

MRS Office of Tax Policy  
Presentation for July 2020  
Revenue Forecast

# Sales & Use Tax

# Sales & Use Tax: Annual Growth and Forecast Revision

Fiscal Year	Actual	March Forecast	July Forecast	Revision (\$million)	Revision %
2017-18	6.5%				
2018-19	5.6%				
2019-20	3.5%	7.6%		-\$61.8	-3.8%
2020-21		4.8%	-6.3%	-\$238.0	-14%
2021-22		4.6%	11.2%	-\$151.9	-8.6%
2022-23		4.0%	5.6%	-\$131.3	-7.1%

# Sales Tax: Main Points

- Prepared foods and lodging taxes account for about 2/3 of both the negative variance in FY 2020 sales and use tax and  $\approx$  60% of the FY 21 forecast revision to sales and use tax.
- Excluding prepared food and lodging, non-marketplace taxable sales are close to flat YoY for April – June sales.
- Auto sales tax revenue forecast decline faster than overall sales ex-meals and lodging in FY 21 due to CEFC forecast of new registrations.
- The change to both the personal income and savings rate forecasts reduce forecast revenue from PCE; the employment forecast reduces forecast of revenue from business purchases.
- Unusually large uncertainty on both upside and downside.

# Sales Tax: Data Notes

- Data for June sales is a preliminary estimate and small adjustments have been applied to the June data.
  - Data for returns processed through 7/26
  - Data window= returns processed by 10<sup>th</sup> day of second month following the end of the account period
  - June 20 range = Liability to date multiplied by min and max ratio of sales through the data window to sales through the 26<sup>th</sup> of the month following the end of the account period from 1/19 to 5/20

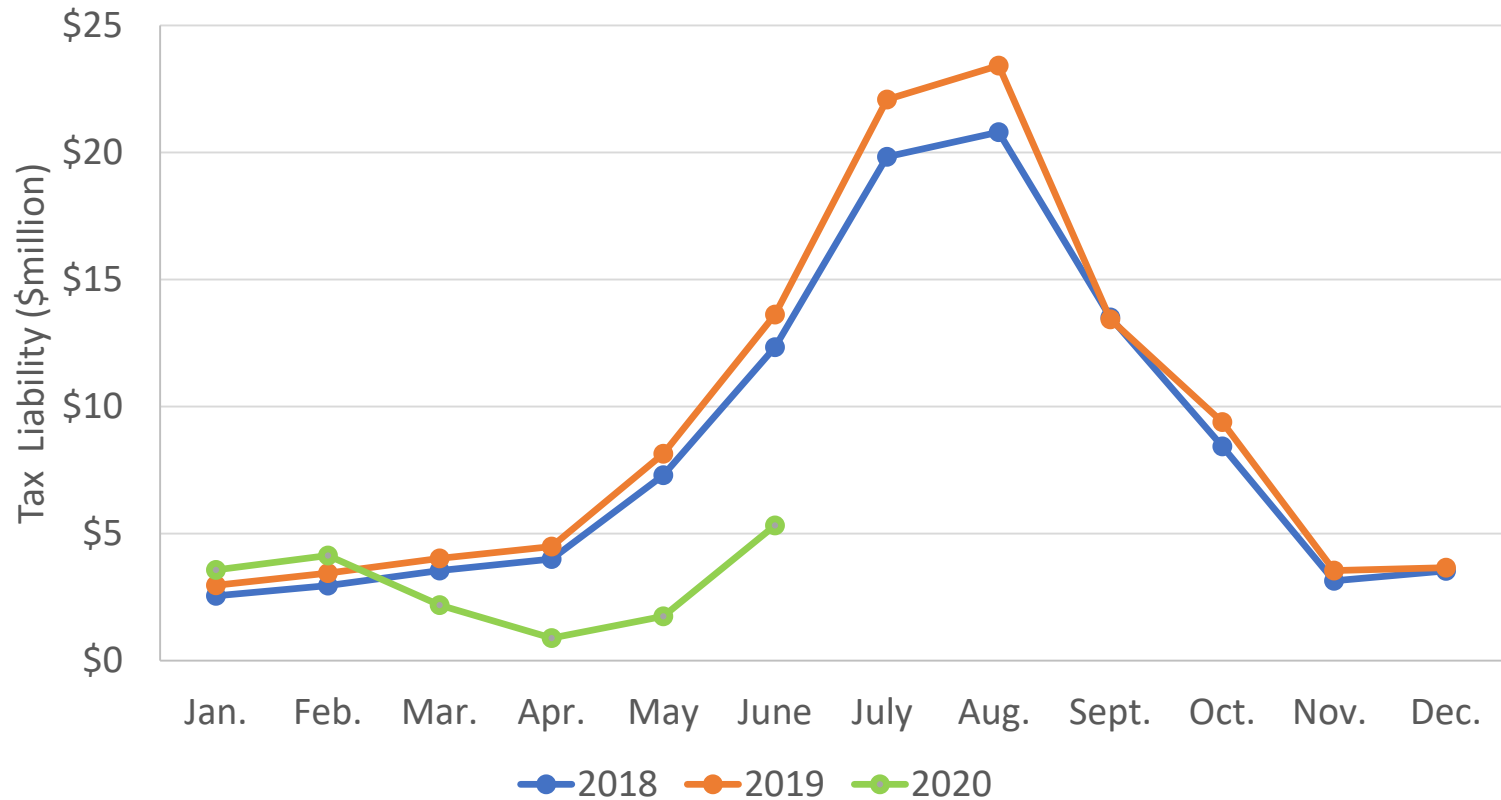
# Rental of Lodging Sales Tax

CY 2019 liability = \$112.3 million

Share of total CY 2019 sales & use tax = 7.3%

CY 2019 Share of Taxable Sales by Quarter:

