

MRS Office of Tax Policy
Presentation for May 2023
Revenue Forecast

Sales & Use Tax and Service Provider Tax

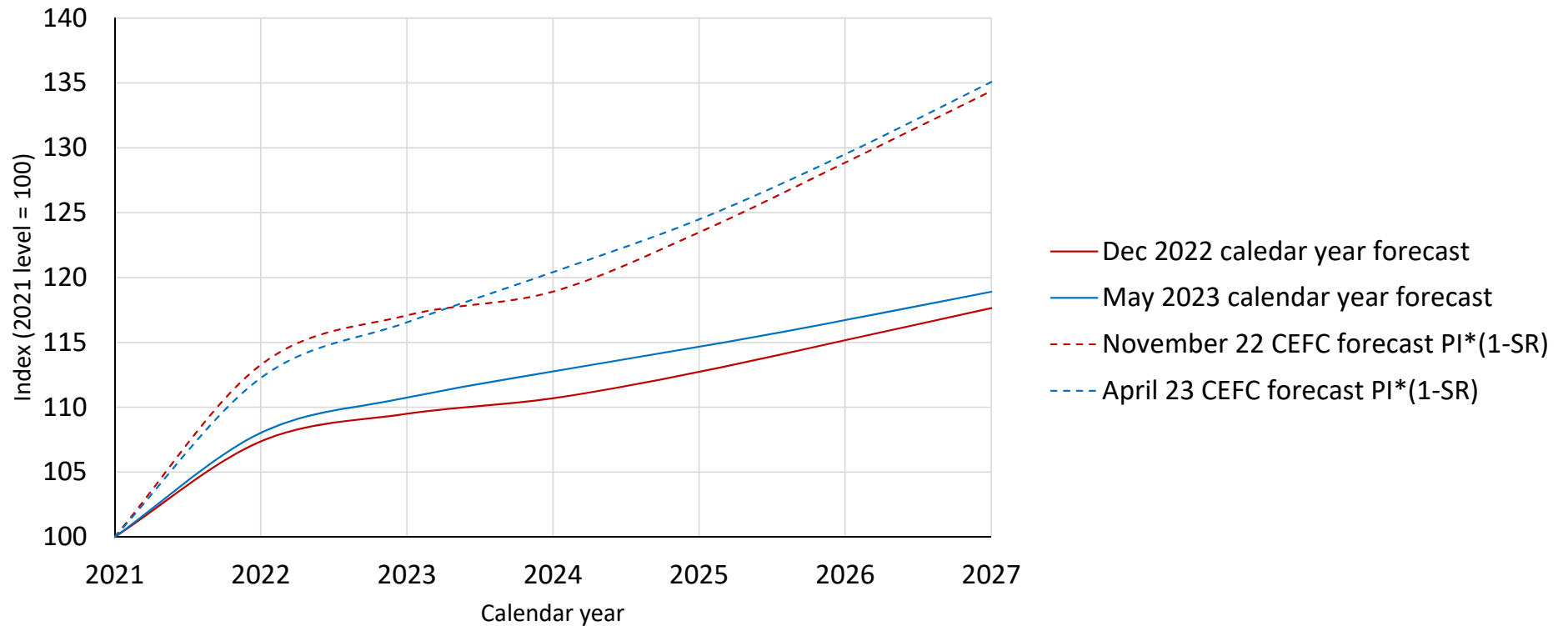
Sales Tax History and Forecast

\$million

Fiscal Year	Actual and Recommended Forecast	Annual Growth	Revision to current forecast (\$)	Revision to current forecast (%)
2019	\$1,503.8	5.6%		
2020	\$1,555.7	3.5%		
2021	\$1,804.2	16.0%		
2022	\$2,078.9	15.2%		
2023	\$2,166.7	4.2%	\$31.6	1.5%
2024	\$2,190.0	1.1%	\$29.1	1.3%
2025	\$2,237.1	2.2%	\$48.8	2.2%
2026	\$2,274.0	1.6%	\$33.6	1.5%
2027	\$2,320.7	2.1%	\$28.6	1.2%

