



## STATE OF MAINE REVENUE FORECASTING COMMITTEE

### Members:

Michael Allen, Chair, Associate Commissioner of Tax Policy  
James Breece, University of Maine System  
Marc Cyr, Principal Analyst, Office of Fiscal and Program Review  
Melissa Gott, State Budget Officer  
Christopher Nolan, Director, Office of Fiscal and Program Review  
Amanda Rector, State Economist

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December 13, 2017

TO: Sen. James Hamper, Chair  
Rep. Drew Gattine, Chair  
Members of the Joint Committee on Appropriations and Financial Affairs

FROM: Michael Allen

RE: **Revenue Forecast Committee's December 2017 Forecast**

As the recently released Revenue Forecasting Committee (RFC) report shows, the RFC made relatively minor net adjustments to their forecast released last May. General Fund revenue estimates were revised upward by \$17.9 million for FY18 but downward by \$11.7 million for FY19 (upward by \$6.2 million for 2018-2019 biennium). The revised forecast increases the overall rate of growth for General Fund revenue for FY18 from -0.2% to 0.3% but reduces the rate of growth for FY19 from 4.7% to 3.8%. The estimates for the 2020-2021 biennium were revised upward by a net amount of \$0.5 million.

Factors influencing the revenue forecast for the major tax lines were;

### ***Sales and Use and Service Provider Taxes***

- In general, sales and service provider tax revenues were increased because of stronger than projected FY17 receipts, and a reduction in the assumed saving rate in the new economic forecast from the Consensus Economic Forecasting Committee (CEFC).
- Off-model adjustments to the sales tax forecast were made to account for the expectation that sales of recreational marijuana will be delayed by one year, with taxable sales now forecasted to begin during the first-half of calendar year 2019. This assumption reduced FY19 sales tax receipts by approximately \$8 million.
- The forecast of sales tax continues to assume that automobile sales will be flat to slightly declining over the forecast period.

### ***Individual Income Tax***

- The lower individual income tax forecast for the FY19-21 period is strongly impacted by the information from tax year 2016 income tax returns, and a lowering of wage and salary growth by the CEFC in calendar year 2018.
- The individual income tax forecast was complicated by conflicting data on the strength of income growth in tax years 2016 and 2017, and actual tax receipts over the last eleven months. One possible explanation for strong growth in 2017 withholding and estimated payments is the 3% surtax enacted by referendum last November, and its subsequent repeal in the 2018-19 biennial budget in early July. Withholding tables issued at the start of 2017 reflected the surtax on high-income wage earners.

Those tables were re-issued by Maine Revenue Services in late July after enactment of the biennial budget to have withholding through the remainder of 2017 account for the surtax repeal. Withholding receipts through the first three quarters of 2017 have exhibited solid growth, with an acceleration in the third quarter and in the early stages of the fourth quarter.

- How much of the withholding growth is from a strengthening economy versus the impact of the surtax, or a combination of the two, is unknown. If the strong growth in withholding and estimated payments is related to the now repealed surtax, it will be reversed through higher refunds and lower final payments during the second half of FY18 when taxpayers file their 2017 tax returns. On the other hand, if the strengthening revenues are reflective of an improving economy, most of the revenue will be retained and possibly enhanced over the coming months.
- The committee has tried to strike the right balance between these conflicting explanations by assuming some portion of current positive variance on the individual income tax line will be retained, and some portion will be returned to taxpayers through the reconciliation of their payments and final liability for the 2017 tax year.
- An additional complicating factor that the RFC is monitoring is federal tax reform. If taxpayers have a level of confidence that federal taxes will be lower starting in 2018, they may make end of year decisions that shift income out of 2017 and shift deductions into 2017. The capability of such behavior is particularly high for taxpayers at the upper-end of the income distribution.

### ***Corporate Income Tax***

- Corporate income tax revenue is increased by \$19.7 million in the current biennium, and \$27.1 million in the 2020-21 biennium. The primary reason for this reprojected increase is the assumption of higher corporate profits in 2017 and 2018 by the CEFC.

