



Peter Franchot
Comptroller

January 25, 2013

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 revenues for the month of December totaled \$1,223.6 billion, an increase of just 1.7% from December of last year. For the fiscal year to date, general fund revenues have increased 6.0% to \$5.981 billion. Sales tax collections, the month's largest drag on growth, were very disappointing. December's collections, which reflect sales made in November and include an extra week of holiday shopping due to the timing of Thanksgiving this year, were essentially flat. Also of note, the increase in the general fund's share of corporate income tax revenues for fiscal year 2013 relative to fiscal 2012 has generated an additional \$55.4 million, roughly offsetting last year's highway user revenue general fund distribution.

Individual Income Tax

Individual income tax collections increased \$34.5 million to \$557.1 million, an increase of 6.6%. Year to date collections are up 7.6%, or \$210.6 million. Individual income tax withholding increased 6.0% from the prior year, marking the fifth consecutive month of growth for this fiscal year. For the fiscal year to date, withholding has grown only 3.3%. Estimated payments were down 4.1% from last December. Although fourth quarter payments aren't actually due until January, December is historically the largest off-month for estimated payments, as some taxpayers try to get their payments in before the calendar year end. Due to the fiscal uncertainty surrounding the impending fiscal cliff, this year may prove to be the exception as taxpayers - expecting higher income tax rates in 2013 - push estimated payments to January to capitalize on itemized deductions. Final payments and refunds both declined for the month, 23.8% and 7.0%, respectively; however, both matter little until processing season.

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Corporate Income Tax

General fund corporate income tax collections experienced growth of 0.9% to \$113.8 million, up 48.6% year-to-date. December is an important month for corporate collections, encompassing fourth quarter estimated payments for calendar year taxpayers. After successive months of growth in net receipts, largely due to low refunds (to the good of the general fund), net receipts for December dropped 24.9% from December of last year. Gross receipts contracted 9.4% over the same period last year, though are up 8.8% for the year to date. Corporate refunds surged to \$32.6 million; however, still down 24.0% for the year. There were 775 refunds paid in December, an extraordinary increase from 2011 and prior years. Net receipts finished down significantly for the month, 24.9%, largely driven by the increased refund activity.

Sales Tax

General fund sales tax collections remained relatively flat in December (November sales), increasing 0.1% to \$324.8 million. For the fiscal year, general fund receipts have grown 1.9%. Lackluster performance can largely be attributed to the uncertainties taxpayers face as Congress continues to negotiate tax policy impacting all strata's of income. After accelerated growth in the first two months of the fiscal year (largely attributable to consumer receipts), gross receipts have tapered off - growing just 0.9% for the month, and 2.1% for the year. All components of the sales tax saw growth except for capital goods, most notably construction receipts. Monthly construction receipts increased 3.7% while year-to-date receipts are up 3.0% - likely impacted by the uncharacteristically warm weather the region has been experiencing.

Lottery

Lottery sales fell 6.9% in December to \$151.9 million, but a smaller distribution to the Stadium authority (tied to Mega Million revenues) resulted in an increase in general fund revenue of 2.3%. Year-to-date, sales and general fund revenue are up 1.7% and 6.9%, respectively. Payouts have declined for the year, to the State's benefit, 59.8% this year versus 61.0% last year. Keno sales, down significantly for the month and year (13.1% and 9.4%) contributed to weak revenues. Keno sales have been particularly depressed near gaming sites. Racetrax, a game similar to Keno, continues to realize double digit growth (up 13.8% for the year). The introduction of a new game, 5 Card Cash, appears to be cannibalizing instant ticket sales, as consumers are drawn to the promotions and allure of a new instant gratification type game. Instant ticket sales dropped \$2.8 million, while 5 Card Cash sales were \$2.2 million. Year-to-date, Powerball has experienced sale and revenue growth of 86.3% and 86.0%, respectively, though monthly revenues are down. Much of this can be attributed to the \$1 price increase in the price of Powerball tickets and the accompanying average jackpot increase; the average jackpot is up 61.2% to \$118.8 million through December.

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Other Revenues

Quarterly estimated payments are due in December for the business franchise taxes and insurance premium tax. Receipts for both taxes have fallen considerably in comparison to the prior December; 7.7% and 4.1%, respectively. Premium taxes, however, are positive year-to-date at 2.4%, while franchise receipts are down 4.7%. Estate and inheritance taxes are up significantly for the month and year - 68.0% and 25.8%, respectively. Several estates making payments over \$1 million totaled \$25.3 million in December, a significant gain relative to last year. Miscellaneous revenues fell 8.7% for the month, while up 22.2% for the year.

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

Sincerely,



Peter Franchot
Comptroller

cc: Treasurer Nancy K. Kopp
Secretary T. Eloise Foster
Senator Edward J. Kasemeyer
Senator Edward J. Pipkin
Delegate Norman H. Conway

Delegate Sheila E. Hixson
Delegate Anthony J. O'Donnell
Warren G. Deschenaux
Len Foxwell
David F. Roose