1	9.3%
2	23.4%
3	52.5%
4	14.8%

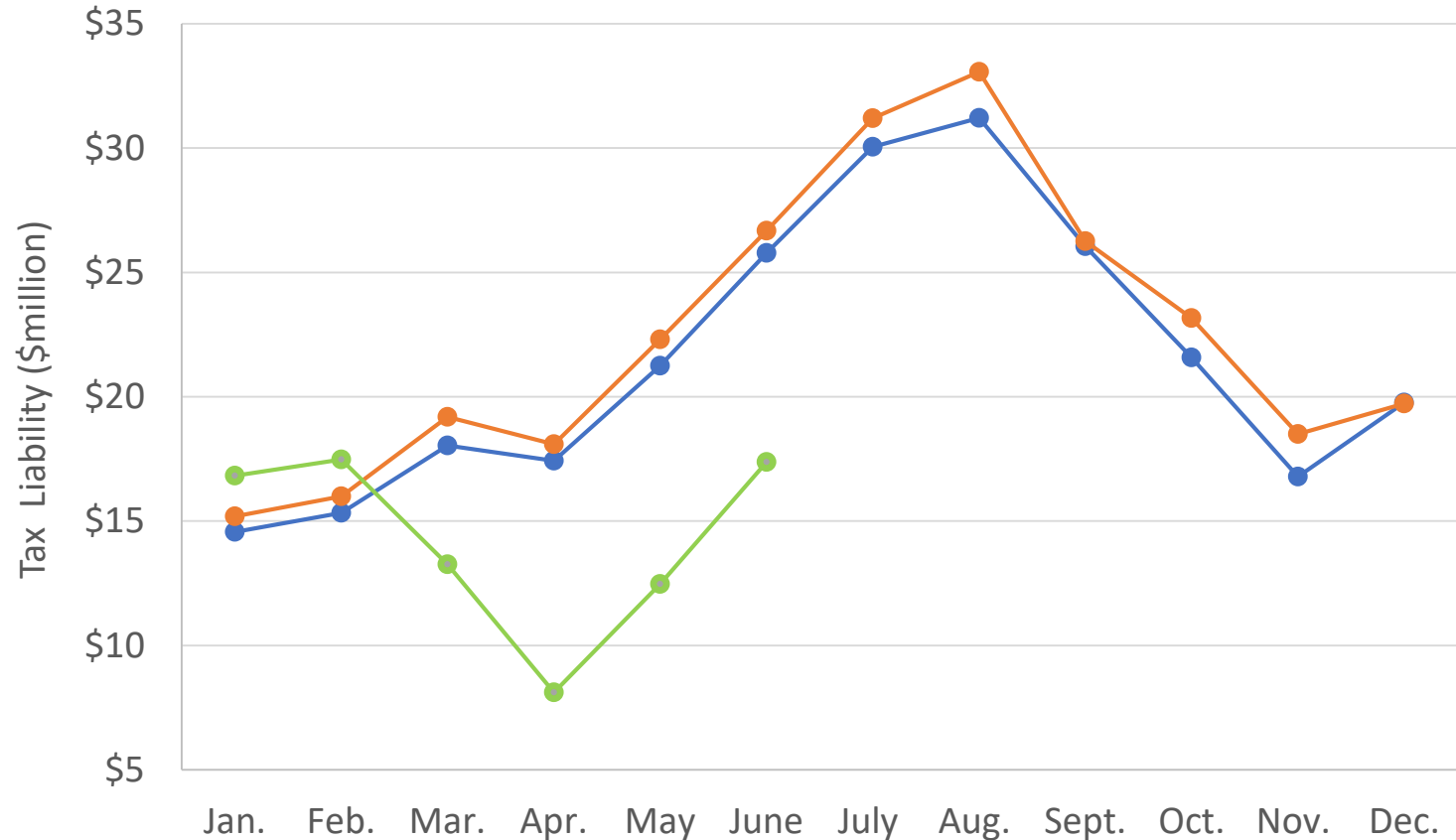


## YoY Growth, 2020

July 19 – Feb.20	Mar.	April	May	June	April – June
10.0%	-45.6%	-80.2%	-78.5%	-60.5% to -61.3%	-69.5% to -69.9%

# Prepared Foods Sales Tax

Includes sales at both restaurants and food stores



CY 2019 liability = \$269.4 million

Share of total CY 2019 sales & use tax = 17.5%

CY 2019 Share of Taxable Sales by Quarter:

1	18.7%
2	24.9%
3	33.6%
4	22.8%

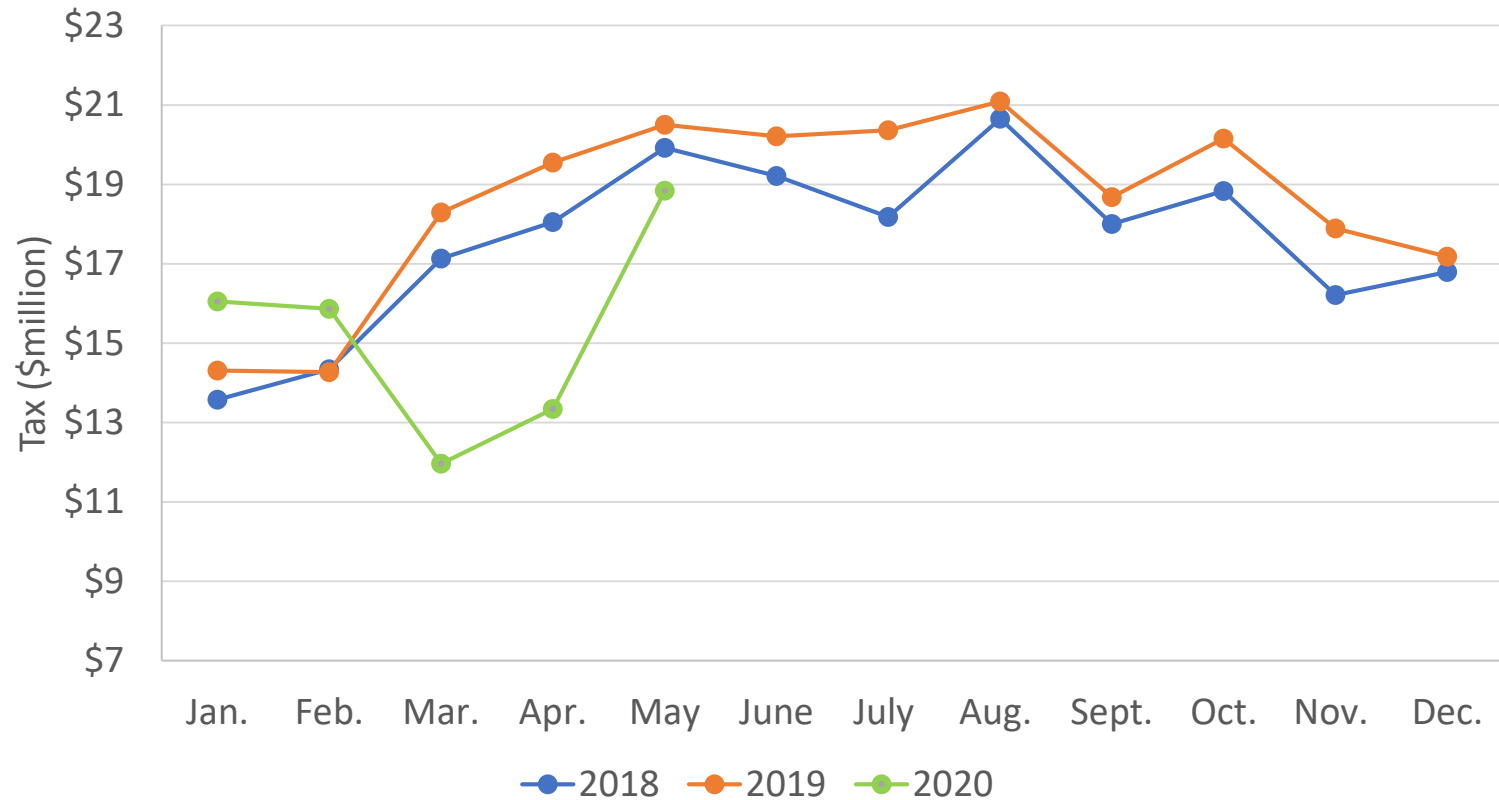
## YoY Growth, 2020

● 2018 ● 2019 ● 2020

July 19 – Feb.20	Mar.	April	May	June	April – June
5.4%	-30.9%	-55.2%	-44.1%	-35.9% to -33.9%	-43.8% to -43.0%

# Auto Dealer & Lease Sales Tax

Includes use tax paid on auto sales



CY 2019 liability = \$222.5 million

Share of total CY 2019 sales & use tax = 14.5%

CY 2019 Share of Taxable Sales by Quarter:

