



Peter Franchot
Comptroller

May 13, 2009

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:

April's general fund revenues of \$1.571 billion fell far short of last year's collections, down 16.6%. For the fiscal year to date, general fund collections are \$9.985 billion, a decline of 3.5% against last year. All but one of the major revenue sources were below last year's collections for the month, and only three are showing any growth for the year. Those three, the corporate income tax, sales tax, and tobacco tax, are only positive due to the fact that the tax changes enacted during the 2007 Special Session are effective for a full fiscal year this year. Amidst the negative numbers, the ones of most concern relate to the individual income tax, as discussed below.

Individual Income Tax

There is very little good news to be found within the individual income tax, with general fund receipts for the month of April declining 17.4%, accounting for 67% of April's total revenue drop. Year to date collections are down 4.9% at \$5.230 billion. April is the largest month of collections for final and fiduciary payments, which were down 33.7%, 27.4% for the year. Final payments dropped \$331 million, all the more concerning considering the fact that the full tax year 2008 payments related to the 6.25% bracket (taxable income over \$1 million, enacted during the 2008 Regular Session) should have been received in April, as that bracket was not required to be reflected in estimated payments throughout the year. Estimated payments took a significant hit as well, declining 14.1% for the month and 6.5% year to date. Between the poor performance of estimated payments and even worse performance of final payments, it is clear that the income tax will fall short of the full year estimate. If these two components finish the year at their current year to date growth rate, they will be roughly \$130 million short of the general fund forecast. And there is little to no reason to expect performance to improve over the next two months.

While final payments have dropped precipitously, refunds have not soared, as might have been expected. Refunds of \$541.2 million were paid out in April, 17.4% growth over the year before, but for the fiscal year to date refunds are up only 8.9%, below the full year forecast of 11.4% growth. It is the case, however, that substantially reduced staffing has slowed the processing of paper returns, so May is likely to see a higher than usual level of refunds. The only good news for the income tax is that withholding has held up relatively well. While employment for the first quarter is down 2% from last year, year to date growth for withholding

Letter to Honorable Martin O'Malley,
Thomas V. "Mike" Miller, Jr., and
Michael E. Busch
May 13, 2009
Page 2

has remained very slightly positive for the last four months and, at 0.3%, it is slightly ahead of the full year forecast of 0.2% growth.

Our analysis of April results, and tax year 2008 itself, will be ongoing. We will not have a complete picture of 2008, including the full impact of the new higher income tax brackets, until after the October filing extension. Clearly, tax year 2008 results are worse than anticipated, but the implications of that shortfall won't be fully understood until the extension returns, which are typically higher-dollar returns, have been processed. At this point we do know that returns with taxable income over \$1 million filed by April 30 each year have fallen by about a third while tax liability on these returns has dropped somewhat more, despite the fact that more than half of the taxable income of these individuals was taxed at rates 0.5 to 0.75 percentage points higher than last year. It is possible that, with the economic turmoil experienced in the last half of 2008, the tax situations of many wealthy individuals are more complicated than usual, and a higher proportion will therefore use the filing extension than is typical. However, it seems reasonable to assume, particularly given the sharp drop in final payments, that there will be a substantial decline in the number of returns with taxable income over \$1 million and a substantial decline in the income reported on those returns when complete results are available. Given the importance of the recent changes to the income tax to the State's fiscal position, we will be thoroughly analyzing these returns and their implications.

Corporate Income Tax

General fund corporate income tax collections were down 24.8% for the month of April, bringing year to date growth to 6.3%. With quarterly payments due for those corporations whose tax year begins at the start of a calendar quarter, April is a relatively substantial month for corporate estimated payments. Those payments fell 20.7%, or \$18.6 million, representing a substantial turnaround from the previous two calendar quarter due dates which saw growth. Gross receipts were off by 21.5% and, while refunds fell by over 30%, the relatively small dollars of refunds resulted in net receipts declining by almost 21%. General fund revenues declined further as a result of a \$5.5 million dollar distribution to the Higher Education Investment Fund, a distribution that was not made last April.

Sales Tax

General fund sales tax collections for April (March sales) fell 12.6% or \$42.7 million. For the fiscal year to date, collections are \$2.732 billion, up 1.4%. This year's collections do, however, include disbursements to the Chesapeake Bay 2010 Fund and the Transportation Trust Fund that were not made last year. Gross sales tax receipts (omitting refunds and disbursements) were down 7.5% for the month of April and are up 7.1% fiscal year to date, with the growth resulting solely from the fact that the tax rate was 6% for the first half of the fiscal year, compared to 5% the first half of fiscal year 2008. The decline in April may be slightly exaggerated as Easter, which provides a slight boost to sales, occurred in March last year but was in April this year.