- Main source of revision: previous forecast had 2.7% growth in FY 2023

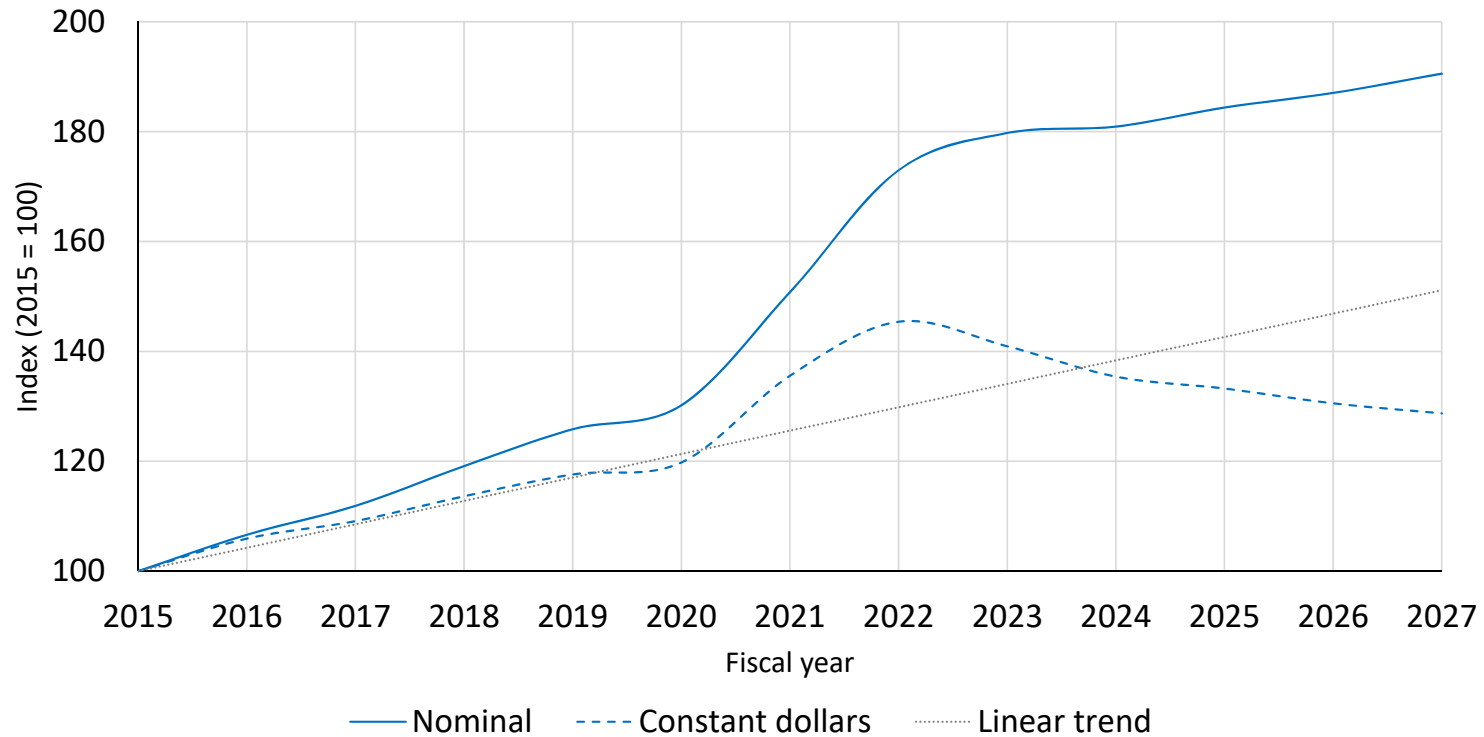
Forecast Revenue and Consumer Spending



- New CEFC forecast implies more steady growth in consumer spending
- Better-than-expected 2022Q4 and 2023Q1 revenue puts new revenue forecast consistently above previous forecast

