

MRS Office of Tax Policy
Presentation for December
2022 Revenue Forecast

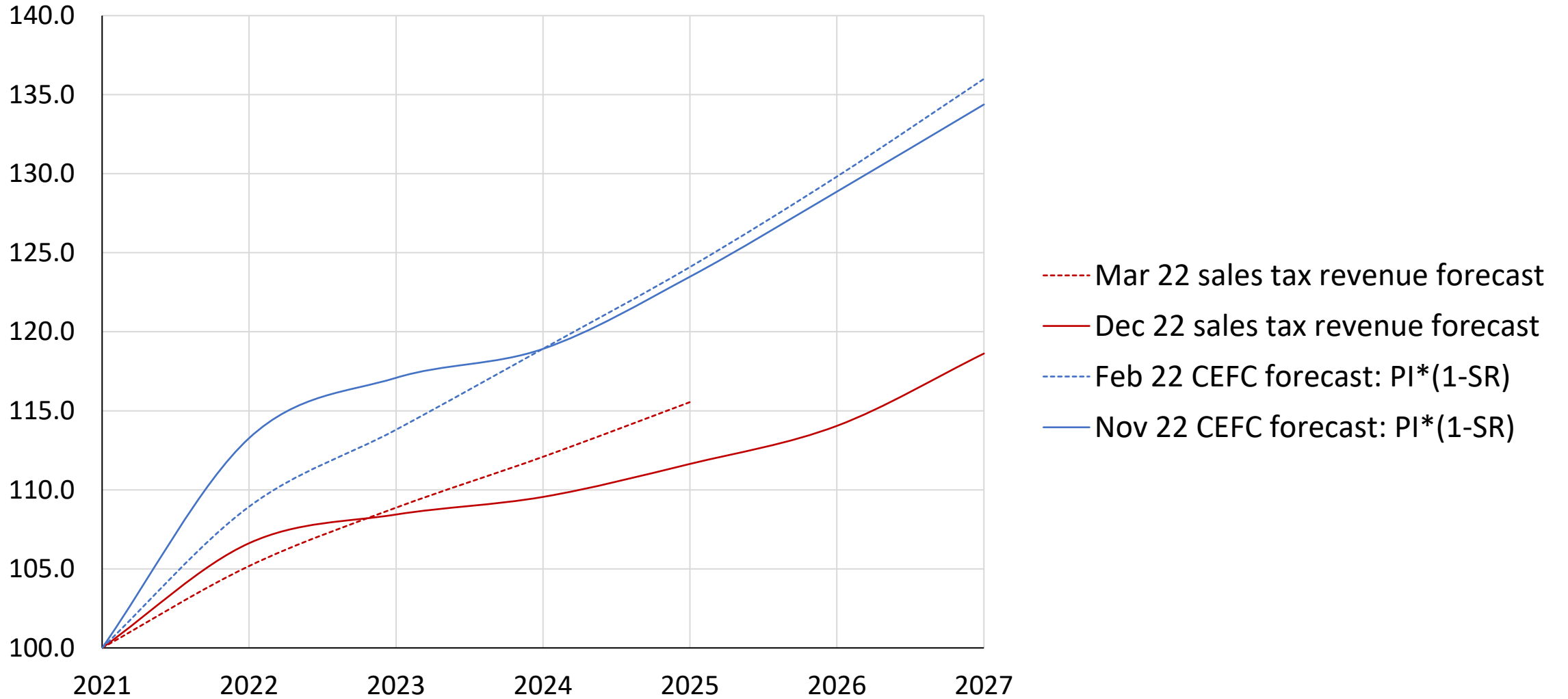
Sales & Use Tax

Sales Tax History and Forecast

\$million

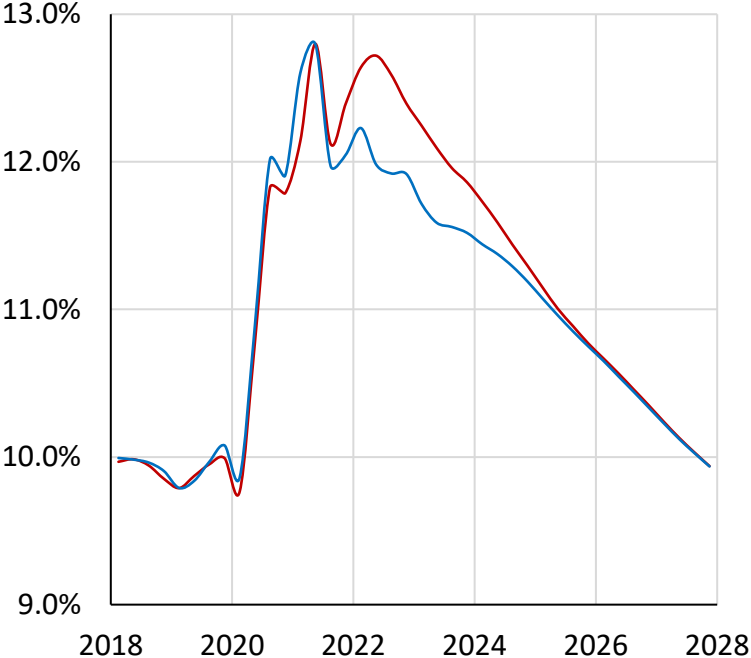
Fiscal Year	Actual and Recommended Forecast	Annual Growth	Revision to current forecast (\$)	Revision to current forecast (%)
2019	\$1,503.8	5.6%		
2020	\$1,555.7	3.5%		
2021	\$1,804.2	16.0%		
2022	\$2,078.9	15.2%	\$36.0	1.8%
2023	\$2,135.2	2.7%	\$20.6	1.0%
2024	\$2,160.9	1.2%	-\$17.7	-0.8%
2025	\$2,188.3	1.3%	-\$54.9	-2.5%
2026	\$2,240.4	2.4%	-	-
2027	\$2,292.0	2.3%	-	-

Forecast Revisions (2021 = 100)



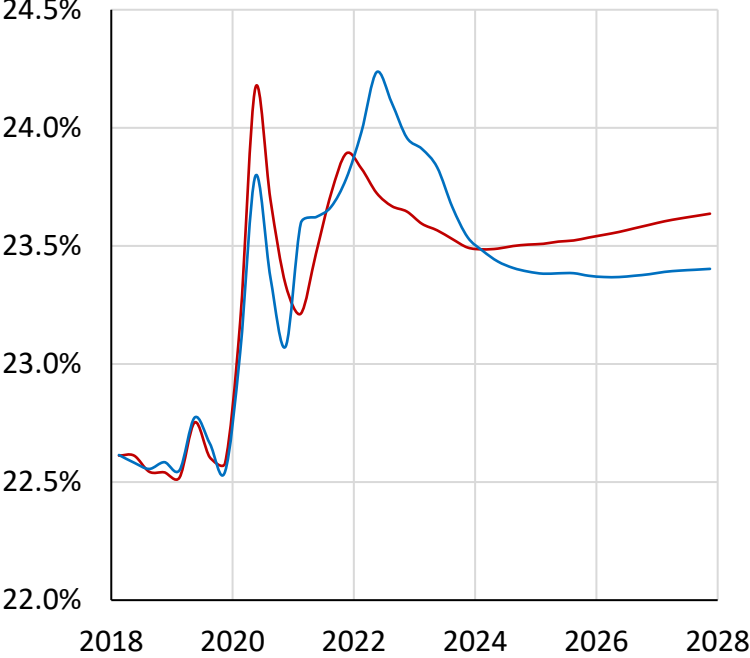
PCE Composition – Moody's baseline forecast

