

MRS Office of Tax Policy
Presentation for November
2020 Revenue Forecast

Sales & Use Tax

Sales & Use Tax: Annual Growth and Forecast Revision

Fiscal Year	Actual	March Forecast	August Forecast	November Forecast	Nov. Forecast Relative to March (\$million)	Nov. Forecast Relative to August (\$million)
2017-18	6.5%					
2018-19	5.6%					
2019-20	3.5%	7.6%				
2020-21		4.8%	-6.3%	2.4%	-\$101.5	\$136.5
2021-22		4.6%	11.2%	7.5%	-\$59.8	\$92.1
2022-23		4.0%	5.6%	4.6%	-\$51.3	\$80
2023-24				3.7%		
2024-25				3.0%		

Sales Tax: Main Points from August Forecast

- 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.
 - Lodging sales stronger than anticipated: +\$14.4 million variance through September sales, recommend +\$21.6 million revision for FY 21
 - Prepared food: +\$7.5 million variance to date, over half from September sales
- Excluding prepared food and lodging, non-marketplace taxable sales are close to flat YoY for April – June sales.
 - April – June: -1.2%
 - April – Sept: +1.7% (+6% YoY with marketplace)

Sales Tax: Main Points from August Forecast

- Auto sales tax revenue forecast declines faster than overall sales ex-meals and lodging in FY 21 due to CEFC forecast of new registrations.
 - CEFC revised forecast for new auto registrations in 2020 from -27.9% to -11.8%
 - Auto sales very strong sales growth July - September
 - Auto sales contribute \$42 million to FY 21 forecast revision
- 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.
 - Current forecast: Personal income * (1 – personal savings rate) declines 3% in 2020, declines 4.5% in previous forecast
- Unusually large uncertainty on both upside and downside.

Sales Tax: Main Points for November Forecast

- Sales and use tax has a positive variance of \$53.5 million through October and we expect a November variance of over \$20 million.
- Auto and lodging sales tax upward revisions are particularly important.
- CEFC forecast revisions increase the revenue forecast.
- Technical revisions increase the revenue forecast.
 - Calendar year-fiscal year split issues
 - Attempts to better account for changes in the consumption bundle
 - Corrected error in which savings rate forecast to use
- The forecast assumes YoY revenue growth slows over the coming months.

Sales Tax: Recent History

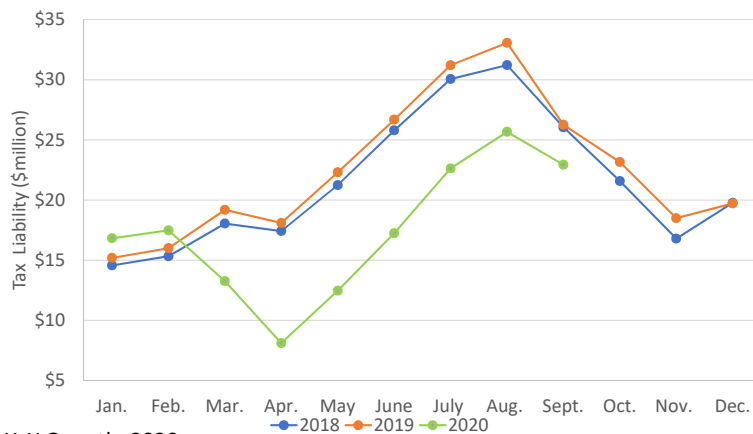
Fiscal Year 2021 Sales & Use Tax YoY Revenue Growth:

April	May	June	July	August	Sept.	October
-6.9%	-16.1%	-6.4%	-0.1%	-1.8%	-0.9%	6.7%

- November 2020 revenue through 11/19/20 is 2.1% above November 2019 revenue.
- The following slides show taxable sales on returns processed by 10th day of second month following the end of the account period.

