

MRS Office of Tax Policy
Presentation for December
2021 Revenue Forecast

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	\$2,014.8	11.7%	\$209.2
2023	\$2,076.7	3.1%	\$204.6
2024	\$2,133.1	2.7%	\$198.0
2025	\$2,189.7	2.6%	\$207.3

Sales Tax Main Points

- Phenomenal revenue performance in 2021

Revenue from calendar year sales*	Q1	Q2	Q3	CYTD
2020 v. 2021	24.9%	41.6%	21.7%	28.9%
2019 v. 2021	29.4%	32.1%	23.2%	27.8%

- Revisions to the economic forecast partially explain the \$125 million variance since the last revenue forecast and our recommended upward adjustment
- Revenue to date also contributes to the upward revisions
 - Large FY 2022 revision required OR assume near-term revenue collapse
 - Large FY 2023 - 2025 upward revision required OR assume significant revenue decline after CY 2021. We do not believe such a decline is consistent with the economic 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%.

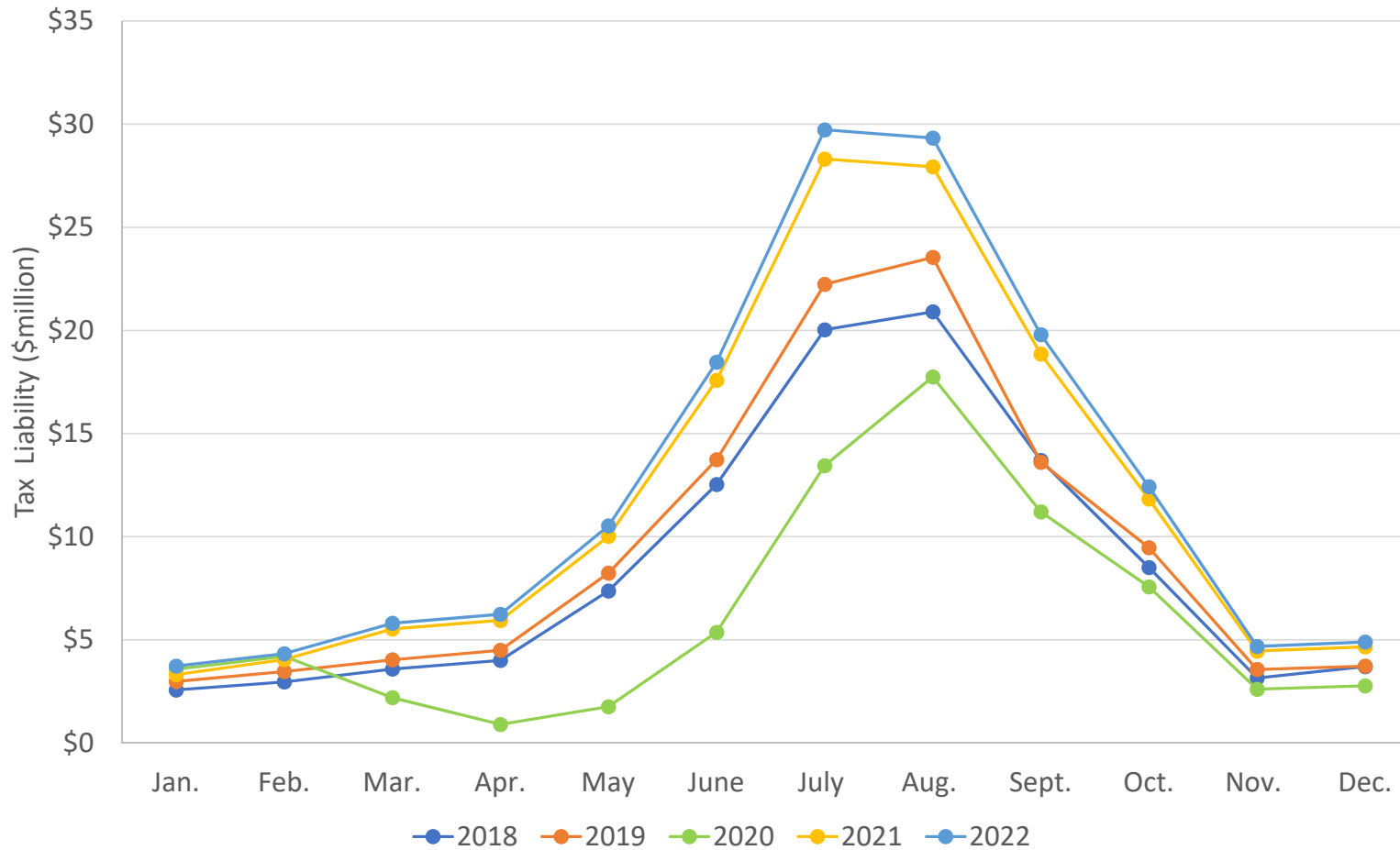
Source of Variance and Forecast Adjustments

	FY 21 Variance + FY 22 Variance Through October		Share of CY Adjustment, 2022 - 2025
	Amount	Share of total	
Non-auto 5.5% Sales	\$57.8	46.2%	55.2% - 60.4%
Lodging 9%	\$24.1	19.3%	14.1% - 17%
Prepared Food 8%	\$21.0	16.8%	12.1% - 15.9%
Auto Sales 5.5%	\$18.2	14.6%	8.9% - 13.4%
Short-term auto rental 10%	\$2.7	2.1%	1.6% - 2.1%
Residual/(Revenue – liability_t-1)	\$1.9	1.6%	0% - 1.7%
Adult use MJ 10%	-\$0.7	-0.6%	-0.4% - 0%
Total	\$124.9		

