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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 21, 2021

**SUBJECT:** Revenues – December 2020

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December General Fund revenues were over budget by \$61.1 million or 23.7 percent. For the first half of the fiscal year, fiscal year 2021 General Fund revenues are over budget by \$65.0 million or 3.3 percent. Compared to the same six-month period last fiscal year, General Fund revenues are up by 3.3 percent (\$65.0 million). Adjusting for the increase in revenue sharing, General Fund revenues are up by 4.0 percent compared to the same period of fiscal year 2020. Please note, the budgeted amounts in the December Controller's Report have been updated to reflect the December 1, 2020 Revenue Forecasting Committee (RFC) baseline forecast.

November taxable sales (December revenue) increased 7.7 percent over last year. Excluding restaurant and lodging sales November taxable sales were up 12.0 percent. For the month, sales and use and service provider taxes, combined, were \$9.0 million over budget. Consumer sales increased by 7.6 percent over a year ago. Restaurant and lodging were the only categories exhibiting significant declines from a year ago. The recent improvement in the year-over-year (YOY) decline in lodging and restaurant sales was reversed in November, decreasing by 26.8 and 25.0 percent, respectively. These YOY declines are more like what was experienced in August compared to the improvement seen in the September-October period. General merchandise stores decreased by 0.3 percent compared to last November. Auto/transportation posted YOY growth of 3.1 percent and is up 12.2 percent for the September-November period. Other retail sales grew by 37.9 percent as e-commerce sales continue to increase in the COVID-19 economy. Building supply stores continue to have strong demand for their products, increasing by 25.0 percent. Business operating sales increased in November by 9.3 percent over a year ago.

Concerns remain that sales tax receipts may begin to weaken because of the late passage of the federal stimulus package, the recent surge in COVID-19 cases, and the home heating season now at its peak period.

Individual income tax receipts were over budget in December by \$32.0 million (22.3 percent). All sources of individual income tax had positive variances; withholding (\$17.8 million), final payments (\$1.0 million), fiduciary payments (\$0.5 million), estimated payments (\$8.9 million), and refunds (\$3.7 million). Withholding increased 17.7 percent from last December. Some of the extraordinary monthly growth is because this December had one extra Thursday than last year, but that doesn't fully explain growth of this magnitude. For the first half of the fiscal year withholding receipts are 10.1 percent higher than the same period a year ago. Estimated payments in December exceeded budget by 63.5 percent and increased 47 percent compared to last December. The final estimated payment for tax year 2020 isn't due until January 15, 2021, but some taxpayers prepay their final state estimated payment in December to get an itemized deduction for that tax year at the federal level. This timing incentive has diminished greatly in recent years because of the State and Local Tax (SALT) deduction cap of \$10,000 that was part of the 2017 federal tax reform act. We will watch the January 15<sup>th</sup> estimated payment carefully to see if the strong December payment was a timing issue or was a signal of much better final estimated payments than projected.

Corporate income tax receipts were over budget in December by \$18.4 million. \$16.5 million of the monthly variance was from the final 2020 estimated payment for calendar year filers which was due December 15<sup>th</sup>. Estimated payments exceeded budget by 44.5 percent and last December's estimated payment by 37.3 percent. Other corporate income tax states have seen a similar spike in the final estimated payment for tax year 2020. The consensus amongst the states, for now, is that many corporations reduced the first three payments expecting a weak year for profits because of COVID-19, but at year-end realized that 2020 will be a profitable year.

### Sales and Use Taxes

Revenue was \$9.6 million over budget for the month (8.1 percent) and is over budget by the same amount for the fiscal year (1.1 percent). Year-to-date, fiscal year 2021 revenue is \$20.6 million or 2.3 percent more than fiscal year 2020 collections.

### Taxable Sales

Total taxable sales for the month of November (December revenue) were 7.7 percent higher than November 2019. The annual rate of change, excluding utilities, was 3.7 percent. Building supply sales increased 25.0 percent for the month and were up 16.6 percent for the last 12 months. Sales of taxable items in food stores decreased by 0.8 percent for the month and were up 4.7 percent for the year. General merchandise sales (primarily sales of goods sold in large department and discount stores) were down 0.3 percent for the month and down 4.0 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 37.9 percent for the month and up 41.2 percent for the year. Auto/transportation sector sales increased 3.1 percent for the month and increased 2.1 percent for the year. Restaurant sales decreased 25.0 percent for the month and were down 23.8 percent for the year. Lodging sales were down 26.8 percent for the month and down 34.3 percent for the year. Business operating sales (primarily use tax paid by businesses) increased 9.3 percent for the month and were up 3.5 percent for the year.

### Service Provider Tax

Revenue was under budget for the month by \$0.6 million. For the first six months of fiscal year 2021 revenue is \$2.0 million or 6.9 percent under prior fiscal year collections.

