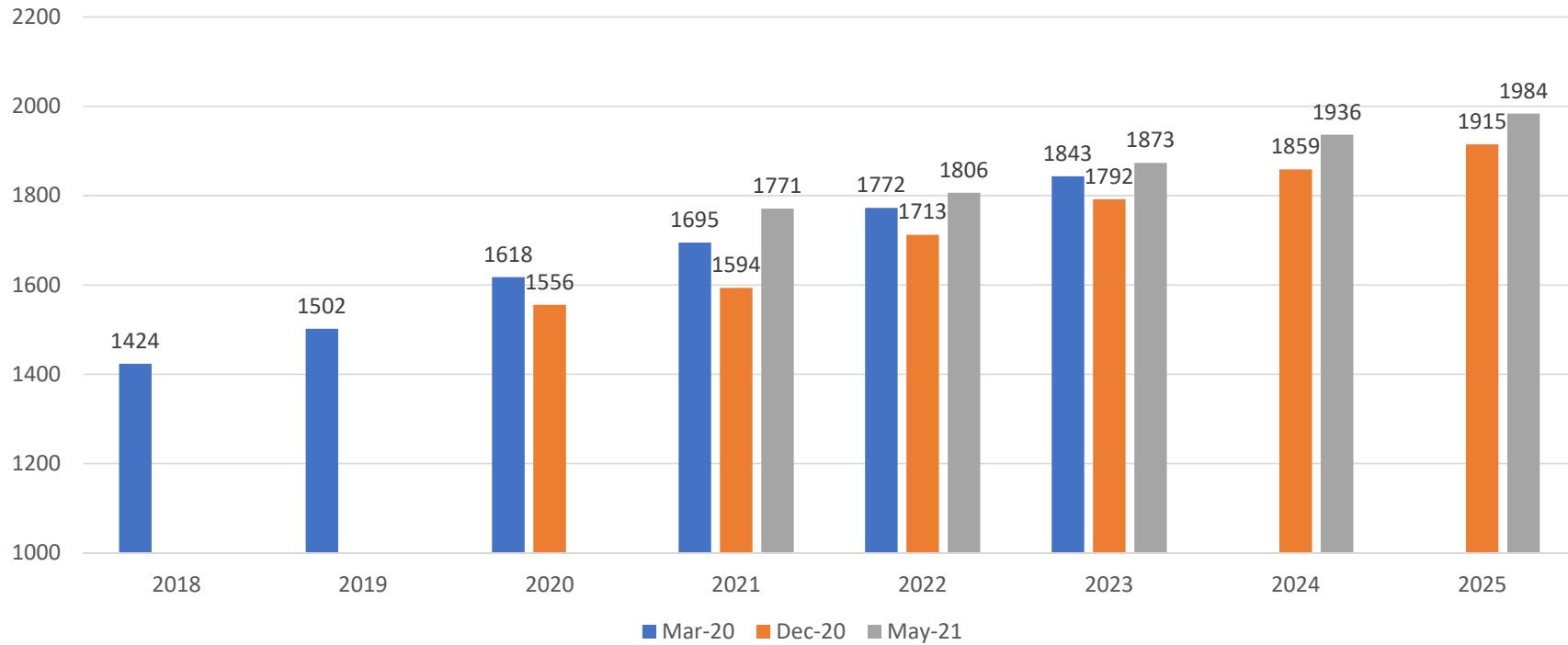


MRS Office of Tax Policy  
Presentation for May 2021  
Revenue Forecast

# Sales & Use Tax

# Forecast History and Current Recommendation



## Annual Revenue Growth: Current and Previous Forecast

| FY     | 2021  | 2022 | 2023 | 2024 | 2025 |
|--------|-------|------|------|------|------|
| Dec 20 | 2.4%  | 7.5% | 4.6% | 3.7% | 3.0% |
| May 21 | 13.8% | 2.0% | 3.7% | 3.4% | 2.4% |

# Sales Tax: Main Points

- Strong revenue performance in last four months relative to both budget and prior years
  - Revenue associated with calendar year 2020 sales is \$33.3 million over budget
    - “Jumping off point” for the forecast
- CEFC forecast contributes to positive revenue revision
- The upward revision is larger in current fiscal year compared to future fiscal years for several reasons
  - The December 2020 baseline assumed a significant recovery beginning in the late spring/early summer
  - We do not think the pace of recent revenue growth from the sale of goods (relative to non-pandemic revenues) will be sustained throughout the calendar year
  - Budgeting for net accruals has especially large impact on FY 21 revenue

# Sales Tax: Recent History

## Sales & Use Tax YoY Revenue Growth:

|                     | 2020          |                |                 |                |      | 2021    |       |       |                 |
|---------------------|---------------|----------------|-----------------|----------------|------|---------|-------|-------|-----------------|
| July 19 –<br>Feb.20 | Mar. –<br>May | June –<br>July | Aug. –<br>Sept. | Oct. –<br>Nov. | Dec. | January | Feb.  | March | Jan. -<br>March |
| 7.1%                | -9.6%         | -1.0%          | 2.8%            | 5.9%           | 7.7% | 14.6%   | 13.1% | 22.0% | 16.6%           |

- April revenues through 4/25 are 44.4% above April 2020 revenues and 34.5% above April 2019 revenue
- \$75.2 million variance through March, should be over \$108 million by end of April

# Sales Tax: Important CEFC forecasts

|                              |         | 2020   | 2021  | 2022  | 2023  | 2024  | 2025  |
|------------------------------|---------|--------|-------|-------|-------|-------|-------|
| CPI                          | Nov. 20 | 1.3%   | 2.2%  | 2.2%  | 2.1%  | 2.1%  | 2.1%  |
|                              | Apr. 21 | 1.2%   | 2.4%  | 2.2%  | 2.1%  | 2.1%  | 2.1%  |
| Personal Income              | Nov. 20 | 5.3%   | -0.5% | 3.9%  | 3.9%  | 3.9%  | 4.0%  |
|                              | Apr. 21 | 7.6%   | 5.0%  | 0.2%  | 4.1%  | 4.3%  | 4.5%  |
| Savings Rate                 | Nov. 20 | 14.9%  | 8.1%  | 4.1%  | 3.7%  | 3.5%  | 3.3%  |
|                              | Apr. 21 | 16.1%  | 14.1% | 8.2%  | 7.6%  | 7.8%  | 7.9%  |
| New Vehicle Registrations    | Nov. 20 | -11.8% | 2.2%  | -3.0% | -0.1% | 0.0%  | 0.3%  |
|                              | Apr. 21 | -7.7%  | 2.9%  | -1.6% | -1.8% | -0.8% | 0.2%  |
| Average Price of New Vehicle | Nov. 20 | 6.6%   | 2.0%  | 2.7%  | 3.7%  | 0.6%  | -0.2% |
|                              | Apr. 21 | 6.1%   | 2.5%  | 0.9%  | 3.1%  | 0.3%  | -0.6% |
| Construction Employment      | Nov. 20 | -0.7%  | -0.5% | -4.3% | -2.1% | 0.1%  | 0.5%  |
|                              | Apr. 21 | -0.1%  | 4.3%  | -4.1% | -4.6% | -2.1% | -0.7% |
| Manufacturing Employment     | Nov. 20 | -10.8% | 2.4%  | 3.0%  | 0.2%  | 0.1%  | 0.0%  |
|                              | Apr. 21 | -4.8%  | 4.0%  | 2.0%  | -0.1% | -0.9% | -0.8% |