CEFC Forecast

	2021	2022	2023	2024	2025
	CPI				
April 2021, annual % change	2.4%	2.2%	2.1%	2.1%	2.1%
November 2021, annual % change	4.4%	3.5%	2.1%	2.1%	2.1%
Nov. / Apr. Forecast	2.0%	3.2%	3.2%	3.2%	3.2%
	Personal Income				
April 2021, annual % change	5.0%	0.2%	4.1%	4.3%	4.5%
November 2021, annual % change	5.2%	0.5%	4.6%	4.8%	4.6%
Nov. / Apr. Forecast	0.2%	0.5%	1.0%	1.6%	1.7%
	Savings Rate				
April 2021	14.1%	8.2%	7.6%	7.8%	7.9%
November 2021	11.7%	5.7%	6.2%	6.5%	6.5%
Nov. Forecast - Apr. Forecast	-2.4%	-2.5%	-1.4%	-1.3%	-1.4%
	(1 - savings rate)*personal income				
April 2021, annual % change	7.5%	7.0%	4.7%	4.1%	4.4%
November 2021, annual % change	11.1%	7.4%	4.0%	4.5%	4.6%
Nov. / Apr. Forecast	3.3%	3.7%	2.9%	3.3%	3.5%

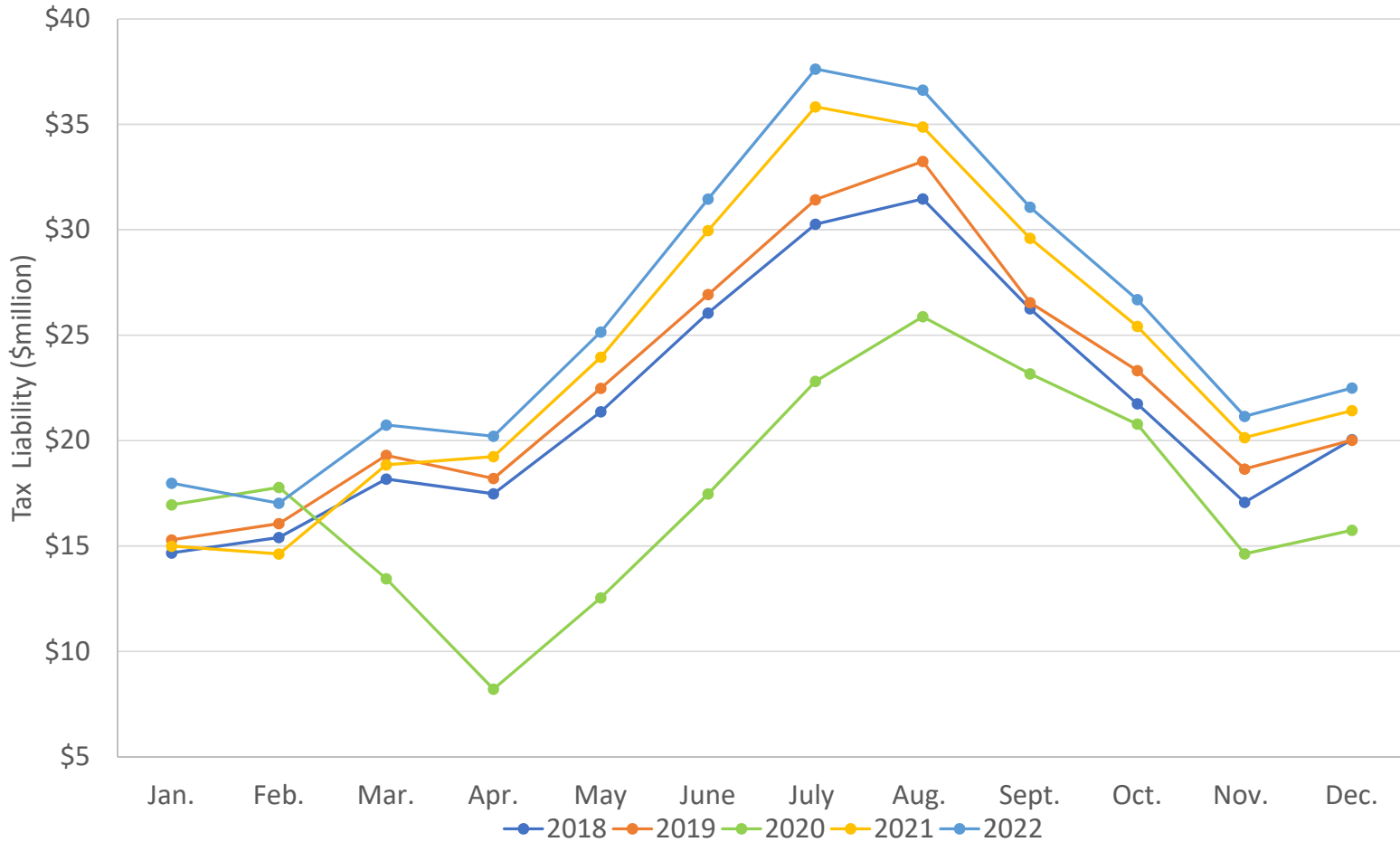
Rental of Lodging Sales Tax: History and Forecast



CY	Revenue	
2019	\$113.1	9.8%
2020	\$73.4	-35.1%
2021	\$142.5	94.2%
2022	\$150.0	5.2%
2023	\$155.7	3.8%
2024	\$161.1	3.5%
2025	\$166.7	3.5%
2021 CYTD		101.1%

Actuals through September 2021 and forecast afterwards. 2021 CYTD is YoY growth through September.