Durable goods



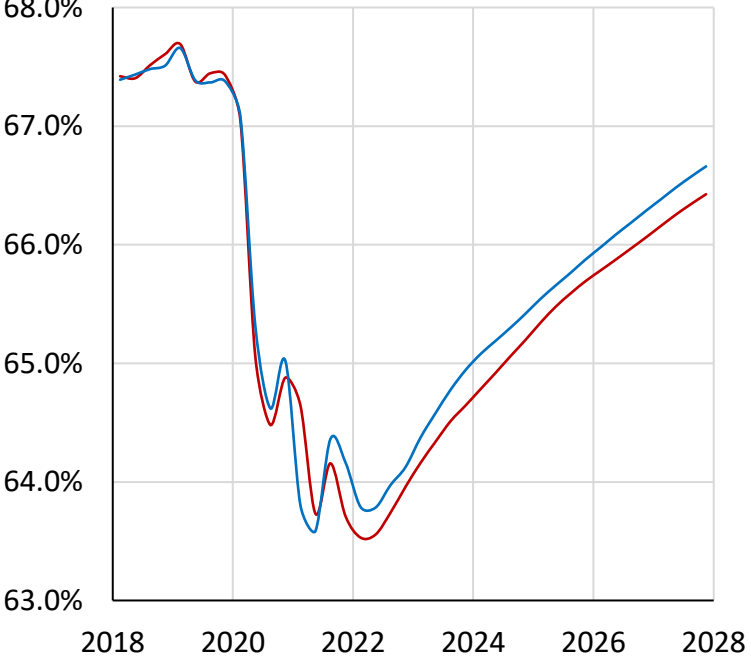
— January forecast — October forecast

Nondurable goods



— January forecast — October forecast

Services



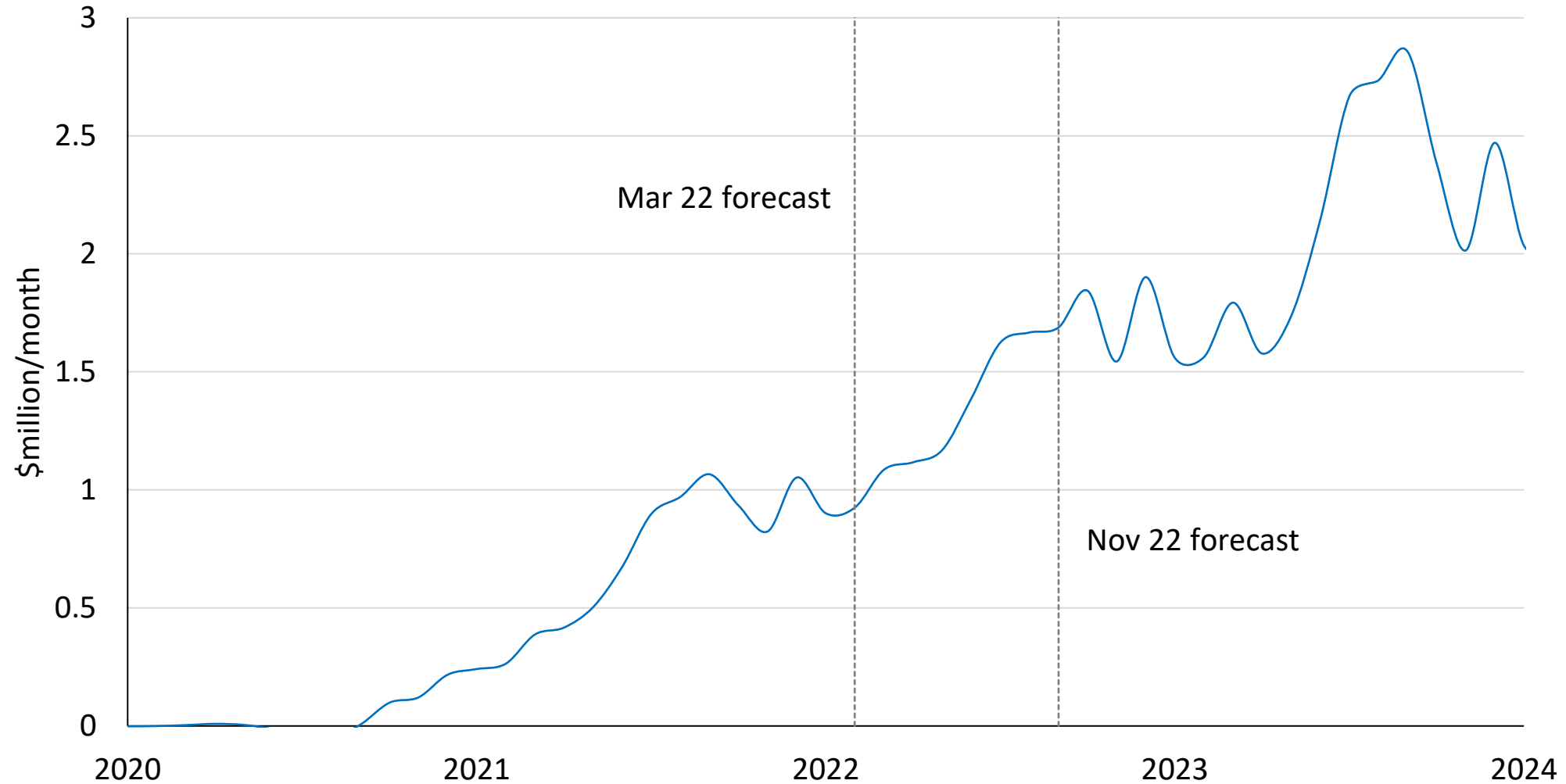
— January forecast — October forecast

Source of Forecast Adjustments

Fiscal Year, \$million
(%)

	2022	2023	2024	2025
Non-auto 5.5% Sales	\$24.5 (2.0%)	\$11.5 (0.9%)	-\$30.6 (-2.2%)	-\$54.1 (-3.9%)
Lodging 9%	\$4.4 (3.0%)	\$3.2 (2.0%)	-\$0.2 (-0.1%)	-\$0.04 (-0.02%)
Auto Sales 5.5%	\$0.9 (0.3%)	-\$20.0 (-7.3%)	-\$3.0 (-1.1%)	-\$8.6 (-3.1%)
Prepared Food 8%	\$5.9 (2.0%)	\$27.6 (8.8%)	\$23.6 (7.3%)	\$13.5 (4.0%)
Short-term auto rental 10%	\$0.5 (3.4%)	\$1.9 (12.5%)	\$0.7 (4.5%)	\$0.1 (0.8%)
Adult use cannabis 10%	\$0.2 (1.6%)	\$4.8 (32.3%)	\$9.2 (50.0%)	\$11.2 (50.2%)

