To: County Finance Officers

From: Comptroller of Maryland

Subject: August Distribution of Local Income Tax

The August local income tax distribution for counties totals $97.8 million, a decrease of 23.3%. This distribution includes two reconciling distributions–the balance of second quarter 2015 withholding and estimated payments and the second reconciling distribution for tax year 2014. Additionally, please note the comments at the bottom meant to clear up any confusion regarding the sourcing of Wynne estimates at the local government levels.

The second quarter balance distribution is based on withholding and estimated tax collections attributable to the second quarter of 2015 less amounts already distributed (projected April/May withholding and estimated payments distributed in June and projected June withholding distributed in July). This component of the distribution is effectively one-third of projected estimated payments for the second quarter, and a reconciliation of actual withholding and actual estimated payments for the entire quarter to projections from May and June. This distribution decreased 28.7%, to $76.5 million (Table 2A). Table 2 details the quarterly distribution, while Table 2B shows the aggregated second quarter distributions by county. It is important to note that the decrease in this distribution is not indicative of poor revenue collections, it is simply a function of estimates and reconciliations this year relative to the prior; the second quarter actually looks relatively strong with growth of 5.8%. Do remember, however, that we believe approximately $47.0 million of the estimated payments to be attributable to the first quarter.

Since this is the last quarterly distribution to be completed with the percentages derived from tax year 2013 returns, it is worth repeating the possibility that wealthy counties might have been underrepresented in the formulas derived from tax year 2013 tax returns. This is, of course, related to the fiscal cliff, an event that had a greater impact on counties with taxpayers more likely to own capital and have non-wage income. To recap, income was pulled into tax year 2012 to hedge against federal tax policy uncertainty. Some amount of that income was very likely pulled forward from future tax years, particularly tax year 2013.

As such, counties with a disproportionate share of taxpayers “affected” by the fiscal cliff likely had, all else equal, a smaller than normal share of the pie for tax year 2013. Therefore, assuming the prior scenario is accurate and that income recognition returns to “normal” patterns, the distribution for third quarter payments would look very different at the county level.

The tax year 2014 is the second reconciling distribution for that year, reflecting returns posted to the tax processing system by June 30, 2015.

This distribution totals $21.3 million (Table 3). This distribution is among the most volatile, since it is a reconciling distribution that accounts for returns processed over a three-week period. Table 7 shows the change in the number of returns processed through June 30 for tax year 2014, while Tables 5 and 6 show growth in taxable income and local tax liability for tax year 2014. The increase in returns is minimal at just 0.4%, while the increase in net taxable income is 3.6%. The number of returns is likely affected by CH 309 of the 2013 Session, which permitted individuals without social security cards or lawful status in the United States to receive a driver’s license if they had filed or been a dependent on a Maryland tax return for two years. The bill was effective Jan 1, 2014 and, we believe, led to an influx of returns from affected individuals for tax year 2013; therefore, tax year 2013 returns filed by June would have received a large boost. Slowing return growth would be indicative of either slowing growth for individuals that don’t file extensions, or that some share of those that were granted driver’s licenses did not file afterwards.

Finally, a note regarding the Wynne case and the origin of any estimates at either the county or municipal levels. Feedback and phone calls have made it clear to the Bureau of Revenue Estimates (BRE) that there is either misinformation or a misinterpretation of information regarding the sourcing of local level estimates for the Wynne impact, particularly at the municipal level. To be very clear regarding BRE’s role in estimating Wynne; BRE has only produced estimates for what we believe the impact would have been had all taxpayers been under a post-Wynne environment (ongoing impact) for tax years 2009 – 2011.

Additionally, we are on record that we estimate the aggregate total back year impact at approximately $200 million. The ongoing impact estimates were completed at the county level. They include the entire local effect for the county, meaning they are inclusive of the municipal and county shares. We have also shared, again at the county level, the number and amount of Wynne claims from taxpayers for prior tax years that we had received through spring 2015 (protective claims and amended returns). At no point have we provided estimates at the municipal level for either the historical claims or the potential ongoing impact. We have provided data (historical out-of-state credits by municipality) that would enable such estimates to both MML and MACo. We believe that MML performed calculations using all of the relevant information and made those estimates available; but to be clear, it would be inaccurate to source those estimates to either the Bureau of Revenue Estimates or

the Comptroller’s office.

If you have any questions about the August 31 distribution, please contact Jim Pasko of the Revenue Administration Division at (410)

260-7521 or Jason Brohawn at (410) 260-6159.