



Analysis of state policy choices with particular attention to their impacts on low- and moderate-income Marylanders

SPECIAL REPORT

Maryland Budget Update

Maryland's Comptroller announced fiscal 2009 final revenues.

Total is \$348 million under latest official estimates.

- Budget-watchers in Annapolis had expected revenues to come in \$400 million under the official estimate. This is **SLIGHTLY BETTER** than the reduced expectations.
- Almost the entire shortfall was in the individual income tax (-304 million) with lesser shortfalls in other sources, for example, corporation tax (-32 million), insurance tax (-23 million), and estate and inheritance taxes (-21 million).

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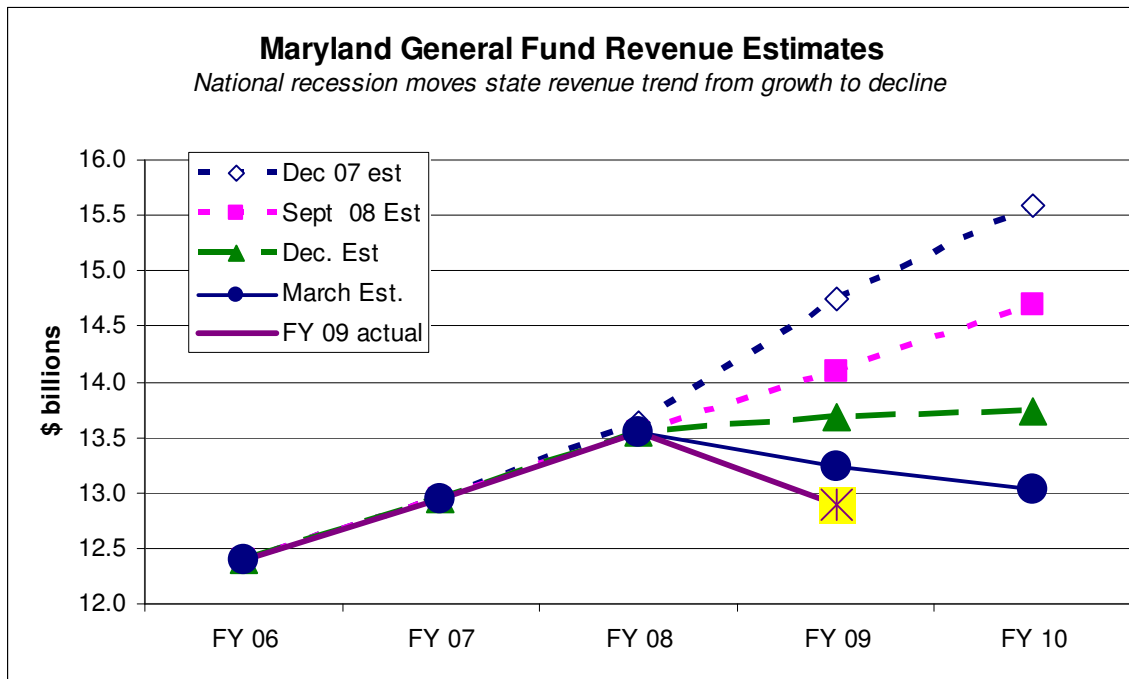
Comptroller announces fiscal 2009 final revenues Total is \$348 million under latest official estimates

As the national economy has deteriorated throughout this year, state revenue collections have fallen farther and farther below the estimates. This has been particularly true of the individual income tax.

These disappointing collections led the legislature to make additional budget cuts to the fiscal year 2010 budget in April and the Governor and Board of Public Works to cut the budget further in July and August.

Budget-watchers in Annapolis had expected revenues to come in \$400 million under the official estimate. The actual revenue total was SLIGHTLY BETTER than these reduced expectations.

Even so, the actual revenues for fiscal year 2009 ended up \$1.85 billion below the amount estimated back in December 2007. That estimate reflected the actions of a special session of the legislature for the purpose of balancing the budget over the long term. That's a 12.5% reduction between the initial estimate and the actual. For every eight dollars the state was expecting, only seven ultimately showed up.