# Calendar Year Taxable Sales Summary

|  | Taxable Sales (\$million) |          |          | Annual Growth |        |
|--|---------------------------|----------|----------|---------------|--------|
|  | 2018                      | 2019     | 2020     | 2019          | 2020   |
| 5.5% Sales   | \$19,670                  | \$20,937 | \$23,398 | 6.4%          | 11.8%  |
| >5.5% Sales  | \$4,500                   | \$4,754  | \$3,510  | 5.6%          | -26.2% |
| Total, All Sales   | \$24,170                  | \$25,692 | \$26,908 | 6.3%          | 4.7%   |
| <u>Estimate</u> if 12 months of marketplace collections in 2019: |                           |          |          |               |        |
| Total, All Sales   |                           | \$26,133 | \$26,908 |               | 3.0%   |

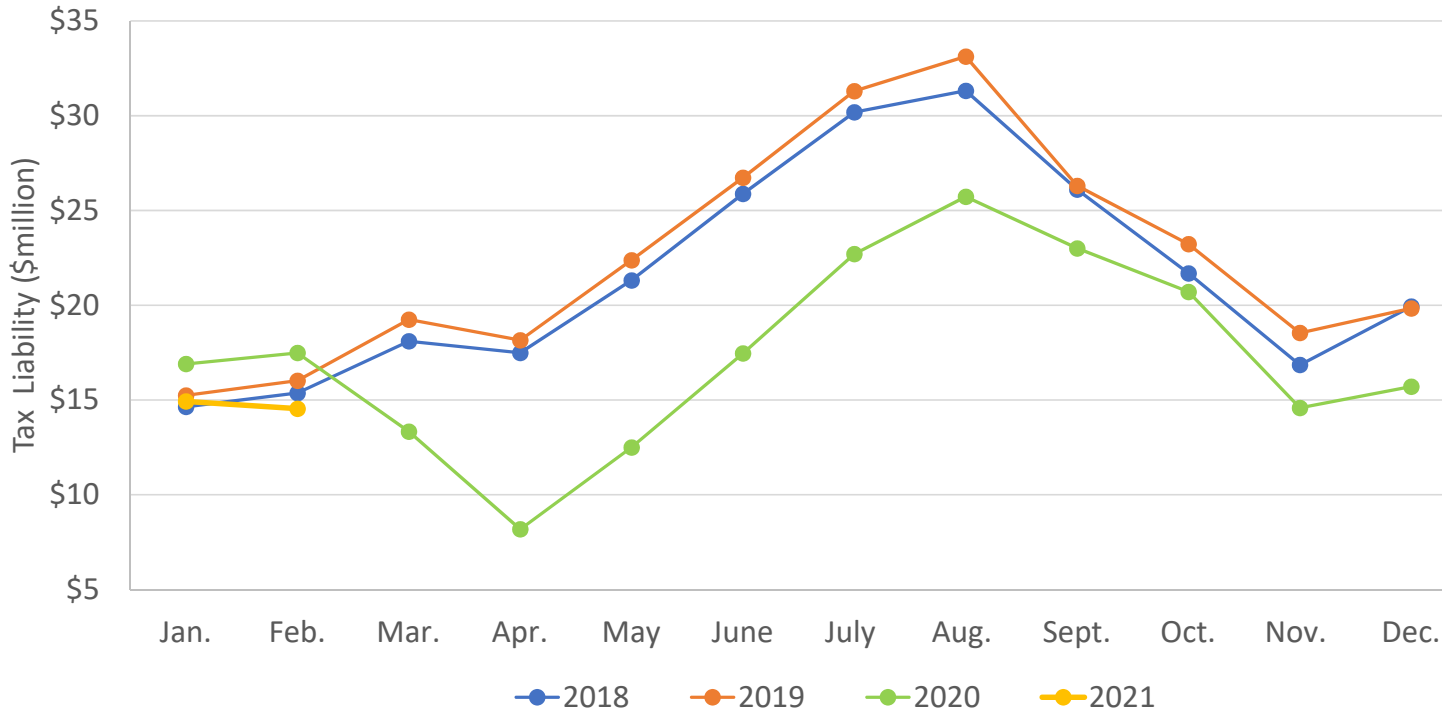
# Prepared Foods Sales Tax

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

| July 19 – Feb. 20 | Mar. – May 20 | June – July 20 | Aug. – Sept. 20 | Oct. – Nov. 20 | December 20 | January 21 | February 21 | Nov. 20 – Feb 21 |
|-------------------|---------------|----------------|-----------------|----------------|-------------|------------|-------------|------------------|
| 5.3%              | -43.1%        | -30.8%         | -18.0%          | -15.5%         | -20.8%      | -11.7%     | -16.8%      | -17.9%           |