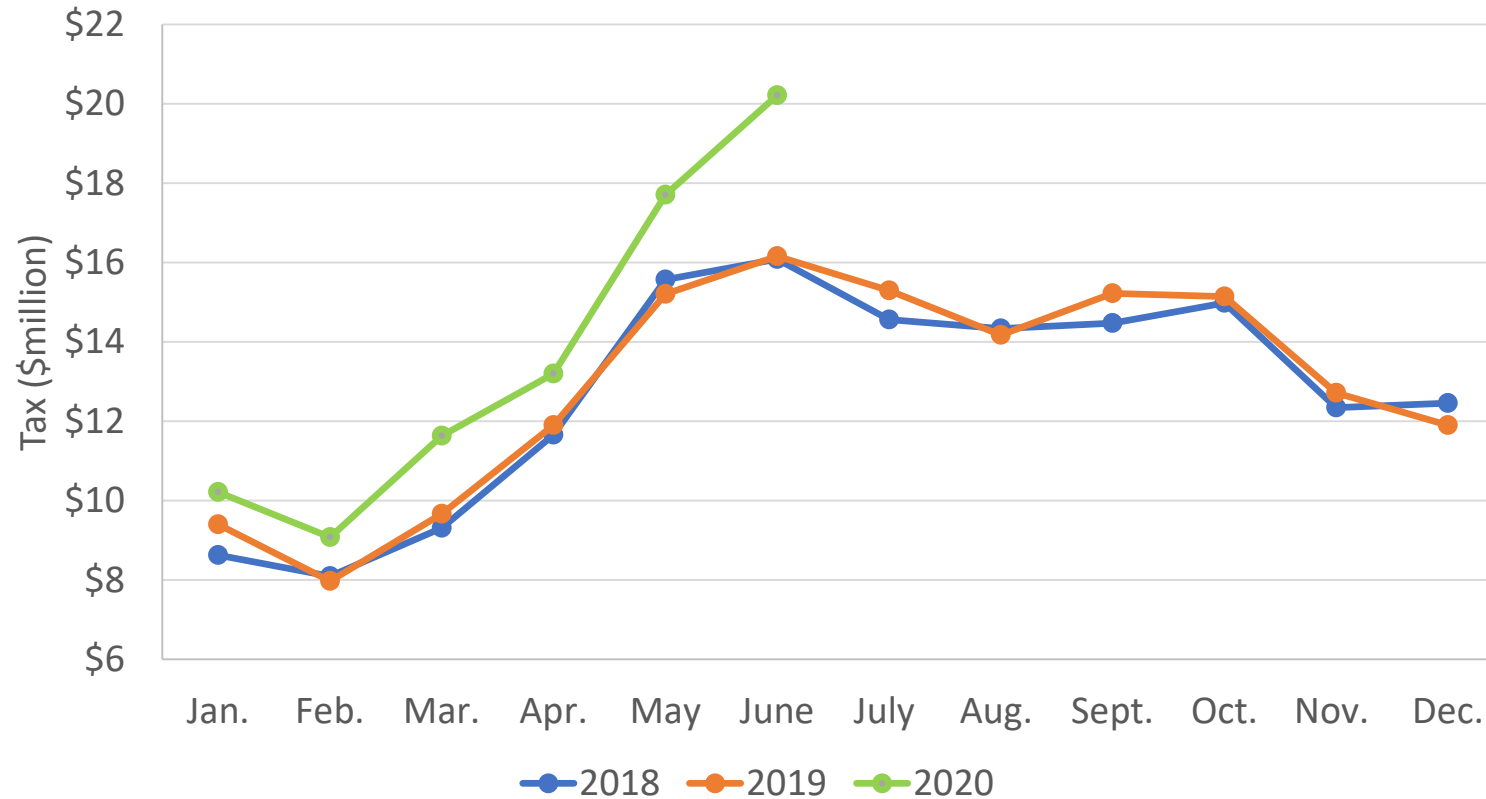
1	21.1%
2	27.1%
3	27.0%
4	24.8%

## YoY Growth, 2020

July 19 – Feb.20	Mar.	April	May
7.3%	-34.6%	-31.7%	-8.1%



# Building Supply Stores Sales Tax



CY 2019 liability = \$154.7 million

Share of total CY 2019 sales & use tax = 10.1%

CY 2019 Share of Taxable Sales by Quarter:

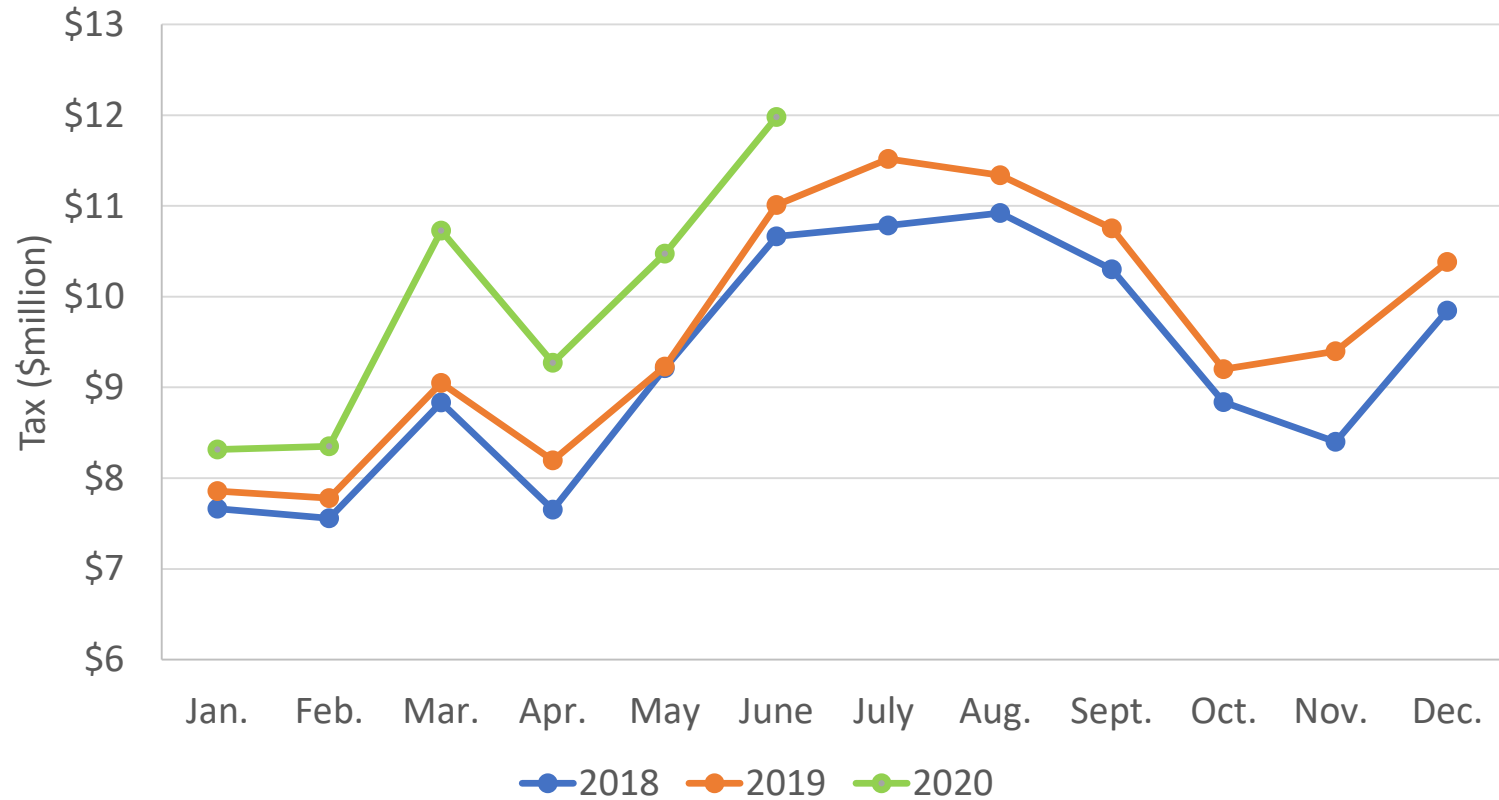
1	17.5%
2	28.0%
3	28.9%
4	25.7%

## YoY Growth, 2020

July 19 – Feb.20	Mar.	April	May	June	April – June
3.2%	20.4%	10.9%	16.4%	22.6% to 27.7%	17.2% to 19.1%

# Food Store Sales Tax

Sales taxed at 5.5% only



CY 2019 liability = \$115.7 million

Share of total CY 2019 sales & use tax = 7.5%

CY 2019 Share of Taxable Sales by Quarter:

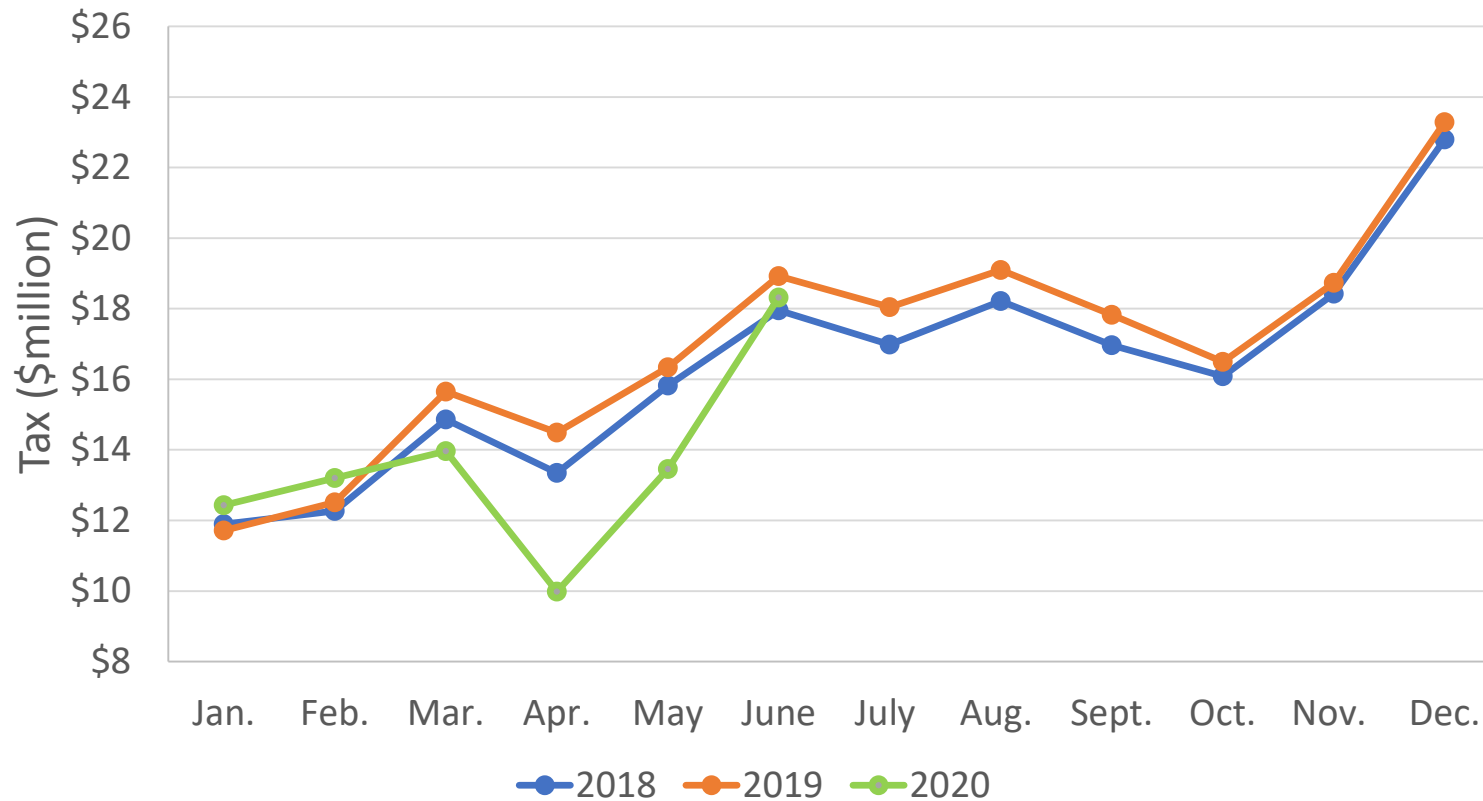
1	21.3%
2	24.6%
3	29.0%
4	25.0%

## YoY Growth, 2020

July 19 – Feb.20	Mar.	April	May	June	April – June
6.1%	18.6%	13.1%	13.5%	8.5% to 9.1%	11.5% to 11.7%

# General Merchandise Sales Tax

Sales taxed at 5.5% only



CY 2019 liability = \$203.1 million

Share of total CY 2019 sales & use tax = 13.2%

CY 2019 Share of Taxable Sales by Quarter:

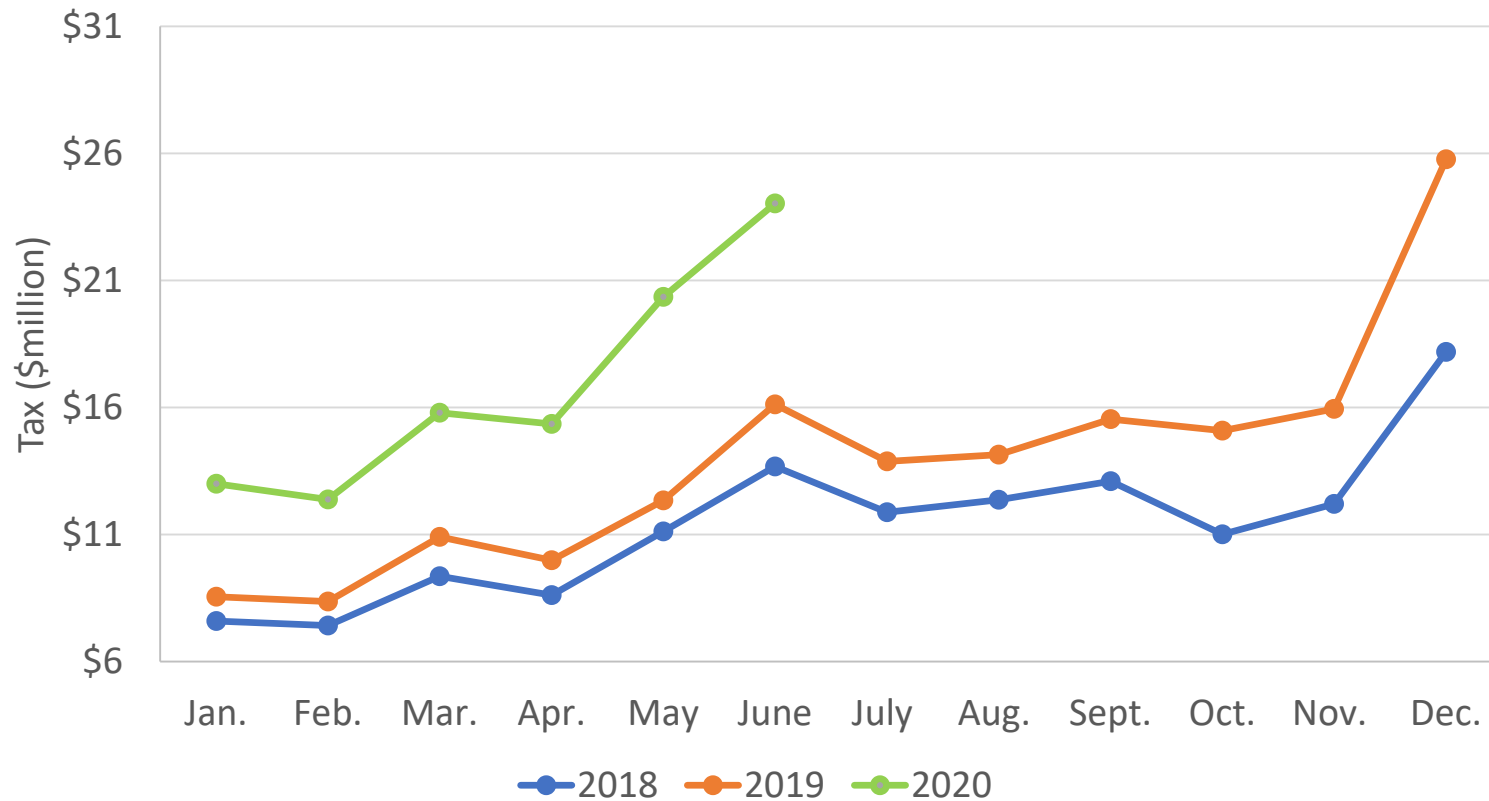
1	19.6%
2	24.5%
3	27.1%
4	28.8%

## YoY Growth, 2020

July 19 – Feb.20	Mar.	April	May	June	April – June
4.0%	-10.8%	-31.1%	-17.6%	-3.5% to -2.9%	-16% to 16.2%

# Other Retail

Sales taxed at 5.5% only



CY 2019 liability = \$166.7 million

Share of total CY 2019 sales & use tax = 10.8%

CY 2018 Share of Taxable Sales by Quarter:

1	17.8%
2	24.5%
3	27.4%
4	30.3%

## YoY Growth, 2020

July 19 – Feb.20	Mar.	April	May	June	April – June
31.5%	44.8%	53.7%	64.9%	48.4% to 49.7%	55.1% to 55.6%