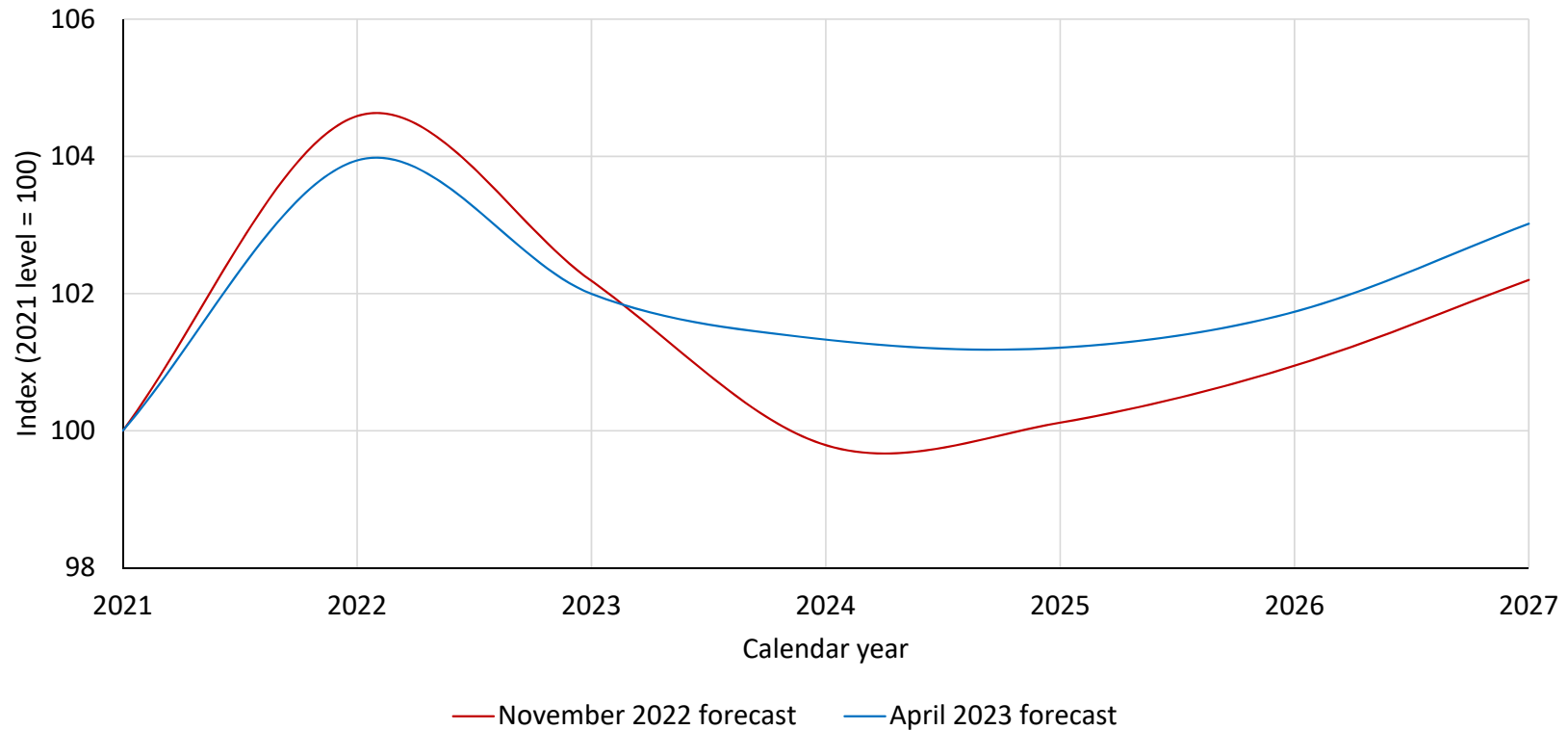
Sales & Use Tax Revenue by Fiscal Year

Actual and May 2023 forecast recommendations (2015=100)



- 5.7% average annual growth in nominal revenue FY 2015 – 2027
- 2.2% average annual growth in nominal revenue FY 2022 – 2027

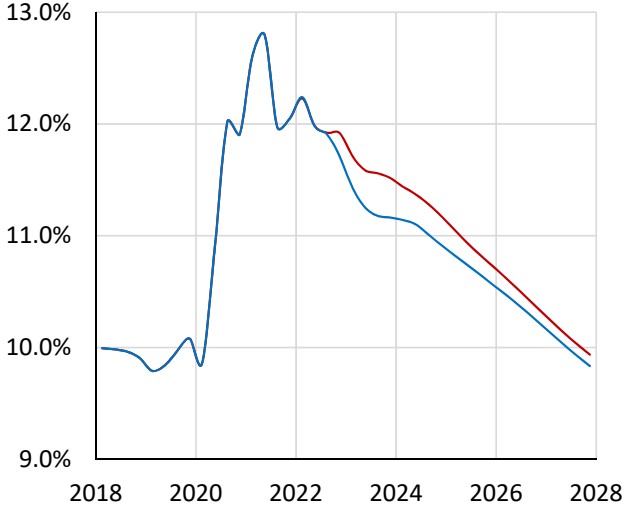
CEFC forecast—Real consumer spending by calendar year



- Real consumer spending declines until 2025, then rises through 2027

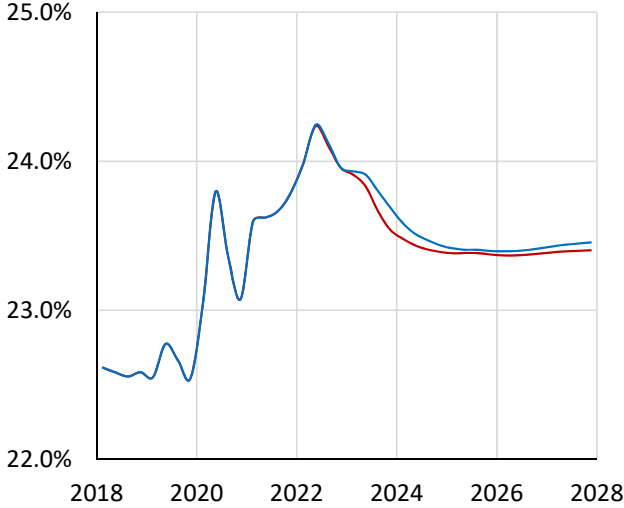
PCE Composition – Moody’s baseline forecast

Durable goods



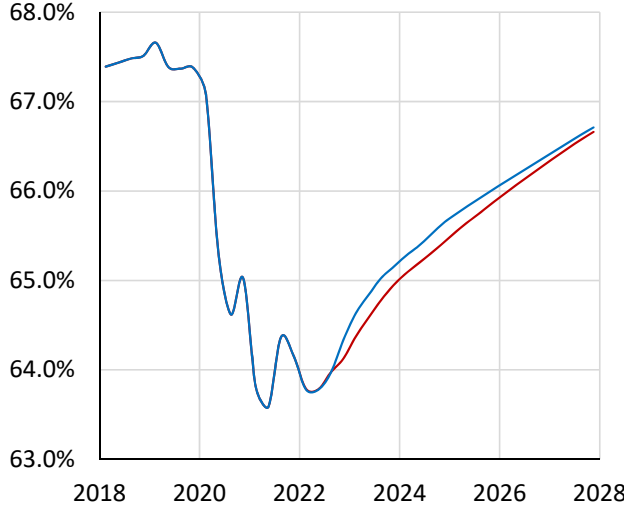
— October 2022 forecast
— February 2023 forecast