Adult Use Cannabis Sales Tax Forecast



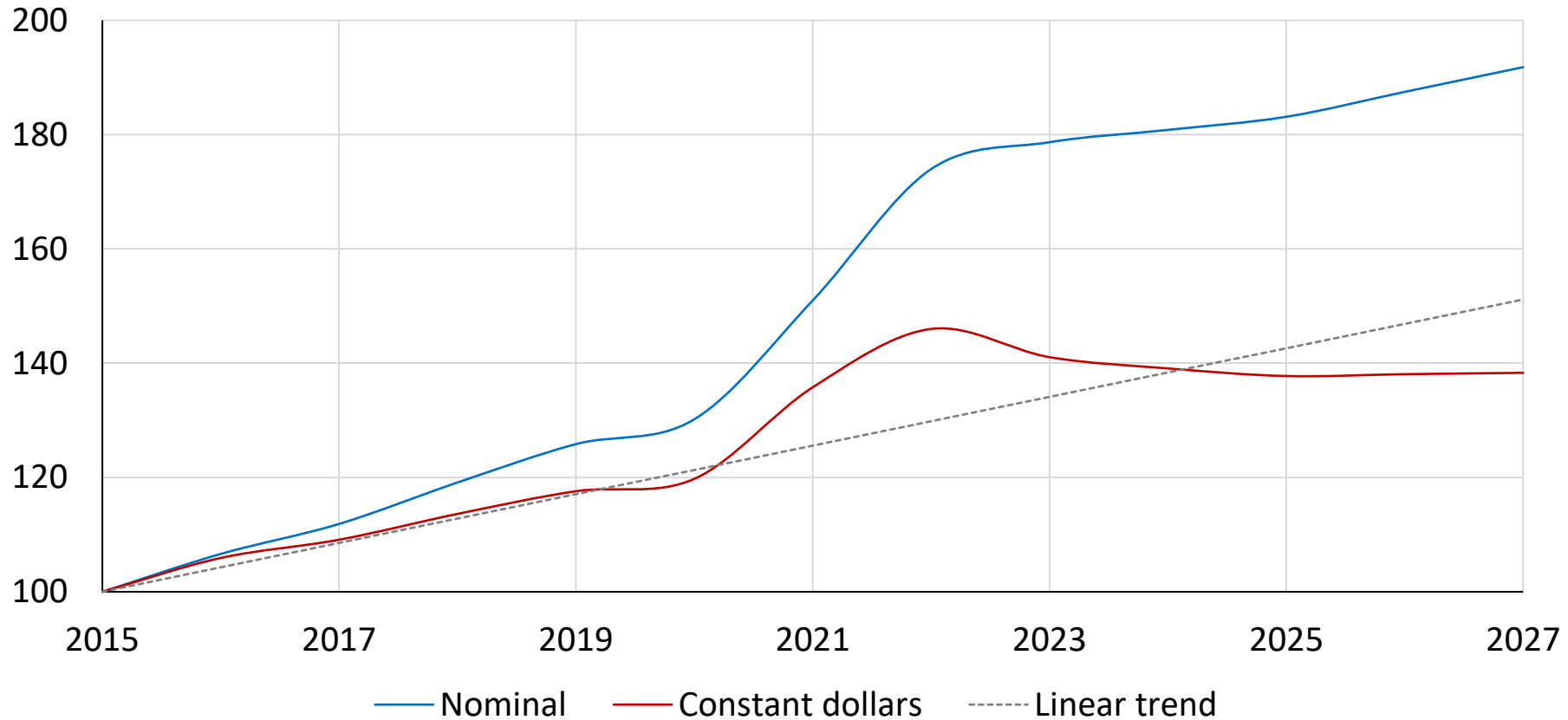
Service Provider Tax History and Forecast

\$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%	\$0.56	1.1%
2023	\$50.1	-2.9%	\$0.05	0.1%
2024	\$48.9	-2.4%	-\$0.65	-1.3%
2025	\$47.3	-3.1%	-\$1.66	-3.4%
2026	\$45.8	-3.3%	-	-
2027	\$44.2	-3.4%	-	-

Sales & Use Tax Revenue by Fiscal Year

Actual and Dec 22 forecast recommendations (2015=100)



5.6% average annual growth in nominal revenue FY 2015 - 2027

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	\$2,293.2	-11.1%	\$239.0	11.6%
2024	\$2,391.9	4.3%	\$263.5	12.4%
2025	\$2,483.9	3.8%	\$249.0	11.1%
2026	\$2,645.0	6.5%	-	-
2027	\$3,075.0	16.3%	-	-

Individual Income Tax: Main Points

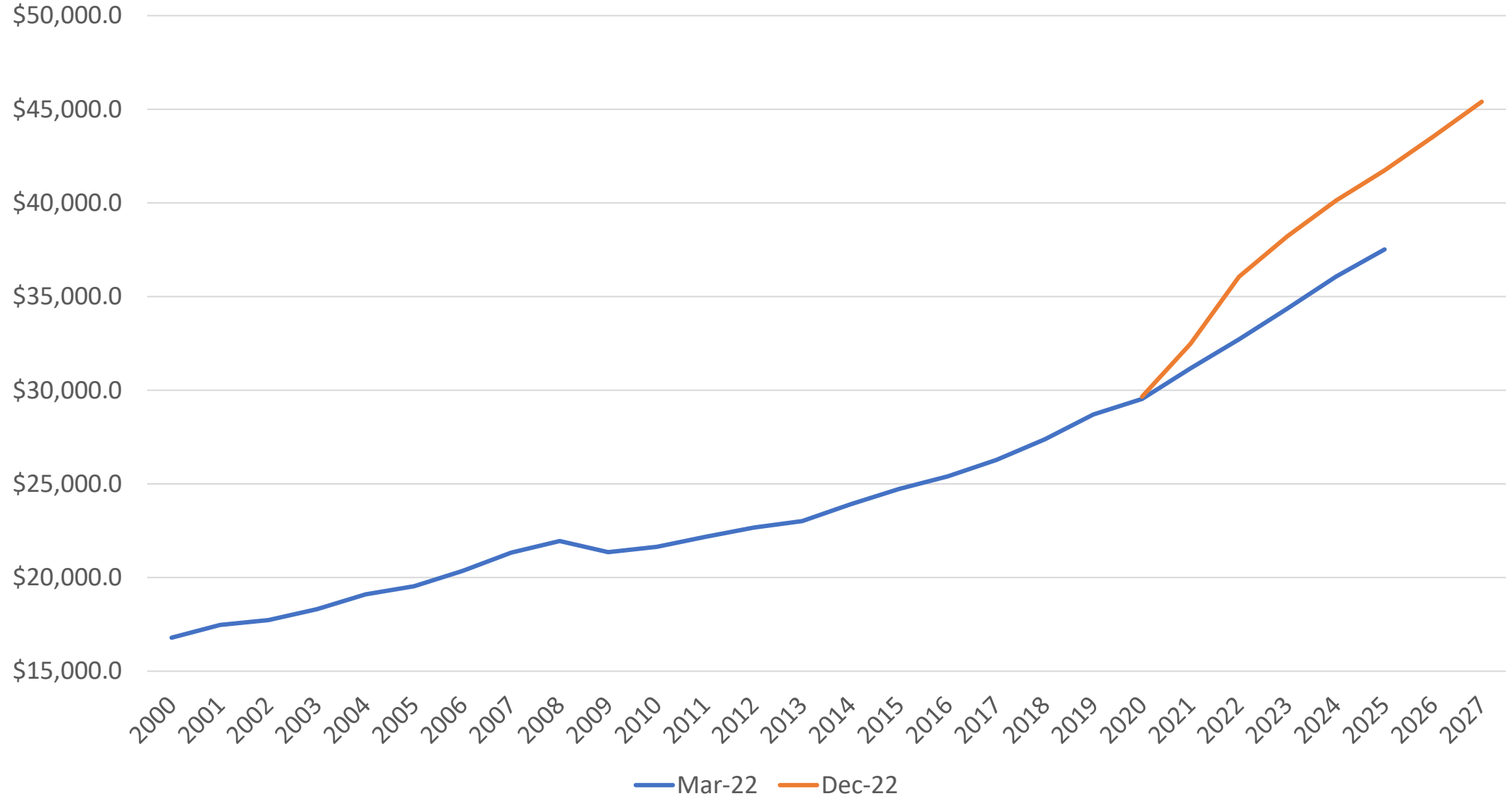
- Tax year 2021 liability variance explained by super normal growth in business income, capital gains, IRA distributions, and nonresident tax liability + upward revision to 2021 wages
- Despite 11% wage growth forecast in 2022 and 15% growth in 2022 estimated payments to date, we forecast that tax year 2022 liability falls. Forecast growth in 2023 and 2024 is lower than normal.
 - Income sources far above trend fall or slow significantly.
 - Tax cuts phase in.
 - Inflation adjustments are a drag on TY 2023 and 2024 growth.
 - Tax year 2022 collections to date likely do not reflect the factors that we expect to pull down liability growth.
- The increase in the CEFC wage forecast is responsible for most of the revenue forecast revision.
- The student loan repayment credit contributes to the upward revision (>\$50 million in FY 23) due to federal student loan relief and is an ongoing source of forecast uncertainty.

Data Disclaimer

- All 2020 and 2021 taxable income amounts are preliminary estimates.
 - Non-wage income growth based on E-File returns + adjustments to match Federal AGI on Maine resident returns.
 - Wage growth assumed to equal to growth of wages in personal income.
 - MRS has not yet received a key IRS data extract that would provide more complete information for 2020 and would also inform the 2021 estimates.