Prepared Foods Sales Tax: History and Forecast

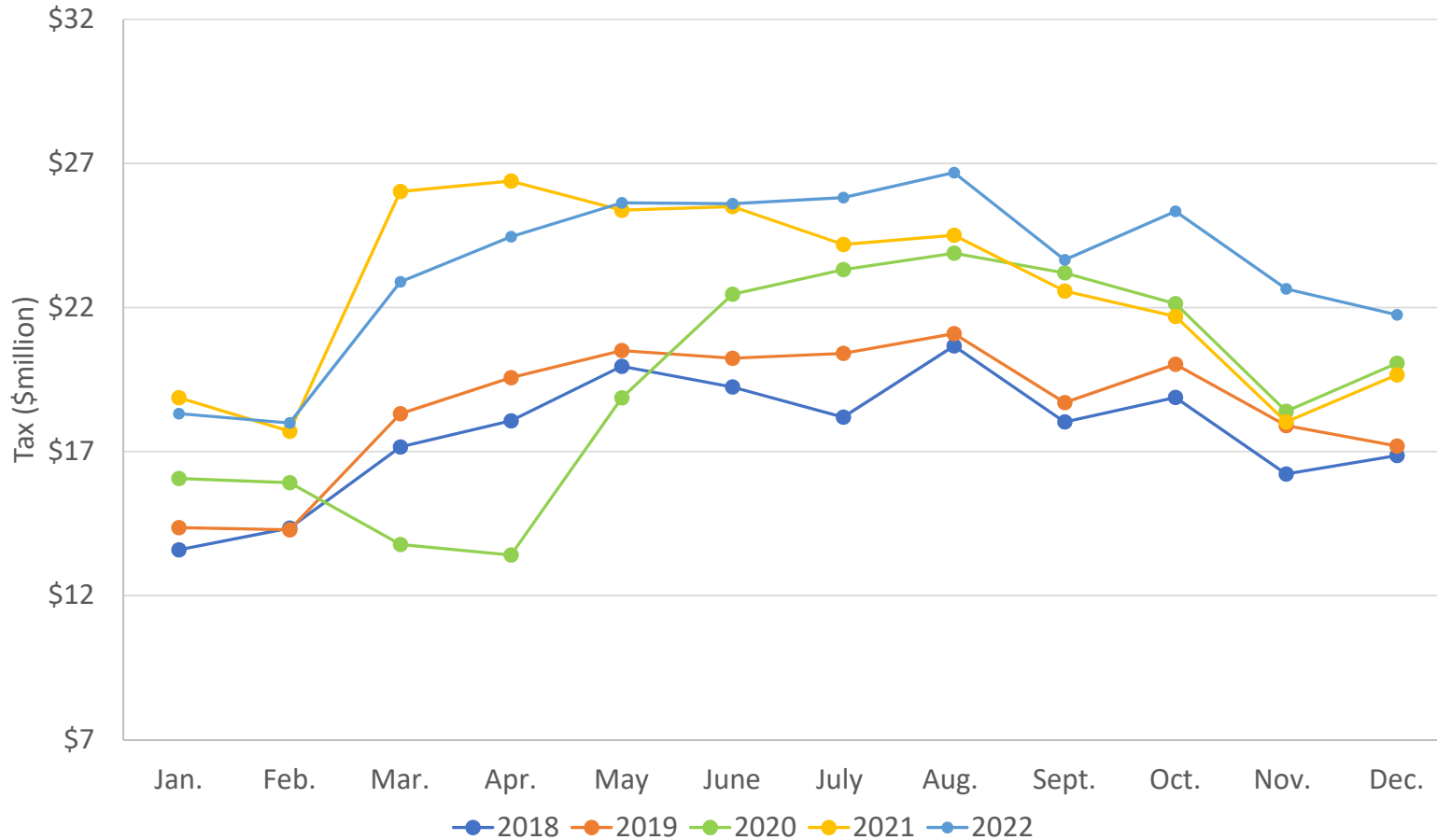


CY	Revenue	
2019	\$271.5	4.4%
2020	\$209.4	-22.9%
2021	\$288.9	38.0%
2022	\$308.2	6.7%
2023	\$319.0	3.5%
2024	\$330.2	3.5%
2025	\$341.7	3.5%
2021 CYTD		40.2%

Actuals through September 2021 and forecast afterwards. 2021 CYTD is YoY growth through September.

Auto Dealer & Lease Sales Tax: History and Forecast

Includes use tax paid on auto sales

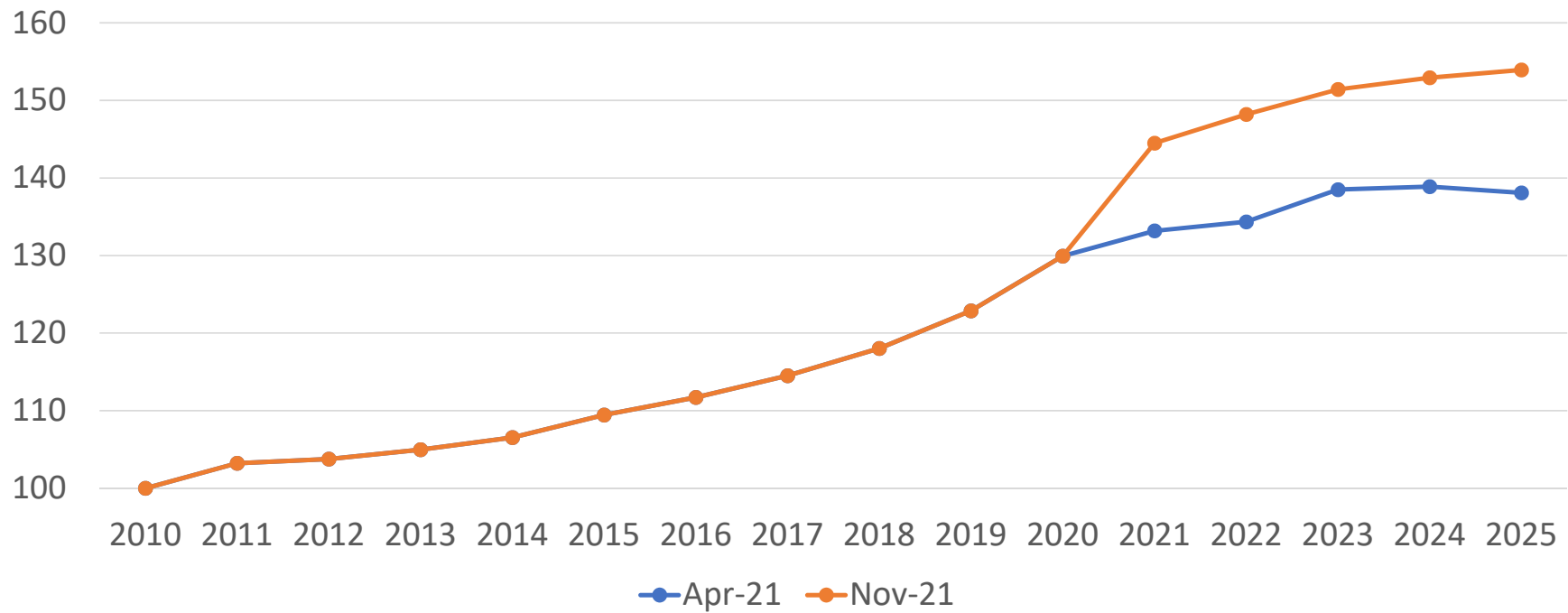


CY	Revenue	
2019	\$222.6	5.4%
2020	\$231.5	4.0%
2021	\$270.5	16.9%
2022	\$280.8	3.8%
2023	\$286.4	2.0%
2024	\$287.8	0.5%
2025	\$287.8	0.0%
2021 CYTD		23.6%

Actuals through September 2021 and forecast afterwards. 2021 CYTD is YoY growth through September.