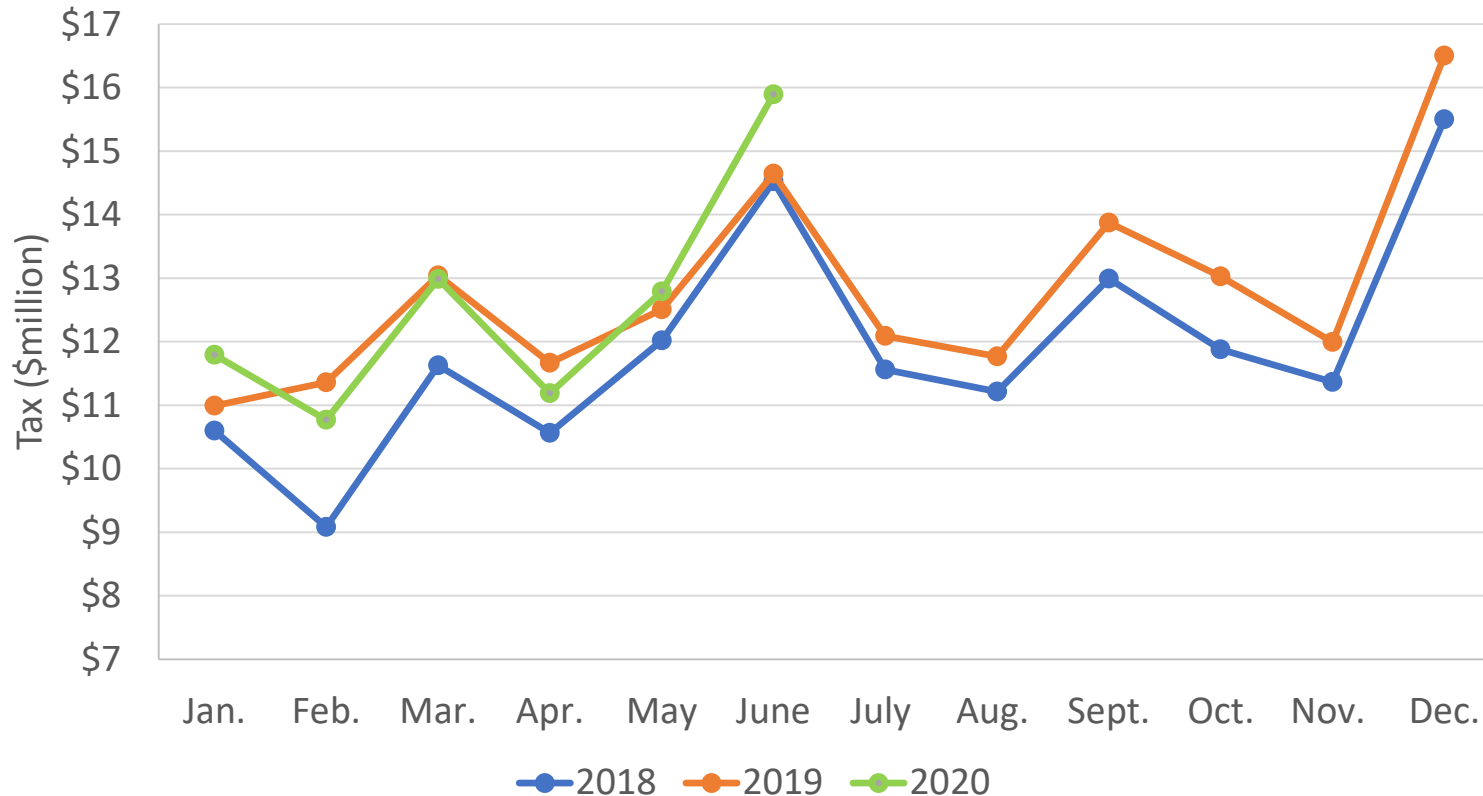
# Business Operations and Use Tax

Excludes individual use tax and use tax paid on auto, watercraft, and recreational vehicle sales

CY 2019 liability = \$153.5 million

Share of total CY 2019 sales & use tax = 10%

CY 2019 Share of Taxable Sales by Quarter:



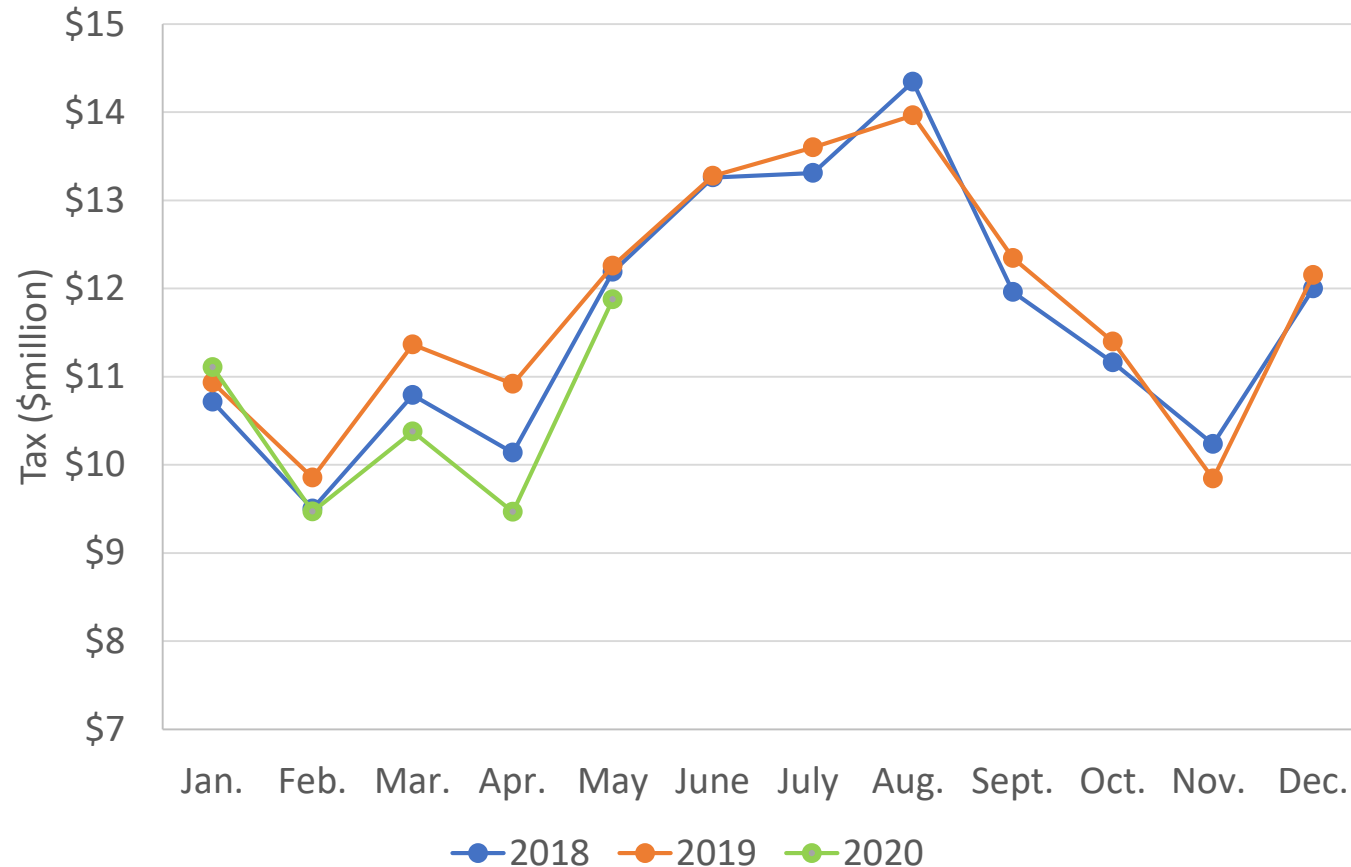
1	23.1%
2	25.3%
3	24.6%
4	27.1%

## YoY Growth, 2020

July 19 – Feb.20	Mar.	April	May	June	April – June
5.1%	-0.4%	-4.1%	2.3%	7.9% to 9.2%	2.5% to 3%

# Miscellaneous: All other 5.5% tax

utilities, auto except dealer & lease, restaurant & lodging 5.5%



CY 2019 liability = \$141.9 million

Share of total CY 2019 sales & use tax = 9.2%

CY 2019 Share of Taxable Sales by Quarter:

1	22.7%
2	25.7%
3	28.1%
4	23.5%

## YoY Growth, 2020

July 19 – Feb.20	Mar.	April	May
0.1%	-8.7%	-13.3%	-3.1%

# Individual Income Tax

# Individual Income Tax: Annual Growth and Forecast Revision

Fiscal Year	Actual	March Forecast	July Forecast	Revision (\$million)	Revision %
2017-18	6.5%				
2018-19	5.6%				
2019-20*	7.9%	7.6%		\$25.7	
2020-21		4.8%	-13.5%	-\$260.3	-14.1%
2021-22		4.6%	3.4%	-\$283.3	-14.7%
2022-23		4.0%	2.8%	-\$317.5	-15.8%

\*Without 1040 estimated and final payment accruals FY 20 growth would have been -14.1% and FY 21 growth would be forecast to be 17%.



# Individual Income Tax: Main Points

- Timing issues related to filing and payment deadline delays and accruals of delayed payments increase FY 2020 revenue and reduce FY 2021 revenue.
- The evolution of wage income and unemployment insurance compensation are key to understanding why the downward forecast revision grows over time.
- Business income and capital gains contribute to the downward revisions. The relatively strong stock market performance YTD and the effect of the PPP on business income reduce the magnitude of these forecast revisions compared to what otherwise may be expected given economic conditions.
- A decline in IRA distributions due to the suspension of required minimum distributions in 2020 reduces FY 2021 revenue.

