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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: May 17, 2022

SUBJECT: Revenues – April 2022

April General Fund revenues are over budget by \$307.3 million or 52.7 percent. For the first ten months of fiscal year 2022, General Fund revenues are over budget by 405.0 million or 10.2 percent.

Compared to last April, General Fund revenues increased by 80.7 percent (\$397.8 million). For July through April 2022, adjusting for the increase in revenue sharing, General Fund revenues are \$974.0 million, or 28.2 percent higher compared to the same period in fiscal year 2021.

The monthly and year-to-date (YTD) positive variance is primarily from individual and corporate income tax receipts being at historic levels and growth rates. Individual income tax net receipts were \$252.6 million (76.5 percent) over budget in April and \$323.4 million over budget YTD (17.8 percent). Most of the monthly and annual variance from budget is from final payments being over budget by \$212.6 million and \$223.5 million, respectively. In the month of April, Maine Revenue Services (MRS) collected \$463.0 million in individual income tax final payments for the 2021 tax year. To put those collections in perspective, total 1040 final payments were \$444.7 million in calendar year 2021. In one month, MRS deposited more in individual income tax final payments than any other month or year in the State's history. Based on the performance of payments and refunds tied to the 2021 tax year, we now believe that tax year 2021 net tax liability may have increased by as much as 20 percent; the March 1, 2022 revenue forecast assumed approximately 10 percent growth.

Corporate income tax receipts in April set new records as well. Total corporate income tax deposits were \$104.4 million, the highest monthly total in State's history and 50 percent greater than last April's final and estimated payments.

Unlike individual income tax, corporate income tax filers were required to file calendar year both final and estimated payments last April, so the 50 percent increase is not the result of timing. Through April, net corporate income tax receipts are 48.9 percent higher than April 2021.

Sales and Use Tax

Revenue was \$17.0 million over budget for the month (11.5 percent) and is over budget for the fiscal year by \$24.4 million (1.5 percent). Sales tax receipts have increased \$259.8 million or 18.0 percent more than fiscal year 2021 collections through the first ten months of the fiscal year.

Taxable Sales

Total taxable sales for the month of March (April revenue) were 4.4 percent higher than March 2021 and 48.1 percent higher than March 2020. Over the 12-month period ending in March 2022, taxable sales rose at a rate of 18.5 percent. Building supply sales increased 7.7 percent for the month and were up 13.8 percent for the last 12 months. Sales of taxable items in food stores increased by 0.9 percent for the month and were up 4.9 percent for the 12-month period. General merchandise sales (primarily sales of goods in large department and discount stores) decreased by 5.0 percent for the month and are up 17.0 percent for the last 12 months. Sales by remote sellers and other retail stores such as jewelry, drug, sporting goods, book, antique, pet, photo, toy, and craft stores were down 3.7 percent for the month and up 14.3 percent over the last year. Auto/transportation sector sales decreased 1.0 percent for the month and increased 12.1 percent for the year. Restaurant sales increased 15.8 percent compared to the same month a year ago and were up 44.5 percent for the last 12 months. Lodging sales increased 20.2 percent compared to last March and were up 97.3 percent for the 12-month period ending in March. Business operating sales (primarily use tax paid by businesses) increased 17.2 percent for the month and were up 15.9 percent for the year.

Service Provider Tax

Service Provider Tax revenue was over budget for the month by \$0.3 million or 6.4 percent. Through the first ten months of fiscal year 2022 service provider tax receipts are on budget. For the fiscal year revenue is \$1.8 million or 4.2 percent below prior fiscal year collections.

Individual Income Tax

Revenue was \$70.8 million or 153.1 percent over budget for the month. Compared to last fiscal year individual income tax receipts are up 17.1 percent (\$226.5 million). Withholding receipts for fiscal year 2022 are up 14.3 percent. The YOY growth has been impacted in recent months by the timing of refunds and the number of Thursdays in each month which affects withholding. The due date for filing 2021 tax returns and the first estimated payment for tax year 2022 was April 19th.

Corporate Income Tax

Revenue was over budget for the month by \$48.2 million (89.3 percent). Corporate income tax revenue is up for the fiscal year by \$107.6 million (48.9 percent) compared to fiscal year 2021. The Federal government and other States with a corporate income tax are seeing similar growth rates.