Nondurable goods



— October 2022 forecast
— February 2023 forecast

Services



— October 2022 forecast
— February 2023 forecast

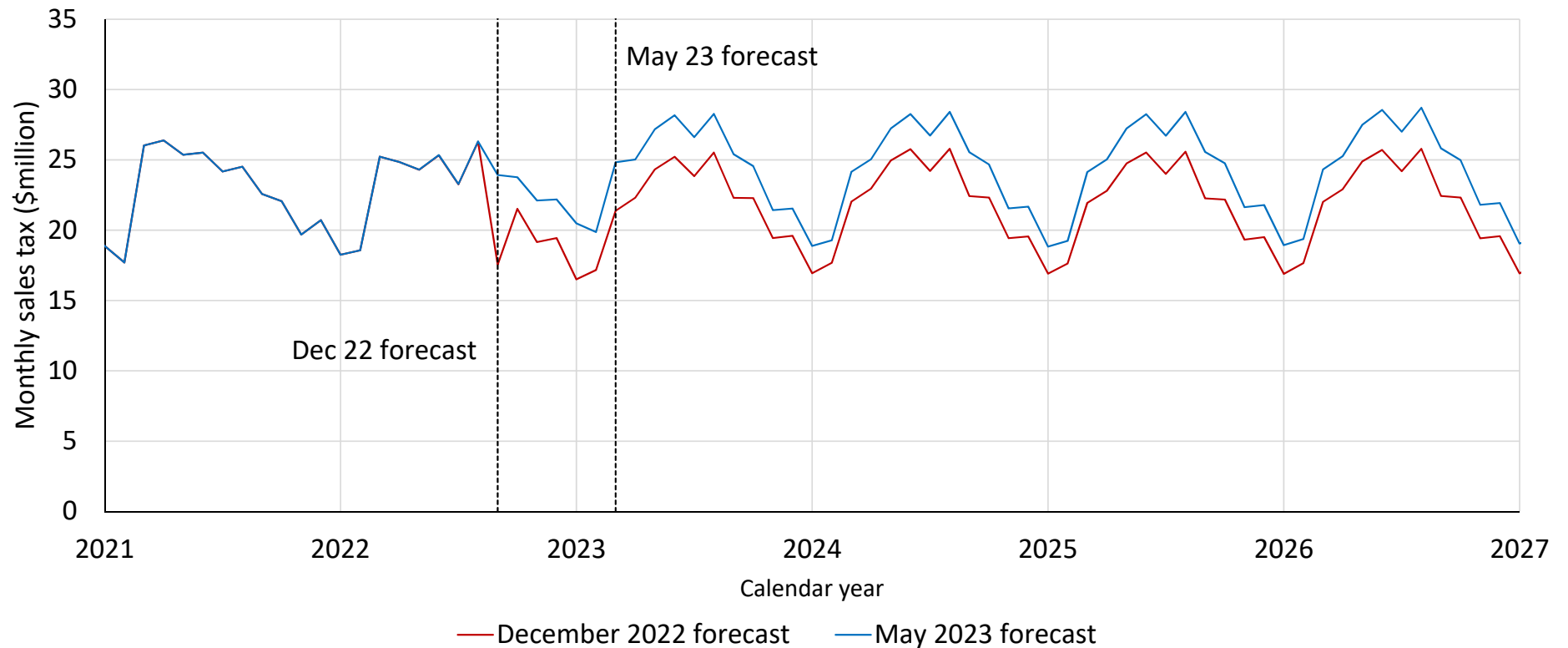
- Continuing shift from goods to services causes real sales tax revenue to keep declining despite recovery in total real spending

Source of Forecast Adjustments

\$million
(%)

	2023	2024	2025	2026	2027
Non-auto 5.5% Sales	\$0.6 (0.0%)	\$0.9 (0.1%)	\$12.5 (0.9%)	\$10.8 (0.8%)	\$13.1 (0.9%)
Auto Sales 5.5%	\$30.1 (11.8%)	\$27.8 (0.6%)	\$27.8 (10.6%)	\$29.8 (11.3%)	\$30.8 (11.7%)
Lodging 9%	\$4.3 (2.7%)	\$6.8 (4.2%)	\$5.0 (3.0%)	-\$4.8 (-2.7%)	-\$15.9 (-8.1%)
Prepared Food 8%	-\$7.5 (-2.2%)	-\$9.2 (-2.7%)	-\$0.6 (-0.2%)	-\$0.3 (-0.1%)	\$0.9 (0.3%)
Short-term auto rental 10%	-\$0.6 (-3.3%)	-\$0.6 (-3.5%)	-\$0.6 (-3.4%)	-\$0.7 (-4.2%)	-\$0.6 (-3.6%)
Adult use cannabis 10%	-\$1.1 (-5.5%)	\$0.2 (0.8%)	\$0.1 (0.4%)	\$0.5 (1.3%)	\$1.2 (2.8%)

Auto Sales Tax Forecast



- Predicted drop in 2022Q4 did not happen
- Projecting slow growth through FY 2027 (average annual growth 0.9%)

Service Provider Tax History and Forecast

\$million

Fiscal Year	Actual and Recommended Forecast	Annual Growth	Revision to current forecast (\$)	Revision to current forecast (%)
2019	\$59.0	-1.0%		
2020	\$58.0	-1.7%		
2021	\$51.4	-11.5%		
2022	\$51.6	0.4%		
2023	\$52.1	1.0%	\$2.01	4.0%
2024	\$49.2	-5.5%	\$0.36	0.7%
2025	\$47.7	-3.0%	\$0.40	0.8%
2026	\$46.3	-3.0%	\$0.52	1.1%
2027	\$44.9	-3.1%	\$0.64	1.1%

- One-time additions in FY 2023
- Long-run decline slower than the previous forecast

Individual Income Tax

Individual Income Tax History and Forecast

\$million

Fiscal Year	Actual and Recommended Forecast	Annual Growth	Revision to current forecast (\$)	Revision to current forecast (%)
2019	\$1,701.0	6.6%		
2020	\$1,836.0	7.9%		
2021	\$2,069.7	12.7%		
2022	\$2,580.7	24.7%		
2023	\$2,430.7	-5.8%	\$137.5	6.0%
2024	\$2,395.4	-1.5%	\$3.5	0.1%
2025	\$2,483.9	3.7%	\$0.0	0.0%
2026	\$2,654.0	6.8%	\$9.0	0.3%
2027	\$3,044.5	14.7%	-\$30.5	-1.0%