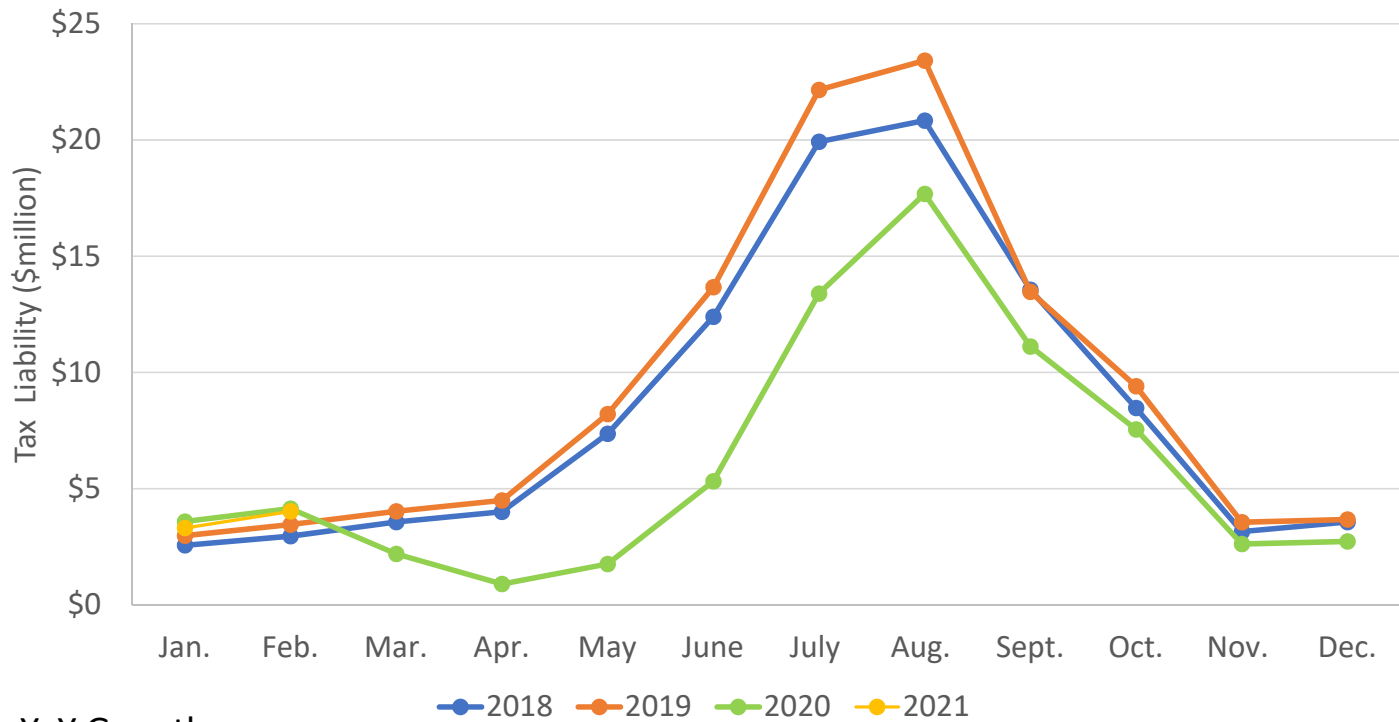
# Rental of Lodging Sales Tax

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% |

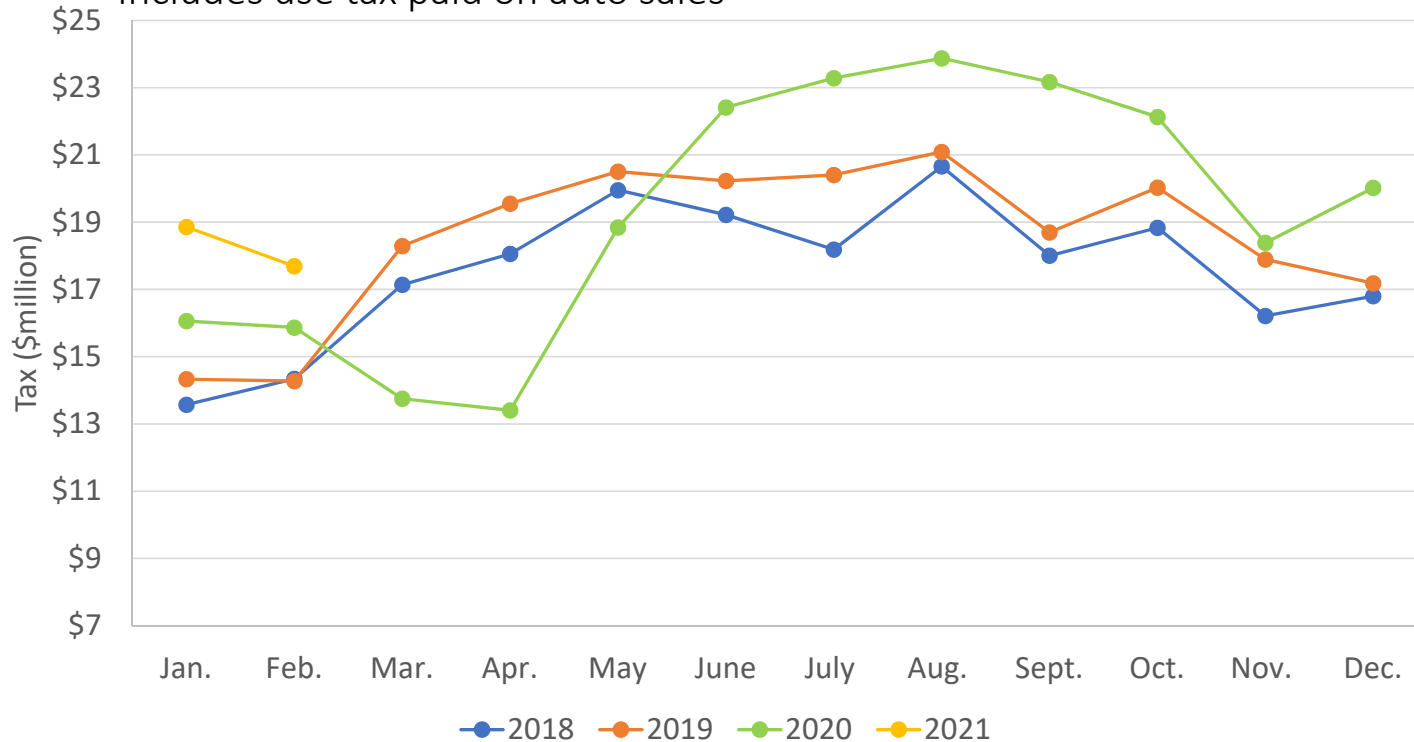


## YoY Growth

| July 19 – Feb. 20 | Mar. – May 20 | June – July 20 | Aug. – Sept. 20 | Oct. – Nov. 20 | December 20 | January 21 | February 21 | Nov. 20 – Feb 21 |
|-------------------|---------------|----------------|-----------------|----------------|-------------|------------|-------------|------------------|
| 9.9%              | -71.0%        | -47.8%         | -21.9%          | -21.5%         | -25.6%      | -7.7%      | -2.8%       | -15.2%           |

# 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%

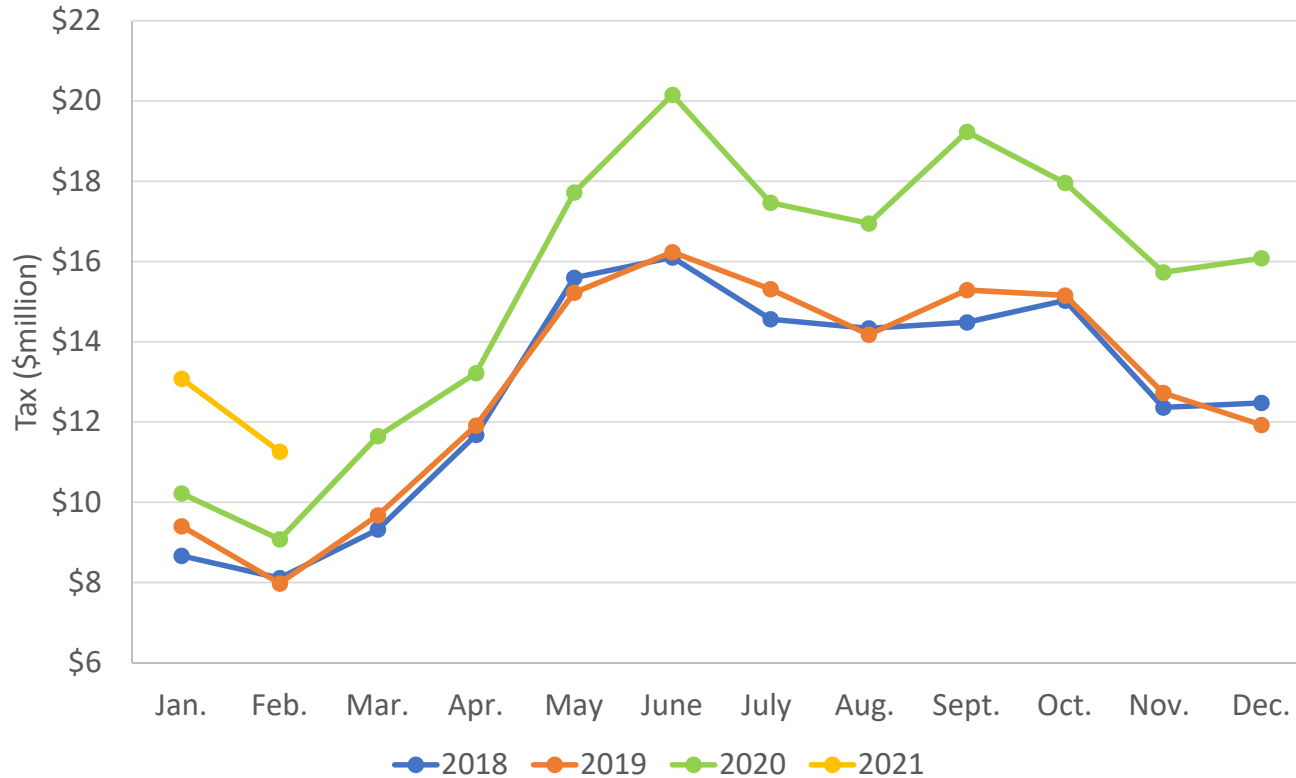
CY 2019 Share of Taxable Sales by Quarter:

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

## YoY Growth

| July 19 – Feb. 20 | Mar. – May 20 | June – July 20 | Aug. – Sept. 20 | Oct. – Nov. 20 | December 20 | January 21 | February 21 | Nov. 20 – Feb 21 |
|-------------------|---------------|----------------|-----------------|----------------|-------------|------------|-------------|------------------|
| 7.3%              | -21.2%        | 12.5%          | 18.3%           | 6.8%           | 16.5%       | 17.4%      | 11.5%       | 11.9%            |

