



Peter Franchot
Comptroller

July 25, 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 \$1.6 billion in June, growth of 6.8% from the prior fiscal year. For the fiscal year-to-date, revenues of \$14.2 billion reflect growth of 1.4% over last year. Monthly revenues were buoyed by the notably strong performances of the personal income and sales taxes, with the former expected and the latter a pleasant surprise. Income tax withholding finished the month strong, up 9.8%, but much of the increased growth is attributable to an extra calendar day of processing, underlying growth is much closer to year-to-date growth of 2.7% as wage growth remains tepid. Sales tax reported substantial growth at 5.2%. This is the second straight month of receipts growth greater than 4.0%, and while we can be hopeful that a positive trend is emerging, it is still too early to make such a statement; year-to-date growth remains weak at 1.4%. Additionally, the last time we saw three straight months of growth greater than just 3.0% was in the spring of 2012, a period where green shoots were plentiful and eventually proven false. For the moment it seems more plausible that such strong growth is related to pent-up demand stemming from an overly disruptive winter and poor results from last year that were tied to the onset of sequestration and the expiration of the federal "payroll tax holiday." As a reminder, though the calendar fiscal year has closed, accruals and accounting adjustments remain; in fact more than \$800 million in general funds remain to be collected prior to the fiscal year 2014 closeout.

Individual Income Tax

General fund individual income tax receipts for the month of June increased 10.8%, resulting in year-to-date growth of 0.8%. The monthly increase is largely attributable to the expected increase in withholding, which increased 9.8% for the month. June withholding growth was greatly aided by an additional bank deposit day, meaning that more money could be deposited this month relative to last year, adjusting for that extra day shows that underlying growth more closely resembles year-to-date growth of 2.7%. Additionally, as a quarterly month for estimated payments, the second quarter for calendar year taxpayers increased 10.8% for the month raising year-to-date growth to 5.0%. Final payments continued the downward trend decreasing 10.7% for the month, with year-to-date growth down 7.8%. Although a relatively smaller month compared to April and May, fiduciary payments posted a strong month up 44.5% for June, resulting in year-to-date growth of 15.9%. Refunds decreased 16.1% for the month (to the good of the State), resulting in a decrease

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of 1.4% for the year. The year-end adjustments to the refund reserve provided \$111.4 million to the general fund, a \$35.6 million increase from last year's adjustment.

Corporate Income Tax

The corporate income tax is final for fiscal year 2014, subject to accounting adjustments. June corporate income tax gross receipts decreased 1.2% while corporate income tax refunds decreased 53.5%. As a result, net corporate income tax receipts were up 1.0% for the month placing year-to-date growth at 3.4%. Estimated receipts for June (a quarterly month for calendar year taxpayers) grew 4.7%; however are down 0.2% for the year. Final payments further declined in June (-41.7%), conversely for the year they are up 17.3%. Similar to the individual income tax, corporate income tax year-end adjustment provided a boost to corporate income tax revenues, adding almost \$13.8 million to revenues. Last fiscal year's adjustment actually subtracted from revenues as a contribution to the refund reserve was required in order to cover greater than expected refunds.

As the general fund receives a lower percentage of corporate income tax revenues compared to the prior fiscal year, general fund corporate income tax revenues decreased 0.1%, and year-to-date revenues are down 6.8%. However, the underlying activity represented in net receipts provides a better comparison of underlying corporate income tax growth.

Sales Tax

June general fund sales tax receipts increased an impressive 5.2% on gross receipt growth of 5.6%. June marks the second impressive month for sales tax receipts. However, even with two consecutive strong months of over 4.0% gross receipt growth, year-to-date growth remains a muted 1.8%. While we can not be certain, there are several possible explanations for the recent break from trend; the prolonged disruptive winter weather giving way to pent-up demand, last year's onset of federal government sequestration, last year's departure from the "payroll tax holiday," or, of course, an increase in baseline activity. The latter seems difficult to justify following such a poor long term trend, it will take several more months of growth greater than 3.0% to strengthen that consideration.