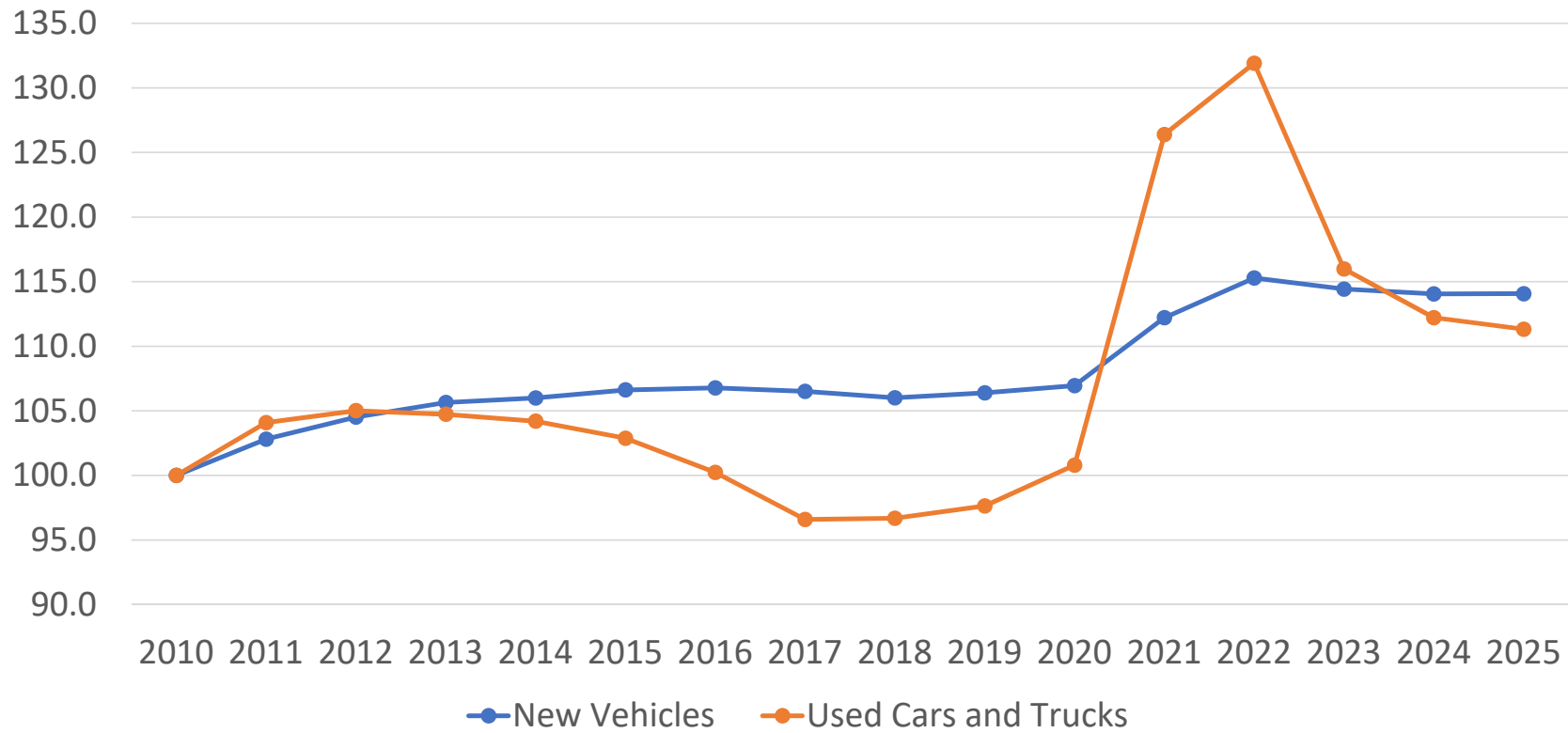
Average Price of New Vehicles, April vs. November CEFC Forecast

(2010 = 100)