# 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:

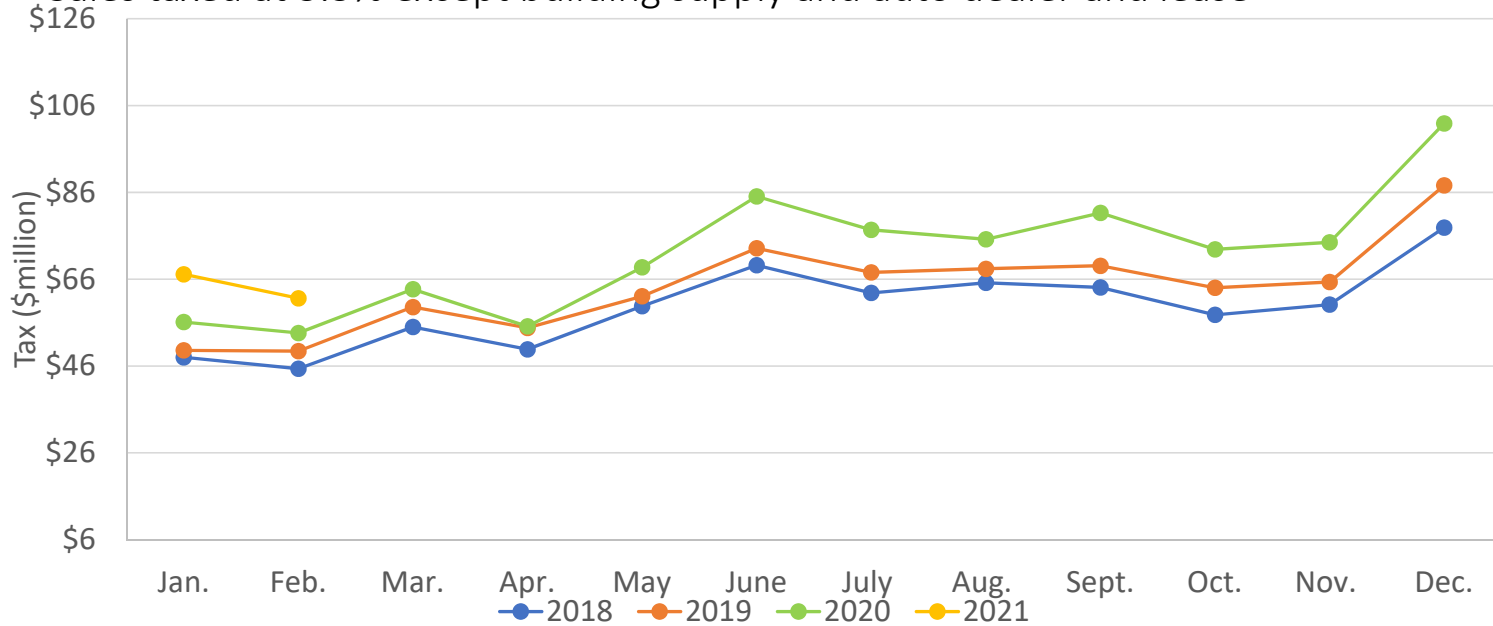
|   |       |
|---|-------|
| 1 | 17.5% |
| 2 | 28.0% |
| 3 | 28.9% |
| 4 | 25.7% |

## YoY Growth

| July 19 – Feb.20 | Mar. – May 20 | June – July 20 | Aug. – Sept. 20 | Oct. – Nov. 20 | December 20 | January 21 | February 21 | Nov. 20 – Feb 21 |
|------------------|---------------|----------------|-----------------|----------------|-------------|------------|-------------|------------------|
| 3.2%             | 15.7%         | 19.2%          | 22.8%           | 20.8%          | 34.8%       | 28.0%      | 24.1%       | 27.8%            |

# 5.5% Sales, All Other

Sales taxed at 5.5% except building supply and auto dealer and lease

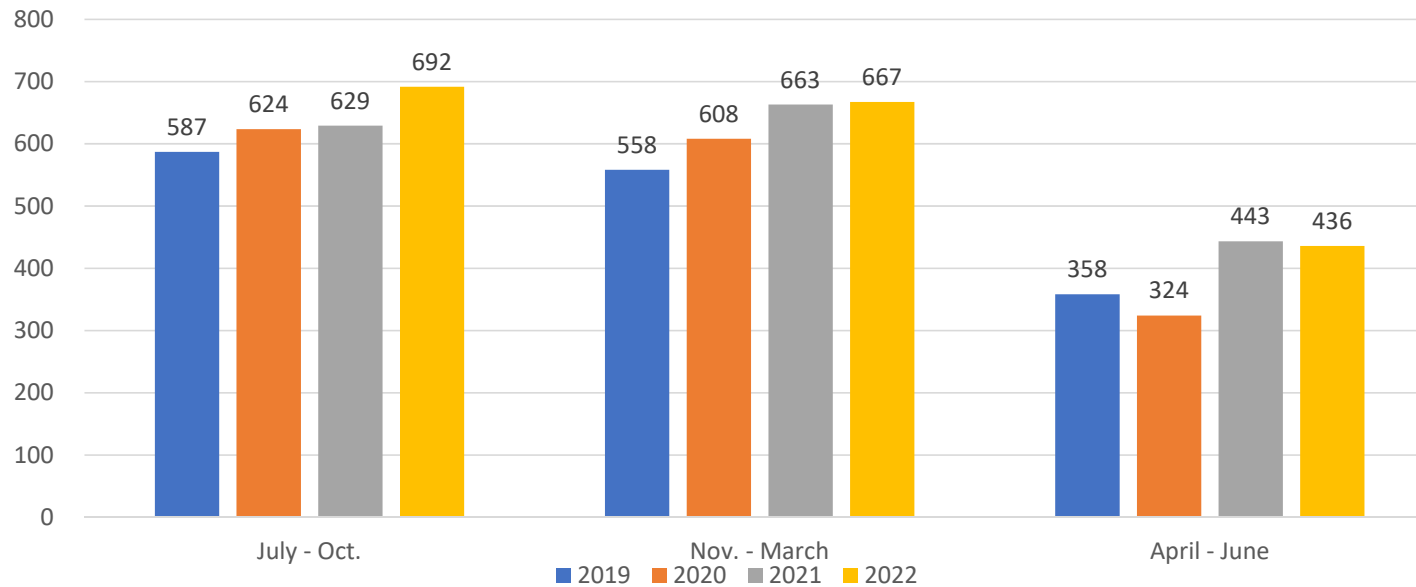


## YoY Growth

|                                  | July 19 – Feb.20 | Mar. – May 20 | June – July 20 | Aug. – Sept. 20 | Oct. – Nov. 20 | Dec. 20 | January 21 | February 21 | Nov. 20 – Feb 21 |
|----------------------------------|------------------|---------------|----------------|-----------------|----------------|---------|------------|-------------|------------------|
| Excluding auto & building supply | 9.2%             | 6.3%          | 15.5%          | 13.8%           | 13.9%          | 16.3%   | 19.6%      | 14.9%       | 16.1%            |
| All 5.5% sales                   | 8.0%             | 1.7%          | 15.5%          | 15.9%           | 13.5%          | 18.2%   | 20.2%      | 15.3%       | 16.7%            |

# Fiscal Year 2019 – 22 Sales & Use Tax Revenue

Fiscal Year revenue, \$ million, excluding net accruals in FY 21 and FY 22



## FY 2022 Revenue Minus FY 2021 Revenue, Excluding Net Accruals (\$mil)

|  | July-Oct | Nov -Mar | April - June |
|--|----------|----------|--------------|
| Total change in revenue                  | \$62.5   | \$4.1    | -\$7.5       |
| Prepared food, Lodging, and Adult Use MJ | \$58.0   | \$24.0   | \$11.9       |
| Everything Else                          | \$4.5    | -\$19.9  | -\$19.5      |

# Individual Income Tax

# Individual Income Tax: Annual Growth and Forecast Revision

(\$million)

| Fiscal Year | Actual and Forecast | Recommended Change |
|-------------|---------------------|--------------------|
| 2017-18     | 6.5%                |                    |
| 2018-19     | 5.6%                |                    |
| 2019-20*    | 7.9%                |                    |
| 2020-21     | -1.6%               | \$224              |
| 2021-22     | 4.5%                | \$150              |
| 2022-23     | 4.3%                | \$140              |
| 2023-24     | 4.3%                | \$130              |
| 2024-25     | 4.6%                | \$122              |

Dollar values in millions. \*Without 1040 estimated and final payment accruals FY 20 growth would have been -14.1%.