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%

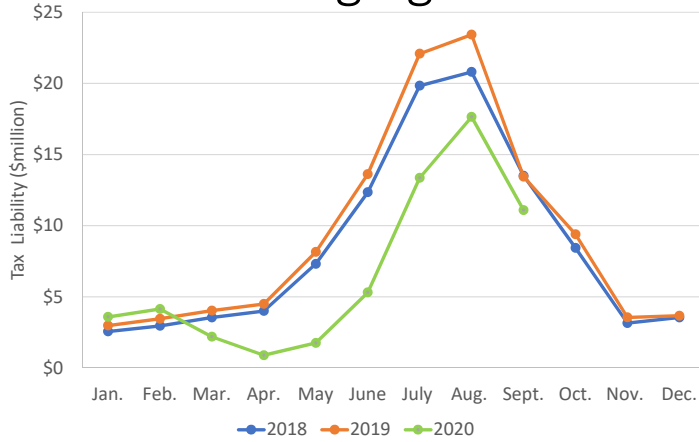
CY 2019 Share of Taxable Sales by Quarter:

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

YoY Growth, 2020

July 19 – Feb.20	Mar.	April	May	June	July	August	Sept.	Mar. – June	July-Sept.
5.4%	-30.9%	-55.2%	-44.1%	-35.4%	-27.5%	-22.4%	-12.6%	-40.8%	-21.3%

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:

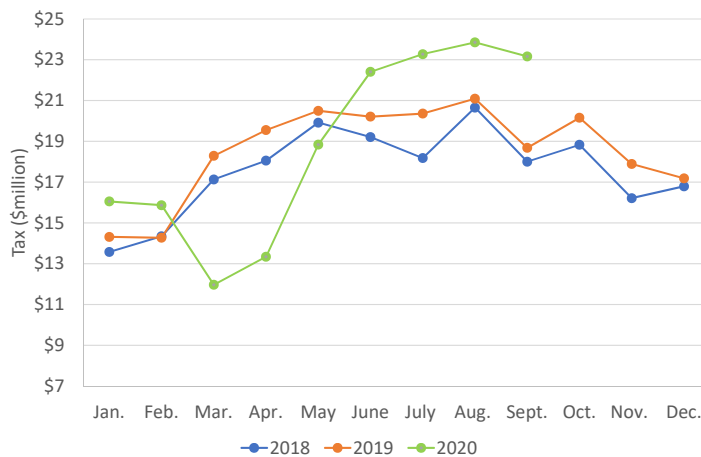
1	9.3%
2	23.4%
3	52.5%
4	14.8%

YoY Growth, 2020

July 19 – Feb.20	Mar.	April	May	June	July	August	Sept.	Mar. – June	July-Sept.
10.0%	-45.6%	-80.2%	-78.5%	-61.1%	-39.5%	-24.7%	-17.5%	-66.5%	-28.6%

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%

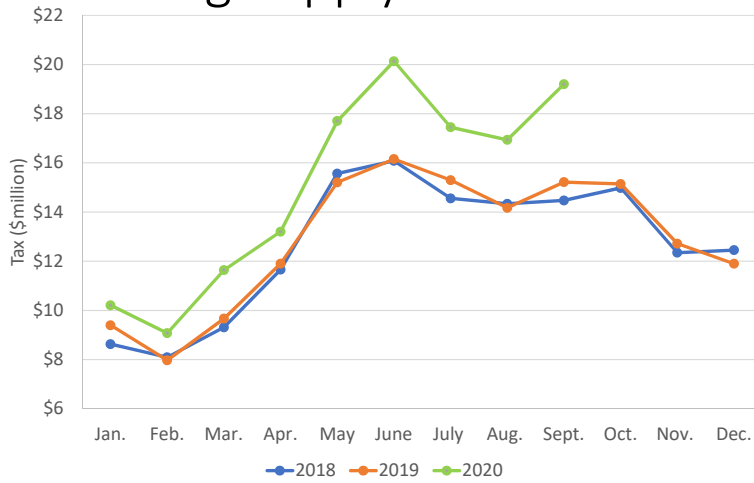
CY 2019 Share of Taxable Sales by Quarter:

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

YoY Growth, 2020

July 19 – Feb.20	Mar.	April	May	June	July	August	Sept.	Mar. – June	July-Sept.
7.3%	-34.6%	-31.7%	-8.1%	10.9%	14.3%	13.1%	24.0%	-15.3%	16.9%

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:

