Income Tax

Revenue was \$12.2 million or 5.6 percent over budget for the month. For the fiscal year, individual income tax receipts are \$7.3 million over budget (0.7 percent). Compared to the first seven months of fiscal year 2019 withholding payments are up 6.1 percent, estimated payments are up 9.3 percent, and final payments are up 7.0 percent.

Corporate Income Tax

Revenue was under budget for the month by \$1.2 million, bringing the year-to-date negative variance to \$0.9 million or -0.8 percent. Compared to last fiscal year corporate income tax revenue is \$16.2 million lower or -12.1 percent. Year-to-date, final payments are down 2.6 percent and estimated payments are down 12.2 percent.

Cigarette and Tobacco Taxes

Cigarette and tobacco products tax revenue was \$3.7 million under budget for the month, bringing the year-to-date variance to -\$0.6 million. Compared to the same seventh-month period last year, cigarette and tobacco tax revenue is up 2.7 percent.

Insurance Companies Taxes

The Insurance Companies Tax was under budget for the month by \$0.1 million and is \$0.2 million over budget for the fiscal year.

Estate Tax

The estate tax was \$2.8 million over budget for the month and is now \$2.9 million over budget year-to-date. Estate tax receipts are \$13.7 million higher than last fiscal year.

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 \$8.7 million. For the fiscal year, property tax relief payments are under budget by \$10.4 million. BETR payments are the primary reason for the shortfall and are believed to be a timing issue because of a delay in processing of returns.

Municipal Revenue Sharing

Revenue sharing was on budget in January. For the first seven months of the fiscal year revenue sharing is \$0.6 million over budget.

Lottery

Lottery revenues were over budget for the month by \$0.3 million or 7.5 percent. For the first seven months of the fiscal year lottery revenues are \$3.1 million over budget (9.1 percent).

Other Revenues

Other Revenues were under budget for the month of January by \$0.2 million and are now under budget for the fiscal year by \$0.2 million.

Highway Fund

Motor fuel excise tax receipts were under budget in January by \$1.5 million. The Highway Fund, in total, was over budget for the month by \$0.2 million. For the fiscal year, motor fuel excise tax revenues are under budget by \$2.3 million (1.6 percent) and total Highway Fund receipts are over budget by \$1.1 million (0.5 percent). For the first seven months of the fiscal year motor fuel excise tax receipts are down 0.1 percent.

Maine Economy

The Maine Consensus Economic Forecasting Commission (CEFC) convened on January 30, 2020, to review and revise its forecast through 2023 and to additionally forecast through 2025. The CEFC modified the employment growth rate modestly by 0.1 percentage points in 2019, 2020 and 2022 to 0.9%, 0.5%, and 0.1%, and 0.2 percentage points in 2021 to 0.2%, with growth stagnating at 0% in the years 2023-2025.

The CEFC made upward revisions of 0.1 percentage points to the forecasts for total personal income growth in 2019, 2021, and 2022 (to 4.7%, 4.0%, and 3.7%, respectively) and forecast 3.5% growth for 2024 and 2025. All major components of personal income were left unchanged for 2019 through 2023. Wage and salary income growth was forecast to grow by 3.2% in 2024 and 2025.

Overall, the primary sources of concern for the CEFC were slowing population growth and an aging workforce but the Commission remains cautiously optimistic for growth in the near term. Additionally, the CEFC intends to monitor the effects the tight labor market is having on in-migration and changes in labor force participation. The Revenue Forecasting Committee is scheduled to meet on February 28th.

KF: mja

Attachments

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