# Individual Income Tax: Main Reasons for Recommended Revision to Current Forecast

- Significant upward revisions to CEFC forecast, particularly wages
- Unemployment insurance income in 2021 /ARP provisions.
- Increase in capital gains forecast.
- Opportunity Maine credit reduced for tax year 2021 due to extension of forbearance period.
- Technical reasons / excessively pessimistic December forecast conditional on CEFC November forecast
  - Data issues resulted in an underestimate of 2019 liability in prior forecast.
  - Likely underestimated liability from business income.



# Individual Income Tax: Withholding

(\$million)

|               | 2019      | 2020      | 2021    |  | 2020 | 2021 |
|---------------|-----------|-----------|---------|--|------|------|
| Calendar Year | \$1,464.7 | \$1,588.8 |         |  | 8.5% |      |
| Jan. – Mar.   | \$375.7   | \$408.0   | \$447.5 |  | 8.6% | 9.7% |

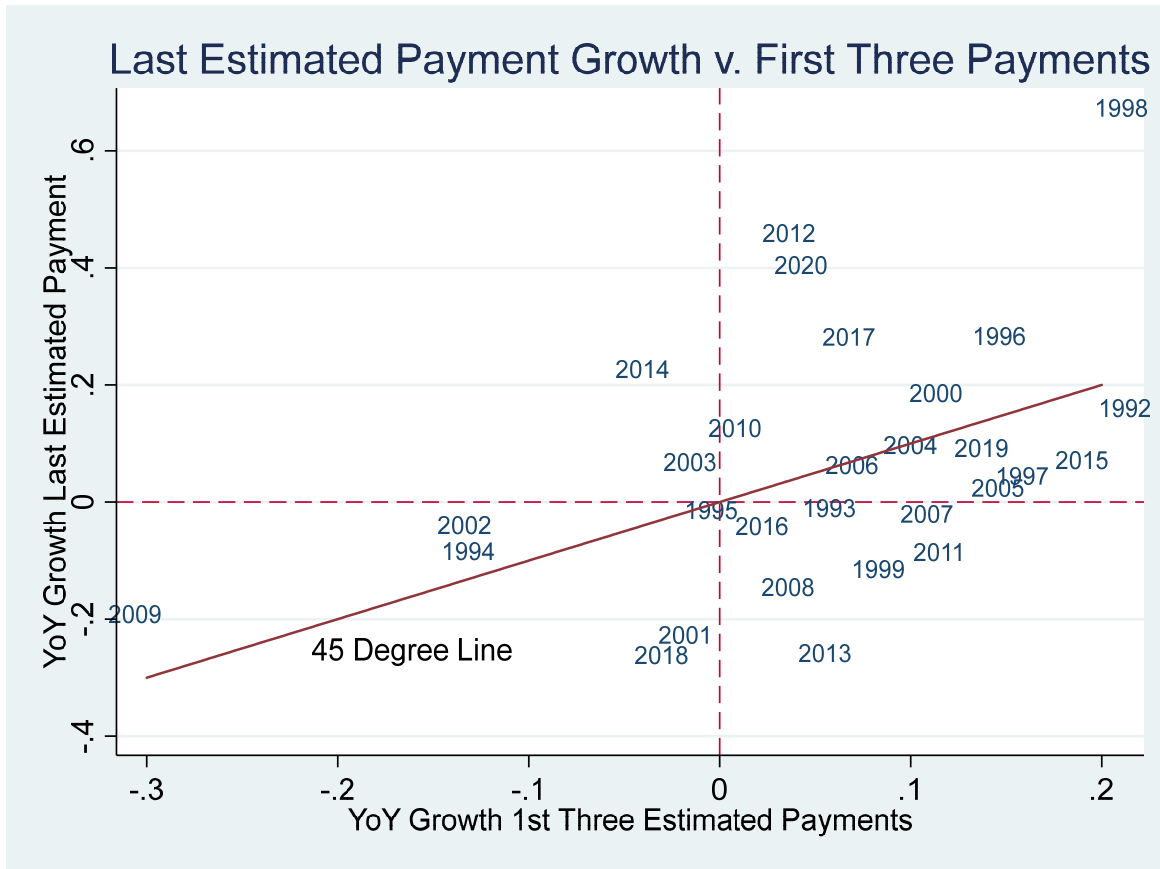
## Growth Rates After Adjustments

|  | 2020 | 2021  |
|--|------|-------|
| Remove unemployment insurance withholding:               |      |       |
| Calendar Year  | 4.8% |       |
| Jan. – Mar.  | 8.6% | 7.3%  |
| Remove UI withholding and adjust for number of Thursdays |      |       |
| Calendar Year  | 3.7% |       |
| Jan. – Mar.  | 8.6% | 10.8% |

Withholding variance:  
\$64.3 million over budget through March

# Individual Income Tax: Estimated Payments

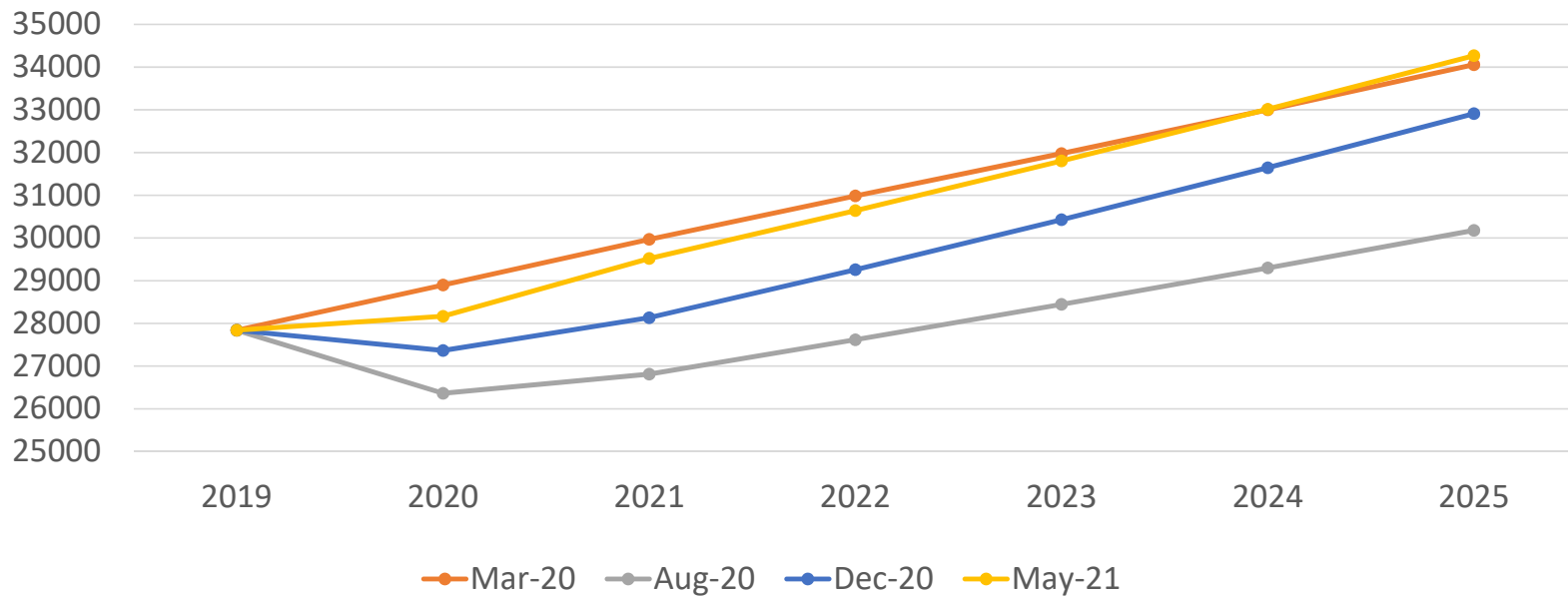
(\$million)



