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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: June 24, 2022

SUBJECT: Revenues – May 2022

May General Fund revenues are over budget by \$28.4 million or 8.3 percent. For the first eleven months of fiscal year 2022, General Fund revenues are over budget by \$433.5 million or 10.0 percent.

For July through May 2022, adjusting for the increase in revenue sharing, General Fund revenues are \$849.5 million, or 21.5 percent higher compared to the same period in fiscal year 2021. Compared to last May, General Fund revenues decreased by 25.3 percent (\$125.1 million). This is due to the change in the 2020 tax return filing date last year.

April taxable sales (May revenue) increased 2.5 percent over last year. Year-over-year (YOY) growth slowed dramatically in April; this was expected as federal stimulus payments last year led to a spike in household spending during the second quarter of 2021. Consumer sales increased by only 1.8 percent over April 2021, the slowest YOY growth since August 2020. For the month, sales and use taxes were over budget by \$13.7 million because the March 1st Revenue Forecasting Committee (RFC) forecast assumed a decline in revenue of 4.7 percent. Restaurants (18.2 percent) and lodging (17.9 percent) sales both significantly exceeded budgeted YOY growth in April.

Individual income tax receipts were over budget in May by \$28.1 million (17.7 percent). Final (\$11.9 million), estimated (\$3.4 million), and fiduciary (\$0.172 million) payments all exceeded budget, while withholding was under budget by \$3.4 million. Refunds were under budget by \$16.0 million. The combined impact of final payments and refunds on the monthly surplus (+\$28.0 million) provides further evidence that tax year 2021 was extremely strong. May individual income tax receipts were \$112.0 million less than a year ago because the due date for 2020 tax returns was delayed until May 15, 2021. Year-to-date individual income tax receipts are \$499.1 million higher than last fiscal year, an increase of 27.4 percent.

Sales and Use Tax

Revenue was \$13.7 million over budget for the month (9.3 percent) and is over budget for the fiscal year by \$38.1 million (2.1 percent). Sales tax receipts have increased \$266.1 million or 16.6 percent more than fiscal year 2021 collections through the first eleven months of the fiscal year.

Total taxable sales for the month of April (May revenue) were 2.5 percent higher than April 2021 and 62.9 percent higher than April 2020. Over the 12-month period ending in April 2022, taxable sales rose at a rate of 14.8 percent. Building supply sales increased 0.7 percent for the month and were up 10.2 percent for the last 12 months. Sales of taxable items in food stores increased by 3.4 percent for the month and were up 4.6 percent for the 12-month period. General merchandise sales (primarily sales of goods in large department and discount stores) increased by 2.3 percent for the month and are up 12.7 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 1.0 percent for the month and up 11.4 percent over the last year. Auto/transportation sector sales decreased 3.2 percent for the month and increased 6.5 percent for the year. Restaurant sales increased 18.2 percent compared to the same month a year ago and were up 39.0 percent for the last 12 months. Lodging sales increased 17.9 percent compared to last April and were up 86.1 percent for the 12-month period ending in April. Business operating sales (primarily use tax paid by businesses) increased 4.0 percent for the month and were up 15.8 percent for the year.

Service Provider Tax

Service Provider Tax revenue was essentially on budget for the month. Through the first eleven months of fiscal year 2022 service provider tax receipts are over budget by \$0.062 million or 0.1 percent. For the fiscal year revenue is \$1.9 million or 4.0 percent below prior fiscal year collections.

Individual Income Tax

Revenue was \$28.1 million or 17.7 percent over budget for the month. Compared to last fiscal year individual income tax receipts are up 27.4 percent (\$499.1 million). Withholding receipts for fiscal year 2022 are up 13.3 percent and has increased by 14.7 percent for the first five months of calendar year 2022.

Corporate Income Tax

Revenue was on budget for the month and over budget by \$46.1 million (16.0 percent) for the fiscal year. Corporate income tax revenue is up for the fiscal year by \$101.8 million (43.8 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 over budget for the month by \$0.750 million and under budget for the fiscal year by \$0.8 million. Through the first eleven months of the fiscal year cigarette and tobacco tax revenues are up \$5.7 million (4.4 percent) compared to fiscal year 2021.

Insurance Companies Taxes

The insurance companies' tax was over budget in May by \$3.4 million and over budget fiscal year-to-date by \$11.0 million. For the fiscal year insurance companies' tax is up 20.9 percent compared to last fiscal year.

Estate Tax

The estate tax was \$3.9 million under budget for the month. Refunds for previously paid estimated payments exceeded new payments in May, resulting in a net collection of -\$1.7 million for the month. Estate tax receipts have decreased 16.3 percent (\$6.5 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 May by \$1.0 million. For the first eleven months of the fiscal year, property tax relief payments are \$0.5 million over budget. Most of the year-to-date variance is from the BETR program.

Municipal Revenue Sharing

Revenue sharing was over budget in May by \$14.3 million (59.2 percent) and for the fiscal year by \$17.5 million (9.0 percent). The significant monthly variance is from historic individual income tax payments in April. For the fiscal year, revenue sharing payments to local communities are \$77.8 million higher than last year (57.9 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 under budget for the month by \$0.4 million or 6.4 percent. Compared to last fiscal year, lottery revenue is \$1.2 million lower (1.8 percent).

Other Taxes and Fees

Other taxes and fees were over budget for the month by \$1.6 million. Year-to-date other taxes and fees are over budget by \$2.2 million or 1.6 percent.

Highway Fund

Motor fuel excise tax receipts were under budget in May by \$0.5 million (3.0 percent). The Highway Fund, in total, was under budget for the month by \$0.2 million (0.9 percent). For the fiscal year total Highway Fund revenues are over budget by \$5.2 million (1.7 percent). Motor fuel excise tax receipts are up 5.5 percent (\$10.6 million) compared to the first eleven months of fiscal year 2021.

National Economy

Recent economic reports, particularly consumer and producer inflation, resulted in the Federal Open Market Committee (FOMC) increasing the federal funds rate by 75 basis points at their June 15th meeting rather than their previous guidance of 50 basis point increases. This was the largest rate hike by the FOMC since 1994 and indicates that FOMC believes they need to move aggressively to bring inflation back to their 2 percent target. Other economic reports on May retail sales and second quarter GDP tracking combined with a correction in major stock indices have economists questioning whether a “soft-landing” is achievable by the FOMC. While economists are hesitant to forecast a recession at this point, the probability of a recession by the end of next year is rising.

Maine Economy

Except for restaurant and lodging sales, taxable sales are starting to feel the effects of inflation and the desire by consumers to shift their spending back to services. Fortunately, the March 1st RFC forecast has assumed this behavior and thus far the revenues have continued to exceed monthly projections. Even a softening of restaurant and lodging sales from current levels of growth should produce small monthly surpluses as the revenue forecast does not assume significant real growth during the upcoming summer tourism season. Historically, the sales tax has been the best real time indicator of consumer sentiment and the direction of economic activity. For now, the underlying Maine economy appears to be growing consistent with the economic forecast by Consensus Economic Forecasting Commission (CEFC) and should provide sufficient income to Maine households to maintain spending consistent with the current revenue forecast.

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Attachments

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