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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: October 26, 2021

SUBJECT: Revenues – September 2021

September General Fund revenues were over budget by \$51.1 million or 10.9 percent. For the first quarter of the fiscal year, fiscal year 2022 General Fund revenues are over budget by \$129.0 million or 11.1 percent.

Compared to last September, General Fund revenues were up by 20.0 percent (\$86.3 million). For the fiscal year, General Fund revenues have increased by \$266.3 million or 26.1 percent. Adjusting for the increase in revenue sharing, General Fund revenues increased by \$275.7 million or 27.0 percent compared to the first quarter of fiscal year 2021.

States that have released September revenue reports are seeing similar year-over-year growth rates both for the month and for the quarter ending in September – and the increase in sales volume and activity has economists nationwide scratching their heads.

August taxable sales (September revenue) increased 17.8 percent over last year. Year-over-year (YOY) comparisons are distorted as the COVID-19 pandemic was strongly impacting economic activity during the third quarter of calendar year 2020. For the month, sales and use and service provider taxes, combined, were \$15.6 million over budget. Consumer sales increased by 18.3 percent over August 2020 and 20.6 percent over August 2019. Federal stimulus programs via the American Rescue Plan Act (ARPA), healthy household balance sheets, and pent up demand for in-person taxable services account for the unprecedented growth compared to 2019. August lodging sales were up 56.0 percent over last August, and 17.7 percent over August 2019.

Restaurant sales increased by 34.4 percent compared to a year ago, but only increased 1.7 percent compared to 2019. The auto/transportation sector posted YOY growth of 7.3 percent, but sales by auto dealers fell by 2.1 percent as demand for automobiles has slowed because of the lack of inventory for both new and used autos. While taxable sales growth remains high compared to 2020 and 2019, it appears to be slowing as we transition from summer into fall.

Individual income tax receipts were over budget in September by \$21.3 million (10.0 percent). Withholding accounted for most of the monthly surplus (\$11.0 million), increasing for the first quarter of the fiscal year by 14.6 percent. An extra Thursday this September contributed to the historic quarterly growth, but this October will have one less Thursday and that will bring the year-to-date growth down through October. Refunds were \$2.4 million over budget for the month bringing the total variance for the fiscal year to \$18.6 million. Final payments exceeded budget by \$5.7 million in September resulting in a total positive variance for the fiscal year of \$9.6 million. Extension returns for the 2020 tax year were due October 15th, and the level of final payments and refunds will inform us on how strong 2020 really was. Estimated and fiduciary payments combined were over budget by \$7.3 million for the month and are \$12.1 million over for the fiscal year. The third estimated payment for tax year 2021 was due September 15th and increased 8.1 percent over last September. The first three estimated payments for tax year 2021 are up 29.0 percent over tax year 2020. The final estimated payment is due January 15, 2022 and will be a good indicator of what April final payments will look like.

Corporate income tax receipts were over budget in September by \$18.6 million. Estimated payments exceeded forecast for the month by \$17.6 million and final payments were over budget by \$1.9 million. Like the individual income tax, September 15th was the due date of the third estimated payment for calendar year corporate filers. The third estimated payment was 59 percent higher than last September. Corporate refunds were over budget for the month and are now \$1.5 million over budget for the fiscal year.

Sales and Use Tax

Revenue was \$15.6 million over budget for the month (8.7 percent) and is over budget for the fiscal year by \$69.7 million (13.2 percent). Sales tax receipts have increased \$126.1 million or 26.8 percent more than fiscal year 2021 collections through the first quarter.

Taxable Sales

Total taxable sales for the month of August (September revenue) were 17.8 percent higher than August 2020 and 19.9 percent higher than August 2019. The annual rate of change was 20.8 percent. Building supply sales increased 8.8 percent for the month and were up 24.1 percent for the last 12 months. Sales of taxable items in food stores increased by 5.5 percent for the month and were up 7.1 percent for the year. General merchandise sales (primarily sales of goods sold in large department and discount stores) were up 18.3 percent for the month and up 18.6 percent for the year. Sales by remote sellers and other retail stores such as jewelry, drug, sporting goods, book, antique, pet, photo, toy, and craft stores were up 19.8 percent for the month and up 30.4 percent for the year.

Auto/transportation sector sales increased 7.3 percent for the month and increased 22.3 percent for the year. Restaurant sales increased 34.4 percent compared to the same month a year ago and were up 17.2 percent for the last 12 months. Lodging sales increased 56.0 percent compared to last August and were up 59.0 percent for the 12-month period ending in August. Business operating sales (primarily use tax paid by businesses) increased 23.4 percent for the month and were up 15.8 percent for the year.