Lottery

Lottery sales increased a meager 0.3% for the month; however, due to an accounting adjustment revenues decreased 2.5%. Sales growth was led again by Instant tickets, which increased \$2.0 million or 5.6%. This marks the third consecutive month for Instant tickets, perhaps indicating an inflection point has occurred in Instant ticket sales. Payout ratios were down large for Pick 4, decreasing (to the good of the state) to 52.8% this year compared to 65.2% in fiscal year 2013, increasing revenue \$2.0 million. Year-to-date lottery sales and revenues are down 1.8% and 4.8%, respectively.

Other Revenues

Quarterly estimated payments for the franchise taxes and insurance premium tax are due in June. Franchise taxes collections posted strong growth of 15.1% for the month and are now up 13.3% for the fiscal year. Insurance premium taxes fell for the second straight month, decreasing 11.6% for the month. However, Insurance premium tax remains up 11.0% year-to-date.

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Estate and Inheritance taxes increased an impressive 41.5% for the month; however remain down 7.6% year-to-date. District Court revenue increased 9.4% for the month, up 4.8% for the year. Clerks of Court revenue continued to decrease, down 7.0% for the month and down 4.2% year-to-date. Miscellaneous revenue continued to increase, up \$2.9 million (7.2%) for the month; up 15.2% 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 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 (June)
Summary Report
(\$ in thousands)

	June			Year to Date		
	FY 2014	FY 2013	Growth	FY 2014	FY 2013	Growth
General Fund Receipts						
Individual Income Tax	794,111	716,783	10.8%	7,511,653	7,450,284	0.8%
Corporate Income Tax	171,638	171,747	-0.1%	761,967	817,420	-6.8%
Sales Tax	360,011	342,151	5.2%	3,746,632	3,693,405	1.4%
Lottery	35,544	36,446	-2.5%	500,478	525,960	-4.8%
Franchise Tax	56,349	48,957	15.1%	228,436	201,584	13.3%
Premium Tax	64,220	72,653	-11.6%	335,101	301,856	11.0%
Estate and Inheritance Tax	24,526	17,338	41.5%	210,292	227,633	-7.6%
Alcohol / Tobacco	40,113	37,496	7.0%	409,096	414,314	-1.3%
Court Revenues	11,880	11,570	2.7%	125,169	123,080	1.7%
Interest	5,975	10,001	-40.3%	11,656	13,831	-15.7%
Transfer Tax Revenues	-	-		89,199	-	
Miscellaneous	43,600	40,657	7.2%	303,703	263,688	15.2%
Total	<u>1,607,967</u>	<u>1,505,799</u>	<u>6.8%</u>	<u>14,233,381</u>	<u>14,033,055</u>	<u>1.4%</u>
Individual Income Tax Detail						
Withholding	936,761	853,085	9.8%	11,283,024	10,983,075	2.7%
Estimated	330,901	298,544	10.8%	1,730,157	1,647,025	5.0%
Final / Fiduciary	52,660	54,011	-2.5%	321,189	319,939	0.4%
Gross Receipts	1,320,323	1,205,640	9.5%	14,643,558	14,373,792	1.9%
Refunds	(77,721)	(92,621)	-16.1%	(2,403,369)	(2,370,213)	1.4%
Net Receipts	<u>1,242,601</u>	<u>1,113,018</u>	<u>11.6%</u>	<u>12,240,189</u>	<u>12,003,579</u>	<u>2.0%</u>
Corporate Income Tax Detail						
Estimated	190,415	181,862	4.7%	801,449	803,402	-0.2%
Final	15,311	26,280	-41.7%	357,185	304,420	17.3%
Gross Receipts	205,727	208,141	-1.2%	1,158,634	1,107,822	4.6%
Refunds	(3,854)	(8,295)	-53.5%	(174,870)	(156,662)	11.6%
Net Receipts	<u>201,873</u>	<u>199,847</u>	<u>1.0%</u>	<u>983,764</u>	<u>951,161</u>	<u>3.4%</u>
Lottery Sales	135,044	134,598	0.3%	1,723,991	1,756,119	-1.8%

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.