

MRS Office of Tax Policy
Presentation for March 2022
Revenue Forecast

Revenue Through the First Seven Months of the Fiscal Year

Fiscal Year	Amount (\$million)				Average Annual Growth Between FY 22 and:		
	2019	2020	2021	2022	2019	2020	2021
Individual Income Tax	\$1,036.0	\$1,101.9	\$1,180.3	\$1,348.7	9.2%	10.6%	14.3%
Sales & Use Tax	\$957.3	\$1,024.8	\$1,056.7	\$1,282.9	10.2%	11.9%	21.4%
Corporate Income Tax	\$133.4	\$117.3	\$132.7	\$207.7	15.9%	33.1%	56.6%
Cig. And Tobacco Tax	\$79.3	\$81.5	\$85.4	\$87.0	3.1%	3.4%	1.9%
Estate Tax	\$3.1	\$16.8	\$15.4	\$30.5	113.9%	34.8%	98.1%
SPT, General Fund	\$35.9	\$33.9	\$31.7	\$29.7	-6.1%	-6.5%	-6.6%
RETT, General Fund	\$12.9	\$9.0	\$11.8	\$17.3	10.2%	38.7%	46.2%
Total	\$2,257.9	\$2,385.0	\$2,514.1	\$3,003.7	10.0%	12.2%	19.5%

Sales & Use Tax

Sales Tax History and Forecast

(\$million)

Fiscal Year	Actual and Recommended Forecast	Annual Growth	Revision to current forecast
2017	\$1,336.9		
2018	\$1,423.6	6.5%	
2019	\$1,503.8	5.6%	
2020	\$1,555.7	3.5%	
2021	\$1,804.2	16.0%	
2022	\$2,042.9	13.2%	\$28.2
2023	\$2,114.5	3.5%	\$37.9
2024	\$2,180.8	3.1%	\$47.7
2025	\$2,246.3	3.0%	\$56.4

Sales Tax Main Points

- Phenomenal revenue performance in 2021

Revenue from calendar year sales*	Q1	Q2	Q3	Q4	Year
2020 v. 2021	24.9%	41.6%	21.7%	16.8%	24.2%
2019 v. 2021	29.4%	32.1%	23.2%	24.5%	26.6%

- Positive variances in December (\$7.3 million/5.1%) and January (\$3.16 million/ 1.8%)
 - Rental of lodging sales continues to exceed expectations
- Revisions to the economic forecast explain the recommended upward adjustment
 - Increase in personal income forecast + savings rate forecast mostly unchanged → increase Maine PCE forecast

*For example, Q1 refers to February through April revenue, which arises mainly from January – March sales. Excludes the net accrual in 2021 Q2. With the net accrual, 2021 Q2 YoY growth is 51.1%.