Service Provider Tax

Revenue was slightly over budget for the month by \$0.07 million. For the fiscal year revenue is \$1.2 million or 8.4 percent under prior fiscal year collections.

Individual Income Tax

Revenue was \$21.3 million or 10.0 percent over budget for the month. Compared to last fiscal year individual income tax receipts were up 27.1 percent (\$116.4 million). Withholding receipts for fiscal year 2022 are up 14.6 percent.

Corporate Income Tax

Revenue was over budget for the month by \$18.6 million. Corporate income tax revenue is up for the fiscal year by \$32.8 million (53.6 percent) compared to fiscal year 2021.

Cigarette and Tobacco Taxes

Cigarette and tobacco products tax revenue was \$3.7 million under budget for the month and \$1.2 million over budget for the fiscal year. All the year-to-date surplus is from cigarette excise tax revenue (+\$3.0 million). Through the first quarter of the fiscal year cigarette and tobacco tax revenues are down \$1.6 million (4.1 percent) compared to fiscal year 2021.

Insurance Companies Taxes

The insurance companies' tax was over budget in September by \$0.7 million. For the fiscal year insurance companies' tax is up 294.2 percent compared to last fiscal year.

Estate Tax

The estate tax was \$0.5 million over budget for the month. Estate tax receipts are up 66.5 percent (\$1.0 million) 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 very close to budget in September. The property tax relief payments remain \$0.7 million over budget for the fiscal year.

Municipal Revenue Sharing

Revenue sharing was over budget in September by \$1.7 million and was over budget for the fiscal year by \$9.1 million. For the fiscal year, revenue sharing payments to local communities are \$22.0 million higher than last year (64.0 percent). The increase in revenue sharing rate from 3.75 percent to 4.5 percent contributes to the increase compared to a year ago as well as the strong performance of sales and income taxes.

Lottery

Lottery revenues were under budget for the month by \$0.4 million or 7.1 percent. Compared to last fiscal year, lottery revenue is \$0.2 million higher (1.0 percent).

Other Taxes and Fees

Other taxes and fees were over budget for the month of September by \$1.3 million. Year-to-date other taxes and fees are over budget by \$14 million.

Highway Fund

Motor fuel excise tax receipts were over budget in September by \$2.2 million (11.2 percent). The Highway Fund, in total, was over budget for the month by \$2.9 million (11.7 percent). For the fiscal year total Highway Fund revenues exceed budget by \$4.5 million (5.1 percent). Motor fuel excise tax receipts are up 10.4 percent (\$5.9 million) compared to the first quarter of fiscal year 2021. Demand for gasoline and special fuels has steadily improved over last year but remain approximately 3.0 percent below 2019.

National Economy

Economists are reducing their expectations for U.S. economic growth during the second half of 2021. Supply-chain issues and the rise of the delta variant over the summer have led economic forecasters to reassess third and fourth quarter GDP growth. The holiday shopping season is expected to start earlier than normal over supply-chain concerns which may make seasonal adjustments difficult. Seasonal adjustments may have played a role in the recent unemployment report that showed relatively weak job gains in September, primarily driven by non-teacher education related jobs. Additional uncertainty surrounds Congressional action on raising the debt ceiling in December and on the President's infrastructure and reconciliation packages. If these issues can be resolved with limited damage to the economy, there's the potential for stronger growth in 2022.

Maine Economy

The Consensus Economic Forecasting Commission (CEFC) will be meeting October 29th to receive updates from representatives of various business sectors across the state, and to update their previous economic forecast by November 1st. The CEFC will need to account for all the issues discussed above that have emerged since they last met in late March.

The new CEFC economic forecast will be the basis of the updated revenue forecast by the Revenue Forecasting Committee (RFC). The RFC will meet in late November to provide the Governor and Legislature with a December 1st revenue forecast.

States that have released September revenue reports are seeing similar year-over-year growth rates both for the month and for the quarter ending in September. The historic relationship between state economic measures and state tax revenues has been significantly impacted by the pandemic and federal response. While state tax systems have been relatively stable since the start of COVID-19, the unusually high rate of revenue growth states are experiencing relative to that economic growth (i.e. revenue elasticity) has state revenue forecasters scratching their heads as to how long this growth will continue and if we are approaching a point of leveling off or seeing revenues revert back to levels seen pre-pandemic. Of particular concern to revenue forecasters is the historic growth in corporate tax receipts. Based on similar revenue growth reported by the federal government it's possible that corporate profits during 2020 and 2021 far exceeded projections, which have also played a role in the significant rise in the stock market since the start of the pandemic. The Maine RFC will need to address these issues later next month.

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Attachments

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