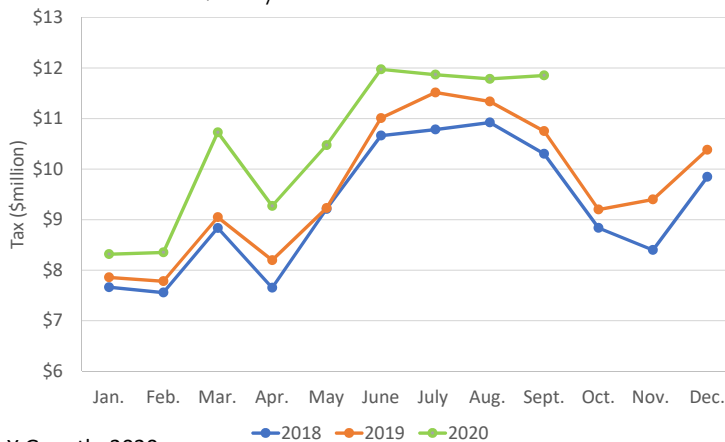
1	17.5%
2	28.0%
3	28.9%
4	25.7%

YoY Growth, 2020

July 19 – Feb.20	Mar.	April	May	June	July	August	Sept.	Mar. – June	July-Sept.
3.2%	20.4%	10.9%	16.4%	24.6%	14.1%	19.5%	26.2%	18.4%	19.9%

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:

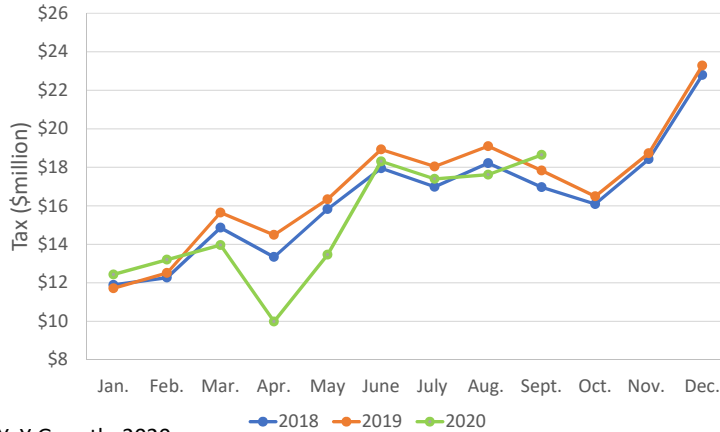
1	21.3%
2	24.6%
3	29.0%
4	25.0%

YoY Growth, 2020

July 19 – Feb.20	Mar.	April	May	June	July	August	Sept.	Mar. – June	July-Sept.
6.1%	18.6%	13.1%	13.5%	8.8%	3.1%	3.9%	10.2%	13.2%	5.7%

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:

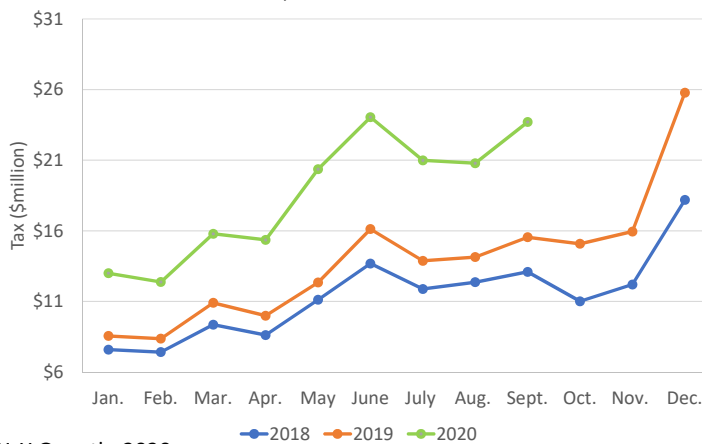
1	19.6%
2	24.5%
3	27.1%
4	28.8%

YoY Growth, 2020

July 19 – Feb.20	Mar.	April	May	June	July	August	Sept.	Mar. – June	July-Sept.
4.0%	-10.8%	-31.1%	-17.6%	-3.3%	-3.6%	-7.7%	4.6%	-14.8%	-2.4%

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:

