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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 31, 2022

SUBJECT: Revenues – December 2021

Please note, the budgeted figures in the December Controller's report have been updated to reflect the December 1, 2021 Revenue Forecasting Committee (RFC) report.

December General Fund revenues are over budget by \$84.6 million or 28.6 percent. Note: \$4 million of this is a delay in recognizing November Service Provider Tax. For the first half of fiscal year 2022, General Fund revenues are over budget by \$90.4 million or 3.8 percent.

Compared to last December, General Fund revenues are up by 19.1 percent (\$61.0 million). For July through December 2021, adjusting for the increase in revenue sharing, General Fund revenues are \$433.0 million, or 21.2 percent higher compared to the same period in 2020.

November taxable sales (December revenue) increased 15.5 percent over last year. Year-over-year (YOY) comparisons remain distorted because of the COVID-19 pandemic, but with the start of the fourth quarter of calendar year 2021 those distortions have started to moderate. For the month, sales and use taxes were \$7.6 million over budget. Consumer sales increased by 15.4 percent over November 2020 and 24.1 percent over November 2019. Healthy household balance sheets and a slower shift back to in-person non-taxable services account for the unprecedented growth compared to 2019.

Individual income tax receipts were over budget in December by \$38.3 million (26.1 percent). Final, estimated, and withholding payments were all over budget, contributing a combined \$41.7 million to the monthly positive variance. Withholding was over budget in December by \$38.8 million, increasing 13.6 percent over last year. Withholding receipts through the first half of fiscal year 2022 are up 12.1 percent compared to the same six-month period last year. Refunds were \$3 million over budget for December.

Corporate income tax receipts were over budget in December by \$36.2 million. Payments exceeded forecast for the month by approximately \$30.0 million and refunds were under budget by \$6.2 million. The final estimated payment for the 2021 calendar year was due December 15th for corporate calendar year filers and we calculate it was 21 percent higher than last December. Through the first half of fiscal year 2022 corporate income tax receipts are 61.9 percent higher than the same period last fiscal year.

Sales and Use Tax

Revenue was \$7.6 million over budget for the month (5.3 percent) and is over budget for the fiscal year by \$8.7 million (0.8 percent). Sales tax receipts have increased \$203.9 million or 22.7 percent more than fiscal year 2021 collections through the first six months of the fiscal year.

Taxable Sales

Total taxable sales for the month of November (December revenue) were 15.5 percent higher than November 2020 and 24.4 percent higher than November 2019. Over the 12-month period ending in November 2021, revenues rose at a rate of 21.9 percent. Building supply sales increased 13.3 percent for the month and were up 19.9 percent for the last 12 months. Sales of taxable items in food stores increased by 3.8 percent for the month and were up 6.8 percent for the year. General merchandise sales (primarily sales of goods sold in large department and discount stores) were up 14.5 percent for the month and up 21.0 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 16.5 percent for the month and up 24.2 percent for the year. Auto/transportation sector sales increased 10.0 percent for the month and increased 19.9 percent for the year. Restaurant sales increased 35.0 percent compared to the same month a year ago and were up 32.8 percent for the last 12 months. Lodging sales increased 89.9 percent compared to last November and were up 91.9 percent for the 12-month period ending in November. Business operating sales (primarily use tax paid by businesses) increased 20.2 percent for the month and were up 19.3 percent for the year.

Service Provider Tax

SPT revenue was over budget for the month by \$4.0 million reflecting a delay in recognizing November revenue. Through the first half of fiscal year 2022 service provider tax receipts are \$0.2 million over budget (0.8 percent). For the fiscal year revenue is \$1.8 million or 6.7 percent under prior fiscal year collections.

Individual Income Tax

Revenue was \$38.3 million or 26.1 percent over budget for the month. Compared to last fiscal year individual income tax receipts were up 17.0 percent (\$156.6 million). Withholding receipts for fiscal year 2022 are up 12.1 percent.

Corporate Income Tax

Revenue was over budget for the month by \$36.2 million. Corporate income tax revenue is up for the fiscal year by \$73.5 million (61.9 percent) compared to fiscal year 2021. The Federal government and other States with a corporate income tax are seeing similar growth rates through the first quarter and half of their fiscal years, respectively.

Cigarette and Tobacco Taxes

Cigarette and tobacco products tax revenue was \$0.4 million under budget for the month and \$1.0 million under budget for the fiscal year. Through the first six months of the fiscal year cigarette and tobacco tax revenues are down \$2.4 million (3.0 percent) compared to fiscal year 2021.

Insurance Companies Taxes

The insurance companies' tax was very close to budget in December and over budget fiscal year-to-date by \$1.8 million. For the fiscal year insurance companies' tax is up 7.9 percent compared to last fiscal year.

Estate Tax

The estate tax was \$2.6 million under budget for the month. Estate tax receipts have increased 72.5 percent (\$10.6 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 over budget in December by \$1.4 million. For the first six months of the fiscal year, property tax relief payments are \$1.4 million over budget. Most payments for the BETE program were issued in December.

Municipal Revenue Sharing

Revenue sharing was slightly under budget in December by \$0.2 million and was under budget for the fiscal year by \$0.25 million, meaning that more funds than expected have flowed to Maine's towns and cities. For the fiscal year, revenue sharing payments to local communities are \$38.5 million higher than last year (52.3 percent). The improvement 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 over budget for the month by \$1.3 million or 21.3 percent. Compared to last fiscal year, lottery revenue is \$1.6 million higher (4.6 percent).

Other Taxes and Fees

Other taxes and fees were slightly under budget for the month of December by \$0.1 million. Year-to-date other taxes and fees are essentially on budget.

Highway Fund

Motor fuel excise tax receipts were over budget in December by \$0.8 million (4.4 percent). The Highway Fund, in total, was over budget for the month by \$1.0 million (4.3 percent). For the fiscal year total Highway Fund revenues exceed budget by \$2.3 million (1.3 percent). Motor fuel excise tax receipts are up 6.3 percent (\$7.0 million) compared to the first six months of fiscal year 2021.

National Economy

The emergence of the Omicron variant during the holiday season has resulted in economists revising down their forecast of economic growth during the first quarter of 2022. December's employment report was very disappointing, increasing by only 199,000 jobs. Most economists were expecting an increase of 400,000-600,000 jobs. The pandemic's impact on historical seasonal adjustments are making the interpretation of incoming economic data difficult, and revisions may show November/December job growth was higher. December's inflation report was not affected by seasonal adjustments and was 7.0 percent higher than last December; year-over-year core Consumer Price Index was up 5.5 percent. Rising prices are expected to force Federal Reserve policymakers to accelerate their tightening of monetary policy to bring inflation under control and is one factor in the adjustments economic forecasters are making to their forecasts for 2022.

Maine Economy

The Consensus Economic Forecasting Commission met on January 28th to review their November 1, 2021 economic forecast and make any necessary updates to provide the Governor and Legislature with a new forecast by February 1, 2022. The new CEFC forecast will be used by the Revenue Forecasting Committee to develop a new revenue forecast that will be issued on March 1st.

KF: mja

Attachments

cc: Jeremy Kennedy
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