In the conclusion of the May RFC report the committee noted that, “the unprecedented number of substantive economic and budgetary state ballot measures enacted last November and national election results that many experts believe will result in significant federal tax changes by Congress and Trump Administration have created a significant amount of uncertainty. While some information has become available to both committees since the forecasting exercise last fall, until we see more 2017 economic and revenue data, a fuller understanding of these actual and potential changes remain highly speculative. ***Even the fall 2017 meetings of both committees may be lacking sufficient data to judge the impact of all these initiatives.***” While the seven-month period since our last report has helped clarify some of these uncertainties, the last sentence of that conclusion was prescient. The CEFC and RFC still lack sufficient data to fully understand the impact of the enactment and subsequent repeal of the 3% surtax, and Congress and the Trump Administration remain engaged in serious negotiations over substantive federal tax reform that may have a significant impact on taxpayer behavior in the short-run, and long-run ramifications for the Maine economy and state income taxes.

While the short period until the next economic and revenue forecasting exercises provides both committees an opportunity to react to incoming data and events, it’s highly probable that the complexity of the changes will leave both committees continuing to be cautious in their projections until more understanding is attained.

cc: Members, Revenue Forecasting Committee

**GENERAL FUND STATUS - FUND BALANCE SUMMARY****Through the end of the 128th Legislature, 1st Special Session with December 2107 Revenue Forecast <sup>1</sup>**

	<u>FY 18</u>	<u>FY 19</u>
<b><u>AVAILABLE FUNDS</u></b>		
Transfers/Adjustments to Balance:		
2018-2019 Biennial Budget Bill (LD 390 - PL 2017, c. 284)	\$26,159,126	(\$31,157,374)
Other 128th 1st Regular Session Enacted Bills	\$476,717	\$921,984
Subtotal - Transfers/Adjustments to Balance	<u>\$26,635,843</u>	<u>(\$30,235,390)</u>
Undedicated Revenue:		
December 2016 Base Revenue Estimate	\$3,471,885,423	\$3,590,704,376
May 2017 Revenue Estimate	\$5,673,632	\$5,985,196
IB 2015 c. 4 - LD 1660 (Education Fund w/Surtax)	\$70,900,000	(\$2,200,000)
IB 2015 c. 5 - LD 1701 (Marijuana Legalization)	\$2,744,000	\$10,486,000
2018-2019 Biennial Budget Bill (LD 390 - PL 2017, c. 284)	(\$102,013,386)	\$6,329,641
Other 128th 1st Regular Session Enacted Bills	(\$380,000)	\$3,925
December 2017 Revenue Estimate	\$17,938,255	(\$11,750,528)
Subtotal - Undedicated Revenue	<u>\$3,466,747,924</u>	<u>\$3,599,558,610</u>
<b>TOTAL PROJECTED RESOURCES</b>	<u>\$3,493,383,767</u>	<u>\$3,569,323,220</u>
<b><u>APPROPRIATIONS</u></b>		
2018-2019 Biennial Budget Bill (LD 390 - PL 2017, c. 284) - Baseline	\$3,429,273,601	\$3,451,793,050
2018-2019 Biennial Budget Bill (LD 390 - PL 2017, c. 284) - Adjustm	\$83,099,029	\$139,140,095
Other 128th 1st Regular Session Enacted Bills	\$1,651,646	\$918,703
128th 1st Special Session Enacted Bills (LD 1649 PL 2017, c. 315)	\$675,770	\$680,097
<b>TOTAL APPROPRIATIONS</b>	<u>\$3,514,700,046</u>	<u>\$3,592,531,945</u>
<b>NET CHANGE (Resources less Appropriations)</b>	<u>(\$21,316,279)</u>	<u>(\$23,208,725)</u>
<b>BEGINNING BALANCE</b>	<u>\$57,074,957</u>	<u>\$35,758,678</u>
<b>NET CHANGE (FROM ABOVE)</b>	<u>(\$21,316,279)</u>	<u>(\$23,208,725)</u>
<b>ENDING BALANCE</b>	<u>\$35,758,678</u>	<u>\$12,549,953</u>

**Notes:**

<sup>1</sup> Reflects all actions through the end of the 128th Legislature, 1st Regular Session and the 1st Special Session with December 2107 Revenue Forecast

