



Peter Franchot
Comptroller

Andrew M. Schaufele
Director
Bureau of Revenue Estimates

12/15/2018

Honorable Larry Hogan
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:

This report is in response to Chapters 574 and 575. At this time, there is no new information that would amend the Comptroller of Maryland's sixty day reports regarding the federal Tax Cuts and Jobs Act (TCJA). Those reports were created with extraordinary transparency, detailing the very specific policy level impacts as well as the methodologies to achieve those estimates. To be clear, those estimates were performed by the Bureau of Revenue Estimates, the same entity that serves the Board of Revenue Estimates and integrates with the Revenue Monitoring Committee. Since the initial reports, those estimates have been adopted as the official estimates for the State through the Board of Revenue Estimates; first in March 2018 in support of the budget process, and then reaffirmed in September 2018.

The revenue estimating process in Maryland is highly regarded nationally and praised by the major Rating Agencies in connection with our AAA bond rating. The fact that those estimates are presented and scrutinized at the lowest level of detail by the State's most capable fiscal bureaucrats (the Revenue Monitoring Committee), representing all State level constitutional offices, ensures that rigorous analysis and feedback will produce the best possible estimates. The report has received national acclaim as the most thorough and detailed analysis of the TCJA.

Perhaps more importantly, the taxpayer level data analysis that underlies the simulation which enabled the detailed tabulated reports and estimates was built to enable ad hoc analysis of various policy proposals. While each table in the report provides very specific information, the broad reach of the TCJA coupled with general taxpayer complexity and policy alternatives requires a specific simulation of that database to identify the true impact. True impact includes the net revenue impact, but also details related to those that benefit and those that are harmed. Those simulation scenarios can be

assessed according to income breakdowns or certain other characteristics. Throughout the 2018 session, we performed these types of analysis for several bills as well as for questions/ideas from ranking legislators. We remain available to support those efforts.

Our first opportunity to best assess the accuracy of our individual income tax estimates will not be available until November or December 2019, the date when we have received and processed all timely filed returns for tax year 2018. Even then, it should be noted that we will never have the information to reverse simulate our model. The federal tax form has changed so dramatically and erased so much information (e.g., miscellaneous itemized deductions) that we'll not be able re-create prior tax law. Despite those limitations, the following is a list of opportunities that we've identified to glean insight for evaluating the estimates:

1. June 2019 (1) – we will have the majority of the cash transactions related to tax year 2018 processed, including refunds and payments that accompany return filing. We will not have all returns, as extensions are not due until October of that year. The cash payments may provide some guidance for the magnitude of the TCJA impact. It will require a mix of subjective and objective analysis. We will need to separate the tax year's impact from the broader economy and capital gains assumptions from the TCJA impact. Again no direct result, but we may have a gauge of confidence in the estimates;
2. June 2019 (2) – once tax returns that were filed by April 15th as well as certain later filed returns are processed. Two major components of the impact to Maryland are reduced itemized deductions and taxpayers shifting deduction methods from itemized to standard. We will develop database queries to determine the number of taxpayers with reduced or changed deductions and the magnitudes of those changes (relative to prior years). Those impacts will be compared to prior year tax years (e.g., how many taxpayers change deduction method each year, how many reduce or increase deductions each year, what is the disposition of new taxpayers each year, etc.). We will not have all returns at that point and most importantly, we will generally not have returns from our higher income filers, those returns will not be filed until October 15;
3. November/December 2019 – we will perform the same analysis as detailed above, except with the inclusion of all timely filed returns; and
4. April 2021 – we will have our cleaned database of tax year 2018 ready for analysis. This will include all data from the IRS forms. The federal tax data is not available to us until 2020 and then it takes half a year to validate and clean the data to the point that we feel comfortable running simulations. Although at this point in time we do not know what will be on the federal tax forms, it is reasonable to assume that much of the data we would need to truly "back cast" tax year 2018 will not be available. Regardless, at that time, we will devise a strategy to extract information from the database to support our analysis of the TCJA.

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Michael E. Busch
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As with everything that the Bureau of Revenue Estimates does with regard to the Statewide estimating program, we will submit our findings from the above exercises to the Revenue Monitoring Committee for analysis, feedback and adjustment if necessary.

I hope that you find the report helpful. I would like to reiterate my office's support for the policy analysis required to offer the best decision making criteria to the State's policy makers. We have a long history of partnership in support of those criteria. Please do not hesitate to contact me for discussion regarding this document or for any discussion relating to the TCJA or other estimates. If you have any questions, please contact me at 410-260-7450.

Sincerely,

A handwritten signature in cursive script, appearing to read "Andrew M. Schaufele".

Andrew M. Schaufele