# Individual Income Tax: FY 20/21 Timing Issues

- Deadline for 1<sup>st</sup> and 2<sup>nd</sup> estimated payment for 2020 moved from FY 2020 to 7/15/21.
- Deadline for 2019 final payment moved from 4/15/2020 to 7/15/21.
- Accruals zeroed out the variance in final and estimated payments in FY 2020. These FY 2020 accruals were reversed in July.

# July 2020 Variance Due to Timing/Accruals

(\$million)

	FY 2020 Accrual	July revenue if no extension (budget)	July collections, estimate*	July variance due to timing, estimate**
Estimated Payments	\$67.5	\$7.3	\$60	-\$13.3
Final Payments	\$190.5	\$9	\$167	-\$31
Refunds		-\$8.9	-\$24.9	-\$16
Fiduciary		\$.3	\$7.1	\$6.8
Total				-\$53.5

July variance due to timing = July 2020 variance that would have been recognized in FY 20 if payment and filing deadlines were unchanged.

\*Actual through 7/24 plus an estimate of revenue in last week of July.

\*\*Assumes July 2020 final and estimated payments w/o timing issues would equal budgeted collections multiplied by ratio of July collections to the accrual + July budgeted collections.

# Individual Income Tax: Withholding

(\$million)

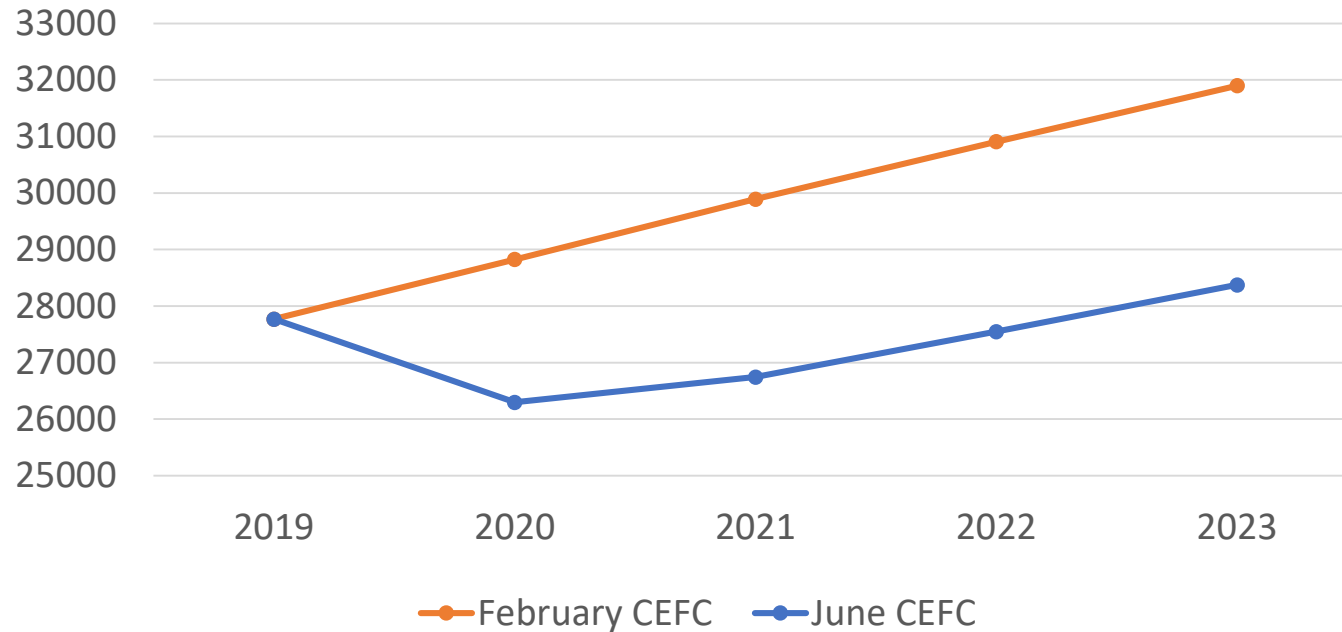
	FY 2019	FY 2020	Growth
July - February	\$953.3	\$1,010.8	6.0%
March	\$118.5	\$130.8	10.4%
April	\$121.6	\$123.7	1.7%
May	\$129.1	\$130.4	1.1%
June	\$104.7	\$118.6	13.3%
April – June*	\$355.4	\$372.8	4.9%
Fiscal year total	\$1,427.2	\$1,514.4	6.1%

\*Without unemployment insurance withholding, April - June withholding growth would have been approximately -2.4%.

FY 2020 withholding was \$11.6 million over budget.

# Individual Income Tax: Resident 1040 Wages

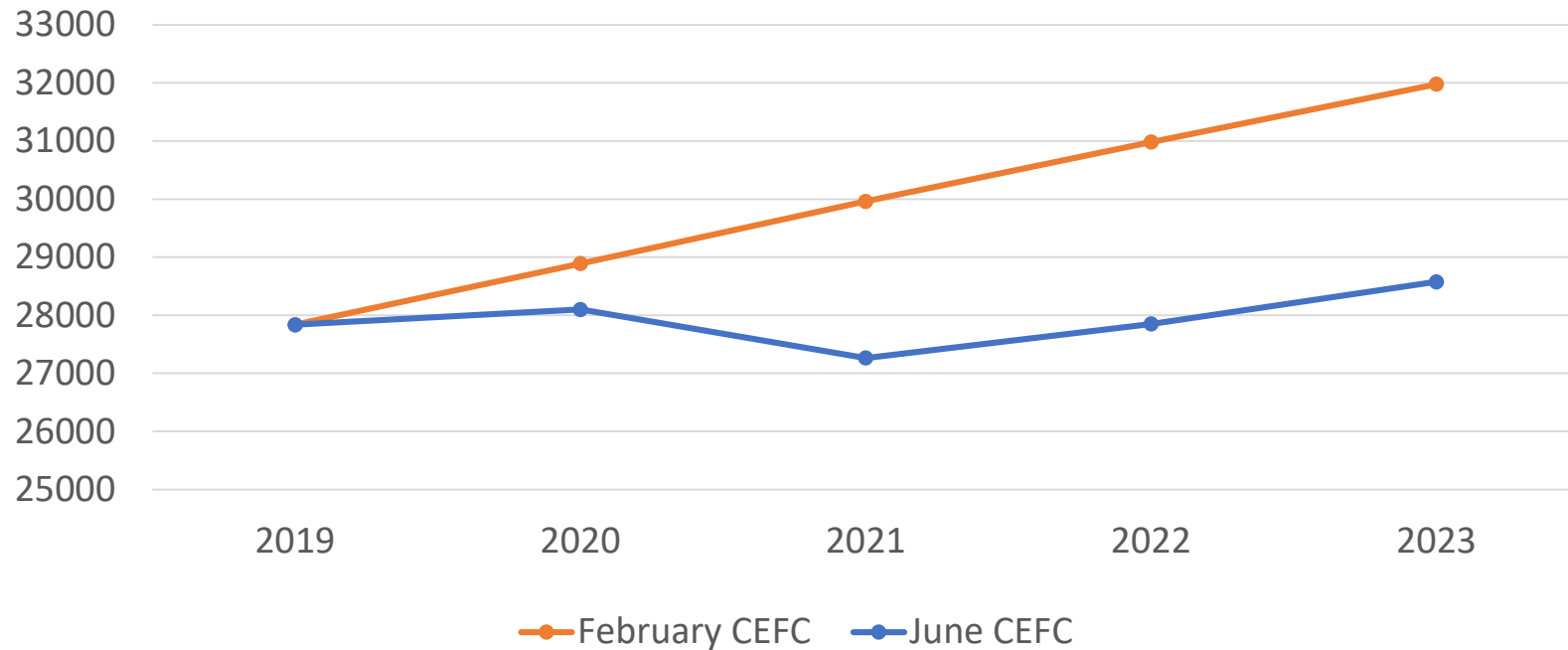
(\$million)



	2020	2021	2022	2023
February CEFC, annual change	4.1%	3.7%	3.4%	3.2%
June CEFC, annual change	-5%	2%	3%	3%
June wages relative to Feb.	-8.7%	-10.2%	-10.5%	-10.7%

# Individual Income Tax: Resident 1040 Wages + Unemployment Insurance Income

(\$million)



	2020	2021	2022	2023
June wages relative to Feb.	-8.7%	-10.2%	-10.5%	-10.7%
June wages + UI relative to Feb.	-2.7%	-9%	-10.1%	-10.6%
Unemployment rate forecast	8%	5.7%	4.3%	3.7%

# Individual income tax: Business Income

Nonfarm Proprietor's Income	2020	2021	2022	2023
February CEFC, annual change	3%	3.2%	3.3%	2.5%
June CEFC, annual change	-3%	3.2%	3.3%	2.5%
June income relative to Feb.	-6.3%	-6.3%	-6.3%	-6.3%

Risk: Loss carryforwards could depress business income growth as the economy recover.