Individual Income Tax Main Points

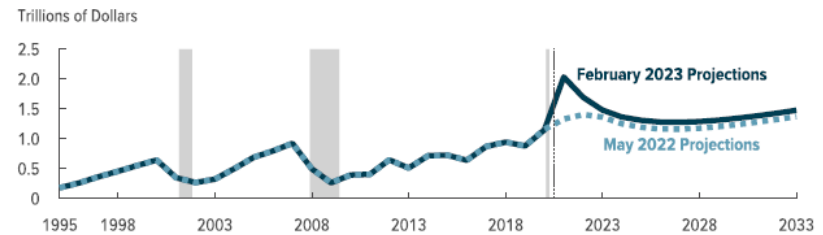
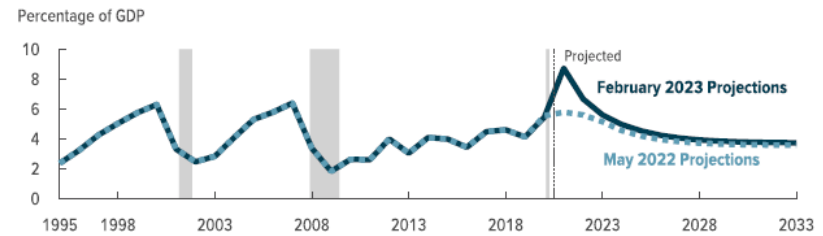
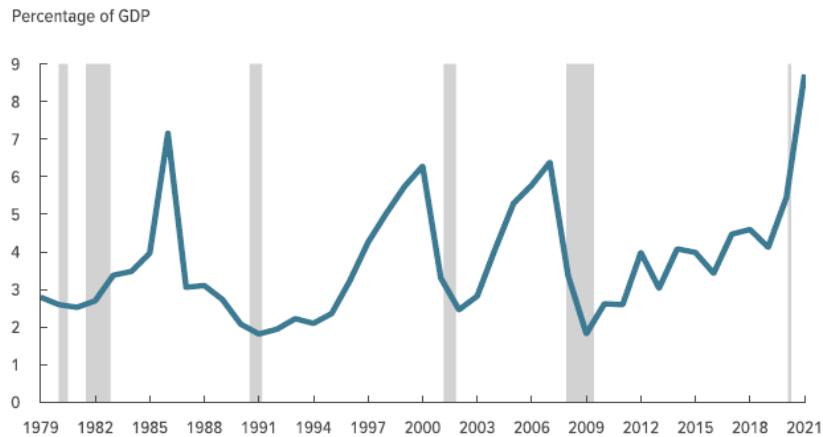
- The new forecast assumes 2022 tax liability is \$73 million higher than the prior forecast.
- Excluding one-time events, most of the recommended revision to the forecast is attributable to capital gains.
 - \$68 million increase in resident capital gains liability in tax year 2022.
 - The upward adjustment declines over time, and, by the end of the forecast period, capital gains is close to the prior forecast.
 - The revisions are based on 2022 E-File returns and a new CBO capital gains forecast.
- Unexpected one-time revenue contributes approximately \$52 million to the FY 2023 recommended adjustment.
 - Not ongoing revenue
- Growth rates for the most relevant variables in 2023 and later were unchanged in the new CEFC forecast.
- The main risks are the forecasts of volatile income sources, such as capital gains and business income, and nonresident tax liability, all of which have been far above trend.

Individual Income Tax FY 2023 Revenue Variance

- Individual and fiduciary revenue exceeded the forecast by \$138.4 million through March
- Projected variance at end of April is \$122 - \$137 million
 - \$14.4 million related to tax years before 2022
 - \$55 - \$70 million primarily related to tax year 2022 liability
 - \$52 million related to one-time revenue from tax year 2023
 - \$3.5 million from tax year 2023 excluding one-time revenue events
 - -\$4 million from fiduciary tax
 - THESE FIGURES INCLUDE ESTIMATES OF THE DEPOSITS AND REFUNDS FOR THE LAST TWO DAYS OF APRIL AND THE ACTUAL VARIANCE MAY BE DIFFERENT

