



Peter Franchot
Comptroller

April 20, 2011

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 increased 9.3% in March to \$1.093 billion. Year to date collections have increased 7.2% (see attached table). Excluding the new distribution of highway user revenues, general fund revenues are up 4.4% for the year. Several major revenue sources are now approaching what might be considered normal rates of growth, although collections remain at depressed levels relative to several years ago.

Individual Income Tax

General fund individual income tax receipts increased 1.2% in March, resulting in 4.7% growth for the fiscal year. Income tax withholding increased 3.7% for the month, pulling down year-to-date growth slightly to 4.8%. Looking at growth over the last three months, however, to smooth out inevitable noise in collections, growth is at 6.2%, near its peak in the last four years. Income tax refunds increased 5.6% for the month to \$674.5 million, a record monthly amount. Some of the refunds in March, however, would have been paid in February but for the Internal Revenue Service's delay in processing tax returns until February 14, which delayed the Comptroller's receipt of some electronically-filed returns and may have caused some taxpayers to delay filing altogether. Despite the record level of refunds in March, refunds are down 5.0% compared to fiscal year 2010. While April is the largest month for final income tax payments, typically responsible for about 60% of the full year's collections, March is often the second-largest month. Receipts were \$110.9 million in March, growth of 18%. While that performance may not be a harbinger for April, it is boosted by continuing growth in electronic returns—up 8% so far in the filing season, about 150,000 returns.

Corporate Income Tax

Corporate income tax returns are due on March 15 for calendar year taxpayers, making March a significant month for corporate income tax collections. Gross receipts fell 9.9%, largely a result of the 27% decline in estimated payments. Final payments, the bulk of collections in March, fell only 2.7%. Refunds dropped almost 70%, however, resulting in a 2.8% increase in net receipts. After distributions to the Transportation Trust Fund and Higher Education Investment Fund, however, general fund receipts fell 9.9%.

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Sales Tax

General fund sales tax receipts increased 10.0% for March (February sales). Rather than reflecting underlying strength, collections in March likely are a result of the impact the February snowstorms last year, which artificially depressed sales. Collections fell 8.0% last March; this past month's collections are barely above March 2009 levels. Construction-related receipts increased 22%, while collections from sales to consumers increased 9.9%. This category, over two-thirds of sales tax collections, has now increased a relatively healthy 5.6% for the fiscal year. Receipts from sales of utilities increased 6.2%, bringing that category almost even for the year. For each of these three components of the sales tax, March showed the best performance of the fiscal year by a sizable margin. For the fiscal year, general fund receipts are up 4.5%

Lottery

Lottery sales increased 3.8% in March, led by a near-doubling of Mega Millions sales due to a \$319 million jackpot. Keno and Pick 3, two of the larger games, both experienced sales declines, and sales of instant tickets, the largest game, only increased by 0.6%. Revenues increased by 25%, however, largely due to Pick 4. In March of 2010, several popular numbers were drawn, resulting in payouts of 93% of sales and a revenue loss of \$500,000. Although March payouts were still high at 61%, the reduced payouts resulted in revenues of \$7.1 million. Mega Millions revenues increased by 85% to \$6.4 million. On the year, sales are up 1.2%, and general fund revenues are 2.0% above last year.

Other Revenues

Franchise tax receipts fell 11% and premium tax collections dropped almost 50%. As March receipts for these taxes are primarily final payments, they reconcile estimated payments made throughout the prior tax year with actual liability. While credits may play a role, the declines indicate that tax year 2010 was not as strong as taxpayers had thought throughout the year (adjusting for a delayed \$6 million distribution of premium tax collections to special funds, the general fund decline is still 40%). Payments from large estates (those making payments of \$500,000 or more) nearly doubled to \$5 million, resulting in the 37% growth of estate and inheritance taxes. Interest earnings on an accrual basis were up almost 500% for the month, as a substantial amount of investments had been scheduled to mature in March; for the year, interest earnings of \$52.9 million have grown 27%. Miscellaneous revenues for March were at normal levels; last year's amounts were very low as a result of several adjustments to revenues.

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 Edward J. Kasemeyer
Senator Nancy Jacobs
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 2011 (March)
Summary Report
(\$ in thousands)

| | March | | | Year to Date | | |
|-------------------------------------|------------------|----------------|-------------|------------------|------------------|--------------|
| | FY 2011 | FY 2010 | Growth | FY 2011 | FY 2010 | Growth |
| General Fund Receipts | | | | | | |
| Individual Income Tax | 490,187 | 484,247 | 1.2% | 4,196,994 | 4,008,302 | 4.7% |
| Corporate Income Tax | 106,694 | 118,456 | -9.9% | 355,569 | 359,651 | -1.1% |
| Sales Tax | 261,478 | 237,779 | 10.0% | 2,395,814 | 2,292,132 | 4.5% |
| Lottery | 50,252 | 40,172 | 25.1% | 367,300 | 360,200 | 2.0% |
| Franchise Tax | 12,198 | 13,673 | -10.8% | 94,101 | 94,096 | 0.0% |
| Premium Tax | 20,454 | 39,697 | -48.5% | 161,314 | 162,730 | -0.9% |
| Estate and Inheritance Tax | 16,744 | 12,201 | 37.2% | 156,966 | 128,671 | 22.0% |
| Alcohol / Tobacco | 34,441 | 33,036 | 4.3% | 297,602 | 294,254 | 1.1% |
| Court Revenues | 11,511 | 12,371 | -7.0% | 89,926 | 93,841 | -4.2% |
| Interest | 46,111 | 7,960 | 479.3% | 52,914 | 41,691 | 26.9% |
| Highway User Revenues | 25,754 | | | 222,037 | | |
| Miscellaneous | 17,046 | 74 | 22977.6% | 150,492 | 133,519 | 12.7% |
| Total | <u>1,092,872</u> | <u>999,665</u> | <u>9.3%</u> | <u>8,541,030</u> | <u>7,969,087</u> | <u>7.2%</u> |
| Individual Income Tax Detail | | | | | | |
| Withholding | 968,567 | 934,273 | 3.7% | 7,759,102 | 7,402,491 | 4.8% |
| Estimated | 12,810 | 16,004 | -20.0% | 887,751 | 889,249 | -0.2% |
| Final / Fiduciary | 113,769 | 95,116 | 19.6% | 345,316 | 326,693 | 5.7% |
| Gross Receipts | 1,095,146 | 1,045,393 | 4.8% | 8,992,169 | 8,618,433 | 4.3% |
| Refunds | (674,451) | (638,740) | 5.6% | (1,722,436) | (1,813,588) | -5.0% |
| Net Receipts | <u>420,695</u> | <u>406,653</u> | <u>3.5%</u> | <u>7,269,733</u> | <u>6,804,845</u> | <u>6.8%</u> |
| Corporate Income Tax Detail | | | | | | |
| Estimated | 37,966 | 51,659 | -26.5% | 403,971 | 434,950 | -7.1% |
| Final | 116,289 | 119,554 | -2.7% | 290,779 | 301,999 | -3.7% |
| Gross Receipts | 154,255 | 171,213 | -9.9% | 694,750 | 736,949 | -5.7% |
| Refunds | (9,443) | (30,296) | -68.8% | (183,083) | (223,105) | -17.9% |
| Net Receipts | <u>144,812</u> | <u>140,917</u> | <u>2.8%</u> | <u>511,667</u> | <u>513,844</u> | <u>-0.4%</u> |
| Lottery Sales | 165,746 | 159,654 | 3.8% | 1,279,481 | 1,263,686 | 1.2% |

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.