Overall revenues declined 4.8% from 2008 levels. Only twice before in the last four decades did state revenues actually decline in total. This is in spite of the fact that new, higher income and sales tax rates buttressed 2009 revenues. Without these increases, the revenue totals would have been even more dismal.

Maryland General Fund Revenues - \$ millions

	FY 2009			Diff from Estimate	% Growth 08 to 09
	FY 2008	09 Est.	09 Act.		
Income tax	6,940	6,781	6,477	-304	-6.7%
Corporation tax	552	582	550	-32	-0.4%
Sales tax	3,675	3,610	3,620	10	-1.5%
Others	2,379	2,267	2,246	-21	-5.6%
Total	13,546	13,240	12,893	-347	-4.8%

Income tax

Economist David Roose, director of the state's Bureau of Revenue Estimates, asserts, "Adjusted for law changes, 2009 was the worst year on record for the modern income tax."

Some commentators have associated the drop in income tax revenues to Maryland's new, temporary surtax on high incomes (the "millionaire tax"). It is more likely, however, that the decline is entirely attributable to national economic trends. Based on data collected by the Rockefeller Institute of Government, almost all states with income taxes have experienced sharp income tax revenue declines, whether or not they levy higher rates on higher incomes. For example, Rockefeller Institute data shows that Virginia's income tax revenue performed about the same as Maryland's over the first three quarters of fiscal 2009 (-4.1% versus -4.4%). Studies in New Jersey and California have shown that personal income tax rates don't significantly affect location decisions of high-earners. More definitive evidence will be available for Maryland after October, when the large number of high-income taxpayers with extensions and amended returns file their 2008 taxes.

Corporation Tax

The general fund share of Maryland's corporation tax revenues for fiscal 2009 were essentially equal to the 2008 level, despite a 15% decline in corporate profits nationally. This amount was \$32 million below the previous official estimates (-5.4%). Corporate tax revenues are shared between the general fund and the Transportation Trust Fund.

Sales Tax

State sales tax receipts declined 1.5%. Fiscal 2009 was the first year the new 6% tax rate was in effect for a full year. The rate increase from 5% to 6% took place halfway through fiscal 2008. Roose has determined that after adjusting for the rate increase, taxable sales decreased by 6% - only the second decline in the sales tax in forty years. Sales in consumer goods, construction materials, and capital good purchased by businesses all contributed to the decline.

The official estimate of sales tax revenue prepared in March was right on target. Sales tax exceeded the estimate by \$10 million, which is just 3/10 of one percent.

Other revenues

Almost the entire shortfall was in the individual income tax (-304 million), but most of the other state revenues also fell short of estimates. For example, the insurance tax finished \$23 million below the estimate, and estate, inheritance taxes were \$21 million low, and interest on investments was \$20 million under the prediction. Among the few sources on the “plus” side: the lottery was \$17 million over the estimate and court fees brought in \$9 million more than expected.

Next Steps

The Board of Revenue Estimates will issue official revisions to revenue estimates for fiscal 2010 and 2011 September 17. These will provide the Governor an early look at the revenue he will have available to balance the fiscal 2011 budget he must submit in January. Estimates of the likely budget shortfall for fiscal year 2011 range from \$1 billion to \$1.7 billion.

The September estimate will also indicate whether further actions will be needed to keep the current balance in budget.

The Board of Public Works approved \$735 million in budget cuts in July and August to offset poor revenue collections. Because the close-out figures are close to the expected numbers, the current year’s budget is in balance for now. Observers of the state’s economy and finances are hopeful that the “free-fall” in revenue is over. If the revenue picture stabilizes, then further adjustments in the current year’s budget would not be necessary. If the September revenue estimates forecast further drops, then further budget cuts, fund transfers, or revenue measures would be needed to keep this year’s budget in the black.

In either event, the problem with balancing the upcoming budget remains.

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About the Maryland Budget & Tax Policy Institute

The Maryland Budget and Tax Policy Institute is a nonpartisan research organization that provides timely, accurate and accessible analysis of state budget and tax issues. In addition to general budget and tax research and analysis, the Institute examines issues affecting low-income Marylanders and other vulnerable populations and the important community programs that serve them. For additional information, to be added to our e-mail list, or to make a tax-deductible contribution, please visit our website at www.marylandpolicy.org.

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