



Peter Franchot
Comptroller

January 24, 2014

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 \$1.24 billion in December, growth of just 0.7% from the prior fiscal year. For the fiscal year-to-date, revenues of \$6.14 billion reflect growth of 2.6% over last year. In the aggregate, collections are currently on-track with last month's revised revenue estimates, though the income tax filing season for what was an economically turbulent tax year looms as the greatest source of uncertainty for the forecast. Fiscal year 2014 collections include a statutory distribution of transfer tax revenues and a reduced general fund share of corporate collections; adjusting for those differences, revenue growth increased 1.7% for the month and is up 1.9% for the fiscal year. Income tax withholding served as the greatest restraint to collections growth for the month, largely the result of taxpayer behavior last fiscal year that pulled March 2013 collections into December 2012 (more detail below).

Individual Income Tax

General fund individual income tax receipts for the month of December decreased 4.0%, resulting in year-to-date growth of 4.2%. This month's decrease is largely due the 4.1% decrease in income tax withholding. While withholding remains weak, though improved from recent years as the economy has somewhat stabilized, December's sharp decline is somewhat attributable to last year's fiscal cliff. Last year, it seems that to hedge against the forthcoming general increase in federal tax rates (a significant component of the fiscal cliff), taxpayers accelerated bonus payments into December 2012. The acceleration likely pulled the bonuses from March 2013 (March is a typical month for payment of the prior year's bonuses); as such, the 1.7% year-to-date withholding growth rate should remain artificially depressed until this March.

December, other than income tax withholding, is generally an insignificant month for the personal income tax, though it is the first collection period for fourth quarter estimated payments. Fourth quarter estimated payments are not due until January; however, some taxpayers try to get their payments in by the calendar year end to maximize current year tax benefits. The fourth quarter estimated payment is the most substantial estimated payment for the tax year, though it is difficult to read anything into the December result, it has not been indicative of January's collections and December's receipts typically only account for about 20% of the fourth quarter as a whole.

Letter to Honorable Martin O'Malley,
Thomas V. "Mike" Miller, Jr., and
Michael E. Busch
January 24, 2014
Page 2

Corporate Income Tax

General fund corporate income tax receipts increased \$5.25 million (4.6%) in December, and are now down 19.8% for the fiscal year; however, the general fund is receiving a lesser distribution of receipts this fiscal year relative to last. Quarterly estimated payments, due this past month for most calendar year taxpayers, increased 9.4%. Final payments, a much smaller share of gross receipts in December, fell 21.2%. In total, gross receipts increased 6.6% for the month and are down 3.4% for the fiscal year. Refunds decreased 61.3% in December, largely the result of extraordinary refunds paid in December 2012. For the year, refunds are up 25.9% and are inclusive of the substantial impact from the increased Film Production Credit. As mentioned above, the changing general fund share distorts actual performance as net receipts show that underlying corporate collections are down 11.3%.

Sales Tax

General fund sales tax receipts (November sales) grew 2.9% and, after five months, collections are up 2.3% for the year. While more detailed data is not yet available, it is worth noting that collections have been greater than 2.0% for three straight months, the longest such streak since the third quarter of fiscal year 2012. Growth in the two percent range is certainly not the sign of a healthy taxable marketplace; however, some degree of consistency is welcome.

Lottery

Lottery sales increased 6.3% in December with Match 5, Mega Millions and Racetrax showing month over month growth. The increase in sales was driven almost entirely by the over \$600 million Mega Millions Jackpot, causing Mega Millions sales to surge 417% in December. In the absence of Mega Millions, lottery sales would have decreased 6.9% in December. However, it is possible that the large increase in Mega Millions sales caused other traditional lottery games sales to decrease, as a result of a possible substitution effect.