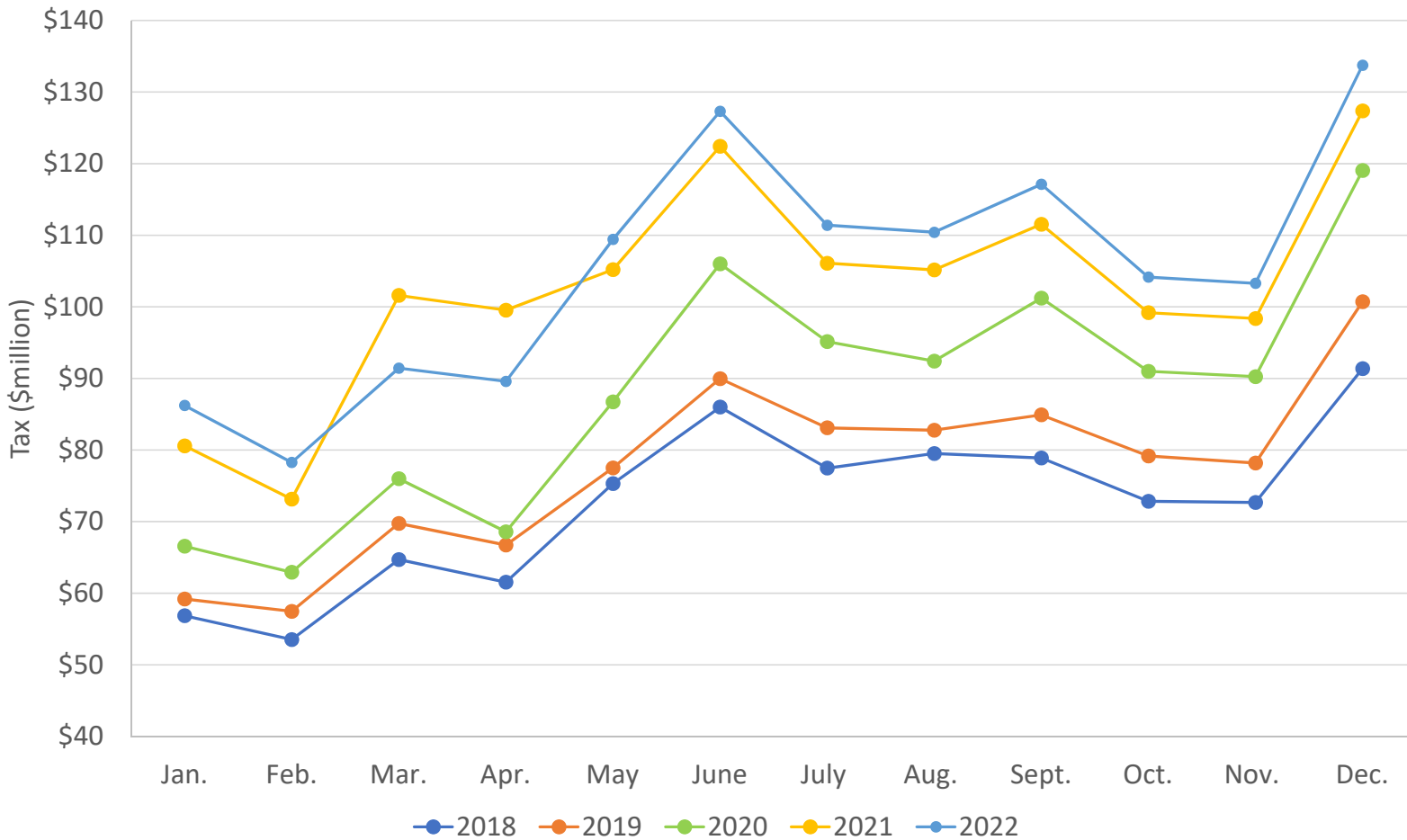


CPI for New and Used Vehicles, Moody's Forecast

(2010 = 100)



Non-Auto 5.5% Sales Tax: History and Forecast

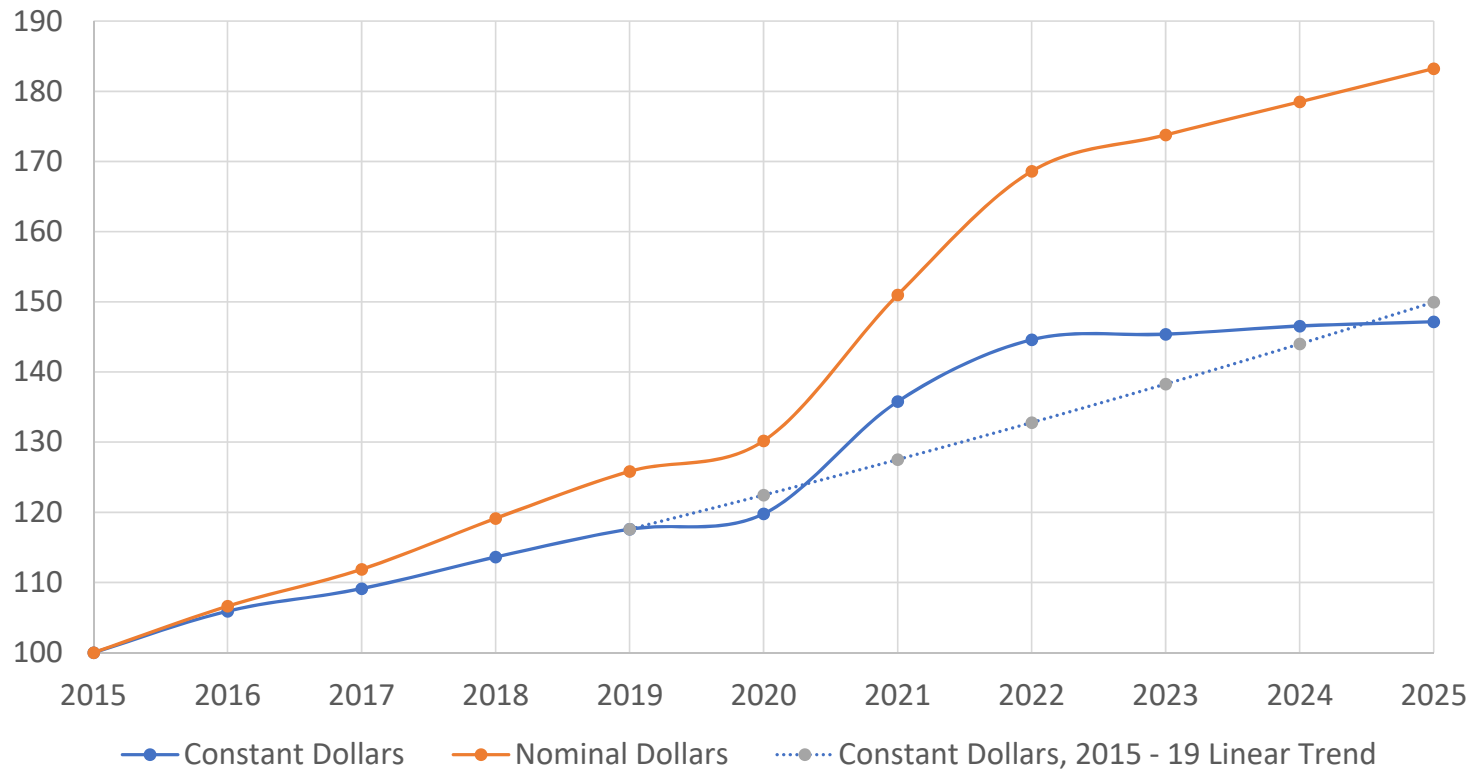


CY	Revenue	
2019	\$929.5	6.7%
2020	\$1,055.9	13.6%
2021	\$1,230.2	16.5%
2022	\$1,262.3	2.6%
2023	\$1,294.6	2.6%
2024	\$1,327.0	2.5%
2025	\$1,360.9	2.6%
2021 CYTD		19.8%

Actuals through September 2021 and forecast afterwards. 2021 CYTD is YoY growth through September.