CEFC Forecast

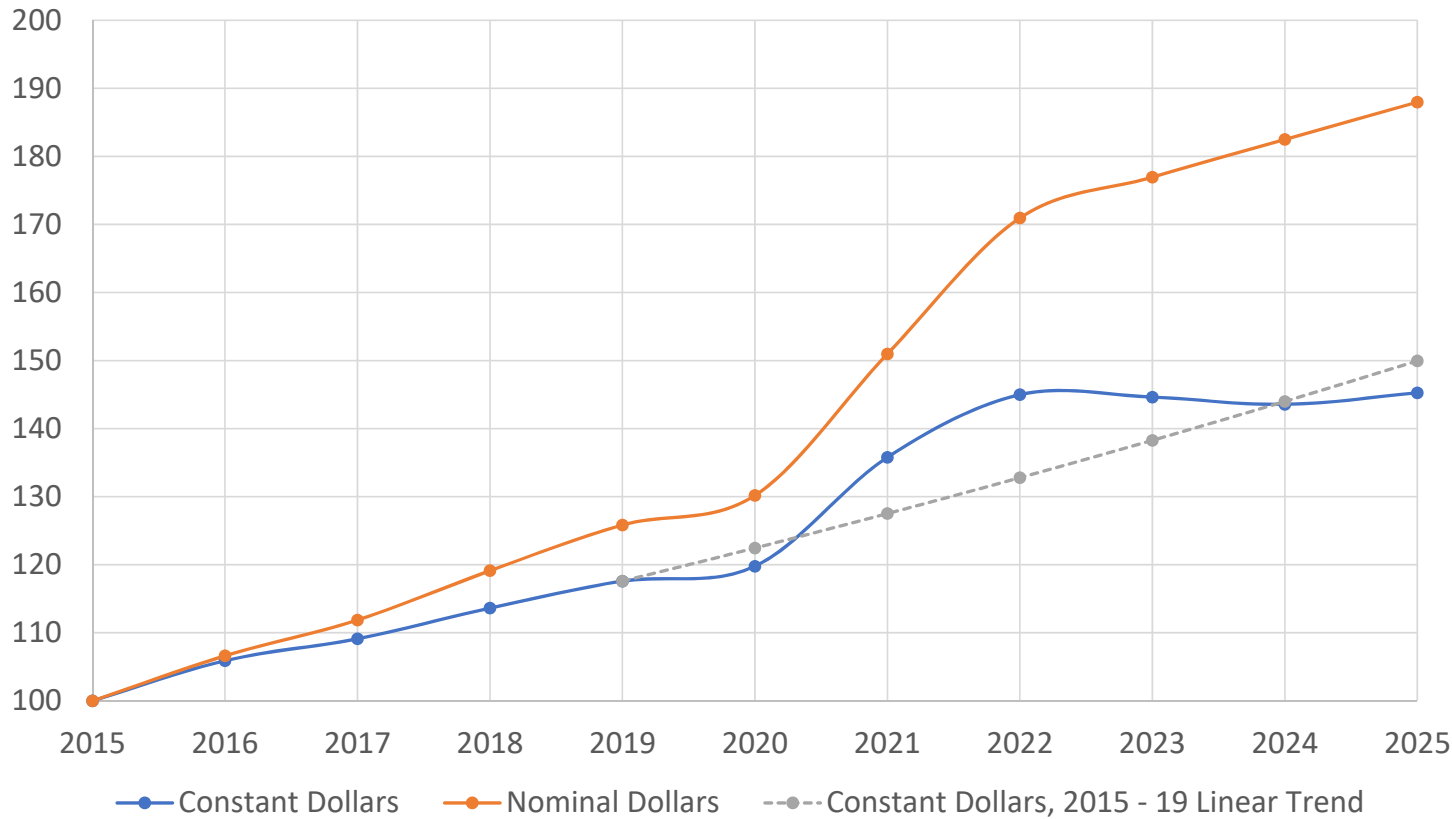
	2021	2022	2023	2024	2025
	CPI				
February 2022, annual % change	4.7%	5.0%	4.0%	2.5%	2.5%
November 2021, annual % change	4.4%	3.5%	2.1%	2.1%	2.1%
Price level, Current / Previous Forecast	0.3%	1.7%	3.6%	4.0%	4.4%
	Personal Income				
February 2022, annual % change	6.5%	1.7%	5.0%	4.9%	4.6%
November 2021, annual % change	5.2%	0.5%	4.6%	4.8%	4.6%
Personal Income, Current / Previous Forecast	1.2%	2.4%	2.8%	2.9%	2.8%
	Average Price of New Vehicle Price				
February 2022, annual % change	12.1%	5.6%	-11.2%	-3.3%	6.5%
November 2021, annual % change	11.2%	2.6%	2.2%	1.0%	0.7%
Average price, Current / Previous Forecast	0.8%	3.8%	-9.9%	-13.7%	-8.7%
	New vehicle registrations				
February 2022, annual % change	7.7%	-7.0%	6.2%	0.8%	-1.6%
November 2021, annual % change	5.6%	-8.3%	7.7%	2.5%	-1.7%
Registrations, Current / Previous Forecast	2.0%	3.5%	2.0%	0.4%	0.4%
Construction employment, Current / Previous Forecast	-0.7%	1.1%	1.2%	0.1%	0.1%