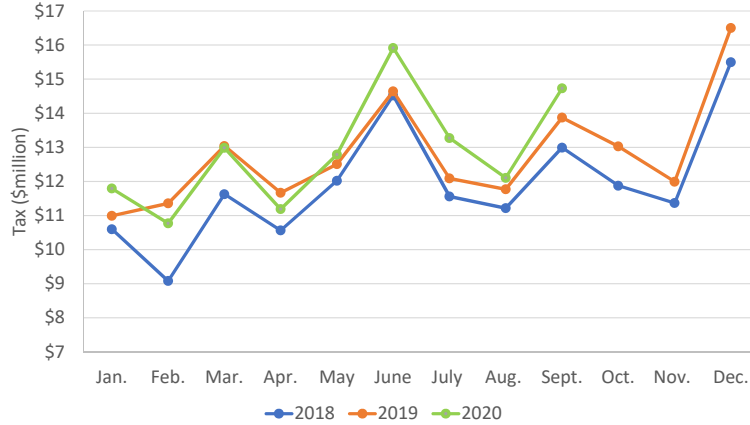
1	17.8%
2	24.5%
3	27.4%
4	30.3%

YoY Growth, 2020

July 19 – Feb.20	Mar.	April	May	June	July	August	Sept.	Mar. – June	July-Sept.
31.5%	44.8%	53.7%	64.9%	49.1%	51.2%	47.0%	52.5%	53.0%	50.3%

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:

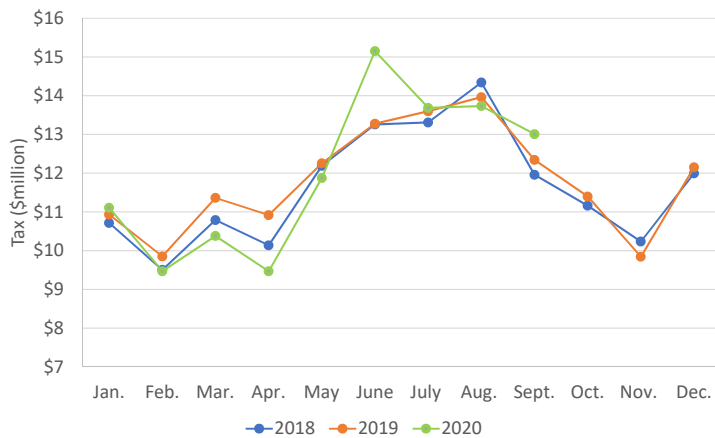
1	23.1%
2	25.3%
3	24.6%
4	27.1%

YoY Growth, 2020

July 19 – Feb.20	Mar.	April	May	June	July	August	Sept.	Mar. – June	July-Sept.
5.1%	-0.4%	-4.1%	2.3%	8.7%	9.8%	2.8%	6.2%	2.0%	6.3%

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%

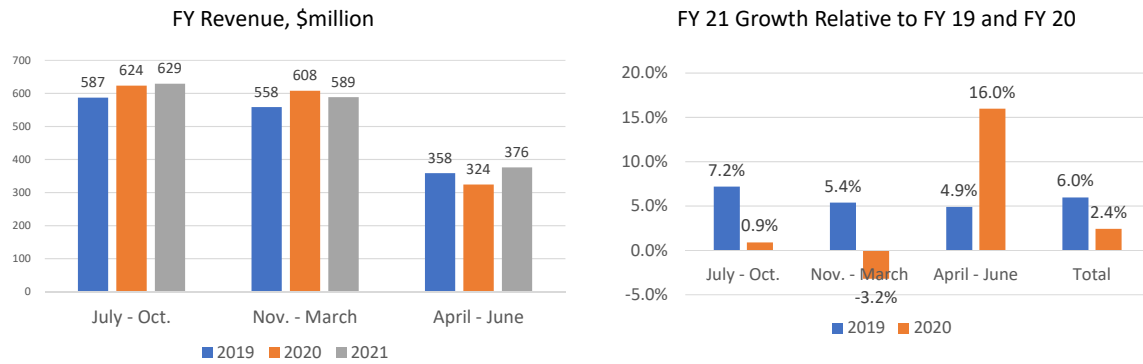
CY 2019 Share of Taxable Sales by Quarter:

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

YoY Growth, 2020

July 19 – Feb.20	Mar.	April	May	June	July	August	Sept.	Mar. – June	July-Sept.
0.1%	-8.7%	-13.3%	-3.1%	14.1%	0.6%	-1.7%	5.4%	-2.0%	1.3%

Fiscal Year 2021 Sales & Use Tax Forecast Compared to Recent History



FY 21 July – October are actuals and November – June are forecast.