Sales & Use Tax Revenue by Fiscal Year

Actual and December Forecast Recommendation; 2015=100



6.2% average annual growth 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	-1.0%	\$203.75
2022-23	2.7%	\$155
2023-24	4.8%	\$171
2024-25	4.5%	\$175

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

Individual Income Tax: Main Points

- Tax year 2020 liability growth much better than expected: $\approx 12\%$ growth before refundable credits
- Withholding and estimated payment growth in 2021 supports optimism about 2021 tax liability growth.
- Changes to the economic forecast and BEA personal income revisions are also positive for revenue. The change to the wage forecast is especially relevant.
- The largest risk is that the strong revenue performance is partially attributable to income being pulled forward in anticipation of tax increases. The exact timing and magnitude of this response is unclear.

Tax year 2020

- Why so much better than expected?
 - Capital gains: 40% growth on resident e-file returns
 - Dividends & taxable interest: waiting for data, but 2019 actuals much better than original assumptions
 - Wage revision: 2.9% growth, compared to 1.4% in the last forecast
 - Unemployment insurance
 - Nonresident and part-year resident liability: $\approx 26\%$ growth
 - Business income: do not have solid data, but prime suspect given AGI distribution and difficulty of forecasting
 - Miscellaneous other minor factors
 - Residual revenues and timing issues
 - We need more data to offer a more comprehensive answer.
 - Relationship between extension vs non-extension returns in 2020 likely different than past
 - Other unique challenges in 2020.
- In tax year 2020, the income tax liability of the top 30 taxpayers (\$68.4 million) is 94% higher than top 30 in 2019 (\$35.2 million).

Tax year 2021: Revenues to Date

	2020	2021	Growth
Withholding, Jan. – Oct.	\$1,295.1	\$1,438.3	11.1%
Estimated Payments, Feb. – Oct.	\$221.5	\$289.1	30.5%
Fiduciary, Jan. – Oct.	\$15.8	\$43.1	172%

- \$59.2 million variance in estimated payments and withholding since our last forecast, 69% from estimates
- \$19.9 million variance in fiduciary since last forecast
 - Variance largely from June 2020 payments for tax year 2021

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	6.7%	5.2%
2022	1.8%	1.5%
2023	2.9%	2.8%
2024	6.2%	6.5%
2025	5.5%	5.8%

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

Income Tax Forecast: Wages

CEFC Wage Forecast

	2020	2021	2022	2023	2024	2025
Nov. 21	2.9%	5.5%	5.0%	5.0%	5.0%	4.0%
Apr. 21	1.4%	5.0%	4.0%	4.0%	4.0%	4.0%
New wage forecast/previous*	1.2%	1.7%	2.6%	3.6%	4.6%	4.6%
Increase in resident revenue forecast due to wage revisions (\$million)		\$38.8	\$60.3	\$83.7	\$109.9	\$115.2

*There was a downward revision to 2019 wages.

Income Tax Forecast: Capital Gains

Tax Year	2019	2020	2021	2022	2023	2024	2025
December 2021	-1.7%	40%	25.1%	-14.9%	-15.0%	0%	0%
May 2021	9.3%	10.2%	8.2%	1.3%	-7.5%	-3.9%	-1.4%
CBO July 2021	10.4%	11.6%	10.1%	0.0%	-0.3%	-7.3%	-4.1%
CBO January 2021	10.6%	-7.7%	23.8%	1.3%	-7.5%	-3.9%	-1.4%
Contribution to resident liability revision (\$million)			\$63.8	\$16.1	-\$5.1	\$1.9	\$4.2

- We are assuming much stronger growth in tax years 2020 and 2021 compared to the last forecast, but from a lower 2019 base.
 - In the May forecast we did not have data on 2019 AGI components.
 - Our assumptions overstated capital gains and understated taxable interest and dividend income.
 - Raised approximately \$17 million more from taxable interest and dividends in 2019 than originally forecast; this base difference affects the forecast years
- 2021 capital gains growth assumption is driven by revenue performance to date.

Income Tax Forecast: Business Income

	2020	2021	2022	2023	2024	2025
November 21 CEFC	0.8%	5.5%	6.5%	6.0%	5.7%	5.4%
April 21 CEFC	0.8%	3.2%	6.5%	6.0%	5.7%	5.4%

- 2020 and 2021 nonfarm proprietor's income includes new nontaxable subsidies, including forgiven PPP loans, EIDL advances, and restaurant revitalization fund grants.
- For tax year 2021 forecast, we start with 2019 – 2021 growth in nonfarm proprietor's income (6.4%) and reduce by 4 percentage points to estimate the growth in nonfarm proprietor's income without new nontaxable subsidies.
- Pass-through income forecast to grow 8.6% between 2019 – 2021.
 - If income shifting is important in 2021, this assumption could be too conservative.

