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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: August 21, 2020

SUBJECT: Revenues – July 2020

\$304.8 million of net accruals that were recorded last fiscal year because the State, to align with the Federal government, allowed income tax filers to defer April and June payments to July 15th were reversed in July. Footnotes (3) and (4) of the July Controller’s Report provides the details of these adjustments. The table below shows budgeted and actual cash receipts in July.

| | Jul-20 |
|--|-----------------|
| Budgeted Revenue | \$ 316,652,272 |
| Revenue with Reversal of Accruals | \$ 255,135,839 |
| Plus FY20 Individual Income Tax Accrual | \$ 257,992,054 |
| Plus FY20 Corporate Income Tax Accrual | \$ 46,788,400 |
| Revenue without Reversal of Accruals | \$ 559,916,293 |
| Budgeted Revenue Variance with Accrual Reversal | \$ (61,516,433) |
| % Budget Variance with Accrual Reversal | -19.4% |
| Budgeted Revenue Variance without Accrual Reversal | \$ 243,264,021 |
| % Budget Variance without Accrual Reversal | 76.8% |

With the accrual reversals:

July General Fund revenues were under budget by \$61.5 million or 19.4 percent. Compared to last fiscal year, fiscal year 2021 General Fund revenues were down by 12.6 percent (-\$36.7 million). Note, the July Controller's Report is based on the March 1, 2020 forecast, the August Controller's report will reflect the new revenue forecast released by the Revenue Forecasting Committee on August 1, 2020.

June taxable sales (July revenue) increased 4.4 percent over last year, 15.1 percent excluding restaurant and lodging sales. For the month, sales and use and service provider taxes, combined, were \$11.3 million under budget. Consumer sales increased by 4.4 percent over a year ago. Only the general merchandise, restaurants, and lodging categories exhibited declines from a year ago. Lodging and restaurant sales continued to be hard hit by required occupancy limitations and consumer avoidance of those establishments, decreasing by 61.2 and 38.1 percent, respectively, in June. General merchandise stores fell 3.5 percent compared to last June, much improved from the double-digit declines in April and May. Auto/transportation posted year-over-year growth of 14.8 percent as pent up demand by buyers helped to offset the weak March-May activity. Other retail sales grew by 42.2 percent as on-line purchasing by consumers continues to increase in the COVID-19 economy. Food stores and building supply stores benefited from the continued demand for their products during the crisis, increasing by 3.7 and 24.0 percent, respectively. Business operating sales growth increased in June by 8.2 percent over a year ago.

Individual income tax receipts were under budget in July by \$37.8 million (30.0 percent). All the negative variance was from the reversal of the April and June accruals for final and estimated payments, and higher than budgeted refunds because of the deferral of filings and payments until July 15th. Withholding receipts were \$15.5 million over budget, up 26.8 percent over last year. An additional Thursday (the largest deposit day of the week) this July, the timing of some receipts from quarterly payments that were budgeted for early August and withholding on enhanced unemployment benefits combined for a very strong July. Final payments for the 2019 tax year that we delayed from April to July were \$33.1 million under budget. We expect that variance to shrink as additional payments are made on those 2019 liabilities between now and the extension date of October 15, 2020. The first two estimated payments for tax year 2020 that were due in April and June were received in July and were \$14.8 million. While less than the March forecast, the first two estimated payments were down approximately 10 percent compared to last year, much better than the 30 percent decrease that was expected.

Corporate income tax receipts were over budget in July by \$2.2 million. Like individual income tax, corporate final and estimated payments due in the final quarter of FY20 were due on July 15th. Final payments associated with the 2019 tax year exceeded budget by \$5.1 million, but estimated payments for the 2020 tax year were under budget by \$2.6 million. Estimated payments performed better than expected, but we remain cautious about the September and December payments.

Sales and Use Taxes

Revenue was \$11.1 million under budget for the month (-6.9 percent). Fiscal year 2021 revenue was \$0.2 million or 0.1 percent less than fiscal year 2020 collections.

Taxable Sales

Total taxable sales for the month of June (July revenue) were 4.4 percent higher than June 2019. The annual rate of change, excluding utilities, was 4.2 percent. Building supply sales increased 24.0 percent for the month and were up 8.5 percent for the last 12 months. Sales of taxable items in food stores were

up 3.7 percent for the month and up 5.6 percent for the year. General merchandise sales (primarily sales of goods sold in large department and discount stores) were down 3.5 percent for the month and down 2.1 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 42.2 percent for the month and up 33.2 percent for the year. Auto/transportation sector sales increased 14.8 percent for the month and increased 0.9 percent for the year. Sales of meals and other prepared foods decreased 38.1 percent for the month and down 10.6 percent for the year. Lodging sales were down 61.2 percent for the month and down 11.9 percent for the year. Business operating sales (primarily use tax paid by businesses) increased 8.2 percent for the month and were up 3.7 percent for the year.