Source of Forecast Adjustments

	2022	2023	2024	2025
Non-auto 5.5% Sales	\$20.0	\$41.9	\$64.3	\$68.5
Lodging 9%	\$5.4	\$5.6	\$5.9	\$6.1
Auto Sales 5.5%	\$4.1	-\$8.7	-\$21.1	-\$15.7
Prepared Food 8%	\$1.5	\$1.6	\$1.6	\$1.7
Short-term auto rental 10%	-\$0.6	-\$0.2	\$0.0	\$0.0
Adult use MJ 10%	-\$0.9	-\$3.0	-\$3.5	-\$4.7
Residual/(Revenue – liability_t-1)	-\$0.3	\$0.0	\$0.0	\$0.0
Net accrual	-\$1.0	\$0.6	\$0.5	\$0.6
Total	\$28.2	\$37.9	\$47.7	\$56.4

Sales & Use Tax Revenue by Fiscal Year

Actual and December Forecast Recommendation; 2015=100



6.5% average annual growth nominal revenue FY 2015 - 2025

2015 – 2019 Growth: Many large remote sellers began collecting sales tax over this period.

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	12.7%	
2021-22**	5.1%	\$126.5
2022-23	0.5%	\$80.5
2023-24	3.8%	\$63
2024-25	5.4%	\$87

*Without 1040 estimated and final payment accruals FY 20 growth would have been -14.1%.

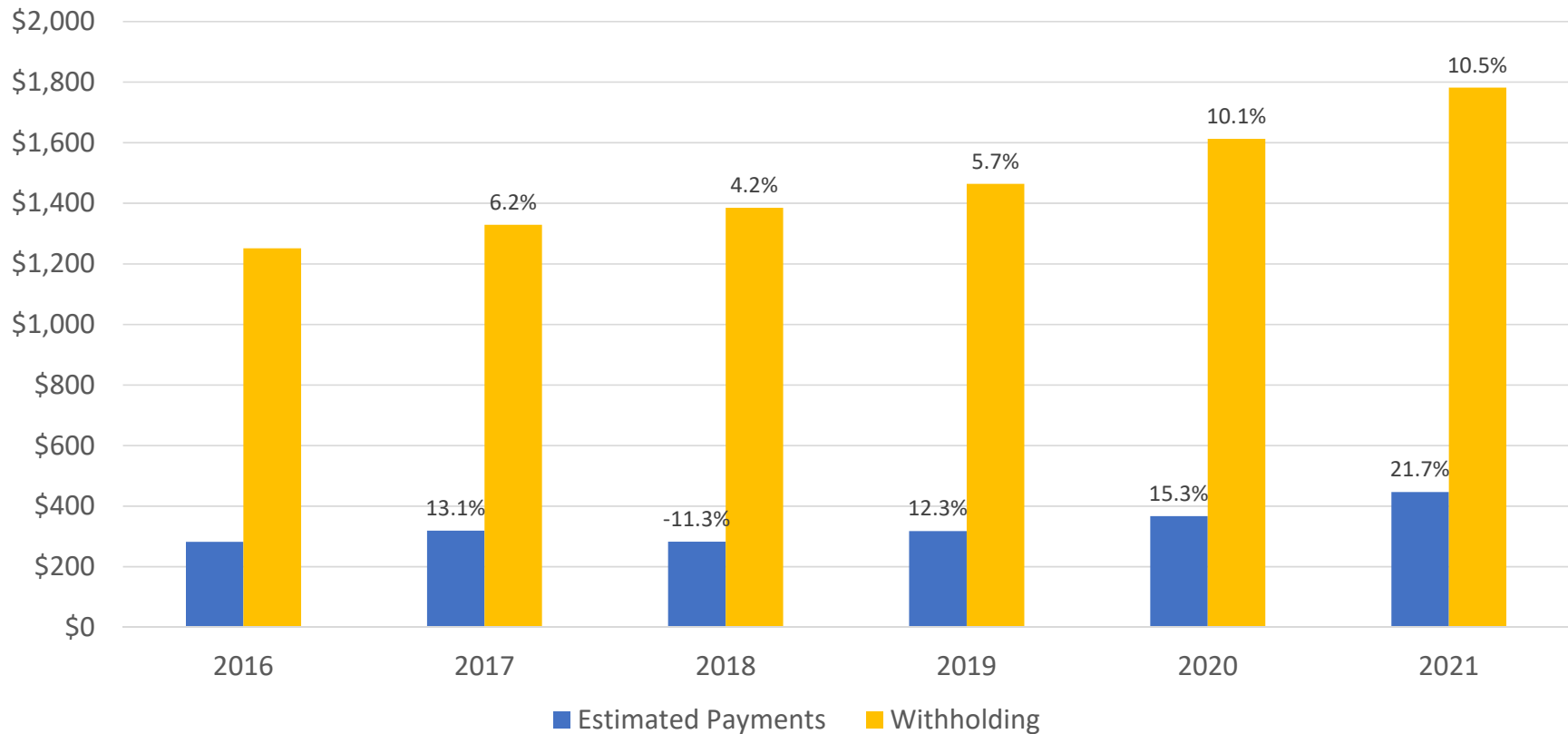
**Approximately 6.5% growth without the refundable credit expansions in tax year 2021.

