



**Peter Franchot**  
*Comptroller*

July 18, 2012

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 June totaled \$1.367 billion, an increase of 3.7% from June of last year. For the fiscal year to date, general fund revenues have increased 6.4% to \$13.189 billion. Although fiscal year 2012 ended on June 30, roughly \$675 million of fiscal year 2012 general fund revenue has yet to be collected and accounted for. These revenues include a full month of sales tax collections, several hundred million dollars of individual income tax withholding, and several smaller revenue sources including interest and tobacco taxes. In addition, several miscellaneous sources have accrual adjustments that have totaled more than \$150 million in each of the past three years, and all revenue sources are potentially subject to accounting adjustments through the close of the fiscal year in late August.

With roughly 95% of general fund revenues in the door, it appears that general fund revenues will exceed the full year estimate by approximately \$200 million, barring any extraordinary developments. Lower than expected individual income tax refunds and greater than expected corporate income tax receipts account for the bulk of the over attainment. Despite the likely over attainment of revenues relative to the estimates, it should be noted that the performance of several significant revenue sources continues to be weak. Growth of withholding and sales and use taxes remains depressed, with both, adjusted for law changes, increasing only 2.9% year-to-date. In 2006, the last time employment grew at the rate it is increasing presently, both were increasing at rates approximately twice as fast.

#### *Individual Income Tax*

General fund individual income tax receipts increased 1.3% for the month of June, 8.6% year-to-date. Withholding, after strong growth in April and May, declined 6.9% in June but remains up 2.9% for the year. The withholding accrual of approximately \$350 million will likely not change performance relative to the estimates substantially; withholding will likely finish the year close to, but below the forecast. Final payments, estimated payments, and refunds are essentially complete for the fiscal year. June is the due date for second quarter estimated individual income tax payments, which decreased 10.6% for the month and are

Letter to Honorable Martin O'Malley,  
Thomas V. "Mike" Miller, Jr., and  
Michael E. Busch  
July 18, 2012  
Page 2

down 2.3% for the fiscal year, finishing slightly below the full year estimate. With the bulk of final payments in the door in April, final payments finished the fiscal year 11.5% higher than last year and ahead of the estimate. Refunds finished the year below the estimate (to the good for the general fund), down 3.5% versus an estimated increase of 2.8%, accounting for almost half of the total current general fund over attainment. Preliminary analysis shows that tax year 2011 refunds, the year to which most of the fiscal year 2012 refunds correspond, was the third straight tax year in which refunds have declined, an unprecedented event.

### *Corporate Income Tax*

Subject to accounting adjustments, fiscal year 2012 corporate income tax collections are final. General fund corporate income tax receipts increased 27.1% to \$140.7 million for the month of June. Estimated payments for the month of June, the second quarterly payment for calendar year tax payers, grew 18.1% compared to the prior year (10.8% for the fiscal year to date). Final payments, a small component of receipts in June, doubled, bringing year to date final payments to \$328.8 million, an increase of 5.7% over fiscal year 2011. Corporate refunds decreased 6.3% in June, also a small component in June, and are down 5.0% for the fiscal year. Taken as a whole, gross receipts finished 6.9% greater than the estimate and refunds were 6.7% below the estimate, resulting in net receipts performing 11.4% better than the estimate.

### *Sales Tax*

General fund sales tax collections for June (May sales) increased 11.4% to \$336.9 million. Year-to-date revenues are up 10.8%. Legislative changes are driving much of this growth; after adjusting for the 9% sales tax rate on sales of alcohol and the elimination of the distribution to the transportation trust fund year-to-date collections are up only 2.9%. One full month of collections still remains—June sales—which is the second largest month of the year; however, growth has consistently been above the full-year forecast of 8.8%, and an anticipated extraordinary refund was not paid out. Accordingly, full year collections will likely exceed the estimate by approximately \$30 million.

### *Lottery*

Lottery sales increased 4.4% for the month, with strong growth in Powerball and Instant ticket sales. Sales are up 4.7% for the year. While Pick 3 sales marginally declined for the year, all other game sales grew, most notably Racetrax (15.6%) and Powerball (43.6%). While end of year adjustments are still possible, general fund revenues for the year are up 7.3% to \$536.1 million, the strongest growth since fiscal year 2002 and more than \$33 million over the estimate.