Wages in AGI

\$million



Wages

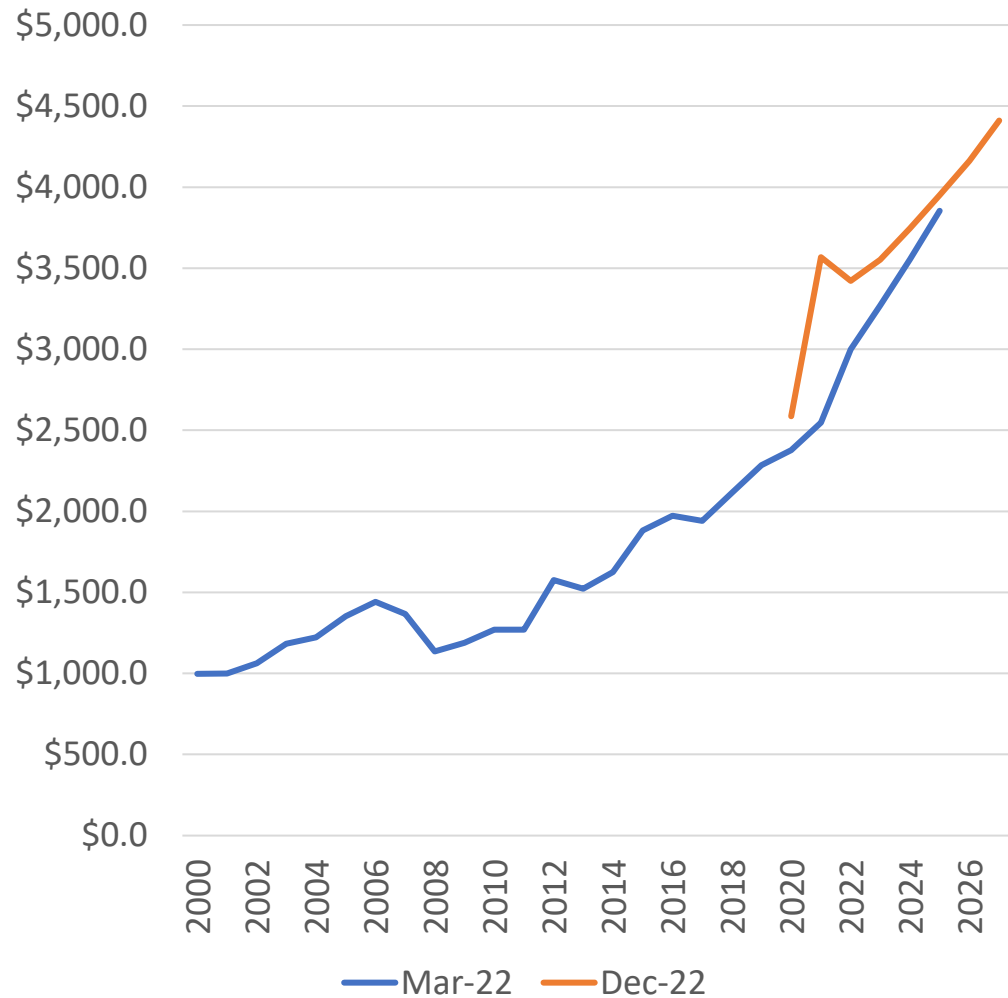
	2021	2022	2023	2024	2025	2026	2027
Feb. 2022 annual growth forecast	7.7%	6.5%	5.5%	5.0%	4.0%	4.3%	4.3%
Nov. 2022 annual growth forecast	9.5%	11.0%	6.0%	5.0%	4.0%	4.3%	4.3%
Current forecast vs. prior forecast level*	2.1%	6.5%	7.0%	7.0%	7.0%	7.0%	7.0%
Contribution to resident liability revision	\$44.2	\$151.0	\$171.1	\$179.1	\$186.5		

*Reflects both changes to growth rates and pre-2021 revisions.

