

**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: May 18, 2020

SUBJECT: Revenues – April 2020

A significant portion of April revenue is based on economic activity that occurred during the first half of March prior to the shutdown of the economy because of the COVID-19 crisis. May revenues will be the first month that reflects the full impact the pandemic has had on the State’s economy. In addition, the difference between budgeted and actual final and estimated income tax revenues that were deferred until July 15 have been accrued in the month of April. Footnote 3 to Exhibit 1 of the State Controller’s monthly report contains the detailed amounts that were recognized in April for which collections have been deferred until July 15.

	Apr-20	YTD
Budgeted Revenue	519,196,057	3,295,979,462
Revenue with Accruals	535,472,891	3,301,348,263
Less Accrual for Individual Income Tax	(239,692,986)	(239,692,986)
Less Accrual for Corporate Income Tax	(24,775,971)	(24,775,971)
Revenue without Accruals	271,003,934	3,036,879,306
Budgeted Revenue Variance with Accruals	16,276,834	5,368,801
% Budget Variance with Accruals	3.1%	0.2%
Budgeted Revenue Variance without Accruals	(248,192,123)	(259,100,156)
% Budget Variance without Accruals	-47.8%	-7.9%

When we moved the tax [payment date](#) from April 15 to July 15, we moved the collection of certain tax receipts from FY20 to FY21 because Maine's fiscal year ends on June 30. Accruing for these deferred tax revenues keeps the revenues aligned in the fiscal year in which they are earned. This deferred payment date will result in lower than budgeted income tax collections through the remainder of FY20, but the accrual shows that these receipts are earned and expected by the State.

With the accruals:

April General Fund revenues were over budget by \$16.3 million or 3.1 percent. For the first ten months of the fiscal year General Fund revenues are over budget by \$5.4 million or 0.2 percent. Compared to the first ten months of last fiscal year, fiscal year 2020 General Fund revenues are up by 4.1 percent (\$131.4 million). Adjusted for the increase in revenue sharing, fiscal year 2020 General Fund revenues have increased by 5.1 percent compared to the same period last fiscal year.

March taxable sales (April revenue) decreased 5.4 percent over last year. For the month, sales and use and service provider taxes, combined, were \$16.2 million under budget. Consumer sales decreased by 5.7 percent over a year ago, with some key business categories exhibiting double-digit declines from a year ago. Other retail sales grew by 36.6 percent buoyed by the marketplace facilitators bill that became effective October 1, 2019 and an increase in on-line purchasing by consumers who sheltered-in-place. Auto/transportation posted year-over-year negative growth of 27 percent as sales activity ground to a halt mid-month. Lodging and restaurant sales decreased by 45.5 and 32.9 percent, respectively, in March. General merchandise stores fell 10.8 percent compared to last March, with stores selling a wide variety of goods having a good month and department stores selling a more focused product line experiencing double-digit declines. Food stores and building supply stores benefited from the surge in consumer activity during the early stages of the crisis, increasing by 12.6 and 19.8 percent, respectively. Business operating sales growth only declined in March by 0.7 percent over a year ago, but last March's business operating sales increased by 12.2 percent. April sales (May revenue) will likely be the first month where the full impact of COVID-19 first becomes apparent across more business sectors.

Individual income tax receipts, with the accrual, were over budget in April by \$26.4 million (8.1 percent). Refunds in April, reflecting 2019 tax filings, were under budget by \$33.4 million which accounts for much of the monthly positive variance. Some of the monthly variance in refunds is in response to the large amount of refunds issued in March and a portion to the deferral of income tax filings until July. Withholding receipts were slightly under budget in April by \$2.3 million and are now over budget year-to-date by \$5.8 million. March's withholding receipts were over budget by \$8 million which may account for some of the negative variance in April. Withholding has increased 6.0 percent through the first ten months of FY20. As expected, both final and estimated individual income tax payments were well under budget as most taxpayers delayed filing their 2019 tax returns and first estimated payment for tax year 2020 until July 15. Final payments represent the bulk of budgeted April receipts and because of the strong economy in 2019 are expected to be close to that projected amount once all payments are collected in July.

Corporate income tax receipts, with the accrual, were over budget in April by \$1.0 million. For the fiscal year corporate income tax is under budget by \$1.5 million or -0.9 percent. Like individual income tax, corporate calendar year filers were provided the option of extending their 2019 final payment and first tax year 2020 estimated payment to July 15. Approximately 65 percent of payments budgeted in April were deferred until July.

Sales and Use Taxes

Revenue was \$16.2 million under budget for the month and \$16.9 million under budget for the fiscal year. Fiscal year 2020 revenue is \$78.4 million or 6.2 percent over fiscal year 2019 collections.

Taxable Sales

Total taxable sales for the month of March (April revenue) were 5.4 percent lower than March 2019. The annual rate of change, excluding utilities, was 6.5 percent. Building supply sales increased 19.8 percent for the month and were up 3.7 percent for the last 12 months. Sales of taxable items in food stores were up 12.6 percent for the month and up 5.2 percent for the year. General merchandise sales (primarily sales of goods sold in large department and discount stores) were down 10.8 percent for the month and up 3.3 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 36.6 percent for the month and up 24.1 percent for the year. Auto/transportation sector sales declined 26.9 percent for the month and increased 3.6 percent for the year. Sales of meals and other prepared foods decreased 32.9 percent for the month and up 2.4 percent for the year. Lodging sales were down 45.5 percent for the month and up 8.2 percent for the year. Business operating sales (primarily use tax paid by businesses) decreased 0.7 percent for the month and were up 4.2 percent for the year.