Individual Income Tax: Main Points

- Withholding and estimated payments growth associated with tax year 2021 both very strong and significantly over budget
 - Economic forecast revisions for 2021 help explain variance
- Recommended changes to revenue forecast reflect three main factors
 - New economic forecast
 - Large upward adjustments to wages and nonfarm proprietor's income forecast especially significant
 - Higher inflation reduces revenue, all else equal
 - Capital gains upward adjustment in tax year 2021 and downward adjustment in 2022
 - Downward adjustment to nonresident liability after tax year 2021
- Tax liability growth will likely exceed 10% for two consecutive years

Withholding and Estimated Payments

(\$million)



Estimated payments year t = February 9th year t through February 8th year $t+1$

Withholding = Calendar year withholding after moving first week of January deposits to December

Withholding and Estimated Payments, 2021

- Withholding
 - \$38.8 million variance through December
 - 2021 wage forecast upward revision from 5.5% to 7.7% growth helps explain why over budget
 - Non-wage withholding
 - Unemployment withholding fell by \$31.5 million, a 56% reduction
 - Other non-wage withholding increased by roughly \$24 million, a 30% increase
 - 2020 suspension of required minimum distributions expired in 2021
- Estimated payments
 - \$43.7 million variance through February 17th
 - Tax year 2021 estimated payments approximately 40% higher than 2019

Income Tax Forecast: Wages

CEFC Wage Forecast

	2021	2022	2023	2024	2025
Feb. 2022	7.7%	6.5%	5.5%	5.0%	4.0%
Nov. 2021	5.5%	5.0%	5.0%	5.0%	4.0%
New wage forecast/previous*	2.1%	3.5%	4.0%	4.0%	4.0%
Increase in resident revenue forecast due to wage revisions (\$million)	\$41.7	\$74.8	\$89.2	\$94.2	\$98.4
Wage + unemployment insurance in MAGI forecast:					
	6.6%	4.4%	5.5%	5.0%	4.0%

Income Tax Forecast: Capital Gains

Tax Year	2019	2020	2021	2022	2023	2024	2025
March 2022	-1.7%	40%	39.5%	-33.8%	-2.0%	0%	0%
December 2021	-1.7%	40%	25.1%	-14.9%	-15.0%	0%	0%
Resident Liability, March 2022 (\$million)	\$145.8	\$208.0	\$298.3	\$186.8	\$180.3	\$178.2	\$177.0
Contribution to resident liability revision (\$million)			\$33.0	-\$33.4	-\$1.1	-\$1.4	-\$1.7