Cigarette and Tobacco Taxes

Cigarette and tobacco products tax revenue was under budget for the month and fiscal year by \$1.5 million. Through the first ten months of the fiscal year cigarette and tobacco tax revenues are up \$2.8 million (2.3 percent) compared to fiscal year 2021.

Insurance Companies Taxes

The insurance companies' tax was under budget in April by \$1.5 million and over budget fiscal year-to-date by \$7.7 million. For the fiscal year insurance companies' tax is up 9.3 percent compared to last fiscal year.

Estate Tax

The estate tax was \$0.7 million under budget for the month. Estate tax receipts have decreased 11.7 percent (\$4.7 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 April by \$3.6 million. For the first ten months of the fiscal year, property tax relief payments are \$0.4 million under budget.

Municipal Revenue Sharing

Revenue sharing was over budget in April by \$3.3 million and for the fiscal year by \$3.2 million. For the fiscal year, revenue sharing payments to local communities are \$55.3 million higher than last year (46.7 percent). The improvement in the 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 \$2.8 million or 64.2 percent. Compared to last fiscal year, lottery revenue is \$0.4 million lower (0.6 percent).

Other Taxes and Fees

Other taxes and fees were under budget for the month by \$2.2 million. Year-to-date other taxes and fees are over budget by \$0.5 million or 0.4 percent.

Highway Fund

Motor fuel excise tax receipts were under budget in April by \$0.9 million (5.1 percent). The Highway Fund, in total, was over budget for the month by \$0.5 million (1.9 percent). For the fiscal year total Highway Fund revenues are over budget by \$5.4 million (1.9 percent). Motor fuel excise tax receipts are up 6.5 percent (\$11.4 million) compared to the first ten months of fiscal year 2021.

National Economy

The last few weeks have provided several key economic measures, first quarter GDP growth, key measures of inflation in April (Consumer and Producer Prices Indices), and April's jobs report. While first quarter 2022 GDP growth was negative (-1.4 annualized), consumer spending and fixed investment continued to show robust growth. Net exports and inventories were the areas that pulled GDP growth down. As expected, both the CPI and the PPI continue to run hot on a year-over-year (YOY) basis, 8.3 and 11.0 percent, respectively. The high YOY rate of inflation of both measures is at 40-year highs, but appears to be leveling off, perhaps signaling some moderation going forward. The April jobs report was solid, with nonfarm employment increasing by 428,000. Most of this information was either available or anticipated by the Federal Open Market Committee (FOMC) when it met on May 4th and increased the federal funds rate by 50 basis points. The FOMC is expected to increase the federal funds rate by 50 basis points at each of its next few meetings to achieve its dual mandate of low inflation and maximum employment. The so-called "soft landing" goal of the FOMC will be difficult given stubborn supply chain issues, rising COVID rates around the world, and the continuing war in Ukraine.

Maine Economy

While the historic collection of income tax revenues dominated the monthly Controller's report, it's important to remember that most of those tax receipts reflect 2021 activity and are not a good indicator of current economic activity. Historically we have looked to sales tax receipts as the best measure of the economy's real time strength. April sales tax revenue (March sales) exceeded budget by \$17.0 million in April and were 6.9 percent higher than a year ago. The forecast assumed a decline of 3.9 percent because of the 41.8 percent growth realized last April. A deeper dive into the taxable sales report, reveals that the bulk of the sales tax base taxed at the 5.5% general sales tax rate increased by only 0.6 percent, better than projected but still basically flat growth. Most of the gains came from prepared foods taxed at 8% (up 16 percent) and lodging taxed at 9% (up 21.2 percent). These service-related areas have more than recovered from the pandemic shutdowns and are now driving revenue growth along with rising prices for taxable goods. We would expect this trend to continue through the summer tourism season as households continue to shift their purchases back to services, particularly nontaxable services, and away from taxable goods which are being affected by rising prices and supply disruptions. The ability of consumers to keep up with inflation, especially volatile energy prices, will pose the greatest challenge for state revenues as the fall and winter seasons begin later this year.

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Attachments

cc: Jeremy Kennedy
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