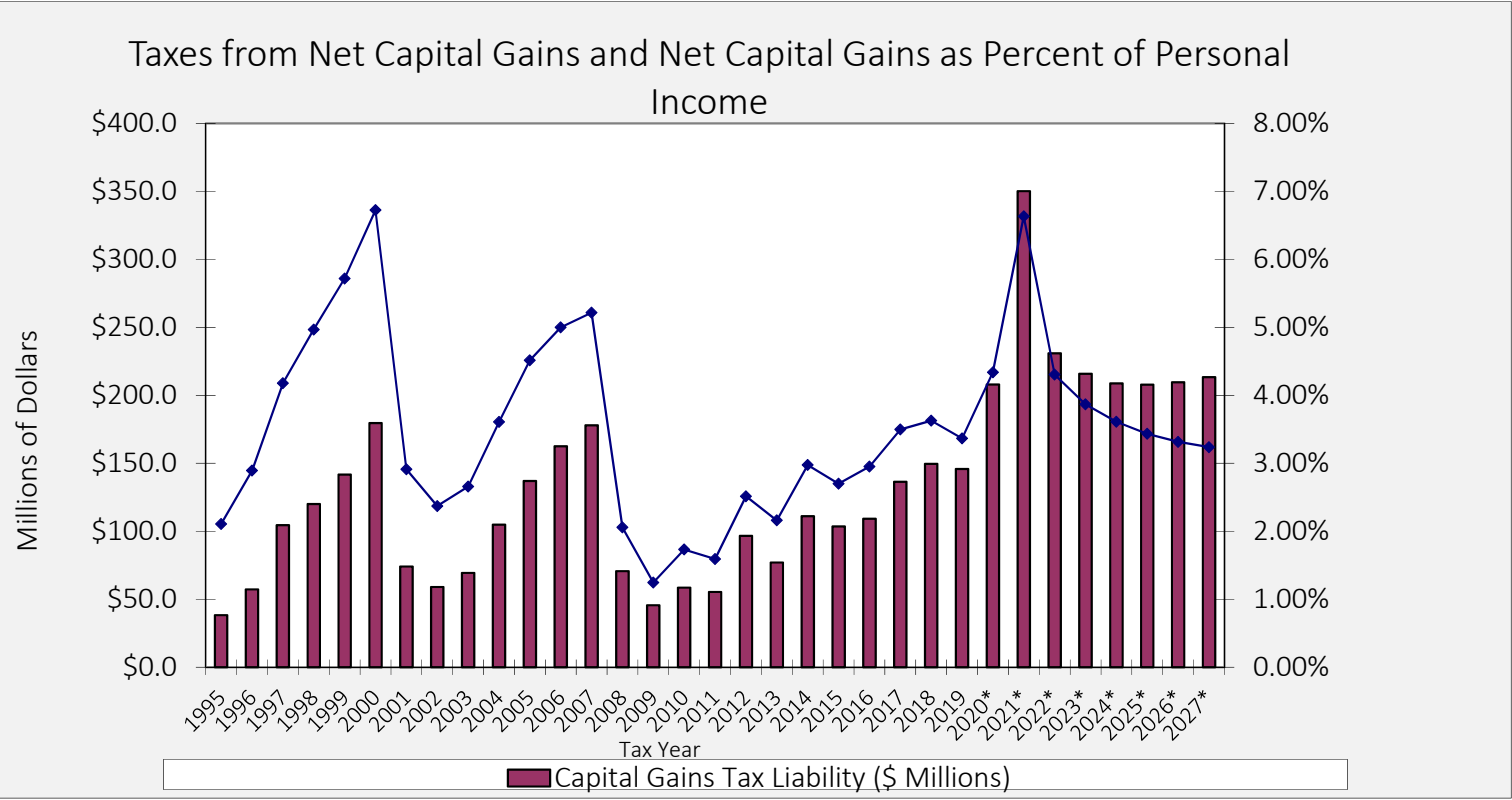
Capital Gains: National Data and Projections from the Congressional Budget Office

Realized Capital Gains as a Percentage of GDP



From the presentation "CBO's Projections of Realized Capital Gains Subject to the Individual Income Tax", February 2023. Available at: https://www.cbo.gov/system/files/2023-02/58914_capital_gains.pdf

Maine Capital Gains History and Forecast



Change in resident capital gains tax liability, \$million*

Tax Year	Change in resident capital gains tax liability, \$million*
2022	\$68.1
2023	\$45.0
2024	\$28.4
2025	\$19.0
2026	\$11.4
2027	\$6.6

*This amount refers to the revision in the capital gains liability forecast that was presented at the last revenue forecasting meeting. However, the prior revenue forecast was unintentionally based on a different capital gains forecast with higher gains in 2024 and later. The new revenue forecast corrects this error.

Refundable Credit Forecast Adjustments

- Student Loan Repayment Credit
 - Reduce tax year 2022 credit forecast by \$14 million based on returns to date.
 - Forecast after 2022 unchanged
 - Two large forecast risks
 - The timing and composition of federal student payment relief and its effect on Maine student loan payments is uncertain.
 - Take up rate
- Property Tax Fairness Credit
 - Major expansion in tax year 2022
 - Increase credit forecast by \$8 million in TY 2022 and \$8 - \$11 million per year afterwards
 - Open question whether the increase in 2021 filing related to \$850 relief checks will be permanent.