Income Tax Forecast: Business Income

Nonfarm Proprietor's Income, Annual Growth

	2020	2021	2022	2023	2024	2025
February 22 CEFC	0.8%	10.0%	8.5%	6.0%	5.7%	5.4%
November 21 CEFC	0.8%	5.5%	6.5%	6.0%	5.7%	5.4%
New forecast / previous	0.0%	4.3%	6.2%	6.2%	6.2%	6.2%

- 2020 and 2021 nonfarm proprietor's income includes new nontaxable subsidies, including forgiven PPP loans, EIDL advances, and restaurant revitalization fund grants.
- Policy will be a drag on growth in 2022

Income Tax Forecast: Inflation

- Resident liability before refundable credits would be \$13 million higher in 2023, \$27 million higher in 2024, and \$47 million higher in 2025 if the inflation forecast was unchanged
- Lagged inflation adjustments + accelerating inflation result in temporary bracket creep
 - Tax year t tax brackets and other Maine parameters are based on inflation through June $t-1$; standard deduction and other federal tax parameters are based on inflation through August $t-1$; round down rules apply
 - 2021
 - C-CPI-U growth: 4.6%
 - Nominal wage growth forecast: 7.7%
 - Standard deduction increased 1.2% and tax brackets increased 1 – 1.1%; personal exemption no change
 - 2022
 - CPI-U forecast 5.0%
 - Nominal wage growth forecast: 6.5%
 - Standard deduction increased 3.2% and tax brackets increased 2.4%; personal exemption increases 3.5%

Income Tax Forecast: Miscellaneous

- Extension of student loan repayment deferral reduces the Opportunity Maine Tax Credit forecast for 2022
- Changed assumptions about nonresident liability growth
 - Before: Same annual growth rate as residents
 - Current: 2019 – 2022 growth the same for nonresidents and residents
 - Liability excluding full-year residents grew 26% in 2020 >> full-year resident liability growth, so change reduces the tax liability forecast in 2022 and beyond

Individual Income Tax: History and Recommended Tax Liability Growth Rates

(\$million)

Tax year	Liability before refundable credits	Liability after refundable credits
2018	5.6%	4.9%
2019	5.9%	6.0%
2020	12.2%	11.7%
2021	11.1%	10.2%
2022	-0.3%	-0.8%
2023	4.4%	4.3%
2024	5.6%	5.8%
2025	4.6%	4.8%

These growth rates represent actual or forecast liability growth as of August three years after the tax year.

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	31.5%	
2021-22	16.1%	\$75
2022-23	1.8%	\$62
2023-24	9.7%	\$54
2024-25	6.0%	\$58.25