In the aggregate, sales are down 2.2% for the year, with only Pick 4, 5 Card Cash, Racetrax, and Mega Millions showing growth for the year. Our estimates assume that the addition of casinos is cannibalizing traditional lottery ticket sales, especially for lottery agents located in close proximity. The total distribution to the Stadium Authority, based on Mega Millions sales and revenues was reached in December, and therefore, will no longer subtract from general fund revenues. Excluding that distribution, revenues for the month would have been up 12.0% and year-to-date revenues down 3.3%; including that distribution, revenues were up 1.6% for month and down 5.5% for the year

Other Revenues

Quarterly estimated payments are due in December for both the gross receipts portion of the business franchise taxes and the insurance premium tax. While the business franchise tax declined 0.3%, its gross receipt portion dropped 1.2% for the month. Insurance premium tax revenues were up 15.2%. However, both sources of revenue are up for the year by 12.0% and 13.8% respectively. Estate and inheritance taxes, which are extremely volatile, have declined 16.6% for the year; inheritance tax revenues are down 2.3% for the year and estate tax revenues are down almost 20.0%. Both alcohol and tobacco revenues decreased for the month, down 8.0% and 6.9%, respectively.

Letter to Honorable Martin O'Malley,
Thomas V. "Mike" Miller, Jr., and
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January 24, 2014
Page 3

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 David R. Brinkley
Delegate Norman H. Conway

Delegate Sheila E. Hixson
Delegate Nicholas R. Kipke
Warren G. Deschenaux
David F. Roose
Len N. Foxwell

State of Maryland General Fund Source Revenue Collections
Fiscal Year 2014 (December)
Summary Report
(\$ in thousands)

	December			Year to Date		
	FY 2014	FY 2013	Growth	FY 2014	FY 2013	Growth
General Fund Receipts						
Individual Income Tax	534,850	557,134	-4.0%	3,116,865	2,992,285	4.2%
Corporate Income Tax	119,049	113,802	4.6%	273,708	341,425	-19.8%
Sales Tax	333,713	324,819	2.7%	1,710,759	1,681,906	1.7%
Lottery	46,498	45,760	1.6%	246,949	261,192	-5.5%
Franchise Tax	31,045	31,137	-0.3%	82,067	73,305	12.0%
Premium Tax	71,107	61,718	15.2%	163,018	143,191	13.8%
Estate and Inheritance Tax	26,132	23,625	10.6%	105,726	126,782	-16.6%
Alcohol / Tobacco	34,788	37,405	-7.0%	195,734	203,942	-4.0%
Court Revenues	8,321	9,511	-12.5%	65,839	61,570	6.9%
Interest	1,672	1,225	36.5%	3,867	3,911	-1.1%
Transfer Tax Revenues	9,965			66,558		
Miscellaneous	22,570	25,474	-11.4%	110,772	98,655	12.3%
Total	1,239,710	1,231,608	0.7%	6,141,863	5,988,165	2.6%
Individual Income Tax Detail						
Withholding	950,109	990,491	-4.1%	5,246,570	5,159,432	1.7%
Estimated	88,457	92,471	-4.3%	609,250	566,061	7.6%
Final / Fiduciary	35,700	20,039	78.2%	314,725	238,176	32.1%
Gross Receipts	1,074,267	1,103,000	-2.6%	6,170,545	5,963,670	3.5%
Refunds	(22,843)	(21,190)	7.8%	(329,764)	(319,414)	3.2%
Net Receipts	1,051,424	1,081,811	-2.8%	5,840,781	5,644,256	3.5%
Corporate Income Tax Detail						
Estimated	156,753	143,331	9.4%	392,629	401,857	-2.3%
Final	11,109	14,091	-21.2%	99,038	106,911	-7.4%
Gross Receipts	167,862	157,422	6.6%	491,667	508,769	-3.4%
Refunds	(12,622)	(32,612)	-61.3%	(136,638)	(108,518)	25.9%
Net Receipts	155,240	124,810	24.4%	355,029	400,251	-11.3%
Lottery Sales	161,500	151,915	6.3%	855,034	874,278	-2.2%

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.