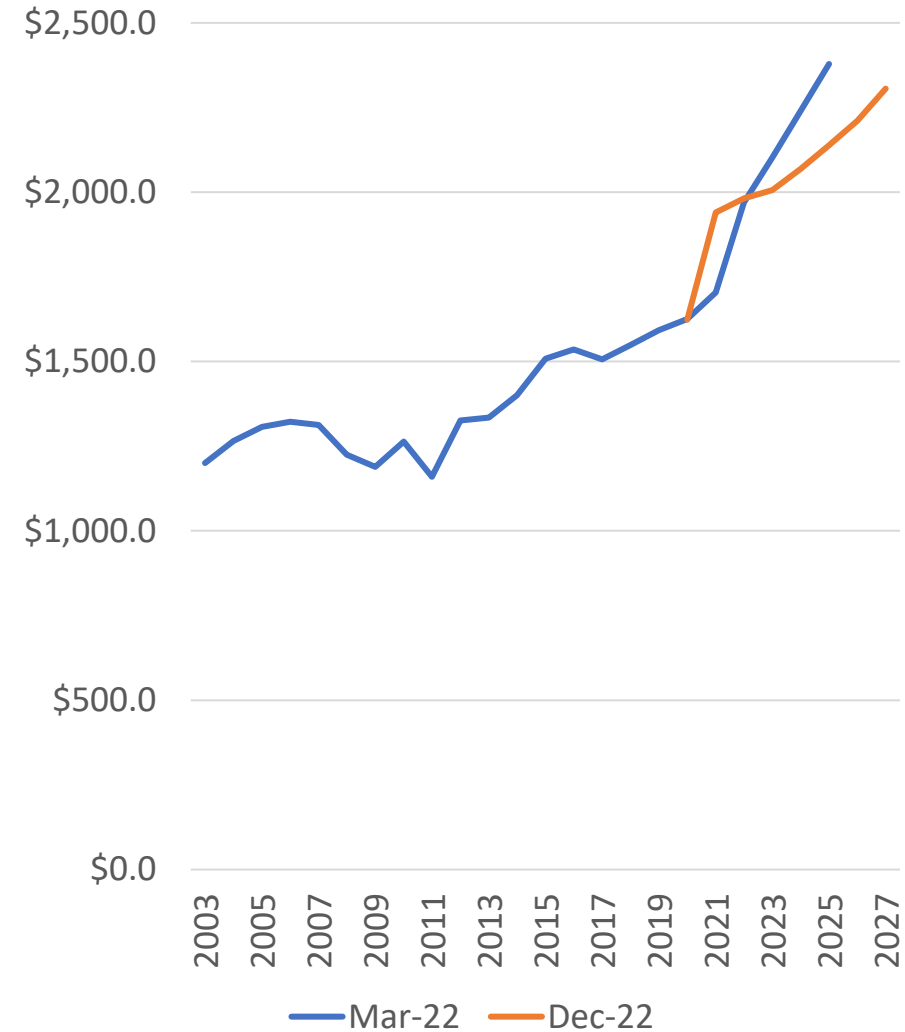
Business income in AGI

\$million

Schedule E income



Schedule C income



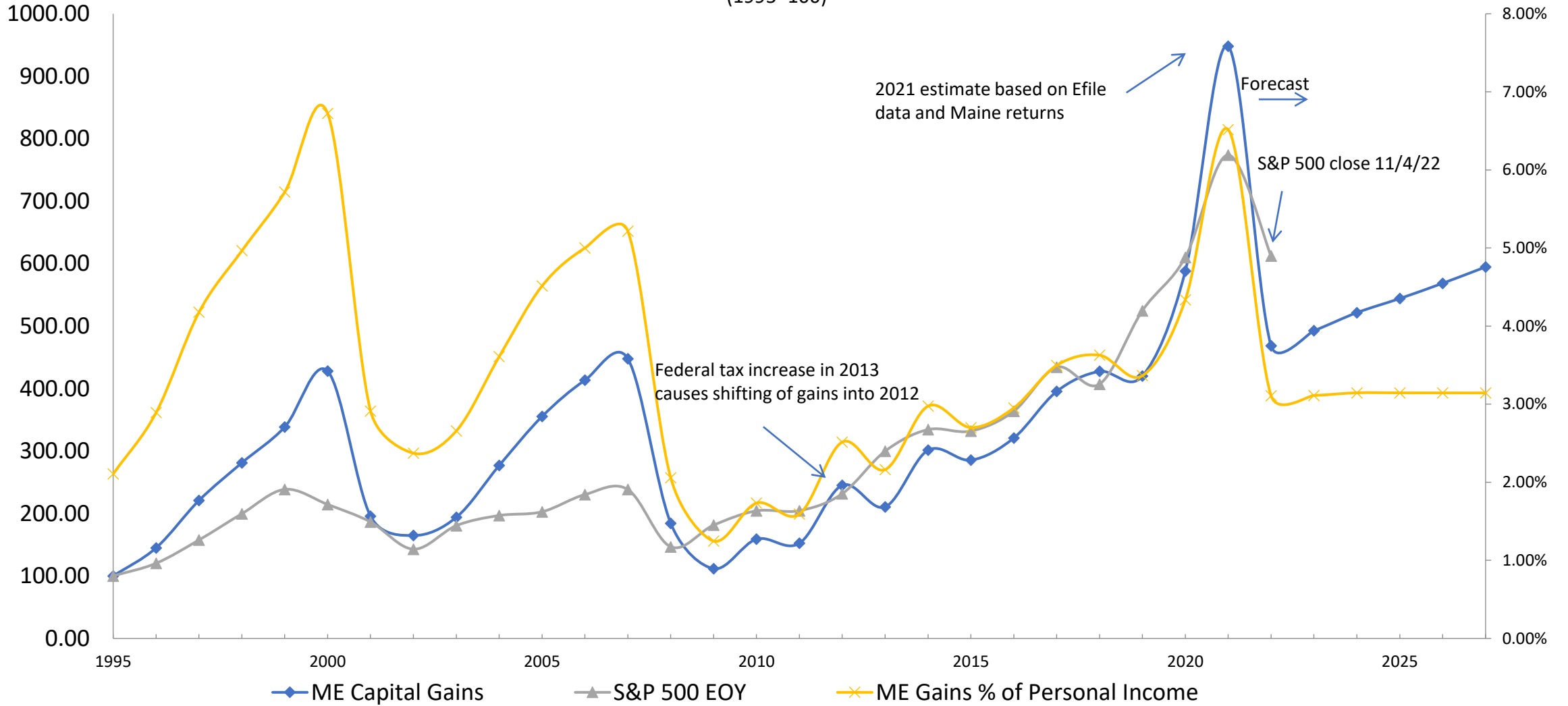
Business Income

Tax Year	2021	2022	2023	2024	2025	2026	2027
Nonfarm Proprietor's Income							
Feb. 2022 annual growth forecast	10.0%	8.5%	6.0%	5.7%	5.4%	4.5%	3.7%
Nov. 2022 annual growth forecast	4.5%	4.0%	2.0%	2.5%	2.8%	3.0%	4.0%
Nov. 2022 annual growth, excluding PPP	8.8%	11.1%	2.0%	2.5%	2.8%	3.0%	4.0%
Current forecast vs. prior forecast level*	5.1%	0.7%	-3.1%	-6.0%	-8.3%	-9.7%	-9.4%
Taxable income growth							
Schedule E	37.9%	-4.1%	3.8%	5.4%	5.5%	5.4%	5.9%
Schedule C	19.5%	2.2%	1.2%	3.1%	3.3%	3.4%	4.2%
Contribution to resident liability revision	\$92.7	\$35.4	\$14.6	\$1.9	-\$9.0		

*Reflects both changes to growth rates and pre-2021 revisions. 2020 nonfarm proprietor's income increased by more than 10% in the most recent revision.

Capital Gain Realizations Vs S&P 500

(1995=100)



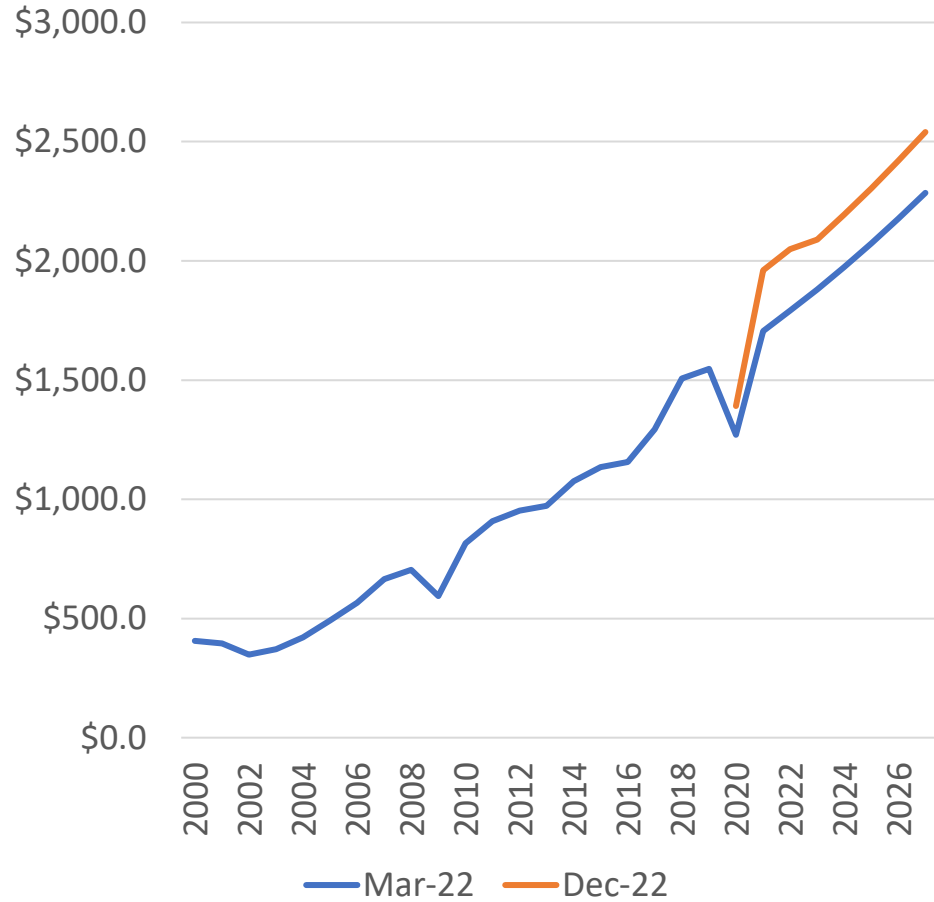
Capital Gains

Tax Year	2019	2020	2021	2022	2023	2024	2025	2026	2027
Feb. 2022 annual growth forecast	-1.7%	40.0%	39.5%	-33.8%	-2.0%	0.0%	0.0%		
Nov. 2022 annual growth forecast	-1.7%	40.0%	61.2%	-50.6%	5.2%	5.9%	4.3%	4.5%	4.6%
Contribution to resident liability revision			\$42.8	-\$24.0	-\$9.4	\$2.1	\$11.9		