|              | 2019           | 2020           |              |
|--------------|----------------|----------------|--------------|
| Feb. - Nov.  | \$219.9        | \$229.2        | 4.3%         |
| Dec. - Jan   | \$97.9         | \$137.5        | 40.5%        |
| <b>Total</b> | <b>\$317.7</b> | <b>\$366.7</b> | <b>15.4%</b> |

Last estimated payments >\$150,000:  
 TY 2019: 32, totaling \$10.1 million  
 TY 2020: 65, totaling \$37.1 million

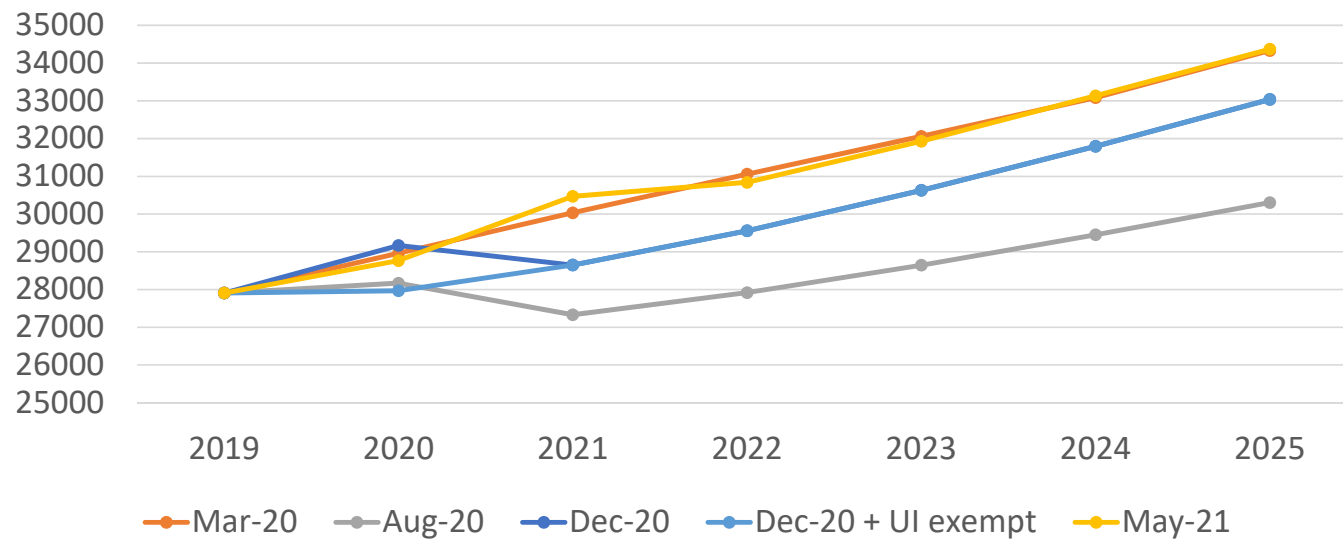
# Individual Income Tax: Resident 1040 Wages



|                                    | 2020  | 2021 | 2022 | 2023 | 2024 | 2025 |
|------------------------------------|-------|------|------|------|------|------|
| <b>CEFC April 21 wage forecast</b> |       |      |      |      |      |      |
| Annual Growth, Nov 20 forecast     | -1.5% | 3.0% | 4.0% | 4.0% | 4.0% | 4.0% |
| Annual Growth, Apr 21 forecast     | 1.4%  | 5.0% | 4.0% | 4.0% | 4.0% | 4.0% |
| Wages relative to Nov 20 forecast  | 2.9%  | 4.9% | 4.9% | 4.9% | 4.9% | 4.9% |

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

(\$million)



|  | 2020 | 2021  | 2022 | 2023 | 2024 | 2025 |
|--|------|-------|------|------|------|------|
| Annual Growth, December 2020                                     | 4.5% | -1.8% | 3.2% | 3.6% | 3.8% | 3.9% |
| Annual Growth, December 2020 + UI exemption                      | 0.2% | 2.4%  | 3.2% | 3.6% | 3.8% | 3.9% |
| Annual Growth, May 2021  | 3.1% | 5.9%  | 1.2% | 3.5% | 3.8% | 3.7% |
| May 21 recommendation relative to Dec 20 forecast + UI exemption | 2.9% | 6.3%  | 4.3% | 4.2% | 4.2% | 4.0% |

# Individual income tax: Business Income

## Nonfarm Proprietor's Income

|                         | 2020  | 2021 | 2022 | 2023 | 2024 | 2025 |
|-------------------------|-------|------|------|------|------|------|
| Annual growth:          |       |      |      |      |      |      |
| November CEFC           | -3.0% | 3.2% | 3.3% | 2.5% | 2.5% | 2.5% |
| April CEFC              | 0.8%  | 3.2% | 6.5% | 6.0% | 5.7% | 5.4% |
| April CEFC, remove PPP* | -7.0% | 8.7% | 9.6% | 6.0% | 5.7% | 5.4% |

\*In 2020 the PPP inclusion in nonfarm proprietor's income is the amount reported by the BEA. In 2021 the PPP inclusion is OTP's estimate.

# Individual income tax: Capital Gains

| Tax Year                                 | 2019   | 2020   | 2021   | 2022   | 2023   | 2024   | 2025  |
|--|--------|--------|--------|--------|--------|--------|-------|
| Annual growth:                           |        |        |        |        |        |        |       |
| December RFC                             | 3.2%   | -5.1%  | -3.2%  | 3.9%   | 3.9%   | 4.0%   | 4.0%  |
| May RFC                                  | 9.3%   | 10.2%  | 8.2%   | 1.3%   | -7.5%  | -3.9%  | -1.4% |
| CBO Forecast (Sept 2020)                 | 8.3%   | -20.5% | 0.5%   | 4.5%   | 1.1%   | 2.3%   | 3.1%  |
| CBO Forecast (Jan 2021)                  | 10.6%  | -7.7%  | 23.8%  | 1.3%   | -7.5%  | -3.9%  | -1.4% |
|  |        |        |        |        |        |        |       |
| May 21 resident capital gains liability: |        |        |        |        |        |        |       |
| Relative to March 20 RFC                 | -\$5.4 | \$15.9 | \$44.4 | \$53.0 | \$37.9 |        |       |
| Relative to Dec 20 RFC                   | \$10.1 | \$38.0 | \$59.7 | \$56.2 | \$32.3 | \$16.9 | \$6.8 |

# Individual Income Tax: Resident Liability Growth Forecast

| Tax Year | Liability before refundable credits | Liability after refundable credits |
|----------|-------------------------------------|------------------------------------|
| 2020     | 2.0%                                | .8%                                |
| 2021     | 8.5%                                | 9.2%                               |
| 2022     | 2.8%                                | 1.8%                               |
| 2023     | 3.7%                                | 3.7%                               |
| 2024     | 4.7%                                | 4.8%                               |
| 2025     | 4.9%                                | 5.0%                               |

- 2% growth in 2020
  - 1.4% wage growth
  - 10% capital gains growth, justified by strong last estimated payment and stock market performance
  - Taxable unemployment insurance is still ~\$530 million higher than 2019
  - Business income declines, but not as much as last forecast
- 8.5% growth in 2021
  - 5% wage growth
  - 8.2% capital gains growth
  - Required minimum IRA distributions resume
  - Taxable unemployment insurance forecast increase of ~ \$350 million
  - Nonfarm proprietor's income w/o PPP up 9%
  - Withholding up ~10% YoY in 1<sup>st</sup> 3 months of 2021

# Individual Income Tax: Risks

- Downside timing risks: Factors that could increase 2020 liability at the expense of future revenues
  - Deductions for employer share of 2020 OASDI /self-employment taxes that were deferred
  - Business loss carryforwards
  - Taxpayers may have shifted income into 2020 due to policy expectations.
- Upside risk for 2021
  - Possible shifting of income into 2021 that would have been recognized later (corresponding downside risk after 2021).
- Unemployment insurance exemption in 2020
- Many large federal policies with direct implications for state revenues.