Service Provider Tax

Revenue was very close to budget for the month and for the fiscal year. Revenue is \$2.2 million or 4.3 percent under prior fiscal year collections.

Individual Income Tax

Revenue was \$26.4 million or 8.1 percent over budget for the month. For the fiscal year, individual income tax receipts are \$111.3 million over budget (7.8 percent). Compared to the first ten months of fiscal year 2019 withholding payments are up 6.0 percent, estimated payments are up 9.8 percent, and final payments are up 7.4 percent. ***The growth rates for estimated and final payments include adjustments to recognize the amount due April 15 for which collections have been deferred until July 15 in response to the COVID-19 pandemic of \$34,075,069 and \$205,617,917 respectively.***

Corporate Income Tax

Revenue was over budget for the month by \$1.0 million, bringing the year-to-date negative variance to \$1.5 million or -0.9 percent. Compared to last fiscal year corporate income tax revenue is \$29.0 million lower or -14.1 percent. Year-to-date, final payments are down 20.0 percent and estimated payments are down 14.2 percent. ***The growth rates for estimated and final payments include adjustments to recognize the amount due April 15 for which collections have been deferred until July 15 in response to the COVID-19 pandemic of \$14,086,111 and \$10,689,860 respectively.***

Cigarette and Tobacco Taxes

Cigarette and tobacco products tax revenue was \$1.8 million under budget for the month, bringing the year-to-date variance to \$2.1 million. Compared to the same ten-month period last year, cigarette and tobacco tax revenue is up 10.3 percent. Most of the monthly variance is from the lack of marijuana excise tax which has been delayed because of COVID-19. The exceptional year-to-date growth is a timing issue

associated with wholesalers stocking up on cigarette stamps and the tax rate increase in the other tobacco tax to 43 percent of the wholesale price.

Insurance Companies Taxes

The Insurance Companies Tax was over budget for the month by \$0.2 million and is \$2.7 million over budget for the fiscal year.

Estate Tax

The estate tax was \$0.6 million over budget for the month and is now \$0.9 million over budget year-to-date. Estate tax receipts are \$7.5 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 April by \$2.4 million. For the fiscal year, property tax relief payments are under budget by \$4.3 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 under budget in April by \$8.5 million. For the first ten months of the fiscal year revenue sharing is \$2.5 million over budget. ***Expected declines in sales and withholding receipts will reduce forecasted revenue sharing through the remainder of the fiscal year, but the accrual of final and estimated income tax payments will moderate the immediate impact on municipalities.***

Lottery

Lottery revenues were under budget for the month by \$0.7 million or -16.6 percent. For the first ten months of the fiscal year lottery revenues are \$3.9 million over budget (8.3 percent).

Other Revenues

Other Revenues were under budget for the month of April by \$1.3 million and are now under budget for the fiscal year by \$2.6 million.

Highway Fund

Motor fuel excise tax receipts were under budget in April by \$2.6 million (-14.5 percent). The Highway Fund, in total, was under budget for the month by \$3.1 million. For the fiscal year, motor fuel excise tax revenues are under budget by \$6.3 million (-3.2 percent) and total Highway Fund receipts are under budget by \$7.0 million (-2.4 percent). For the first ten months of the fiscal year motor fuel excise tax receipts are down 1.7 percent compared to fiscal year 2019. Like sales tax receipts, most of April motor fuel excise taxes are from March activity and do not reflect the full impact of reduced driving by Maine residents since the beginning of the COVID-19 crisis.

National Economy

With April data beginning to trickle in it's becoming apparent that the swift and deep COVID-19 related recession will be one for the record books. Labor market claims (18.0 million continuing unemployment insurance claims) and April's unemployment rate (14.7%) are setting records and will likely set new records by the end of May. Retail sales plunged in both March and April with April's year-over year decline of 21.6 percent setting a record. Furniture and home furnishing stores, and electronic and appliance stores decreased by 65 percent compared to a year ago. Clothing stores fell 89.3 percent. Sporting goods, hobby, musical, and book stores, and food service and drinking places both decreased by 49 percent year-over-year. Automobile and motor vehicle dealers declined by 34.3 percent. Food and beverage stores increased by 12 percent and building and garden supply stores increased 0.4 percent. Non-store retailers continued to grow (21.6 percent) as households preferred to purchase goods on-line from their homes. States have started the process of gradually allowing businesses to open which may mean that April sales will be the bottom of the crisis, but the recovery is expected to be slow.

Maine Economy

April taxable sales in Maine will be provided in next month's revenue report, but March taxable sales provide information on how Maine consumers reacted in the first two weeks of the COVID-19 crisis. Sales at building supply and food stores increased 19.8 and 12.6 percent, respectively. During the last two weeks of March consumers were stocking up not only on grocery staples which are not taxable, but on other products sold in food stores such as cleaning supplies and paper products which are taxable. Building supply stores not only sell these same taxable products, but also sell appliances, building materials, and storage containers that households purchased to ride out the stay at home order. Automobile sales were solid during January and February, and anecdotally continued to be strong in the first-half of March, but social distancing during the second-half of the month resulted in the auto/transportation sector decreasing by 27 percent. As expected, restaurant and lodging sales were the hardest hit in March, decreasing by 33 and 45.5 percent, respectively. The increase (+36.6 percent) in other retail reflects not only new marketplace facilitator sales, but strong growth from remote sellers that have been part of our tax base for a few years. If new marketplace facilitator sales are removed from March taxable sales, the consumer sales portion would have declined by 9.1 percent rather than 5.7 percent. The increased collection of remote sales years is moderating the decline in revenues as the current economic environment is pushing households toward on-line sales and away from in-store sales.

KF: mja

Attachments

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