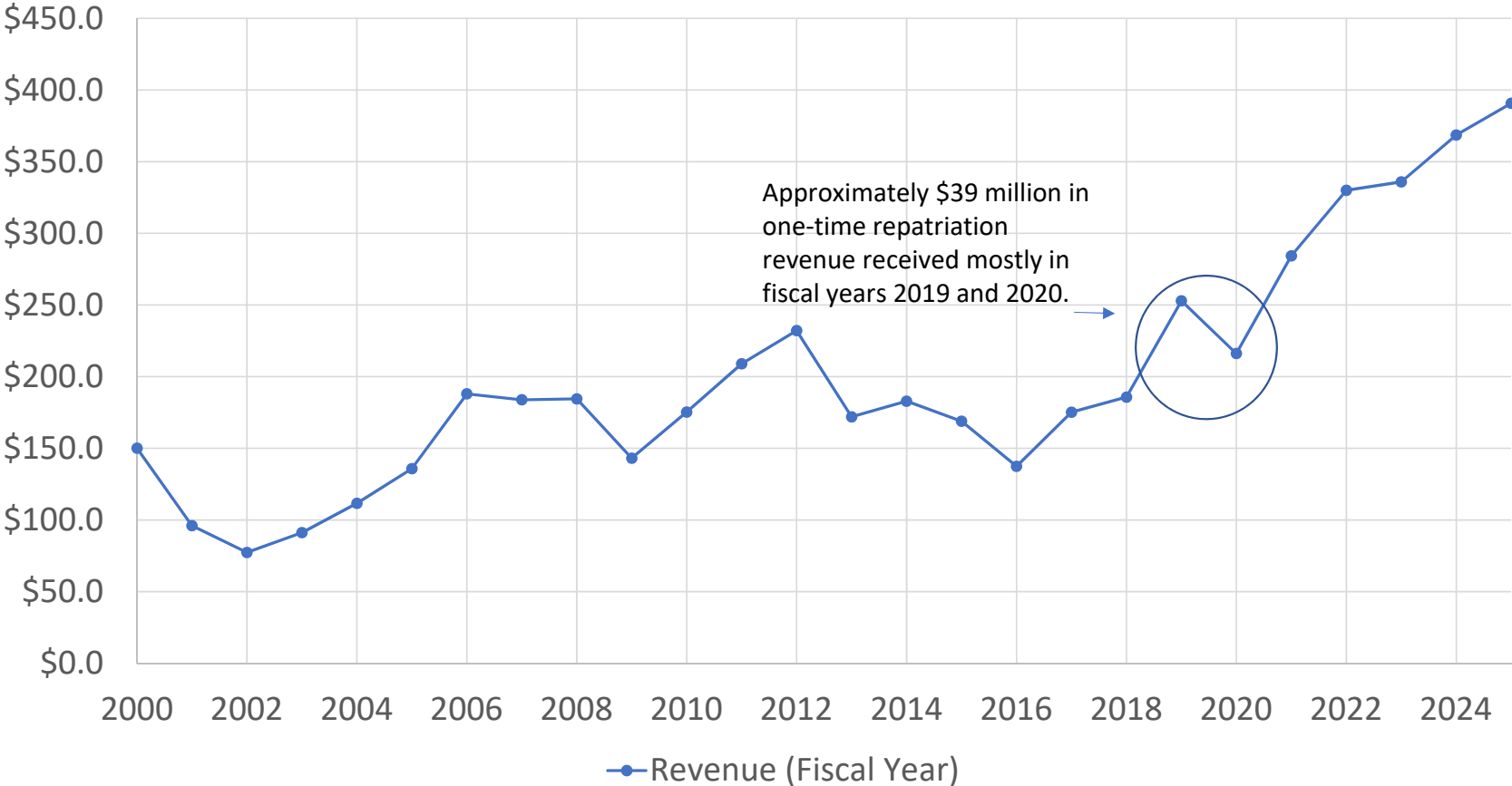
Corporate Income Tax: CEFC Before-Tax Corporate Profits Forecast, Annual Growth

	2021	2022	2023	2024	2025
February 22 CEFC	45.0%	4.0%	4.0%	6.0%	6.0%
November 21 CEFC	30.0%	2.0%	3.0%	6.0%	6.0%
Current CEFC Forecast / Prior CEFC Forecast, level	11.5%	13.7%	14.8%	14.8%	14.8%

- \$47.6 million variance through January, primarily from estimated payments

Corporate Income Tax Revenue: History and Forecast

(\$million)



