

November 29, 2011

To: County Finance Officers

From: Comptroller of Maryland

Subject: November Distribution of Local Income Tax

The November distribution of county income tax revenues totals \$1.169 billion, an increase of 31% from 2010. This distribution (Table 1) reflects third quarter withholding and estimated tax receipts and late second quarter withholding for tax year 2011, and the November adjusted final distribution, a reconciling distribution for tax year 2010. It will be paid on November 30. Every county experienced an increase in this distribution; several of the counties showing very strong growth received no adjusted final distribution last year.

Table 2 shows the adjusted final distribution, which totals \$316.2 million. Growth is almost 150% as a result of the fact that every county received a distribution this year—two did not last year—and some of the larger counties received very small distributions this time last year. One logical inference to draw is that taxpayers filing returns under the automatic extension, who are disproportionately high-income, had a much better year in 2010 than in 2009.

Table 3 shows the third quarter distribution of \$852.6 million, growth of 11.5% over 2010. As Table 3A demonstrates, income tax withholding and estimated payments did show relatively strong growth, at 6.0% and 9.1% respectively, resulting in growth of total receipts of 6.5%. Reported employment growth in the third quarter was not particularly strong. According to the Bureau of Labor Statistics (BLS), Maryland employment increased only 0.25%, although it does represent a rebound from the 0.35% decline in the second quarter. Unemployment insurance data, however, show that employment growth in the first quarter of calendar year 2011 was actually one percentage point higher than the initially-reported figure from the BLS, an issue that may well be continuing. The growth of estimated payments likely indicates that taxpayers—at least those who make estimated payments—are expecting to earn at least 10% more in tax year 2011 than in 2010, based on safe harbor requirements. In any case, withholding and estimated payments that have been received are dollars in the bank.

The November quarterly distribution is the first using data from tax year 2010 tax returns. The unallocated percentage—the percentage of total withholding and estimated payments that have been received for 2010 but which have not been claimed on tax returns—is the other substantial factor (along with growth in total receipts) driving the 11.5% growth in the quarterly distribution. For tax year 2010, the unallocated percentage fell 36%, from 6.48% of total collections in 2009 to 4.13%, a level that is more than a percentage point below the next-lowest unallocated percentage (as of November 1). The previous low was tax year 2008, at 5.18%, although in tax year 2009, the unallocated percentage jumped to its highest level, at 6.48%. We believe that there may be a connection between the sharp drop in unallocated revenue and the strong growth in final payments and drop in refunds for tax year 2010. Regardless, the decline in the unallocated percentage will continue for the next three quarterly distributions, boosting the growth of the distributions well above that of the underlying economic activity. As a consequence, there does appear to be a possibility that the reconciling distributions for tax year 2011, beginning in June 2012, and the tax year 2010 delinquent and unallocated distributions, will be lower than one might otherwise expect. We will be investigating these issues further.

Table 4 shows the growth in net local tax liability for the past two tax years. Through the adjusted final distribution, county receipts have increased 6.6% for tax year 2010, following the 3.4% decline through this point for tax year 2009. Despite the strong growth, income tax liability for all counties except Charles, Howard, and Prince George's (which had a modest rate increase in tax year 2009) remain below tax year 2007 levels, in some cases significantly. Table 5 shows the number of tax returns posted through the adjusted final distribution, an increase of 1.5% over tax year 2009, but still below tax year 2008 levels. Table 5A shows the returns accounted for in the adjusted final distribution; the growth of 7.1% does play a part in the 150% increase of this component of the November distribution, although the liability on those returns is obviously the predominant factor.

The disparity grant, determined by statute, is the only regular distribution made during the month of December. The next distribution of local income tax, on January 31, 2012 will be additional filings (returns filed between November 1, 2011 and December 31, 2011) and interest and penalty for the first half of fiscal year 2012.

If you have any questions about the November 30 distribution, please contact Judy Oberist of the Revenue Administration Division at (410) 260-7606.