### *Other Revenues*

Except for miscellaneous revenues and interest, all other revenue sources showed declines for the month and all but the premium tax and alcohol and tobacco taxes are down for the fiscal year. Quarterly estimated payments were due for the franchise taxes and insurance premium tax. Franchise tax receipts fell 3.6% for the month, and are down 1.5% for the year. Despite sluggish June collections, the premium tax increased 6.4% over the prior year, exceeding the estimate. Estate and inheritance tax receipts declined 13.2% for the month and are down 8.5% for the year, largely because the number and average value of the payments for estates over \$1.0 million declined 32.0% and 37.1% respectively.

Letter to Honorable Martin O'Malley,  
Thomas V. "Mike" Miller, Jr., and  
Michael E. Busch  
July 18, 2012  
Page 3

The next revenue report will be the closeout report for fiscal year 2012, which will be issued in late August.

I hope this information is helpful. If you have any questions or concerns, 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 Edward J. Pipken  
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 2012 (June)**  
**Summary Report**  
(\$ in thousands)

	June			Year to Date		
	FY 2012	FY 2011	Growth	FY 2012	FY 2011	Growth
<b>General Fund Receipts</b>						
Individual Income Tax	611,800	604,230	1.3%	6,705,448	6,171,743	8.6%
Corporate Income Tax	140,678	110,681	27.1%	635,616	570,834	11.3%
Sales Tax	336,924	302,506	11.4%	3,669,368	3,310,982	10.8%
Lottery	43,026	39,603	8.6%	536,065	499,394	7.3%
Franchise Tax	51,259	53,187	-3.6%	207,174	210,241	-1.5%
Premium Tax	61,405	69,947	-12.2%	304,267	285,942	6.4%
Estate and Inheritance Tax	18,199	20,957	-13.2%	193,308	211,288	-8.5%
Alcohol / Tobacco	37,572	41,541	-9.6%	410,497	410,088	0.1%
Court Revenues	11,579	13,566	-14.6%	120,821	123,732	-2.4%
Interest	12,752	10,453	22.0%	25,029	52,610	-52.4%
Highway User Revenues	15,052	29,546	-49.1%	159,939	324,207	-50.7%
Miscellaneous	26,907	21,907	22.8%	221,845	227,322	-2.4%
<b>Total</b>	<b>1,367,152</b>	<b>1,318,125</b>	<b>3.7%</b>	<b>13,189,376</b>	<b>12,398,384</b>	<b>6.4%</b>
<b>Individual Income Tax Detail</b>						
Withholding	859,292	917,163	-6.3%	10,695,504	10,389,931	2.9%
Estimated	263,170	294,375	-10.6%	1,392,897	1,425,091	-2.3%
Final / Fiduciary	46,129	58,834	-21.6%	1,403,719	1,272,498	10.3%
Gross Receipts	1,168,591	1,270,373	-8.0%	13,492,120	13,087,521	3.1%
Refunds	(51,764)	(69,657)	-25.7%	(2,432,912)	(2,520,310)	-3.5%
Net Receipts	<b>1,116,827</b>	<b>1,200,716</b>	<b>-7.0%</b>	<b>11,059,209</b>	<b>10,567,211</b>	<b>4.7%</b>
<b>Corporate Income Tax Detail</b>						
Estimated	173,423	146,829	18.1%	753,562	679,826	10.8%
Final	26,775	13,153	103.6%	328,802	311,018	5.7%
Gross Receipts	200,198	159,982	25.1%	1,082,364	990,844	9.2%
Refunds	(8,794)	(9,384)	-6.3%	(204,537)	(215,232)	-5.0%
Net Receipts	<b>191,404</b>	<b>150,598</b>	<b>27.1%</b>	<b>877,827</b>	<b>775,612</b>	<b>13.2%</b>
<b>Lottery Sales</b>	<b>143,655</b>	<b>137,573</b>	<b>4.4%</b>	<b>1,794,893</b>	<b>1,714,403</b>	<b>4.7%</b>

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.