Lottery

Lottery sales increased by 9.0% in April although revenues fell 7.3% due to unfavorable payouts (from the State's perspective) in both Pick 3 and Pick 4. Pick 3 revenues were not helped when 418 hit on April 18, followed by 333 on the very next draw, while two Pick 4 draws paid out over 500% of sales. Pick 4 had an incredibly bad run in April with sales up 10.7% and revenues down a staggering 50%. Pick 3 sales increased 2.5% and revenues declined 10.7%. Sales of instant tickets, the lottery's largest game, fell 5.6%, although sales of the two terminal games, Keno and Racetrax grew 24.3%. Mega Millions sales grew 37.2% with a

Letter to Honorable Martin O'Malley,
Thomas V. "Mike" Miller, Jr., and
Michael E. Busch
May 13, 2009
Page 3

significant jackpot building through the end of April. Revenues for all of these games increased several percentage points less than sales.

Other Revenues

Quarterly payments for both the business franchise and the insurance premium taxes are due in April. The business franchise tax fell 3.1%, attributable to a 6.2% decline in the gross receipts tax collected from public service companies. Filing fees collected from all business entities were flat. Insurance premium tax collections grew 22.8% but remain down 2.8% fiscal year to date. The tobacco tax was down 30.4%, although some of the decline is artificial—last April's revenues were boosted by \$9.7 million of floor tax (a \$1 tax on January 1 inventory, when the cigarette tax was increased from \$1 to \$2 per pack). After adjusting for that distortion, collections were down 12.6%. Interest earnings were negative in April due to accounting adjustments.

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,



Peter Franchot
Comptroller

cc: Treasurer Nancy K. Kopp
Secretary T. Eloise Foster
Senator Ulysses Currie
Senator Allan H. Kittleman
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 2009 (April)
Summary Report
(\$ in thousands)

	April			Year to Date		
	FY 2009	FY 2008	Growth	FY 2009	FY 2008	Growth
General Fund Receipts						
Individual Income Tax	984,942	1,192,408	-17.4%	5,229,613	5,501,493	-4.9%
Corporate Income Tax	60,537	80,453	-24.8%	431,887	406,393	6.3%
Sales Tax	294,970	337,651	-12.6%	2,731,697	2,695,071	1.4%
Lottery	40,812	44,017	-7.3%	385,588	425,229	-9.3%
Franchise Tax	49,806	51,424	-3.1%	146,507	152,531	-3.9%
Premium Tax	63,126	51,404	22.8%	224,711	231,120	-2.8%
Death Taxes	10,914	18,742	-41.8%	178,610	207,097	-13.8%
Alcohol / Tobacco	35,756	50,146	-28.7%	334,893	286,570	16.9%
Court Revenues	11,328	13,631	-16.9%	105,439	120,077	-12.2%
Interest	(3,439)	13,178	-126.1%	49,278	89,282	-44.8%
Miscellaneous	21,931	29,543	-25.8%	166,420	235,766	-29.4%
Total	<u>1,570,684</u>	<u>1,882,595</u>	<u>-16.6%</u>	<u>9,984,643</u>	<u>10,350,629</u>	<u>-3.5%</u>
Individual Income Tax Detail						
Withholding	882,952	871,865	1.3%	8,254,156	8,229,698	0.3%
Estimated	208,104	242,342	-14.1%	1,342,151	1,435,683	-6.5%
Final / Fiduciary	719,286	1,084,202	-33.7%	1,057,774	1,457,865	-27.4%
Gross Receipts	1,810,342	2,198,410	-17.7%	10,654,081	11,123,247	-4.2%
Refunds	(541,205)	(461,170)	17.4%	(2,092,670)	(1,921,679)	8.9%
Net Receipts	<u>1,269,137</u>	<u>1,737,239</u>	<u>-26.9%</u>	<u>8,561,412</u>	<u>9,201,568</u>	<u>-7.0%</u>
Corporate Income Tax Detail						
Estimated	71,322	89,916	-20.7%	512,553	492,999	4.0%
Final	22,784	29,922	-23.9%	276,297	292,165	-5.4%
Gross Receipts	94,106	119,838	-21.5%	788,850	785,164	0.5%
Refunds	(5,025)	(7,340)	-31.5%	(194,511)	(220,294)	-11.7%
Net Receipts	<u>89,081</u>	<u>112,498</u>	<u>-20.8%</u>	<u>594,339</u>	<u>564,870</u>	<u>5.2%</u>
Lottery Sales	151,008	138,547	9.0%	1,410,059	1,399,885	0.7%

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.