Other Taxes

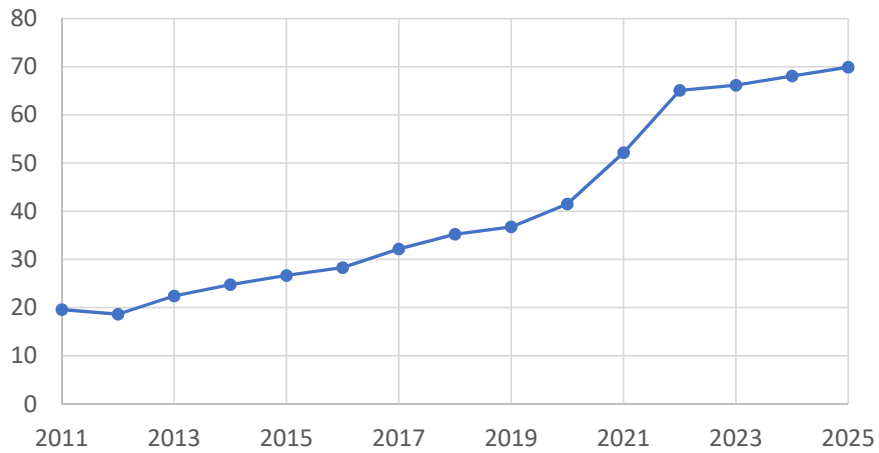
Real estate transfer tax

	Home price, existing median		Home sales, existing single-family	
	November Forecast	February Forecast	November Forecast	February Forecast
2020	13.0%	13.0%	22.9%	22.9%
2021	18.7%	19.1%	-7.9%	-6.4%
2022	4.2%	7.5%	-2.4%	-5.5%
2023	1.8%	1.7%	7.7%	4.2%
2024	0.4%	1.1%	9.1%	18.3%
2025	0.4%	0.8%	-2.9%	-0.8%

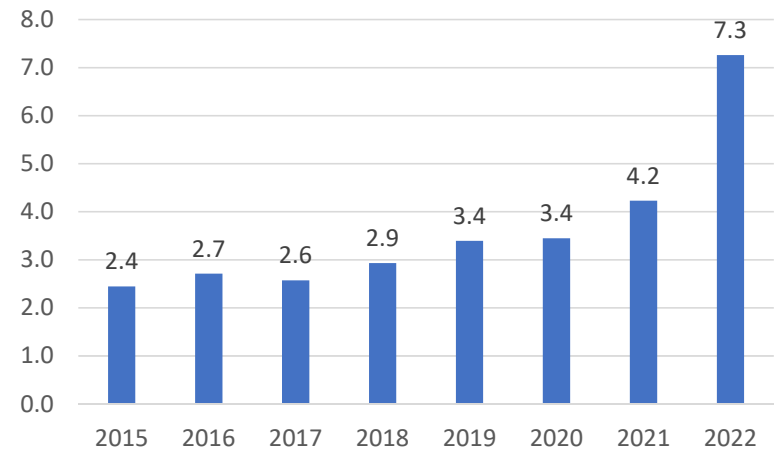
- \$1.67 million General Fund variance through January
- Increase General Fund forecast by approximately \$3 million in FY 2022 and \$3 - \$4 million per year afterward.

RETT Revenue History

Total RETT Revenue by Fiscal Year
(\$million)



Total January RETT Revenue
(\$million)



Cigarette, Tobacco, and Marijuana Excise Taxes

- Marijuana Excise Tax
 - Downward adjustment of \$525,000 in FY 2022 and \$2.1 - \$2.8 million after FY 2022
 - New forecast recommendation slows growth rate of adult use marijuana
- Cigarette and Tobacco Products Tax
 - No change to forecast recommendation
 - \$1.9 million combined variance through January
 - Municipal flavored tobacco bans

Estate Tax

Fiscal Year	2022	2023	2024	2025
Forecast Change (\$mil)	\$8.05	\$2.0	\$2.75	\$3.0

\$6.3 million variance through January

Business Equipment Tax Exemption Reimbursement

Forecast change in reimbursements

Fiscal Year	2022	2023	2024	2025
Forecast Change (\$mil)	\$1.23	\$1.34	\$1.44	\$1.54

Fuel Taxes

Recommended Forecast Change (\$million)

Fiscal Year	2022	2023	2024	2025
Gas Tax	-\$2.30	-\$2.36	-\$2.38	-\$2.41
Special Fuels Tax	\$2.34	\$2.35	\$2.38	\$2.40