# Corporate Income Tax

# Corporate Income Tax: Annual Growth and Forecast Revision

| Fiscal Year | Actual and forecast | Change in Forecast |
|-------------|---------------------|--------------------|
| 2017-18     | 6.0%                |                    |
| 2018-19     | 36.1%               |                    |
| 2019-20     | -14.5%              |                    |
| 2020-21     | 13.8%               | +\$59.0            |
| 2021-22     | -11.7%              | -\$6.0             |
| 2022-23     | 10.0%               | \$0                |
| 2023-24     | 11.9%               | \$22.0             |
| 2024-25     | 4.9%                | \$28.5             |

# Corporate Income Tax: CEFC Before-Tax Corporate Profits Forecast, Annual Growth

|               | 2020  | 2021  | 2022 | 2023 | 2024 | 2025 |
|---------------|-------|-------|------|------|------|------|
| November CEFC | 0.6%  | 10.0% | 3.7% | 2.7% | 2.7% | 2.7% |
| April CEFC    | -3.5% | 15.0% | 4.7% | 4.7% | 4.7% | 4.7% |

- 2020 growth would be much worse without government subsidies, including PPP loans that will be forgiven
  - \$280 billion of PPP subsidies to corporate businesses in the national accounts
  - Removing subsidies that are tax exempt in Maine, we estimate 2020 corporate profit growth would be around -16%
- The FY 2022 forecast reflects concerns about overpayments in FY 21
- Evergreen caveats about corporate forecast
  - The CEFC corporate profits forecast is a national forecast and includes corporate businesses whose income is only taxed by the individual income tax system (S-corps) and financial institutions taxed under the franchise tax
  - Corporate revenues are highly volatile and revenue is difficult to predict even when you know tax liability

# Other General Fund Taxes

# Real estate transfer tax

|      | Home price, existing median |                | Home sales, existing single-family |                |
|------|-----------------------------|----------------|------------------------------------|----------------|
|      | November Forecast           | April Forecast | November Forecast                  | April Forecast |
| 2020 | 11.5%                       | 13.3%          | 19.3%                              | 22.9%          |
| 2021 | 6.1%                        | 12.1%          | -10.8%                             | -0.5%          |
| 2022 | 3.2%                        | 2.5%           | -6.4%                              | -5.6%          |
| 2023 | 5.3%                        | 1.8%           | 5.2%                               | 1.6%           |
| 2024 | 3.0%                        | 0.9%           | 9.0%                               | 2.4%           |
| 2025 | 2.7%                        | 0.9%           | 0.7%                               | 1.3%           |

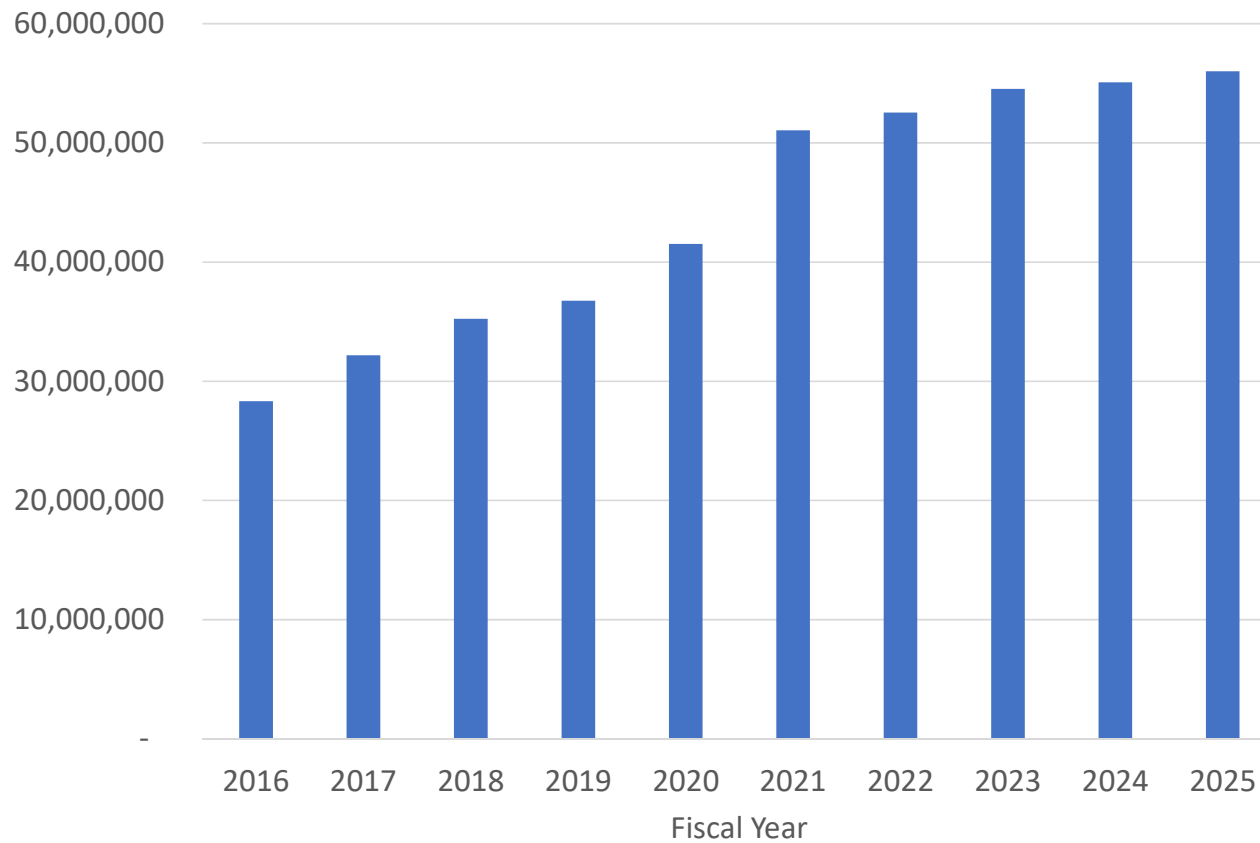
# RETT: Forecast Growth, Total Revenue, and General Fund Revenue Revision

|      | Calendar Year | Calendar Year Adjusted | Fiscal Year | Proposed revision to GF FY Revenue |
|------|---------------|------------------------|-------------|------------------------------------|
| 2020 | 23.8%         | 15.0%                  | 12.9%       |                                    |
| 2021 | 8.1%          | 16.3%                  | 22.9%       | \$.9                               |
| 2022 | 1.6%          | 1.6%                   | 2.9%        | \$1.1                              |
| 2023 | 2.1%          | 2.1%                   | 3.8%        | \$1.1                              |
| 2024 | 1.3%          | 1.3%                   | 1.0%        | \$0                                |
| 2025 | 1.1%          | 1.1%                   | 1.7%        | -\$.6                              |

Calendar Year Adjusted= Remove the single transfer of controlling interest transaction that was 7.1% of total calendar year 2020 revenue.