Income Tax Forecast: Miscellaneous

- Inflation: Resident liability would be \$12 million higher in 2022, \$34 million higher in 2023, and \$40 -\$41 million higher in 2024 – 2025 if the inflation forecast was unchanged
- Fiduciary: drag on growth rate in FY 2022
- Opportunity Maine: drag on growth rate in tax year 2022/fiscal year 2023 as repayment deferment ends

Income Tax Shifting: Example

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Provision	Effective	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2022-26	2022-31
4. Rents from prison facilities not treated as qualified income for purposes of REIT income tests.....	tyba 12/31/21	5	9	10	10	6	3	3	3	3	3	40	55
5. Modifications to exemption for portfolio interest.....	oia DOE	576	876	405	118	25	20	16	13	10	8	2,000	2,067
6. Certain partnership interest derivatives.....	pma 12/31/22	4	9	9	9	9	10	10	10	10	10	41	90
7. Adjustments to earnings and profits of controlled foreign corporations.....	[21]	150	325	375	425	475	525	575	625	675	725	1,750	4,875
8. Certain dividends from controlled foreign corporations to United States shareholders treated as extraordinary dividends.....	[22]	----- Estimate Included in Item H.I.C.4. Above -----											
9. Limitation on certain special rules for section 1202 gains.....	generally saeoa 9/13/21	69	470	517	572	639	698	705	710	677	661	2,267	5,718
10. Constructive sales.....	generally csa DOE	----- Estimate Included in Item H.I.E.12. Below -----											
11. Rules relating to common control.....	tyba 12/31/21	628	1,267	1,276	1,313	1,434	1,601	1,788	2,011	2,248	2,457	5,919	16,023
12. Modification of wash sale rules.....	sdata 12/31/21	3,226	4,946	2,725	1,626	1,074	804	653	587	562	559	13,597	16,762
13. Research and experimental expenditures (sunset 12/31/25).....	DOE	-29,091	-39,856	-32,161	-24,133	19,284	38,009	29,958	19,853	9,269	4,851	-105,956	-4,016
Total of Part 1 - Corporate and International Tax Reforms.....		-12,192	53,916	75,743	73,918	103,646	111,001	107,453	103,052	98,066	99,369	295,033	813,974
Part 2 - Tax Increases for High-Income Individuals													
1. Application of net investment income tax to trade or business income of certain high income individuals.....	tyba 12/31/21	12,742	19,543	21,734	24,050	25,861	27,966	28,997	29,675	30,439	31,156	103,930	252,163
2. Limitations on excess business losses of noncorporate taxpayers made permanent, with carryforward modification.....	tyba 12/31/20	3,127	2,046	2,123	2,204	2,288	21,665	31,221	30,130	31,909	33,563	11,788	160,276
3. Surcharge on high income individuals, estates, and trusts (initial surtax on AGI of 5% in excess of \$10,000,000 and additional surtax of 3% on AGI in excess of \$25,000,000).....	tyba 12/31/21	40,035	-18,667	22,215	23,436	24,332	24,223	25,465	27,540	28,779	30,413	91,350	227,771

JCT, JCX-45-21, Estimated Budget Effects Of The Revenue Provisions Of Title XIII – Committee On Ways And Means, Of H.R. 5376, The “Build Back Better Act,” As Reported By The Committee On The Budget, With Modifications (Rules Committee Print 117-18), November 4, 2021.

March 1st Forecast

- The final estimated payment for tax year 2021 will be an important consideration in the next revenue forecast.
- We will adjust the FY 2022 revenue forecast, as needed, based on that payment.
 - Currently assume 19.7% growth in tax liability (before refundable credits) between 2019 and 2021.
 - Not assuming more growth given the economic assumptions at this point.
 - Once we have the last estimated payment, we will put a larger weight on revenue performance to date.
- Another large upward revision to FY 2022 is a real possibility. If that turns out to be the case, then we must consider whether some of that extra revenue comes at the expense of FY 2023 and FY 2024 revenue.

