



Peter Franchot
Comptroller

May 29, 2012

Honorable Martin O'Malley
Governor of Maryland
State House
Annapolis, Maryland 21401

Honorable Thomas V. "Mike" Miller, Jr.
President, Senate of Maryland
State House
Annapolis, Maryland 21401

Honorable Michael E. Busch
Speaker, Maryland House of Delegates
State House
Annapolis, Maryland 21401

Dear Governor, President and Speaker:

General fund revenue collections totaled \$1.713 billion in April, growth of 4.7%. For the fiscal year to date, revenues of \$10.815 billion reflect growth of 6.5% over last year. Adjusted for law changes, primarily changes to the distribution of sales tax and highway user revenues, growth is about a percentage point lower. With the income tax filing season in its final stages, it does appear that general fund revenues are on a course to finish ahead of the full-year forecast, although substantial amounts of revenue—over \$3.0 billion—remain to be collected. And while recent trends of many revenue sources are encouraging, growth of two of the State's largest revenue sources—income tax withholding and sales taxes—remains modest for this point of the economic cycle. Withholding growth is particularly concerning. For the fiscal year to date, growth is 3.4% while employment has increased 1.4% for the fiscal year. The last time employment growth approached this rate—2004, 2005 and 2006—income tax withholding was increasing at rates of 6% to 8%.

Individual Income Tax

With income tax returns due last month, April is typically the largest month of individual income tax collections. General fund income tax revenues increased 5.4% for the month to \$1.003 billion, the first time monthly general fund collections have exceeded \$1 billion since before the recession. Final payments, those received with income tax returns, increased 3.9% for the month to \$783.0 million. Year-to-date growth is 11%, nearly twice the forecast growth of 6.0%. With over \$100 million expected to be remitted the last two months of the fiscal year, final payments could still fall short of the forecast, but if so, it will not be by much. Income tax refunds were nearly flat for the month at \$552.6 million, and have fallen 4.0% for the year. With ever-increasing numbers of returns electronically filed (9% growth through early May, reaching over 75% of returns filed), and hence a greater share of the returns processed by a given date with each succeeding year, it seems probable at this point that the forecast growth of 2.8% will probably not be met, which is to the good.

First quarter estimated payments are due in April. Growth of almost 21% was the best for estimated payments since the second quarter of 2007. As the smallest quarter of the year, and the furthest from the end of the tax year when the reconciliation of expectations and actual liability takes place, first quarter payments are not necessarily indicative of how the tax year will play out. For the fiscal year to date, however, growth in estimated payments is 3.3% relative to a decline of 0.3% in the forecast.

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Corporate Income Tax

General fund corporate income tax collections declined 7.8% in April, but are up 8.9% for the year. Quarterly estimated payments for most taxpayers are due in April, as are final payments for many taxpayers. Estimated payments, over 80% of April's gross receipts, increased 13.8% while final payments declined by almost half, resulting in a 5.3% drop for gross receipts. Refunds increased by 6.0%, resulting in a 6.2% decline in net receipts. With essentially one quarter of estimated payments left, it appears probable that general fund revenues from the corporate income tax will finish the year above the forecast growth of 1.6%.

Sales Tax

General fund sales tax collections for April (March sales) increased 12.8% to \$351.0 million and are up 11.0% for the year, although underlying economic activity remains weak. Legislative changes to the distribution of sales tax collections and the increased rate applied to alcohol distort the sales tax base. After adjusting for law changes, April's collections were up 3.6% and year to date growth is up only 3.0%. Year to date, consumer and construction related activity have lead the major components, up 6.7% and 4.8% respectively, though some of this activity has likely been encouraged by the unseasonably good weather of late winter and early spring. Receipts related to capital purchases and utilities have not fared as well, capital goods collections are up only 0.6% and utility receipts are down 4.0% for the year.

Lottery

Lottery sales were up 3.0% for the month, but an increase in prize payouts from 58.3% to 61.4% resulted in a general fund decrease of 5.8%. Year to date, sales are up 4.7% and general fund revenues are up 7.0%. Pick 4 revenues were severely impacted by an extraordinary difference in year over year payout ratios; revenues declined 27.4% despite a 1.9% increase in sales. A Powerball jackpot reached its apex in April at \$173.0 million, low by recent jackpot standards, but enough to propel sales growth to 22.1% for the month and 42.7% for the year. Racetrax sales grew 9.9% and revenue was up 16.2% as the monitor games continue to show strong growth, sales of the Keno and Racetrax games are up a combined 6.0% for the year and revenues have increased 4.5%.

