



Peter Franchot
Comptroller

Andrew M. Schaufele
*Director, Bureau of Revenue
Estimates*

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TO: Peter Franchot, Comptroller
Nancy Kopp, Treasurer
David Brinkley, Budget Secretary

FROM: Andrew Schaufele

SUBJECT: April Revenue Update

This memo is the first in a program intended to keep the Board abreast of revenue developments and to generally provide greater transparency into monthly revenue collections. The goal is to bring analysis to you at key revenue reporting moments throughout the year. Each month, my office will send a memo that includes a table of revenue collections; language will not accompany every memo, but will be incorporated during months of heightened importance, such as those in which we reach a certain milestone in the collection stream or become aware of a development that causes me to believe that a significant variance from the estimate may occur. The memo will be bullet format to convey vital points, but may include a short executive summary as needed. In addition to its dispatch to the Board, the table and/or memo will be posted on the Comptroller's website to allow for public circulation. Please provide any feedback to help ensure that these memos are beneficial to you.

Big Picture

- We appear to have had a positive "April surprise," i.e., the amount of payments from taxpayers accompanying their filed tax returns or extensions
 - Too early to handicap extent to which payments are one-time or ongoing revenues
 - That said, the preliminary read is that the "surprise" is likely to be one-time in nature

Income Tax

- April represents a critical milestone for the revenue forecast, as it contains the due date for prior year tax returns
 - In recent years, volatility of payments with returns or extensions has generally created the bulk of the final variance from estimate
 - These payments are difficult to estimate as they relate to taxpayer payment and income behavior, and are highly influenced by a small number of households
 - These payments often relate to capital gains
- April's cash final payments totaled \$997 million
 - 30% increase from the prior year
- Final payments for tax period to-date (Feb through Apr) totaled \$1.2 billion
 - 25% increase from the prior year
- Above amounts are significantly higher than our monthly estimate metrics
 - *However*, we believe that check processing efficiency is well ahead of the prior year as well as the general historical rate

- If our belief is correct, we will have fewer payments in May than expected and will, therefore, cede some of the “surprise”
- Must wait until May collections are completed to have a better sense for the magnitude of the “surprise”
- We cannot, at this time, clearly identify the source of the “surprise”
 - Conclusive tax return data will not be available until the IRS provides it, roughly two years from now
 - We speculate two principal causes, each of which has implications for the next revenue estimate (concerning whether the revenues are one-time or ongoing):
 1. Tax planning – following the 2016 federal elections, taxpayers, in anticipation of federal tax reductions, shifted income from 2016 into 2017. We anticipated this in the revenue estimate, but the magnitude could be larger than estimated
 2. Capital Gains – we have adopted a policy of estimating zero growth in capital gains. However, there may be a pent-up amount of realizations; we believe capital gains realizations were minimal for 2015 and 2016 and, moreover, 2017 turned out to be a very strong year for the stock market
- April is also the due date for the first quarterly estimated payment
 - On a cash basis, the April estimated payment was up an extraordinary 48%
 - Similar to final payments, we believe that processing is ahead of pace, and May revenues may reflect a pull-back for that rate of growth
 - Even with a pull-back, the first quarter will likely show relatively strong growth
 - We will need to determine how much of that growth is related to:
 1. Increased economic activity;
 2. Higher safe harbor requirements (because tax year 2017 now looks strong);
or
 3. Increased payments reflecting of expectations of higher State tax bills stemming from the TCJA and its flow through to Maryland taxes (e.g., fewer available deductions)
 - Each of those causes would have different implications for the September estimate

Attachment: *Revenue Summary – April 2018*

cc: Revenue Monitoring Committee

State of Maryland General Fund Source Revenue Collections
Fiscal Year 2018, Through April 2018
Summary Report
(\$ in thousands)

	April			Year to Date		
	FY 2018	FY 2017	Growth	FY 2018	FY 2017	Growth
General Fund Receipts						
Individual Income Tax	1,345,928	1,081,679	24.4%	7,578,676	7,005,411	8.2%
Corporate Income Tax	195,841	190,708	2.7%	619,468	580,674	6.7%
Sales Tax	392,322	376,748	4.1%	3,428,696	3,369,619	1.8%
Lottery	48,942	40,693	20.3%	442,439	398,034	11.2%
Franchise Tax	59,616	58,792	1.4%	175,894	166,550	5.6%
Premium Tax	72,263	60,726	19.0%	287,796	277,231	3.8%
Estate and Inheritance Tax	10,686	16,570	-35.5%	172,662	189,965	-9.1%
Alcohol / Tobacco	35,114	35,880	-2.1%	312,383	320,795	-2.6%
Court Revenues	9,013	8,528	5.7%	86,272	94,911	-9.1%
Miscellaneous	17,165	52,660	-67.4%	154,528	174,751	-11.6%
Ongoing SubTotal	2,186,889	1,922,983	13.7%	13,258,814	12,577,941	5.4%
Non-Ongoing Revenues	1,322	-	#N/A	58,574	110,203	-46.8%
General Fund Total	2,188,211	1,922,983	13.8%	13,317,388	12,688,144	5.0%
Individual Income Tax Detail						
Withholding	1,201,148	1,117,688	7.5%	11,024,916	10,712,853	2.9%
Estimated	285,800	193,423	47.8%	1,838,418	1,483,877	23.9%
Final	996,631	768,760	29.6%	1,644,446	1,366,919	20.3%
Fiduciary	56,134	43,490	29.1%	116,593	91,263	27.8%
Gross Receipts	2,539,713	2,123,361	19.6%	14,624,374	13,654,911	7.1%
Refunds	(647,872)	(582,728)	11.2%	(2,488,402)	(2,450,130)	1.6%
Net Receipts	1,891,841	1,540,633	22.8%	12,135,973	11,204,782	8.3%
Corporate Income Tax Detail						
Estimated	93,433	112,545	-17.0%	641,454	626,426	2.4%
Final	163,631	137,487	19.0%	314,602	342,602	-8.2%
Gross Receipts	257,064	250,032	2.8%	956,057	969,028	-1.3%
Refunds	(10,431)	(9,863)	5.8%	(175,927)	(237,754)	-26.0%
Net Receipts	246,633	240,169	2.7%	780,130	731,274	6.7%
Lottery Sales	171,220	167,916	2.0%	1,702,372	1,594,995	6.7%

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.