Sole proprietor and pass-through income grow slower relative to nonfarm proprietor's income than the last forecast due to loss carryforwards and concern that S-Corp income growth could be particularly depressed given CEFC forecast of corporate profits.

# Individual Income Tax: Distribution of PPP Loans in Maine

(\$million)

Entity Type	Loan Amount
Corporation	\$715.4
S-Corp	\$632.1
LLC	\$433.0
Partnership	\$49.2
Sole Prop/self-employed/independent contractor	\$99.8
Nonprofit	\$290.2
Other	\$22.5
Total	\$2,242.1

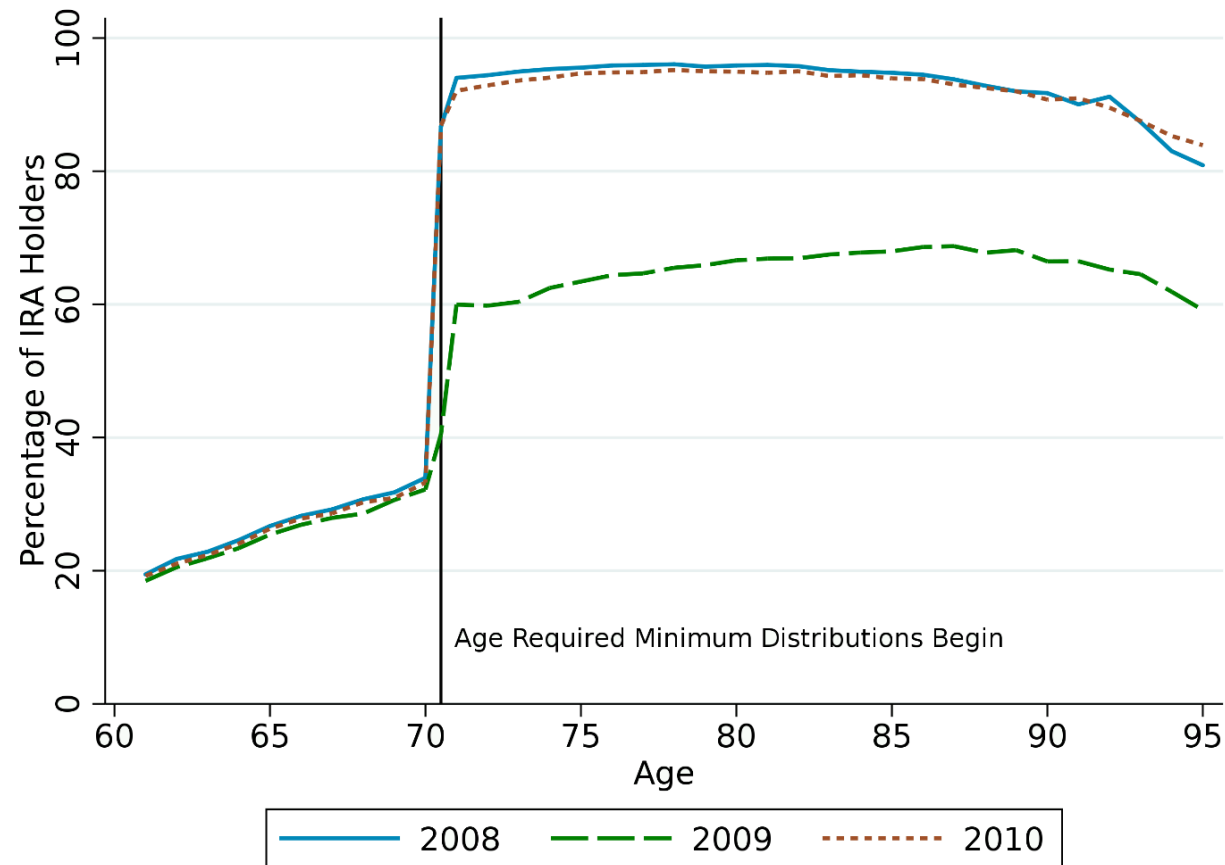


# Individual income tax: Capital Gains

	2020	2021	2022	2023
Annual growth:				
March RFC	-1.9%	-5.5%	-3.2%	-1.3%
July RFC	-13.1%	-10%	3.2%	3.6%
Current forecast relative to March forecast	-11.4%	-15.6%	-9.9%	-5.3%
Revision to liability (\$million), residents	-\$22.3	-\$26.7	-\$15.9	-\$8.1

# Individual Income Tax: IRA Distributions

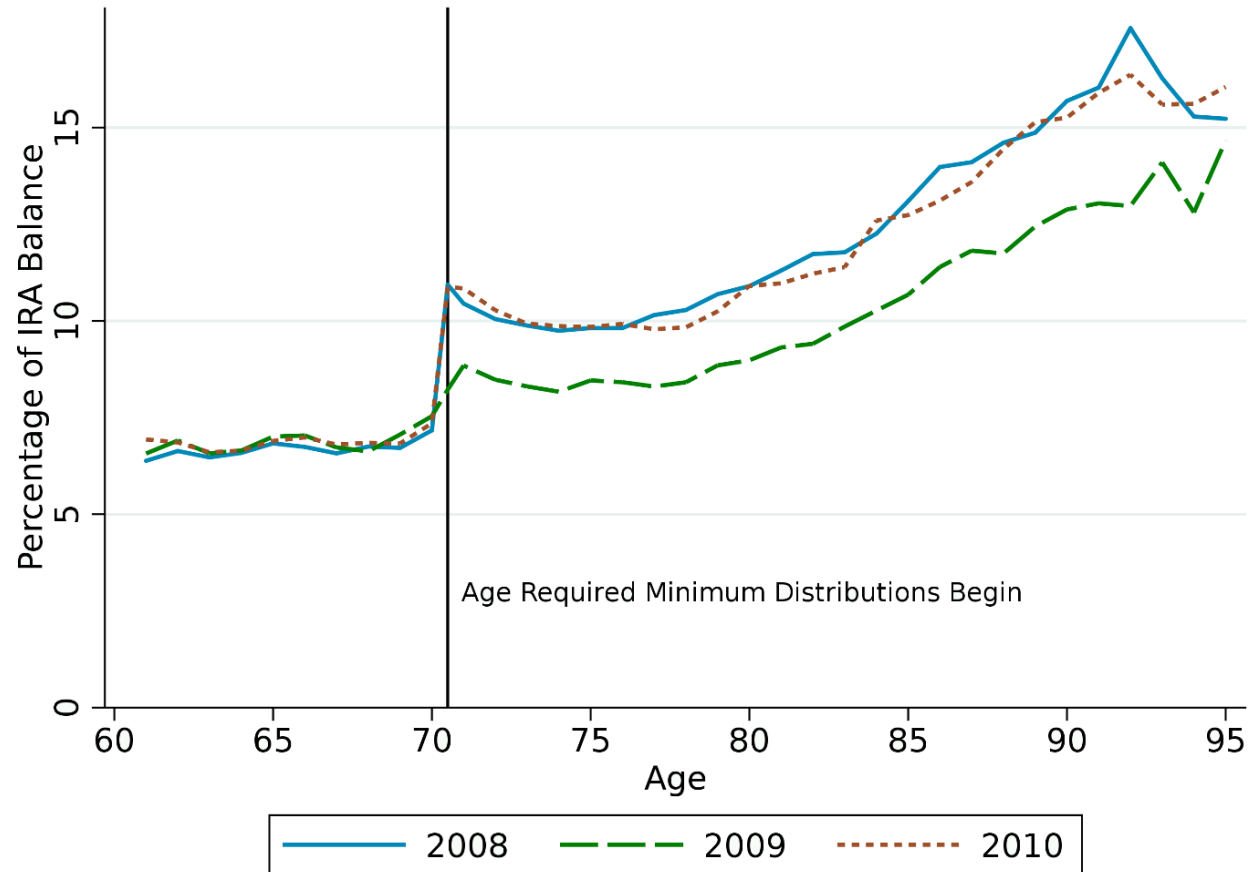
## Percentage of IRA Holders Taking Withdrawals by Age



Source: Joint Committee on Taxation, "Estimating the Effects of the Required Minimum Distribution Rules on Withdrawals From Individual Retirement Arrangements," JCX-5-2019, February 22, 2018. Figure 4.