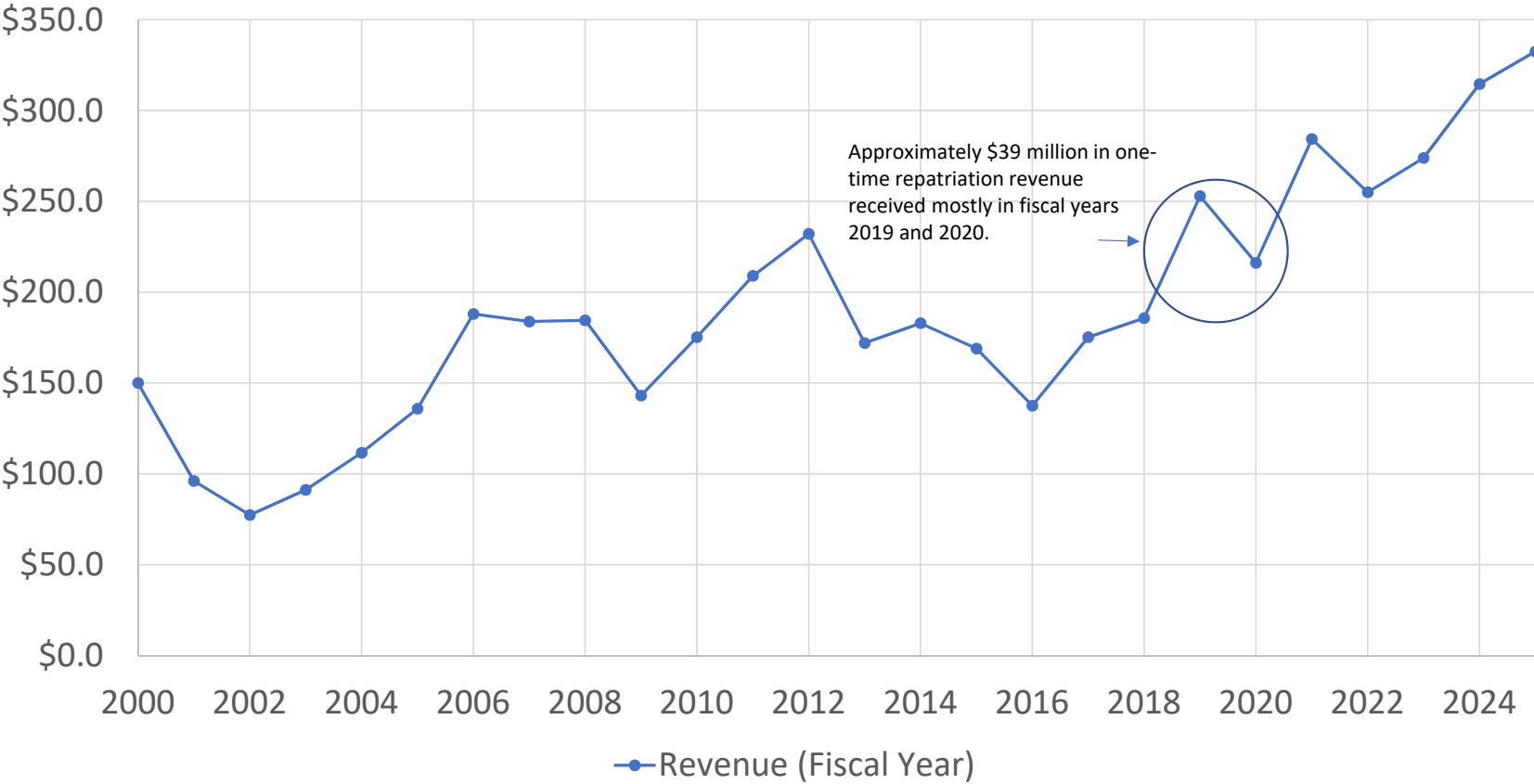
Corporate Income Tax

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	-10.3%	\$35
2022-23	7.4%	\$35
2023-24	14.9%	\$48
2024-25	5.7%	\$53.5

Corporate Income Tax Revenue: History and Forecast

(\$million)



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

	2020	2021	2022	2023	2024	2025
April CEFC	-3.5%	15.0%	4.7%	4.7%	4.7%	4.7%
November CEFC	-3.1%	30.0%	2.0%	3.0%	6.0%	6.0%

Other Taxes

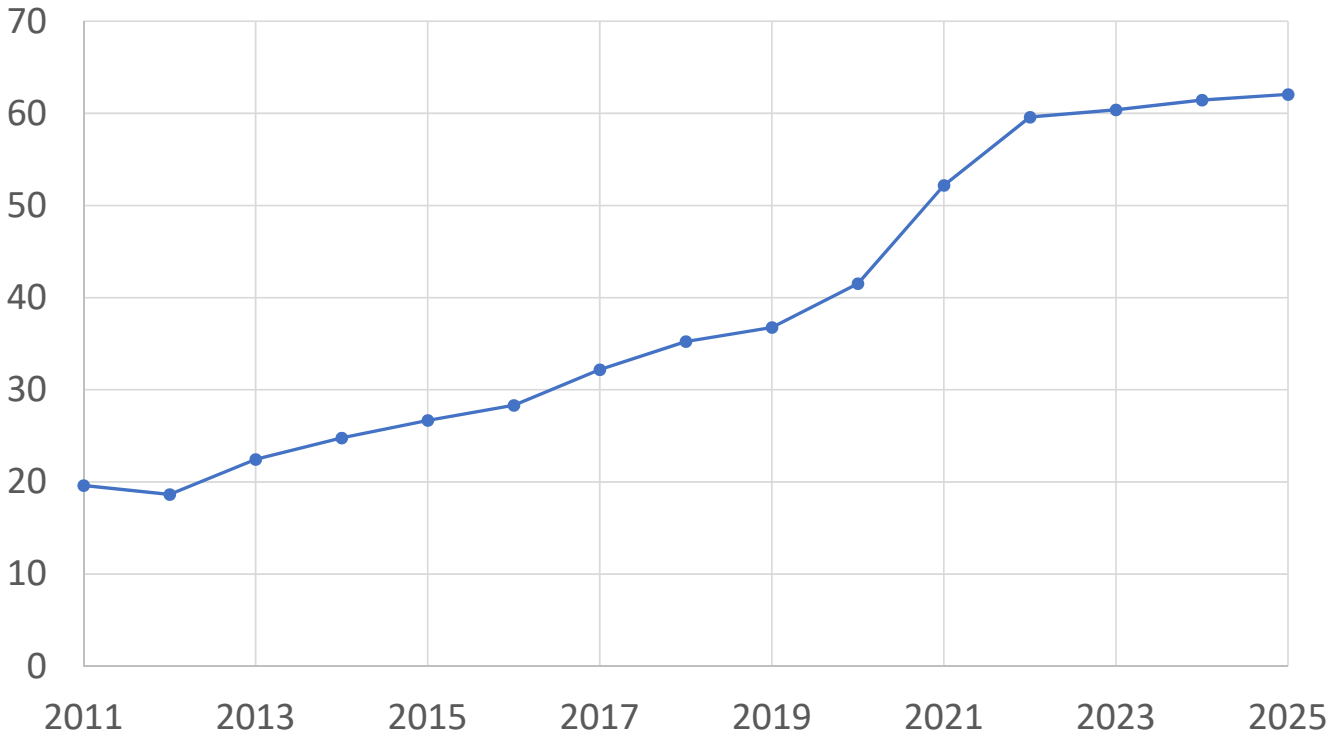
Real estate transfer tax

	Home price, existing median		Home sales, existing single-family	
	April Forecast	November Forecast	April Forecast	November Forecast
2020	13.3%	13.0%	22.9%	22.9%
2021	12.1%	18.7%	-0.5%	-7.9%
2022	2.5%	4.2%	-5.6%	-2.4%
2023	1.8%	1.8%	1.6%	7.7%
2024	0.9%	0.4%	2.4%	9.1%
2025	0.9%	0.4%	1.3%	-2.9%

- Through mid-November, positive FY 2022 variance of \$2.6 million.
- Increase General Fund forecast by approximately \$3.8 million in FY 2022 and approximately \$3 million per year afterward.

Total RETT Revenue by Fiscal Year

(\$million)



Cigarette, Tobacco, and Marijuana Excise Taxes

- Marijuana Excise Tax
 - Large negative variances through summer months
 - Downward adjustment of \$4.8 - \$6.3 million, percentage adjustment largest in FY 2022
- Cigarette Excise Tax
 - In the last forecast, we made a downward adjust of \$4.5 million in FY 21 and ended FY 21 with +\$4.5 million variance
 - +\$3.8 million variance FY to date
 - FTC report: cigarette purchases increased slightly in CY 2020, the first increase in two decades
 - Positive adjustments \$5.3 - \$5.6 million per fiscal year
 - Still declining 1.5 – 2% per year but from higher base

Estate Tax

Fiscal Year	2022	2023	2024	2025
Forecast Change (\$mil)	\$6.1	\$3.65	\$3.15	\$3.25