Individual Income Tax

Individual Income Tax: Annual Growth and Forecast Revision

Fiscal Year	Actual	March Forecast	August Forecast	November Forecast	Nov. Forecast Relative to March	Nov. Forecast Relative to August
2017-18	6.5%					
2018-19	5.6%					
2019-20*	7.9%	7.6%				
2020-21		4.8%	-13.5%	-7.6%	-\$152.9	\$107.4
2021-22		4.6%	3.4%	3.4%	-\$172.3	\$110.9
2022-23		4.0%	2.8%	4.6%	-\$172.9	\$144.7
2023-24				5.1%		
2024-25				5.3%		

Dollar values in millions. *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 from August Forecast

- 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.
 - The wage income forecast has increased significantly from the July CEFC forecast and is the major contributor to the recommended revenue revision.
- 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.
 - We recommend relatively minor positive adjustments to business income and capital gains growth rates and capital gains. For the tax liability revision, the higher growth rates are mostly offset by starting from a lower 2019 base than previously assumed.
- A decline in IRA distributions due to the suspension of required minimum distributions in 2020 reduces FY 2021 revenue.

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

- FY 21 variance in final payments and refunds
- Increase in tax liability forecast for 2020 and beyond
 - CEFC wage forecast is, by far, the most important factor
 - Business income and capital gains growth rates slightly higher
 - Reduce 2020 Opportunity Maine Credit forecast

Tax Year	Change to Resident Liability Forecast, \$million
2020	\$54
2021	\$80
2022	\$106
2023	\$132

Individual Income Tax: Withholding, 2019 v. 2020 (\$million)

Calendar Year	2019	2020	Growth
Jan. - Feb.	\$257.1	\$277.2	7.8%
March - June	\$473.9	\$503.6	6.3%
July-Oct.	\$476.9	\$514.3	7.8%
Year to date	\$1,207.9	\$1,295.1	7.2%

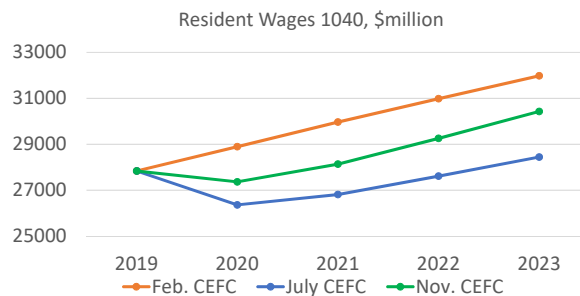
*Without unemployment insurance withholding, January – October withholding would have increased approximately 3% and March – October withholding would have increased approximately 1.7%.

Individual Income Tax: Estimated Payments, 2019 v. 2020

(\$million)

	2019	2020	Growth
Feb. - July	\$127.2	\$119.9	-5.8%
August - Oct.	\$87.5	\$101.6	16.2%
Year to date	\$214.7	\$221.5	3.2%

Individual Income Tax: Resident 1040 Wages

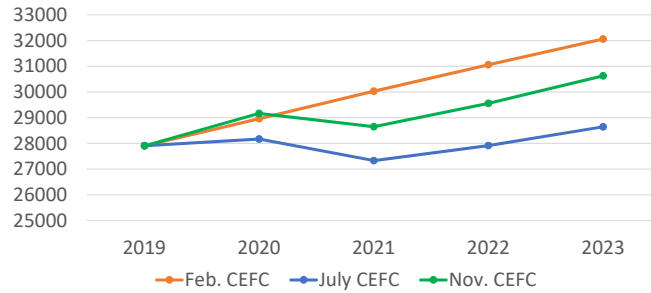


	2020	2021	2022	2023
February CEFC, annual change	4.1%	3.7%	3.4%	3.2%
July CEFC, annual change	-5%	2%	3%	3%
Nov. CEFC, annual change	-1.5%	3%	4%	3.5%
July wages relative to Feb.	-8.7%	-10.2%	-10.6%	-10.8%
Nov. wages relative to Feb	-5.4%	-6%	-5.5%	-4.7%
Nov. wages relative to July	3.7%	4.7%	5.7%	6.7%

Relative wages based on the same 2019 starting point and growth rates for 2020 and later years.