Calendar year revenue = February – January revenue.

# Real estate transfer tax: Total Revenue History



# Service Provider Tax

| Fiscal Year                | 2020  | 2021   | 2022   | 2023   | 2024   | 2025   |
|----------------------------|-------|--------|--------|--------|--------|--------|
| December RFC               | -1.7% | -2.5%  | -1.0%  | -1.0%  | -1.0%  | -1.0%  |
| May RFC                    | -1.7% | -9.4%  | -3.0%  | -2.0%  | -1.0%  | -1.0%  |
| Forecast Change<br>(\$mil) |       | -\$4.0 | -\$5.0 | -\$5.4 | -\$5.4 | -\$5.3 |

- -\$2.1 million variance and -7.7% YoY growth fiscal year to date through March
- Forecast assumes YoY declines will moderate around September
- Both telecommunications businesses and video & cable businesses contribute to the continual decline in SPT revenues
- A small number of taxpayers have experienced especially steep declines but the SPT revenue problem is larger than one or two taxpayers



# Estate Tax

| Fiscal Year                | 2021  | 2022   | 2023  | 2024  | 2025  |
|----------------------------|-------|--------|-------|-------|-------|
| Forecast Change<br>(\$mil) | \$4.5 | \$11.1 | \$1.8 | \$1.2 | \$1.2 |

- FY 2021 revision based on variance to date
- FY 2022 revision based on new information about expected payments in FY 2022

# Other General Fund

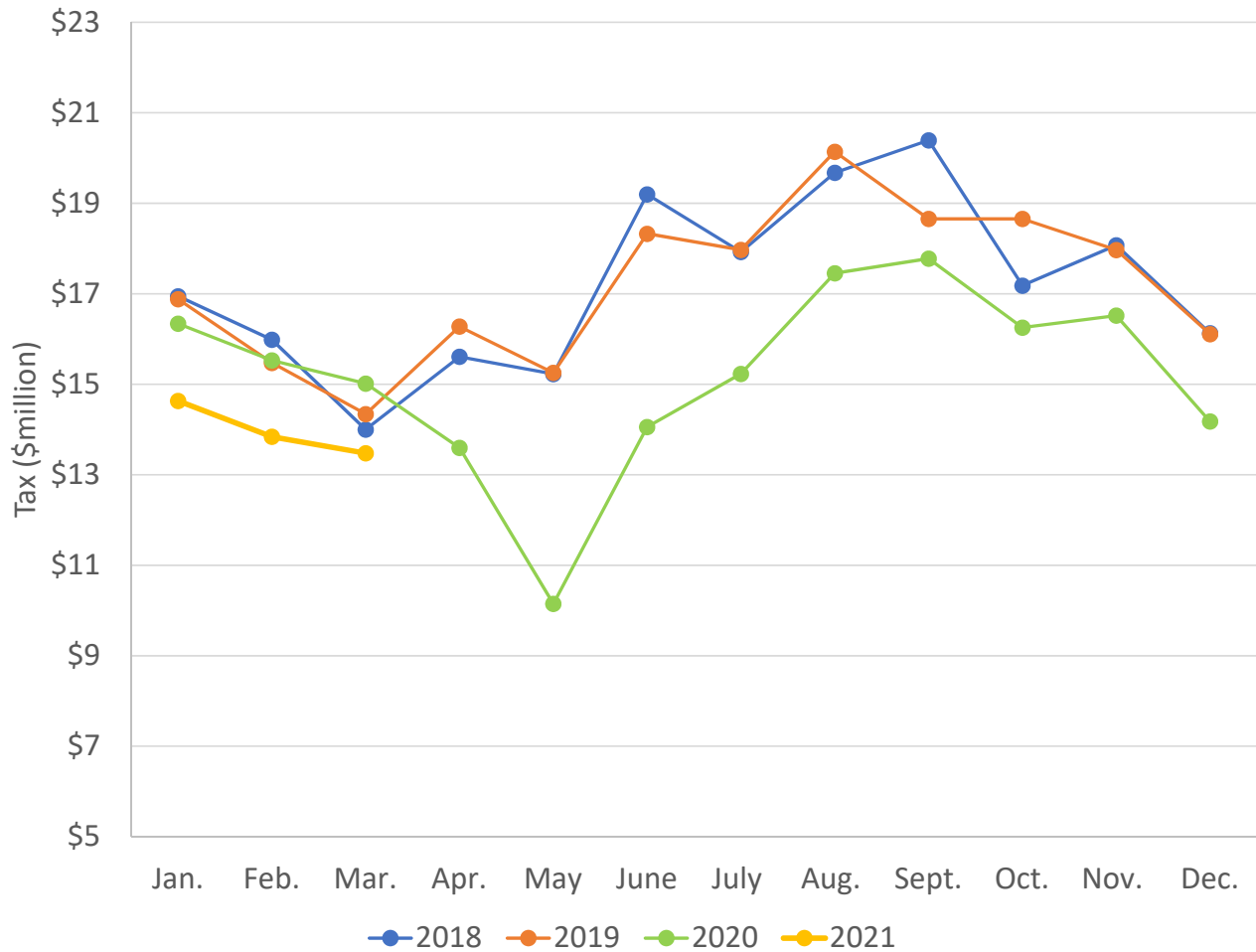
- Cigarette, tobacco, and marijuana excise tax
  - Tobacco revised up \$6.5 - \$7 million per year
    - \$4.6 million variance through March, FY 21 revenue to date already exceeds forecast for full year
    - Major tax increase 1/1/2020, initially revenues did not meet expectation
  - Cigarettes revised down \$3.7 to \$4.5 million per year
    - -\$3.1 million variance through March
  - Marijuana revised down \$3.7 million in FY 21 then down around \$1 million after
- Insurance company tax
  - Minor net change
  - Premiums tax down \$450,000 - \$650,000 year, partially because of New Markets Tax credits transfers
  - Nonadmitted insurance premium tax increase \$600,000 per year
- Container fee
- Commercial forestry excise tax
- Telecommunications excise tax
- BETR
- BETE

# Motor Fuels Taxes

# Gas Tax: Annual Growth and Proposed Forecast Change

| Fiscal Year | Annual Growth | Recommended Revision (\$million) |
|-------------|---------------|----------------------------------|
| 2017-18     | 2.4%          |                                  |
| 2018-19     | -.2%          |                                  |
| 2019-20     | -5.7%         |                                  |
| 2020-21     | -4.1%         | -\$3.8                           |
| 2021-22     | 7.9%          | -\$3.2                           |
| 2022-23     | 2.7%          | -\$2.4                           |
| 2023-24     | 1%            | -\$2.4                           |
| 2024-25     | 1%            | -\$2.4                           |

# Gas Tax



| YoY Revenue Growth |        |
|--------------------|--------|
| July 19 – March 20 | .2%    |
| April – June 2020  | -24.0% |
| July – Oct. 2020   | -11.5% |
| Nov. 20 – Jan. 21  | -10.1% |
| Feb. – Mar. 2021   | -10.6% |

# Gas Tax

- -\$2.7 million variance through March.
- Recommend downward revision of \$3.8 million in FY 21. FY 21 gas tax revenue is 9.5% lower than FY 19.
- Forecast assumes gradual improvement relative to pre-pandemic revenues but slower improvement compared to December forecast.

# Special Fuels Tax

- Small positive variance FY to date is the result of lower than forecast refunds. The timing of these refunds is highly variable.
- Gross revenue under budget \$837,000 through March.
- Recommend downward revision of approximately \$100,000 in FY 21 and \$1 million in each year after FY 21.