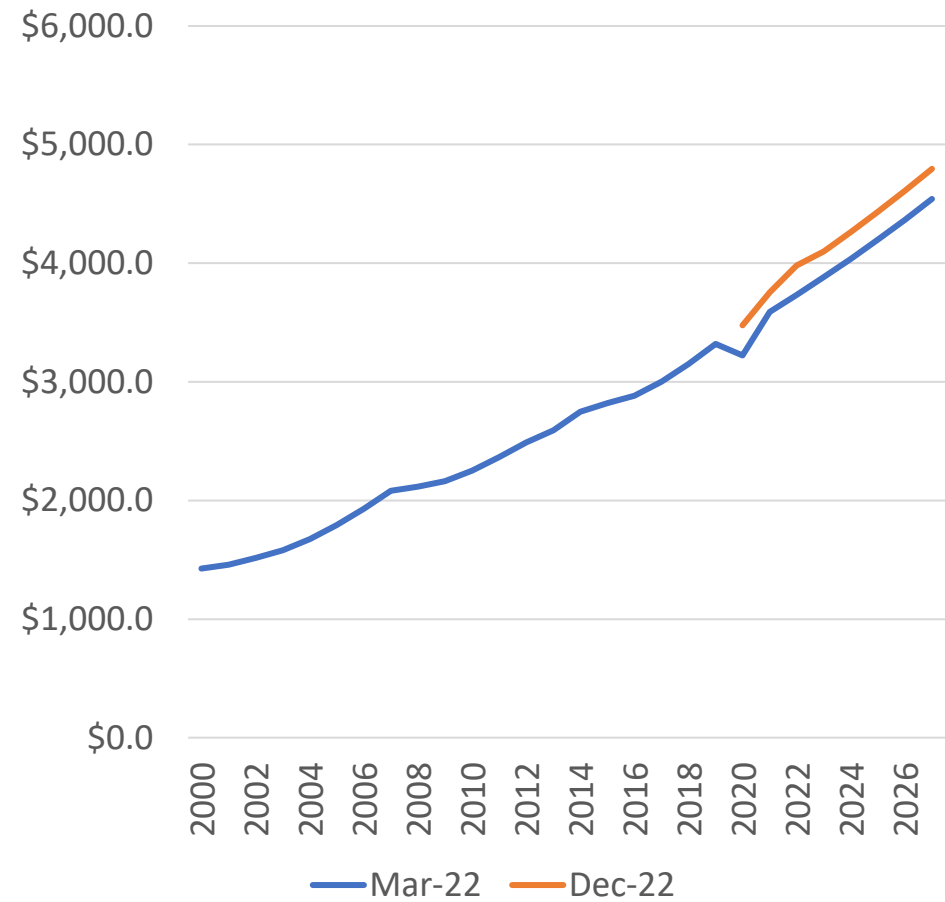
Retirement income in AGI

\$million

Taxable IRA Distributions



Taxable Pension Distributions



Retirement Income

	2021*	2022	2023	2024	2025	2026	2027
Taxable Pension Income							
Mar. 2022 growth forecast	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Dec. 2022 growth forecast	6.4%	6.0%	3.0%	4.0%	4.0%	4.0%	4.0%
Taxable IRA income							
Mar. 2022 growth forecast	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Dec. 2022 growth forecast	12.6%	4.5%	2.0%	5.0%	5.0%	5.0%	5.0%
Contribution to resident liability revision	\$24.5	\$26.7	\$21.7	\$21.8	\$23.1		

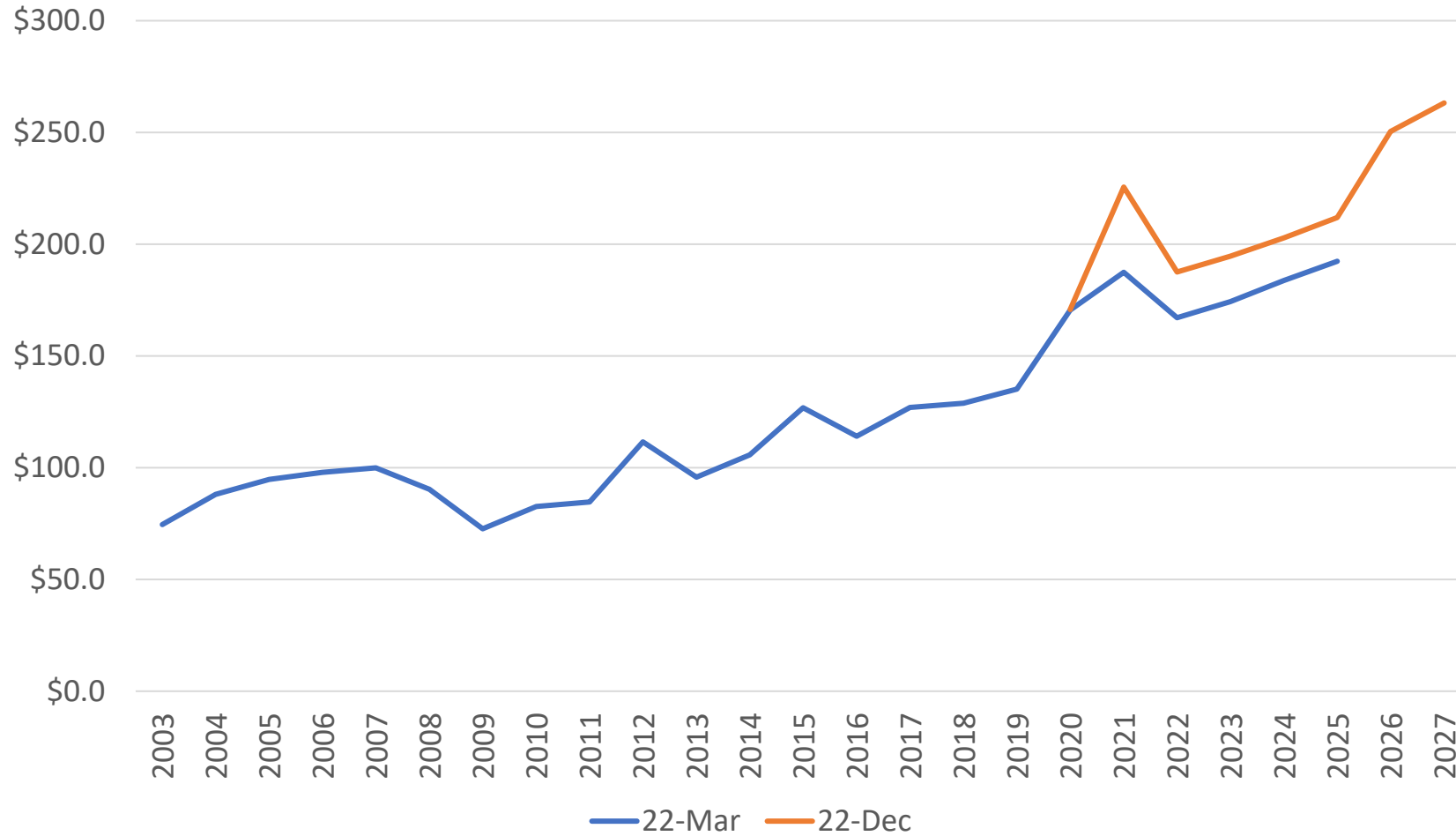
*2021 growth rate is the annual average growth between 2019 and 2021. Required minimum distributions were suspended in 2020, resulting in an estimated 18% decline in taxable IRA distributions.

CPI Inflation

Calendar Year	2022	2023	2024	2025	2026	2027
Feb. 2022 forecast	5.0%	4.0%	2.5%	2.5%	2.5%	2.5%
Nov. 2022 forecast	8.3%	5.8%	4.0%	3.5%	3.5%	3.0%
Contribution to resident liability revision from updated income tax COLAs by tax year		-\$9.5	-\$55.2	-\$64.6		