Other Revenues

Quarterly estimated payments are due in April for the franchise tax and insurance premium tax. Franchise taxes declined 5.3%, although this follows very strong 21% growth last April. For the year, franchise taxes are now down 0.9%. Premium tax collection growth of 25.1% for the month was enhanced by credits taken against the tax last year, though underlying growth remains strong. After two months of declines in excess of 25%, estate and inheritance taxes increased 11.6% for the month, although they have fallen 7.9% for the year. Tobacco tax collections, which can be volatile as they are collected at the wholesale rather than retail level, grew 10.2% for the month, while alcohol taxes were nearly flat, as were court revenues. General fund highway user revenues are down by half as a result of a statutory change to the distribution of revenue.

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I hope this information is helpful. If you have any questions, please do not hesitate to contact me or David F. Roose, Director of the Bureau of Revenue Estimates.

Sincerely,

A handwritten signature in black ink that reads "Peter Franchot". The signature is written in a cursive style with a large, sweeping initial "P".

Peter Franchot
Comptroller

cc: Treasurer Nancy K. Kopp
Secretary T. Eloise Foster
Senator Edward J. Kasemeyer
Senator Edward J. Pipken
Delegate Norman H. Conway
Delegate Sheila E. Hixson
Delegate Anthony J. O'Donnell
Warren G. Deschenaux
Linda L. Tanton
Len N. Foxwell

State of Maryland General Fund Source Revenue Collections
Fiscal Year 2012 (April)
Summary Report
(\$ in thousands)

	April			Year to Date		
	FY 2012	FY 2011	Growth	FY 2012	FY 2011	Growth
General Fund Receipts						
Individual Income Tax	1,003,319	952,021	5.4%	5,599,572	5,149,015	8.8%
Corporate Income Tax	78,926	85,616	-7.8%	480,427	441,186	8.9%
Sales Tax	350,965	311,261	12.8%	3,005,832	2,707,075	11.0%
Lottery	47,713	50,624	-5.8%	447,174	417,923	7.0%
Franchise Tax	53,674	56,672	-5.3%	149,442	150,773	-0.9%
Premium Tax	64,111	51,244	25.1%	236,650	212,559	11.3%
Estate and Inheritance Tax	14,186	12,713	11.6%	157,161	170,593	-7.9%
Alcohol / Tobacco	37,623	34,376	9.4%	336,455	331,978	1.3%
Court Revenues	10,243	10,246	0.0%	98,876	100,173	-1.3%
Interest	2,057	177	1063.6%	11,771	39,813	-70.4%
Highway User Revenues	17,860	36,795		127,194	258,832	
Miscellaneous	32,798	34,939	-6.1%	164,455	178,884	-8.1%
Total	1,713,474	1,636,685	4.7%	10,815,008	10,158,803	6.5%
Individual Income Tax Detail						
Withholding	970,578	877,168	10.6%	8,931,368	8,636,269	3.4%
Estimated	215,950	178,695	20.8%	1,127,126	1,107,720	1.8%
Final / Fiduciary	813,130	775,545	4.8%	1,272,493	1,128,390	12.8%
Gross Receipts	1,999,658	1,831,407	9.2%	11,330,987	10,872,379	4.2%
Refunds	(552,560)	(549,103)	0.6%	(2,223,529)	(2,272,527)	-2.2%
Net Receipts	1,447,099	1,282,305	12.9%	9,107,458	8,599,852	5.9%
Corporate Income Tax Detail						
Estimated	95,859	84,250	13.8%	562,803	514,801	9.3%
Final	21,349	39,584	-46.1%	294,092	288,099	2.1%
Gross Receipts	117,208	123,833	-5.3%	856,895	802,901	6.7%
Refunds	(9,245)	(8,719)	6.0%	(189,550)	(191,802)	-1.2%
Net Receipts	107,963	115,114	-6.2%	667,344	611,099	9.2%
Lottery Sales	156,713	152,092	3.0%	1,498,496	1,431,573	4.7%

Income tax receipts are shown before distributions to the local reserve fund and to/from the refund reserve fund for the individual income tax, and before distributions to the Transportation Trust Fund, Higher Education Investment Fund, and to/from the refund reserve fund for the Corporate Income Tax.