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%
July wages + UI relative to Feb.	-2.7%	-9%	-10.1%	-10.6%
Nov. wages + UI relative to Feb.	.7%	-4.6%	-4.8%	-4.5%
Nov. wages + UI relative to July	3.5%	4.8%	5.9%	6.9%

Individual Income Tax: Effect of Wage Revision on Liability

Tax Year	Decrease in Nov. Resident Liability Forecast if Used Wage Growth Assumptions For August RFC (\$million)
2019	\$4.5
2020	\$69.6
2021	\$89.6
2022	\$111.2
2023	\$134.5

Note: 2019 wage growth was also revised upward since the July CEFC.

Individual income tax: Capital Gains

	2019	2020	2021	2022	2023
Annual growth:					
March RFC	10.2%	-1.9%	-5.5%	-3.2%	-1.3%
August RFC	10.2%	-13.1%	-10%	3.2%	3.6%
November RFC	3.2%	-5.1%	-3.2%	3.9%	3.9%
November resident capital gains liability:					
Relative to March RFC	-\$15.5	-\$22.1	-\$15.3	-\$3.2	\$5.6
Relative to August RFC	-\$15.4	\$.2	\$11.4	\$12.7	\$13.7

CBO Capital Gains Forecast, September 2020

- 20% decline in 2020
- Capital gains does not return to 2019 (nominal) level until 2029

Individual Income Tax: Opportunity Maine

- Federal loan forbearance extended through end of year.
- In August forecast, reduced 2020 Opportunity Maine credit by \$5 million.
- For current forecast, recommend \$13 million reduction relative to March forecast (\$36.7 million)
 - Extension
 - Probably underestimated impact in August
- Significant uncertainty around this adjustment
 - Taxpayer behavior
 - Share of credit-eligible loan payments that are eligible for forbearance

Individual Income Tax: Resident Liability Growth Forecast

Tax Year	Liability before refundable credits	Liability after refundable credits
2020	2.6%	1.4%
2021	-0.8%	-1.8%
2022	4.6%	4.7%
2023	4.9%	5.0%
2024	5.1%	5.3%
2025	5.4%	5.6%

Corporate Income Tax

Corporate Income Tax: Annual Growth and Forecast Revision

Fiscal Year	Actual	March Baseline	August Forecast	Nov. Forecast	Nov. Forecast Relative to March	Nov. Forecast Relative to August
2017-18	6.0%					
2018-19	36.1%					
2019-20	-14.5%	-14.1%				
2020-21		-2.6%	-18.2%	-6.1%	-\$8.7	+\$26
2021-22		.1%	4.0%	8.7%	+\$8.7	+\$36.5
2022-23		1.5%	4.1%	3.6%	+\$13.4	+\$37
2022-24				2.6%		
2022-25				2.7%		

Corporate Income Tax: CEFC Before-Tax Corporate Profits Forecast

	2020	2021	2022	2023
July annual growth	-30.0%	10.0%	3.7%	2.7%
November annual growth	0.6%	10.0%	3.7%	2.7%
November relative to July	43.7%	43.7%	43.7%	43.7%

Other General Fund Taxes

Real estate transfer tax

Significant upward revisions to the CEFC forecast of home prices and sales

	Home price, existing median		Home sales, existing single-family	
	July Forecast	October Forecast	July Forecast	October Forecast
2020	5.8%	11.5%	-7.1%	19.3%
2021	0.5%	6.1%	-2.6%	-10.8%
2022	4.0%	3.2%	10.7%	-6.4%
2023	5.9%	5.3%	12.7%	5.2%

Real estate transfer tax

- Strong revenue growth and positive variance fiscal year to date
 - Total RETT revenue up 17.4% January-October, 14% July – October
 - General Fund variance \$1.4 million FYTD and growing
 - November revenue already significantly above budget and last year’s revenue

Forecast Growth Rates of Total RETT Revenue and Proposed General Fund Revision:

	Calendar Year	Fiscal Year	Proposed revision to GF FY Revenue
2020	24.3%	12.9%	
2021	4.5%	17.9%	\$5,245,000
2022	2.2%	2.9%	\$4,186,000
2023	6.1%	3.8%	\$3,142,000
2024	4.3%	5.4%	
2025	2.8%	3.7%	