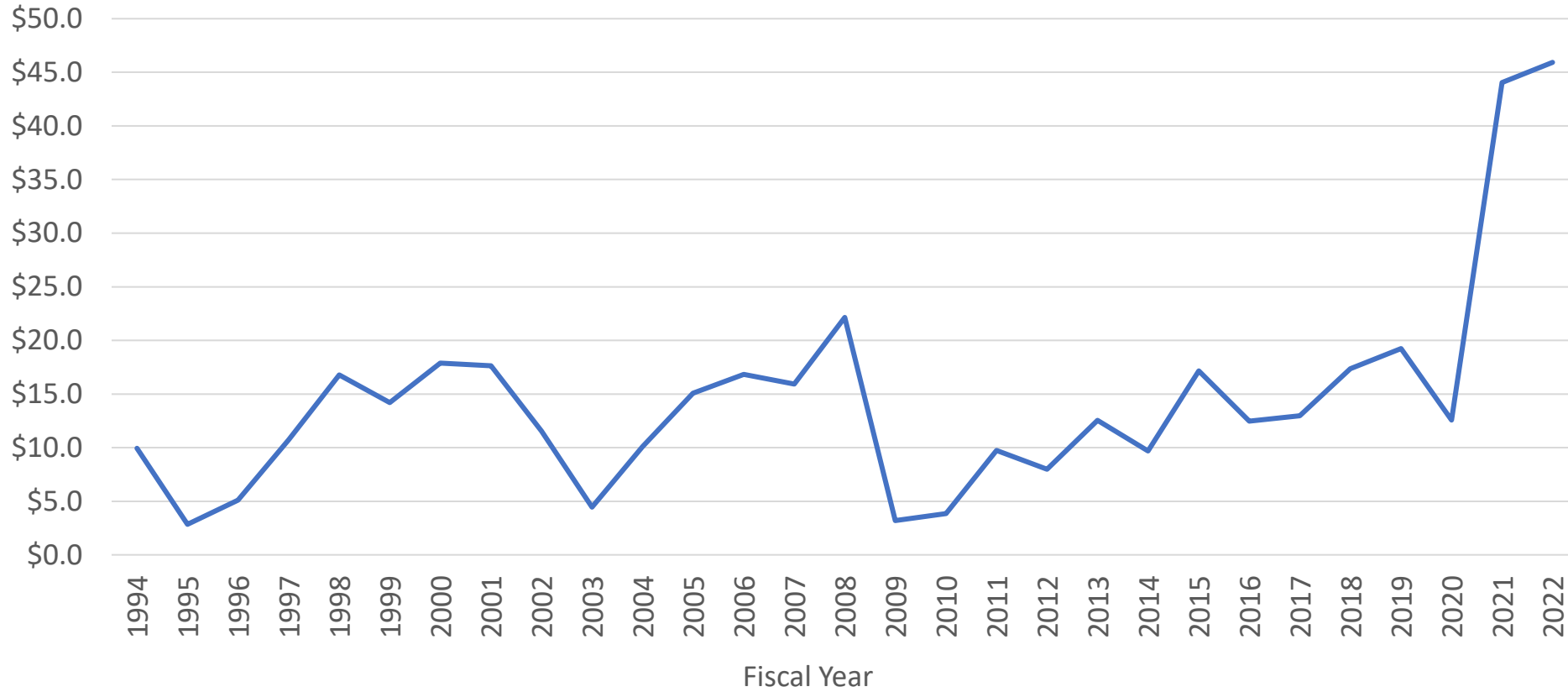
Tax Liability of Nonresidents and Part-year Residents

\$million



Fiduciary Tax Revenue

(\$million)



Student Loan Repayment Tax Credit (SLRTC)

- Refundable credit equal to 100% of student loan repayments up to \$2,500 if degree earned after 2007 + transition relief for Opportunity Maine recipients*
- Baseline: \$101, \$109, and \$116 million in tax years 2022 - 2024
 - Take-up uncertainty
- Change to baseline forecast
 - 2022 extension of repayment pause—reduce credit forecast by \$54 million in 2022
 - Federal loan forgiveness and income-driven repayment (IDR) changes will reduce tax credit if implemented
 - Loan forgiveness currently paused
 - Biden administration announced extension of repayment pause until the Education department “is permitted to implement the debt relief program or the litigation is resolved, but no later than June 30, 2023. Payments will restart 60 days later.”
 - IDR - Rule not yet issued and lacking details
 - IDR possibly more consequential for SLRTC than loan forgiveness
 - IDR + loan forgiveness could reduce credit by 60%+ and long-term savings around 40% from IDR changes alone
 - Many challenges to modeling impact of federal changes on SLRTC, adds to uncertainty
 - Reduce credit forecast by \$35 - \$37 million per year in 2023 and later due to likelihood of federal relief

*There are several more eligibility restrictions.

TCJA expiration

- Federal standard deduction reverts to its pre-TCJA amount starting in 2026.
 - The Maine standard deduction equals the federal standard deduction.
 - In 2026 we estimate that the single standard deduction is \$7,300 lower and the married standard deduction is \$14,600 lower than the standard deduction under the TCJA and Maine conformity.
- Federal child credit reverts to pre-TCJA rules for eligibility starting in 2026.
 - Only qualifying children will be eligible for credit. Most importantly, qualifying children must be 17 or younger.
 - The Maine dependent exemption tax credit is allowed for dependents who are eligible for the federal child tax credit only.
 - In 2026 and later there is no Maine tax benefit for dependents age 18 or older.

Full-Year Resident Tax Liability

Tax Year	Current Law		January 2022 Law + No PTFC Expansion*
2019	\$1,521.5		\$1,521.5
2020	\$1,680.8	10.5%	\$1,680.8
2021	\$2,060.3	22.6%	\$2,060.3
2022	\$1,972.8	-4.2%	\$2,065.2
2023	\$2,020.9	2.4%	\$2,139.5
2024	\$2,076.2	2.7%	\$2,210.3
2025	\$2,165.1	4.3%	\$2,297.8
2026	\$2,587.7	19.5%	\$2,733.2
2027	\$2,718.5	5.1%	\$2,864.8
TCJA extended, Maine conforms:			
2026	\$2,271.1	4.9%	\$2,417.2
2027	\$2,391.0	5.3%	\$2,539.1

January 2022 Law + No PTFC expansion, 2022 and later:

- EITC % same as 2020
- PTFC 5% floor and 2020 cap
- No increase in pension deduction
- No SLRTC and no federal loan forgiveness