### Individual Income Tax

Revenue was \$32.0 million or 22.3 percent over budget for the month. Compared to the same six-month period last fiscal year individual income tax receipts are up 5.6 percent (\$48.7 million). The year-over-year comparison is affected by the adjustment of \$257.9 million reflecting the reversal of amounts accrued in April and June for which collections were deferred until July 15<sup>th</sup> in response to the COVID-19 pandemic. The year-over-year growth is lower because final and estimated payments in July are less than what was accrued in FY 20.

### Corporate Income Tax

Revenue was over budget for the month by \$18.4 million or 76.6 percent. Year-to-date corporate income tax revenue is up by \$17.3 million (17.1 percent) compared to the same six-month period a year ago.

### Cigarette and Tobacco Taxes

Cigarette and tobacco products tax revenue was \$5.9 million over budget for the month and \$5.9 million for the fiscal year. Year-to-date, cigarette and tobacco tax revenues are up \$6.8 million (9.4 percent) compared to the same six months of fiscal year 2020. Some of the monthly surplus is timing related to cigarette stamp sales, and it is expected that some of the December surplus will be reversed in January.

### Insurance Companies Taxes

The Insurance Companies Tax was over budget for the month by \$0.03 million. Year-to-date the insurance companies tax is up 5.1 percent compared to last fiscal year.

### Estate Tax

The estate tax was \$0.8 million over budget for the month. Year-to-date, estate tax receipts are up 8.4 percent compared to last fiscal year.

### Property Tax Relief Programs

Refunds for the Business Equipment Tax Reimbursement (BETR) and Business Equipment Tax Exemption (BETE) programs were \$7.6 million over budget in December. Year-to-date property tax relief payments are \$7.3 million over budget. The overage in December and for the fiscal year is because of faster processing of BETE reimbursements. The variance on this revenue line will narrow in January.

### Municipal Revenue Sharing

Revenue sharing was on budget in December. For the fiscal year revenue sharing is \$16.5 million higher than last year. The increase in revenue sharing from 3.0 percent to 3.75 percent contributes to the increase compared to a year ago.

## Lottery

Lottery revenues were over budget for the month by \$0.8 million or 14.7 percent. Compared to last fiscal year, lottery revenue is \$2.3 million higher (7.2 percent).

## Other Taxes and Fees

Other taxes and fees were over budget for the month of December by \$1.5 million. Year-to-date other taxes and fees are over budget by \$2.3 million.

## Highway Fund

Motor fuel excise tax receipts were over budget in December by \$0.2 million (0.9 percent). The Highway Fund, in total, was over budget for the month by \$0.8 million (3.3 percent). Motor fuel excise tax receipts are down 9.5 percent compared to the same six-month period of fiscal year 2020. Demand for gasoline and special fuels has improved since the initial decline in mid-March and April but remains approximately 10 percent below last year.

## National Economy

Two reports out last week show that the economy progressively slowed during the final quarter of 2020 and raised concerns about the first quarter of 2021 despite the stimulus package passed by Congress in late December. The first report released on January 13, 2021 was the latest Beige Book Report from the Federal Reserve System. This report covered the period of late November through the New Year holiday. While there was some variation across the 12 Federal Reserve Districts, most reported modest growth, but with increasing concern that consumer spending was slowing, particularly in the leisure and hospitality sector. Manufacturing was a bright spot, but supply chain constraints were hampering stronger growth. . The continued prevalence of the pandemic across the nation has diminished a more favorable outlook of the economy during the first part of calendar year 2021. The Boston Federal Reserve Bank's portion of the report had a similar tone to it.

The second key report was the Census Bureau's December Monthly Retail Trade Report. For the third straight month retail sales declined when compared to the previous month. In addition, while year-over-year sales growth continued to be positive, the rate of growth declined for the third straight time. It's clear that the expiration of many of the CARES Act provisions in the final quarter of 2020 and the resurgence of the pandemic during the fall and early winter holiday season have reduced consumer spending compared to late spring and summer. The path of the pandemic during next few months and the possibility of additional federal stimulus will determine the willingness of households to ramp up their spending now, or, instead, save in anticipation of in-person services being safer and more available as warmer weather returns.

## Maine Economy

Like the national retail sales data, taxable sales data in Maine show year over year (YOY) consumer spending slowing over the course of the final quarter of 2020. YOY consumer sales declined from 9.8 percent in October to 7.6 percent in November. December taxable sales data will be available when January's revenue report is released next month. It's clear that the return of cold weather and the surge of COVID-19 here in Maine have impacted service sector sales, particularly restaurant and lodging. November YOY declines in restaurant and lodgings were the same as August at the height of the summer tourism season. A full understanding of the holiday shopping season will be clearer when December sales are reported.

The Consensus Economic Forecasting Commission (CEFC) and the RFC are planning an “off schedule” meeting next month to review holiday sales and other economic and revenue data in preparation for the spring economic and revenue forecasting meetings.

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Attachments

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