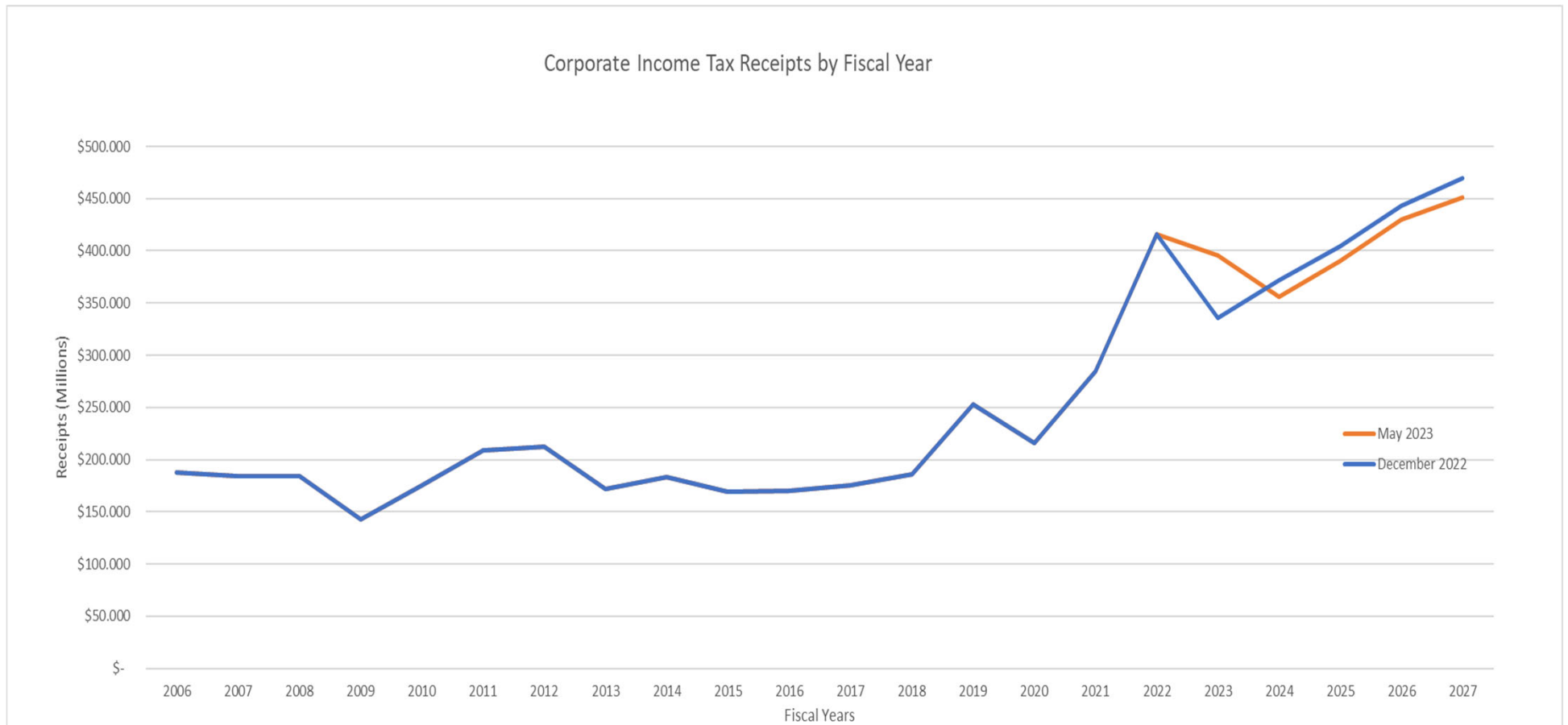
Growth Relative to 2019

	2019	2021	2022	2019-21	2019-22	2021-22
CPI-U				6.0%	14.5%	8.0%
Taxable Wages Reported on 1040	\$28,181.7	\$32,550.4	\$35,349.8	15.5%	25.4%	8.6%
Capital Gains	\$2,317.3	\$5,326.4	\$3,547.9	129.9%	53.1%	-33.4%
Schedule E Income (mostly pass-through entity income)	\$2,291.8	\$3,584.0	\$3,400.6	56.4%	48.4%	-5.1%
Schedule C Income	\$1,572.5	\$1,961.8	\$1,991.0	24.8%	26.6%	1.5%
Taxable IRA Distributions	\$1,524.2	\$1,843.1	\$2,009.0	20.9%	31.8%	9.0%
Taxable Pension Distributions	\$3,232.1	\$3,582.4	\$3,815.3	10.8%	18.0%	6.5%
Resident Income Tax Liability Before Refundable Credits	\$1,608.7	\$2,207.5	\$2,216.7	37.2%	37.8%	0.4%
Nonresident and Part-year Income Tax Liability Before Refundable Credits	\$136.6	\$256.0	\$210.0	87.4%	53.7%	-18.0%
Refundable Credits	\$88.6	\$151.7	\$193.5	71.2%	118.4%	27.6%

The 2021 and 2022 income figures are estimates subject to revision. The 2022 estimates are particularly speculative.

Other Taxes

Corporate Income Tax



Real Estate Transfer Tax

- November 2022 – March 2023 revenue 20% below forecast.
- YoY growth in CY 2023 Q1 is -38.2%.
- Existing single family home sales growth lower in new Moody's forecast in 2023 and beyond.
- Revisions to General Fund RETT revenue are -\$2.9 to -\$3.5 million(-11.4% - -13.8%) per year.

Cigarette, Tobacco, and Cannabis Excise Taxes

\$million

Fiscal Year	Actual and Recommended Forecast	Annual Growth	Revision to current forecast (\$)	Revision to current forecast (%)
2019	\$126.0	-5.2%		
2020	\$137.3	9.0%		
2021	\$147.2	7.2%		
2022	\$148.5	0.9%		
2023	\$152.0	2.3%	-\$1.07	-0.7%
2024	\$156.6	3.0%	\$0.55	0.4%
2025	\$159.0	1.5%	\$0.75	0.5%
2026	\$160.9	1.2%	\$1.00	0.6%
2027	\$162.6	1.0%	\$1.35	0.8%