Estate Tax

Revision to Estate Tax Forecast, Fiscal Year

2021	2022	2023
\$6,000,000	\$500,000	\$1,300,000

- \$9.4 million revenue in October 2020 is main explanation for FY 21 forecast revision.
- Highest monthly revenue, last 3 fiscal years:
 - FY 18 \$2.1 million
 - FY 19 \$7.44 million
 - FY 20 \$5.9 million

Other General Fund

- Service provider tax
- Cigarette, tobacco, and marijuana excise tax
- Telecommunications excise tax
- Insurance companies tax
- Container fee
- BETR

General Fund Wrap Up: Revenue Relative to March 2020 Forecast

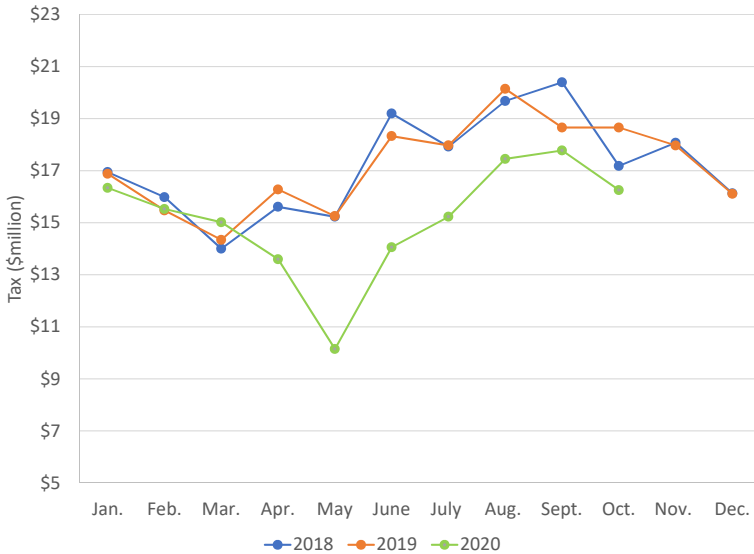
	FY 2020	FY 2021		FY 2020 + FY 2021		FY 2022	
		August Forecast	November Forecast	August Forecast	November Forecast	August Forecast	November Forecast
Sales & Use	-3.8%	-14.0%	-6.0%	-9.1%	-4.9%	-8.6%	-3.4%
SPT	1.8%	1.8%	0.2%	1.8%	1.0%	1.8%	-0.2%
Individual Income	1.4%	-14.1%	-8.3%	-6.4%	-3.5%	-14.7%	-8.9%
Corporate Income	-0.5%	-16.4%	-4.1%	-8.4%	-2.3%	-13.1%	4.1%
Cig & Tobacco	-3.0%	-3.2%	-3.3%	-3.1%	-3.2%	-2.1%	-0.8%
Total	-1.1%	-13.6%	-6.8%	-7.4%	-4.0%	-11.3%	-5.5%

Motor Fuels Taxes

Gas Tax: Annual Growth and Proposed Forecast Change

Fiscal Year	Actual	March Forecast	August Forecast	November Forecast	Revision Relative to March (\$million)	Revision Relative to August (\$million)
2017-18	2.4%					
2018-19	-.2%					
2019-20	-5.7%	1.3%				
2020-21		1%	-6.3%	-2.1%	-\$20.5	+\$8.1
2021-22		1%	11.2%	7.4%	-\$8.5	+\$3.8
2022-23		1%	5.6%	2.3%	-\$6	+\$6.6
2023-24				1.0%		
2024-25				1.0%		

Gas Tax



YoY Revenue Growth, 2020

July 19 – March 20	.2%
April	-16.5%
May	-33.5%
June (w/o accruals)	-22.4%
July	-15.2%
August	-13.3%
Sept. – Oct.	-8.8%

Gas Tax

- \$3.3 million variance through October.
- FY 21 forecast is 7.7% lower than FY 19
- Weekly vehicle miles traveled estimates have been down 5 – 10% since September
- Forecast assumes gradual improvement through rest of FY 21 but still lower than pre-pandemic baseline in all months; still 6% - 7% below pre-pandemic baseline winter months