# Individual Income Tax: IRA Distributions

## Size of IRA Withdrawals by Age



Source: Joint Committee on Taxation, "Estimating the Effects of the Required Minimum Distribution Rules on Withdrawals From Individual Retirement Arrangements," JCX-5-2019, February 22, 2018. Figure 5.

# Individual Income Tax: Miscellaneous

- Opportunity Maine
- Nonresidents
- Fiduciary

# Corporate Income Tax

# Corporate Income Tax: Annual Growth and Forecast Revision

Fiscal Year	Actual	March Baseline	July Forecast	Revision (\$million)	Revision %
2017-18	6.0%				
2018-19	36.1%				
2019-20	-14.5%	-14.1%			
2020-21		-2.6%	-18.2%	-\$34.67	-16.4%
2021-22		.1%	4.0%	-\$27.82	-13.1%
2022-23		1.5%	4.1%	-\$23.56	-11.0%

# Other Taxes

Real estate transfer tax  
Cigarette, Tobacco, and Marijuana Excise Taxes  
Service Provider Tax  
Estate Tax  
Insurance Premiums

# Real estate transfer tax

- Positive FY 20 variance of \$2.6 million >100% explained by abnormally high revenue from transfer of controlling interest
- Downward revision caused by CEFC downward revision of homes sales and median home price forecasts

## Revision to General Fund RETT, Fiscal Year

2021	2022	2023
-\$1,600,000	-\$1,125,000	-\$525,000



# Estate Tax

## Revision to Estate Tax Forecast, Fiscal Year

2021	2022	2023
\$250,000	\$1,500,000	\$1,800,000

- Lower inflation forecast reduces the indexed exemption and increases revenue.

# Cigarette, Tobacco, and Marijuana Excise Taxes

- FY 20 negative variances for both cigarette (-\$800k) and tobacco taxes (-\$1.3 million) result in negative adjustment to forecast. Tobacco products tax revision  $\approx$  -\$2.4 million per year.
- FY 21 marijuana excise tax revenue: downward revision of \$1.65 million due to delayed rollout; forecast unchanged after FY 21.

# Service Provider Tax

- Positive FY 20 variance of \$1 million
- Increase forecast years by \$1 million

# BETE and BETR

- BETR
  - Positive variance of \$1.6 million in FY 20
  - Increase estimate (smaller refunds) by same amount going forward
- BETE
  - Positive variance of \$560,000 in FY 21
  - Upward revision (smaller BETE transfer) of \$500,00 in FY 21 and \$1 million in FY 22 and 23

# Insurance Premiums

	2020	2021	2022	2023
<b>Insurance Premiums Tax (901)</b>				
March Baseline	\$73,090,500	\$78,950,000	\$82,800,000	\$83,250,000
Variance	\$4,905,432	\$350,000	\$350,000	\$350,000
July Forecast	\$77,995,932	\$79,300,000	\$83,150,000	\$83,600,000

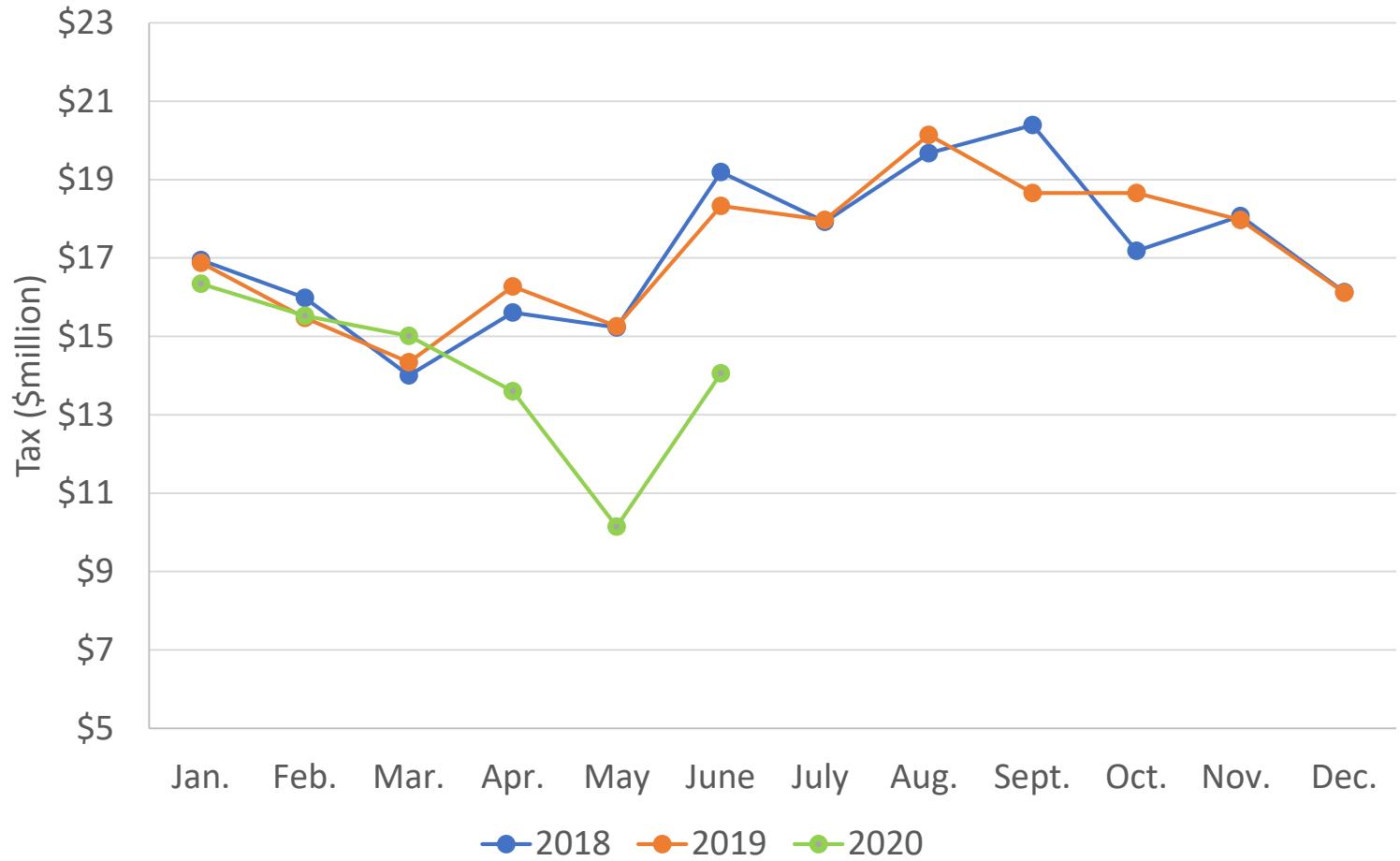
- Baseline growth attributable to reduction in refundable credits claimed against premiums tax.
- Assuming TY 20 liability gross of refundable credits falls 2% and that most of the first two 2020 estimated payments are based on TY 2019 liability.
- Also revising unauthorized insurance companies tax up by \$50,000/year.

# Motor Fuels Taxes

# Gas Tax

Fiscal Year	Actual	March Forecast	July Forecast	Revision (\$million)	Revision %
2017-18	2.4%				
2018-19	-.2%				
2019-20	-5.7%	1.3%		-\$14.4	-6.9%
2020-21		1%	-6.3%	-\$28.6	-13.6%
2021-22		1%	10.1%	-\$12.3	-5.8%
2022-23		1%	.9%	-\$12.6	-5.9%

# Gas Tax



YoY Revenue Growth	
July 19 – March 20	.2%
April 20	-16.5%
May 20	-33.5%
June 20 (w/o accruals)	-22.4%



# Special Fuels

Fiscal Year	Actual	March Forecast	July Forecast	Revision (\$million)	Revision %
2017-18	-14.3%				
2018-19	14.9%				
2019-20	-4.4%	2.5%			-6.7%
2020-21		1%	-1%	-\$4.4	-8.6%
2021-22		1%	2.2%	-\$3.9	-7.5%
2022-23		1%	1.8%	-\$3.6	-6.8%