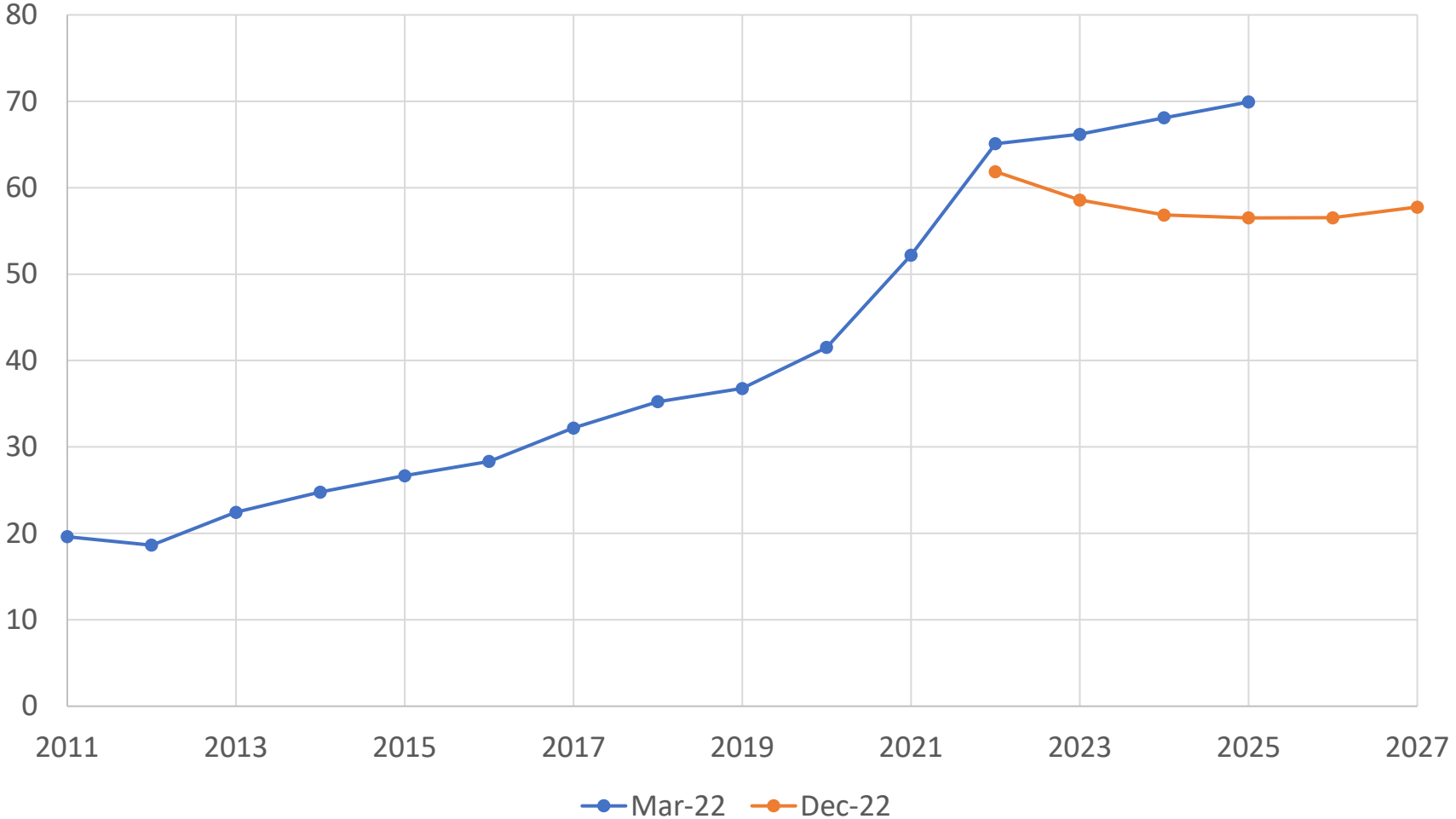
Other Taxes

Estate Tax

- Household Net Worth increased by 12.7% and 14.4% in 2020 and 2021, respectively.
- Forecasted to decline by 4.7% in 2022 and then forecasted to increase by 2%-4% between 2023 and 2027.
- Maine Exemption amount is indexed for inflation. Is \$6,010,000 in 2002 and will increase to \$6,410,000 in 2023.
- Combination of higher inflation adjustment of exemption amount and slower growth in Household Net Worth explains small decrease in forecast for FY24/25 biennium.
- Increase in FY23 is from a small number of relatively large estate tax payments

Total RETT Revenue by Fiscal Year

(\$million)



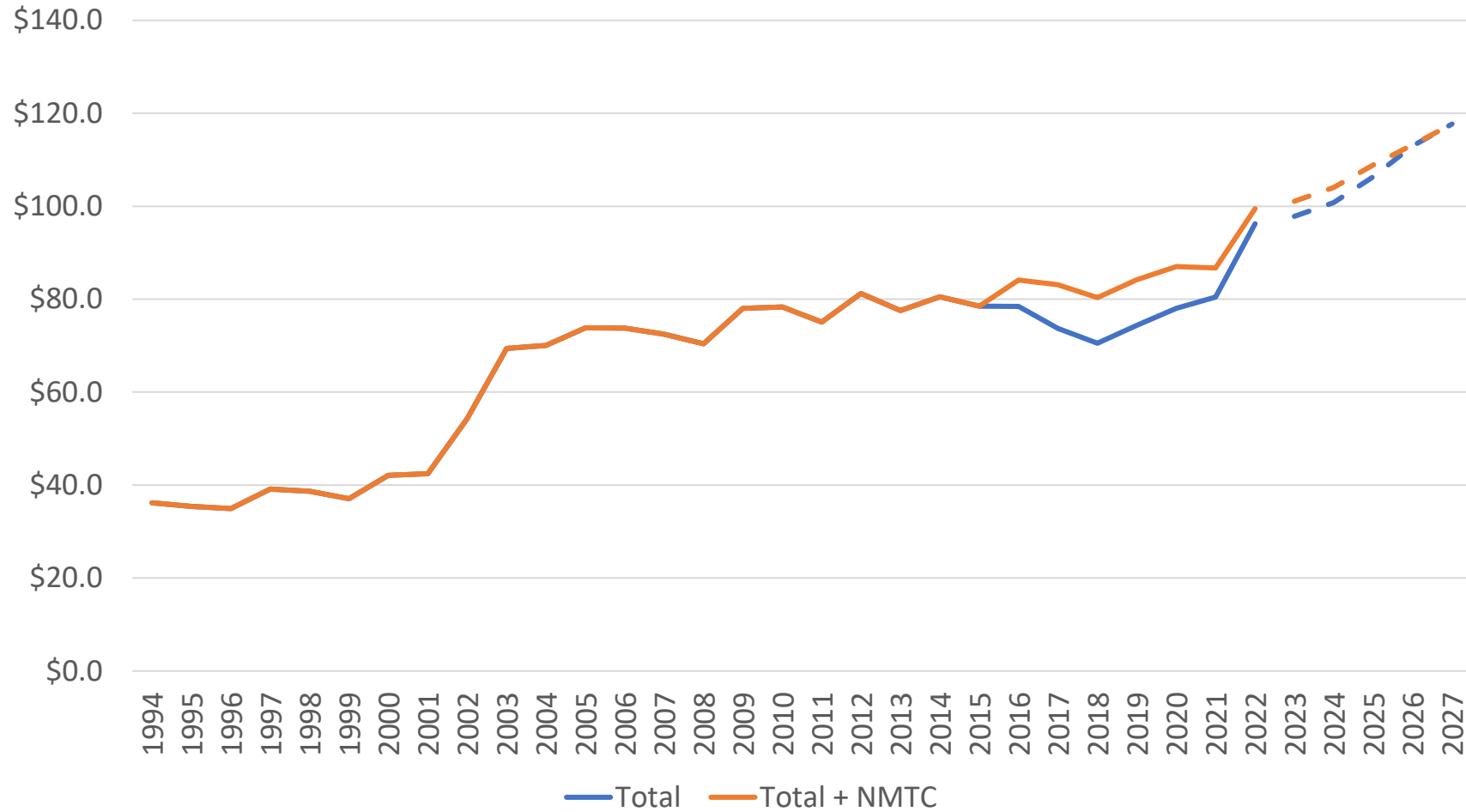
Real estate transfer tax

	Home price, existing median		Home sales, existing single-family	
	February Forecast	November Forecast	February Forecast	November Forecast
2020	13.0%	12.9%	22.9%	21.2%
2021	19.1%	18.5%	-6.4%	-6.5%
2022	7.5%	12.0%	-5.5%	-15.2%
2023	1.7%	-4.1%	4.2%	0.2%
2024	1.1%	-2.4%	18.3%	12.0%
2025	0.8%	-0.2%	-0.8%	-2.2%
2026		1.6%		-2.7%
2027		3.2%		5.9%

- Total RETT revenue about \$5.3 million lower than forecast February – October 2022.
- Decrease General Fund forecast by approximately \$3.8 million in FY 2023, \$5.6 million in FY 2024, and \$6.7 million in FY 2025.

Insurance Premiums Tax Revenue

(\$million)



Insurance premiums tax

- FY 2022 revenue increased almost 20%, attributable to three main factors
 - 2021 tax liability before refundable credits increased 9.5%
 - New Markets tax credit fell about \$3 million in 2021
 - Payment timing: Front-loaded estimated payment requirement pushes up FY revenue growth when liability growth accelerates
 - For most taxpayers, Payments in FY t = 170% CY $t-1$ liability – 70% CY $t-2$ liability.
 - 2020 liability before refundable credits grew 1.4%
- Forecast assumes 3% growth in 2022 liability before refundable credits
- Recommended forecast revision (\$14.9, \$20.7, and \$25.5 million FY 23 – 25) is combination of increase in tax liability and correction of a baseline issue

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%	-\$1.70	-1.1%
2023	\$153.1	3.1%	\$1.31	0.9%
2024	\$156.0	2.0%	\$3.30	2.2%
2025	\$158.3	1.4%	\$3.61	2.3%
2026	\$159.9	1.0%	-	-
2027	\$161.2	0.8%	-	-

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%	-\$3.11	-1.6%
2023	\$200.5	2.6%	-\$3.57	-1.7%
2024	\$203.1	1.3%	-\$3.06	-1.5%
2025	\$204.6	0.8%	-\$3.59	-1.7%
2026	\$205.7	0.6%	-	-
2027	\$206.7	0.5%	-	-

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%	\$0.97	2.0%
2023	\$50.3	0.1%	\$0.17	0.3%
2024	\$51.0	1.5%	\$0.36	0.7%
2025	\$51.7	1.3%	\$0.41	0.8%
2026	\$52.3	1.1%	-	-
2027	\$52.8	1.1%	-	-