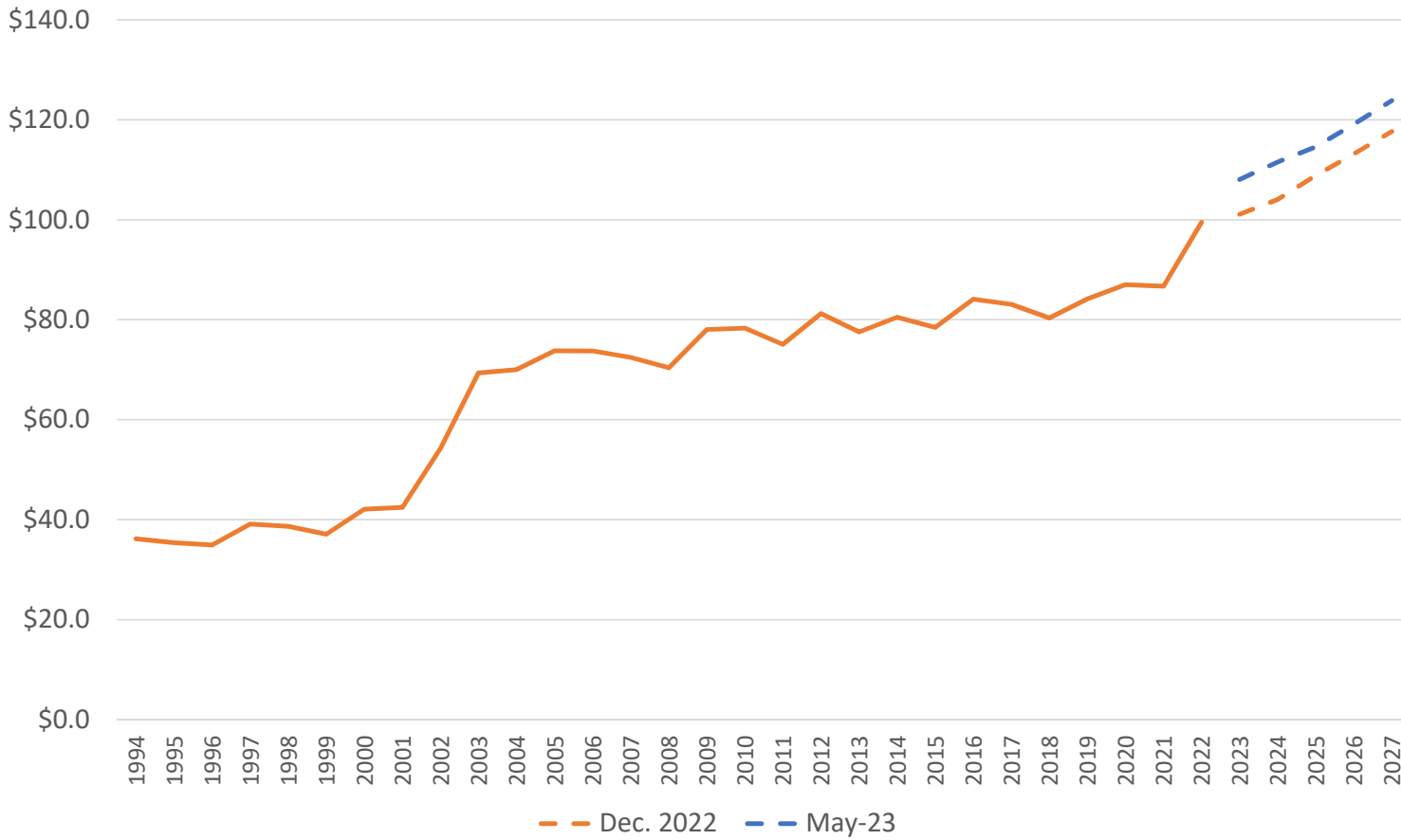
- A sharp drop in cigarette tax revenue in FY 2023 is offset by growth in tobacco products tax and adult use cannabis excise tax in later years.

Insurance premiums tax

- Tax year 2022 liability likely grew by 8.5 – 9.5%
 - Significant number of 2022 returns currently in suspense
 - Had assumed 3% based on Moody's Maine PCE forecast for finance and insurance and expectation of slowing after nearly 10% growth in 2021
- Revisions \$6 - \$7.7 million per year

Insurance Premiums Tax Revenue

New Markets Tax Credit Added Back to Revenue
(Fiscal year, \$million)



Gas Tax

\$million

Fiscal Year	Actual and Recommended Forecast	Annual Growth	Revision to current forecast (\$)	Revision to current forecast (%)
2019	\$205.9	-0.2%		
2020	\$194.2	-5.7%		
2021	\$183.4	-5.6%		
2022	\$195.5	6.6%		
2023	\$202.6	3.6%	\$2.10	1.0%
2024	\$203.9	0.6%	\$0.79	0.4%
2025	\$205.0	0.5%	\$0.35	0.2%
2026	\$205.9	0.5%	\$0.14	0.1%
2027	\$206.8	0.4%	\$0.06	0.0%

- Recovery from the drop in FY 2020 and FY 2021 has been faster than previous forecast, but the long-run trend is unchanged.

Special Fuel Tax

\$million

Fiscal Year	Actual and Recommended Forecast	Annual Growth	Revision to current forecast (\$)	Revision to current forecast (%)
2019	\$49.6	14.9%		
2020	\$47.4	-4.4%		
2021	\$47.9	0.9%		
2022	\$50.2	4.9%		
2023	\$49.8	-0.7%	-\$0.42	-0.8%
2024	\$49.6	-0.5%	-\$1.45	-2.8%
2025	\$50.0	0.8%	-\$1.72	-3.3%
2026	\$50.3	0.8%	-\$1.92	-3.7%
2027	\$50.7	0.8%	-\$2.09	-4.0%

- Recovery from the drop in FY 2020 stalled sooner than previously forecast. The long-run trend is reduced.