Service Provider Tax

Revenue was under budget for the month by \$0.2 million. Revenue was 0.2 million or 3.1 percent under prior fiscal year collections.

Individual Income Tax

Revenue was \$37.8 million or 29.9 percent under budget for the month. Compared to last fiscal year individual income tax receipts were down 22.6 percent (-\$25.8 million). Withholding payments were up 26.8 percent, estimated payments were down 207.0 percent, and final payments were down 390.6 percent. ***The growth rates for estimated and final payments include negative adjustments to recognize the amounts recognized in April and June for which collections were deferred until July 15 in response to the COVID-19 pandemic of \$67.5 million and \$190.5 million, respectively.***

Corporate Income Tax

Revenue was over budget for the month by \$2.2 million or 23.4 percent. Compared to last fiscal year corporate income tax revenue was \$1.9 million higher or 19.7 percent. Final payments were up 187.1 percent and estimated payments were down 37.8 percent. ***The growth rates for estimated and final payments include negative adjustments to recognize the amounts recognized in April and June for which collections were deferred until July 15 in response to the COVID-19 pandemic of \$37.1 million and \$9.7 million, respectively.***

Cigarette and Tobacco Taxes

Cigarette and tobacco products tax revenue was \$0.5 million under budget for the month and fiscal year. Compared to last July, cigarette and tobacco tax revenue was down 16.8 percent.

Insurance Companies Taxes

The Insurance Companies Tax was over budget for the month by \$0.4 million and was \$0.24 million more than the first month of last fiscal year.

Estate Tax

The estate tax was \$0.531 million under budget for the month or -53.1 percent. Estate tax receipts were \$5.4 million less 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 July by \$0.07 million. BETR applications for property taxes paid during CY19 began August 1st.

Municipal Revenue Sharing

Revenue sharing was over budget in July by \$1.0 million. For the fiscal year revenue sharing was \$3.0 million higher than last year (29.5 percent). The increase in revenue sharing effective July 2020 from 3.0 percent to 3.75 percent contribute to the increase compared to a year ago.

Lottery

Lottery revenues were over budget for the month by \$0.9 million or 19.4 percent. Compared to last July, lottery revenue was \$0.9 million higher or 20.5 percent.

Other Taxes and Fees

Other taxes and fees were under budget for the month of July by \$14.4 million. The shortfall for the month was primarily because of an incorrect budgeted amount of \$12.4 million for Unorganized Territory Property Tax. The tax should have been budgeted for October.

Highway Fund

Motor fuel excise tax receipts were under budget in July by \$3.2 million (-15.8 percent). The Highway Fund, in total, was under budget for the month by \$2.5 million (-8.1 percent). Motor fuel excise tax receipts were down 15.0 percent compared to fiscal year 2020. Demand for gasoline and special fuels has improved since the initial decline in mid-March and April but remains approximately 15 percent below last year.

National Economy

Retail sales continued to rebound in July, increasing by 1.2 percent over June and 2.7 percent over a year ago. The variation across retail sectors continues to be stark. Non-store retailers, building supply stores, food and beverage stores, and sporting goods and hobby stores all reported double-digit year-over-year growth. Restaurants, clothing stores, gasoline stations, and department stores all reported double-digit declines. Consumers continue to favor goods over services, as government stimulus has helped keep overall consumption growing, although the saving rate remains elevated at 19 percent in July. Economists are concerned that the ending of the enhanced unemployment benefits and lack of a new stimulus package from Washington may curtail spending in August and September.

Maine Economy

Taxable sales continue to improve in Maine, but restaurant and lodging sales remain well below levels recorded a year ago. Excluding those two important tourist related areas, taxable sales were up 15.1 percent in June. The large year-over-year declines in sales and the higher tax rates applied to restaurant (8%) and lodging (9%) result in overall sales only increasing 4.4 percent and year-over-year tax revenue being flat. Restaurant and lodging sales during the third quarter of the calendar year average 34 and 53 percent of total annual sales in those categories, respectively. While some improvement over the second

quarter is expected, continued concerns by tourists about the pandemic is expected to keep both restaurant and lodging sales well below normal summer season levels.

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Attachments

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